Notes on the Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (which includes all applicable Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. The financial statements also comply with the disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

(b) Recently issued accounting standards

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("New HKFRSs") which are effective for accounting periods beginning on or after 1st January, 2005.

The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31st December, 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

(c) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is historical cost modified by the revaluation of investment properties, and the marking to market of certain investments in securities as explained in the accounting policies set out below.

(d) Subsidiaries

A subsidiary is an enterprise controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

An investment in a subsidiary is consolidated into the consolidated financial statements, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Group, in which case, it is stated in the consolidated balance sheet at fair value with changes in fair value recognised in the consolidated income statement as they arise.

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see Note 1(k)).

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Associates and jointly controlled entities

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group or Company and other parties, where the contractual arrangement establishes that the Group or Company and one or more of the other parties share joint control over the economic activity of the entity.

An investment in an associate or a jointly controlled entity is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's or the jointly controlled entity's net assets. The consolidated income statement reflects the Group's share of the post-acquisition results of the associates and jointly controlled entities for the year, including any amortisation of positive or negative goodwill charged or credited during the year in accordance with Note 1(f).

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

In the Company's balance sheet, its investment in a jointly controlled entity is stated at cost less impairment losses (see Note 1(k)).

(f) Goodwill

Positive goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired. In respect of controlled subsidiaries:

(i) for acquisitions before 1st January, 2001, positive goodwill is written off to contributed surplus and is reduced by impairment losses (see Note 1(k)); and

(ii) for acquisitions on or after 1st January, 2001, positive goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life. Positive goodwill is stated in the consolidated balance sheet at cost less any accumulated amortisation and any impairment losses (see Note 1(k)).

In respect of acquisitions of associates and jointly controlled entities, positive goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life. The cost of positive goodwill less any accumulated amortisation and any impairment losses (see Note 1(k)) is included in the carrying amount of the interest in associates or jointly controlled entities.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Goodwill *(Continued)*

Negative goodwill arising on acquistions of subsidiaries, associates and jointly controlled entities represents the excess of the Group's share of the fair value of the identifiable assets and liabilities acquired over the cost of the acquisition. Negative goodwill is accounted for as follows:

(i) for acquisitions before 1st January, 2001, negative goodwill is credited to capital reserve; and

(ii) for acquisitions on or after 1st January, 2001, to the extent that negative goodwill relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which have not yet been recognised, it is recognised in the consolidated income statement when the future losses and expenses are recognised. Any remaining negative goodwill, but not exceeding the fair values of the non-monetary assets acquired, is recognised in the consolidated income statement over the weighted average useful life of those non-monetary assets that are depreciable/amortisable. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the consolidated income statement.

In respect of any negative goodwill not yet recognised in the consolidated income statement:

(i) for subsidiaries, such negative goodwill is shown in the consolidated balance sheet as a deduction from assets in the same balance sheet classification as positive goodwill; and

(ii) for associates and jointly controlled entities, such negative goodwill is included in the carrying amount of the interests in associates or jointly controlled entities.

On disposal of a subsidiary, an associate or a jointly controlled entity during the year, any attributable amount of purchased goodwill not previously amortised through the consolidated income statement or which has previously been dealt with as a movement on the Group reserves is included in the calculation of the profit or loss on disposal.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Other investments in securities

The Group's policy for investments in securities other than investments in subsidiaries, associates and jointly controlled entities is as follows:

(i) Investments held on a continuing basis for an identified long-term purpose are classified as investment securities. Investment securities are stated in the balance sheet at cost less any provisions for diminution in value. Provisions are made when the fair values have declined below the carrying amounts, unless there is evidence that the decline is temporary, and are recognised as an expense in the income statement, such provisions being determined for each investment individually.

(ii) Provisions against the carrying value of investment securities are written back when the circumstances and events that led to the write-down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(iii) All other securities (whether held for trading or otherwise) are stated in the balance sheet at fair value. Changes in fair value are recognised in the income statement as they arise. Securities are presented as trading securities when they were acquired principally for the purpose of generating a profit from short term fluctuations in price or dealer's margin.

(iv) Profits or losses on disposal of investments in securities are determined as the difference between the estimated net disposal proceeds and the carrying amount of the investments and are accounted for in the income statement as they arise.

(h) Interest in partnership

Interest in partnership is stated at cost less provision, where appropriate, together with profits less losses attributable to the Group.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Fixed assets

(i) Fixed assets are carried in the balance sheet on the following bases:

(a) investment properties with an unexpired lease term of more than 20 years are stated in the balance sheet at their open market value which is assessed annually by external qualified valuers;

(b) land and buildings held for own use are stated in the balance sheet at cost less accumulated depreciation (see Note 1(j)) and impairment losses (see Note 1(k));

(c) construction in progress is stated in the balance sheet at cost less impairment losses (see Note 1(k)); and

(d) plant, machinery and other fixed assets are stated in the balance sheet at cost less accumulated depreciation (see Note 1(j)) and impairment losses (see Note 1(k)).

(ii) Changes arising on the revaluation of investment properties are generally dealt with in reserves. The only exceptions are as follows:

(a) when a deficit arises on revaluation, it will be charged to the income statement, if and to the extent that it exceeds the amount held in reserve in respect of the portfolio of investment properties, immediately prior to the revaluation; and

(b) when a surplus arises on revaluation, it will be credited to the income statement, if and to the extent that a deficit on revaluation in respect of the portfolio of investment properties, had previously been charged to the income statement.

(iii) Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the enterprise. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

(iv) Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the income statement on the date of retirement or disposal. On disposal of an investment property, the related portion of surpluses or deficits previously taken to the investment properties revaluation reserve is also transferred to the income statement for the year.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Depreciation

(i) No depreciation is provided in respect of investment properties with an unexpired lease term of over 20 years or on freehold land.

(ii) Depreciation is provided on the then carrying amount of investment properties with an unexpired lease term of 20 years or less on a straight-line basis over the remaining term of the lease.

(iii) Depreciation is provided on the cost of leasehold land and buildings on a straight-line basis over 50 years or the remaining terms of the respective leases, if shorter.

(iv) Depreciation is provided on the written down value of other fixed assets at the following rates:

Plant and machinery	–	20% to 25% per annum
Furniture and fixtures	–	20% to 25% per annum
Moulds and tools	–	10% to 30% per annum
Vehicles and pleasure craft	–	30% per annum

(v) No depreciation is provided in respect of construction in progress until it is ready for its intended use.

(k) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

(i) property, plant and equipment (other than properties carried at revalued amounts);

(ii) investments in subsidiaries, associates and joint ventures; and

(iii) positive goodwill (whether taken initially to reserves or recognised as an asset).

Notes on the Financial Statements *(Continued)*

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Impairment of assets *(Continued)*

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of such an asset (including positive goodwill taken directly to reserves) exceeds its recoverable amount.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the assets. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

(ii) Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is reversed only if the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Leased assets

Leases of assets under which the lessee assumes substantially all the risks and benefits of ownership are classified as finance leases. Leases of assets under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases.

(i) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost of the assets in equal annual amounts over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in Note 1(j). Impairment losses are accounted for in accordance with the accounting policy as set out in Note 1(k). Finance charges implicit in the lease payments are charged to the income statement over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

(ii) Assets held for use in operating leases

Where the Group leases out assets under operating leases, the assets are included in the balance sheet according to their nature and, where applicable, are depreciated in accordance with the Group's depreciation policies, as set out in Note 1(j). Impairment losses are accounted for in accordance with the accounting policy as set out in Note 1(k). Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies, as set out in Note 1(s)(ii).

(iii) Operating lease charges

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made.

(m) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the FIFO cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Inventories *(Continued)*

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write down or loss occurs. The amount of any reversal of any write down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(n) Properties held for resale

Properties held for resale are stated at the lower of specific identified cost and estimated net realisable value.

(o) Cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(p) Employee benefits

(i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Contributions to the Group's defined contribution retirement plans including Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as an expense in the income statement as incurred, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

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

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Income tax

(i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

(ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

(iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

All deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Income tax *(Continued)*

(iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if, the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(r) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company or Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material , provisions are stated at the present value of the expenditures expected to settle the obligation.

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

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

(i) Sale of goods

Revenue is recognised when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added or other sales taxes and is after deduction of any trade discounts.

(ii) Rental income from operating leases

Rental income receivable under operating leases is recognised in the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives granted are recognised in the income statement as an integral part of the aggregate net lease payments receivable.

(iii) Dividends

(a) Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

(b) Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(iv) Interest income

Interest income from bank deposits is accrued on a time-apportioned basis by reference to the principal outstanding and the rate applicable.

(t) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the income statement.

The results of foreign enterprises are translated into Hong Kong dollars at the average exchange rate for the year, balance sheet items are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with as a movement in reserves.

On disposal of a foreign enterprise, the cumulative amount of the exchange differences which relate to that foreign enterprise is included in the calculation of the profit or loss on disposal.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Borrowing costs

Borrowing costs are expensed in the income statement in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

(v) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

(w) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between Group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

2. TURNOVER

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are the manufacture and sale of plastic, electronic and stuffed toys and model trains, property investment, investment holding and trading.

Turnover represents the invoiced value of goods sold, less returns, to third parties, rental income, proceeds from disposal of investments and investment income. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2004	2003
	HK$'000	*HK$'000*
Sale of goods	**476,744**	469,395
Rental income	**24,119**	25,929
Proceeds from disposal of listed investments	**238**	–
Investment income	**5**	1
	501,106	495,325

3. OTHER REVENUE AND NET EXPENSE

	2004	2003
	HK$'000	*HK$'000*
(a) Other revenue		
Interest income	**172**	51
Air conditioning, management and maintenance service charges from tenants	**4,546**	4,124
Service income	**4**	910
Waive of amount due to related parties and related companies	**1,257**	–
Compensation received for withdrawal from joint venture *(Note 13)*	**4,717**	–
Others	**5,038**	2,306
	15,734	7,391
(b) Other net expense		
Unrealised gain on revaluation of investment in Squaw Creek Associates, LLC *(Note 12)*	**–**	1,727
Net (loss)/gain on disposal of fixed assets	**(1,844)**	203
Net exchange loss	**(4,190)**	(2,943)
Unrealised loss on listed investments	**–**	(14)
Income/(loss) from partnership	**753**	(1,853)
	(5,281)	(2,880)

4. PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

Profit from ordinary activities before taxation is arrived at after charging/(crediting):

	2004	2003
	HK$'000	*HK$'000*
(a) Finance costs		
Interest on bank advances repayable within 5 years	**5,882**	9,545
Interest on advances from directors	**4,022**	3,857
Interest on advances from shareholders	**3,098**	2,327
Interest on amounts due to related parties/ related companies	**126**	122
Interest on other loans	**460**	406
Finance charges on obligations under finance leases	**179**	474
	13,767	16,731
(b) Other items		
Cost of inventories sold	**341,641**	342,503
Write off of goodwill	**3,403**	(1)
Amortisation of positive goodwill included in the share of loss of associates	**485**	185
Depreciation		
– owned assets	**20,430**	20,568
– assets held under finance leases	**521**	489
Impairment loss in respect of fixed assets	**10,078**	2,984
Auditors' remuneration	**1,638**	1,680
Operating lease charges		
– rental on land and buildings	**12,693**	11,891
– other rental	**488**	439
Employer's contributions to defined contribution retirement plans, net of forfeited contributions of HK$100,000 (2003: HK$241,000) *(Note 28)*	**5,573**	5,008
Dividend income from listed investments	**(1)**	(1)
Dividend income from unlisted investments	**(4)**	–
Gross rental income from investment properties less direct outgoings of HK$3,107,000 (2003: HK$3,649,000)	**(21,012)**	(22,280)

Cost of inventories includes HK$99,706,000 (2003: HK$102,804,000) relating to staff costs, depreciation charges, impairment loss in respect of fixed assets and operating lease charges, which amount is also included in the respective total amounts disclosed separately above and in the income statement for each of these types of expenses.

5. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	2004	2003
	HK$'000	*HK$'000*
Current tax-Provision for Hong Kong Profits Tax		
Tax for the year	**480**	963
Current tax-Overseas including the PRC		
Tax for the year	**9,874**	7,341
(Over)/under-provision in respect of prior years	**(36)**	3
	9,838	7,344
Deferred tax		
Origination and reversal of temporary differences	**(4,772)**	(3,137)
Adjustments in respect of previous years	**46**	(27)
Effect of increase in tax rate on deferred tax balances at 1st January	**–**	798
	(4,726)	(2,366)
Share of associates' taxation	**–**	268
	5,592	6,209

The provision for Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profits for the year. Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

5. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT *(Continued)*

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2004	2003
	HK$'000	*HK$'000*
Profits before tax	**8,990**	879
Notional tax on profits before tax, calculated at the rates applicable to profits in the countries concerned	**1,635**	108
Tax effect on non-deductible expenses	**13,497**	9,009
Tax effect of non-taxable revenue	**(3,957)**	(14)
Tax effect of tax losses not recognised	**1,100**	759
Tax effect of unrecognised tax losses utilised this year	**(6,548)**	(4,438)
Effect on opening deferred tax balances resulting from an increase in tax rate during the year	**–**	798
Under/(over)-provision in prior years	**11**	(24)
Others	**(146)**	11
Actual tax expense	**5,592**	6,209

6. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	2004	2003
	HK$'000	*HK$'000*
(i) Executive directors		
Fees	**80**	80
Other emoluments:		
Salaries and other benefits	**2,644**	2,503
Pension scheme contributions	**197**	203
	2,841	2,706
	2,921	2,786
(ii) Non-executive directors		
Fees	**90**	80
Other emoluments:		
Salaries and other benefits	**334**	334
Pension scheme contributions	**33**	33
	367	367
	457	447

The remuneration of the directors is within the following bands:

	2004	2003
	Number of directors	Number of directors
HK$Nil to HK$1,000,000	**7**	4
HK$1,500,001 to HK$2,000,000	**1**	–
HK$2,000,001 to HK$2,500,000	**–**	1

6. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

(b) Employees' emoluments

During the year ended 31st December, 2004, the five highest paid individuals included one (2003: one) director, details of whose emoluments are set out in Note 6(a). The emoluments of the remaining of the five highest paid individuals, excluding commissions on sales generated by the employees, are as follows:

	2004	2003
	HK$'000	*HK$'000*
Salaries and other benefits	**4,302**	4,004
Bonus	**626**	138
Pension scheme contributions	**492**	154
	5,420	4,296

The emoluments of the four (2003: four) individuals with the highest emoluments are within the following band:

	2004	2003
	Number of employees	Number of employees
HK$1,000,001 to HK$1,500,000	**4**	4

7. PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit/(loss) attributable to shareholders includes a profit of HK$416,664,000 (2003: HK$3,510,000) which has been dealt with in the financial statements of the Company.

8. EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the profit attributable to shareholders of HK$3,398,000 (2003 : loss of HK$5,330,000) and the weighted average of 665,412,000 ordinary shares (2003: 665,412,000 shares) in issue during the year.

(b) Diluted earnings/(loss) per share

The diluted earnings/(loss) per share is not presented as the Company does not have dilutive potential ordinary shares outstanding during both 2003 and 2004.

9. SEGMENT REPORTING

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's internal financial reporting.

Business segments

The Group comprises the following main business segments:

Toys and model trains: The manufacture and sale of plastic, electronic and stuffed toys and model trains.

Property investment: The leasing of office premises, industrial building and residential units to generate rental income and to gain from the appreciation in the properties' value in the long-term.

Investment holding and trading: The investment in partnership and trading of listed securities.

	Toys and model trains		Property investment		Investment holding and trading		Unallocated		Inter-segment elimination		Consolidated	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue from external customers	**476,744**	469,395	**24,119**	25,929	**243**	1	**–**	–	**–**	–	**501,106**	495,325
Inter-segment revenue	**–**	–	**687**	687	**–**	–	**–**	–	**(687)**	(687)	**–**	–
Other revenue from external customers	**3,229**	1,640	**4,558**	4,462	**–**	325	**6,518**	913	**–**	–	**14,305**	7,340
Total	**479,973**	471,035	**29,364**	31,078	**243**	326	**6,518**	913	**(687)**	(687)	**515,411**	502,665
Segment result	**19,672**	15,729	**20,131**	22,514	**(6,852)**	(3,944)	**2,156**	(5,717)	**–**	–	**35,107**	28,582
Unallocated operating income and expenses											**(919)**	(1,599)
Profit from operations											**34,188**	26,983
Finance costs											**(13,767)**	(16,731)
Share of loss of associates							**(11,431)**	(9,373)			**(11,431)**	(9,373)
Taxation											**(5,592)**	(6,209)
Profit/(loss) attributable to shareholders											**3,398**	(5,330)
Depreciation for the year	**16,759**	17,129	**3,419**	2,982	**–**	–	**773**	946	**–**	–	**20,951**	21,057
Impairment loss in respect of fixed assets	**10,078**	2,984	**–**	–	**–**	–	**–**	–	**–**	–	**10,078**	2,984

Notes on the Financial Statements *(Continued)*

9. SEGMENT REPORTING *(Continued)*

Business segments *(Continued)*

	Toys and model trains		Property investment		Investment holding and trading		Unallocated inter-company and other balances		Inter-segment elimination		Consolidated	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment assets	**330,291**	339,928	**468,888**	423,163	**2,487**	1,938	**315,296**	356,677	**(311,469)**	(352,026)	**805,493**	769,680
Investments in associates											**166,538**	171,552
Unallocated assets											**13,940**	12,312
Total assets											**985,971**	953,544
Segment liabilities	**310,659**	360,855	**46,610**	101,343	**68,989**	59,501	**330,464**	306,246	**(311,469)**	(352,026)	**445,253**	475,919
Unallocated liabilities											**34,750**	36,093
Total liabilities											**480,003**	512,012
Capital expenditure incurred during the year	**25,398**	18,406	**–**	–	**–**	–	**–**	–	**–**	–	**25,398**	18,406

9. SEGMENT REPORTING *(Continued)*

Geographical segments

The Group's business is managed on a worldwide basis, but participates in four principal economic environments. Hong Kong and China is a major market for the Group's toys and model trains and property investment, and it is the location of most of its toys and model trains manufacturing. Toys and model trains are also sold to North America. The Group also has investment and investment properties in North America. In Europe and other locations, the major business is sale of toys and model trains.

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

	Hong Kong and China		North America		Europe		Others	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue from external customers	**73,367**	79,108	**216,545**	251,529	**191,139**	134,710	**20,055**	29,978
Segment assets	**867,088**	885,975	**138,284**	134,617	**111,590**	101,114	**–**	–
Capital expenditure incurred during the year	**18,003**	15,593	**1,607**	219	**5,788**	2,594	**–**	–

Notes on the Financial Statements *(Continued)*

10. FIXED ASSETS

The Group

	Land and buildings In Hong Kong	Land and buildings Outside Hong Kong	Construction in progress	Equipment	Sub-total	Investment properties In Hong Kong	Investment properties Outside Hong Kong	Sub-total	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost or valuation:									
At 1st January, 2004	14,131	26,691	–	439,588	480,410	345,950	66,851	412,801	893,211
Exchange differences	–	1,205	–	1,758	2,963	–	–	–	2,963
Reclassification	(1,800)	–	–	–	(1,800)	1,800	–	1,800	–
Additions	–	542	2,679	22,177	25,398	–	–	–	25,398
Disposals	–	–	–	(15,957)	(15,957)	–	–	–	(15,957)
Surplus on revaluation *(Note (b) below)*	–	–	–	–	–	46,211	6,551	52,762	52,762
At 31st December, 2004	12,331	28,438	2,679	447,566	491,014	393,961	73,402	467,363	958,377
Representing:									
Cost	12,331	28,438	2,679	447,566	491,014	–	10,000	10,000	501,014
Valuation – 2004	–	–	–	–	–	393,961	63,402	457,363	457,363
	12,331	28,438	2,679	447,566	491,014	393,961	73,402	467,363	958,377
Accumulated depreciation:									
At 1st January, 2004	6,202	8,908	–	352,765	367,875	–	–	–	367,875
Exchange differences	–	156	–	1,201	1,357	–	–	–	1,357
Reclassification	(710)	–	–	–	(710)	710	–	710	–
Charge for the year	297	557	–	16,764	17,618	–	3,333	3,333	20,951
Impairment loss *(Note (c) below)*	–	–	–	10,078	10,078	–	–	–	10,078
Written back on disposals	–	–	–	(13,695)	(13,695)	–	–	–	(13,695)
Written back on revaluation *(Note (b) below)*	–	–	–	–	–	(710)	–	(710)	(710)
At 31st December, 2004	5,789	9,621	–	367,113	382,523	–	3,333	3,333	385,856
Net book value:									
At 31st December, 2004	**6,542**	**18,817**	**2,679**	**80,453**	**108,491**	**393,961**	**70,069**	**464,030**	**572,521**
At 31st December, 2003	7,929	17,783	–	86,823	112,535	345,950	66,851	412,801	525,336

10. FIXED ASSETS *(Continued)*

(a) Land and buildings comprise:

	2004	2003
	HK$'000	*HK$'000*
At net book value:		
Medium-term leases in Hong Kong	**6,542**	7,929
Freehold outside Hong Kong	**18,817**	17,783

(b) Investment properties comprise:

	2004	2003
	HK$'000	*HK$'000*
At valuation:		
In Hong Kong		
Medium-term leases	**393,961**	345,950
Outside Hong Kong		
Short-term leases	**6,667**	10,000
Medium-term leases	**37,000**	34,841
Freehold	**26,402**	22,010
	70,069	66,851

The investment properties of the Group at 31st December, 2004 were revalued by DTZ Debenham Tie Leung and Johnston, Ross & Cheng Limited, external professional valuers, on an open market basis, by either making reference to the comparable sales evidence in the relevant locality, or otherwise, by capitalising the current rent passing derived from the existing tenancies with the provision for any reversionary income potential.

The net revaluation surplus of HK$53,472,000 (2003: HK$8,395,000) was credited to the investment properties revaluation reserve (Note 25).

(c) Impairment loss

During the year, the Group's directors assessed the recoverable amount of the Group's moulds and equipments. Based on this assessment, the carrying value of certain of those moulds and equipments was written down by HK$10,078,000 (included in "Other operating expenses").

(d) Equipment comprises plant and machinery, furniture and fixtures, moulds and tools, vehicles and pleasure craft.

10. FIXED ASSETS *(Continued)*

(e) Certain fixed assets of the Group were mortgaged to various banks to secure banking facilities granted to the Group. Details are disclosed in Note 21.

(f) The Group leases production plant and machinery under finance leases expiring in three to five years. At the end of the lease term the Group has the option to purchase the equipment at a price deemed to be a bargain purchase option. None of the leases includes contingent rentals. The net book value of fixed assets included an amount of HK$2,736,000 (2003: HK$1,955,000) in respect of assets held under finance leases.

(g) The Group leases out investment properties under operating leases. The leases typically run for an initial period of one to three years, with an option to renew the lease at which time all terms are renegotiated. None of the leases includes contingent rentals.

The carrying amount of the investment properties of the Group held for use in operating leases was HK$464,030,000 (2003: HK$412,801,000).

The Group's total lease payments under non-cancellable operating leases are receivable as follows:

	The Group	
	2004	2003
	HK$'000	*HK$'000*
Within 1 year	**19,513**	16,713
After 1 year but within 5 years	**19,601**	16,633
	39,114	33,346

11. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2004	2003
	HK$'000	*HK$'000*
Unlisted shares, at cost	**244,480**	244,480
Add: Amounts due from subsidiaries	**617,817**	607,122
Less: Impairment losses	**(241,938)**	(241,938)
	620,359	609,664

Details of the major subsidiaries at 31st December, 2004 which principally affect the results or assets of the Group are shown on pages 72 and 73.

12. INVESTMENTS IN ASSOCIATES

	The Group	
	2004	2003
	HK$'000	*HK$'000*
Share of net assets	**78,235**	82,323
Amounts due from associates	**79,266**	79,707
Goodwill	**9,037**	9,522
	166,538	171,552

Details of the major associates at 31st December, 2004, which principally affect the results or assets of the Group, are as follows:

Name of associates	Form of business structure	Place of incorporation and operation	Proportion of ownership by the Company	Proportion of interest held by Subsidiary	Principal activities
Allman Holdings Limited	Incorporated	British Virgin Islands	–	36% *(see below)*	Investment holding
The Melville Street Trust	Incorporated	Canada	–	27.3%	Property investment
Mango Designs, LLC	Incorporated	USA	–	30%	Operation ceased
Squaw Creek Associates, LLC	Incorporated	USA	–	10% *(see below)*	Resort operation

During the past two years, the Group has been involved in a litigation arising from the termination of the agency in relation to the management of the resort owned by Squaw Creek Associates, LLC ("SCA"). The dispute has been settled during the year 2003. On 19th August, 2003, the Group's ownership interest in Allman Holdings Limited ("Allman") decreased from 50% to 36% and Allman's ownership interest in SCA increased from 36% to 72%. Together with the ownership interest held by the Group's subsidiary of 10%, the Group's effective interest in SCA was approximately equal to 36%. On this date SCA became an associate of the Group.

In January 2004, Allman disposed of 10% ownership interest in SCA to a third party, as a result of the disposal, the Group's effective interest in SCA decreased from approximately 36% to 32%.

Goodwill of HK$9,707,000 arose when the Group changed its ownership interest and SCA became an associate. The goodwill represents the excess of the carrying value of the investment immediately prior to the change over the Group's share of the fair value of the identifiable assets and liabilities acquired. In accordance with the Group's accounting policy, the goodwill is amortised through the consolidated income statement (included in "share of loss of associates") over its estimated useful life of 20 years.

12. INVESTMENTS IN ASSOCIATES *(Continued)*

Prior to becoming an associate, the Group's ownership interest of 10% in SCA held by the Group's subsidiary was classified as other investments under "Other non-current financial assets". The valuation of the resort owned by SCA was performed by an independent firm of professional valuers using an income capitalisation approach and the related share of the unrealised gain on the revaluation attributable to the Group prior to SCA becoming an associates was HK$1,727,000, which was reflected in the Group's consolidated income statement for the year ended 31st December, 2003 (see Note 3(b)). Similar to the Group's interest in SCA held under investments, Allman's interest in SCA had been stated at market value in equity accounting for Allman's results. The resultant unrealised loss on revaluation attributable to Allman up to 19th August, 2003 was HK$5,936,000. Of this loss attributable to Allman, the Group's 50% share, amounting to HK$2,968,000, had been reflected in the share of loss of associates in the Group's consolidated income statement for the year ended 31st December, 2003.

13. INVESTMENT IN A JOINTLY CONTROLLED ENTITY

	The Group		**The Company**	
	2004	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Share of net assets	**–**	–		
Unlisted shares, at cost			**–**	68,151
Less: Impairment loss			**–**	(68,151)
			–	–

Details of the Group's investment in a jointly controlled entity as at 31st December, 2003 were as follows:

Name	**Form of business structure**	**Place of incorporation and operation**	**Particulars of issued and paid up capital**	**Proportion of ownership interest held by the Company**	**Proportion of ownership interest held by Subsidiary**	**Principal activity**
Jinlong Kader Electric Appliance Company Limited	Incorporated	China	Registered capital US$20,000,000	50%	–	Manufacture of electrical fans

During the year, the Group withdrew from the joint venture and received a compensation of RMB5,000,000 (approximately HK$4,717,000) which has been reflected in the consolidated income statement under "Other revenue" (see Note 3(a)).

14. OTHER NON-CURRENT FINANCIAL ASSETS

	The Group	
	2004	2003
	HK$'000	*HK$'000*
Interest in partnership	**2,387**	1,634
Investment securities		
Unlisted equity securities	**100**	100
	2,487	1,734

15. CURRENT INVESTMENTS

	The Group	
	2004	2003
	HK$'000	*HK$'000*
Trading securities – at market value		
Equity securities listed in Hong Kong	**–**	144

16. INVENTORIES

	The Group	
	2004	2003
	HK$'000	*HK$'000*
Raw materials	**23,362**	32,072
Work in progress	**3,568**	5,395
Finished goods	**93,780**	106,671
	120,710	144,138

The amount of inventories (included above) carried at net realisable value is HK$1,293,000 (2003: HK$11,651,000). In addition, finished goods inventories are stated net of a general provision of HK$6,285,000 (2003: HK$4,180,000) made in order to state those inventories at the lower of cost and estimated net realisable value.

Finished goods inventories of HK$86,769,000 (2003: HK$97,464,000) were pledged to banks to secure banking facilities granted to the Group. See Note 21.

17. PROPERTIES HELD FOR RESALE

During the year 2002, certain land held for resale was sold for cash consideration of RMB30,000,000 and three residential units in the PRC initially valued at RMB5,000,000. These residential units are included in "properties held for resale" as at 31st December, 2003 and 2004. Two of these residential units were sold to third parties during the year and there was no material gain or loss on the sale.

18. TRADE AND OTHER RECEIVABLES

	The Group	
	2004	2003
	HK$'000	*HK$'000*
Debtors and prepayments	**89,414**	71,860

All trade and other receivables are expected to be recovered within one year.

Included in debtors and prepayments are trade debtors (net of specific allowance for bad and doubtful debts) with the following ageing analysis:

	The Group	
	2004	2003
	HK$'000	*HK$'000*
Current	**71,821**	50,584
1 to 3 months overdue	**7,854**	10,530
More than 3 months overdue but less than 12 months overdue	**963**	2,344
More than 12 months overdue	**799**	774
	81,437	64,232

Debtors are due within 30 days from the date of billing. Debtors with balances that are more than 3 months overdue are requested to settle all outstanding balances before any further credit is granted.

19. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2004	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Amounts due to directors	**5,427**	12,160	**–**	–
Amounts due to shareholders	**859**	2,174	**–**	–
Amounts due to related companies	**3,174**	3,355	**–**	–
Amounts due to related parties	**1,200**	2,130	**–**	–
Creditors and accrued charges	**59,366**	61,940	**580**	660
Rental deposits	**1,408**	1,778	**–**	–
Amounts due to subsidiaries	**–**	–	**–**	365,908
	71,434	83,537	**580**	366,568

Amounts due to directors and shareholders and amounts due to related companies of HK$383,000 (2003: HK$237,000) represent interest on advances from them included under non-current interest-bearing borrowings (Note 20) and are repayable semi-annually or monthly.

Amounts due to related companies of HK$2,791,000 (2003: HK$3,118,000) and related parties are unsecured, interest free and have no fixed term of repayments.

All trade and other payables are expected to be settled within one year.

Included in creditors and accrued charges are trade creditors with the following ageing analysis:

	The Group	
	2004	2003
	HK$'000	*HK$'000*
Due within 1 month or on demand	**12,708**	14,219
Due after 1 month but within 3 months	**6,417**	6,909
Due after 3 months but within 6 months	**780**	383
Due after 6 months but within 12 months	**123**	833
	20,028	22,344

Notes on the Financial Statements *(Continued)*

20. NON-CURRENT INTEREST-BEARING BORROWINGS

	The Group	
	2004	2003
	HK$'000	*HK$'000*
Bank loans *(Note 21)*	**61,989**	39,273
Advances from directors	**86,695**	75,573
Advances from shareholders	**58,121**	47,206
Amounts due to related companies	**5,155**	5,155
Amount due to a related party	**151**	151
	212,111	167,358

Amounts due to directors, shareholders, related companies and related party are unsecured, interest bearing at 3% or prime less 1% to prime plus 0.5% and repayable after 31st December, 2005.

21. BANK LOANS AND OVERDRAFTS

At 31st December, 2004, bank loans and overdrafts were repayable as follows:

	The Group	
	2004	2003
	HK$'000	*HK$'000*
Within 1 year or on demand	**152,184**	210,299
After 1 year but within 2 years	**18,857**	13,389
After 2 years but within 5 years	**23,356**	20,328
After 5 years	**19,776**	5,556
	61,989	39,273
	214,173	249,572

21. BANK LOANS AND OVERDRAFTS *(Continued)*

At 31st December, 2004, bank loans and overdrafts were secured as follows:

	The Group	
	2004	2003
	HK$'000	*HK$'000*
Bank overdrafts		
– secured	**21,430**	46,489
– unsecured	**2,869**	13,775
	24,299	60,264
Bank loans		
– secured	**171,760**	144,216
– unsecured	**18,114**	45,092
	189,874	189,308
	214,173	249,572

At 31st December, 2004, certain investment properties, leasehold land and buildings and other assets of the Group with net book value of HK$659,157,000 (2003: HK$621,170,000) were mortgaged to various banks to secure banking facilities granted to the Group. Details are as follows:

	The Group	
	2004	2003
	HK$'000	*HK$'000*
Investment properties	**457,363**	402,801
Land and buildings	**25,359**	25,712
Inventories	**86,769**	97,464
Other assets	**89,666**	95,193
	659,157	621,170

Notes on the Financial Statements *(Continued)*

22. OBLIGATIONS UNDER FINANCE LEASES

At 31st December, 2004, the Group had obligations under finance leases repayable as follows:

	2004			2003		
	Present value of minimum lease payments	**Interest expense relating to future periods**	**Total minimum lease payments**	Present value of minimum lease payments	Interest expense relating to future periods	Total minimum lease payments
	HK$'000	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*
Within 1 year	**1,410**	**49**	**1,459**	6,019	162	6,181
After 1 year but within 2 years	**255**	**29**	**284**	1,163	10	1,173
After 2 years but within 5 years	**643**	**31**	**674**	–	–	–
	898	**60**	**958**	1,163	10	1,173
	2,308	**109**	**2,417**	7,182	172	7,354

23. INCOME TAX IN THE CONSOLIDATED BALANCE SHEET

(a) Current taxation in the balance sheet represents:

	The Group	
	2004	2003
	HK$'000	*HK$'000*
Provision for Hong Kong Profits Tax for the year	**480**	963
Provisional Profits Tax paid	**(722)**	(932)
	(242)	31
Overseas taxation payable	**6,676**	5,798
	6,434	5,829
Representing:		
Tax recoverable	**(1,496)**	(2,978)
Tax payable	**7,930**	8,807
	6,434	5,829

23. INCOME TAX IN THE CONSOLIDATED BALANCE SHEET *(Continued)*

(b) Deferred tax assets and liabilities recognised:

The components of deferred tax (assets)/liabilities recognised in the consolidated balance sheet and the movements during the year are as follows:

Deferred tax arising from:	Depreciation allowance in excess of related depreciation	Revaluation of properties	Revaluation of other securities	Investments in partnership /associates	Provisions and allowances	Future benefit of tax losses	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January, 2003	1,456	10,344	14,169	(959)	(1,880)	(936)	(2,083)	20,111
Charged/(credited) to consolidated income statement	(415)	1,225	691	(1,068)	(759)	936	(2,976)	(2,366)
Transfer	–	–	(14,860)	14,860	–	–	–	-
Charged to reserves *(Note 25)*	206	–	–	–	–	–	–	206
Exchange difference	1	–	–	–	–	–	–	1
At 31st December, 2003	1,248	11,569	–	12,833	(2,639)	–	(5,059)	17,952
At 1st January, 2004	**1,248**	**11,569**	**–**	**12,833**	**(2,639)**	**–**	**(5,059)**	**17,952**
Charged/(credited) to consolidated income statement	**(876)**	**–**	**–**	**(829)**	**667**	**–**	**(3,688)**	**(4,726)**
Charged to reserves *(Note 25)*	**–**	**1,150**	**–**	**–**	**–**	**–**	**–**	**1,150**
At 31st December, 2004	**372**	**12,719**	**–**	**12,004**	**(1,972)**	**–**	**(8,747)**	**14,376**

23. INCOME TAX IN THE CONSOLIDATED BALANCE SHEET *(Continued)*

(b) Deferred tax assets and liabilities recognised: *(Continued)*

	The Group	
	2004	2003
	HK$'000	*HK$'000*
Net deferred tax asset recognised on the balance sheet	**(12,444)**	(9,334)
Net deferred tax liability recognised on the balance sheet	**26,820**	27,286
	14,376	17,952

(c) Deferred tax assets not recognised

The Group and the Company have tax losses of HK$125,895,000 (2003: HK$158,427,000) and $5,641,000 (2003: $3,795,000) which have not been recognised as deferred tax assets. The tax losses do not expire under current tax legislation in Hong Kong.

24. SHARE CAPITAL

	2004		2003	
	Number of shares *('000)*	***HK$'000***	Number of shares *('000)*	*HK$'000*
Authorised:				
Ordinary shares of HK$0.10 each	**1,000,000**	**100,000**	1,000,000	100,000
Issued and fully paid:				
At 1st January and 31st December	**665,412**	**66,541**	665,412	66,541

25. RESERVES

	The Group		The Company	
	2004	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Investment properties revaluation reserve				
At 1st January	**17,718**	9,529	**–**	–
Surplus arising on revaluation *(Note 10(b))*, net of deferred tax *(Note 23(b))*	**52,322**	8,189	**–**	–
At 31st December	**70,040**	17,718	**–**	–
Exchange reserves				
At 1st January	**5,044**	234	**–**	–
Exchange translation differences on translation of financial statements of overseas subsidiaries	**5,313**	4,810	**–**	–
At 31st December	**10,357**	5,044	**–**	–
Contributed surplus				
At 1st January	**169,994**	169,994	**175,594**	175,594
Write off of goodwill	**3,403**	–	**–**	–
At 31st December	**173,397**	169,994	**175,594**	175,594
Capital reserve				
At 1st January	**10,815**	10,816	**9,347**	9,347
Write off of goodwill	**–**	(1)	**–**	–
At 31st December	**10,815**	10,815	**9,347**	9,347
Share premium				
At 1st January and 31st December	**109,942**	109,942	**109,942**	109,942
Revenue reserves				
At 1st January	**61,478**	66,808	**(158,353)**	(161,863)
Profit/(loss) for the year	**3,398**	(5,330)	**416,664**	3,510
At 31st December	**64,876**	61,478	**258,311**	(158,353)
Total reserves at 31st December	**439,427**	374,991	**553,194**	136,530

Notes on the Financial Statements *(Continued)*

25. RESERVES *(Continued)*

Exchange reserves and revenue reserves of the Group are retained as follows:

	The Group			
	Exchange reserves		Revenue reserves	
	2004	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
By the Company and its subsidiaries	**10,673**	5,021	**139,146**	129,034
By associates	**(316)**	23	**(1,544)**	9,887
By a jointly controlled entity	**–**	–	**(72,726)**	(77,443)
Total at 31st December	**10,357**	5,044	**64,876**	61,478

Apart from the above, all other reserves of the Group are retained by the Company and its subsidiaries.

The capital reserve, contributed surplus, exchange reserves and investment properties revaluation reserve have been set up and will be dealt with in accordance with the accounting policies adopted for goodwill/discount arising on subsidiaries, associates and jointly controlled entities, foreign currency translation and the revaluation of investment properties (Note 1).

The Company's reserves available for distribution to shareholders at 31st December, 2004 are as follows:

	The Company	
	2004	2003
	HK$'000	*HK$'000*
Contributed surplus	**175,594**	175,594
Revenue reserves	**258,311**	(158,353)
	433,905	17,241

26. COMMITMENTS

(a) Capital commitments outstanding at 31st December, 2004 not provided for in the financial statements were as follows:

	The Group	
	2004	2003
	HK$'000	*HK$'000*
Contracted for	**4,334**	159

At 31st December, 2004 and 2003, the Company did not have any capital commitments.

26. COMMITMENTS *(Continued)*

(b) At 31st December, 2004, the total future lease payments under non-cancellable operating leases are payable as follows:

	The Group			
	Land and buildings		Others	
	2004	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Within 1 year	**4,868**	11,691	**53**	124
After 1 year but within 5 years	**2,395**	6,760	**379**	294
	7,263	18,451	**432**	418

At 31st December, 2004 and 2003, the Company did not have any commitments under operating leases.

The Group leases a number of properties and equipment under operating leases. The leases typically run for an initial period of one to ten years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

27. CONTINGENT LIABILITIES

At 31st December, 2004, there were contingent liabilities in respect of the following:

(a) The Company has issued guarantees to banks to secure banking facilities of subsidiaries amounting to HK$371,318,000 (2003: HK$449,798,000).

(b) The Company has issued letters of support in connection with certain wholly owned subsidiaries with deficiencies in shareholders' funds of HK$212,158,000 (2003: HK$198,006,000) as at 31st December, 2004.

(c) Litigation

(i) Around May 2003, a Group company was bought into litigation with a supplier of resin materials. The supplier has taken action against the Group company for settlement of a trading debt amounting to HK$643,980. However, the Group company has counter claimed against the supplier for US$590,000 as the resin materials supplied did not meet the required specifications. No trial dates have been fixed. The directors believed the Group will not suffer any material loss as a result of these claims.

27. CONTINGENT LIABILITIES *(Continued)*

(c) Litigation *(Continued)*

(ii) During the last quarter of 2003, a Mexican company commenced a law suit in the State of Arizona against the Company based on their claims that the Company is a guarantor for a Lease Agreement of factory premises occupied by Siempre Novedoso De Mexico (Sinomex) S.A. de C.V. ("Sinomex") as tenant ("Litigation"). Sinomex was a member company of the Group that was disposed in mid 1996. The plaintiffs allege claims against Sinomex and the Company of approximately US$5,000,000 for unpaid obligations of Sinomex under the Lease Agreement plus interest (in the amount of 2% per month, or 24% annually), court costs and attorney fees.

In early January of 2004, the Company's legal counsel filed a Motion to Dismiss the complaint in the Litigation based upon the applicable law of Arizona and that of the location of the property, Hermosillo, Mexico. In that Motion, the Company argues that the Arizona court has insufficient subject matter and personal jurisdiction over the Company under the Guarantee for the case to continue in that court, and as such, the case should be dismissed in favour of the Company.

On 24th January, 2005, the Arizona court denied the initial motion submitted by the Company. The Company plans to continue to vigorously defend the Litigation, and to assert the defences available to it. This would eliminate or at least significantly reduce the exposure of the Company if those defences prove to be successful.

Having considered the Litigation with legal counsel to the Company, the management and the Board believe that the Company's opposition to the plaintiffs' complaint, and its defenses, including defenses to the amount of damages awardable, are meritorious. As such, the Company intends to continue to vigorously defend the Litigation. In addition, the Company has filed counterclaims against the plaintiff and a cross-claim against Sinomex in the Litigation. On that basis, the Company has not made provision in relation to the Litigation.

28. EMPLOYEE RETIREMENT BENEFITS

In Hong Kong, the Group has a defined contribution pension scheme ("ORSO scheme") for all qualifying employees. Effective from 1st December, 2000, all Hong Kong based employees are also covered under a Mandatory Provident Fund ("MPF") scheme, and the existing ORSO scheme has been modified to provide extra benefits for existing and new employees. The amount of employer's and employees' contributions to the ORSO scheme are reduced by the amount required to be paid to the MPF scheme. The contributions to the ORSO scheme are supplementary contributions, over and above the minimum MPF requirements. The assets of the ORSO scheme are held separately under a provident fund managed by an independent trustee. Pursuant to the rules of the ORSO scheme, the employees are required to make contributions to the ORSO scheme calculated at 5% of their basic salaries on a monthly basis whilst the employer's contributions are varied with the number of years of service of the employees from 5% to 10% of the basic monthly salary. The employees are entitled to 100% of the employer's contributions to the ORSO scheme and the accrued interest after 10 complete years' service, or at an increasing scale of between 50% to 90% after completion of 5 to 9 years' service.

28. EMPLOYEE RETIREMENT BENEFITS *(Continued)*

Where there are employees who leave the ORSO scheme prior to vesting fully in the contributions, in accordance with the rules of the ORSO scheme, the forfeited employer's contributions shall be used to reduce the future contributions of the employer. At the balance sheet date, the total amount of forfeited contributions which are available to reduce the contributions payable in the future years was HK$Nil (2003: HK$ Nil).

Employees in the People's Republic of China are covered by a retirement insurance policy.

Employees in the United States of America are covered by a profit sharing plan under section 401(k) of the Internal Revenue Code covering all eligible employees. The plan provides for contributions from both the employer and eligible employees. Employer's contributions are voluntary and are determined each year at the discretion of management.

As regards employees in Europe, contributions are made by the employer to a money purchase defined contribution scheme for certain of its employees. The assets of the scheme are held separately by an independent administered fund.

29. MATERIAL RELATED PARTY TRANSACTIONS

(a) One of the directors of the Company is also a director and shareholder of a supplier which sold packaging and printing materials to the Group under the same terms as those available to other customers in the ordinary course of business. Total purchases from the supplier amounted to HK$6,401,000 (2003: HK$6,486,000) during the year. The amount due to the supplier at the year end amounted to HK$1,551,000 (2003: HK$1,325,000).

(b) During the year, the Group had net interests in certain associates amounting to HK$173,231,000 (2003: HK$177,459,000) in which a director of the Company has beneficial interests. Further details are given in Note 12 on the financial statements.

(c) During the year, the Group has obtained funding from certain directors, shareholders, related companies and related parties to finance its operations. Details of the terms of the advances and the balances outstanding are disclosed in Notes 4, 19 and 20 on the financial statements.

(d) The Group has provided funding of HK$300,000 to a related party which is unsecured, interest free and has no fixed repayment terms. During the year ended 31st December, 2003, the Group had made full provision against the amount from this related party.

(e) During the year, an ex-director and minority interest of the Group's subsidiary waived the amount due from this subsidiary of HK$930,000 and HK$327,000 respectively.

(f) The Group has provided funding to associates. Details of the balance outstanding are disclosed in Note 12 on the financial statements.