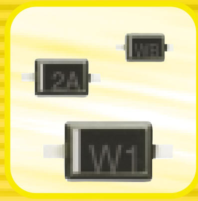
先科國際集團有限公司*

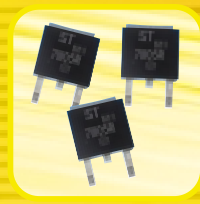
Semtech International Holdings Limited

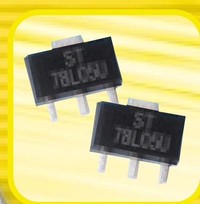
(Stock Code: 724)

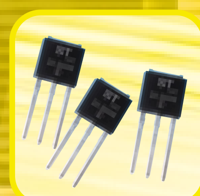
SEMTECH

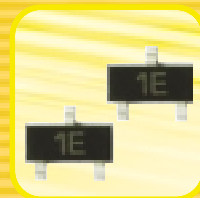
Annual Report 2005











*For Identification Purpose Only

Contents

Pages

Corporate Information

EXECUTIVE DIRECTORS

Mr. Lam Yat Keung *(President)*
Mr. Lam Hung Kit *(Chief Executive Officer)*
Ms. Lam Pik Wah

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lo Wah Wai
Mr. Ho Chi Fai
Mr. Pai Te-Tsun

COMPANY SECRETARY & QUALIFIED ACCOUNTANT

Ms. Yu Miu Yee, Iris

AUDIT COMMITTEE

Mr. Lo Wah Wai
Mr. Ho Chi Fai
Mr. Pai Te-Tsun

REGISTERED OFFICE

Clarendon House, 2 Church Street,
Hamilton HM11, Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

26/F, CCT Telecom Building,
11 Wo Shing Street, Fotan, Shatin, Hong Kong

LEGAL ADVISOR

Conyers Dill & Pearman
3408, Two Exchange Square,
8 Connaught Place,
Central, Hong Kong

AUDITORS

BDO McCabe Lo Limited
8/F., Wing On Centre,
111 Connaught Road Central, Hong Kong

PRINCIPAL SHARE REGISTRARS AND TRANSFER OFFICE

The Bank of Bermuda Limited
Bank of Bermuda Building,
6 Front Street, Hamilton HM11, Bermuda

HONG KONG BRANCH SHARE REGISTRARS AND TRANSFER OFFICE

Tengis Limited
26/F, Tesbury Centre,
28 Queen's Road East, Wanchai, Hong Kong

SHARE LISTING

The Stock Exchange of Hong Kong Limited
Stock Code: 724

WEBSITE

www.semtech.com.hk

RESULT OVERVIEW

The Group has maintained a steady performance during the financial year 2005 with a turnover of approximately HK$554.0 million (18 months period in 2004: HK$559.9 million) and a net profit attributable to shareholders at approximately HK$42.7 million (18 months period in 2004: HK$48.6 million).

DIVIDEND

The Board recommended the payment of a final dividend of HK$0.03 per share for the year ended 31 December 2005, subject to the approval by shareholders at the forthcoming Annual General Meeting. This proposed final dividend together with the interim dividend will make a total of HK$0.04 per share for the financial year 2005.

BUSINESS REVIEW

During the financial year 2005, the electronic components business continued to deliver an essential source of income for the Group, turnover for this segment amounted to HK$395.4 million (18 months period in 2004: HK$308.4 million) with a segment result of HK$55.6 million (18 months period in 2004: HK$61.5 million). At the same time, the Group has continued to streamline the operation in the lighter business, turnover for the year was HK$158.6 million (18 months period in 2004: HK$251.4 million) and the segment result was a loss HK$0.3 million (18 months period in 2004: a profit of HK$1.7 million).

As per last year's expectation, the SMD SOD-series component products have been launched to the market during the financial year 2005. In order to enhance further the production standard, the electronic business segment has successfully obtained ISO/TS 16949:2002 certification, a stringent and prerequisite requirement for customers in the automotive industry. Semtech "ST" brand products are becoming well-known in the market and providing confidence to the customers, a lot of imitative products have emerged, in order to distinguish our products from the counterfeit products, the Group has taken an active role by fine tuning the design of our products, and registering its trademark in HK and PRC.

Material costs was slightly increased during the year when compared with 2004 due to the rise in copper and gold price. The appreciation in Renminbi in July 2005 for about 2% has also moderately affected the manufacturing cost of the Group. As mentioned above, the redesign of certain products in order to distinguish us from the counterfeit added an extra outflow of cost during the year.

Lighter business segment was affected seriously by the inflated oil price and the result was a significant increase in material cost. Severe competition in the industry has made the situation worse, low entry barrier has given rise to a number of competitors in the market, especially in the PRC which in turn affected the turnover during the year. All these hit the margin of this segment and caution is needed to monitor its performance.

FINANCIAL REVIEW

Liquidity, Financial Resources and Capital Structure

The Group continued to maintain a healthy financial position. After repaying all the utilized banking facilities during 2004, the Group does not have any outstanding bank loan nor overdraft as at 31 December 2005 (2004: Nil). The only borrowing refers to finance leases obligations of approximately HK$135,000 (2004: HK$96,000). The gearing ratio (defined as total interest bearing borrowing divided by shareholders' fund) was 0.05% (2004: 0.05%).

The Group's cash and bank balances amounted to HK$48 million (2004: HK$39.3 million) and its current ratio at year end increased from 1.96 to 2.43. The Group generally finances its operations with internally generated cash flows. At the present moment, the Directors believe that the Group has sufficient financial resources to satisfy its current operations and capital expenditures requirement.

Charges on Group's Assets

The Group did not have any asset pledged during the financial year and at the balance sheet date (2004: HK$0.5 million).

Foreign Exchange Exposure

The Group mainly earns revenue and incurs costs in Hong Kong dollars, US dollars and Renminbi. The management is aware of possible exchange rate exposure due to the appreciation of Renminbi in July 2005. However, the Group's cash outlay on purchase of raw materials are mainly denominated in Hong Kong dollars and US dollars, foreign exchange exposure to the Group would be minimal so long as the Hong Kong SAR Government's policy to peg the Hong Kong dollars to the US dollars remains in effect and the use of financial instruments for hedging purposes is considered not necessary at the present moment.

Contingent Liabilities

The Group did not have any significant contingent liabilities at the balance sheet date (2004: Nil).

FUTURE OUTLOOK

"Worldwide sales of semiconductors in 2005 increased 6.8 percent from that reported in 2004 and 2005 turned out to be a very good year for the semiconductor industry." As stated by the President of the Semiconductor Industry Association ("SIA") in the press release on 2/2/2006 worldwide demand for semiconductors increased in all end users markets, consumer electronics products were the principal driver of the increased demand. SIA forecasts that worldwide sales of semiconductors will grow by 7.9 percent in 2006. Semiconductors sales data also reflected the continuing shift of electronics manufacturing operations to the Asia-Pacific region in general and to China in particular which accounted for the largest share of the market and has become the world's leading manufacturer of electronics products. We are optimistic that the Group, being one of the major participants in the electronic components market in the region, will benefit from this overall healthy economic climate in the coming years.

The Group will continuously focus on its electronic components business in the coming year. At the end of the financial year, the Group has started to study the possibility of the radio frequency identification technology (the "RFID") in different applications after recognizing that RFID in the logistics and inventory control will become an inevitable trend in the near future. Since the technique in producing RFID tags is quite similar to the technique used in producing our existing products, a preliminary research has been initiated to explore the opportunity for the Group even though there is no clearly defined plan as to the development, production scale and capital expenditure requirement for producing RFID tags by the Group at the present moment.

ACKNOWLEDGEMENTS

On behalf of the Board, I wish to sincerely thank my fellow directors, dedicated employees, supportive shareholders and our customers and suppliers for their continued support to the Group in the past year, the delightful performance and achievement could not been accomplished without their wholehearted devotion and commitment.

Lam Yat Keung
President

Hong Kong
10 April 2006

Directors and Senior Management

Executive Directors

Mr. LAM Yat Keung, aged 49, was appointed as President of the Company on 13 December 2003. He has over 26 years of experience in business development, strategic planning, policy making and research and development in the manufacturing industry in Hong Kong and the PRC, particularly in the consumer products and electronic components sectors. He is mainly responsible for strategic development and operating direction of the Group.

Mr. LAM Hung Kit, aged 39, was appointed as Director and Chief Executive Officer of the Company on 13 December 2003. He has over 20 years of experience in sales and marketing function for overseas markets in a number of manufacturing companies in Hong Kong and the PRC. During the same period, he was also involved in the materials control and logistic management in those companies. He is mainly responsible for market development of the Group. He is the younger brother of Ms. Lam Pik Wah.

Ms. LAM Pik Wah, aged 47, was appointed as Director of the Company on 13 December 2003. She has over 23 years of experience in operational management, production planning, material procurement and purchasing functions of the manufacturing industry in Hong Kong and the PRC. She is mainly responsible for internal administration of the Group. She is the wife of Mr. Lam Yat Keung.

Independent Non-executive Directors

Mr. LO Wah Wai, aged 42, was appointed as Independent Non-Executive Director of the Company on 27 September 2004. Mr. Lo is a member of the Hong Kong Institute of Certified Public Accountants and the American Institute of Certified Public Accountants. He has over 18 years of experience in the accounting and finance industry. He is currently a director of Lo & Kwong C.P.A. Company Limited.

Mr. HO Chi Fai, aged 49, was appointed as Independent Non-Executive Director of the Company on 15 January 2004. He graduated from the Hong Kong Polytechnic University in 1979 with a Higher Diploma in Accountancy. Prior to joining the Group, he had over 20 years of experience working in an international bank with particular expertise in money market operations and accounting and was the financial controller of a computer manufacturer and an electronic components manufacturer.

Mr. PAI Te-Tsun, aged 54, was appointed as Independent Non-Executive Director of the Company on 15 January 2004. Mr. Pai has over 30 years of operational experiences, with industry expertise ranging from raw materials production, logistic management and transportation. He is currently the Chief Executive Officer of United Highway Bus Co., Ltd., the largest long-range bus transportation company in Taiwan.

Senior Management

Ms YU Miu Yee, Iris, aged 37, is the Company Secretary and Financial Controller of the Group. She holds a Master of Business Administration Degree and is a fellow member of the Association of the Chartered Certified Accountants, associate member of the Hong Kong Institute of Certified Public Accountants and the Hong Kong Institute of Chartered Secretaries. She has over 15 years of working experience in the financial and company secretarial field. She joined the Group in January 2004.

Mr. AI Chuang Ping, aged 30, is the Assistant General Manager of the Customer Service Department in the electronic segment in the PRC of the Group. He holds a Diploma in Mechanical Technology from the Hunan University. He has over 11 years of experience in quality control for electronic products and is a qualified auditor for the ISO9000 accreditation since 2000. He has been working in various electronics manufacturing companies in the quality control and administration area prior to joining the Group in 2004.

Mr. CHAN Jiu Ru, aged 41, is the Assistant General Manager of the Research and Development Department in the electronic segment in the PRC of the Group. He holds a Bachelor Degree in Electronic and Accurate Mechanical Technology from Tai Yuan University of Mechanism and has over 16 years of experience in research and development, product design and engineering development. Prior to joining the Group in 2004, he has been working in various companies as engineer and production officer in the electronics industry.

Mr. SHER Tak Chi, aged 47, is the director of the Group's subsidiaries in the lighter business, he is responsible for the overall strategic planning and business development of the lighter segment. He is also actively involved in product design and development. Mr. Sher has been working for the Group since its business inception in October 1981. He has over 28 years of experience in the manufacturing of cigarette lighters.

Mr. SO Kam Hing, aged 56, is the deputy general manager of the lighter business. He is responsible for the personnel and general management of the lighter's operation in Hong Kong. He also coordinates and supervises the operation of the Group's factories in Jiangxi and Shandong, the PRC. Mr. So graduated from the Faculty of Chemistry of the Fujian Normal University and joined the Group in September 1990.

Mr. CHA Sang Gyu, aged 51, is the general manager of Jiangxi Longnan. He is responsible for the administration and production management of the Group's factory in Jiangxi, the PRC. He is also in charge of the technical and engineering development of the Group's production process in the lighter business. Mr. Cha graduated from the Mokpo Technical Institute in Korea and has 33 years of mould-making experience, of which 24 years were related to the mould-making for cigarette lighters. Before joining the Group in Jun 1997, Mr. Cha ran his own mould manufacturing company in Korea.

Report of the Directors

The Board of Directors (the "Board") is pleased to present their report and the audited financial statements of Semtech International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries and jointly controlled entity as at 31 December 2005 are set out in notes 23 and 24 respectively to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2005 are set out in the consolidated income statement on page 23.

An interim dividend of HK$0.01 per share amounting to HK$2,925,000 was paid to the shareholders during the year. The Board recommended the payment of a final dividend of HK$0.03 per share, totaling HK$9,652,500, in respect of the year ended 31 December 2005 to be paid on or around 12 July 2006 to shareholders whose names appear on the register of members of the Company on 5 June 2006, subject to the approval by shareholders at the forthcoming Annual General Meeting. This final dividend together with the interim dividend will make a total of HK$0.04 per share for the year ended 31 December 2005 (2004: HK$0.04)

The register of members of the Company will be closed from 1 June 2006 to 5 June 2006, both days inclusive, during which period no transfer of share will be registered. In order to qualify for the final dividend, all transfers of shares accompanied by the relevant Share certificates must be lodged with the Company's Hong Kong Branch Share Registrars, Tengis Limited, 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong no later than 4:00 p.m. on 30 May 2006.

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results, assets and liabilities of the Group for the past five financial years is set out on page 96.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 34 to the financial statements.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 36 to the financial statements and the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2005, the Company's reserves available for distribution, calculated in accordance with the Companies Act 1981 of Bermuda, amounted to HK$59,595,000 (2004: HK$62,447,000). The Company's share premium account of HK$124,707,000 (2004: HK$104,013,000) could be distributed in the form of fully paid bonus shares.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws, or the laws of the Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment and investment properties of the Group during the year are set out in note 16 to 18 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the largest customer and the five largest customers of the Group accounted for approximately 9.8% and 30.6%, respectively, of the total turnover of the Group for the year.

The aggregate purchases attributable to the largest supplier and the five largest suppliers of the Group accounted for approximately 11.7% and 43.9% respectively, of the total purchases of the Group for the year.

None of the directors, their associates or any shareholders (which to the knowledge of the directors own more than 5% of the Company's share capital) had any interest in the five largest suppliers or customers.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors

Mr. Lam Yat Keung
Mr. Lam Hung Kit
Ms. Lam Pik Wah

Independent non-executive directors

Mr. Lo Wah Wai
Mr. Ho Chi Fai
Mr. Pai Te-Tsun

In accordance with clause 87 of the Company's bye-laws, Mr. Lam Yat Keung and Mr. Ho Chi Fai will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The independent non-executive directors do not have specific terms of appointment but are subject to retirement on the same basis as the executive directors as required by the Company's bye-laws.

The Company has received from each independent non-executive director an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the Company is of the opinion that the independent status of them remains intact as at 31 December 2005.

DIRECTORS' SERVICE CONTRACTS

Each of the existing executive directors has entered into a service contract with the Company for an initial terms of two years commencing from 1 August 2004 and shall continue thereafter unless terminated in accordance with the terms of the service contracts.

The independent non-executive directors are not appointed for specific terms but are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company's bye-laws.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2005, the interests or short positions of the directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") were as follows:

Long Positions in the Shares of the Company

Name of directors	Capacity	Number of issued ordinary shares held	Percentage of shareholding
Lam Pik Wah	Held by controlled corporation	60,000,000 (note 1)	18.65%
Lam Hung Kit	Held by controlled corporation	60,000,000 (note 1)	18.65%
Lam Yat Keung	Held by family	60,000,000 (note 2)	18.65%

Note 1: These ordinary shares are owned by Smart Number Investments Limited ("Smart Number"), a company incorporated in the British Virgin Islands. The entire issued share capital of Smart Number is beneficially owned as to 66.67% by Ms Lam Pik Wah and as to 33.33% by Mr. Lam Hung Kit.

Note 2: These ordinary shares are owned by Smart Number, a controlled company of Ms Lam Pik Wah, the wife of Mr. Lam Yat Keung.

Save as disclosed above, none of the directors, chief executive or their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to notify the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate and neither the directors nor the chief executive, or any of their spouses or children under the age of 18, had any rights to subscribe for the equity or debt securities of the Company, or had exercised any such rights.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance, to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the year and up to the date of this report, none of the directors is considered to have interests in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group, as defined in the Listing Rules.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2005, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of certain directors and chief executive, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

Long positions in the Shares of the Company

Shareholders	Capacity	Number of issued ordinary shares held	Percentage of shareholding
Smart Number Investments Limited	Beneficial owner	60,000,000	18.65%
Forever Gain Profits Limited (Note)	Beneficial owner	58,000,000	18.03%
Wan Bing Hung (Note)	Held by controlled corporation	58,000,000	18.03%

Note: Forever Gain Profits Limited is wholly owned by Mr. Wan Bing Hung.

Save as disclosed above, the Company had not been notified of any interests representing 5 percent or more in the issued share capital of the Company as at 31 December 2005.

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2005, the Group had 2,180 (2004:2,587) employees spreading from Hong Kong to the PRC and industrial relationship had been well maintained. Remuneration Policy of the Group is reviewed regularly, making reference to the legal framework, market condition, performance of the Group and individual staff. The remuneration policy and remuneration packages of the executive Directors and members of the senior management are reviewed by the Remuneration Committee, the composition and responsibilities of which are detailed in "Corporate Governance Report" below.

The Group operates a mandatory provident fund scheme ("MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all employees under Hong Kong employment. The MPF Scheme is a defined contribution scheme administered by independent trustees and pursuant to which the Group and its employees have to contribute 5% of the relevant income of the employees to the MPF Scheme with a statutory cap of HK$1,000 per month. The Group's contributions are 100% vested in the employees' account once they are paid into the MPF Scheme until the employee reaches the retirement age of 65 subject to a few exceptions.

Details of the Group's staff cost and MPF Scheme contribution are set out in Note 9 to the financial statements.

SHARE OPTION SCHEME

The Company has adopted a share option scheme on 28 November 2002 (the "Share Option Scheme") for which the details are set out in note 35 to the financial statements.

CONNECTED TRANSACTIONS

Details of the connected transactions of the Group during the year are set out in note 43 to the financial statements. These transactions were not fall under the definition of "connected transaction" or "continuing connected transaction" in Chapter 14A of the Listing Rules.

CORPORATE GOVERNANCE

The Company has complied throughout the year with the Code on Corporate Governance Practices set out in Appendix 14 of the Listing Rules except for the deviation from provision E.1.2 in respect of the Chairman of the Board to attend the annual general meeting of the Company which are detailed in "Corporate Governance Report" below.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of its Directors as at the latest practicable date prior to the issue of this annual report, the Company has maintained sufficient public float as required by the Listing Rules.

OTHER MATTER

Recently there have been articles appearing in various newspapers concerning the trial and prosecution on four persons including Mr. Wong, the former Chairman and director of the Company. The Board wishes to clarify its position for the benefits of the shareholders of the Company and general public that the Matter, details of which refer to the Company's announcement dated 5 March 2005, do not have any impact on the day-to-day operations or financial position or the cashflow position of the Group.

AUDITORS

During the year KLL Associates CPA Limited resigned as a result of the combination of practice with that of BDO McCabe Lo Limited ("BDO") which took place on 1 August 2005 and BDO were then appointed as auditors of the Company.

A resolution will be submitted to the forthcoming annual general meeting to re-appoint BDO as auditors of the Company.

On behalf of the Board

Lam Yat Keung
President

Hong Kong, 10 April 2006

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") which became effective on 1 January 2005 as its own code of corporate governance practices. In the opinion of the Directors, the Company has met the code provisions set out in the CG Code for the year ended 31 December 2005, except for the deviation from provision E.1.2 in respect of the Chairman of the Board to attend the annual general meeting of the Company. The Directors will continuously review and improve the corporate governance practices and standards of the Company to ensure that business activities and decision making process are regulated in a proper and prudent manner.

CORPORATE GOVERNANCE PRACTICES

A Directors

A.1 The Board

The Board should assume responsibility for leadership and control of the Company, direct and supervise the Company's affairs. During the financial year ended 31 December 2005, the Board held eight meetings.

The attendance of the Directors at the board meetings are as follows:

	Attendance
Executive Directors:	
Lam Yat Keung	7/8
Lam Hung Kit	7/8
Lam Pik Wah	8/8
Independent non-executive Directors:	
Lo Wah Wai	2/8
Ho Chi Fai	2/8
Pai Te-Tsun	1/8

All Directors are given an opportunity to include matters in the agenda for regular board meetings. Notices of 14 days are given of a regular meeting and reasonable notices are given for other meetings. The Directors have access to the advice and services of the Company Secretary and agreed procedure for them to seek independent professional advice at the Company's expenses. Minutes of the board meetings in sufficient details are being kept by the Company Secretary and open for inspection by the Directors.

In case a substantial shareholder or a Director has a conflict of interest in a material matter, a board meeting should be held and such Director must abstain from voting and not be counted in quorum.

A.2 Chairman and Chief Executive Officer ("CEO")

A clear division of responsibilities helps to ensure a balance of power and authority, as a result the role of the President (i.e. the "Chairman" in the CG Code) and the CEO are separated. Mr. Lam Yat Keung has been appointed President of the Company to manage the Board while Mr. Lam Hung Kit has been appointed CEO to assume the responsibilities in the day-to-day management of the Company's business.

The President has briefed all Directors on issue arising at the board meetings and ensured that all Directors have received adequate information in a timely manner.

A.3 Board Composition

The Board has a balance of skills and experience appropriate for the requirements of the business of the Company and a balanced composition of executive and non-executive directors which can effectively exercise independent judgment. The Independent Non-executive Directors, representing half of the Board, are expressly identified in all corporate communications.

The executive Directors of the Company have family relationship with one and other. Ms. Lam Pik Wah is the wife of Mr. Lam Yat Keung (the President) and she is the elder sister of Mr. Lam Hung Kit (the Chief Executive Officer).

A.4 Appointments, Re-election and Removal

The Company has established a formal, considered and transparent procedure for the appointment of new directors to the Board. According to the Bye-law of the Company, one-third of the Directors (including the Independent non-executive Directors) shall retire from office by rotation at each annual general meeting. That means that a Director's specific term of appointment cannot exceed three years.

A.5 Responsibilities of Directors

Every Director is required to keep abreast of his responsibilities, conduct, business activities and development of the Company. In case there is newly appointed director, a comprehensive, formal induction will be given to ensure that he has a proper understanding of the business and his responsibilities.

The non-executive Directors are required to bring an independent judgment at board meetings; take the lead where potential conflicts of interest arise; serve on committees if invited; and scrutinize the Company's performance. Every Director should ensure that he can give sufficient time and attention to the affairs of the Company.

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors of the Company (the "Model Code"). Having made specific enquiry of the Directors, all the Directors confirmed that they had complied with the required standard as set out in the Model Code for the year ended 31 December 2005.

A.6 Supply of and Access to Information

An agenda of the board meeting is sent to Directors at least 3 days before the intended date of a meeting and they have separate and independent access to the Company's senior management to supply adequate information as board papers and related material and for them to make an informed decision.

B. Remuneration of Directors and Senior Management

B.1 The Level and Make Up of Remuneration and Disclosure

The Company has established a Remuneration Committee with specific written terms of reference. All the Independent Non-executive Directors and the CEO are the members of the committee and Mr. Lo Wah Wai was elected chairman of the committee. The purpose of the committee is to set out its recommendation on the remuneration package of the executive Directors. The Committee has met in 2005 to review and recommend the remuneration package of the executive Directors and senior management.

C. Accountability and Audit

C.1 Financial Reporting

The management has regularly provided explanation and information to the Board so as to enable the Board to make an informed assessment of the financial and other information put before the Board for approval.

The Directors acknowledge their responsibility for preparing the financial statements and presenting a balance, clear and understandable assessment in the Company's annual and interim reports, other price-sensitive announcements and other financial disclosures required under the Listing Rules and reports to regulators.

C.2 Internal Control

The Directors conducted a review of the effectiveness of the system of internal control of the Company and its subsidiaries. The review covered all material controls, including financial, operational and compliance controls and risk management functions.

C.3 Audit Committee

Currently, all members of the Audit Committee are Independent Non-executive Directors of the Company and Mr. Lo Wah Wai was elected chairman of the committee.

A clear terms of reference of the Audit Committee has been established in regarding the recommendation to the Board for appointment, removal of the Company's external auditors. Apart from monitoring the integrity of financial statements, the committee also review significant financial reporting judgments on the Company's annual reports and interim reports and overseeing the Company's financial reporting system and internal control procedures.

During the financial year 2005, two meetings were held and all the members have attended the meetings. Full minutes of the meetings are being kept by the Company Secretary after receiving comments from the members on the draft. The committee had also held a meeting with the Company's external auditors during the year.

The amount of external auditors' remuneration has been disclosed in Note 8 to the financial statements.

The committee has recommended to the Board that the shareholders be asked to re-appoint BDO as the Group's external auditors for 2006.

D. Delegation by the Board

D.1 Management Function

A clear direction to management is given as to the matters that must be approved by the Board before decisions are made on behalf of the Company. The daily operation of the Company is delegated to the Management, with division heads responsible for different aspects of the business. Major corporate matters that require Board decision includes long-term objectives and strategies; extension of group activities into new business areas; implementation of adequate systems of internal control and risk management procedures and compliance with relevant statutory requirements and rules and regulation.

D.2 Board Committees

The Company currently has two Board Committees, the Audit Committee and the Remuneration Committee. All Board Committees have clear and specific written terms of reference and they report their work to the Board after each meeting.

E. Communication with Shareholders

E.1 Effective Communication

Separate resolution has been proposed by the chairman of that meeting in respect of each substantially separate issue at a general meeting.

The President of the Board did not attend the Annual General Meeting in 2005 due to the fact that he was not in Hong Kong on that date. The President is aware that it deviated from the provision E.1.2 of the CG Code which stipulates that the President should attend the annual general meeting of the Company. However, the President has asked the CEO to act on behalf and be available to answer questions at the meeting.

E.2 Voting by Poll

The Company has informed the shareholders in its circular convening a general meeting the procedures for and the rights of shareholders to demand a poll and the chairman of a meeting has at the commencement of the meeting ensure that an explanation is provided of the procedure demanding a poll and the detailed procedures for conducting a poll.

The Company should count all proxy votes and except where a poll is required, the chairman of a meeting should indicate to the meeting the level of proxies lodged on each resolution, and the balance for and against the resolution, after it has been dealt with on a show of hands. The Company should also ensure that votes cast are properly counted and recorded.

TO THE SHAREHOLDERS OF
SEMTECH INTERNATIONAL HOLDINGS LIMITED
(incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 23 to 94 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Group and the Company as at 31 December 2005 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

BDO McCabe Lo Limited
Certified Public Accountants
Lee Ka Leung, Daniel
Practising Certificate Number P01220

Hong Kong, 10 April 2006

Consolidated Income Statement

For the year ended 31 December 2005

	Notes	1.1.2005 to 31.12.2005 HK$'000	1.7.2003 to 31.12.2004 HK$'000 (restated)
Turnover	5	**553,983**	559,882
Cost of sales		**(454,060)**	(450,084)
Gross profit		**99,923**	109,798
Other income	7	**3,990**	9,204
Distribution costs		**(10,868)**	(20,446)
Administrative expenses		**(32,367)**	(38,307)
Other expenses		**(7,360)**	(58)
Profit from operations	8	**53,318**	60,191
Finance costs	10	**(11)**	(1,381)
Profit before tax		**53,307**	58,810
Tax expense	11	**(10,577)**	(10,248)
Profit for the year/period		**42,730**	48,562
Attributable to:			
– Equity holders of the Company		**42,730**	48,561
– Minority interests		**–**	1
		42,730	48,562
Dividends:	12		
Interim dividend paid		**2,925**	2,925
Final dividend proposed		**9,653**	8,775
		12,578	11,700
Earnings per share (in Hong Kong cents):	13		
Basic		**14.53**	21.24
Diluted		**14.41**	N/A

Consolidated Balance Sheet

As at 31 December 2005

	Notes	2005 HK$'000	2004 HK$'000 (restated)
Non-current assets			
Property, plant and equipment	16	**98,749**	106,756
Investment properties	18	**11,700**	11,182
Interests in leasehold land held for own use under operating leases	19	**1,564**	1,630
Goodwill	20	**–**	12
Negative goodwill	21	**–**	(2,023)
Other intangible assets	22	**1,399**	1,689
Interest in a jointly controlled entity	24	**(2,409)**	424
Total non-current assets		**111,003**	119,670
Current assets			
Inventories	26	**82,584**	55,721
Trade and bills receivables	27	**137,367**	100,556
Prepayments, deposits and other receivables		**16,742**	15,417
Pledged deposits		**–**	500
Cash and cash equivalents		**48,051**	38,839
Total current assets		**284,744**	211,033
Current liabilities			
Trade and bills payables	28	**79,194**	79,063
Other payables and accruals		**14,829**	13,601
Amounts due to directors	29	**8,045**	11,945
Tax payable		**14,793**	2,900
Obligations under finance leases	30	**119**	76
Total current liabilities		**116,980**	107,585
Net current assets		**167,764**	103,448
Total assets less current liabilities		**278,767**	223,118

As at 31 December 2005

	Notes	2005 HK$'000	2004 HK$'000 (restated)
Non-current liabilities			
Obligations under finance leases	30	**16**	20
Employee benefits	32	**443**	–
Deferred tax liabilities	33	**11,127**	12,301
Total non-current liabilities		**11,586**	12,321
TOTAL NET ASSETS		**267,181**	210,797
Capital and reserves attributable to equity holders of the Company			
Share capital	34	**32,175**	29,250
Reserves		**225,333**	172,752
Proposed final dividend	12	**9,653**	8,775
Equity attributable to equity holders of the Company		**267,161**	210,777
Minority interests		**20**	20
TOTAL EQUITY		**267,181**	210,797

On behalf of the Board

Lam Yat Keung **Lam Pik Wah**

Balance Sheet

As at 31 December 2005

	Notes	2005 HK$'000	2004 HK$'000
Non-current assets			
Investments in subsidiaries	23	**108,915**	108,915
Current assets			
Prepayments, deposits and other receivables		**297**	380
Amounts due from subsidiaries	25	**96,963**	93,890
Cash and cash equivalents		**28,733**	13,600
Total current assets		**125,993**	107,870
Current liabilities			
Other payables and accruals		**377**	355
Amounts due to directors	29	**8,045**	11,945
Tax payable		**356**	–
Total current liabilities		**8,778**	12,300
Net current assets		**117,215**	95,570
TOTAL NET ASSETS		**226,130**	204,485
Capital and reserves attributable to equity holders of the Company			
Share capital	34	**32,175**	29,250
Reserves	36	**184,302**	166,460
Proposed final dividend	12	**9,653**	8,775
TOTAL EQUITY		**226,130**	204,485

On behalf of the Board

Lam Yat Keung **Lam Pik Wah**

Consolidated Statement of Changes in Equity

For the year ended 31 December 2005

	Share capital HK$'000	Share premium HK$'000	Contributed surplus HK$'000 (Note)	Share-based compensation reserve HK$'000	Property revaluation reserves HK$'000	Retained profits/ (accumulated losses) HK$'000	Foreign Exchange reserve HK$'000	Proposed final dividend HK$'000	Equity attributable to shareholders of the Company HK$'000	Minority interests HK$'000	Total HK$'000
Group											
At 1 July 2003 (as previously stated)	15,000	6,459	5,800	–	20,395	25,078	(278)	–	72,454	19	72,473
Effect of change in accounting policy (note 2)	–	–	–	–	(19,050)	131	–	–	(18,919)	–	(18,919)
At 1 July 2003 (restated)	15,000	6,459	5,800	–	1,345	25,209	(278)	–	53,535	19	53,554
Exchange realignments	–	–	–	–	–	–	215	–	215	–	215
Profit for the period	–	–	–	–	–	48,561	–	–	48,561	1	48,562
Total recognised profit	–	–	–	–	–	48,561	215	–	48,776	1	48,777
Issue of shares on private placements	5,000	36,500	–	–	–	–	–	–	41,500	–	41,500
Issue of shares on exercise of share options	3,450	21,528	–	–	–	–	–	–	24,978	–	24,978
Interim dividend paid	–	–	–	–	–	(2,925)	–	–	(2,925)	–	(2,925)
Share issue expenses	–	(1,074)	–	–	–	–	–	–	(1,074)	–	(1,074)
Issue of shares in consideration for the acquisition of subsidiaries	5,800	40,600	–	–	–	–	–	–	46,400	–	46,400
Proposed final dividend	–	–	–	–	–	(8,775)	–	8,775	–	–	–
Deficit on revaluation of property	–	–	–	–	(413)	–	–	–	(413)	–	(413)
At 31 December 2004 (restated)	29,250	104,013	5,800	–	932	62,070	(63)	8,775	210,777	20	210,797
Effect of changes in accounting policy (note 2)	–	–	–	–	–	2,023	–	–	2,023	–	2,023
At 1 January 2005 (restated)	29,250	104,013	5,800	–	932	64,093	(63)	8,775	212,800	20	212,820
Exchange realignments	–	–	–	–	21	–	(69)	–	(48)	–	(48)
Profit for the year	–	–	–	–	–	42,730	–	–	42,730	–	42,730
Total recognised profit	–	–	–	–	21	42,730	(69)	–	42,682	–	42,682
Recognition of equity-settled share based payment	–	–	–	2,852	–	–	–	–	2,852	–	2,852
Issue of shares on exercise of share options	2,925	20,694	–	(2,852)	–	–	–	–	20,767	–	20,767
Interim dividend paid	–	–	–	–	–	(2,925)	–	–	(2,925)	–	(2,925)
Final 2004 dividend paid	–	–	–	–	–	–	–	(8,775)	(8,775)	–	(8,775)
Proposed final dividend	–	–	–	–	–	(9,653)	–	9,653	–	–	–
Deficit on revaluation of property	–	–	–	–	(240)	–	–	–	(240)	–	(240)
At 31 December 2005	**32,175**	**124,707**	**5,800**	**–**	**713**	**94,245**	**(132)**	**9,653**	**267,161**	**20**	**267,181**

Note: The contributed surplus of the Group represents the difference between the nominal value of the shares of the former Group holding company acquired pursuant to the Group reorganisation prior to the listing of the Company's shares, over the nominal value of the Company's shares issued in exchange therefor.

Consolidated Cash Flow Statement

For the year ended 31 December 2005

	1.1.2005 to 31.12.2005 HK$'000	1.7.2003 to 31.12.2004 HK$'000 (restated)
Cash flows from operating activities		
Profit before tax	**53,307**	58,810
Adjustments for:		
Interest income	**(49)**	(18)
Interest expenses	**11**	1,381
Dividend income	**–**	(144)
Depreciation of property, plant and equipment	**14,739**	13,272
Amortisation of other intangible assets	**665**	917
Amortisation of goodwill	**–**	1
Impairment on goodwill	**12**	–
Release of negative goodwill	**–**	(106)
Amortisation of interests in leasehold land held for own use under operating leases	**66**	(131)
Amortisation of deferred income	**(299)**	(2,076)
Impairment on amount due from a jointly controlled entity	**3,132**	–
Revaluation surplus on leasehold land and building	**(522)**	(841)
Gain on fair value changes of investment properties	**(518)**	(1,580)
Gain on disposal of property, plant and equipment	**–**	(68)
Gain on disposal of other investments	**–**	(75)
Share-based payment expenses	**2,852**	–
Effect of foreign exchange rate change	**(69)**	215
Operating profit before working capital changes	**73,327**	69,557
Increase in trade and bills receivables	**(36,811)**	(63,361)
Increase in inventories	**(26,863)**	(41,914)
Increase in prepayments, deposits and other receivables	**(1,325)**	(4,492)
Increase in trade and bills payables	**131**	45,290
Increase in other payables and accruals	**1,228**	7,606
Increase in employee benefits	**443**	–
Cash generated from operations	**10,130**	12,686
Interest paid on bank borrowings	**–**	(1,298)
Interest paid on finance leases	**(11)**	(83)
Income taxes paid/(refunded)	**142**	(37)
Net cash from operating activities	**10,261**	11,268

Consolidated Cash Flow Statement

For the year ended 31 December 2005

	Note	1.1.2005 to 31.12.2005 HK$'000	1.7.2003 to 31.12.2004 HK$'000 (restated)
Investing activities			
Interest received		**49**	18
Purchase of property, plant and equipment		**(6,798)**	(46,007)
Additions to intangible assets		**(375)**	(1,419)
Decrease in pledged deposits		**500**	1,541
Acquisition of subsidiaries (net of cash and cash equivalent acquired)	38	**–**	1,932
Dividends received		**–**	144
Proceeds from disposal of property, plant and equipment		**565**	230
Purchase of other investments		**–**	(17,765)
Proceeds from disposal of other investments		**–**	17,840
Net cash used in investing activities		**(6,059)**	(43,486)
Financing activities			
Repayments of bank borrowings		**–**	(6,240)
Repayments of obligations under finance leases		**(157)**	(2,052)
(Repayment to) / advance from directors		**(3,900)**	11,753
Proceeds from issue of shares on private placements		**–**	41,500
Proceeds from issue of shares on exercise of share options		**20,767**	24,978
Dividends paid		**(11,700)**	(2,925)
Share issue expenses		**–**	(1,074)
Net cash flows from financing activities		**5,010**	65,940
Net increase in cash and cash equivalents		**9,212**	33,722
Cash and cash equivalents at beginning of year/period		**38,839**	5,117
Cash and cash equivalents at end of year/period		**48,051**	38,839
Analysis of the balances of cash and cash equivalents			
Bank balances and cash		**48,051**	38,839

1. GENERAL

The Company was incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Its registered office is at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and principle place of business is at 26/F, CCT Telecom Building, 11 Wo Shing Street, Fotan, Shatin, Hong Kong.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 23 to the financial statements.

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

2. PRINCIPAL ACCOUNTING POLICIES

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). In addition, the consolidated financial statements also comply with the applicable disclosures required by the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange and by the Hong Kong Companies Ordinance.

(b) Basis of preparation

The financial statements have been prepared under the historical cost basis except for certain properties and financial instruments, which are measured at fair values or revalued amounts.

In the current year, the Group has applied, for the first time, a number of new HKFRSs issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and the consolidated statement of changes in equity. In particular, the presentation of minority interests and share of tax of associates have been changed. The changes in presentation have been applied retrospectively.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(b) Basis of preparation *(Continued)*

The applicable HKFRSs are set out below and the 2004 financial statements have been restated in accordance with the relevant requirements, where applicable.

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 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HKAS-INT 15	Operating Leases – Incentives
HKAS-INT 21	Income Taxes – Recovery of Revalued Non-Depreciable Assets

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(b) Basis of preparation *(Continued)*

The adoption of HKAS 1, 2, 7, 8, 10, 12, 14, 16, 18, 19, 21, 24, 27, 33, 36, 37, 38 and HKAS-INT 15 did not result in substantial changes to the Group's accounting policies. In summary:

- HKAS 1 affects certain presentation in the income statement, balance sheet, and statement of changes in equity.

- HKAS 8, 16 and 21 affect certain disclosures of the financial statements.

- HKAS 2, 7, 10, 12, 14, 18, 19, 27, 33, 36, 37, 38 and HKAS INT-15 do not have any impact as the Group's accounting policies already comply with the standards.

- HKAS 24 affects the identification of related parties and the disclosure of related party transactions.

HKAS 17 "Leases"

The adoption of HKAS 17 has resulted in a change in accounting policy relating to leasehold land. In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the revaluation model. In the current year, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to "Interests in leasehold land held for own use under operating leases", which are carried at cost and amortised over the lease term on a straight-line basis. The related revaluation reserve on the leasehold land is de-recognised and the related deferred taxation reversed. The change in accounting policy is adopted retrospectively and reflected by way of prior period adjustment and restatement of comparative figures.

Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(b) Basis of preparation *(Continued)*

HKAS 40 "Investment Property"

In the current year, the Group has, for the first time, applied HKAS 40 "Investment Property". The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in the profit or loss for the year in which they arise. In previous years, investment properties under the SSAP 13 "Accounting for Investment Properties" were measured at open market values, with revaluation surplus or deficits credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and revaluation increase subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. This change did not have significant impact on the financial statements for current and prior years. Comparative figures for 2004 have not been restated.

HKAS-INT – 21 "Income Taxes – Recovery of Revalued Non-Depreciable Assets"

In previous years, deferred tax consequences in respect of revalued investment properties were assessed on the basis of the tax consequence that would follow from recovery of the carrying amount of the properties through sale in accordance with the predecessor interpretation (SSAP Interpretation 20). In the current year, the Group has applied HKAS Interpretation 21 ("INT - 21") "Income Taxes – Recovery of Revalued Non-Depreciable Assets" which removes the presumption that the carrying amount of investment properties are to be recovered through sale. Therefore, the deferred tax consequences of the investment properties are now assessed on the basis that reflect the tax consequences that would follow from the manner in which the Group expects to recover the property at each balance sheet date. In the absence of any specific transitional provisions in HKAS INT - 21, this change in accounting policy has been applied retrospectively. This change did not have significant impact on the financial statements for current and prior years. Comparative figures for 2004 have not been restated.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(b) Basis of preparation *(Continued)*

HKFRS 2 "Share-Based Payment"

In the current year, the Group has applied HKFRS 2 "Share-based Payment" which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of share options of the Company determined at the date of grant of the share options over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1 January 2005. In relation to share options granted before 1 January 2005, the Group chooses not to apply HKFRS 2 with respect to share options granted on or before 7 November 2002 or vested before 1 January 2005. However, the Group is still required to apply HKFRS 2 retrospectively to share options that were granted after 7 November 2002 and had not yet vested by 1 January 2005. Comparative figures have not been restated.

HKFRS 3 "Business Combinations"

Goodwill

In previous years, positive goodwill which arose on or after 1 January 2001 was amortised on a straight line basis over its useful life and was subject to impairment testing when there were indications of impairment.

In accordance with the relevant transitional provisions under HKFRS 3 and HKAS 36 "Impairment of Assets", the Group has applied the new policy in respect of positive goodwill prospectively from 1 January 2005. Comparative figures for 2004 have not been restated. The cumulative amount of amortisation as at 1 January 2005 has been offset against the cost of goodwill. Positive goodwill is no longer amortised but is tested for impairment annually including the year of initial recognition, as well as when there are indications of impairment, at the cash generating unit level by applying a fair-value-based test in accordance with HKAS 36.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(b) Basis of preparation *(Continued)*

HKFRS 3 "Business Combinations" *(Continued)*

Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as "negative goodwill")

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") is recognised immediately in income statement in the period in which the acquisition takes place. In previous periods, negative goodwill arising on acquisitions prior to 1 January 2001 was held in reserves, and negative goodwill arising on acquisitions after 1 January 2001 was presented as a deduction from assets and released to income based on an analysis of the circumstances from which the balance resulted. In accordance with the relevant transitional provisions in HKFRS 3, the Group has derecognised all negative goodwill at 1 January 2005.

HKAS 32 "Financial Instruments: Disclosure and Presentation"
HKAS 39 "Financial Instruments: Recognition and Measurement"

In the current year, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. HKAS 39, which is effective for accounting periods beginning on or after 1 January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarised below:

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(b) Basis of preparation *(Continued)*

HKAS 32 "Financial Instruments: Disclosure and Presentation" *(Continued)*
HKAS 39 "Financial Instruments: Recognition and Measurement" *(Continued)*

Classification and measurement of financial assets and financial liabilities

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

From 1 January 2005 onwards, the Group classifies and measures its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" that are not part of a hedging relationship and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method after initial recognition.

On 1 January 2005, the Group classified and measured its debt and equity securities in accordance with the transitional provisions of HKAS 39. This change did not have significant impact on the financial statements for current and prior years. Comparative figures for 2004 have not been restated.

Financial assets and financial liabilities other than debt and equity securities

From 1 January 2005 onwards, the Group classifies and measures its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale" financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)". "Other financial liabilities" are carried at amortised cost using the effective interest method. This change did not have significant impact on the financial statements for current and prior years. Comparative figures for 2004 have not been restated.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(b) Basis of preparation *(Continued)*

HKAS 32 "Financial Instruments: Disclosure and Presentation" (Continued)
HKAS 39 "Financial Instruments: Recognition and Measurement" (Continued)

Derecognition

Under HKAS 39, a financial asset is derecognised, when and only when, either the contractual rights to the asset's cash flows expire, or the asset is transferred and the transfer qualifies for derecognition in accordance with HKAS 39. The decision as to whether a transfer qualifies for derecognition is made by applying a combination of risks and rewards and control tests. The Group has applied the relevant transitional provisions and applied the revised accounting policy prospectively for transfers of financial assets on or after 1 January 2005.

(c) Summary of the effect of the changes in accounting policies

The effect of the changes in the accounting policies described in Note 2(b) above on the results for the current and prior period are as follows:

	1.1.2005 to 31.12.2005 HK$'000	1.7.2003 to 31.12.2004 HK$'000
(Increase)/decrease in amortisation of interests in leasehold land held for own use under operating lease (Included in administrative expenses)	**(63)**	131
Expenses in relation to share options granted as equity settled share-based payment (Included in administrative expenses)	**(2,852)**	–
(Decrease)/increase in net profit for the year/period	**(2,915)**	131
Attributable to:		
Equity holders of the Company	**(2,915)**	131
Minority interests	**–**	–
	(2,915)	131

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(c) Summary of the effect of the changes in accounting policies *(Continued)*

Analysis of decrease in net profit for the year and prior period by line items presented according to their function:

	1.1.2005 to 31.12.2005 HK$'000	1.7.2003 to 31.12.2004 HK$'000
(Increase)/decrease in administrative expenses	(2,915)	131

The cumulative effect of the application of the new HKFRSs on the balance sheet as at 31 December 2004 and 1 January 2005 are summarised below:

	At 31 December 2004 (as previously stated) HK$'000	Adjustments HK$'000	At 31 December 2004 (restated) HK$'000	Adjustments HK$'000	At 1 January 2005 (restated) HK$'000
Impact of HKAS 17					
Property, plant and equipment	128,716	(21,960)	106,756	–	106,756
Interests in leasehold land held for own use under operating leases	–	1,630	1,630	–	1,630
Impact of HKFRS 3					
Negative goodwill	(2,023)	–	(2,023)	2,023	–
Net assets	126,693	(20,330)	106,363	2,023	108,386

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(c) Summary of the effect of the changes in accounting policies *(Continued)*

	At 31 December 2004 (as previously stated) HK$'000	Impact of HKAS 17 HK$'000	At 31 December 2004 (restated) HK$'000	Impact of HKFRS 3 HK$'000	At 1 January 2005 (restated) HK$'000
Property revaluation reserve	21,524	(20,592)	932	–	932
Retained profits	61,808	262	62,070	2,023	64,093
Total equity	83,332	(20,330)	63,002	2,023	65,025

The financial effects of the application of the new HKFRSs to the Group's equity on 1 July 2003 are summarised below:

	As originally stated HK$'000	Impact of HKAS 17 HK$'000	As restated HK$'000
Property revaluation reserve	20,395	(19,050)	1,345
Retained profits	25,078	131	25,209
Total equity	45,473	(18,919)	26,554

(d) Basis of consolidation

Where the Company has the power, either directly or indirectly, to govern the financial and operating policies of another entity or business so as to obtain benefits from its activities, it is classified as a subsidiary. The consolidated financial statements present the results of the Company and its subsidiaries ("the Group") as if they formed a single entity. Inter-company transactions and balances between group companies are therefore eliminated in full.

On acquisition, the assets and liabilities of the relevant subsidiaries are measured at their fair values at the date of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(d) Basis of consolidation *(Continued)*

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

The Company's interests in subsidiaries are stated at cost less impairment loss, if any. All significant inter-company transactions and balances among group companies are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

(e) Subsidiaries

A subsidiary is an entity in which the Company is able to exercise its control on it. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

(f) Goodwill

Goodwill represents the excess of the cost of a business combination over the interest in the fair value of identifiable assets, liabilities and contingent liabilities acquired. Cost comprises the fair values of assets given, liabilities assumed and equity instruments issued, plus any direct costs of acquisition.

Goodwill is capitalised as an intangible asset with any impairment in carrying value being charged to the income statement.

Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is credited in full to the income statement.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(g) Impairment of non-financial assets

Impairment tests on goodwill and other intangible assets with indefinite useful economic lives are undertaken annually on 31 December. Other non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount (ie the higher of value in use and fair value less costs to sell), the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit (ie the lowest group of assets in which the asset belongs for which there are separately identifiable cash flows). Goodwill is allocated on initial recognition to each of the Group's cash-generating units that are expected to benefit from the synergies of the combination giving rise to the goodwill.

Impairment charges are included in the administrative expenses line item in the income statement, except to the extent they reverse gains previously recognised in reserves.

(h) Joint ventures

The Group's share of post acquisition results of jointly controlled entities is included in the consolidated income statement. The Group's interests in jointly controlled entities are accounted for using the equity method and are initially recorded at cost and adjusted thereafter for the post acquisition changes in the Group's share of the net assets of the jointly controlled entities.

Unrealised profits and losses resulting from transactions between the Group and its jointly controlled entities are eliminated to the extent of the Group's interest in the jointly controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are immediately recognised in the income statement.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(i) Foreign currency

Transactions entered into by Group entities in a currency other than the currency of the primary economic environment in which it operates (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are similarly recognised immediately in the income statement, except for foreign currency borrowings qualifying as a hedge of a net investment in a foreign operation.

On consolidation, the results of overseas operations are translated into Hong Kong dollars at rates approximating to those ruling when the transactions took place. All assets and liabilities of overseas operations, including goodwill arising on the acquisition of those operations, are translated at the rate ruling at the balance sheet date. Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations at actual rate are recognised directly in equity (the "foreign exchange reserve"). Exchange differences recognised in the income statement of group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the overseas operation concerned are reclassified to the foreign exchange reserve if the item is denominated in the functional currency of the Group or the overseas operation concerned.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are transferred to the income statement as part of the profit or loss on disposal.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(j) Financial Instruments

(i) Financial assets

The Group classifies its financial asset according to the purpose for which the asset was acquired.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), but also incorporate other types of contractual monetary assets. At each balance sheet date subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any identified impairment losses.

(ii) Financial liabilities

The Group classifies its financial liabilities according to the purpose for which the liability was incurred.

Trade payables and other short-term monetary liabilities are other financial liabilities, which are recognised at amortised cost.

(iii) Derecognition

The Group derecognise a financial asset where the contractual rights to the future cash flows in relation to the investment expire or where the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(k) Employee benefits

(i) Defined contribution pension plan

Obligations for contributions to defined contribution retirement plan are recognised as an expense in the income statement as incurred.

(ii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(iii) Employee entitlements

Employee entitlements to annual leave and long service payment are recognised when they accrue to the employees. A provision is made for the estimated liability for annual leave and long service payment as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(l) Share based payments

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to the income statement over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(l) Share based payments *(Continued)*

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the income statement over the remaining vesting period.

Where equity instruments are granted to persons other than employees, the income statement is charged with the fair value of goods and services received.

(m) Leased assets

Where substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred to the Group (a "finance lease"), the asset is treated as if it had been purchased outright. The amount initially recognised as an asset is the present value of the minimum lease payments payable over the term of the lease. The corresponding lease commitment is shown as a liability. Lease payments are analysed between capital and interest. The interest element is charged to the income statement over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

Where substantially all of the risks and rewards incidental to ownership are retained by the lessor (an "operating lease"), the total rentals payable under the lease are charged to the income statement on a straight-line basis over the lease term.

The land and buildings elements of property leases are considered separately for the purposes of lease classification.

(n) Investment properties

Investment properties are properties held for long-term rental yields or for capital appreciation and not occupied by the Group. Investment properties are carried at fair value, representing open-market value determined annually by independent qualified valuers. Changes in fair value are recognised in the income statement.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(o) Intangible assets

Expenditure on internally generated intangible assets (research and development costs) is capitalised if it can be demonstrated that:

- it is technically feasible to develop the product for it to be sold;
- adequate resources are available to complete the development;
- there is an intention to complete and sell the product;
- the Group is able to sell the product;
- sale of the product will generate future economic benefits; and
- expenditure on the project can be measured reliably.

Capitalised development costs are amortised over the periods the Group expects to benefit from selling the products developed. The amortisation expense is included within the cost of sales line in the income statement.

Development expenditure not satisfying the above criteria and expenditure on the research phase of internal projects are recognised in the income statement as incurred.

(p) Property, plant and equipment

The building component of owner-occupied leasehold properties are stated at valuation less accumulated depreciation. Fair value is determined by the directors based on independent valuations which are performed periodically. The directors review the carrying value of the leasehold buildings and adjustment is made where they consider that there has been a material change. Increases in valuation are credited to the leasehold buildings revaluation reserve. Decreases in valuation are first offset against increases on earlier valuations in respect of the same property and are thereafter charged to the income statement. Any subsequent increases are credited to the income statement up to the amount previously charged and thereafter to leasehold buildings revaluation reserve.

Other property, plant and equipment are stated at cost or fair value less accumulated depreciation and accumulated impairment losses.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(p) Property, plant and equipment *(Continued)*

Property, plant and equipment are depreciated at rates sufficient to write off their cost net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives and residual value are reviewed, and adjusted if appropriate, at each balance sheet date. The principal annual rates are as follows:

Leasehold land and buildings	2% to 4%
Plant and machinery	10% to 25%
Leasehold improvements and others	10% to 30%

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 maintenances costs are charged to the income statement during the year in which they are incurred.

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

All non-qualifying expenditures and expenses incurred on other non-qualifying development activities are charged as expenses to the income statement in the period in which such expenses are incurred.

The gain or loss on disposal of property, plant and equipment other than leasehold building is the difference between the net sale proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

(q) Interests in leasehold land held for own use under operating leases

Interests in leasehold land held for own use under operating leases represent up-front payments to acquire long-term interests in lessee-occupied properties. These payments are stated at cost and are amortised over the period of the lease on a straight-line basis to the income statement.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(r) Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

First-in, first-out basis is used to determine the cost of ordinarily interchangeable items.

(s) Revenue recognition

Revenue from goods sold is recognised when title of goods sold has passed to the purchaser, which is at the time of delivery.

Rental income under operating leases is recognised on a straight-line basis over the term of the relevant lease.

Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

Dividend income is recognised when the right to receive the dividend is established.

Service income is recognised when delivery service is rendered.

(t) Income taxes

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(t) Income taxes *(Continued)*

Deferred tax arises from temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes and is accounted for using the balance sheet liability method. Except for recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is recognised in the income statement except when it relates to items directly recognised to equity in which case the tax is also directly recognised in equity.

(u) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(v) Dividends

Interim dividends are recognised directly as a liability when they are proposed and declared by the directors.

Final dividends proposed by the directors are classified as a separate allocation of retained profits within capital and reserves in the balance sheet. Final dividends are recognised as a liability when they are approved by the shareholders.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies which are described in note 2, management has made the following judgments that have significant effect on the amounts recognised in the financial statements. The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also discussed below.

Impairment loss on trade receivables

The policy for impairment of trade receivables of the Group is based on the evaluation of collectability and aging analysis of the trade receivables and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these trade receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment may be required.

Impairment on inventories

The management of the Group reviews an aging analysis at each balance sheet date, and makes provision for obsolete and slow-moving inventory items identified. The management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions.

4. POTENTIAL IMPACT ARISING ON THE NEW ACCOUNTING STANDARDS NOT YET EFFECTIVE

The Group has not yet applied the following new HKFRSs that have been issued but are not yet effective. The directors of the Company anticipated that the application of these new HKFRSs will have no material impact on the financial statements of the Group.

HKAS 1 Amendment	Capital Disclosures
HKAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instrument: Disclosures
HKFRS – Interpretation 4	Determining Whether an Arrangement Contains a Lease
HKFRS – Interpretation 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC) – Interpretation 6	Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment
HK(IFRIC) – Interpretation 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies

5. TURNOVER

Turnover represents the net amounts received and receivable for goods sold by the Group to outside customers, less returns and allowances.

6. SEGMENT INFORMATION

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

The Group's operating businesses are structured and managed separately according to the nature of their operations and the products. Details of the business segments are as follows:

a) Electronic product segment engages in the manufacture and trading of electronic and electrical parts and components.

b) Lighter product segment engages in the design, manufacture and sale of cigarette lighters and related accessories.

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

6. SEGMENT INFORMATION *(Continued)*

(a) Business segments

The following tables present revenue, results and certain assets, liabilities and expenditure information for the Group's business segments.

GROUP

	Electronic products		Lighter products		Consolidated	
	1.1.2005 to 31.12.2005 HK$'000	1.7.2003 to 31.12.2004 HK$'000	**1.1.2005 to 31.12.2005 HK$'000**	1.7.2003 to 31.12.2004 HK$'000 (restated)	**1.1.2005 to 31.12.2005 HK$'000**	1.7.2003 to 31.12.2004 HK$'000 (restated)
Segment revenue:						
Sales to external customers	**395,420**	308,445	**158,563**	251,437	**553,983**	559,882
Other income	**18**	345	**3,972**	8,859	**3,990**	9,204
Total segment revenue	**395,438**	308,790	**162,535**	260,296	**557,973**	569,086
Segment results	**55,567**	61,483	**(330)**	1,697	**55,237**	63,180
Net unallocated expenses					**(1,919)**	(2,989)
Profit from operations					**53,318**	60,191
Finance costs					**(11)**	(1,381)
Profit before tax					**53,307**	58,810
Tax expense					**(10,577)**	(10,248)
Profit for the year/period					**42,730**	48,562

6. SEGMENT INFORMATION *(Continued)*

(a) Business segments *(Continued)*

GROUP

	Electronic products		Lighter products		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
				(restated)		(restated)
Segment assets	257,644	196,627	92,164	94,433	349,808	291,060
Interest in a jointly controlled entity			(2,409)	424	(2,409)	424
Unallocated assets					48,348	39,219
Total assets					395,747	330,703
Segment liabilities	41,770	35,391	52,319	56,918	94,089	92,309
Unallocated liabilities					34,477	27,597
Total liabilities					128,566	119,906
Other segment information:						
Capital expenditures	3,936	42,905	3,048	4,992	6,984	47,897
Depreciation and amortisation	9,881	6,003	5,589	8,056	15,470	14,059
Impairment on goodwill	12	–	–	–	12	–
Impairment on inventories	105	–	425	–	530	–
Impairment on trade receivables	3,567	–	238	58	3,805	58
Impairment on amount due from a jointly controlled entity	–	–	3,132	–	3,132	–

6. SEGMENT INFORMATION *(Continued)*

(b) Geographical segments

The following tables present revenue and certain assets and expenditure information for the Group's geographical segments.

Group

	Hong Kong		Elsewhere in the PRC		Asia		Others		Consolidated	
	1.1.2005 to 31.12.2005 HK$'000	1.7.2003 to 31.12.2004 HK$'000	1.1.2005 to 31.12.2005 HK$'000	1.7.2003 to 31.12.2004 HK$'000	1.1.2005 to 31.12.2005 HK$'000	1.7.2003 to 31.12.2004 HK$'000	1.1.2005 to 31.12.2005 HK$'000	1.7.2003 to 31.12.2004 HK$'000	1.1.2005 to 31.12.2005 HK$'000	1.7.2003 to 31.12.2004 HK$'000
Segment revenue:										
Sales to external customers	153,786	116,846	252,760	223,086	77,442	67,331	69,995	152,619	553,983	559,882
Other income	3,758	4,819	166	4,271	41	–	25	114	3,990	9,204
Total revenue	157,544	121,665	252,926	227,357	77,483	67,331	70,020	152,733	557,973	569,086

	Hong Kong		Elsewhere in the PRC		Asia		Others		Consolidated	
	1.1.2005 to 31.12.2005 HK$'000	1.7.2003 to 31.12.2004 HK$'000	1.1.2005 to 31.12.2005 HK$'000	1.7.2003 to 31.12.2004 HK$'000 (restated)	1.1.2005 to 31.12.2005 HK$'000	1.7.2003 to 31.12.2004 HK$'000	1.1.2005 to 31.12.2005 HK$'000	1.7.2003 to 31.12.2004 HK$'000	1.1.2005 to 31.12.2005 HK$'000	1.7.2003 to 31.12.2004 HK$'000 (restated)
Other segment information:										
Segment assets	215,924	170,473	177,639	160,230	2,184	–	–	–	395,747	330,703
Capital expenditure	464	2,314	4,180	45,583	2,340	–	–	–	6,984	47,897

The contribution to profit from operating activities by geographical area is substantially in line with the overall rate of contribution to turnover and, accordingly, a geographical analysis of contribution, which is discloseable pursuant to the Listing Rules is not presented.

7. OTHER INCOME

	Group	
	1.1.2005 to 31.12.2005 HK$'000	1.7.2003 to 31.12.2004 HK$'000
Dividends income	**–**	144
Amortisation of deferred income	**299**	2,076
Gross rental income	**605**	542
Less: Outgoings	**–**	64
Net rental income from investment properties	**605**	478
Interest income	**49**	18
Gain on disposal of machineries held for resale	**–**	1,203
Revaluations surplus on leasehold land and buildings	**522**	841
Gain on fair value changes of investment properties	**518**	1,580
Gain on disposal of property, plant and equipment	**–**	68
Exchange gains, net	**–**	8
Release of negative goodwill to income	**–**	106
Gain on disposal of other investments	**–**	75
Freight charge income	**967**	745
Recovery of impairment on trade receivables	**310**	–
Others	**720**	1,862
	3,990	9,204

8. PROFIT FROM OPERATIONS

Profit from operations is stated after charging:

	Group	
	1.1.2005 to 31.12.2005 HK$'000	1.7.2003 to 31.12.2004 HK$'000 (restated)
Cost of inventories sold	**454,060**	450,084
Staff costs (note 9)	**22,154**	22,664
Depreciation of property, plant and equipment		
– Owned	**14,577**	13,213
– Leased	**162**	59
Amortisation on goodwill	**–**	1
Impairment on goodwill	**12**	–
Amortisation on other intangible assets	**665**	917
Amortisation on interests in leasehold land held for own use under operating lease	**66**	(131)
Auditors' remuneration	**510**	470
Taxation service fee	**75**	50
Impairment on inventories	**530**	–
Exchange losses, net	**114**	–
Share-based payment	**2,852**	–
Impairment on amount due from a jointly controlled entity	**3,132**	–
Impairment on trade receivables	**3,805**	58
Operating lease rental	**3,801**	1,886

9. STAFF COSTS

	Group	
	1.1.2005 to 31.12.2005 HK$'000	1.7.2003 to 31.12.2004 HK$'000
Staff costs (including directors' emoluments) comprise:		
Salaries and welfare	**21,327**	20,772
Retirement benefit scheme contributions	**360**	492
Provision for other employee benefits and long service payments	**467**	1,400
	22,154	22,664

10. FINANCE COSTS

	Group	
	1.1.2005 to 31.12.2005 HK$'000	1.7.2003 to 31.12.2004 HK$'000
Interest on:		
Bank borrowings and overdrafts	**–**	1,298
Finance leases	**11**	83
	11	1,381

11. TAX EXPENSE

The amount of tax expense in the consolidated income statement represents:

	Group	
	1.1.2005 to 31.12.2005 HK$'000	1.7.2003 to 31.12.2004 HK$'000
Current tax – provision for Hong Kong Profits Tax		
– tax for the year/period	**11,596**	160
– under/(over)provision in respect of prior years/period	**356**	(2)
	11,952	158
Current tax – overseas		
– tax for the year/period	**–**	–
– overprovision in respect of prior years/period	**(201)**	–
	(201)	–
Deferred tax (Note 33)	**(1,174)**	10,090
	10,577	10,248

Hong Kong Profits Tax is calculated at 17.5% (1.7.2003 - 31.12.2004: 17.5%) of the estimated assessable profits for the year/period.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

11. TAX EXPENSE *(Continued)*

The tax expense for the year/period can be reconciled to the profit per the consolidated income statement as follows:

	Group	
	1.1.2005 to 31.12.2005 HK$'000	1.7.2003 to 31.12.2004 HK$'000 (restated)
Profit before tax	**53,307**	58,810
Tax calculated at the domestic income tax rate of 17.5% (1.7.2003-31.12.2004: 17.5%)	**9,328**	10,292
Tax effect of expenses that are not deductible in determining taxable profit	**23,213**	247
Tax effect of income that is not taxable in determining taxable profit	**(23,559)**	(870)
Tax effect of utilisation of tax losses not previously recognised	**(38)**	(118)
Tax effect of tax losses not recognised	**895**	1,877
Under/(overprovision) in prior years	**155**	(2)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**–**	(1,178)
Effect of temporary difference	**583**	–
Income tax expenses	**10,577**	10,248

12. DIVIDENDS

	1.1.2005 to 31.12.2005 HK$'000	1.7.2003 to 31.12.2004 HK$'000
Interim dividend of HK$0.01 (1.7.2003 – 31.12.2004: HK$0.01) per share	**2,925**	2,925
Proposed final dividend of HK$0.03 (1.7.2003 – 31.12.2004: HK$0.03) per share	**9,653**	8,775
	12,578	11,700

The directors recommended a final dividend of HK$0.03 per share. This proposed dividend is not reflected as a dividend payable at 31 December 2005, but is reflected as an appropriation of retained profits for the year ended 31 December 2005.

13. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit attributable to equity holders of the Company for the year of HK$42,730,000 (1.7.2003 - 31.12.2004: net profit of HK$48,561,000 as restated) and the weighted average number of 294,139,000 (1.7.2003 - 31.12.2004: 228,604,000) ordinary shares in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2005 Number of shares '000	2004 Number of shares '000
Issue ordinary shares at beginning of the year/period	**292,500**	150,000
Effect of issue of shares on private placements	**–**	27,872
Effect of share options exercised	**1,639**	19,623
Effect of issue of shares for acquisition of subsidiaries	**–**	31,109
Weighted average number of ordinary shares at end of the year/period	**294,139**	228,604

13. EARNINGS PER SHARE *(Continued)*

The calculation of diluted earnings per share is based on the profit attributable to equity holders of the Company for the year of HK$42,730,000 and the weighted average number of 296,583,000 diluted ordinary shares in issue, calculated as follows:

Weighted average number of ordinary shares (diluted)

	2005 Number of shares '000
Weighted average number of ordinary shares at end of the year	**294,139**
Effect of deemed issue of shares under the Company's share option scheme for the year	**2,444**
Weighted average number of ordinary shares (diluted) at end of the year	**296,583**

Diluted earnings per share for last period have not been presented as there were no dilutive potential ordinary shares outstanding at the period end.

14. DIRECTORS' EMOLUMENTS

The aggregate amounts of the directors' emoluments, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, are as follows:

Group

Name of director	Fees	Salaries, allowances and benefits	Retirement scheme contributions	1.1.2005 to 31.12.2005 Total remuneration	1.7.2003 to 31.12.2004 Total remuneration
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Executive Directors					
Lam Yat Keung	–	1,170	12	1,182	455
Lam Pik Wah	–	1,040	12	1,052	405
Lam Hung Kit	–	650	12	662	255
Sher Tak Chi	–	–	–	–	720
Kang Hsiao Fang	–	–	–	–	234
Sher Kam Hong	–	–	–	–	180
Sher Ching Yee	–	–	–	–	186
Wong Chong Kwong, Derek	–	–	–	–	928
Independent Non – Executive Directors					
Lo Wah Wai	90	–	–	90	23
Ho Chi Fai	90	–	–	90	75
Pai Te Tsun	90	–	–	90	75
Lo Hang Fong (Note a)	–	–	–	–	–
Chan Ho Wah Terrence	–	–	–	–	10
Leung Hoi Yin	–	–	–	–	25
Total 2005	270	2,860	36	3,166	3,571
Total 2004	208	3,330	33		

14. DIRECTORS' EMOLUMENTS *(Continued)*

The emoluments of the directors were within the following bands:

	Number of directors	
	1.1.2005 to 31.12.2005	1.7.2003 to 31.12.2004
Nil- HK$1,000,000	**4**	14
HK$1,000,001 – HK$1,500,000	**2**	–

Note a: There was no arrangement under which a director waived or agreed to waive any emoluments during the year. Lo Hang Fong waived emoluments of HK$60,000 for the period ended 31 December 2004.

Note b: During the year, no emoluments were paid to directors as an inducement to join the Group or as compensation for loss of office.

15. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (1.7.2003 – 31.12.2004: five) were directors of the Company whose emoluments are included in the disclosures in note 14 above. The emolument of the remaining two (1.7.2003 – 31.12.2004: Nil) individuals were as follows:

	Group	
	1.1.2005 to 31.12.2005 HK$'000	1.7.2003 to 31.12.2004 HK$'000
Salaries and other benefits	**2,090**	–
Retirement benefits scheme contributions	**12**	–
	2,102	–

15. EMPLOYEES' EMOLUMENTS *(Continued)*

The emolument was within the following bands:

	Number of employees	
	1.1.2005 to 31.12.2005	1.7.2003 to 31.12.2004
Nil to HK$1,000,000	**1**	–
HK$1,000,001 to HK$1,500,000	**1**	–
	2	–

During the year, no emoluments were paid to the five highest paid individuals (including directors and employees) as an inducement to join the Group or as compensation for loss of office.

16. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold land and buildings HK$'000	Plant and machinery HK$'000	Leasehold improvements and others HK$'000	Construction in progress HK$'000	Total HK$'000
Cost or valuation					
At 1 January 2005 (restated)	15,817	127,738	5,359	1,490	150,404
Exchange difference	(100)	–	–	–	(100)
Additions	11	5,552	1,421	–	6,984
Disposals	–	(2,008)	(103)	–	(2,111)
Transfer	–	1,241	–	(1,241)	–
Surplus on revaluation	291	–	–	–	291
At 31 December 2005	16,019	132,523	6,677	249	155,468
Comprising:					
At cost	–	132,523	6,677	249	139,449
At valuation	16,019	–	–	–	16,019
	16,019	132,523	6,677	249	155,468
Accumulated depreciation					
At 1 January 2005	–	39,900	3,748	–	43,648
Depreciation	122	13,988	629	–	14,739
Eliminated on disposals	–	(1,510)	(36)	–	(1,546)
Eliminated on revaluation	(122)	–	–	–	(122)
At 31 December 2005	–	52,378	4,341	–	56,719

16. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Group

	Leasehold land and buildings HK$'000	Plant and machinery HK$'000	Leasehold improvements and others HK$'000	Construction in progress HK$'000	Total HK$'000
Cost or valuation					
At 1 July 2003					
(as previously stated)	35,869	45,437	4,546	816	86,668
Effect of HKAS 17	(19,050)	–	–	–	(19,050)
Transfer to interests in leasehold land held for own use under operating lease	(1,368)	–	–	–	(1,368)
At 1 July 2003 (restated)	15,451	45,437	4,546	816	66,250
Additions	–	43,358	1,289	1,831	46,478
Acquisition of subsidiaries	–	37,882	24	–	37,906
Disposals	–	–	(500)	–	(500)
Transfer	96	1,061	–	(1,157)	–
Surplus on revaluation	270	–	–	–	270
At 31 December 2004 (restated)	15,817	127,738	5,359	1,490	150,404
Comprising:					
At cost	–	127,738	5,359	1,490	134,587
At valuation	15,817	–	–	–	15,817
	15,817	127,738	5,359	1,490	150,404
Accumulated depreciation					
At 1 July 2003	–	26,380	3,253	–	29,633
Depreciation	158	12,282	832	–	13,272
Acquisition of subsidiaries	–	1,238	1	–	1,239
Eliminated on disposals	–	–	(338)	–	(338)
Eliminated on revaluation	(158)	–	–	–	(158)
At 31 December 2004	–	39,900	3,748	–	43,648
Net book values					
At 31 December 2005	16,019	80,145	2,336	249	98,749
At 31 December 2004	15,817	87,838	1,611	1,490	106,756

16. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The carrying amount of the Group's motor vehicles (grouped under leasehold improvement and others) includes an amount of HK$447,000 (2004: HK$413,000) in respect of assets acquired under finance leases.

The Group's leasehold land and buildings in Hong Kong and the PRC were last valued at 31 December 2005 by Messrs. Dynasty Premium Asset Valuation & Real Estate Consultancy Limited, on an open market value basis. Messrs. Dynasty Premium Asset Valuation & Real Estate Consultancy Limited is not connected with the Group.

Had the revaluated properties been measured on a historical cost basis, their net book values would have been HK$16,181,000 (2004: HK$16,333,000 as restated).

17. ANALYSIS OF PROPERTIES INCLUDED IN PROPERTY, PLANT AND EQUIPMENT

The analysis of the net book value of properties is as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Leasehold land and buildings in Hong Kong:		
Long lease	**4,700**	4,353
Medium-term lease	**1,223**	1,170
	5,923	5,523
Leasehold building outside Hong Kong:		
Long lease	**10,096**	10,294
	16,019	15,817

18. INVESTMENT PROPERTIES

	Group	
	2005	2004
	HK$'000	HK$'000
At beginning of the year/period	**11,182**	9,602
Change in fair value	**518**	1,580
At end of the year/period	**11,700**	11,182

The Group's investment properties are situated in Hong Kong and held under long leases. Investment properties were valued at their open market value at 31 December 2005 by Messrs. Dynasty Premium Asset Valuation & Real Estate Consultancy Limited, who is not connected with the Group.

19. INTERESTS IN LEASEHOLD LAND HELD FOR OWN USE UNDER OPERATING LEASES

The Group's interests in leasehold land held for own use under operating leases comprise:

	Group	
	2005	2004
	HK$'000	HK$'000
Leasehold land outside Hong Kong:		
Medium-term lease	**1,564**	1,630

20. GOODWILL

Group

	HK$'000
2005	
Cost	
At 1 January 2005	13
Eliminated against amortisation	(1)
At 31 December 2005	12
Amortisation and impairment	
At 1 January 2005	1
Eliminated against cost	(1)
Impairment	12
At 31 December 2005	12
2004	
Cost	
Acquired through business combinations and at 31 December 2004	13
Amortisation	
Amortisation for the period and at 31 December 2004 *(Note)*	(1)
Net book value	
At 31 December 2005	–
At 31 December 2004	12

Note: Goodwill arose from business combination was amortised on a straight-line basis over 20 years.

21. NEGATIVE GOODWILL

Group

	HK$'000
2005	
Cost	
At 1 January 2005	2,129
Transfer to retained profits	(2,129)
At 31 December 2005	–
Amortisation	
At 1 January 2005	106
Transfer to retained profits	(106)
At 31 December 2005	–
2004	
Cost	
Acquired through business combinations and at 31 December 2004	2,129
Amortisation	
Amortisation for the period and at 31 December 2004	106
Net book value	
At 31 December 2005	–
At 31 December 2004	2,023

22. OTHER INTANGIBLE ASSETS

Group

	Trademark and patents HK$'000
2005	
Cost	
At 1 January 2005	5,042
Additions	
– Internally developed	375
At 31 December 2005	5,417
Amortisation and impairment	
At 1 January 2005	3,353
Amortisation	665
At 31 December 2005	4,018
2004	
Cost	
At 1 July 2003	3,623
Additions	
– Internally developed	1,419
At 31 December 2004	5,042
Amortisation and impairment	
At 1 July 2003	2,436
Amortisation	917
At 31 December 2004	3,353
Net book value	
At 31 December 2005	1,399
At 31 December 2004	1,689

Amortisation is calculated to write off the cost of trademarks and patents over its estimated useful life, using the straight-line method over periods not exceeding five years.

23. INVESTMENTS IN SUBSIDIARIES

	Company 2005 HK$'000	Company 2004 HK$'000
Unlisted shares, at cost	**108,915**	108,915

Details of the subsidiaries are as follows:

Name	Form of business structure	Place of incorporation/ registration and operations	Issued and paid-up share/ registered capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Classic Line International Limited	Corporation	British Virgin Islands	US$16	100	–	Investment holding
Eversun Corporation Limited	Corporation	Hong Kong	HK$2	–	100	Trading of cigarette lighters
Headjoin Limited	Corporation	Hong Kong	HK$2	–	100	Property investment
Longnan County Poly Action Plastic & Metal Products Co., Limited (Note a)	Corporation	PRC	US$4,500,000	–	100	Manufacturing of cigarette lighters and lighters parts
Polycity Enterprise Limited	Corporation	Hong Kong	HK$2	–	100	Trading of cigarette lighters
PT. Magastand Industries	Corporation	Indonesia	US$250,000	–	99	Dormant

23. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name	Form of business structure	Place of incorporation/ registration and operations	Issued and paid-up share/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Ribbon Worldwide Inc.	Corporation	British Virgin Islands	US$1	–	100	Investment holding
Tak Fi Brothers Limited	Corporation	British Virgin Islands	US$2	–	100	Investment holding, product design and trading of cigarette lighters and related products
Kingtech Industrial Limited	Corporation	Hong Kong	HK$1	–	100	Trading of cigarette lighters
Link Triumph Limited	Corporation	British Virgin Islands	US$1	–	100	Investment holding
Sharp Technology Limited	Corporation	British Virgin Islands	US$1	100	–	Investment holding
Key Legend Limited	Corporation	British Virgin Islands	US$2	100	–	Investment holding
Semtech International (BVI) Limited	Corporation	British Virgin Islands	US$1	100	–	Investment holding
Fast Harvest Limited	Corporation	Hong Kong	HK$2	–	100	Provision of management service
Super Victory Enterprises Limited	Corporation	Hong Kong	HK$2	–	100	Manufacturing and trading of electronic and electrical parts and components

23. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name	Form of business structure	Place of incorporation/ registration and operations	Issued and paid-up share/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Top Victory Industries Limited	Corporation	British Virgin Islands	US$1	–	100	Investment holding
SV Semiconductors Limited	Corporation	Hong Kong	HK$2	–	100	Trading of electronic and electrical parts and components
Semtech Electronics Limited	Corporation	Hong Kong	HK$1,000,000	–	100	Trademark holding

Note a: The company is a wholly owned foreign enterprise in the PRC.

None of the subsidiaries had any debt securities subsisting at the end of the year or at any time during the year.

24. INTEREST IN A JOINTLY CONTROLLED ENTITY

	Group 2005 HK$'000	2004 HK$'000
Share of net assets	–	–
Amount due from a jointly controlled entity	–	3,132
Deferred income	(2,409)	(2,708)
	(2,409)	424

The amount due from a jointly controlled entity is unsecured, interest-free and repayable on demand. Deferred income arising from sales of production machinery and moulds to the jointly controlled entity is amortised over 5 to 10 years, which approximates the useful lives of the machinery and moulds.

24. INTEREST IN A JOINTLY CONTROLLED ENTITY *(Continued)*

Particulars of the jointly controlled entity are as follows:

Name of entity	Form of business structure	Place of incorporation and operation	Percentage of paid-up capital held by the Group	Principal activities
Shangdong Luneng Plastics & Metal Mfy. Co., Ltd	Corporation	PRC	50	Manufacturing of cigarette lighters and lighter parts

The Group's entitlement to share in the profits of its jointly controlled entity is in proportion to its ownership interest.

Aggregated amounts relating to the jointly controlled entity are as follows:

	2005 HK$'000	2004 HK$'000
Total assets	**44,704**	48,794
Total liabilities	**47,736**	49,726
Revenue	**35,337**	61,442
Loss	**(5,852)**	(1,194)
Unrecognised share of losses		
– arising during the year/period	**(2,926)**	(597)
– in aggregate	**(3,523)**	(597)

25. AMOUNT DUE FROM SUBSIDIARIES

The amounts due from subsidiaries are unsecured, interest-free and repayable on demand.

26. INVENTORIES

	Group	
	2005	2004
	HK$'000	HK$'000
Raw materials	**43,258**	40,392
Work-in-progress	**3,356**	4,034
Finished goods	**35,970**	11,295
	82,584	55,721

27. TRADE AND BILLS RECEIVABLES

The Group allows an average credit period of 30 to 120 days to its trade customers.

	Group	
	2005	2004
	HK$'000	HK$'000
Trade and bills receivables	**146,606**	107,557
Less: impairment	**(9,239)**	(7,001)
	137,367	100,556

The following is an aged analysis of trade and bills receivable at the balance sheet date:

	Group	
	2005	2004
	HK$'000	HK$'000
Within 3 months	**121,822**	92,277
4-6 months	**8,166**	1,460
7-12 months	**3,788**	5,494
13-24 months	**3,521**	1,325
Over 24 months	**70**	–
	137,367	100,556

27. TRADE AND BILLS RECEIVABLES *(Continued)*

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

	Group	
	2005	2004
	'000	'000
Renminbi	**34,721**	14,030
United States dollars	**3,418**	3,486
New Taiwanese dollars	**1,925**	–

28. TRADE AND BILLS PAYABLES

The following is an aged analysis of trade and bills payables at the balance sheet date:

	Group	
	2005	2004
	HK$'000	HK$'000
Within 3 months	**69,870**	74,900
4-6 months	**8,754**	3,842
7-12 months	**490**	319
13-24 months	**80**	2
	79,194	79,063

Included in trade and bills payables at 31 December 2005 was a trade and bills payable of HK$7,260,000 (2004: HK$17,237,000) due to the jointly controlled entity of the Group, which was unsecured, interest-free and repayable on demand.

28. TRADE AND BILLS PAYABLES *(Continued)*

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

	Group	
	2005	2004
	'000	'000
Japanese Yen	**14,745**	118,318
Renminbi	**31,705**	19,657
United States dollars	**2,414**	3,048
New Taiwanese dollars	**–**	183

29. AMOUNTS DUE TO DIRECTORS

The amounts are unsecured, interest-free and repayable on demand.

30. OBLIGATIONS UNDER FINANCE LEASES

	Group			
	Minimum lease payments		Present value of minimum lease payments	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable under finance leases repayable:				
Within one year	**126**	79	**119**	76
In the second to third years inclusive	**18**	20	**16**	20
	144	99	**135**	96
Less: Future finance charges	**(9)**	(3)	**–**	–
Present value of lease obligations	**135**	96	**135**	96
Less: Amounts due within one year shown under current liabilities			**(119)**	(76)
Amounts due after one year			**16**	20

The Group leases motor vehicles for its business operation. The lease is classified as finance leases and has a remaining lease term of 2 years.

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

31. FINANCIAL INSTRUMENTS – RISK MANAGEMENT

The Group's major financial instruments include trade and bills receivables, other receivables, trade payable and other payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below.

Credit Risk

The Group's maximum exposure to credit risk in the event that counterparties fail to perform their obligation at 31 December 2005 in relation to each class of recognised financial assets is the carrying amounts of those assets as stated in the consolidated balance sheet. The Group's credit risk is primarily attributable to its trade receivables as they spread all over the world. The turnover by geographic segments are disclosed in note 6 to the financial statements. The marketing team is responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debt with the help from the finance team. In addition, regular reports are produced for each individual trade receivable to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the management considers that the Group's credit risk can be reduced.

Currency Risk

Several subsidiaries of the Company have foreign currency sales and purchases which expose the Group to foreign currency risk. The management is aware of the possible exchange appreciation in Renminbi in the future although the Group's cash outlay on purchase of raw materials are mainly denominated in Hong Kong dollars and United State dollars and currency risk exposure is immaterial. The Group currently does not have a foreign currency hedging policy. However, the management will monitor foreign exchange exposure and consider hedging significant foreign currency exposure should the need arises.

Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the cash, current working capital and the raising of funds from issue of shares and underlying interests in shares of the Company, subject to approval by the Company's shareholders, if necessary. The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and current working capital to meet its liquidity requirements in the short and longer term.

31. FINANCIAL INSTRUMENTS – RISK MANAGEMENT *(Continued)*

Interest Rate Risk

The main source of financing of the Group is internally generated cash, there is no interest-bearing borrowings, except for obligations under finance leases. The Group's operating cash flows are substantially independent of changes in market interest rates.

Fair Value Risk

The fair values of financial assets and financial liabilities reported in the balance sheets of the Group and the Company approximate their carrying amount.

32. EMPLOYEE BENEFITS

	Group	
	2005	2004
	HK$'000	HK$'000
Liabilities for employee benefit comprise:		
Annual leave payments accrual	**1,424**	1,264
Long service payments accrual (note 41)	**443**	136
	1,867	1,400
Categorised as:		
Due within one year or less		
(included in other payables and accruals)	**1,424**	1,400
Due after more than one year	**443**	–
	1,867	1,400

33. DEFERRED TAX LIABILITIES

Group

	At 1 January 2005 HK$'000	Charge to income for the year HK$'000	At 31 December 2005 HK$'000
Accelerated tax depreciation	13,224	(1,455)	11,769
Tax losses	(691)	691	–
Impairment on receivables	(232)	(392)	(624)
Impairment on inventories	–	(18)	(18)
	12,301	(1,174)	11,127

	At 1 July 2003 HK$'000	Charge to income for the year HK$'000	Acquisition of subsidiaries HK$'000	At 31 December 2004 HK$'000
Accelerated tax depreciation	852	5,955	6,417	13,224
Tax losses	(841)	4,135	(3,985)	(691)
Provision for doubtful debts	(232)	–	–	(232)
	(221)	10,090	2,432	12,301

For the purposes of balance sheet presentation, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2005 HK$'000	2004 HK$'000
Deferred tax liabilities	**11,769**	13,224
Deferred tax assets	**(642)**	(923)
	11,127	12,301

33. DEFERRED TAX LIABILITIES *(Continued)*

At the balance sheet date, the Group has unused tax losses of HK$19,436,000 (2004: HK$16,756,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK$Nil (2004: HK$3,949,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK$19,436,000 (2004: HK$12,807,000) due to the unpredictability of future profits streams. The unused tax losses carry no expiry date.

The Company had no significant unprovided deferred taxation for the year or at the balance sheet date.

34. SHARE CAPITAL

	Company			
	2005 Number of shares '000	**2005 HK$'000**	2004 Number of shares '000	2004 HK$'000
Ordinary shares of HK$0.10 each				
Authorised:				
At 1 July 2003, 31 December 2004 and 31 December 2005	**800,000**	**80,000**	800,000	80,000
Issued and fully paid:				
At beginning of the year/period	**292,500**	**29,250**	150,000	15,000
Issued on private placements (note a)	**–**	**–**	50,000	5,000
Issued on exercise of share options (note b)	**29,250**	**2,925**	34,500	3,450
Issued in consideration for the acquisition of subsidiaries (note c)	**–**	**–**	58,000	5,800
At end of the year/period	**321,750**	**32,175**	292,500	29,250

34. SHARE CAPITAL *(Continued)*

Notes:

(a) During the period ended 31 December 2004, arrangements were made for private placements to provide additional working capital for the Group and details are as follows:

Issue date	Number of ordinary shares	Issue price
12 January 2004	30,000,000	HK$0.63
12 May 2004	20,000,000	HK$1.13
	50,000,000	

(b) During the year, the Company issued 29,250,000 (1.7.2003 – 31.12.2004: 34,500,000) ordinary shares at the price of HK$0.71 (1.7.2003 – 31.12.2004: HK$0.347 and HK$1.014) per share upon the exercise of share options granted to certain customers and suppliers (1.7.2003 – 31.12.2004: employees).

(c) During the period ended 31 December 2004, the Company allotted 58,000,000 ordinary shares at the price of HK$0.80 per share as consideration for the acquisition of Key Legend Limited.

35. SHARE OPTION SCHEME

The Company has adopted a share option scheme on 28 November 2002 (the "Share Option Scheme") for the purpose of providing incentives and rewards to wider classes of person or entity to be the participants (the "Participants") thereunder for their contribution to the Group and/or to enable the Group to recruit and retain high-caliber employees and attract human resources that are valuable to the Group and any entity in which the Group holds any equity interest ("Invested Entity"). Details are set out below:

The Share Option Scheme will expire on 27 November 2012. Pursuant to the terms of the Share Option Scheme, the directors of the Company may, at their absolute discretion, invite any person belonging to any of the following classes of Participants, to take up options to subscribe for shares:

(a) any eligible employee;

(b) any non-executive director (including independent non-executive directors) of the Company, any of its subsidiaries or any Invested Entity;

35. SHARE OPTION SCHEME *(Continued)*

(c) any supplier of goods or services to the Group or any Invested Entity;

(d) any customer of the Group or any Invested Entity;

(e) any person or entity that provides research, development or other technological support or services to the Group or any Invested Entity;

(f) any shareholder or any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity; and

(g) any ex-employees who has contributed to the development and growth of the Group and any Invested Entity.

The basis of eligibility of any of the above class of Participants to the grant of any options shall be determined by the directors of Company from time to time on the basis of their contribution to the development and growth of the Group and any Invested Entity.

The subscription price for the shares under the Share Option Scheme shall be a price determined by the directors of the Company, but shall not be less than the higher of: (i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the date of grant; (ii) the average closing price of the shares stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; or (iii) the nominal value of the shares. Options granted are exercisable at any time during a period to be notified by the directors of the Company but limited to a maximum period of ten years after the date the options are granted. Options granted should be accepted within 28 days from the date of offer.

The maximum number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and the other schemes shall not exceed 10% of the shares in issue at the date on which the Share Option Scheme becomes unconditional.

The Company may, by the approval of the shareholders in general meeting, grant options beyond the 10% limit provided that the options in excess of the 10% limit are granted only to participants specifically identified by the Company before shareholders' approval is sought.

35. SHARE OPTION SCHEME *(Continued)*

Unless approved by the shareholders as set out herein, the total number of shares issued and to be issued upon exercise of the options granted to each Participant (including both exercised and outstanding options) in any twelve-month period must not exceed 1% of the shares of the Company in issue. Where any further grant of options to a Participant would result in the shares issued and to be issued upon exercise of any options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the twelve-month period up to and including the date of such further grant representing in aggregate over 1% of the shares in issue, such further grant must be separately approved by the shareholders in general meeting with such Participant and his associates abstaining from voting.

However, the overall limit on the number of shares which may be issued upon exercise of all options granted under all share option schemes of the Company must not exceed 30% of the shares in issue from time to time.

Set out below was the options granted and exercised during the year:

			Number of share options			
Participants	Date of grant	Exercise price HK$	Balance of 1 January 2005	Granted during the year	Exercised during the year	Balance of 31 December 2005
Customers and suppliers	26 October 2005	0.71	–	29,250,000	(29,250,000)	–

The closing price of the Company's shares immediately before the date on which the options were granted in respect of the grant on 26 October 2005 was HK$0.71. The weighted average closing price immediately before the dates on which the options were exercised in respect of the grant on 26 October 2005 was HK$0.768. No option was cancelled and lapsed during the year.

36. RESERVES

Company	Share premium HK$'000	Contributed surplus HK$'000	Share-based compensation reserve HK$'000	(Accumulated losses)/ retained profits HK$'000	Total HK$'000
2005					
At 1 January 2005	104,013	62,315	–	132	166,460
Recognition of equity-settled share-based payment	–		2,852	–	2,852
Issue of share on exercise of share options	20,694		(2,852)	–	17,842
Net profit for the year	–		–	9,726	9,726
Interim 2005 dividend paid	–		–	(2,925)	(2,925)
Proposed 2005 final dividend	–		–	(9,653)	(9,653)
At 31 December 2005	**124,707**	**62,315**	**–**	**(2,720)**	**184,302**
2004					
At 1 July 2003	6,459	62,315	–	(7,626)	61,148
Issue of shares on private placements	36,500	–	–	–	36,500
Issue of share on exercise of share options	21,528	–	–	–	21,528
Issue of share in consideration for the acquisition of subsidiaries	40,600	–	–	–	40,600
Share issue expense	(1,074)	–	–	–	(1,074)
Net profit for the period	–	–	–	19,458	19,458
Interim 2004 dividend paid	–	–	–	(2,925)	(2,925)
Proposed 2004 final dividend	–	–	–	(8,775)	(8,775)
At 31 December 2004	104,013	62,315	–	132	166,460

Note: The contributed surplus of the Company represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the Group reorganisation prior to the listing of the Company's shares, over the nominal value of the Company's shares issued in exchange therefor.

37. MAJOR NON-CASH TRANSACTION

During the year, the Group entered into a finance lease arrangement in respect of property, plant and equipment with a total capital value at the inception of the lease of HK$186,000 (1.7.2003 to 31.12.2004: HK$471,000).

38. ACQUISITION OF SUBSIDIARIES

	1.1.2005 to 31.12.2005 HK$'000	1.7.2003 to 31.12.2004 HK$'000
Net assets acquired		
Property, plant and equipment	–	36,667
Inventories	–	545
Trade and bills receivables	–	28,709
Prepayments, deposits and other receivables	–	34
Bank balances and cash	–	1,932
Trade payables	–	(15,929)
Other payables and accruals	–	(1,010)
Deferred taxation	–	(2,432)
	–	48,516
Negative goodwill	–	(2,129)
Goodwill	–	13
Total consideration	–	46,400
Net inflow of cash and cash equivalents in connection with the acquisition of subsidiaries:		
Cash consideration	–	–
Bank balances and cash acquired	–	1,932
Net cash inflow arising on acquisition	–	1,932

The subsidiaries acquired during the period ended 31 December 2004 contributed HK$308,455,000 to the Group's turnover, and HK$61,483,000 to the Group's profit from operations.

39. OPERATING LEASE ARRANGEMENTS

The Group as lessee

	Group	
	1.1.2005 to 31.12.2005 HK$'000	1.7.2003 to 31.12.2004 HK$'000
Minimum lease payments paid under operating leases during the year/period	**3,801**	1,886

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

	Group	
	2005 HK$'000	2004 HK$'000
Within one year	**6,113**	1,989
In the second to fifth years inclusive	**10,146**	4,703
	16,259	6,692

Operating lease payments represent rentals payable by the Group for certain of its godowns, office and production plant. Leases are negotiated for terms ranging from one to five years.

The Group as lessor

The Group leases its investment properties as set out in note 18 to the financial statements under operating lease arrangements, with leases negotiated for terms ranging from one to two years.

39. OPERATING LEASE ARRANGEMENTS *(Continued)*

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	Group 2005 HK$'000	2004 HK$'000
Within one year	**591**	545
In the second to fifth years inclusive	**473**	1,009
	1,064	1,554

40. CAPITAL COMMITMENTS

	Group 2005 HK$'000	2004 HK$'000
Capital expenditure in respect of the acquisition of property, plant and equipment:		
– Contracted, but not provided for	**4,605**	5,593
– Authorised, but not contracted for	**643**	–
	5,248	5,593

41. RETIREMENT BENEFIT OBLIGATIONS

	Group 2005 HK$'000	2004 HK$'000
Long service payments (note 32)	**443**	136

41. RETIREMENT BENEFIT OBLIGATIONS *(Continued)*

Long service payments

Under the Hong Kong Employment Ordinance, the Group is obliged to make lump sum payments on cessation of employment in certain circumstances to certain employees who have completed at least five years of service with the Group. The amount payable is dependent on the employees' final salary and years of service, and is reduced by entitlements accrued under the Group's retirement plans that are attributable to contributions made by the Group. The Group does not set aside any assets to fund any remaining obligations.

(a) Movement for the year/period:

	1.1.2005 to 31.12.2005 HK$'000	1.7.2003 to 31.12.2004 HK$'000
At beginning of the year/period	**136**	–
Expense recognised in the consolidated income statement	**307**	136
At end of the year/period	**443**	136

(b) The directors' assumptions used for accounting purposes at 31 December are as follows:

	2005 %	2004 %
Discount rate applied to pension obligations	**5-7**	5

42. SHARE-BASED PAYMENT

The Company operates a Share Option Scheme for Participants. Unless the directors of the Company otherwise determined and stated in the offer of the grant of options to a Participant, a Participant is not required to achieve any performance targets before any options granted under the Share Option Scheme can be exercised.

	2005 Weighted average Exercise price	**2005 Number of shares**
Outstanding at beginning of the year		–
Granted during the year		29,250,000
Exercised during the year	HK$0.71	(29,250,000)
Outstanding at the end of the year		–

The weighted average share price (at the date of exercise) of options exercised during the year was HK$0.71.

The weighted average fair value of each option granted during the year was HK$0.0975.

	2005 HK$'000
Equity-settled	
Option pricing model used	**Black-Scholes-Merton Option Pricing Model**
Weighted average share price at grant date	0.71
Exercise price	0.71
Weighted average contractual life	3 years

The volatility assumption, measured at the standard deviation of expected share price returns, is based on a statistical analysis of daily share prices over the last three years.

42. SHARE-BASED PAYMENT *(Continued)*

During the year, the share-based payment transactions were entered into with certain of the Group's suppliers and customers. A total of HK$2,852,000 arising from share-based payment transactions were recognised as expenses and accounted for as equity-settled payment transactions during the year.

The following key valuation parameters in assessing the fair value of the share options:

	Grand Date	5 January 2004	1 April 2004	26 October 2005
a)	Exercise Price	HK$0.347	HK$1.014	HK$0.71
b)	Risk Free Rate (Adjusted regarding the expected life)	0.845%	0.684%	4.2%
c)	Nature of the Share Options	Call	Call	Call
d)	Expected Option Period	1.5 years	1.5 years	3 years
e)	Volatility	109.18%	118.30%	42.53%
f)	Expected Dividend Yield	2.90%	0.98%	5.87%

a) The exercise price of the share options is determined by the decision of the Board of the Company, as stated in the Share Option Scheme of the Company.

b) The risk free rate is determined by reference to the Exchange Fund Notes and the expected life as extracted from Bloomberg.

c) As stated in the Share Option Scheme of the Company, the share options granted were all call options.

d) Expected Option Period is determined by the historical performance record of the Company as extracted from Bloomberg.

e) The historical price volatility of the share price of the Company on the relevant grant date was extracted from Bloomberg based on 260 trading days.

f) The Company expected dividend yield was based on historical dividend payment record of the Company and consensus from analysis forecast as extracted form Bloomberg.

43. RELATED PARTY TRANSACTIONS

The remuneration of directors and other members of key management during the year are given in note 14 and 15 to the financial statements. Other related party transactions are as follows:

		Transaction amount		Amount due to	
		1.1.2005 to	1.7.2003 to		
Related party relationship	**Type of transaction**	**31.12.2005 HK$'000**	31.12.2004 HK$'000	**2005 HK$'000**	2004 HK$'000
Jointly controlled entity	Purchase of finished goods from the jointly controlled entity	34,520	59,646	7,260	17,237
	Purchase of raw materials from the jointly controlled entity	–	1,132		
	Sales of raw materials to the jointly controlled entity	10,021	14,615		
	Sales of machinery and mould to the jointly controlled entity	124	–		

The Group has made impairment in respect of the amount due from the jointly controlled entity at HK$3,132,000 (1.7.2003 - 31.12.2004: Nil) during the year.

The above transactions were carried out on terms agreed with the Group and were conducted in the normal course of business with reference to the prevailing market prices.

44. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 10 April 2006.

Major properties held for investment

Location	Existing use	Term of lease	Attributable interest of the Group
Flats A and B, 16th Floor, Wah Ha Factory Building, No 8 Shipyard Lane, Quarry Bay, Hong Kong	Industrial and ancillary godown	Long	100%
Flat C, 14th Floor, Wah Ha Factory Building, No 8 Shipyard Lane, Quarry Bay, Hong Kong	Industrial and ancillary godown	Long	100%

Summary of Financial Information

A summary of the published results, assets, liabilities and minority interests of the Group prepared on the bases set out in the note below is as follows. This summary does not form part of the audited financial statements.

RESULTS

	Year ended 31 December 2005 HK$'000	Period from 1 July 2003 to 31 December 2004 HK$'000 (restated)	Year ended 30 June 2003 HK$'000 (restated)	2002 HK$'000	2001 HK$'000
Turnover	**553,983**	559,882	140,193	122,560	171,400
Profit /(Loss) from operations	**53,318**	60,191	(2,526)	(2,500)	(1,317)
Net Profit/(Loss) attributable to equity holders of the company	**42,730**	48,561	(5,680)	(9,763)	(8,541)

ASSETS AND LIABILITIES

	At 31 December		At 30 June		
	2005 HK$'000	2004 HK$'000 (restated)	2003 HK$'000 (restated)	2002 HK$'000	2001 HK$'000
Total assets	**395,747**	330,703	89,428	104,585	113,338
Total liabilities	**(128,566)**	(119,906)	(35,874)	(46,546)	(46,690)
Total net assets	**267,181**	210,797	53,554	58,039	66,648
Capital	**32,175**	29,250	15,000	15,000	15,000
Reserves	**234,986**	181,527	38,535	43,020	51,648
Minority interests	**20**	20	19	19	0
Total equity	**267,181**	210,797	53,554	58,039	66,648

Note:

The results of the Group for the years/period ended 31 December 2005, 31 December 2004, 30 June 2003, 30 June 2002 and 30 June 2001 have been extracted from the audited financial statements for the years/period ended 31 December 2005, 31 December 2004, 30 June 2003, 30 June 2002 and 30 June 2001.