Alltronics Holdings Limited
華訊股份有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 833)

ANNUAL REPORT
2005

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CORPORATE INFORMATION

DIRECTORS

Executive Directors
Mr. LAM Yin Kee, *Chairman*
Ms. YEUNG Po Wah
Mr. Toshio DAIKAI
Mr. William Peter SHELLEY

Non-executive Director
Mr. FAN, William Chung Yue

Independent Non-executive Directors
Mr. Barry John BUTTIFANT
Mr. LEUNG Kam Wah
Ms. YEUNG Chi Ying

REGISTERED OFFICE

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681 GT
George Town, Grand Cayman
British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Room 1108, 11/F,
Eastwood Centre,
No. 5 A Kung Ngam Village Road
Shau Kei Wan
Hong Kong

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. LEUNG Fuk Cheung, AHKSA, CPA

LEGAL ADVISER

Preston Gates Ellis

AUDITORS

PricewaterhouseCoopers

COMPLIANCE ADVISER

CSC Asia Limited

AUDIT COMMITTEE

Mr. Barry John BUTTIFANT *(Chairman)*
Mr. LEUNG Kam Wah
Ms. YEUNG Chi Ying

PRINCIPAL BANKERS

The Hong Kong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited
Standard Chartered Bank (Hong Kong) Limited

SHARE REGISTRARS AND TRANSFER OFFICE

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

In Cayman Islands
Butterfield Fund Services (Cayman) Limited
P. O. Box 705
Butterfield House
68 Fort Street, George Town
Grand Cayman, Cayman Islands
British West Indies

WEBSITE

www.alltronics.com.hk

STOCK CODE

833

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors (the "Board"), I am pleased to present to you the first annual report of Alltronics Holdings Limited (the "Company", and together with its subsidiaries, the "Group") for the year ended 31 December 2005.

The fiscal year of 2005 was a remarkable year for the Company. During the year, we have devoted our efforts in growing the business and also in preparing for the listing (the "Listing") of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). With the support from our dedicated staff, the Group was successfully listed on the Main Board on 15 July 2005. The gross proceeds from the Listing amounted to HK$72 million. The Listing represents a milestone for the Company and provides a solid base for the Group's future expansion.

The Group is one of the leading manufacturers in Hong Kong and The People's Republic of China ("PRC") for home improvement electronic products and components. We position ourselves as a "total solution provider" to our customers, capable of providing a wide range of services ranging from the initial research and development stage to the final mass production stage and after sale services. One of our competitive edges is that we have a very strong team of engineers who possess extensive technical knowledge and the required expertise for the development of new electronic products for our customers. We have the ability to adapt to the changing trends in the electronics industry. The unique "one product, one customer" approach adopted by the Group has secured long-term business partnership with most of its customers. Besides, our commitment to quality and timely delivery also contributed to our success.

During the year 2005, the Group continued the growth momentum and achieved a total turnover of HK$317 million, which represents an increase of 8.4% as compared with the turnover of HK$292 million from last year. Although the demand from our customers continued to be strong, the fact that the main factory for the production of electronic products has already exceeded 90% of its production capacity during the year has restricted the growth potential of the Group. In view of this, the Group has leased additional factory premises to expand its production capacity for electronic products. The new factory premises have a total gross floor area of approximately 9,400 sq. m. and have commenced operation since December 2005. We expect the sales of electronic products, in particular irrigation controllers, carbon monoxide detectors and audio equipment, will have significant growth in the year 2006.

In addition, in order to cope with the increasing demand for the Group's electronic product components, the factory for the production of these components has also been relocated to new premises during the year with enlarged production capacity and a total gross floor area of approximately 13,200 sq. m., as compared to 5,500 sq. m. at the old factory. The new factory has commenced operation since November 2005. The expanded production capacity will provide a strong base for the Group's expansion in future.

Despite the growth in turnover achieved in the year 2005, the gross profit margin has been decreased by approximately 5% during the year. As a result of the global energy crisis, the unit prices of certain plastic and metal components have been increasing constantly during the year, particularly in the second half of 2005. The large fluctuation in the unit prices of these raw materials has adversely affected the results of the Group and led to a drop in gross profit margin. In addition, in accordance with the requirements of the labour laws in the PRC, the average wages level for the workers in the PRC factories has been increased in July 2005 and this has resulted in an increase in the overall labour costs during the year. The relocation of the electronic product components manufacturing process to a larger factory and the leasing of additional factory premises for the manufacture of electronic products have also increased the overall rental expenses of the Group.

CHAIRMAN'S STATEMENT (Continued)

In order to overcome the increases in material, labour and overhead costs, the Group had exercised tighten controls over production costs and overheads. Furthermore, the Group has negotiated with most of its customers to raise the unit selling prices of its products so as to mitigate the effect on rising raw material prices and overhead costs.

The change in product mix during the year has also resulted in a lower average gross profit margin for the year.

Beginning the year of 2006, the unit prices for most of the raw materials have remained fairly stable and we expect that the fluctuation in unit prices of raw materials would not be as severe as that in 2005. The Group has confident that the performance for the year 2006 can be improved and the gross margin will be raised.

United States is currently our major market, which accounted for 69% and 73% of the Group's total turnover for the year 2005 and 2004 respectively. However, we will continue to devote significant efforts to explore other markets in Europe, Japan and other Asian countries so that the turnover by geographical locations can be spread more evenly.

In the last quarter of 2005, the Group has increased its equity interest in its associated company, Southchina Engineering and Manufacturing Limited, from 25% to a controlling stake of 51%. We believe that this move is essential and will enhance the Group's overall ability in mould making and ensure a constant supply of high quality plastic components for the Group's electronic products. The acquisition is also expected to generate synergy effect to the Group's overall business and broaden the customer base. The Group will continue to look for other investment opportunities actively in the electronics industry, either in Hong Kong or overseas, so as to expand is operation horizontally and vertically.

Looking ahead, we have strong confidence in the future. We are very clear about our responsibility towards our shareholders and their expectation. The Listing provides a platform for the Group to become a stronger leader in the global electronics industry. Although there are challenges ahead in terms of competition and fluctuation in raw material costs, we are confident that we will overcome these challenges because we have a well distributed worldwide customer base, consistently high quality products and timely delivery, strong engineering and development support to our customers, an experienced and dedicated management team and our highly skilled and efficient workforce.

In appreciation of the support from our shareholders, the Board proposed the payment of a final dividend of HK1.5 cents per share. Together with the interim dividend of HK2 cents per share and the special interim dividend of HK1.5 cents per share paid in October 2005, the total dividends paid for the year 2005 will be HK5.0 cents per share, represents a dividend payout of 55.7% on the net profit of the year 2005. All dividends are paid out from funds generated from the Group's operations.

Finally, on behalf of the Board, I would like to thank all of those who had contributed to the Group's successfully listing and performance in 2005. I also wish to express my sincere gratitude to all our shareholders, customers, business partners and staff for their continuing support.

Lam Yin Kee
Chairman and Executive Director

Hong Kong, 24 April 2006

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Turnover

During the year ended 31 December 2005, the turnover of the Group has increased by 8.4% to HK$317 million, as compared to HK$292 million for the year 2004. The table below shows the turnover analysis by electronic products and electronic product components for the two years ended 31 December 2005 and 2004 respectively:

	Year ended 31 December	
	2005	2004
	HK$'000	HK$'000
Sales of electronic products	**267,880**	249,136
Sales of electronic product components	**49,023**	43,311
	316,903	292,447

The turnover for electronic products has increased by approximately HK$19 million from HK$249 million to HK$268 million whereas the turnover for electronic product components has increased by approximately HK$6 million from HK$43 million to HK$49 million. The increase for both products was mainly due to the continued strong growth in demand for the Group's products from customers.

During the year ended 31 December 2005, the sales for carbon monoxide detectors and audio equipment have increased significantly by more than 310% and 86% to HK$21 million and HK$21 million respectively. The demand for these two products is expected to remain strong in the year ahead with at least double digit growth rate. On the other hand, the sales of the Group's major product, irrigation controllers, had slowed down during the year 2005. The total sales for irrigation controllers accounted for only 40% of the total turnover of the Group for the year 2005, reduced from 51% of the total turnover of the Group for the year 2004. However, certain new models of irrigation controllers will be launched in the market in 2006 and the Group expects the sales of irrigation controllers will regain its growth momentum in the coming year.

The increase in turnover for the Group's electronic product components was mainly due to the expansion in the customer base as well as the increase in business volume with individual customers. The demand for the Group's component products such as electronic ballasts, transformers, inductors and coils continued to be strong. In order to cope with the increasing demand, the factory for the manufacture of component products has been relocated to new factory premises in November 2005. The new premises comprise a four storey factory complex with a total gross floor area of approximately 13,200 sq. m., which is more than double the size of the old factory.

Gross profit

Despite the growth in turnover, the gross profit margin has been decreased by approximately 5% during the year 2005. As a result of the global energy crisis, the unit prices of certain plastic and metal components have been increased constantly during the year, particular in the second half of the year 2005. The large fluctuation in the unit prices of raw materials has adversely affected the results of the Group and led to a drop in gross profit margin. In addition, in accordance with the requirements of the labour laws in PRC, the average wages level of the workers in the PRC factories has been increased in July 2005 and this has resulted in an increase in the overall labour costs during the year. The relocation of the electronic product components manufacturing process to a larger factory and the leasing of additional factory premises for the manufacture of electronic products had also increased the overall rental expenses of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Gross profit (Continued)

In order to overcome the increase in material, labour and overhead costs, the Group had exercised tighten controls over production costs and overhead. Furthermore, the Group has negotiated with most of its customers to raise the unit selling prices of its products so as to mitigate the effect on rising raw material prices and overhead costs.

The change in product mix during the year has also resulted in a lower average gross profit margin for the year 2005.

Beginning the year 2006, the unit prices for most of the raw materials have remained fairly stable and the Group expects that the fluctuation in unit prices of raw materials would not be as severe as that in 2005. The Group has confident that the performance for the year 2006 can be improved and the gross margin will be raised.

Operating Expenses

During the year ended 31 December 2005, distribution costs have decreased slightly by 5% because there was less shipment by air during the year. Finance costs have increased by 29% mainly due to the increase in utilisation of banking facilities granted by banks and the general increases in interest rates during the year. Total bank borrowings as at 31 December 2005 was HK$58 million as compared to HK$27 million as at 31 December 2004.

Administrative expenses for the year 2005 have increased by 8% mainly due to a number of reasons, including the donation of HK$1 million to The Community Chest upon successful listing of the Company's shares on the Stock Exchange in July 2005; additional listing fees, professional fees and compliance fees incurred to maintain the status as a listed company; and the increase in staff salaries and allowances as a result of the annual salary increment in January 2005.

Net Profit

The net profit margin for the year has dropped from 13.2% for the year 2004 to 8.5% for the year 2005. The reduction in net profit margin was mainly due to the decrease in average gross profit margin and increase in administrative expenses as explained above.

PRODUCTION FACILITIES

The production capacity of the main factory for the manufacture of electronic products was more than 90% utilised during the year 2005. This has limited the Group's capacity for further expansion. In view of this, the Group has leased additional factory premises for the manufacture of electronic products during the year. The new factory premises, being a four storey factory complex, are located adjacent to the existing factory and have a total gross floor area of approximately 9,400 sq. m. The new factory premises have commenced its operations since December 2005, and currently are mainly used to cope with the expansion in manufacture of carbon monoxide detectors and audio equipment.

Besides, the factory for the production of electronic product components has also been relocated to new premises with enlarged production capacity and a total gross floor area of approximately 13,200 sq. m.. The new factory has commenced operation in November 2005. These expanded production capacity will provide a strong base for the Group's expansion in future.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

USE OF PROCEEDS FROM INITIAL PUBLIC OFFERING

The Company issued 90,000,000 shares at HK$0.8 per share by way of placing and public offer in July 2005. The net proceeds after deducting the relevant expenses were approximately HK$60 million.

During the year 2005, the Group utilised the above proceeds in accordance with that disclosed in the Prospectus, namely HK$11.9 million for enhancing the Group's production capacity and HK$0.7 million for upgrading the information systems.

The balances of the proceeds were placed in banks as short-term deposits as at 31 December 2005.

LIQUIDITY AND FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The financial position of the Group remained to be strong and healthy. As at 31 December 2005, the total bank balances and cash amounted to HK$96 million (2004: HK$38 million), of which 85% was held in Hong Kong dollars, 10% was held in United States dollars and the remaining balance was held in Renminbi and other currencies. The bank balances are used to finance the Group's working capital and capital expenditure plans.

As at 31 December 2005, the total bank borrowings of the Group amounted to HK$58 million (2004: HK$27 million), comprising bank overdrafts of HK$37 million and bank loans of HK$21 million, all denominated in Hong Kong dollars. The average effective interest rates for these borrowings for the year 2005 was approximately 6.2%.

The Group's accounts receivable turnover, inventory turnover and accounts payable turnover were 58 days, 85 days and 72 days respectively for the year 2005. The turnover periods are consistent with the respectively policies of the Group on credit terms granted to customers and credit terms obtained from suppliers.

As at 31 December 2005, the Company has issued a total of 300,000,000 ordinary shares of HK$0.01 each.

CASH FLOWS

Total balance of cash and cash equivalents as at 31 December 2005 was HK$54 million, which has increased by HK$51 million as compared to 31 December 2004. The increase was mainly due to the cash inflows from operating activities and the proceeds from initial public offering, less the amount utilised for purchase of fixed assets and acquisition of a further 26% equity interest in an associated company.

Due to continued strong sales growth in 2005, there was a net cash inflow from operating activities of HK$8 million. The net cash outflow from investing activities in 2005 amounting to HK$21 million, which was mainly due to the acquisition of fixed assets and the consideration paid for the acquisition of additional equity interest in an associated company.

The net cash inflow from financing activities in 2005 was mainly due to the net proceeds from initial public offering of HK$63 million and new bank loans obtained of HK$13 million. During the year, total dividends paid amounted to HK$20.5 million.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

PLEDGE OF ASSETS

As at 31 December 2005, the Group had total bank borrowings of HK$58 million which were secured by short-term bank deposits of HK$5 million and available-for-sale financial assets of HK$3 million.

GEARING RATIO

As at 31 December 2005, the total borrowings (excluding trade related debts) were HK$62 million and the shareholders' equity was HK$132 million. The gearing ratio of the Group, calculated as total borrowings over shareholders' equity, was 47%.

ACQUISITION OF SUBSIDIARY

In December 2005, the Group has increased its equity interest in an associated company, Southchina Engineering and Manufacturing Limited ("Southchina"), from 25% to a total of 51%. Southchina is engaged in the manufacture of plastic moulds, plastic components and electronic accessories. The management considered that the acquisition of Southchina as a subsidiary can generate a synergy effect for the Group's future expansion.

The Group will continue to look for other investment opportunities actively in the electronics industry, either in Hong Kong or overseas, so as to expand is operation horizontally and vertically.

CONTINGENT LIABILITIES

As at 31 December 2005, the Group did not have any material contingent liabilities.

EMPLOYEES

As at 31 December 2005, the Group had 2,022 employees, of which 75 of them are in Hong Kong and 1,947 of them are in the PRC. Salaries of employees are maintained at competitive levels. The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme for all its employees in Hong Kong, and provides its PRC employees with welfare schemes as required by the applicable laws and regulation in the PRC. The Group also offers discretionary bonuses to its employees by reference to the performance of individual employees and the performance of the Group. Total staff costs, excluding directors' emoluments, incurred by the Group for 2005 amounted to HK$43 million.

The Company has also adopted a share option scheme on 22 June 2005. Details of the principal terms and conditions of the scheme are set out in the Report of the Directors on page 22.

The Group did not experience any significant labour disputes or substantial change in the number of its employees that led to any disruption of its normal business operations. The Board believes that the Group's employees are among the most valuable asset of the Group and have contributed to the success of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

FOREIGN EXCHANGE EXPOSURE

Most of the Group's sales are denominated in United States dollars and Hong Kong dollars and most of the purchases of raw materials are denominated in United States dollars, Hong Kong dollars and Renminbi. Furthermore, as most of the Group's monetary assets are denominated in Hong Kong dollars, United States dollars and Renminbi, the exchange rate risk of the Group is considered to be minimal. The Board considered that the new exchange rate control mechanism for Renminbi adopted in July 2005 does not have any significant impact to the Group.

In view of the current financial position and operations of the Group, the management of the Group considered that it was not necessary for the Group to have any kind of financial instrument for hedging purposes or to adopt any hedging policy.

OUTLOOK

The Group's primary objective is to become a leading and internationally well known manufacturer and "total solution provider" of electronic products and electronic product components. After the Listing on 15 July 2005, the Group has been focusing on developing new designs to meet customers' needs and continuously expanding its service to international customers.

Looking ahead, the Company has strong confidence in the future. The Company is very clear about its responsibility towards its shareholders and their expectation. The Listing provides a platform for the Group to become a stronger leader in the global electronics industry. Although there are challenges ahead in terms of competition and fluctuation in raw material costs, the Group is confident that it will overcome these challenges because it has a well distributed worldwide customer base, consistently high quality products and timely delivery, strong engineering and development support to its customers, an experienced and dedicated management team and its highly skilled and efficient workforce.

DIVIDENDS

In appreciation of the support from our shareholders, the Board proposed the payment of a final dividend of HK1.5 cents per share. Together with the interim dividend of HK2 cents per share and the special interim dividend of HK1.5 cents per share paid in October 2005, the total dividends paid for the year 2005 will be HK5.0 cents per share, represents a dividend payout of 55.7% on the net profit of the year 2005. All dividends are paid out from funds generated from the Group's operations.

The proposed final dividend of HK1.5 cents per share will be payable to shareholders whose name appear on the register of members of the Company on Wednesday, 24 May 2006. The Register of Members will be closed from Friday, 19 May 2006 to Wednesday, 24 May 2006, both days inclusive, and the proposed final dividend will be paid on or about Wednesday, 7 June 2006. The payment of dividend shall be subject to the approval of the shareholders at the forthcoming Annual General Meeting.

DIRECTORS AND SENIOR MANAGEMENT PROFILE

DIRECTORS

Executive Directors

Mr. Lam Yin Kee (林賢奇), aged 59, is an executive Director and the Chairman of the Company. Being the founder of the Group, Mr. Lam has over 35 years of marketing experience in the electronics industry and he is responsible for the Groups' overall strategic planning and business development. He is also responsible for overseeing the overall operation in the sales and marketing and administration management of the Group. Prior to establishing the Group in 1997, Mr. Lam was the vice-chairman of a listed group in Hong Kong engaging in the manufacture and sales of electronic products for over 19 years.

Ms. Yeung Po Wah (楊寶華), aged 56, is an executive Director of the Company and the wife of Mr. Lam Yin Kee. Ms. Yeung is a co-founder of the Group and is responsible for the overall administrative functions and strategic planning of the Group. From 1967 to 1984, Ms. Yeung worked at the Bank of Tokyo with the last position being assistant manager of the remittance department.

Mr. Toshio Daikai (大海敏生), aged 63, is an executive Director of the Company. Mr. Daikai has over 37 years of experience in the electronics industry in Japan and is responsible for the sales and marketing of the Group's products in Japan. Mr. Daikai graduated from the Keiou Gijyuku University of Japan in 1965 and holds a Bachelor Degree of Commercial Science. Prior to joining the Group in April 2003, he has worked for Matsushita Electric Industrial Co., Ltd. ("Matsushita") in Japan for 37 years and was the Director of Battery Appliance Division and Director of Power Supply Equipment Division at the time he left Matsushita.

Mr. William Peter Shelley, aged 61, is an executive Director and the assistant general manager of the Company. He is responsible for the engineering operations of the Group. He is also responsible for the sales and marketing of the Group's products mainly in the United States. Mr. Shelley has over 25 years of experience in the consumer electronic industry and worked for a Hong Kong listed company as the engineering manager before joining the Group in 1997. Mr. Shelley has been granted the Television Operator's Certificate by the Australian Broadcasting Control Board in 1966, the Broadcast Station Operator's Certificate by Authority of the Postmaster-General of Australia in 1968, a certificate in the operation maintenance and installation of television outside broadcasting and studio equipment in 1965 and a diploma in management studies awarded jointly by the Hong Kong Polytechnic University and The Hong Kong Management Association in 1995.

Non-Executive Director

Mr. Fan, William Chung Yue (范仲瑜), aged 65, is a non-executive Director appointed by the Group in June 2005. Mr. Fan is a solicitor in Hong Kong and a consultant to Fan & Fan, Solicitors. He has been a director of Hon Kwok Land Investment Company Limited from 1985 to 2005 and he is also a director of Chinney Investments Limited starting from 1985, the shares of these two companies are listed on the Stock Exchange.

DIRECTORS AND SENIOR MANAGEMENT PROFILE (Continued)

Independent Non-Executive Directors

Mr. Barry John Buttifant, aged 61, is an independent non-executive Director appointed by the Group in June 2005. Mr. Buttifant has been appointed as the managing director of Hsin Chong International Holdings Limited ("HCIH") in December 2004. HCIH is a private limited company which controls a property construction company publicly listed in Hong Kong, Hsin Chong Construction Group Ltd., and a management service company, Synergis Holdings Limited. Mr. Buttifant is also an alternate director for both of these companies. Prior to joining HCIH, Mr. Buttifant was the managing director and corporate advisor to the board of director of Wo Kee Hong (Holdings) Limited and was previously the managing director of IDT International Limited for over 8 years. He had worked for Sime Darby Hong Kong Limited and Polly Peck Far East Limited for more than 11 years in the capacity of finance director and managing director respectively during the period. He has over 30 years of experience in corporate and financial management. Currently Mr. Buttifant is also an independent non-executive director of Giordano International Limited; Daiwa Associates Holdings Limited; China Merchants DiChain (Asia) Limited and a NYSE public company Global-Tech Appliances Inc.. Mr. Buttifant is a fellow member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. He is also a fellow member of the Chartered Management Institute; the Hong Kong Management Association and the Hong Kong Institute of Directors.

Mr. Leung Kam Wah (梁錦華), aged 59, is an independent non-executive Director appointed by the Group in June 2005. Mr. Leung has over 30 years of experience in the legal sector. He had worked as a judicial clerk in the Judiciary Department and a legal executive in Legal Aid Department of Hong Kong. Mr. Leung is now practicing as a law costs draftsman and operating a legal costing firm in Hong Kong.

Ms. Yeung Chi Ying (楊芷櫻), aged 41, is an independent non-executive Director appointed by the Group in June 2005. Ms. Yeung is a fellow member of the Association of the Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. She is a practicing certified public accountant in Hong Kong and has over 16 years of experience in auditing and accounting.

SENIOR MANAGEMENT

Mr. Ieong Kin San, Sunny (楊建燊), aged 55, is a co-founder of Southchina and currently is the marketing director and general manager of Southchina. He is responsible for overseeing the sales and marketing activities of Southchina and has over 25 years of management experience in manufacturing field.

Mr. Lam On Bong (林安邦), aged 54, is a co-founder of Southchina and currently is the operation director of Southchina. He is responsible for the overall management of Southchina's production facilities in the PRC and has over 25 years of management experience in manufacturing field.

Mr. Leung Hon Kwong, Jackson (梁漢光), aged 53, is a co-founder of Southchina and is currently the financial and purchasing director of Southchina. He is responsible for overseeing the purchasing and financial functions of Southchina and has over 25 years of management experience in manufacturing field.

DIRECTORS AND SENIOR MANAGEMENT PROFILE (Continued)

SENIOR MANAGEMENT (Continued)

Mr. So Kin Hung (蘇健鴻), aged 49, is the general manager of Alltronics Tech. Mftg. Limited and is responsible for the marketing and engineering operation. Mr. So has over 20 years of experience in the electronics industry and worked for a Hong Kong listed company as the assistant general manager before joining the Group in 1997. He obtained a Bachelor of Science degree from NorthEast London Polytechnic in the United Kingdom in 1982.

Mr. Leung Fuk Cheung (梁福祥), aged 42, is the company secretary and qualified accountant of the Group. Mr. Leung is responsible for the Group's overall financial administration. He has over 17 years of extensive experience in finance, accounting, auditing and company secretarial practice and is currently an associated member of the Hong Kong Institute of Certified Public Accountants and the Association of the Chartered Certified Accountants. Mr. Leung has worked for international accounting firms for over 12 years. Prior to joining the Group in August 2002, Mr. Leung worked as the financial controller for a jewelry manufacturing company.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Board believes that corporate governance is essential to the success of the Company. Since the Company was listed on the Main Board of the Stock Exchange on 15 July 2005, the Company has applied the principles and complied with the requirements of the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange, except for certain deviations as disclosed in this report. The Board will review and update the current practices regularly to follow the latest practices in corporate governance so as to protect and maximize the interests of shareholders.

DIRECTORS' SECURITIES TRANSACTIONS

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

THE BOARD OF DIRECTORS AND BOARD MEETINGS

The Board's primary responsibilities are to formulate the Group's long-term corporate strategy, to oversee the management of the Group and to evaluate the performance of the Group. The Board is also responsible for the approval of annual and interim results, risk management, major acquisitions, and other significant operational and financial matters. The Board currently comprises four executive Directors, one non-executive Director and three independent non-executive Directors as follows:

Executive Directors
Mr. Lam Yin Kee, *Chairman*
Ms. Yeung Po Wah
Mr. Toshio Daikai
Mr. William Peter Shelley

Non-executive Director
Mr. Fan, William Chung Yue

Independent Non-executive Directors
Mr. Barry John Buttifant
Mr. Leung Kam Wah
Ms. Yeung Chi Ying

Mr. Lam Yin Kee is the Chairman and an executive Director of the Group. Ms. Yeung Po Wah is an executive Director of the Group and the wife of Mr. Lam Yin Kee. Apart from this, there is no other relationship among the members of the Board.

The background and qualification of the Chairman of the Company and the other directors are set out on pages 10 to 12. All directors have sufficient experience to hold the position so as to carry out his/her duties effectively and efficiently, and all of them have given sufficient time and attention to the affairs of the Group.

CORPORATE GOVERNANCE REPORT (Continued)

THE BOARD OF DIRECTORS AND BOARD MEETINGS (Continued)

The non-executive Director and the three independent non-executive Directors are person of high caliber with academic and professional qualifications in the fields of accounting, law and business management. They bring a broad range of financial, regulatory and commercial experience and skills to the Board, which contributes to the effective strategic management of the Group. All of the non-executive Director and independent non-executive Directors are appointed for a term of one year commencing from 17 June 2005, and such appointment shall continue thereafter from year to year until terminated by either party with one month's written notice served to the other party.

All independent non-executive Directors have confirmed their independence to the Company.

The Board schedules to hold at least four full board meetings a year at approximately quarterly intervals. Since the shares of the Company were listed on the Main Board of the Stock Exchange on 15 July 2005, four full board meetings were held and the attendance of the Board of Directors is set out as follows:

Name of Director	Number of board meetings attended	Attendance rate
Mr. Lam Yin Kee	4/4	100%
Ms. Yeung Po Wah	4/4	100%
Mr. Toshio Daikai	4/4	100%
Mr. Peter Shelley	4/4	100%
Mr. Fan Chung Yue	4/4	100%
Mr. Barry Buttifant	4/4	100%
Mr. Leung Kam Wah	4/4	100%
Ms. Yeung Chi Ying	4/4	100%

The board members are fully committed to their roles and have acted in good faith to maximise the shareholders' value and interests. Apart from the above regular meetings of the year, the Board will meet on the other occasions when a board-level decision on a particular matter is required. Daily operations and administration are delegated to the management.

CHAIRMAN AND CHIEF EXECUTIVE

As mentioned in the 2005 interim report, Code Provision A.2.1 of the Code stipulates that the role of chairman and chief executive should be separated and should not be performed by the same individual. The Company does not have a separate chairman and chief executive and Mr. Lam Yin Kee currently holds both positions. The Board believes that vesting the roles of both chairman and chief executive in the same person provides the Group with strong and consistent leadership and allows for more effective planning and execution of long term business strategies. However, the Board will review the roles of Mr. Lam Yin Kee acting as the chairman and chief executive regularly and may segregate the roles to two directors if the Board believes that it is for the best interest of the Company and the shareholders.

CORPORATE GOVERNANCE REPORT (Continued)

APPOINTMENT AND RE-ELECTION OF DIRECTORS

In accordance with the Company's Bye-laws, at each annual general meeting one-third of the directors for the time being (or, if the number is not a multiple of three, the number nearest to not less than one-third) shall retire from office by rotation. All the executive Directors of the Company had been appointed for nearly three years and the non-executive Director and all independent non-executive Directors were appointed by the Board pursuant to Article 86(3) of the Company's Articles of Association. Accordingly, all Directors of the Company shall retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

REMUNERATION COMMITTEE

According to the Code, the Company has set up a remuneration committee on 22 June 2005. The remuneration committee shall have a minimum of five members, comprising a majority of independent non-executive Director. The Chairman of the committee is Mr. Lam Yin Kee and other current members include Ms. Yeung Po Wah, Mr. Barry John Buttifant, Mr. Leung Kam Wah and Ms. Yeung Chi Ying. The remuneration committee schedules to meet at least once every year and the quorum necessary for the transaction of business is two.

The duties of the remuneration committee include:

(a) to make recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration;

(b) to have the delegated responsibility to determine the specific remuneration packages of all executive Directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board of the remuneration of non-executive Directors. The remuneration committee shall consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration;

(c) to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;

(d) to review and approve the compensation payable to executive Directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company;

(e) to review and approve compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate; and

(f) to ensure that no director or any of his associates is involved in deciding his own remuneration;

CORPORATE GOVERNANCE REPORT (Continued)

REMUNERATION COMMITTEE (Continued)

(g) to advise shareholders on how to vote with respect to any service contracts of directors that required shareholders' approval under rule 13.68 of the Listing Rules; and

(h) to consider other topics, as defined by the Board.

As the Company's remuneration committee was newly established in June 2005, no meeting was held during the year ended 31 December 2005. However, an informal meeting was held in January 2006 to discuss and review the pay trend of the Group in 2006.

The Company has adopted a share option scheme on 22 June 2005, which serves as an incentive to attract, retain and motivate talented eligible staff, including directors. Details of the share option scheme are set out in the Report of the Directors on pages 22 to 23. The emoluments payable to directors will depend on their respective contractual terms under employment contracts. Details of the directors' emoluments are set out in Note 9 to the financial statements.

NOMINATION COMMITTEE

The Board is responsible for considering the suitability of a candidate to act as a director, and approving and terminating the appointment of a director. The Chairman is responsible for identifying suitable candidates for members of the Board when there is a vacancy or an additional director is considered necessary. The Chairman will propose the appointment of such candidates to each member of the Board for consideration and each member of the Board will review the qualifications of the relevant candidates for determining the suitability to the Group on the basis of his qualifications, experience and background. The decision of appointing a director must be approved unanimously by the members of the Board and make recommendation to the shareholders' meeting for approval.

All Directors (including executive, non-executive and independent non-executive Directors) are subject to election for appointment by shareholders at the annual general meeting at every three years. None of the directors who are 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 three years without payment of compensation (other than statutory compensation).

The notice period for the termination of the service contracts with executive Directors by either party is not less than three months. The notice period for the termination of appointment of non-executive Directors and independent non-executive Directors by either party is not less than one month.

During the year under review, the Company has not set up any nomination committee although the Company is considering to set up such committee in 2006.

CORPORATE GOVERNANCE REPORT (Continued)

AUDIT COMMITTEE

The Company established an audit committee on 22 June 2005 with written terms of reference in compliance with Listing Rules. The audit committee must comprise members of independent non-executive Directors only, namely Mr. Barry John Buttifant, Mr. Leung Kam Wah and Ms. Yeung Chi Ying. Mr. Barry John Buttifant is the chairman of the audit committee.

The audit committee shall meet at least twice every year and the quorum necessary for the transaction of business is two. The external auditors may request a meeting if they consider that one is necessary. Two meetings were held during the year under review. Details of the attendance of the audit committee meetings are as follows:

Name of Member	Number of meetings attended	Attendance rate
Mr. Barry John Buttifant	2/2	100%
Mr. Leung Kam Wah	2/2	100%
Ms. Yeung Chi Ying	2/2	100%

The primary duties of the audit committee are as follows:

Relationship with the Company's auditors

(a) to be primarily responsible for making recommendation to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of that auditor;

(b) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard. The audit committee should discuss with the external auditor the nature and scope of the audit and reporting obligations before the audit commences;

(c) to develop and implement policy on the engagement of an external auditor to supply non-audit services. The audit committee shall ensure that the provision by an external auditor of non-audit services does not impair the external auditor's independence or objectivity;

CORPORATE GOVERNANCE REPORT (Continued)

AUDIT COMMITTEE (Continued)

Review of financial information of the Company

(d) to monitor integrity of financial statements of the Company and the Company's annual reports and accounts, half-yearly reports and, if prepared for publication, quarterly reports, and to review significant financial reporting judgements contained in them, before submission to the Board.

(e) In regard to d) above:–

(i) members of the audit committee must liaise with the Company's Board, senior management and the person appointed as the Company's qualified accountant and the audit committee must meet, at least once a year, with the Company's external auditors;

(ii) the audit committee should consider any significant or unusual items that are, or may need to be, reflected in such report and accounts and must give due consideration to any matters that have been raised by the Company's qualified accountant, compliance officer or auditors; and

(iii) the audit committee should discuss problems and reservation arising from the financial statements, annual reports and accounts, half-yearly reports and quarterly reports (if applicable) and any other matters the external auditor may wish to discuss (in the absence of management of the Company where necessary);

Oversight of the Company's financial reporting system and internal control procedures

(f) to review the Company's financial controls, internal control and risk management systems, and its statement in relation thereto prior to endorsement by the Board;

(g) to discuss with the management the system of internal control and ensure that management has discharged its duty to have an effective internal control system;

(h) to consider any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response;

(i) where an internal audit function exists, to review the internal audit programme, to ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor the effectiveness of the internal audit function;

(j) to review the Company and its subsidiaries' financial and accounting policies and practices;

(k) to review the external auditor's management letter, any material queries raised by the auditor to management in respect of the accounting records, financial accounts or systems of control and management's response;

(l) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;

CORPORATE GOVERNANCE REPORT (Continued)

AUDIT COMMITTEE (Continued)

Oversight of the Company's financial reporting system and internal control procedures (Continued)

(m) to review arrangements by which employees of the Company may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. The audit committee should ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action;

(n) to act as the key representative body for overseeing the Company's relation with the external auditor;

(o) to report to the Board on the matters set out in this term of reference; and

(p) to consider other topics, as defined by the Board.

The Group's unaudited interim results and audited annual results for the year ended 31 December 2005 have been reviewed by the audit committee, which was the opinion that the preparation of such results complied with applicable accounting standards and requirements and that adequate disclosure have been made.

During the year ended 31 December 2005, the audit committee has met with the external auditors with no executive Directors present.

AUDITORS' REMUNERATION

Remuneration payable to PricewaterhouseCoopers for services provided for the year ended 31 December 2005 is as follows:

	HK$'000
Audit	1,000
Acting as reporting accountants for the Listing	2,450
Acting as reporting accountants on acquisition of additional interest in an associated company	900
Non-audit related	390
Total	4,740

CORPORATE GOVERNANCE REPORT (Continued)

DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR ACCOUNTS

The Directors are responsible for overseeing the preparation of accounts of each financial period, which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing the accounts for the year ended 31 December 2005, the Directors have selected suitable accounting policies and have applied them consistently, adopted appropriate Hong Kong Financial Reporting Standards ("HKFRS") and Hong Kong Accounting Standards ("HKAS") which are pertinent to its operations and relevant to the financial statements, made judgements and estimates that are prudent and reasonable, and have prepared the accounts on the going concern basis.

The Directors' responsibilities for the accounts and the responsibilities of the external auditors to the shareholders are set out in the Auditors' Report on page 29.

The Directors confirm that, to the best of their knowledge, information and belief, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that may cause significant doubt upon the Company's ability to continue as a going concern.

INTERNAL CONTROLS

The Company has conducted a review of its system of internal control periodically to ensure the effective and adequate internal control system. The Company convened management meeting periodically to discuss financial, operational and risk management control. The audit committee also reviews the internal control systems and evaluates their adequacy, effectiveness and compliance on a regular basis.

INVESTORS RELATIONS

The Company has disclosed all necessary information to the shareholders in compliance with the Listing Rules and uses a number of formal communication channels to account to shareholders and investors for the Company. These include (i) the publication of interim and annual reports; (ii) the annual general meeting or extraordinary general meeting providing a forum for shareholders of the Company to raise comments and exchanging views with the Board; (iii) meetings are held with media and investors periodically; (iv) the Company replying to enquiries from shareholders timely; and (v) the Company's share registrar in Hong Kong serves the shareholders regarding all share registration matters.

LOOKING FORWARD

The Group will keep on reviewing its corporate governance standards on a timely basis and the Board endeavours to take necessary actions to ensure compliance with the required practices and standards including the provisions of the Code introduced by the Stock Exchange.

REPORT OF THE DIRECTORS

The directors have pleasure in submitting their first report together with the audited financial statements of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2005.

GROUP REORGANISATION

The Company was incorporated in the Cayman Islands on 24 July 2003 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganisation (the "Reorganisation") to rationalise the structure of the Group in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the companies now comprising the Group on 17 June 2005. Details of the Reorganisation are set out in note 1 to the financial statements of the Group.

The Company's shares were listed on the Main Board of the Stock Exchange since 15 July 2005 (the "Listing Date").

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The activities of the subsidiaries set out in Note 18 to the financial statements are primarily manufacturing and sale of plastic moulds, plastic and electronic products and components.

An analysis of the Group's performance for the year by business and geographical segments is set out in Note 5 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 30.

During the financial year, an interim dividend of HK2 cents per share and a special interim dividend of HK1.5 cents per shares were paid by the Company. The directors recommend the payment of a final dividend of HK 1.5 cents per share, totalling HK$4,500,000. The proposed final dividend for 2005 of HK 1.5 cents per share is to be approved by shareholders at the 2006 Annual General Meeting scheduled to be held on 24 May 2006.

RESERVES

Movements in the reserves of the Group and of the Company during the year are set out in Note 30 to the financial statements.

DONATIONS

Charitable and other donations made by the Group during the year amounted to HK$1,328,800.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in Note 15 to the financial statements.

REPORT OF THE DIRECTORS (Continued)

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in Note 29 to the financial statements.

DISTRIBUTABLE RESERVES

Under the Companies Law of the Cayman Islands, share premium is distributable to shareholders, subject to the condition that immediate following the date on which the distribution or dividend is proposed to be made, the Company is able to pay its debts as they fall due in the ordinary course of business. Distributable reserves of the Company at 31 December 2005, calculated according to the Companies Law, Chapter 22 (law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to HK$122,664,000 (2004: HK$49,919,000).

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's bye-laws and there was no restriction against such rights under the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

FOUR YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last four financial years is set out on page 82.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

SHARE OPTIONS

Pursuant to a written resolution of the shareholders of the Company passed on 22 June 2005, a share option scheme (the "Share Option Scheme") was approved and adopted.

The purpose of the Share Option Scheme is to enable the Group to grant options to selected participants as incentive or rewards for their contributions or potential contributions to the Group.

For the purpose of the Share Option Scheme, participants include (i) any executive, non-executive or independent non-executive Director of the Group; (ii) any employee (whether full time or part time) of the Group; and (iii) any supplier and/or sub-contractor of the Group.

The total number of shares which may be allotted and issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company shall not in aggregate exceed 10 per cent. (the "General Scheme Limit") of the total number of shares on the Listing Date.

REPORT OF THE DIRECTORS (Continued)

SHARE OPTIONS (Continued)

The Company may seek approval of the shareholders in general meeting to refresh the General Scheme Limit such that the total number of shares which may be allotted and issue upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company shall not exceed 10 per cent. of the issued share capital of the Company at the date of approval to refresh such limit.

Notwithstanding the above, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company shall not exceed 30 per cent. of the total number of shares of the Company in issue from time to time. No option may be granted under the Share Option Scheme and any other share option schemes of the Company if this will result in the aforesaid 30 per cent. limit being exceeded.

Unless with the approval of the shareholders in general meeting, the maximum number of shares issued and to be issued upon the exercise of the options granted to each participant (including both exercised and outstanding options) under the Share Option Scheme and other share option schemes of the Company in any twelve - month period shall not exceed 1 per cent. of the shares in issue.

An option must be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by the Directors to each grantee, which period may commence from the date of the offer for the grant of the option is made, but shall end in any event not later than 10 years from the date on which the offer for the grant of the option is made, subject to the provisions for early termination thereof. The amount payable on acceptance of the grant of an option is HK$1.

Unless otherwise determined by the Directors and stated in the offer for the grant of options to a grantee, there is neither any performance target that needs to be achieved by a grantee before an option can be exercised nor any minimum period for which an option must be held before it can be exercised.

The subscription price in respect of each share issued under the Share Option Scheme shall be a price solely determined by the Directors but shall not be less than the highest of:

(i) the nominal value of a share;

(ii) the closing price of the shares of the Company as stated in the daily quotation sheets issued by the Stock Exchange on the date upon which the relevant option is accepted and deemed to be granted (the "Commencement Date"), which must be a business day;

(iii) the average closing price of the shares as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the Commencement Date.

The Share Option Scheme shall be valid and effective for a period of 10 years commencing from the date on which the Share Option Scheme is adopted.

As at the date of this report, no option has been granted or agreed to be granted pursuant to the Share Option Scheme.

REPORT OF THE DIRECTORS (Continued)

DIRECTORS

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

Executive Directors

Mr. Lam Yin Kee *(Chairman)*	(appointed on 18 August 2003)
Ms. Yeung Po Wah	(appointed on 18 August 2003)
Mr. Toshio Daikai	(appointed on 18 August 2003)
Mr. William Peter Shelley	(appointed on 18 August 2003)

Non-executive Director

Mr. Fan, William Chung Yue	(appointed on 17 June 2005)

Independent Non-executive Directors

Mr. Barry John Buttifant	(appointed on 17 June 2005)
Mr. Leung Kam Wah	(appointed on 17 June 2005)
Ms. Yeung Chi Ying	(appointed on 17 June 2005)

All the executive Directors had been appointed for nearly three years and the non-executive Director and independent non-executive Directors were appointed by the Board pursuant to Article 86(3) of the Company's Articles of Association. Accordingly, all Directors shall retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

Each of Mr. Lam Yin Kee, Ms. Yeung Po Wah, Mr. Toshio Daikai and Mr. William Peter Shelley has entered into a service contract with the Company. Particulars of these contracts, except as indicated, are in all material respects identical and are summarised as follows:

(i) each service contract is of an initial term of three years commencing on the Listing Date and shall continue thereafter until terminated in accordance with the terms of the contracts. Under the contract, either party may terminate the contract at any time by giving to the other not less than three months' prior notice in writing;

(ii) the monthly salary for each of Mr. Lam Yin Kee, Ms. Yeung Po Wah, Mr. Daikai Toshio and Mr. William Peter Shelley as per respective service contract was HK$140,000, HK$46,000, HK$60,000 and HK$59,142 respectively, subject to annual increment of not more than 10% and discretionary bonus of not more than 10% of the Group's profit in aggregate;

(iii) the Group provides directors' accommodation to Mr. Lam Yin Kee and Mr. Toshio Daikai at a monthly rental of HK$80,000 and HK$11,000 respectively. In addition, a monthly housing allowance of HK$12,000 is payable to Mr. William Peter Shelley.

The non-executive Director and independent non-executive Directors were appointed for an initial term of one year commencing from 17 June 2005 and such appointment shall continue thereafter from year to year until terminated by either party with one month's notice in writing.

Save as disclosed above, none of the directors has entered or has proposed to enter into any service contract with the Company or any member of the Group (other than contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

REPORT OF THE DIRECTORS (Continued)

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in this annual report and other than in connection with the Reorganisation, no contracts of significance in relation to the Group's business to which the Company, any of its fellow subsidiaries or its parent company 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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of directors and senior management are set out on pages 10 to 12 of this annual report.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND/OR SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

The Company became a listed company on 15 July 2005. At 31 December 2005, the interests and short positions of each Director and chief executive in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept by the Company under Section 352 of Part XV of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 of the Listing Rules were as follows:

(a) THE COMPANY (ordinary shares of HK$0.01 each)

		Number of shares held				
		Personal interest	Family interest	Corporate interest	Total	% of the Issued Share Capital of the Company
Mr. Lam Yin Kee	Long positions	–	–	210,000,000*	210,000,000	70.00
Ms. Yeung Po Wah	Long positions	–	210,000,000*	–	210,000,000	70.00
Mr. Toshio Daikai	Long positions	801,000	–	–	801,000	0.27

* These shares are owned by Profit International Holdings Limited, a company incorporated in the British Virgin Islands and is owned as to 95% by Mr. Lam Yin Kee and 5% by Ms. Yeung Po Wah. Ms. Yeung Po Wah is the spouse of Mr. Lam Yin Kee.

REPORT OF THE DIRECTORS (Continued)

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND/OR SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION (Continued)

(b) ASSOCIATED CORPORATION, Profit International Holdings Limited (Ordinary shares of US$1 each)

		Number of shares held				
		Personal interest	**Family interest**	**Corporate interest**	**Total**	**% of the Issued Share Capital of the associated corporation**
Mr. Lam Yin Kee	Long positions	950	–	–	950	95.00
Ms. Yeung Po Wah	Long positions	50	–	–	50	5.00

Saved as disclosed above, at no time during the year, the Directors and chief executives (including their spouse and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for shares (or warrants or debentures, if applicable) of the Company and its associated corporations required to be disclosed pursuant to the SFO.

Other than those interests and short positions as disclosed above, the Directors and chief executives also hold shares of certain subsidiaries solely for the purpose of ensuring that the relevant subsidiary has more than one member.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND/OR SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES OF THE COMPANY

The register of substantial shareholders required to be kept under section 336 of Part XV of the SFO shows that as at 31 December 2005, the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital.

		Number of shares held			
Name		**Personal interest**	**Nature of interest**	**Total**	**% of the Issued Share Capital of the Company**
Profit International Holdings Limited	Long positions	210,000,000	Beneficially owned	210,000,000	70.00
San Luen Investment Limited	Long positions	16,020,000	Beneficially owned	16,020,000	5.34

REPORT OF THE DIRECTORS (Continued)

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND/OR SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES OF THE COMPANY (Continued)

Save as disclosed above and so far as the Directors and chief executives of the Company are aware of, as at 31 December 2005, there were no other person, other than the Directors or chief executives of the Company, who had interests or short positions in the shares, underlying shares and debentures of the Company which would fall to be disclosed to the Company in accordance with the provisions of Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

MAJOR SUPPLIERS AND CUSTOMERS

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

Purchases	
– the largest supplier	13%
– five largest suppliers combined	27%
Sales	
– the largest customer	40%
– five largest customers combined	71%

One of the top five customers of the Group is Maruman Products Co. Ltd. ("Maruman"), a company incorporated in Japan and engages in trading in general merchandises. Maruman is owned as to 24.7% by Mr. Lam Yin Kee. Total sales to Maruman for the year ended 31 December 2005 amounted to HK$19,129,000.

Save as disclosed above, none of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

REPORT OF THE DIRECTORS (Continued)

CONNECTED TRANSACTIONS

Certain related party transactions as disclosed in note 38 to the financial statements also constituted connected transactions under the Listing Rules, are required to be disclosed in accordance with Chapter 14A of the Listing Rules. The following transactions between certain connected parties (as defined in the Listing Rules) and the Company have been entered into and/or are ongoing for which relevant announcements, if necessary, had been made by the Company in accordance with the requirements of the Listing Rules.

(1) Exempted continuing connected transaction

The Group has rented a quarter as directors' accommodation from Profit Home Investments Limited ("Profit Home") at a monthly rental of HK$80,000. Ms. Yeung Po Wah holds 60% of shareholding and is a director of Profit Home. Ms. Yeung Po Wah is an executive Director of the Company and the wife of Mr. Lam Yin Kee, therefore, the lease constitutes a connected transaction of the Group under Chapter 14A of the Listing Rules.

As each of the applicable percentage ratios calculated in relation to the above connected transaction is less than 2.5% and the total consideration is less than HK$1,000,000, the transaction qualifies as a de minimis transaction pursuant to Rule 14A.31(2) of the Listing Rules and is therefore exempt from the reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

The independent non-executive Directors of the Company have reviewed the aforesaid continuing connected transaction that it was entered into (a) in the ordinary and usual course of business of the Group; (b) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the and within the knowledge of the Directors, it is confirmed that there is sufficient public float of more than 25% of the Company's issued shares at the date of this report.

AUDITORS

The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Lam Yin Kee
Chairman

Hong Kong, 24 April 2006

AUDITORS' REPORT

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

AUDITORS' REPORT TO THE SHAREHOLDERS OF ALLTRONICS HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 30 to 81 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

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

BASIS OF OPINION

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

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

OPINION

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 24 April 2006

CONSOLIDATED INCOME STATEMENT

Year ended 31 December

	Note	2005 HK$'000	2004 HK$'000 (Restated)
Turnover	5	**316,903**	292,447
Cost of goods sold		**(236,236)**	(201,493)
Gross profit		**80,667**	90,954
Other revenues	5	**1,564**	100
Distribution costs		**(4,489)**	(4,718)
Administrative expenses		**(39,702)**	(36,654)
Other operating income/(expenses), net		**32**	(196)
Operating profit	6	**38,072**	49,486
Finance costs	7	**(3,315)**	(2,577)
Share of (losses) less profits of an associated company	19	**(812)**	240
Profit before taxation		**33,945**	47,149
Taxation	11	**(7,010)**	(8,479)
Profit for the year		**26,935**	38,670
Attributable to:			
Equity holders of the Company		**26,935**	38,670
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in HK cents per share)			
– Basic	13	**8.98**	12.89
– Diluted	13	**N/A**	N/A
Dividends	14	**15,000**	25,000

The notes on pages 36 to 81 are an integral part of these financial statements.

CONSOLIDATED BALANCE SHEET

As at 31 December

	Note	2005 HK$'000	2004 HK$'000 (Restated)
ASSETS			
Non-current assets			
Property, plant and equipment	15	**48,361**	29,635
Land use rights	16	**2,222**	2,272
Goodwill	17	**11,672**	–
Interest in an associated company	19	**188**	6,646
Available-for-sale financial assets	20	**2,903**	–
Deferred tax assets	32	**331**	–
		65,677	38,553
Current assets			
Inventories	21	**74,401**	33,387
Accounts receivable	22	**62,607**	26,220
Prepayments, deposits and other receivables		**9,375**	5,419
Due from an associated company	19	**91**	4,000
Due from a related company	23	**807**	1,667
Due from ultimate holding company	24	**29**	–
Amount due from minority shareholders of subsidiary	24	**1,340**	–
Financial assets at fair value through profit and loss	25	**9,627**	–
Trading listed securities	26	**–**	15,723
Pledged bank deposits	37	**4,933**	13,372
Bank balances and cash	27	**91,052**	24,925
		254,262	124,713

The notes on pages 36 to 81 are an integral part of these financial statements.

CONSOLIDATED BALANCE SHEET (Continued)

AS AT 31 DECEMBER

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
Current liabilities			
Accounts payable	28	**44,501**	20,193
Accruals and other payables		**15,034**	7,270
Dividend payable		**–**	10,000
Due to an associated company	19	**650**	3,430
Taxation payable		**17,552**	14,538
Current portion of borrowings	31	**14,010**	5,104
Bills payable, secured		**42,819**	25,343
Trust receipt loans, secured		**1,210**	772
Bank overdrafts, secured	27, 37	**36,814**	21,759
		172,590	108,409
Net current assets		**81,672**	16,304
Total assets less current liabilities		**147,349**	54,857
Financed by:			
Share capital	29	**3,000**	500
Reserves	30(a)	**128,814**	51,543
Shareholders' equity		**131,814**	52,043
Minority interest		**3,258**	–
Total equity		**135,072**	52,043
Non-current liabilities			
Long-term borrowings	31	**10,704**	1,533
Deferred tax liabilities	32	**1,573**	1,281
		147,349	54,857

Approved by the Board of Directors on 24 April 2006

Director
Lam Yin Kee

Director
Yeung Po Wah

The notes on pages 36 to 81 are an integral part of these financial statements.

BALANCE SHEET

As at 31 December

	Note	2005 HK$'000	2004 HK$'000
ASSETS			
Non-current assets			
Investments in subsidiaries	18	**–**	–
Current assets			
Prepayments, deposits and other receivables		**167**	32
Due from a subsidiary	18	**1,470**	–
Bank balances and cash	27	**55,608**	–
		57,245	32
Current liabilities			
Due to a subsidiary	18	**–**	165
Accruals and other payables		**1,120**	–
		1,120	165
Net current assets/(liabilities)		**56,125**	(133)
Total assets less current liabilities		**56,125**	(133)
Financed by:			
Share capital	29	**3,000**	–
Reserves	30(b)	**53,125**	(133)
Total equity		**56,125**	(133)

Approved by the Board of Directors on 24 April 2006

Director
Lam Yin Kee

Director
Yeung Po Wah

The notes on pages 36 to 81 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2005

	Note	Share capital HK$'000	Reserves HK$'000 (Note 30(a))	Total HK$'000
Balance at 1 January 2004 (note a)		500	40,428	40,928
Share issuance costs		–	(2,555)	(2,555)
Profit for the year		–	38,670	38,670
Dividend relating to 2004		–	(25,000)	(25,000)
Balance at 31 December 2004		500	51,543	52,043
Balance at 1 January 2005 as per above (note a)		500	51,543	52,043
Share issuance costs		–	(8,884)	(8,884)
Reversed upon Reorganisation	1	(500)	–	(500)
Issue of shares by way of placing and public offering	29	900	–	900
Share premium on issue of shares		–	71,100	71,100
Capitalisation of share premium for issue of new shares		2,100	(2,100)	–
Exchange difference arising on translation of financial statements of PRC subsidiaries		–	427	427
Acquisition of subsidiary		–	293	293
Profit for the year		–	26,935	26,935
Interim dividends paid	14	–	(10,500)	(10,500)
Balance at 31 December 2005		3,000	128,814	131,814

Note:

(a) The share capital at 1 January 2004 and 1 January 2005 represented the combined capital of the Company and its subsidiaries as at the respective dates prior to the Reorganisation as defined in note 1.

The notes on pages 36 to 81 are an integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December

	Note	2005 HK$'000	2004 HK$'000 (Restated)
Cash flows from operating activities			
Cash generated from operations	33	**16,529**	41,008
Interest paid		**(3,315)**	(2,577)
PRC income tax paid		**(144)**	(112)
Hong Kong profits tax paid		**(4,702)**	(7,013)
Net cash generated from operating activities		**8,368**	31,306
Cash flows from investing activities			
Acquisition of subsidiary, net of cash acquired		**(15,483)**	–
Purchase of property, plant and equipment		**(16,328)**	(8,795)
Proceeds from disposal of property, plant and equipment		**771**	–
Purchase of trading listed securities		**–**	(46,912)
Purchase of financial assets at fair value through profit and loss		**(32,111)**	–
Disposal of financial assets at fair value through profit and loss/trading listed securities		**40,045**	41,285
Interest received		**1,564**	100
Disposal of associated companies		**–**	491
Dividend received from trading listed securities		**–**	251
Dividend received from financial assets at fair value through profit and loss		**60**	–
Net cash used in investing activities		**(21,482)**	(13,580)
Cash flows from financing activities			
Capital element of finance lease payments		**(663)**	(1,221)
Dividend paid		**(20,500)**	(15,000)
Repayments of bank loans		**(4,755)**	(3,110)
New bank loans raised		**13,372**	5,112
Decrease/(increase) in pledged bank deposits		**13,372**	(107)
Increase in share issuance cost		**(8,884)**	(2,555)
Proceeds from issuance of shares		**72,000**	–
Net cash generated from/(used in) financing activities		**63,942**	(16,881)
Net increase in cash and bank overdrafts		**50,828**	845
Cash and bank overdrafts at beginning of the year		**3,166**	2,321
Effect of foreign exchange rate changes		**244**	–
Cash and bank overdrafts at end of the year	27	**54,238**	3,166

The notes on pages 36 to 81 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1 GENERAL INFORMATION

Alltronic Holdings Limited (the "Company") was incorporated in the Cayman Islands on 24 July 2003 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

Pursuant to a group reorganisation (the "Reorganisation") to rationalise the structure of the Company and its subsidiaries (together the "Group") in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the companies now comprising the Group on 17 June 2005. Following the completion of the public offering and placing of 90,000,000 shares as set out in the prospectus dated 30 June 2005 issued by the Company, the Company's shares were listed on the Main Board of the Stock Exchange on 15 July 2005 (the "Listing").

The Company is an investment holding company. The principal activities of the Group are manufacture and sales of plastic moulds, plastic components, electronic products and components. Details of the activities of principal subsidiaries and associated companies are set out in notes 18 and 19 to the financial statements.

The principal place of business of the Company is at Room 1108, 11/F, Eastwood Centre, No. 5 A Kung Ngam Village Road, Shau Kei Wan, Hong Kong.

These consolidated financial statements have been approved for issue by the Board of Directors on 24 April 2006.

The Group resulting from the Reorganisation is regarded as a continuing entity. Accordingly, the consolidated income statement and consolidated cash flow statement for the two years ended 31 December 2005 and 2004 were prepared on the basis as if the current group structure had been in existence throughout the periods. The consolidated balance sheet of the Group as at 31 December 2004 has been prepared to present the assets and liabilities of the Group as at 31 December 2004 as if the current group structure had been in existence at that date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Accounting Standards ("HKAS"), Hong Kong Financial Reporting Standards ("HKFRS"), and interpretations of HKAS (together "HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and financial assets at fair value through profit or loss, which are carried at fair value.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

The adoption of new/revised HKFRS

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

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 21, 23, 24, 27, 28 and 33 did not result in substantial changes to the Group's accounting policies. In summary:

– HKAS 1 has affected the presentation of minority interest, share of net after-tax results of associates and other disclosures.

– HKASs 2, 7, 8, 10, 16, 23, 27, 28 and 33 had no material effect on the Group's policies.

– HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as the presentation currency for respective entity financial statements.

– HKAS 24 has affected the identification of related parties and some other related-party disclosures.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of land use rights from property, plant and equipment to operating leases. The up-front prepayments made for the land use rights are expensed in the income statement on a straight-line basis over the period of the lease or when there is impairment, the impairment is expensed in the income statement. In prior years, the land use rights were accounted for at cost less accumulated depreciation and accumulated impairment losses.

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit or loss and available-for-sale financial assets.

The adoption of HKFRS 2 has no effect on the Group's policies as the Group has not granted any share option since the adoption of the share option scheme on 22 June 2005.

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

– Amortised on a straight line basis over its estimated useful life up to 10 years; and

– Assessed for an indication of impairment at each balance sheet date.

In accordance with the provisions of HKFRS 3: (note 2.7)

– The Group has ceased amortisation of goodwill from 1 January 2005;

– Accumulated amortisation as at 31 December 2004 has been eliminated with a corresponding decrease in the cost of goodwill;

– From the year ended 31 December 2005 onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards, wherever applicable. All standards adopted by the Group require retrospective application other than:

– HKAS 16 – the initial measurement of an item of property, plant and equipment acquired in an exchange of assets transaction is accounted at fair value prospectively only to future transactions;

– HKAS 21 – prospective accounting for goodwill and fair value adjustments as part of foreign operations;

– HKAS 39 – does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous SSAP 24 "Accounting for investments in securities" to investments in securities for the 2004 comparative information. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognised at 1 January 2005.

– HKFRS 3 – prospectively after 1 January 2005.

The adoption of revised HKAS 17 resulted in changes in the consolidated balance sheet as follows:

	2005 **HK$'000**	2004 HK$'000
Decrease in property, plant and equipment	**(2,222)**	(2,272)
Increase in land use rights	**2,222**	2,272

The adoption of revised HKASs 32 and 39 resulted in changes in the consolidated balance sheet as follows:

	2005 **HK$'000**	2004 HK$'000
Decrease in trading listed securities	**(9,627)**	–
Increase in financial assets at fair value through profit and loss	**9,627**	–

There was no impact on basic and diluted earnings per share from the adoption of HKAS 32 and HKAS 39.

There was no impact on opening retained earnings at 1 January 2004 from the adoption of HKFRS2 and HKFRS3.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Consolidation

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

(a) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

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

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

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

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

(b) Associated company

Associated companies are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associated companies are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investment in associated companies includes goodwill (net of any accumulated impairment loss) identified on acquisition (see Note 2.7).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Consolidation (Continued)

(b) Associated company (Continued)

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

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

2.3 Segment reporting

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

2.4 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Foreign currency translation (Continued)

(c) *Group companies*

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

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

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

2.5 Property, plant and equipment

Property, plant and equipment comprise mainly buildings, furniture and fixtures, office equipment, plant and machinery, leasehold improvements and motor vehicles. All property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost to their residual values over their estimated useful lives, as follows:

Buildings	2% – 20% or over the lease terms, whichever is shorter
Furniture and fixtures	9% – 20%
Office equipment	8% – 20%
Plant and machinery	9% – 20%
Leasehold improvements	16.67% – 20%
Motor vehicles	9% – 20%

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Property, plant and equipment (Continued)

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.7).

2.6 Goodwill

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

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

2.7 Impairment of assets

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

2.8 Investments

From 1 January 2004 to 31 December 2004:

The Group classified its investments in securities, other than subsidiaries, associated companies, as trading securities.

Trading securities were carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of trading securities were recognised in the income statement. Profits or losses on disposal of trading securities, representing the difference between the net sales proceeds and the carrying amounts, were recognised in the income statement as they arose.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 Investments (Continued)

From 1 January 2005 onwards:

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

(a) Financial assets at fair value through profit or loss

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

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet (Note 2.10).

(c) Available-for-sale financial assets

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

Purchases and sales of investments are recognised on trade-date-the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 Investments (Continued)

From 1 January 2005 onwards (Continued):

(c) Available-for-sale financial assets (Continued)

Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains or losses from investment securities.

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

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss-measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement-is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

2.9 Inventories

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Trade and other receivables

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

2.11 Cash and cash equivalents

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

2.12 Share capital

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

2.13 Borrowings

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

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

2.14 Deferred income tax

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.14 Deferred income tax (Continued)

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

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

2.15 Employee benefits

(a) *Pension obligations*

The Group operates defined contribution retirement schemes for its Hong Kong and PRC employees based on local laws and regulations. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit schemes' costs expensed in the income statement represent contributions payable by the Group to the schemes.

The Group's contributions to the defined contribution retirement schemes are expensed as incurred and are reduced by contributions forfeited by those employees who leave the schemes prior to vesting fully in the contributions. The assets of the schemes are held separately from those of the Group in independently administered funds.

Pursuant to the relevant local regulations in the PRC, the PRC subsidiaries of the Group participate in respective government retirement benefit schemes are required to contribute to the schemes to fund the retirement benefits of the eligible employees. Contributions made to the schemes are calculated based on certain percentages of the applicable payroll costs or fixed sums for each employee with reference to a salary scale, as stipulated under the requirements in the PRC. The Group has no further obligation beyond the required contributions. The contributions under the schemes are expensed in the income statement as incurred.

(b) *Employee leave entitlements*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.16 Provisions

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

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

2.17 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that the outflow becomes probable, it will then be recognised as a provision.

2.18 Revenue recognition

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

(a) Sales of goods

Sales of goods are recognised when a Group entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

(b) Interest income

Interest income is recognised on a time-proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.18 Revenue recognition (Continued)

(c) Dividend income

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

2.19 Leases

(a) Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the income statement on a straight-line basis over the period of the lease.

(b) Finance lease

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

2.20 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group is exposed it to a variety of financial risks: market risk (including currency risk, fair value interest risk and price risk), credit risk, liquidity risk, cash flow and interest-rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Financial assets and financial liabilities carried on the balance sheets include available-for-sale financial assets, financial assets at fair value through profit and loss, bank balances and cash, pledged bank deposits, accounts receivable, prepayments, deposits and other receivables, due from/(to) affiliate companies, bills payables, account payables, trust receipts loans, bank overdraft and borrowings. The accounting policies on recognition and measurement of these items are disclosed in Note 2. Management regularly monitors the financial risks of the Group. Because of the simplicity of the financial structure and the current operations of the Group, hedging activities were not taken by management.

(a) Foreign exchange risk

The Group sells goods to international customers and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the HK dollars, United States dollars and Renminbi. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. The Group has certain investments in PRC operations, whose net assets are exposed to foreign currency translation risk. The Group does not presently hedge this foreign exchange exposure.

To manage their foreign exchange risk arising from future commercial transactions, entities in the Group engage in transactions with different currencies such as HK dollars, US dollars and Renminbi to the extent possible. The Group currently does not hedge transactions undertaken in Renminbi but manages its exposure through constant monitoring to limit as much as possible the amount of its Renminbi exposures. Foreign exchange risk arises when future commercial transactions, recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. The finance department of the Group is responsible for monitoring and managing the net position in each foreign currency.

(b) Credit risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales of products are made to customers with an appropriate credit history.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities. Due to the continuous growth in business, the Group aims at maintaining flexibility in funding by keeping committed credit lines available.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(d) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets and liabilities except its bank deposits, bills payable, finance lease liabilities and bank borrowings, the Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's interest rate risk arose from bank balances and bank borrowings. The Group regularly seeks out the most favourable interest rates available for its bank deposits and bank borrowings. Information relating to interest rates of the Group's bank balances, deposits and bank borrowings are disclosed in Notes 27 and 31 respectively.

3.2 Fair value estimation

The fair value of available-for-sale financial assets that are not openly traded is determined with reference to indicative market values provided by the issuers (Note 20).

The nominal value less estimated credit adjustments of accounts receivable and accounts payable are assumed to approximate their fair values.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

(a) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.7. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (Note 17).

(b) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(c) Estimated impairment of property, plant and equipment

The Group assesses annually whether property, plant and equipment have any indication of impairment, in accordance with the accounting policy stated in Notes 2.5 and 2.7. The recoverable amounts of property, plant and equipment will be determined based on value-in-use calculations. These calculations require the use of judgement and estimates.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(d) Estimated provision for doubtful debts

The Group makes provision for doubtful debts based on an assessment of the recoverability of the accounts receivable. Provisions are applied to accounts receivable where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of bills receivable and accounts receivable and doubtful debt expenses in the year in which such estimate has been changed.

5 REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the manufacturing and trading of electronic products. Revenues recognised during the year are as follows:

	Year ended 31 December	
	2005	2004
	HK$'000	HK$'000
Turnover		
Sale of goods	**316,903**	292,447
Other revenue		
Interest income on bank deposits	**1,564**	100
	318,467	292,547

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group in making operating and financial decisions.

(a) Business segment

During the year, the Group has been operating in one single business segment, i.e. manufacturing and trading of electronic products.

5 REVENUE AND SEGMENT INFORMATION (Continued)

(b) Geographical segment

In presenting information on the basis of geographical segments, segment revenue is based on the geographical presence of customers. Segment assets and capital expenditure are based on the geographical location of the assets.

	Year ended 31 December	
	2005	2004
	HK$'000	HK$'000
Turnover		
The United States	**218,541**	213,835
Europe	**29,532**	23,150
PRC	**83**	17
Hong Kong	**49,178**	33,311
Other countries	**19,569**	22,134
	316,903	292,447

	Year ended 31 December	
	2005	2004
	HK$'000	HK$'000
Capital expenditure		
PRC	**15,876**	8,459
Hong Kong	**452**	336
	16,328	8,795

	As at 31 December	
	2005	2004
	HK$'000	HK$'000
Total assets		
PRC	**130,542**	66,277
Hong Kong	**189,397**	96,989
	319,939	163,266

6 OPERATING PROFIT

	Year ended 31 December	
	2005	2004
	HK$'000	HK$'000
		(Restated)
Operating profit is stated after crediting and charging the following:		
Crediting:		
Gain on disposal of an associated company	**–**	2
Unrealised gain on trading listed securities	**–**	424
Realised gain on financial assets at fair value through profit and loss	**1,993**	–
Dividend received from financial assets at fair value through profit and loss/trading listed securities	**60**	251
Charging:		
Auditors' remuneration		
– Current year provision	**1,000**	358
– Under-provision in prior year	**12**	–
Amortisation of land use rights	**50**	38
Cost of inventories sold	**235,948**	200,954
Depreciation		
– Owned fixed assets	**6,845**	5,947
– Leased fixed assets	**357**	981
Loss on disposal of fixed assets	**1,301**	–
Net exchange loss	**1,218**	901
Operating leases – land and buildings	**5,618**	4,623
Provision for impairment on receivables	**–**	153
Staff costs (excluding directors' emoluments) (Note 8)	**43,089**	36,214
Unrealised loss on financial assets at fair value through profit and loss	**155**	–
Realised loss on trading listed securities	**–**	1,093

7 FINANCE COSTS

	2005	2004
	HK$'000	HK$'000
Interests on bank loans and bank overdrafts	**3,279**	2,487
Interest element of finance leases	**36**	90
	3,315	2,577

8 STAFF COSTS-EXCLUDING DIRECTORS' EMOLUMENTS

	2005 HK$'000	2004 HK$'000
Wages and salaries	**40,381**	33,550
Pension costs – defined contribution plans	**588**	528
Staff welfare and allowance	**2,120**	2,136
	43,089	36,214

9 DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' emoluments

The remuneration of every Director for the year ended 31 December 2005 is set out below:

Name	Fees HK$'000	Salary HK$'000	Discretionary bonuses HK$'000	Other benefits* HK$'000	Employer's contribution to pension scheme HK$'000	Total HK$'000
Executive Directors						
Lam Yin Kee	–	1,900	–	960	12	2,872
Yeung Po Wah	–	598	–	–	12	610
Toshio Daikai	–	780	–	132	–	912
William Peter Shelley	–	766	–	144	12	922
Non-executive Directors						
Fan Chung Yue, William	129	–	–	–	–	129
Barry John Buttifant	129	–	–	–	–	129
Leung Kam Wah	129	–	–	–	–	129
Yeung Chi Ying	129	–	–	–	–	129

9 DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS (Continued)

(a) Directors' emoluments (Continued)

The remuneration of every Director for the year ended 31 December 2004 is set out below:

Name	Fees	Salary	Discretionary bonuses	Other benefits*	Employer's contribution to pension scheme	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Executive Directors						
Lam Yin Kee	–	1,478	–	–	12	1,490
Yeung Po Wah	–	478	–	–	12	490
Toshio Daikai	–	765	–	–	–	765
William Peter Shelley	–	732	90	–	12	834

* Other benefits represent quarters and housing allowance for the Directors.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2004: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2004: two) individuals during the year are as follows:

	2005	2004
	HK$'000	HK$'000
Basic salaries, housing allowances, share options, other allowances and benefits in kind	**1,650**	2,191
Retirement benefit – defined contribution plans	**24**	24
	1,674	2,215

The emoluments fell within the following bands:

	Number of individuals	
	2005	2004
Emolument bands		
Nil to HK$1,000,000	**2**	1
HK$1,000,001 to HK$1,500,000	**–**	1

10 PENSION SCHEME

The Group has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme (the "MPF Scheme"), a defined contribution scheme managed by an independent trustee. Under the MPF Scheme, each of the Hong Kong incorporated companies within the Group and their employees makes monthly contributions to the scheme at 5% of the employees' earnings up to a maximum of HK$1,000 per month per employee as defined under the Mandatory Provident Scheme Ordinances.

As stipulated by the rules and regulations in the PRC, the Group contributes to a state-sponsored retirement plan for its employees in the PRC as determined by the local governments, which is a defined contribution plan. The Group and its employees contribute approximately 8% and 5%, respectively, of the salary as specified by the relevant local governments, and the Group has no further obligations for the actual payment of pensions or post-retirement benefits beyond the annual contributions. The state-sponsored retirement plan is responsible for the entire pension obligations payable to retired employees.

For the year ended 31 December 2005, the aggregate amount of the Group's contributions to the aforementioned pension schemes were approximately HK$588,000 (2004: HK$528,000). As at 31 December 2005, the Group was not entitled to any forfeited contributions to reduce the Group's future contributions under the above schemes.

11 INCOME TAX EXPENSE

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

	2005	2004
	HK$'000	HK$'000
		(Restated)
Current income tax		
– Hong Kong profits tax (note a)	**6,366**	8,026
– PRC enterprise income tax (note b)	**828**	568
Deferred income tax (Note 32)	**(184)**	(115)
Taxation charge	**7,010**	8,479

11 INCOME TAX EXPENSE (Continued)

(a) Hong Kong profits tax

Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profit for the year.

(b) PRC enterprise income tax

PRC enterprise income tax has been calculated on the estimated assessable profits at the rates of taxation prevailing in the PRC. The Company has two subsidiaries operating in the PRC, namely Shenzhen Allcomm Electronic Co. Ltd. ("Shenzhen Allcomm") and 南盈塑膠實業(深圳)有限公司 ("南盈"). During the year, Shenzhen Allcomm and 南盈 are subject to a standard income tax rate of 15% in accordance with the relevant applicable tax laws. 南盈 is entitled to full exemption of PRC income tax for the two years ended 31 December 2005, followed by a 50% reduction of PRC income tax (i.e. 7.5%) for the three years ending 31 December 2008.

(c) The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated companies as follows:

	2005	2004
	HK$'000	HK$'000
		(Restated)
Profit before taxation	**33,945**	47,149
Calculated at a taxation rate of 17.5%	**5,940**	8,251
Effect of different taxation rates in other countries	**(151)**	(38)
Income not subject to taxation	**(731)**	(2,380)
Expenses not deductible for taxation purposes	**1,598**	2,559
Temporary differences not recognised	**77**	87
Others	**277**	–
	7,010	8,479

The weighted average applicable tax rate was 17.1% (2004: 17.3%). The decrease is caused by a change in the amount of profit generated from the Group's subsidiaries in respective tax regimes.

12 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of HK$7,448,000 (2004: loss of HK$133,000).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2005

13 EARNINGS PER SHARE

Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares deemed to be issued during the year as if the share capital of the Company outstanding immediately after the share exchange in connection with the Reorganisation and the related subsequent capitalisation issue had been in existence throughout the year.

	2005	2004
	HK$'000	HK$'000
Profit attributable to equity holders of the Company	**26,935**	38,670
Weighted average number of ordinary shares in issue (thousands)	**300,000**	300,000
Basic earnings per share (HK cents per share)	**8.98**	12.89

Diluted

No diluted earnings per share are presented as no diluting event existed during the year (2004: Nil).

14 DIVIDENDS

	Year ended 31 December	
	2005	2004
	HK$'000	HK$'000
Interim dividend paid of HK$ Nil (2004: HK$30) per ordinary share by the Company's subsidiary (Note a)	**–**	25,000
Interim dividend paid of HK$0.02 (2004: HK$Nil) per ordinary share	**6,000**	–
Special interim dividend paid of HK$0.015 (2004: HK$Nil) per ordinary share (Note b)	**4,500**	–
Proposed final dividend of HK$0.015 (2004: HK$Nil) per ordinary share (Note c)	**4,500**	–
	15,000	25,000

Notes:

(a) The interim dividend for the year ended 31 December 2004 was paid by the Company's subsidiary, Alltronics (BVI) Limited, to its then shareholders.

(b) In recognition of the continued support from the shareholders and the successful listing of the Company's shares on the Main Board of the Stock Exchange on 15 July 2005, the Board declared and paid a special interim dividend of HK$0.015 per ordinary share.

(c) A dividend in respect of 2005 of HK$0.015 per share, amounting to a total of HK$4,500,000 is to be proposed at the Annual General Meeting on 24 May 2006. These financial statements do not reflect this dividend payable but account for it as proposed dividend from the reserves (Note 30).

15 PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings	Furniture and fixtures	Office equipment	Plant and machinery	Leasehold improvements	Motor vehicles	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2004							
Cost, as previously reported	9,016	6,267	6,113	13,374	11,608	4,048	50,426
Reclassification to land use rights (Note 16)	(1,268)	–	–	–	–	–	(1,268)
Cost, as restated	7,748	6,267	6,113	13,374	11,608	4,048	49,158
Accumulated depreciation, as previously reported	(840)	(3,461)	(3,551)	(5,783)	(5,323)	(1,390)	(20,348)
Reclassification to land use rights (Note 16)	117	–	–	–	–	–	117
Net book amount, as restated	7,025	2,806	2,562	7,591	6,285	2,658	28,927
Year ended 31 December 2004							
Opening net book amount, as restated	7,025	2,806	2,562	7,591	6,285	2,658	28,927
Additions	1,992	308	1,119	2,606	2,524	246	8,795
Depreciation	(201)	(539)	(768)	(2,422)	(2,253)	(783)	(6,966)
Reclassification to land use rights (note 16)	(1,121)	–	–	–	–	–	(1,121)
Closing net book amount, as restated	7,695	2,575	2,913	7,775	6,556	2,121	29,635

15 PROPERTY, PLANT AND EQUIPMENT (Continued)

Group

	Buildings	Furniture and fixtures	Office equipment	Plant and machinery	Leasehold improvements	Motor vehicles	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 31 December 2004							
Cost, as previously reported	11,008	6,575	7,232	15,980	14,132	4,294	59,221
Reclassification to land use rights (note 16)	(2,427)	–	–	–	–	–	(2,427)
Cost, as restated	8,581	6,575	7,232	15,980	14,132	4,294	56,794
Accumulated depreciation	(1,041)	(4,000)	(4,319)	(8,205)	(7,576)	(2,173)	(27,314)
Reclassification to land use rights (Note 16)	155	–	–	–	–	–	155
Net book amount, as restated	7,695	2,575	2,913	7,775	6,556	2,121	29,635
Year ended 31 December 2005							
Opening net book amount	7,695	2,575	2,913	7,775	6,556	2,121	29,635
Exchange differences	–	37	25	37	48	8	155
Acquisition of a subsidiary (Note 34)	–	287	373	9,458	1,046	353	11,517
Additions	–	1,939	1,245	3,083	9,564	497	16,328
Disposals	–	(2)	(51)	(283)	(1,606)	(130)	(2,072)
Depreciation	(174)	(511)	(864)	(2,479)	(2,440)	(734)	(7,202)
Closing net book amount	7,521	4,325	3,641	17,591	13,168	2,115	48,361
At 31 December 2005							
Cost	8,581	11,597	9,533	48,665	23,503	4,533	106,412
Accumulated depreciation	(1,060)	(7,272)	(5,892)	(31,074)	(10,335)	(2,418)	(58,051)
Net book amount	7,521	4,325	3,641	17,591	13,168	2,115	48,361

In 1998, the Group entered into an arrangement with 2 independent third parties (the "Partners") for the development of certain manufacturing premises for the Group's use and staff quarters in Shenzhen and the Group's attributable interest in these buildings is 60%. These buildings are accounted for as jointly controlled assets of the Group.

As at 31 December 2005, the aggregate cost and accumulated depreciation of fixed assets held by the Group under finance leases amounted to HK$7,054,000 (2004: HK$2,894,000) and HK$3,011,000 (2004: HK$1,444,000) respectively.

During the year, depreciation expense of HK$5,225,000 (2004: HK$4,828,000) has been expensed in cost of goods sold and HK$1,977,000 (2004: HK$2,100,000) in administrative expenses.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2005

16 LAND USE RIGHTS

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

	Group	
	2005	2004
	HK$'000	HK$'000
		(Restated)
Outside Hong Kong, held on:		
Leases of between 10 to 50 years	**2,222**	2,272

	Group	
	2005	2004
	HK$'000	HK$'000
		(Restated)
Opening net book amount	**–**	–
Reclassification from property, plant and equipment (Note 15)	**2,427**	1,268
Accumulated amortisation (Note 15)	**(155)**	(117)
Opening net book amount, as restated	**2,272**	1,151
Additions reclassified from property, plant and equipment (Note 15)	**–**	1,159
Amortisation of prepaid operating lease payment (Note 15)	**(50)**	(38)
Closing net book amount	**2,222**	2,272

17 GOODWILL

	Group	
	2005	2004
	HK$'000	HK$'000
Cost and net book amount		
At the beginning of the year	**–**	–
Acquisition of a subsidiary (Note 34)	**7,679**	–
Reclassification from interest in an associated company (Note 19)	**3,993**	–
At the end of the year	**11,672**	–

The goodwill relates to the excess of consideration paid for and the fair value of net assets acquired from the acquisition of Southchina Engineering and Manufacturing Limited ("Southchina"). Commencing from 1 January 2005, the Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note 2.7. The recoverable amount of the goodwill has been determined based on a value-in-use calculation which in turn is based on the financial projections of Southchina. Based on the impairment testing of goodwill, in the opinion of the Directors, no impairment provision is considered necessary for the balance of the Group's goodwill.

17 GOODWILL (Continued)

Key assumptions used for value-in-use calculations

The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

(a) Budgeted turnover, operating expenses and finance costs were projected with reference to the expected earnings from manufacturing of plastic moulds, plastic and electronic accessories.

(b) For the business environment, there will be no change in the existing political, legal, regulatory, fiscal or economic conditions, bases or rates of taxation or duties in Hong Kong, or any countries in which Southchina operates.

18 INVESTMENTS IN SUBSIDIARIES AND AMOUNT DUE FROM/(TO) A SUBSIDIARY

	Company	
	2005	2004
	HK$'000	HK$'000
Investments in unlisted shares, at cost (Note a)	**–**	–
Due from a subsidiary (Note b)	**1,470**	–
Due to a subsidiary (Note b)	**–**	165

Notes:

a) The following is a list of the principal subsidiaries at 31 December 2005:

Name	**Place of incorporation and kind of legal entity**	**Principal activities and Place of operation**	**Particulars of issued share capital**	**Interest held**
Alltronics (BVI) Limited	British Virgin Islands, limited liability company	Investment holding in Hong Kong	100 ordinary shares of US$1 each	*100%
Alltronics Tech. Mftg. Limited	Hong Kong, limited liability company	Manufacturing and trading of electronic products in Hong Kong and the People's Republic of China ("PRC")	500,000 ordinary shares of HK$1 each	100%
Allcomm (H.K.) Limited	Hong Kong, limited liability company	Investment holding and trading of electronic products in Hong Kong	2 ordinary shares of HK$1 each	100%
Shenzhen Allcomm Electronic Co. Ltd.	PRC, limited liability company	Manufacturing of electronic products in the PRC	Registered capital of US$1,728,397	100%

18 INVESTMENTS IN SUBSIDIARIES AND AMOUNT DUE FROM/(TO) A SUBSIDIARY

Notes (Continued):

a) The following is a list of the principal subsidiaries at 31 December 2005 (Continued):

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital	Interest held
Actronics Manufacturing Limited	PRC, limited liability company	Manufacturing of electronic products in the PRC	Registered capital of US$1,200,000	100%
Southchina Engineering and Manufacturing Limited	Hong Kong, limited liability company	Manufacturing of plastic moulds, plastic and electronic accessories in the PRC	1,000,000 ordinary shares of HK$1 each	51%
南盈塑膠實業(深圳)有限公司	PRC, limited liability company	Manufacturing of plastic moulds, plastic and electronic accessories in the PRC	Registered capital of HK$1,700,000	51%
Quant Electronics (HK) Limited	Hong Kong, limited liability company	Dormant	3,000,000 ordinary shares of HK$1 each	51%

* Shares held directly by the Company

b) The amount due from/(to) a subsidiary was unsecured, interest-free and repayable on demand.

19 INTEREST IN AN ASSOCIATED COMPANY AND AMOUNT DUE FROM/(TO) AN ASSOCIATED COMPANY

	Group	
	2005	2004
	HK$'000	HK$'000
		(Restated)
Beginning of the year	**6,646**	6,895
Share of associated companies' results		
– (loss)/profit before taxation	**(891)**	902
– taxation (Note a)	**79**	(31)
	5,834	7,766
Acquisition of further equity interest in Southchina (the "Acquisition") (Note c)	**(1,841)**	–
Reclassification of goodwill as a result of the Acquisition (Note b & 17)	**(3,993)**	–
Addition as a result of Acquisition (Note 34)	**188**	–
Amortisation of goodwill (Note b)	**–**	(631)
Disposal of an associated company	**–**	(489)
End of the year	**188**	6,646
Due from an associated company (note d)	**91**	4,000
Due to an associated company (note e)	**650**	3,430

The corporate information and the unaudited financial information of the associated company as at 31 December 2005 was as follows:

Name	Particulars of issued shares capital	Country of incorporation	Assets	Liabilities	Revenues	Loss for the year	Interest indirectly held
			HK$'000	HK$'000	HK$'000	HK$'000	
TSC Manufacturing Limited ("TSC")	3,000,000 ordinary shares of HK$1 each	Hong Kong	5,950	6,780	3,826	(3,830)	20.4%

Notes:

(a) The associated companies in the PRC are subject to a standard income tax rate of 15% in accordance with the relevant tax laws applicable. Some of the associated companies are entitled to full exemption from PRC income tax for the two years from its incorporation or the first profitable year, and followed by a 50% reduction of PRC income tax (i.e. 7.5%) from the third to the fifth year.

(b) Cost and accumulated amortisation of goodwill are offset by the same amount of approximately HK$2,313,000 upon the adoption of HKFRS 3 at 1 January 2005. The goodwill as at 1 January 2005 after offsetting was approximately HK$3,993,000.

(c) In December 2005, the Group acquired a further 26% equity interest in Southchina and Southchina became a 51% owned subsidiary of the Group since then (Note 17).

19 INTERESTS IN ASSOCIATED COMPANIES AND AMOUNT DUE FROM/(TO) AN ASSOCIATED COMPANY (Continued)

Notes (Continued):

(d) The amount due from TSC as at 31 December 2005 is unsecured, bears interest at prime rate plus 1% and repayable on demand. Amount due from an associated company as at 31 December 2004 represented the advance to Southchina for financing its acquisition of machinery and was unsecured, interest-free and repayable on demand.

(e) The outstanding balance due to associated company was aged less than one year and was unsecured, interest-free and with normal credit terms of 30 to 60 days.

20 AVAILABLE-FOR-SALE FINANCIAL ASSETS

Unlisted capital guaranteed funds in Hong Kong:

	Group	
	2005	2004
	HK$'000	HK$'000
Beginning of the year	**–**	–
Acquisition of subsidiary (Note 34)	**2,903**	–
End of the year	**2,903**	–

Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity.

As at 31 December 2005, available-for-sale financial assets of aggregate carrying amount of HK$2,903,000 have been pledged to a bank to secure loan and overdraft facilities for Southchina (Note 37).

As these capital guaranteed funds are not publicly traded and in the absence of readily available information to determine the fair values of these capital guaranteed funds, the Group has adopted the indicative market value provided by the issuers as its best estimate of the fair values of these capital guaranteed funds.

21 INVENTORIES

	Group	
	2005	2004
	HK$'000	HK$'000
Raw materials	**44,981**	20,558
Work in progress	**12,641**	6,711
Finished goods	**16,779**	6,118
	74,401	33,387

21 INVENTORIES (Continued)

The cost of inventories recognised as expense and included in cost of goods sold amounted to HK$235,948,000 (2004: HK$200,954,000).

22 ACCOUNTS RECEIVABLE

The Group's sales to corporate customers are entered into on credit terms ranging up to 90 days, except for certain credit worthy customers to whom a longer credit period is allowed. The ageing analysis of accounts receivable at the balance sheet dates is as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
0 – 30 days	**29,904**	14,421
31 – 60 days	**22,475**	5,266
61 – 90 days	**5,459**	3,612
91 – 120 days	**3,097**	2,389
121 – 365 days	**1,441**	532
Over 365 days	**231**	–
	62,607	26,220

The Group has not recognised any gain or loss (2004: HK$153,000) for the impairment of its accounts receivable during the year ended 31 December 2005.

23 AMOUNT DUE FROM A RELATED COMPANY

The balance represented trade receivable from a related company, Maruman Products Co. Ltd. ("Maruman") which was unsecured, interest-free with a credit term of 60 days. Mr. Lam Yin Kee, the Chairman and an executive Director of the Group, has 24.7% equity interest in Maruman.

24 AMOUNT DUE FROM ULTIMATE HOLDING COMPANY, DUE FROM MINORITY SHAREHOLDERS OF SUBSIDIARY

The balances due from ultimate holding company and due from minority shareholders of subsidiary were unsecured, interest-free and repayable on demand.

25 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group
	2005
	HK$'000
Listed securities:	
– Equity securities – Hong Kong, at market values	**9,627**

The carrying amounts of the above financial assets are classified as follows:

	Group
	2005
	HK$'000
Held for trading	**9,627**

Changes in fair values of financial assets at fair value through profit or loss are recorded in other operating income/(expenses) of the income statement (Note 6).

26 TRADING LISTED SECURITIES

	Group
	2004
	HK$'000
Equity securities:	
Listed in Hong Kong, at market values	15,723

As at 31 December 2004, listed securities of aggregate carrying amount of HK$15,723,000 have been pledged to a bank to secure loan and overdraft facilities for Alltronics Tech. Mftg. Limited, a wholly owned subsidiary. In accordance with the requirements of HKAS 32, trading listed securities have been reclassified as "Financial assets at fair values through profit and loss" since 1 January 2005, as disclosed in note 25 above.

27 CASH AND CASH EQUIVALENTS

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash at bank and on hand	**24,447**	24,925	**5,305**	–
Short-term bank deposits	**66,605**	–	**50,303**	–
	91,052	24,925	**55,608**	–

The effective interest rate on short-term bank deposits was 1.27% (2004: 0.32%); these deposits have a maturity period of 30 days to 6 month (2004: 30 days to 6 months).

27 CASH AND CASH EQUIVALENTS (Continued)

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

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Bank balances and cash	**91,052**	24,925	**55,608**	–
Bank overdrafts	**(36,814)**	(21,759)	**–**	–
	54,238	3,166	**55,608**	–

Bank balances and cash of approximately HK$5,007,000 and HK$1,131,000 as at 31 December 2005 and 2004 respectively were denominated in Renminbi and kept with banks in the PRC. The remittance of these funds out of the PRC is subject to the foreign exchange restrictions imposed by the PRC government.

28 ACCOUNTS PAYABLE

The ageing analysis of accounts payable at the respective balance sheet dates is as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
0 – 30 days	**22,022**	8,054
31 – 60 days	**18,514**	9,681
61 – 90 days	**2,420**	2,390
91 – 120 days	**372**	21
121 – 365 days	**818**	47
Over 365 days	**355**	–
	44,501	20,193

29 SHARE CAPITAL

	Group and Company	
	Number of shares	Nominal value HK$'000
Authorised share capital		
At incorporation on 24 July 2003 (date of incorporation) and at 31 December 2004 (ordinary shares of HK$0.1 each)	5,000,000	500
Subdivision of one share of HK$0.1 each into 10 shares of HK$0.01 each (Note a)	50,000,000	500
Increase in authorised share capital (Note c)	9,950,000,000	99,500
At 31 December 2005	**10,000,000,000**	**100,000**

	Group and Company	
	Number of shares	Nominal value HK$
Issued and fully paid		
At 24 July 2003 (date of incorporation)	–	–
Issue of share of HK$0.1 each at nil paid on 18 August 2003	2	–
At 31 December 2004	2	–
Subdivision of one share of HK$0.1 each into 10 shares of HK$0.01 each (Note a)	20	–
Shares issued for acquisition of Alltronics (BVI) Limited (Note b)	980	9.8
Credited as fully paid of the 20 shares already issued (Note b)	–	0.2
Issue of shares upon initial public offering (Note d)	90,000,000	900,000
Shares credited as fully paid pursuant to the Reorganisation (Note e)	209,999,000	2,099,990
At 31 December 2005	**300,000,000**	**3,000,000**

Notes:

(a) On 17 June 2005, every issued and unissued share of HK$0.1 each in the share capital of the Company was subdivided into 10 shares of HK$0.01 each such that the Company had an authorised share capital of HK$500,000 divided into 50,000,000 shares of HK$0.01 each.

(b) On 17 June 2005, in preparation for the listing of the Company's shares on the Main Board of the Stock Exchange (the "Listing"), the Company acquired the entire issued share capital of Alltronics (BVI) Limited of 100 shares of US$1.00 each, which is satisfied by the Company (i) allotting and issuing 980 new shares of HK$0.01 each, credited as fully paid, to the then shareholders of Alltronics (BVI) Limited, and (ii) crediting as fully paid of the 20 shares of HK$0.01 each as already issued in nil paid on 18 August 2003.

(c) On 22 June 2005, the Company increased its authorised share capital from HK$500,000 to HK$100,000,000 by the creation of an additional 9,950,000,000 shares of HK$0.01 each.

29 SHARE CAPITAL (Continued)

Notes (Continued):

(d) On 15 July 2005, the Company issued 90,000,000 new shares of HK$0.01 each at HK$0.8 per share by way of placing and public offering in connection with the Listing, raising net proceeds of approximately HK$61 million.

(e) Immediately after the Listing, 209,999,000 shares of HK$0.01 each were allotted and issued, credited as fully paid at par value to the then existing shareholders of the Company, by capitalisation of HK$2,099,990 from the share premium account.

The share capital of the Group as at 31 December 2004 represented the combined capital of the Company and its subsidiaries as at that date.

30 RESERVES

(a) Group

	Share premium HK$'000	Capital reserve HK$'000	Share issuance costs HK$'000	Exchange reserve HK$'000	Revaluation reserve HK$'000	Dividend proposed HK$'000	Retained earnings HK$'000	Total HK$'000
Balance at 1 January 2004	–	5,300	(1,251)	130	–	–	36,249	40,428
Share issuance costs	–	–	(2,555)	–	–	–	–	(2,555)
Profit for the year	–	–	–	–	–	–	38,670	38,670
Dividend paid	–	–	–	–	–	–	(25,000)	(25,000)
Balance at 31 December 2004	–	5,300	(3,806)	130	–	–	49,919	51,543
Balance at 1 January 2005, as per above	–	5,300	(3,806)	130	–	–	49,919	51,543
Share issuance costs	–	–	(8,884)	–	–	–	–	(8,884)
Issue of shares by way of placing and public offer	71,100	–	–	–	–	–	–	71,100
Capitalisation of share premium for issue of new shares (Note 29)	(2,100)	–	–	–	–	–	–	(2,100)
Reclassification of accounts	(12,690)	–	12,690	–	–	–	–	–
Exchange difference	–	–	–	427	–	–	–	427
Acquisition of subsidiary	–	499	–	–	(206)	–	–	293
Profit for the year	–	–	–	–	–	–	26,935	26,935
Interim dividend paid	(10,500)	–	–	–	–	–	–	(10,500)
Proposed final dividend	–	–	–	–	–	4,500	(4,500)	–
Balance at 31 December 2005	45,810	5,799	–	557	(206)	4,500	72,354	128,814

30 RESERVES (Continued)

(b) Company

	Share premium HK$'000	Dividend proposed HK$'000	Retained earnings/ (Accumulated loss) HK$'000	Total HK$'000
Balance at 1 January 2004	–	–	–	–
Loss for the year	–	–	(133)	(133)
Balance at 31 December 2004	–	–	(133)	(133)
Balance at 1 January 2005, as per above	–	–	(133)	(133)
Issue of shares by way of placing and public offer	71,100	–	–	71,100
Capitalisation of share premium for issue of new shares (Note 29)	(2,100)	–	–	(2,100)
Reallocated of the share issuance costs from subsidiary	(12,690)	–	–	(12,690)
Profit for the year	–	–	7,448	7,448
Interim dividend paid	(10,500)	–	–	(10,500)
Proposed final dividend	–	4,500	(4,500)	–
Balance at 31 December 2005	45,810	4,500	2,815	53,125

Pursuant to Section 34 of the Companies Law (Revised) of the Cayman Islands and the Articles of Association of the Company, share premium of the Company is available for distribution to equity holders subject to an ordinary resolution approved by the board of directors. As at 31 December 2005, in the opinion of the Directors, the Company's reserves available for distribution to equity holders, comprising the share premium account and retained earnings, amounted to approximately HK$53,125,000 (2004: Nil).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2005

31 BORROWINGS

	Group	
	2005	2004
	HK$'000	HK$'000
Bank loans-secured (Note a)	**21,415**	5,580
Obligations under finance leases (Note b)	**3,299**	1,057
Total borrowings, wholly repayable within five years	**24,714**	6,637
Current portion of borrowings	**(14,010)**	(5,104)
	10,704	1,533

Notes:

(a) As at the balance sheet date, the Group's bank loans were repayable as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Within one year	**12,056**	4,441
In the second year	**5,719**	950
In the third to fifth year	**3,640**	189
	21,415	5,580

(b) As at the balance sheet date, the Group's finance lease liabilities were repayable as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Within one year	**2,112**	699
In the second year	**1,268**	357
In the third to fifth year	**123**	46
	3,503	1,102
Future finance charges on finance leases	**(204)**	(45)
Present value of finance lease liabilities	**3,299**	1,057

The present value of finance lease liabilities is as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Within one year	**1,954**	663
In the second year	**1,224**	349
In the third to fifth year	**121**	45
	3,299	1,057

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2005

31 BORROWINGS (Continued)

(c) The effective interest rates at the balance sheet date were as follows:

	Group	
	2005	2004
Bank loans	**6.2%**	5.2%
Obligations under finance leases	**4.9%**	4.2%

32 DEFERRED INCOME TAX

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% for the year.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Deferred tax assets:		
– Deferred tax asset to be recovered after more than 12 months	**(331)**	–
Deferred tax liabilities:		
– Deferred tax liabilities to be settled after more than 12 months	**1,573**	1,281

The gross movement on the deferred income tax account is as follows:

	2005	2004
	HK$'000	HK$'000
Beginning of the year	**1,281**	1,396
Acquisition of subsidiary (Note 34)	**145**	–
Recognised in the income statement (Note 11)	**(184)**	(115)
End of the year	**1,242**	1,281

32 DEFERRED INCOME TAX (Continued)

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred tax assets

	Group		
	Tax losses	**Other**	**Total**
	HK$'000	HK$'000	HK$'000
At 1 January 2004	–	–	–
Recognised in the income statement	–	–	–
At 31 December 2004	–	–	–
Recognised in the income statement	–	(27)	(27)
Acquisition of subsidiary (Note 34)	(235)	(69)	(304)
At 31 December 2005	**(235)**	**(96)**	**(331)**

Deferred tax liabilities

	Group		
	Accelerated tax depreciation	**Other**	**Total**
	HK$'000	HK$'000	HK$'000
At 1 January 2004	1,361	35	1,396
Recognised in the income statement	(153)	38	(115)
At 31 December 2004	1,208	73	1,281
Recognised in the income statement	(84)	(73)	(157)
Acquisition of subsidiary (Note 34)	449	–	449
At 31 December 2005	**1,573**	**–**	**1,573**

33 NOTES TO CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of operating profit to net cash generated from operations:

	2005 HK$'000	2004 HK$'000 (Restated)
Operating profit	**38,072**	49,486
Interest income	**(1,564)**	(100)
Depreciation	**7,202**	6,928
Amortisation of land use rights	**50**	38
Loss on disposals of fixed assets	**1,301**	–
Gain on disposals of financial assets at fair value through profit and loss	**(1,993)**	–
Loss on disposals of trading listed securities	**–**	1,093
Unrealised loss on financial assets at fair value through profit or loss	**155**	–
Unrealised gain on trading listed securities	**–**	(424)
Gain on disposal of associated company	**–**	(2)
Dividend income	**(60)**	(251)
Operating profit before working capital changes	**43,163**	56,768
(Increase)/decrease in accounts receivable	**(24,005)**	16,224
Increase in prepayments, deposits and other receivables	**(2,902)**	(2,685)
Increase in inventories	**(23,082)**	(3,957)
Increase in amount due from an associated company	**(91)**	–
Increase in amount due from ultimate holding company	**(29)**	–
Decrease in amount due from a related company	**860**	379
Increase in bills payable	**8,779**	2,885
Decrease in amount due to a director	**–**	(27,918)
Increase in amount due to an associated company	**2,411**	475
Increase in accounts payable	**9,965**	866
Increase/(decrease) in accruals and other payables	**2,232**	(699)
Decrease in trust receipt loans	**(772)**	(1,330)
Net cash generated from operations	**16,529**	41,008

34 BUSINESS COMBINATIONS

On 16 December 2005, the Group acquired further equity interest in an associated company, Southchina, from 25% to a controlling stake of 51%. The revenue and net profit contributed by Southchina to the Group for the period from 16 December 2005 to 31 December 2005 were insignificant. If the acquisition had occurred on 1 January 2005, Group revenue would have been increased by approximately HK$108,088,000 and profit before taxation would have been decreased by HK$927,000.

Details of net assets acquired and goodwill are as follows:

	HK$'000
Purchase consideration paid in cash	8,300
Direct accounting and legal cost on acquisition	1,107
26% of the fair value of net assets acquired	(1,728)
Goodwill on acquisition of 26% interest in Southchina (Note 17)	7,679

The goodwill is attributable to the high potential of profitability of the acquired business and the significant synergies expected to arise from the Group's acquisition of Southchina.

34 BUSINESS COMBINATIONS (Continued)

The assets and liabilities arising from the acquisition as at 16 December 2005 are as follows:

	Acquiree's carrying amount and fair value HK$'000
Cash and cash equivalents	(6,076)
Pledged bank deposits	4,933
Property, plant and equipment (Note 15)	11,517
Interest in an associated company (Note 19)	188
Available-for-sale financial assets (Note 20)	2,903
Inventories	17,932
Accounts receivable	12,382
Deposits, prepayments and other receivables	1,054
Amount due from minority shareholders	1,340
Amount due from related companies	6,137
Accounts payable	(14,343)
Bills payable, secured	(8,697)
Trust receipts loans, secured	(1,210)
Accruals and other payables	(5,532)
Amount due to associated company	(650)
Amount due to related companies	(297)
Current portion of borrowings	(5,986)
Taxation payable	(665)
Short term loan due from related companies	(4,000)
Long term borrowings	(4,137)
Net deferred tax liabilities (Note 32)	(145)
Net assets	6,648
Minority interests	(3,258)
Net assets acquired	3,390

35 CONTINGENCIES

The Group did not have any contingent liabilities as at 31 December 2005. As at 31 December 2004, the Group has a pending litigation in relation to a fatal traffic accident causing the death of one of its employees during his business trip in the PRC. The litigation has been settled during the year and the amount of compensation was fully covered under the Group's business insurance policy.

36 COMMITMENTS – GROUP

(a) Capital commitments

Capital expenditure at the balance sheet date but not yet incurred is as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Property, plant and equipment		
Contracted but not provided for	**3,068**	200
Authorised but not contracted for	**32,240**	–

(b) Financial commitment for investment in a subsidiary

During the year ended 31 December 2004, the Group has set up a wholly own foreign investment enterprise in the PRC with a registered capital of US$1,200,000. As at 31 December 2005 and 2004, the paid up capital amounted to US$180,000. The remaining US$1,020,000 is required to be paid by the Group on or before 12 May 2006.

(c) Operating lease commitments

The Group leases various offices, warehouses and quarters under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Not later than 1 year	**10,540**	3,576
Later than 1 year and not later than 5 years	**18,600**	3,708
Later than 5 years	**3,409**	–
	32,549	7,284

37 BANKING FACILITIES

As at 31 December 2005, the Group's total available banking facilities totaling approximately HK$223 million (2004: HK$162 million) of which approximately HK$122 million (2004: HK$55 million) was unutilised. The facilities were secured by the following:

(a) corporate guarantees given by the Company;

(b) pledge of the Group's fixed deposits of HK$4.9 million (2004:HK$13.4 million)

(c) available-for-sale financial assets held with carrying value of approximately HK$2.9 million (2004: trading securities of HK$15.3 million);

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2005

37 BANKING FACILITIES (Continued)

The banking facilities granted to Southchina are also secured by personal guarantees given by Mr. Lam Yin Kee and other minority shareholders of Southchina.

38 RELATED PARTY TRANSACTIONS

(a) Significant related party transactions, which were carried out in the normal course of the Group's business and at terms negotiated between the Group and the respective parties, were as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Sales of goods to Maruman (i)	**19,129**	21,109
Sales of goods to Southchina (ii)	**2,424**	167
Purchases of plastic components from Southchina (ii)	**26,711**	23,264
Mould expenses paid to Southchina (ii)	**1,292**	1,664
Rental expenses paid to Profit Home Investments Limited (iii)	**960**	960

(i) Maruman Products Co. Ltd. ("Maruman") is a company incorporated in Japan and owned as to 24.7% by Mr. Lam Yin Kee. Maruman is engaged in the business of trading in general merchandise.

(ii) Southchina was a 25% owned associated company of the Group until 16 December 2005, when the Group acquired a further 26% equity interest in Southchina. Since then, it became a subsidiary of the Group.

(iii) Ms. Yeung Po Wah is a shareholder and director of Profit Home Investments Limited and holds 60% of its issued share capital.

(b) Year end balances arising from the related parties transactions as disclosed in note (a) above were as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Amount due from a related company (Note 23)	**807**	1,667

The outstanding balance with the related company is aged less than one year and is unsecured, non-interest bearing and with normal credit terms of 60 days.

38 RELATED PARTY TRANSACTIONS (Continued)

(c) Key management compensation

	Group	
	2005	2004
	HK$'000	HK$'000
Directors' fees	**517**	–
Salaries and other short-term employee benefits	**8,760**	7,703
Retirement benefit costs	**96**	73
	9,373	7,776

FOUR YEARS FINANCIAL SUMMARY

The following table summarises the results, assets and liabilities of the Group for each of the four years ended 31 December 2005:

	Year ended 31 December			
	2005	2004	2003	2002
Results	**HK$'000**	HK$'000	HK$'000	HK$'000
		(Restated)	(Restated)	(Restated)
Turnover	**316,903**	292,447	252,760	176,802
Profit before taxation	**33,945**	47,149	44,193	25,716
Taxation	**(7,010)**	(8,479)	(14,056)	(2,826)
Profit attributable to equity holders of the Company	**26,935**	38,670	30,137	22,890
Assets and liabilities				
Total assets	**319,939**	163,266	167,200	135,665
Total liabilities	**(184,867)**	(111,223)	(126,272)	(93,623)
Total equity	**135,072**	52,043	40,928	42,042

Notes:

(1) The results of the Group for each of the three years ended 31 December 2004 and its assets and liabilities as at 31 December 2004, 2003 and 2002 have been prepared on a combined basis as if the current group structure had been in existence throughout the years concerned.

(2) The results of the Group for each of the three years ended 31 December 2004 have been restated as a result of the adoption of the new/revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants.

(3) The results of the Group for the year ended 31 December 2005 and its assets and liabilities as at 31 December 2005 are those set out on pages 30 to 32 of this report and are presented on the basis as set out in Note 2 to the financial statements.