泰豐國際集團有限公司*

Sino-Tech International Holdings Limited

(Incorporated in Bermuda with limited liability)
(Stock Code: 724)

ANNUAL REPORT 2006

*For Identification Purpose Only

Contents

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
SHINEWING (HK) CPA Limited
20/F, Shui On Centre,
6-8 Harbour Road, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE
The Bank of Bermuda Limited
Bank of Bermuda Building,
6 Front Street, Hamilton HM11, Bermuda

HONG KONG BRANCH SHARE REGISTRAR 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
www.irasia.com/listco/hk/sinotech

RESULT OVERVIEW

The Group reported a delighted result for the financial year 2006. Turnover has risen to approximately HK$636.2 million from HK$554.0 million and represented an increase of 14.8% during the year. Net profit attributable to shareholders has increased 45.6% to approximately HK$62.2 million.

DIVIDEND

The Board recommended the payment of a final dividend of HK$0.045 per share for the year ended 31 December 2006, 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$0.06 per share for the financial year 2006.

BUSINESS REVIEW

2006 is a prosperous year for the global economy with tremendous investment and business opportunities. As a result, the demand for consumer products reached a record high. It boosted the global sales of semiconductors by 8.9 percent when compared with 2005 as released by Semiconductor Industry Association. Although the appreciation of RMB, the increase in energy and labour cost and problem of labour shortage were all needed to be solved by many enterprises with establishment in the PRC, the Group was able to increase both the turnover and the profit during 2006. Our sensitivity and awareness to this ever changing environment coupled with the various proper cost control measures help to deliver a better than expected result.

The electronic components business remained the major revenue and profit generator of the Group for the financial year 2006. Turnover for this segment amounted to HK$503.4 million (2005: HK$395.4 million) with a segment result of HK$78.4 million (2005: HK$55.6 million).

The trend for compact and handy consumer products provide a strong market potential for our SMD SOD/SOT-series component products. Turnover for this series has increased more than double from 2005 to HK$90 million this year and more importantly, over 60% of this turnover was generated in the second half of 2006. Apart from the SMD SOD/SOT-series components, the turnover for other existing products has also increased by over 16%, which represented a better than average performance in the semiconductors market.

At the same time, the Group has continued to streamline the operation in the lighter business, turnover for the year has reduced to HK$132.8 million (2005: HK$158.6 million) and the segment result was a loss of HK$1.1 million (2005: loss of HK$0.9 million). Since the lighter business is facing serve competition with low profit margin and low entry barrier, we will keep on monitoring its performance from time to time and to focus only on the products with higher contribution margin.

FINANCIAL REVIEW

Liquidity, Financial Resources and Capital Structure

The Group continued to maintain a healthy financial position. The Group does not have any outstanding bank loan nor overdraft as at 31 December 2006 (2005: Nil). The only borrowing refers to finance lease obligation of approximately HK$799,000 (2005: HK$135,000). The gearing ratio (defined as total interest bearing borrowing divided by shareholder's fund) was 0.22% (2005: 0.05%).

The Group's bank balances and cash amounted to HK$86.6 million (2005: HK$48.1 million) and its current ratio at year end increased from 2.43 to 3.23. 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 at the balance sheet date (2005: Nil).

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 continuing appreciation of Renminbi. 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 (2005: Nil).

FUTURE OUTLOOK

The growth in demand for those popular consumer products such as mobile phones, MP3 players, PDAs, personal computers and HDTV sets has driven the surge in global sales of semiconductors. We expected that the growth will continue in the coming years. People are now demanding consumer products with increased capacity and functionality, more handy and fashionable. With the PRC government's announcement of the digital TV terrestrial transmission standard in August 2006 and the formal launch of the terrestrial transmission by the end of 2007 in Hong Kong, the production of the HDTVs will start to speed up in the coming two years in order to seize the golden opportunity during the Beijing's 2008 Olympic Games. The Group, being one of the major players in the electronic components industry, should be able to benefit from such a boom.

The Group does not stop its pace in its development route. As indicated last year, we have initiated the study in the possibility of the radio frequency identification technology (the "RFID") in different applications. During this year, we have started the discussion in exploring business opportunity in the RFID industry with many technical parties, orders for the production machines of RFID tags and inlays have been placed with Mühlbauer, Germany, the world leading supplier of production equipment in the RFID and smart card industry. The machines are expected to be delivered to us by the end of second quarter 2007 and we expect production will start in third quarter 2007. An informal network has been established for both technical support and customer base, we foresee this inevitable trend will be another source of contribution for the Group in the future.

On top of this, the Group also started the study and analysis in the production of light emitting diodes ("LEDs") in view of the energy saving and environmental concerns in the world. LEDs, a cost effective solid state lighting solution, which produce more light per watt, ideal for use in applications that are subject to frequent on-off cycling and have extremely long life span, is now an advanced methodology in the lighting applications which include traffic lights and signals, railroad crossing signals, Christmas lights, architectural lighting, exit signs and outdoor display panels etc. We are now considering possible cooperation with one of the market leaders in this field, when we have a solid investment plan, we will publish an announcement if it is required by the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

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
16 April 2007

Directors and Senior Management

Executive Directors

Mr. LAM Yat Keung, aged 50, was appointed as President of the Company on 13 December 2003. He has over 27 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 40, was appointed as Director (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 brother-in-law of Mr. Lam Yat Keung.

Ms. LAM Pik Wah, aged 48, was appointed as Director of the Company on 13 December 2003. She has over 24 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 43, 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 19 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 50, 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 55, 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 38, 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 Company Secretaries. She has over 15 years working experience in the financial and company secretarial field. She joined the Group in January 2004.

Mr. Alphonso G. Soong, aged 54, is the Vice President of the Group's RFID business section. He holds a Bachelor of Science Degree in Computer Science and a Master of Science Degree in Electronic Engineering. He has over 30 years working experience in various IT and telecommunication corporations like AT&T, Tandem and Sunday. He joined the Group in February 2006.

Mr. AI Chuang Ping, aged 31, is the General Manager of the Quality Control and Marketing Department of the electronic segment in PRC of the Group. He holds a Diploma in Mechanical Technology from the Hunan University. He has over 12 years experience in quality control 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 42, is the Technical Consultant of the electronic segment in PRC of the Group. He holds a Bachelor Degree in Electronic and Accurate Mechanical Technology from Tai Yuan University of Mechanism and has over 17 years' experiences in research and development, product design and mechanical specification. Prior to joining the Group in 2004, he has been working in various companies as Engineer and Production Officer.

Mr. SHER Tak Chi, aged 48, is the director of the Group's subsidiaries in the lighter business, he is responsible for the overall strategic planning business development of the lighter segment. He is also actively involved in product design and development. Mr. Sher has worked for the Group since its business inception in October 1981. He has over 29 years of experience in the manufacturing of cigarette lighters.

Mr. SO Kam Hing, aged 57, 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 52, 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 34 years of mould-making experience, of which 25 years were related to the mould-making for cigarette lighters. Before joining the Group in June 1997, Mr. Cha ran his own mould manufacturing company in Korea.

The Board of Directors (the "Board") of Sino-Tech International Holdings Limited (the "Company") is pleased to present its report and the audited consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries and jointly controlled entity as at 31 December 2006 are set out in notes 40 and 21 respectively to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2006 are set out in the consolidated income statement on pages 23.

An interim dividend of HK$0.015 per share amounting to HK$5,696,000 was paid to the shareholders during the year. The Board recommended the payment of a final dividend of HK$0.045 per share, totaling HK$17,089,000, in respect of the year ended 31 December 2006 to be paid on or around 12 July 2007 to shareholders whose names appear on the register of members of the Company on 25 June 2007, 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$0.06 per share for the year ended 31 December 2006 (2005: HK$0.04).

The register of members of the Company will be closed from 21 June 2007 to 25 June 2007, 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 20 June 2007.

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 pages 85 to 86.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 30 to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 32 to the consolidated financial statements and the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2006, the Company's reserves available for distribution, calculated in accordance with the Companies Act 1981 of Bermuda, amounted to HK$64,064,000 (2005: HK$59,595,000). The Company's share premium account of HK$169,876,000 (2005: HK$124,707,000) 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 notes 17 and 18 respectively to the consolidated 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 8.5% and 26.3%, 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 17.2% and 55.5% 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. Lo Wah Wai and Mr. Pai Te Tsun 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 Listing Rules and the Company is of the opinion that the independent status of them remains intact as at 31 December 2006.

DIRECTORS' SERVICE CONTRACTS

Each of the existing executive directors has entered into a service contract. 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 2006, 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 or the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") were as follows:

Long Positions

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)	15.80%
Lam Hung Kit	Held by controlled corporation	60,000,000 (note 1)	15.80%
Lam Yat Keung	Held by family	60,000,000 (note 2)	15.80%

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 executives 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 as at 31 December 2006.

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 executives, 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 2006, 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 executives, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

Long positions

Shareholders	Capacity	Number of issued ordinary shares held	Percentage of shareholding
Smart Number Investments Limited	Beneficial owner	60,000,000	15.80%
Forever Gain Profits Limited	Beneficial owner	58,000,000	15.27%
Mr. Wan Bing Hung (Note)	Held by controlled corporation	58,000,000	15.27%
Mr. Kwong Chi Shing Savio	Beneficial owner	23,998,000	6.32%

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

Save as disclosed above, the Company had not been notified any interests representing 5 percent or more in the issued share capital of the Company as at 31 December 2006.

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2006, the Group had 2,007 (2005: 2,180) 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 subject to the minimum and maximum levels of income of HK$5,000 and HK$20,000 respectively 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 11 to the consolidated financial statements.

SHARE OPTION SCHEME

The Company has adopted a share option schemes on 28 November 2002 (the "Share Option Scheme") for which the details are set out in note 31 to the consolidated financial statements.

CONNECTED TRANSACTIONS

Details of the connected transactions of the Group during the year are set out in note 39 to the consolidated 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.

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.

AUDITORS

During the year BDO McCabe Lo Limited resigned as auditors of the Company and SHINEWING (HK) CPA Limited ("SHINEWING") were then appointed as auditors of the Company.

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

On behalf of the Board

Lam Yat Keung
President

Hong Kong, 16 April 2007

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 Listing Rules 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 2006. 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 2006, the Board held ten meetings.

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

	Attendance
Executive Directors:	
Lam Yat Keung	10/10
Lam Hung Kit	10/10
Lam Pik Wah	8/10
Independent non-executive Directors:	
Lo Wah Wai	3/10
Ho Chi Fai	3/10
Pai Te-Tsun	2/10

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 notice 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 another. Ms. Lam Pik Wah is the wife of Mr. Lam Yat Keung (the President) and also 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 for a total of six Directors.

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 to the Directors, all the Directors confirmed that they had complied with the required standards as set out in the Model Code for the year ended 31 December 2006.

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 or such other period as agreed and they have separate and independent access to the Company's senior management for supplying adequate information such as board papers and related materials 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 term 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 2006 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 requirement 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 reviews 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 2006, three meetings were held, the attendance of the members at the meetings are as follows:

Lo Wah Wai	3/3
Ho Chi Fai	3/3
Pai Te-Tsun	2/3

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 10 to the consolidated financial statements.

The committee has recommended to the Board that the shareholders be asked to re-appoint SHINEWING as the Group's external auditors for 2007.

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 regulations.

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, the Chairman of the audit and remuneration committee had attended the 2006 Annual General Meeting of the Company to answer questions at the meeting.

E.2 Voting by Poll

The Company has informed the shareholders in its circulars convening general meetings the procedures for and the rights of shareholders to demand a poll and the chairman of each meeting has at the commencement of the meeting ensured that an explanation has 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.

信永中和
ShineWing

SHINEWING (HK) CPA Limited
20/F., Shui On Centre
6-8 Harbour Road, Hong Kong

TO THE SHAREHOLDERS OF
SINO-TECH INTERNATIONAL HOLDINGS LIMITED
(FORMERLY KNOWN AS SEMTECH INTERNATIONAL HOLDINGS LIMITED)
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Sino-Tech International Holdings Limited (Formerly known as Semtech International Holdings Limited) (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 23 to 84, which comprise the consolidated balance sheet as at 31 December 2006, the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 90 of the Bermuda 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. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of the Group's affairs as at 31 December 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Chan Wing Kit
Practicing Certificate Number: P03224

Hong Kong
16 April 2007

Consolidated Income Statement

For the year ended 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
Turnover	6	**636,237**	553,983
Cost of sales		**(505,839)**	(454,060)
Gross profit		**130,398**	99,923
Other income	8	**10,370**	3,990
Distribution costs		**(13,655)**	(10,868)
Administrative expenses		**(41,131)**	(32,367)
Other expenses		**(9,102)**	(7,360)
Finance costs	9	**(77)**	(11)
Profit before taxation	10	**76,803**	53,307
Taxation	12	**(14,606)**	(10,577)
Profit for the year		**62,197**	42,730
Attributable to:			
– Equity holders of the Company		**62,197**	42,730
– Minority interests		**–**	–
		62,197	42,730
Dividends	13	**24,525**	12,578
Earnings per share (in Hong Kong cents):	14		
Basic		**17.31**	14.53
Diluted		**17.31**	14.41

Consolidated Balance Sheet

As at 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
Non-current assets			
Property, plant and equipment	17	**99,313**	98,749
Investment properties	18	**–**	11,700
Prepaid lease payments	19	**1,554**	1,529
Other intangible assets	20	**1,031**	1,399
Interest in a jointly controlled entity	21	**(1,928)**	(2,409)
		99,970	110,968
Current assets			
Inventories	22	**156,394**	82,584
Trade and bills receivables	23	**157,345**	137,367
Prepaid lease payments	19	**36**	35
Prepayments, deposits and other receivables		**9,014**	16,742
Bank balances and cash	24	**86,588**	48,051
		409,377	284,779
Current liabilities			
Trade and bills payables	25	**104,421**	79,194
Other payables and accruals		**16,582**	14,829
Amounts due to directors	26	**–**	8,045
Tax payable		**5,329**	14,793
Obligations under finance leases			
– due within one year	27	**273**	119
		126,605	116,980
Net current assets		**282,772**	167,799
Total assets less current liabilities		**382,742**	278,767

Consolidated Balance Sheet

As at 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
Non-current liabilities			
Obligations under finance leases			
– due after one year	27	**526**	16
Employee benefits	28	**437**	443
Deferred tax liabilities	29	**11,606**	11,127
		12,569	11,586
		370,173	267,181
Capital and reserves			
Share capital	30	**37,975**	32,175
Reserves		**332,198**	234,986
Equity attributable to equity holders of the Company		**370,173**	267,161
Minority interests		**–**	20
		370,173	267,181

The consolidated financial statements on pages 23 to 84 were approved and authorised for issue by the Board of Directors on 16 April 2007 and are signed on its behalf by:

Lam Yat Keung **Lam Pik Wah**

Consolidated Statement of Changes in Equity

For the year ended 31 December 2006

	Share capital	Share premium	Contributed surplus (Note)	Share-based compensation reserve	Property revaluation reserve	Accumulated profits	Foreign exchange reserve	Proposed final dividend	Equity attributable to shareholders of the Company	Minority interests	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2005	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
Final 2004 dividend paid	–	–	–	–	–	–	–	(8,775)	(8,775)	–	(8,775)
Interim 2005 dividend paid	–	–	–	–	–	(2,925)	–	–	(2,925)	–	(2,925)
Final 2005 dividend proposed	–	–	–	–	–	(9,653)	–	9,653	–	–	–
Deficit on revaluation of property	–	–	–	–	(240)	–	–	–	(240)	–	(240)
At 31 December 2005 and 1 January 2006	32,175	124,707	5,800	–	713	94,245	(132)	9,653	267,161	20	267,181
Exchange realignments	–	–	–	–	29	–	(1,052)	–	(1,023)	–	(1,023)
Released on disposal of a subsidiary	–	–	–	–	–	–	–	–	–	(20)	(20)
Profit for the year	–	–	–	–	–	62,197	–	–	62,197	–	62,197
Total recognised profit	–	–	–	–	29	62,197	(1,052)	–	61,174	(20)	61,154
Recognition of equity-settled share-based payment	–	–	–	7,748	–	–	–	–	7,748	–	7,748
Issue of shares on private placements	5,800	46,400	–	–	–	–	–	–	52,200	–	52,200
Share issue expenses	–	(1,231)	–	–	–	–	–	–	(1,231)	–	(1,231)
Final 2005 dividend paid	–	–	–	–	–	(1,740)	–	(9,653)	(11,393)	–	(11,393)
Interim 2006 dividend paid	–	–	–	–	–	(5,696)	–	–	(5,696)	–	(5,696)
Final 2006 dividend proposed	–	–	–	–	–	(17,089)	–	17,089	–	–	–
Surplus on revaluation of property	–	–	–	–	210	–	–	–	210	–	210
At 31 December 2006	**37,975**	**169,876**	**5,800**	**7,748**	**952**	**131,917**	**(1,184)**	**17,089**	**370,173**	**–**	**370,173**

Note: The contributed surplus of the Group represents the difference between the nominal value of the shares of the former group's 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 2006

	2006 HK$'000	2005 HK$'000
Operating activities		
Profit before taxation	76,803	53,307
Adjustments for:		
Interest income	(682)	(49)
Interest expenses	77	11
Depreciation of property, plant and equipment	16,236	14,739
Amortisation of other intangible assets	574	665
Impairment on goodwill	–	12
Amortisation of prepaid lease payments	36	66
Amortisation of deferred income	(481)	(299)
Impairment on amount due from a jointly controlled entity	–	3,132
Revaluation surplus on leasehold land and buildings	(696)	(522)
Gain on fair value changes of investment properties	(2,780)	(518)
Gain on disposal of subsidiaries	(191)	–
Loss on disposal of property, plant and equipment	2,390	–
Share-based payment expenses	7,748	2,852
Operating profit before working capital changes	99,034	73,396
Increase in inventories	(73,810)	(26,863)
Increase in trade and bills receivables	(19,992)	(36,811)
Decrease/(increase) in prepayments, deposits and other receivables	7,728	(1,325)
Increase in trade and bills payables	25,227	131
Increase in other payables and accruals	1,747	1,228
Increase in employee benefits	150	443
Cash generated from operations	40,084	10,199
Interest paid on bank borrowings	(18)	–
Interest paid on finance leases	(59)	(11)
Income taxes paid	(23,581)	142
Net cash from operating activities	16,426	10,330

Consolidated Cash Flow Statement

For the year ended 31 December 2006

	2006 HK$'000	2005 HK$'000
Investing activities		
Purchase of property, plant and equipment	**(23,529)**	(6,798)
Net cash inflow from disposal of subsidiaries (Note 33)	**21,124**	–
Interest received	**682**	49
Additions to intangible assets	**(206)**	(375)
Proceeds from disposal of property, plant and equipment	**–**	565
Decrease in pledged deposits	**–**	500
Net cash used in investing activities	**(1,929)**	(6,059)
Financing activities		
Proceeds from issue of shares on private placements, net of share issue expenses	**50,969**	–
Dividends paid	**(17,089)**	(11,700)
Repayment to directors	**(8,045)**	(3,900)
Repayment of obligations under finance leases	**(298)**	(157)
Proceeds from issue of shares on exercise of share options	**–**	20,767
Net cash from financing activities	**25,537**	5,010
Net increase in cash and cash equivalents	**40,034**	9,281
Effect of foreign exchange rate change	**(1,497)**	(69)
Cash and cash equivalents at beginning of year	**48,051**	38,839
Cash and cash equivalents at end of year, representing bank balances and cash	**86,588**	48,051

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 40 to the consolidated financial statements.

The consolidated financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company and its subsidiaries (the "Group").

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of the new HKFRSs has no material effect on how the results for the current or prior accounting year have been prepared and presented. Accordingly, no prior year adjustment has been required.

The Group has not early applied the following new standards, amendments and interpretations that have been issued but are not yet effective as at 31 December 2006. The directors of the Company anticipate that the application of these standards, amendments and interpretations will have no material impact on the results and the financial position of the Group.

Hong Kong Accounting Standard 1 (Amendment)	Capital Disclosures[1]
HKFRS 7	Financial Instruments : Disclosures[1]
HKFRS 8	Operating segments[2]
HK(IFRIC)-Interpretation ("Int") 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[3]
HK(IFRIC)-Int 8	Scope of HKFRS 2[4]
HK(IFRIC)-Int 9	Re-assessment of Embedded Derivatives[5]
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment[6]
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions[7]
HK(IFRIC)-Int 12	Service concession arrangements[8]

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

[1] Effective for annual periods beginning on or after 1 January 2007.
[2] Effective for annual periods beginning on or after 1 January 2009.
[3] Effective for annual periods beginning on or after 1 March 2006.
[4] Effective for annual periods beginning on or after 1 May 2006.
[5] Effective for annual periods beginning on or after 1 June 2006.
[6] Effective for annual periods beginning on or after 1 November 2006.
[7] Effective for annual periods beginning on or after 1 March 2007.
[8] Effective for annual periods beginning on or after 1 January 2008.

3. PRINCIPAL ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis, except for certain properties and financial instruments, which are measured at revalued amounts or fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and by the Hong Kong Companies Ordinance.

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. 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.

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

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(a) Basis of consolidation *(Continued)*

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

(b) Interest in a jointly controlled entity

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as a jointly controlled entities.

The results and assets and liabilities of a jointly controlled entity are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, interest in a jointly controlled entity is carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of a jointly controlled entity, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interests in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

Where a group entity transacts with a jointly controlled entity of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity, except to the extent that unrealised losses provide evidence of impairment of the asset transferred, in which case, the full amount of losses is recognised.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(c) Other intangible assets

Expenditure on internally generated intangible assets (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 consolidated income statement.

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

Intangible assets with finite useful lives are tested for impairment when there is an indication that an asset may be impaired (see the accounting policies in respect of impairment losses for tangible and intangible assets below).

(d) Impairment (for tangible assets and intangible assets with definite useful lives)

At each balance sheet date, the Group reviews the carrying amounts of the assets to determine whether there is any indication that those assets have suffered impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(d) Impairment (for tangible assets and intangible assets with definite useful lives) *(Continued)*

Where impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years/periods. A reversal of impairment loss is recognised as income immediately.

(e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Revenue from goods sold is recognised when title of goods sold has passed to the customers, 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 from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Service income is recognised when service is rendered.

(f) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for that year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(f) Taxation *(Continued)*

Deferred tax is recognised on difference between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and 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.

Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising from investments in subsidiaries and a jointly controlled entity, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset is realised. Deferred tax is charged or credited to the consolidated income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

(g) Employee benefits

(i) Defined contribution pension plan

Obligations for contributions to defined contribution retirement plan are recognised as an expense in the consolidated income statement when employees have rendered services entitling them to the contributions.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(g) Employee benefits *(Continued)*

(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.

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out basis.

(i) Financial instruments

Financial assets and financial liabilities are recognised on the consolidated balance sheet when the Group becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(i) Financial instruments *(Continued)*

Financial assets

The Group's financial assets are mainly loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation of convention in the marketplace. The accounting policy adopted is set out below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and bills receivables, deposits and other receivables) are carried at amortised cost using the effective interest method, less any identified impairment losses. Impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent years when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are mainly other financial liabilities. The accounting policies adopted for financial liabilities and equity instruments are set out below.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(i) Financial instruments *(Continued)*

Other financial liabilities

Other financial liabilities including trade and bills payables, other payables, amounts due to directors and obligations under finance leases are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(j) Property, plant and equipment

The building component of owner-occupied leasehold properties are stated at valuation less subsequent accumulated depreciation. Fair value is determined by the directors based on independent valuations which are performed on sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date. 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 property 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 consolidated income statement. Any subsequent increases are credited to the consolidated income statement up to the amount previously charged and thereafter to property revaluation reserve. On subsequent sales or retirement of a revalued asset, the attributable revaluation surplus is transferred to accumulated profits.

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

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

Construction in progress represents property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(k) Investment properties

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement in the year in which the item is derecognised.

(l) Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation and a reliable estimate can be made. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to the present value where the effect is material.

(m) 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 consolidated 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.

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 consolidated income statement over the remaining vesting period.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(m) Share-based payments *(Continued)*

At the time when the share options are exercised, the amount previously recognised in share-based compensation reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share-based compensation reserve will be transferred to accumulated profits.

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

(n) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the terms of the relevant leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease terms.

The Group as lessee

Assets held under finance leases are recognised assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see accounting policies in respect of borrowing costs).

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(n) Leasing *(Continued)*

The Group as lessee *(Continued)*

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivables as an incentive to enter into an operating lease are recognised as reduction of rental expense over the lease term on a straight-line basis.

(o) Borrowing costs

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(p) Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs. Grants related to depreciable assets are presented as a deduction from the carrying amount of the relevant assets and are released to income over the useful lives of the assets. Grants related to expenses items are recognised in the same period as those expenses are charges in the consolidated income statement and are deducted in reporting the related expenses.

(q) Prepaid lease payments

Prepaid lease payments in respect of 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 consolidated income statement.

(r) Investment in subsidiaries

The Company's investments in subsidiaries are stated at cost less impairment loss, if any, in the Company's separate balance sheet.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(s) Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the year in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financial statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the year except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the year, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the foreign exchange reserve). Such exchange differences are recognised in profit or loss in the year in which the foreign operation is disposed of.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies which are described in note 3, management has made the following judgments that have significant effect on the amounts recognised in the consolidated 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.

Depreciation of property, plant and equipment

The Group's net carrying value of property, plant and equipment as at 31 December 2006 was approximately HK$99,313,000. The Group depreciates the property, plant and equipment on a straight-line basis over the estimated useful lives of 3.33 to 50 years, and after taking into account of their estimated residual value, at the rate of 2% – 30% per annum, commencing from the date the property, plant and equipment when they are available for use. The estimated useful lives that the Group places the property, plant and equipment into productive use reflects the directors' estimate of the periods that the Group intend to derive future economic benefits from the use of the Group's property, plant and equipment.

Impairment on trade receivables

The policy for impairment of trade receivables of the Group is based on the evaluation of collectability and ageing 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 impairment of their ability to make payments, additional impairment may be required.

Impairment on inventories

The management of the Group reviews an ageing 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. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Estimate of fair value of leasehold buildings and investment properties

As described in notes 17 and 18, the Group's leasehold buildings and investment properties were revalued at the balance sheet date on an open market value basis by independent professional valuers. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the judgment, the Group considers information from current prices in an active market for similar properties and uses assumptions that are mainly based on market conditions existing at each balance sheet date.

Estimated impairment of other intangible assets

Determining whether other intangible assets are impaired requires an estimation of the value in use of the cash-generating units to which other intangible assets have been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade and bills receivables, deposits and other receivables, trade and bills payables, other payables, amounts due to directors and obligations under finance leases. 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. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk

The Group's maximum exposure to credit risk in the event that counterparties fail to perform their obligations at 31 December 2006 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 7. 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.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

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 monitors foreign exchange exposure and will 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.

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 consolidated balance sheet of the Group approximate their carry amounts due to their immediate or short-term maturities.

6. TURNOVER

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

7. 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.

7. 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.

For the year ended 31 December:

	Electronic products		Lighter products		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:						
Sales to external customers	**503,416**	395,420	**132,821**	158,563	**636,237**	553,983
Other income	**914**	18	**8,310**	3,367	**9,224**	3,385
Total segment revenue	**504,330**	395,438	**141,131**	161,930	**645,461**	557,368
Segment results	**78,409**	55,567	**(1,136)**	(935)	**77,273**	54,632
Unallocated corporate income					**1,146**	605
Net unallocated expenses					**(1,539)**	(1,919)
Finance costs					**(77)**	(11)
Profit before taxation					**76,803**	53,307
Taxation					**(14,606)**	(10,577)
Profit for the year					**62,197**	42,730

7. SEGMENT INFORMATION *(Continued)*

(a) Business segments *(Continued)*

	Electronic products		Lighter products		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
As at 31 December:						
Segment assets	**368,090**	257,644	**56,334**	92,164	**424,424**	349,808
Interest in a jointly controlled entity	**–**	–	**(1,928)**	(2,409)	**(1,928)**	(2,409)
Unallocated assets					**86,851**	48,348
Total assets					**509,347**	395,747
Segment liabilities	**98,598**	41,770	**22,355**	52,319	**120,953**	94,089
Unallocated liabilities					**18,221**	34,477
Total liabilities					**139,174**	128,566
Other segment information:						
Capital expenditures	**23,529**	3,936	**962**	3,048	**24,491**	6,984
Depreciation and amortisation	**11,760**	9,881	**5,086**	5,589	**16,846**	15,470
Impairment on goodwill	**–**	12	**–**	–	**–**	12
Impairment on inventories	**213**	105	**1,300**	425	**1,513**	530
Impairment on trade and other receivables	**–**	3,567	**7,042**	238	**7,042**	3,805
Bad debts written off	**237**	–	**1,823**	–	**2,060**	–
Impairment on amount due from a jointly controlled entity	**–**	–	**–**	3,132	**–**	3,132
Loss on disposal of property, plant and equipment	**–**	–	**2,390**	–	**2,390**	–

7. SEGMENT INFORMATION *(Continued)*

(b) Geographical segments

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

	Hong Kong		Elsewhere in the PRC		Asia Pacific		Others		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:										
Sales to external customers	**182,027**	153,786	**316,122**	252,760	**79,299**	77,442	**58,789**	69,995	**636,237**	553,983
Other income	**8,135**	3,153	**902**	166	**–**	41	**187**	25	**9,224**	3,385
Total segment revenue	**190,162**	156,939	**317,024**	252,926	**79,299**	77,483	**58,976**	70,020	**645,461**	557,368
Other segment information:										
Segment assets	**169,275**	168,897	**253,199**	178,727	**1,950**	2,184	**–**	–	**424,424**	349,808
Capital expenditures	**1,863**	464	**22,628**	4,180	**–**	2,340	**–**	–	**24,491**	6,984

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.

8. OTHER INCOME

	2006 HK$'000	2005 HK$'000
Amortisation of deferred income	**481**	299
Rental income	**611**	605
Interest income	**682**	49
Revaluation surplus on leasehold land and buildings	**696**	522
Increase in fair value of investment properties	**2,780**	518
Government grant received	**451**	–
Freight charge income	**926**	967
Reversal of impairment on trade receivables	**445**	310
Gain on disposal of subsidiaries	**191**	–
Others	**3,107**	720
	10,370	3,990

9. FINANCE COSTS

	2006 HK$'000	2005 HK$'000
Interest on:		
Bank borrowings repayable within one year or on demand	**18**	–
Finance leases	**59**	11
	77	11

10. PROFIT BEFORE TAXATION

Profit before taxation is stated after charging:

	2006 HK$'000	2005 HK$'000
Cost of inventories sold	**505,839**	454,060
Staff costs (note 11)	**26,549**	22,154
Depreciation of property, plant and equipment		
– Owned	**15,793**	14,577
– Leased	**443**	162
Impairment on goodwill	**–**	12
Amortisation of other intangible assets	**574**	665
Amortisation of prepaid lease payments	**36**	66
Auditors' remuneration	**469**	510
Impairment on inventories	**1,513**	530
Exchange losses, net	**46**	114
Share-based payment (note)	**7,748**	2,852
Impairment on amount due from a jointly controlled entity	**–**	3,132
Impairment on trade and other receivables	**7,042**	3,805
Bad debt written off	**2,060**	–
Loss on disposal of property, plant and equipment	**2,390**	–
Operating lease rental	**6,375**	3,801

Note: Share-based payment included an amount of approximately HK$2,326,000 (2005 : nil) to employees of the Group and is included in the disclosure of total staff costs of the Group (Note 11).

11. STAFF COSTS

	2006 HK$'000	2005 HK$'000
Staff costs (including directors' emoluments) comprise:		
Salaries and welfare	**23,675**	21,327
Share-based payment (Note 10)	**2,326**	–
Retirement benefit scheme contributions	**398**	360
Provision for other employee benefits and long service payments	**150**	467
	26,549	22,154

12. TAXATION

The amount of taxation in the consolidated income statement represents:

	2006 HK$'000	2005 HK$'000
Current tax – provision for Hong Kong Profits Tax		
– tax for the year	**13,473**	11,596
– under-provision in prior years	**565**	356
	14,038	11,952
Current tax – overseas		
– tax for the year	**–**	–
– under/(over)-provision in prior years	**7**	(201)
	7	(201)
Deferred tax (Note 29)	**561**	(1,174)
	14,606	10,577

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profits for the both years.

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

12. TAXATION *(Continued)*

The taxation for the years can be reconciled to the profit before taxation per the consolidated income statement as follows:

	2006 HK$'000	2005 HK$'000
Profit before taxation	**76,803**	53,307
Tax calculated at the domestic income tax rate of 17.5% (2005: 17.5%)	**13,441**	9,328
Tax effect of expenses that are not deductible in determining taxable profit	**1,851**	23,213
Tax effect of income that is not taxable in determining taxable profit	**(1,003)**	(23,559)
Tax effect of utilisation of tax losses not previously recognised	**(441)**	(38)
Tax effect of tax losses not recognised	**186**	895
Under-provision in prior years	**572**	155
Effect of temporary difference	**–**	583
Taxation for the year	**14,606**	10,577

13. DIVIDENDS

	2006 HK$'000	2005 HK$'000
Interim dividend of HK$0.015 (2005: HK$0.01) per share	**5,696**	2,925
Proposed final dividend of HK$0.045 (2005: HK$0.03) per share	**17,089**	9,653
Additional prior year's dividends paid on private placements subsequent to the issue of annual report	**1,740**	–
	24,525	12,578

13. DIVIDENDS *(Continued)*

The directors recommended a final dividend of HK$0.045 per share. This proposed dividend is not reflected as a dividend payable at 31 December 2006, but is reflected as an appropriation of accumulated profits for the year ended 31 December 2006.

This final dividend per share has been recommended by the directors of the Company and is subject to approval by the shareholders in annual general meeting.

14. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the profit attributable to equity holders of the Company for the year of approximately HK$62,197,000 (2005: HK$42,730,000) and the following data:

Weighted average number of ordinary shares for the calculation of basic earnings per share:

	2006 Number of shares '000	2005 Number of shares '000
Issued ordinary shares at beginning of the year	**321,750**	292,500
Effect of issue of shares on private placements	**37,501**	–
Effect of share options exercised	**–**	1,639
Weighted average number of ordinary shares at end of the year	**359,251**	294,139

14. EARNINGS PER SHARE *(Continued)*

Weighted average number of ordinary shares for the calculation of diluted earnings per share:

	2006 Number of shares '000	2005 Number of shares '000
Weighted average number of ordinary shares for the calculation of basic earnings per share	**359,251**	294,139
Effect of deemed issue of shares under the Company's share option scheme for the year	**86**	2,444
Weighted average number of ordinary shares for the calculation of diluted earnings per share	**359,337**	296,583

15. 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:

Name of director	Fees	Salaries, allowances and benefits	Retirement benefits scheme contributions	Total remuneration
	HK$'000	HK$'000	HK$'000	HK$'000
Executive Directors				
Lam Yat Keung	–	1,170	12	1,182
Lam Pik Wah	–	1,079	12	1,091
Lam Hung Kit	–	655	12	667
Independent Non – Executive Directors				
Lo Wah Wai	90	–	–	90
Ho Chi Fai	90	–	–	90
Pai Te Tsun	90	–	–	90
Total 2006	270	2,904	36	3,210

15. DIRECTORS' EMOLUMENTS *(Continued)*

Name of director	Fees	Salaries, allowances and benefits	Retirement benefits scheme contributions	Total remuneration
	HK$'000	HK$'000	HK$'000	HK$'000
Executive Directors				
Lam Yat Keung	–	1,170	12	1,182
Lam Pik Wah	–	1,040	12	1,052
Lam Hung Kit	–	650	12	662
Independent Non – Executive Directors				
Lo Wah Wai	90	–	–	90
Ho Chi Fai	90	–	–	90
Pai Te Tsun	90	–	–	90
Total 2005	270	2,860	36	3,166

During the years ended 31 December 2006 and 2005, no directors waived or agreed to waive any emoluments.

16. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2005: three) were directors of the Company whose emoluments are included in the disclosures in note 15 above. The emolument of the remaining two (2005: two) individuals were as follows:

	2006	2005
	HK$'000	HK$'000
Salaries and other benefits	**2,393**	2,090
Retirement benefits scheme contributions	**11**	12
	2,404	2,102

16. EMPLOYEES' EMOLUMENTS *(Continued)*

The emolument was within the following bands:

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

During the years ended 31 December 2006 and 2005, no emoluments were paid to the five highest paid individuals (including directors and employees) or other directors as an inducement to join or upon joining the Group, or as compensation for loss of office.

17. PROPERTY, PLANT AND EQUIPMENT

	Leasehold 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	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 and 1 January 2006	16,019	132,523	6,677	249	155,468
Exchange difference	404	–	–	8	412
Additions	–	8,789	15,585	117	24,491
Disposals	–	(5,149)	(392)	–	(5,541)
Disposal of a subsidiary	(6,619)	–	–	–	(6,619)
Surplus on revaluation	696	–	–	–	696
At 31 December 2006	10,500	136,163	21,870	374	168,907

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

	Leasehold buildings HK$'000	Plant and machinery HK$'000	Leasehold improvements and others HK$'000	Construction in progress HK$'000	Total HK$'000
Comprising:					
At cost	–	136,163	21,870	374	158,407
At valuation	10,500	–	–	–	10,500
	10,500	136,163	21,870	374	168,907
Accumulated depreciation					
At 1 January 2005	–	39,900	3,748	–	43,648
Depreciation charged for the year	122	13,988	629	–	14,739
Eliminated on disposals	–	(1,510)	(36)	–	(1,546)
Eliminated on revaluation	(122)	–	–	–	(122)
At 31 December 2005 and 1 January 2006	–	52,378	4,341	–	56,719
Depreciation charged for the year	210	14,377	1,649	–	16,236
Eliminated on disposals	–	(2,272)	(879)	–	(3,151)
Eliminated on revaluation	(210)	–	–	–	(210)
At 31 December 2006	–	64,483	5,111	–	69,594
Net carrying values					
At 31 December 2006	**10,500**	**71,680**	**16,759**	**374**	**99,313**
At 31 December 2005	**16,019**	**80,145**	**2,336**	**249**	**98,749**

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

The above property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

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

The carrying amount of the Group's motor vehicles (grouped under leasehold improvements and others) includes an amount of approximately HK$1,245,000 (2005: HK$447,000) in respect of assets acquired under finance leases.

The Group's leasehold buildings in the PRC were revalued at 31 December 2006 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 carrying values would have been HK$9,548,000 (2005: HK$16,181,000).

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

	2006 **HK$'000**	2005 HK$'000
Leasehold buildings in Hong Kong:		
Long lease	–	4,700
Medium-term lease	–	1,223
	–	5,923
Leasehold buildings outside Hong Kong:		
Long lease	**10,500**	10,096
	10,500	16,019

18. INVESTMENT PROPERTIES

Fair value

	2006 HK$'000	2005 HK$'000
At beginning of the year	11,700	11,182
Increase in fair value recognised in the consolidated income statement	2,780	518
Disposal of a subsidiary	(14,480)	–
At end of the year	–	11,700

The Group's investment properties are situated in Hong Kong and held under long-term leases.

The fair value of the Group's investment properties at the time the subsidiary which held the investment properties was disposed of have been arrived at on the basis of a valuation carried out by Prudential Surveyors International Ltd., independent qualified professional valuers not connected with the Group. Prudential Surveyors International Ltd. are members of the Hong Kong Institute of Surveyors, and have appropriate qualifications and recent experiences and in the valuation of similar properties in the relevant locations. The valuation, which conforms to International Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties. Investment properties were valued at their open market value at 31 December 2005 by Dynasty Premium Asset Valuation & Real Estate Consultancy Limited, who were also members of the Hong Kong Institute of Surveyors and not connected with the Group.

19. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise:

	2006 HK$'000	2005 HK$'000
Leasehold land outside Hong Kong:		
Medium-term lease	**1,590**	1,564
Analysed for reporting purpose as:		
Current asset	**36**	35
Non-current asset	**1,554**	1,529
	1,590	1,564

Movements in prepaid lease payments during the year are set out below:

	2006 HK$'000	2005 HK$'000
At 1 January	**1,564**	1,630
Exchange difference	**62**	–
	1,626	1,630
Amortisation for the year	**(36)**	(66)
At 31 December	**1,590**	1,564

20. OTHER INTANGIBLE ASSETS

	Trademark and patents HK$'000
Cost	
At 1 January 2005	5,042
Additions – Internally developed	375
At 31 December 2005 and 1 January 2006	5,417
Additions – Internally developed	206
At 31 December 2006	5,623
Amortisation and impairment	
At 1 January 2005	3,353
Amortisation	665
At 31 December 2005 and 1 January 2006	4,018
Amortisation	574
At 31 December 2006	4,592
Net carrying values	
At 31 December 2006	1,031
At 31 December 2005	1,399

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.

21. INTEREST IN A JOINTLY CONTROLLED ENTITY

	2006 HK$'000	2005 HK$'000
Cost of investment	**41,480**	41,480
Share of post-acquisition loss, net of dividends received	**(41,480)**	(41,480)
Deferred income	**(1,928)**	(2,409)
	(1,928)	(2,409)

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.

Particulars of the Group's jointly controlled entity at 31 December 2006 are as follows:

Name of entity	Form of business structure	Place of incorporation and operation	Class of equity interest held	Percentage of paid-up capital held by the Group	Principal activities
Shangdong Luneng Plastics & Metal Mfy. Co., Ltd.	Corporation	PRC	Contributed capital	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.

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

The summarised unaudited financial information in respect of the jointly controlled entity which is accounted for using the equity method is as follows:

	2006 HK$'000	2005 HK$'000
Total assets	**37,169**	42,295
Total liabilities	**45,184**	47,833
Net liabilities	**(8,015)**	(5,538)
The Group's share of net liabilities	**–**	–
Revenue	**33,596**	35,337
Loss for the year	**(2,477)**	(5,852)
The Group's share of result of the jointly controlled entity for the year	**–**	–

The Group has discontinued recognition of its share of losses of its jointly controlled entity.

The amounts of unrecognised share of this entity, both for the year and cumulatively, are as follows:

	2006	2005
Unrecognised share of losses:		
– arising during the year	**(1,239)**	(2,926)
– accumulated	**(4,762)**	(3,523)

22. INVENTORIES

	2006 HK$'000	2005 HK$'000
Raw materials	**64,780**	43,258
Work-in-progress	**3,619**	3,356
Finished goods	**87,995**	35,970
	156,394	82,584

At the balance sheet date, carrying value of inventories stated at net realisable value is approximately HK$13,893,000 (2005: nil).

23. TRADE AND BILLS RECEIVABLES

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

	2006 HK$'000	2005 HK$'000
Trade and bills receivables	**162,308**	146,606
Less: accumulated impairment	**(4,963)**	(9,239)
	157,345	137,367

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

	2006 HK$'000	2005 HK$'000
Within 3 months	**143,313**	121,822
4-6 months	**7,915**	8,166
7-12 months	**5,752**	3,788
13-24 months	**316**	3,521
Over 24 months	**49**	70
	157,345	137,367

24. BANK BALANCES AND CASH

	2006 HK$'000	2005 HK$'000
Deposits with maturity at inception of less than one month	**56,768**	–
Cash at bank and in hand	**29,820**	48,051
	86,588	48,051

Deposits with banks with maturity at inception of less than one month carry interest at market rates which range from 2.1% to 3.1% per annum. At 31 December 2006, included in the deposits is a balance of approximately HK$9,234,000 which is denominated in Euro dollar.

25. TRADE AND BILLS PAYABLES

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

	2006 HK$'000	2005 HK$'000
Within 3 months	**72,930**	69,870
4-6 months	**14,304**	8,754
7-12 months	**17,186**	490
13-24 months	**1**	80
	104,421	79,194

Included in trade and bills payables at 31 December 2006 was an amount of approximately HK$7,070,000 (2005: HK$7,260,000) due to the jointly controlled entity of the Group, which was of trade nature and the amount was unsecured, interest-free and repayable on demand.

The fair values of the Group's trade and bills payables at 31 December 2006 approximate to the corresponding carrying amounts due to the short-term maturities.

26. AMOUNTS DUE TO DIRECTORS

The amounts are unsecured, interest-free and repayable on demand. The amounts have been fully settled during the year ended 31 December 2006.

27. OBLIGATIONS UNDER FINANCE LEASES

It is the Group's policy to lease certain of its motor vehicles under finance leases. The average leases term is approximately 3 years. Interest rates underlying all obligations under finance leases are fixed at respective contract dates ranging from 7.4% to 9.2%. No arrangements have been entered into for contingent rental payments.

	Minimum lease payments		Present value of minimum lease payments	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable under finance leases repayable :				
Within one year	**325**	126	**273**	119
In the second to fifth year inclusive	**563**	18	**526**	16
	888	144	**799**	135
Less: Future finance charges	**(89)**	(9)	**–**	–
Present value of lease obligations	**799**	135	**799**	135
Less: Amounts due within one year shown under current liabilities			**(273)**	(119)
Amounts due after one year			**526**	16

27. OBLIGATIONS UNDER FINANCE LEASES *(Continued)*

The Group leases motor vehicles for its business operation. The leases, denominated in Hong Kong dollar, are classified as finance leases and have remaining lease term within 3 years.

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

28. EMPLOYEE BENEFITS

	2006 **HK$'000**	2005 HK$'000
Liabilities for employee benefit comprise:		
Annual leave payments accrual	**1,580**	1,424
Long service payments accrual (note 37)	**437**	443
	2,017	1,867
Categorised as:		
Due within one year or less (included in other payables and accruals)	**1,580**	1,424
Due after more than one year, disclosed under non-current liabilities	**437**	443
	2,017	1,867

29. DEFERRED TAX LIABILITIES

The following are the major deferred tax liabilities (assets) recognised and movements thereof during the current and prior years:

	Accelerated tax depreciation HK$'000	Impairment on trade receivables HK$'000	Impairment on inventories HK$'000	Estimated tax losses HK$'000	Total HK$'000
At 1 January 2005	13,224	(232)	–	(691)	12,301
Charged/(credited) to the consolidated income statement for the year	(1,455)	(392)	(18)	691	(1,174)
At 31 December 2005 and 1 January 2006	11,769	(624)	(18)	–	11,127
Released upon disposal of a subsidiary	(82)	–	–	–	(82)
Charged to the consolidated income statement for the year	479	64	18	–	561
At 31 December 2006	12,166	(560)	–	–	11,606

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:

	2006 HK$'000	2005 HK$'000
Deferred tax liabilities	**12,166**	11,769
Deferred tax assets	**(560)**	(642)
	11,606	11,127

29. DEFERRED TAX LIABILITIES *(Continued)*

At the balance sheet date, the Group has unused estimated tax losses of approximately HK$17,975,000 (2005: HK$19,436,000) available for offsetting against future profits. No deferred tax asset has been recognised in respect of such tax losses 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.

30. SHARE CAPITAL

	2006 Number of shares '000	**2006 HK$'000**	2005 Number of shares '000	2005 HK$'000
Ordinary shares of HK$0.10 each				
Authorised:				
At 1 January 2005, 31 December 2005 and 31 December 2006	**800,000**	**80,000**	800,000	80,000
Issued and fully paid:				
At beginning of the year	**321,750**	**32,175**	292,500	29,250
Issued on private placements (note a)	**58,000**	**5,800**	–	–
Issued on exercise of share options (note b)	**–**	**–**	29,250	2,925
At end of the year	**379,750**	**37,975**	321,750	32,175

30. SHARE CAPITAL *(Continued)*

Notes:

(a) During the year ended 31 December 2006, arrangements were made for private placements to provide additional working capital for the Group and details are as follows (2005: nil):

Issue date	Number of ordinary shares issued	Issue price
10 May 2006	58,000,000	HK$0.90

(b) During the year ended 31 December 2005, the Company issued 29,250,000 ordinary shares at the price of HK$0.71 per share upon the exercise of the share options granted to certain customers and suppliers.

These ordinary shares rank pari passu in all respects with other shares in issue.

31. 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;

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

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

31. SHARE OPTION SCHEME *(Continued)*

(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.

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.

31. SHARE OPTION SCHEME *(Continued)*

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.

At 31 December 2006, the number of shares in respect of which options had been granted and remained outstanding under the Share Option Scheme was 37,975,000 (2005: nil) representing 10% (2005: nil) of the shares of the Company in issue at that date.

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

For the year ended 31 December 2006:

Participants	Date of grant	Exercise price	Balance at 1 January 2006	Number of share options Granted during the year	Exercised during the year	Balance at 31 December 2006
Employees	5 August 2006	HK$1.246	–	11,400,000	–	11,400,000
Customers, suppliers and other eligible persons	5 August 2006	HK$1.246	–	26,575,000	–	26,575,000
			–	37,975,000	–	37,975,000

The closing price of the Company's shares immediately before the date on which the options were granted in respect of the grant on 5 August 2006 was HK$1.22. No option was cancelled and lapsed during the year ended 31 December 2006.

For the year ended 31 December 2005:

Participants	Date of grant	Exercise price	Balance at 1 January 2005	Number of share options Granted during the year	Exercised during the year	Balance at 31 December 2005
Customers and suppliers	26 October 2005	HK$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 ended 31 December 2005.

32. BALANCE SHEET OF THE COMPANY

	2006 HK$'000	2005 HK$'000
Non-current asset		
Investments in subsidiaries	**83,915**	108,915
Current assets		
Prepayments, deposits and other receivables	**263**	297
Amounts due from subsidiaries	**147,915**	96,963
Bank balances and cash	**65,147**	28,733
	213,325	125,993
Current liabilities		
Other payables and accruals	**488**	377
Amounts due to directors	**–**	8,045
Tax payable	**–**	356
	488	8,778
Net current assets	**212,837**	117,215
	296,752	226,130
Capital and reserves		
Share capital	**37,975**	32,175
Share premium	**169,876**	124,707
Contributed Surplus	**62,315**	62,315
Share-based compensation reserve	**7,748**	–
Accumulated profits/(losses)	**1,749**	(2,720)
Proposed final dividend	**17,089**	9,653
	296,752	226,130

33. DISPOSAL OF SUBSIDIARIES

During the year, the Group disposed of the entire interests in P.T. Magastand Industries, Ribbon Worldwide Inc. and Headjoin Limited which were the subsidiaries of the Company.

The net assets of subsidiaries at the date of disposal were as follows:

	2006 HK$'000
Net assets disposed of:	
Property, plant and equipment	6,619
Investment properties	14,480
Trade and other receivables	14
Tax recoverable	72
Bank balances and cash	66
Other payables and accruals	(150)
Deferred taxation	(82)
Minority interest	(20)
	20,999
Net gain on disposal	191
Total consideration net of direct expenses, satisfied by cash	21,190
Net cash inflow arising on disposal	
Cash consideration net of direct expenses	21,190
Bank balances and cash disposed of	(66)
	21,124

During the year, the subsidiaries disposed of utilised HK$82,000 (2005: contributed to HK$7,000) of the Group's net operating cash flows, generated HK$2,000 (2005: nil) in respect of investing activities and did not generate any cash flow (2005: nil) in respect of financing activities.

34. 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 approximately HK$962,000 (2005: HK$186,000).

35. LEASE COMMITMENTS

The Group as lessee

	2006 HK$'000	2005 HK$'000
Minimum lease payments paid under operating leases during the year	6,375	3,801

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

	2006 HK$'000	2005 HK$'000
Within one year	5,680	6,113
In the second to fifth year inclusive	9,706	10,146
Over five years	4,752	–
	20,138	16,259

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 eight years. Rentals are fixed over the terms of respective leases.

35. LEASE COMMITMENTS *(Continued)*

The Group as lessor

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

	2006 HK$'000	2005 HK$'000
Within one year	–	591
In the second to fifth year inclusive	–	473
	–	1,064

Property rental income earned during the year was HK$611,000 (2005: HK$605,000). The properties held by the Group as at 31 December 2005 were expected to generate rental yields of 5.2% on an ongoing basis. All of the properties held at 31 December 2005 had committed tenants for two years.

36. CAPITAL COMMITMENTS

	2006 HK$'000	2005 HK$'000
Capital expenditure in respect of the acquisition of property, plant and equipment:		
– Contracted but not provided for	9,352	4,605
– Authorised but not contracted for	114	643
	9,466	5,248

37. RETIREMENT BENEFIT OBLIGATIONS

	2006 HK$'000	2005 HK$'000
Long service payments (note 28)	437	443

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:

	2006 HK$'000	2005 HK$'000
At beginning of the year	443	136
Change in fair value	(6)	–
Expense recognised in the consolidated income statement	–	307
At end of the year	437	443

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

	2006 %	2005 %
Discount rate applied to pension obligations	8	5-7

38. SHARE-BASED PAYMENT

The Company operates the 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.

	2006 Number of shares	2005 Number of shares
Outstanding at beginning of the year	**–**	–
Granted during the year	**37,975,000**	29,250,000
Exercised during the year	**–**	(29,250,000)
Outstanding at the end of the year	**37,975,000**	–

The weighted average fair value of each option granted during the year was HK$0.204042 (2005: HK$0.097499).

	2006	2005
Equity-settled		
Option pricing model used	**Black-Scholes-Merton Option Pricing Model**	Black-Scholes-Merton Option Pricing Model
Weighted average share price at grant date	**HK$1.22**	HK$0.71
Exercise price	**HK$1.246**	HK$0.71
Weighted average contractual life	**1.5 years**	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.

38. SHARE-BASED PAYMENT *(Continued)*

During the year ended 31 December 2006, the share-based payment transactions were entered into with certain of the Group's suppliers, customers and employees. A total of approximately HK$7,748,000 (2005: 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 August 2006	26 October 2005
a)	Exercise price	**HK$1.246**	HK$0.71
b)	Risk free rate	**4.225%**	4.2%
c)	Nature of the share options	**Call**	Call
d)	Expected option period	**1.5 years**	3 years
e)	Volatility	**52.24%**	42.53%
f)	Expected dividend yield	**3.77%**	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 from Bloomberg.

39. RELATED PARTY TRANSACTIONS

The remuneration of directors and other members of the key management during the year are given in notes 15 and 16 respectively. Other related party transactions are as follows:

Related party relationship	Type of transactions	Transaction amount 2006 HK$'000	Transaction amount 2005 HK$'000	Amount due to 2006 HK$'000	Amount due to 2005 HK$'000
Jointly controlled entity	Purchase of finished goods from the jointly controlled entity	**30,450**	34,520	**7,070**	7,260
	Sales of raw materials to the jointly controlled entity	**8,485**	10,021		
	Sales of machinery and mould to the jointly controlled entity	**–**	124		

During the year ended 31 December 2005, the Group had made impairment loss in respect of the amount due from the jointly controlled entity of approximately HK$3,132,000.

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.

40. SUBSIDIARIES

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	Indirect	Principal activities
				%	%	
Century Talent Limited	Corporation	British Virgin Islands	US$100	100	–	Investment holding
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
Fast Harvest Limited	Corporation	Hong Kong	HK$2	–	100	Provision of management service
Key Legend Limited	Corporation	British Virgin Islands	US$2	100	–	Investment holding
Kingtech Industrial Limited	Corporation	Hong Kong	HK$1	–	100	Trading of cigarette lighters
Link Triumph Limited	Corporation	British Virgin Islands	US$1	–	100	Trading of cigarette lighters
Longnan County Poly Action Plastic & Metal Products Co., Limited (Note)	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

40. 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
				%	%	
Semtech Electronics Limited	Corporation	Hong Kong	HK$1,000,000	–	100	Trademark holding
Semtech International (BVI) Limited	Corporation	British Virgin Islands	US$1	100	–	Investment holding
Semtech RFID Limited	Corporation	Hong Kong	HK$100	–	100	Not commenced business yet
Sharp Technology Limited	Corporation	British Virgin Islands	US$1	100	–	Investment holding
Super Victory Enterprises Limited	Corporation	Hong Kong	HK$2	–	100	Manufacturing and trading of electronic and electrical parts and components
SV Semiconductors Limited	Corporation	Hong Kong	HK$2	–	100	Dormant
Tak Fi Brothers Limited	Corporation	British Virgin Islands	US$2	–	100	Investment holding
Top Victory Industries Limited	Corporation	British Virgin Islands	US$1	–	100	Investment holding

Note: 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.

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results, assets, liabilities and minority interests of the Group prepared on the basis 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		Period from 1 July 2003 to 31 December	Year ended 30 June	
	2006	2005	2004	2003	2002
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	**636,237**	553,983	559,882	140,193	122,560
Profit/(loss) before taxation	**76,803**	53,307	58,810	(5,204)	(9,595)
Net profit/(loss) attributable to equity holders of the Company	**62,197**	42,730	48,561	(5,680)	(9,763)

ASSETS AND LIABILITIES

	Year ended 31 December		Period from 1 July 2003 to 31 December	Year ended 30 June	
	2006	2005	2004	2003	2002
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**509,347**	395,747	330,703	89,428	104,585
Total liabilities	**(139,174)**	(128,566)	(119,906)	(35,874)	(46,546)
Total net assets	**370,173**	267,181	210,797	53,554	58,039
Capital	**37,975**	32,175	29,250	15,000	15,000
Reserves	**332,198**	234,986	181,527	38,535	43,020
Minority interests	**–**	20	20	19	19
Total equity	**370,173**	267,181	210,797	53,554	58,039

SUMMARY OF FINANCIAL INFORMATION

Note: The results of the Group for the years/period ended 31 December 2006, 31 December 2005, 31 December 2004, 30 June 2003 and 30 June 2002 have been extracted from the audited financial statements for the years/period ended 31 December 2006, 31 December 2005, 31 December 2004, 30 June 2003 and 30 June 2002.