Notes to the Accounts

1 GENERAL INFORMATION

Hutchison Harbour Ring Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") are principally engaged in toy manufacturing, property investment, design, production and distribution of mobile phone accessories and other high-end electronic products as well as licensing and sourcing of consumer products. The Group has manufacturing plants in the Mainland China and sells mainly to the United States and Europe.

The Company is a limited liability company incorporated in Bermuda and listed on The Stock Exchange of Hong Kong Limited. The registered office of the Company is located at 22/F Hutchison House, 10 Harcourt Road, Hong Kong.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

These consolidated accounts of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). These accounts have been prepared under the historical cost convention, as modified by the revaluation of investment properties and certain investments in securities, which are carried at fair value.

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

(b) Impact of adopting new/revised HKFRS in 2005

In 2004, the Group has early adopted Hong Kong Accounting Standard ("HKAS") 36 "Impairment of Assets", HKAS 38 "Intangible Assets", HKAS 40 "Investment Property" and HKFRS 3 "Business Combinations". The adoption of these standards did not have material financial impact to the Group's profit for the year ended 31 December 2004 except for the adoption of HKAS 40 which had resulted in an increase of HK$3,317,000 in the Group's profit for the year ended 31 December 2004.

In 2005, the Group adopted all of the remaining new/revised standards and interpretations of HKFRS, which are effective from the accounting period beginning on 1 January 2005. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

The Group has early adopted an amendment to HKAS 19 "Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures" issued up to the date of authorisation of these accounts.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Impact of adopting new/revised HKFRS in 2005 (Continued)

At the date of authorisation of these accounts, the Group has not early adopted the following standards and interpretations which have been issued but are not yet effective:

HKAS 1 Amendment	Presentation of financial statements – capital disclosures
HKAS 21 Amendment	Net investment in a foreign operation
HKAS 39 Amendment	Cash flow hedge accounting of forecast intragroup transactions
HKAS 39 Amendment	The fair value option
HKAS 39 and HKFRS 4 Amendments	Financial guarantee contracts
HKFRS 1 and HKFRS 6 Amendments	First-time adoption of Hong Kong financial reporting standards and exploration for and evaluation of mineral resources
HKFRS 6	Exploration for and evaluation of mineral resources
HKFRS 7	Financial instruments: disclosures
HKFRS-Int 4	Determining whether an arrangement contains a lease
HKFRS-Int 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds
HK(IFRIC)-Int 6	Liabilities arising from participating in a specific market - waste electrical and electronic equipment
HK(IFRIC)-Int 7	Financial reporting in hyperinflationary economies

The Group has carried out an assessment of the impact of these new HKFRS which have been issued but not yet effective and have not been early adopted by the Group. The adoption of these new HKFRS is not expected to result in substantial changes to the Group's accounting policies.

The effects of the adoption of the new/revised HKFRS on the Group's accounting policies and amounts disclosed in the accounts are summarised as follows:

(i) The adoption of HKAS 1 "Presentation of Financial Statements" has affected the presentation of minority interests and share of after-tax results of associates.

(ii) The adoption of HKAS 24 "Related Parties Disclosures" has affected the presentation of related parties transactions and amounts due from/to related parties.

(iii) The adoption of revised HKAS 17 has resulted in a change in accounting policy relating to the reclassification of leasehold land and land use rights from property, plant and equipment to the operating leases. The up-front prepayments made for the leasehold land and land use rights are expensed in the profit and loss account on a straight-line basis over the period of the lease or when there is an impairment, the impairment is expensed in the profit and loss account. In prior years, the leasehold land was accounted for at fair value or cost less accumulated amortisation and accumulated impairment.

(iv) The Company operates a share option scheme. In June 2005, the Company granted 123,750,000 share options to the Group's employees. HKFRS 2 "Share-based Payments" requires the Group to measure the fair value of the share options at the date of grant and recognise the amount as an expense over the relevant vesting periods. No share options were granted in prior years.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Impact of adopting new/revised HKFRS in 2005 (Continued)

(v) The adoption of HKAS 32 "Financial Instruments: Disclosures and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement" has resulted in a change in accounting policy for recognition, measurement, derecognition and disclosure of financial instruments. Following the adoption of HKAS 32 and HKAS 39, the Group's investments in securities are classified into held-to-maturity securities, available-for-sale financial assets, financial assets at fair value through profit and loss and loans and receivables. The classification depends on the purpose for which the investments were acquired. Held-to-maturity securities are stated in the balance sheet at amortised cost. Interest income from held-to-maturity securities is calculated using the effective interest method. Available-for-sale financial assets are measured at fair value and changes in fair value are recognised in the investment revaluation reserve. Financial assets at fair value through profit and loss are measured at fair value and change in fair value are recognised in the profit and loss account. Loans and receivables are measured at amortised cost and the carrying amount of the asset is computed by discounting the future cash flows to the present value using the effective interest method.

In addition, HKAS 39 requires financial liabilities, except for those carried at fair value through profit or loss, to be carried at amortised cost using the effective interest method. Embedded derivatives should be separated from the host contract and accounted for as a derivative if the economic characteristics and risks of the derivative are not closely related to that of the host contract. Accordingly, the convertible notes issued by the Company at the date of issuance were split into the equity portion for the fair value of the conversion right by the noteholders, and the liability portion of the loan which is carried at amortised cost using effective interest method.

HKAS 39 does not require to recognise, derecognise and measure financial assets and liabilities in accordance with this accounting standard on a retrospective basis. The Group applied the previous Statement of Standard Accounting Practice ("SSAP") 24 "Accounting for Investments in Securities" to investments in securities. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognised at 1 January 2005.

(vi) The adoption of HKFRS 5 requires prospective application in accordance with the provisions of the standard. The adoption of HKFRS 5 has resulted in a change in the accounting policy for non-current assets (or disposal groups) held for sales. The non-current assets (or disposed groups) held for sale were previously neither classified nor presented as current assets or liabilities. There was no difference in measurement for non-current assets (or disposal groups) held for sale or for continuing use.

(vii) The early adoption of the amendment to HKAS 19 has no material financial effect on the results of the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Impact of adopting new/revised HKFRS in 2005 (Continued)

(viii) The effects of changes in accounting policies on the consolidated balance sheets are as follows:

At 31 December 2005	Effect of adopting HKAS 17 HK$'000	HKFRS 2 HK$'000	HKAS 32 and HKAS 39 HK$'000	Total HK$'000
Decrease in property, plant and equipment	(62,515)	–	–	(62,515)
Increase in leasehold land and land use rights	62,515	–	–	62,515
Increase in deferred tax assets	–	1,228	–	1,228
Decrease in available-for-sale financial assets	–	–	(2,368)	(2,368)
Decrease in held-to-maturity securities, listed	–	–	(1,209)	(1,209)
Increase/(decrease) in net assets	–	1,228	(3,577)	(2,349)
Increase in employee share-based compensation reserve	–	7,016	–	7,016
Decrease in investment revaluation reserve	–	–	(2,368)	(2,368)
Decrease in retained profits	–	(5,788)	(1,209)	(6,997)
Increase/(decrease) in equity	–	1,228	(3,577)	(2,349)

Upon adoption of HKAS 39 on 1 January 2005, the opening retained profits was decreased by HK$3,111,000, representing the understatement of amortisation of held-to-maturity securities in prior years as if the held-to-maturity securities were amortised using effective interest method since acquisition.

Notes to the Accounts

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Impact of adopting new/revised HKFRS in 2005 (Continued)

	Effect of adopting			
At 31 December 2004	HKAS 17 HK$'000	HKFRS 2 HK$'000	HKAS 32 and HKAS 39 HK$'000	Total HK$'000
Decrease in property, plant equipment	(63,899)	–	–	(63,899)
Increase in leasehold land and land use rights	63,899	–	–	63,899
Change in net assets	–	–	–	–

(ix) The change in accounting policies did not have material financial impact to the results and earnings per share for the year ended 31 December 2004. The effects of changes in accounting policies on the consolidated profit and loss for the year ended 31 December 2005 are as follows:

	Effect of adopting			
Year ended 31 December 2005	**HKAS 17 HK$'000**	**HKFRS 2 HK$'000**	**HKAS 32 and HKAS 39 HK$'000**	**Total HK$'000**
Increase in staff costs and related expenses	**–**	**(7,016)**	**–**	**(7,016)**
Decrease in deferred tax	**–**	**1,228**	**–**	**1,228**
Increase in amortisation of leasehold land and land use rights	**(1,848)**	**–**	**–**	**(1,848)**
Decrease in depreciation of property, plant and equipment	**1,848**	**–**	**–**	**1,848**
Decrease in amortisation of held-to-maturity securities	**–**	**–**	**1,902**	**1,902**
(Decrease)/increase in profit for the year	**–**	**(5,788)**	**1,902**	**(3,886)**

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Group accounting

(i) Basis of consolidation

The consolidated accounts include the accounts of the Company and all its subsidiaries made up to 31 December 2005.

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

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

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

(ii) 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 deconsolidated 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. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated profit and loss account (see Note 2(g)).

Inter-company transactions, balances and unrealised gains on transactions between entities with the Group 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Group accounting (Continued)

(iii) Associates

Associates 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 associates are accounted for by the equity method of accounting and are initially recognised at cost.

The Group's share of its associates' post-acquisition profits and losses is recognised in the consolidated profit and loss account, 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 associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

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

In the Company's balance sheet the investments in associates are stated at cost less provision for impairment losses.

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the accounts 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 accounts are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

(ii) Transactions and balances

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Foreign currency translation (Continued)

(iii) Group's entities

The results and financial position of all the Group's entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

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

– income and expenses for each profit and loss account are translated at average exchange rates; and

– all resulting exchange differences are recognised in exchange reserve.

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

(e) Property, plant and equipment

Property, plant and equipment comprise mainly buildings, leasehold improvements, plant and machinery, furniture, fixtures and equipment and motor vehicles. 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 profit and loss account during the financial period in which they are incurred.

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

Buildings	21 to 50 years
Leasehold improvements	3 to 10 years or over the term of the relevant leases, whichever is shorter
Plant and machinery	5 to 10 years
Furniture, fixtures and equipment	5 to 10 years
Motor vehicles	5 years

The gain or loss on disposal of a property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

The assets' 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Investment properties

Investment properties are interests in land held under operating leases and buildings in respect of which construction work and development have been completed and which are held for their investment potential. Investment properties are measured initially at cost and are subsequently carried in the balance sheet at fair value determined annually by independent professional valuers at the balance sheet date, and are not depreciated. Changes in fair values are recognised in the profit and loss account.

(g) Goodwill

Goodwill represents the excess of the cost of an acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of acquisition. Goodwill is carried at cost less accumulated impairment losses at the balance sheet date as a separate asset or as applicable, included within investments in associates, and is tested annually for impairment.

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

(h) Investments in securities

(i) In prior years, the Group classified its investments in securities, other than subsidiaries and associates, as held-to-maturity securities, non-trading securities and trading securities.

Held-to-maturity securities

Held-to-maturity securities were stated at the balance sheet date at cost plus/less any discount/premium amortised to date. The discount or premium was amortised over the period to maturity and included as interest income/expense in the profit and loss account.

Non-trading securities

Investments which were held for non-trading purpose were stated at fair value at the balance sheet date. Changes in the fair value of individual securities were credited or debited to the investment revaluation reserve until the security was sold, or was determined to be impaired. Upon disposal, the cumulative gain or loss representing the difference between the net sales proceeds and the carrying amount of the relevant security, together with any surplus/deficit transferred from the investment revaluation reserve, was dealt with in the profit and loss account.

Trading securities

Trading securities were carried at fair value at the balance sheet date. Changes in fair value of trading securities were recognised in the profit and loss account. Profits or losses on disposal of trading securities, representing the difference between the net sales proceeds and the carrying amounts, were recognised in the profit and loss account as they arose.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Investments in securities (Continued)

(ii) Pursuant to the adoption of HKAS 32 and HKAS 39, the Group classifies its investments in securities in the following categories: held-to-maturity securities, available-for-sale financial assets, financial assets at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the investments were acquired.

Held-to-maturity securities

Held-to-maturity securities are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. Held-to-maturity securities are stated at amortised cost using the effective interest method.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available-for-sale or are not classified in any of the other categories. 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. Changes in fair value are recognised in the investment revaluation reserve until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the profit and loss account.

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

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. Financial assets at fair value through profit or loss are carried at fair value, realised and unrealised gains and losses arising from changes in the fair value of these investments are included in the profit and loss account in the period in which they arise.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Investments in securities (Continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains or losses are recognised in the profit and loss account when the loans and receivables are derecognised or impaired, as well as through the amortisation process. They arise when the Group provides money or services directly to a debtor or a related company 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.

(i) 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 depreciation or amortisation are reviewed to determine whether there is any indication that the carrying value of these assets may not be recoverable and have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Such impairment loss is recognised in the profit and loss account except where the financial asset is carried at fair value and the impairment loss does not exceed the revaluation surplus for that asset, in which case it is treated as a decrease in investment revaluation reserve. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

(j) Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is calculated using the weighted average 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. 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.

(k) Trade receivables

Trade 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 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 profit and loss account.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Cash and cash equivalents

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

(m) Borrowings

Borrowings comprise mainly bank loans and convertible notes. They 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.

(i) Bank loans

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

(ii) Convertible notes

The fair value of the liability portion of a convertible note is determined using a market interest rate for an equivalent non-convertible note. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the notes. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects, if any.

(n) 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) 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 profit and loss account 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 expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

(iii) Deferred taxation 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 accounts. 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 transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates enacted or substantively enacted by the balance sheet date and expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred taxation is not discounted.

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

Deferred taxation is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

(p) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases (including up-front prepayments made for the leasehold land and land use rights, other than those accounted for as investment properties) net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

(q) Non-current asset (or disposal groups) held for sale

Non-current assets (or disposal groups) are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through a continuing use.

(r) Finance costs

Finance costs are accounted for on the accrual basis and charged to the profit and loss account in the year incurred, except for costs related to funding of the construction of properties under development which are capitalised as part of the cost of that asset during the construction period and up to date of completion of construction.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Employee benefits

(i) Salaries, bonus, paid annual leave and the cost of other benefits to the Group are accrued in the year in which the associated services are rendered by employees of the Group.

(ii) The Group operates two defined contribution schemes, the assets of which are held in separate administered funds. The Group's contributions to the defined contribution schemes are expensed as incurred and are not reduced by contributions forfeited by those employees who leave the schemes prior to vesting fully in the contributions.

The Group also contributes on a monthly basis to various defined contribution retirement benefit plans organised by relevant municipal and provincial governments in the PRC. The municipal and provincial governments undertake to assume the retirement benefit obligations payable to all existing and future retired employees for post-retirement benefits beyond the contributions made. The assets of these plans are held separately from those of the Group in independently administered funds managed by the PRC government. Contributions to these plans are expensed as incurred.

(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.

(t) Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the profit and loss account and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(u) Revenue recognition

(i) Sale of goods

Revenue is recognised when goods are delivered to customers which is taken to be the point in time 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) Revenue recognition (Continued)

(ii) Rental income from operating leases

Rental income receivable under operating leases is recognised in the profit and loss account 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 profit and loss account as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the year in which they are earned.

(iii) Interest income

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

3 FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk and price risk), credit risk, liquidity risk, interest rate risk and fair value estimation risk. Risk management is carried out by senior management of the Group under policies approved by the board of directors of the Company.

(i) Market risk

Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from foreign currency exposures, primarily with respect to US dollar, Hong Kong dollar and Renminbi. Revenue and majority of its operating costs and cost of sales are in US dollar, Hong Kong dollar and Renminbi basis. No significant foreign exchange risk arising from future commercial transactions, recognised assets and liabilities is expected in the foreseeable future.

Price risk

As the Group purchases plastics, a by-product of crude oil, in its manufacturing process at market prices, it is exposed to fluctuation in these prices. The Group does not use any derivative instruments to reduce its economic exposure to changes in the price of crude oil.

The Group has available-for-sale financial assets and financial assets at fair value through profit or loss which are exposed to equity securities price risk.

3 FINANCIAL RISK MANAGEMENT (Continued)

(a) Financial risk factors (Continued)

(ii) Credit risk

Sales to two (2004: Two) of the Group's major customers exceed 10% of the total turnover. The aggregate sales to the five largest customers represents 55.9% (2004: 54.4%) of total turnover.

The Group has policies in place to ensure that sale of products are made to customers with an appropriate credit history. The Group also performs periodic credit evaluations of its customers and believes that adequate provision for doubtful trade receivables has been made in the accounts. Rental deposits are required from tenants prior to the commencement of leases.

(iii) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, senior management of the Group aims to maintain flexibility in funding by keeping committed credit lines available.

(iv) Interest rate risk

The Group has significant interest-bearing assets mainly in the form of bank balances and listed debt securities, but the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The interest rate risk arises from convertible notes and bank loan. Convertible notes were issued at fixed rates. The short-term bank loan is interest bearing at floating rates and is repayable on demand.

(b) Fair value estimation

The fair value of financial instruments traded in active markets (such as publicly traded derivatives and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the closing bid price at the balance sheet date; the appropriate quoted market price for financial liabilities is the closing ask price at the balance sheet date.

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

(a) Critical accounting estimates and assumptions

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

(i) Estimated fair value of available-for-sale financial assets

The fair value of financial instruments traded in active markets (such as trading securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the closing bid price at the balance sheet date.

The fair value of financial instruments that are not traded in active market is determined based on available recent market information such as most recent market transaction price with third parties and the latest available financial information existing at each balance sheet date.

(ii) Income taxes

The Group is subject to income taxes in various jurisdictions. Significant judgment is required in determining 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.

(iii) Estimated fair value of investment properties

The fair value of each investment property individually is determined at each balance sheet date by independent professional valuers by reference to comparable market transactions and where appropriate on the basis of capitalisation of the net rental income/net income, after allowing for outgoings and in appropriate cases provisions for reversionary income potential. These methodologies are based upon estimates of future results and a set of assumptions as to income and expenses of the property and future economic conditions. The fair value of each investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions. The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(a) Critical accounting estimates and assumptions (Continued)

(iv) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with accounting policies stated in Note 2(i) to the accounts. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (Note 15).

(v) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation expenses for the Group's property, plant and equipment. Management will revise the depreciation expenses where useful lives are different to previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

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

The following critical accounting judgements may be applicable, among many other possible areas not presented in these consolidated accounts.

(i) Net realisable values of inventories of Technology Operation

Inventories are carried at the lower of cost and net realisable value. The cost of inventories is written down to net realisable value when there is an objective evidence that the cost of inventories may not be recoverable. The cost of inventories may not be recoverable if those inventories are damaged, if they have become wholly or partially obsolete, or if their selling prices have declined. The cost of inventories may not also be recoverable if the estimated costs to be incurred to make the sale have increased. The amount written off to the profit and loss account is the difference between the carrying value and net realisable value of the inventories. In determining whether the cost of inventories can be recoverable, significant judgement is required. In making this judgement, the Group evaluates, among other factors, the duration and extent by all means to which the amount will be recovered.

(ii) Impairment of available-for-sale financial assets

The Group follows the guidance of HKAS 39 in determining when an investment is other-than-temporarily impaired. This determination required significant judgements. In making these judgements, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, change in technology and operational and financing cash flow.

5 TURNOVER, REVENUE AND SEGMENT INFORMATION

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are set out in note 49(a) to the accounts.

Turnover represents sales of toys, consumer electronic products and accessories and rental income. The amount of each category of revenue recognised during the year is as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Turnover		
Sales of goods	**2,551,352**	2,555,102
Rental and service income from investment properties	**69,037**	46,915
	2,620,389	2,602,017
Other revenue		
Interest income	**65,843**	59,210
Total revenues	**2,686,232**	2,661,227

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format. The Group's core business segments are toy operation, technology operation, licensing and sourcing operation and property operation. Other corporate income and expenses, investments in securities and cash held for non-operating purposes are not allocated to the above segments. An analysis by principal business and geographical location of the operations of the Group is set out on pages 75 to 80.

5 TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

Primary segment information by business:

	Year ended 31 December 2005					
	Toy operation HK$'000	Technology operation HK$'000	Licensing and sourcing operation HK$'000	Property operation HK$'000	Elimination HK$'000	Group HK$'000
Turnover						
Company and subsidiaries						
– External sales	1,833,653	620,990	96,709	69,037	–	2,620,389
– Inter-segment sales	16,062	5,581	2,004	–	(23,647)	–
	1,849,715	626,571	98,713	69,037	(23,647)	2,620,389
Share of associates	7,175	–	–	–	–	7,175
	1,856,890	626,571	98,713	69,037	(23,647)	2,627,564
Segment results						
Company and subsidiaries	55,153	14,803	(2,998)	118,216	(413)	184,761
Other corporate income and expenses						41,137
Operating profit						225,898
Share of profits less losses of associates	321	–	–	(408)		(87)
Earnings before interest expense and taxation	55,474	14,803	(2,998)	117,808		225,811
Finance costs						(6,739)
Taxation						(26,509)
Profit for the year						192,563

Notes to the Accounts

5 TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

Primary segment information by business (Continued):

	Year ended 31 December 2005					
	Toy operation HK$'000	Technology operation HK$'000	Licensing and sourcing operation HK$'000	Property operation HK$'000	Elimination HK$'000	Group HK$'000
Segment assets	887,990	444,792	34,625	3,909,718		5,277,125
Investments in associates	6,025	–	–	–		6,025
Deferred tax assets	10,346	433	3,834	–		14,613
Unallocated assets						532,787
Total assets						5,830,550
Segment liabilities	319,287	116,138	10,760	495,608		941,793
Loans from minority shareholders	7,185	–	–	39,386		46,571
Taxation	278	1,427	1,038	64,942		67,685
Deferred tax liabilities	355	–	395	627,607		628,357
Unallocated liabilities						902,878
Total liabilities						2,587,284
Capital expenditure	(26,253)	(15,062)	(721)	(477)		(42,513)
Depreciation	(31,438)	(8,865)	(221)	(219)		(40,743)
Amortisation of leasehold land and land use rights	(1,791)	–	–	(57)		(1,848)
Gain on disposal of investment properties	–	–	–	27,876		27,876
Increase in fair value of investment properties	–	–	–	32,208		32,208
Gain on liquidation of a subsidiary	6,440	–	–	–		6,440

5 TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

Primary segment information by business (Continued):

	Year ended 31 December 2004 Toy operation HK$'000	Technology operation HK$'000	Licensing and sourcing operation HK$'000	Property operation HK$'000	Elimination HK$'000	Group HK$'000
Turnover						
Company and subsidiaries						
– External sales	1,780,645	636,939	137,518	46,915	–	2,602,017
– Inter-segment sales	29,445	4,177	768	–	(34,390)	–
	1,810,090	641,116	138,286	46,915	(34,390)	2,602,017
Share of associates	8,501	–	–	–	–	8,501
	1,818,591	641,116	138,286	46,915	(34,390)	2,610,518
Segment results						
Company and subsidiaries	63,828	51,969	1,557	64,900		182,254
Other corporate income and expenses						15,430
Operating profit						197,684
Share of profits less losses of associates	440	–	–	(269)		171
Earnings before interest expense and taxation	64,268	51,969	1,557	64,631		197,855
Finance costs						(8,061)
Taxation						(18,616)
Profit for the year						171,178

Notes to the Accounts

5 TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

Primary segment information by business (Continued):

	Year ended 31 December 2004					
	Toy operation HK$'000	Technology operation HK$'000	Licensing and sourcing operation HK$'000	Property operation HK$'000	Elimination HK$'000	Group HK$'000
Segment assets	1,005,774	263,164	29,375	806,837		2,105,150
Investments in associates	5,662	–	–	7,041		12,703
Deferred tax assets	9,867	–	1,250	–		11,117
Unallocated assets						1,633,274
Total assets						3,762,244
Segment liabilities	369,411	148,660	12,031	56,703		586,805
Loans from minority shareholders	7,035	–	–	39,326		46,361
Taxation	(168)	3,179	786	21,992		25,789
Deferred tax liabilities	747	235	–	47,321		48,303
Unallocated liabilities						12,983
Total liabilities						720,241
Capital expenditure	(39,284)	(12,689)	(609)	(84)		(52,666)
Depreciation	(33,460)	(9,343)	(218)	(688)		(43,709)
Amortisation of leasehold land and land use rights and impairment	(2,738)	–	–	(81)		(2,819)
Gain on disposal of investment properties	–	–	–	6,227		6,227
Increase in fair value of investment properties	–	–	–	11,490		11,490

5 TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

Secondary segment information by geographical location:

In presenting information of geographical segments, segment turnover is based on the geographical destination of delivery of goods. Segment assets and capital expenditure are based on the geographical location of the assets.

	Turnover 2005 HK$'000	Segment results 2005 HK$'000	Total assets 2005 HK$'000	Capital expenditure 2005 HK$'000
United States	1,185,897	10,966	168,716	–
Europe	491,163	10,516	94,137	2,637
Mainland China	127,099	118,494	4,434,437	36,769
Hong Kong	139,908	16,764	503,852	3,107
Japan	147,740	5,594	22,576	–
Korea	308,615	13,410	43,129	–
Other regions	219,967	9,017	10,278	–
	2,620,389	184,761	5,277,125	42,513
Other corporate income and expenses		41,137		
Operating profit		225,898		
Investments in associates			6,025	
Deferred tax assets			14,613	
Unallocated assets			532,787	
Total assets			5,830,550	

5 TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

Secondary segment information by geographical location (Continued):

	Turnover 2004 HK$'000	Segment results 2004 HK$'000	Total assets 2004 HK$'000	Capital expenditure 2004 HK$'000
United States	1,084,302	26,317	289,655	–
Europe	466,564	19,801	24,604	–
Mainland China	103,518	69,499	1,359,613	48,500
Hong Kong	190,628	16,821	348,465	4,038
Japan	448,740	33,773	45,823	128
Korea	117,580	10,008	28,115	–
Other regions	190,685	6,035	8,875	–
	2,602,017	182,254	2,105,150	52,666
Other corporate income and expenses		15,430		
Operating profit		197,684		
Investments in associates			12,703	
Deferred tax assets			11,117	
Unallocated assets			1,633,274	
Total assets			3,762,244	

6 OPERATING PROFIT

	Group	
	2005	2004
	HK$'000	HK$'000
Operating profit is stated after crediting and charging the following:		
Crediting		
Rental from investment properties less outgoings of HK$9,381,000 (2004: HK$8,640,000)	**53,943**	36,209
Gain on liquidation of a subsidiary (Note d)	**6,440**	–
Gain on disposal of investment properties (Note d)	**27,876**	6,227
Gain on disposal of property, plant and equipment (Note d)	**367**	592
Gain on disposal of available-for-sale financial assets (Notes a and d)	**11,890**	–
Gain on disposal of an associate (Note d)	**4,876**	3
Gain on disposal of non-trading securities (Note d)	**–**	4,000
Increase in fair value of investment properties (Note d)	**32,208**	11,490
Recovery of bad debts provision	**429**	6,335
Net exchange gains	**2,253**	–
Written back of provision of convertible notes (Notes b and d)	**22,455**	–
Charging		
Cost of inventories sold (Note c)	**2,279,642**	2,263,080
Staff costs (Note 12)	**491,715**	401,908
Depreciation	**40,743**	43,709
Amortisation of leasehold land and land use rights and impairment	**1,848**	2,819
Operating lease charges in respect of properties	**38,699**	34,463
Auditors' remuneration	**3,056**	2,765
Net exchange losses	**–**	1,420

Notes:

(a) In March 2005, the Group disposed of an equity interest of 8.1% in one of its available-for-sale financial assets for a consideration of HK$11,890,000 and recorded a gain of HK$11,890,000.

(b) On 29 August 2005, the Group received the repayment of the original principal amount, together with the corresponding interest recoverable which was re-designated as principal amount during the year, of the convertible notes issued by FreeBorders, Inc. with an aggregate amount of HK$22,455,000.

(c) Cost of inventories sold includes certain portion of staff costs, depreciation and operating lease charges totalling HK$424,194,000 (2004: HK$369,702,000), which are also included in the respective amounts of expenses disclosed separately.

(d) These items are included in other net income which is shown in consolidated profit and loss account.

Notes to the Accounts

7 FINANCE COSTS

	Group	
	2005	2004
	HK$'000	HK$'000
Interest on bank overdrafts	**31**	255
Interest on bank loan (wholly repayable within one year)	**1,090**	–
Interest on loans from minority shareholders (not wholly repayable within five years)	**1,497**	7,806
Interest on convertible notes (Note 35)	**4,121**	–
	6,739	8,061

8 TAXATION

	Group					
	Current taxation HK$'000	**Deferred taxation HK$'000 (Note 33)**	**2005 Total HK$'000**	Current taxation HK$'000	Deferred taxation HK$'000 (Note 33)	2004 Total HK$'000
Hong Kong	**369**	**(1,703)**	**(1,334)**	8,554	1,597	10,151
Outside Hong Kong	**26,623**	**1,220**	**27,843**	3,900	4,565	8,465
	26,992	**(483)**	**26,509**	12,454	6,162	18,616

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 outside Hong Kong has been provided for on the estimated assessable profits at applicable rate ruling in relevant countries.

In 2005, Macau enacted a change in the profits tax rate from 15.75% to 12% applicable starting from the year ended 31 December 2004.

8 TAXATION (Continued)

The differences between the Group's expected tax charges calculated at the domestic rates and the Group's tax charge for the years are as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Profit before taxation	**219,072**	189,794
Tax calculated at the domestic rates applicable to the profits in the countries concerned	**34,617**	26,352
Income not subject to taxation	**(14,166)**	(5,052)
Expenses not deductible for taxation purposes	**8,412**	3,091
Utilisation of previously unrecognised tax losses	**(1,780)**	(34)
Tax losses not recognised	**2,892**	–
Over provision in prior years	**(5,455)**	(7,933)
Other temporary differences	**1,714**	2,192
Effect of change in tax rate	**275**	–
Total taxation	**26,509**	18,616

The weighted average applicable tax rate was 15.8% (2004: 13.9%). The increase is caused by a change in the profitability of the Group's subsidiaries in the respective countries.

9 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of HK$29,210,000 (2004: HK$223,475,000).

Notes to the Accounts

10 DIVIDEND

	Group and Company	
	2005	2004
	HK$'000	HK$'000
Final dividend proposed – HK2.2 cents per ordinary share (2004: HK2.0 cents)	**147,510**	134,100

At a meeting held on 8 March 2006, the directors declared a final dividend of HK2.2 cents per ordinary share. The amount of proposed final dividend for 2005 is based on 6,705,000,263 shares issued at 31 December 2005. This proposed dividend is not reflected as a dividend payable in these accounts but will be reflected as an appropriation of retained profits for the year ending 31 December 2006.

The amount of proposed final dividend for 2004 was based on 6,705,000,263 shares issued at 31 December 2004 and the amount paid of HK$134,100,000 was based on 6,705,000,263 shares issued and recorded on the Register of Members of the Company on 17 May 2005.

11 EARNINGS PER SHARE

The calculation of earnings per share is based on the Group's profit attributable to shareholders of HK$186,016,000 (2004: HK$162,883,000) and 6,705,000,263 (2004: 6,705,000,263) ordinary shares in issue during the year.

The employee share options and the convertible notes outstanding at 31 December 2005 did not have a material dilutive effect on earnings per share.

12 STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	Group	
	2005	2004
	HK$'000	HK$'000
Wages and salaries	**434,860**	361,408
Other allowances and benefits	**43,511**	35,408
Pension costs	**6,328**	5,092
Employee share option benefits (Note 38)	**7,016**	–
	491,715	401,908

13 RETIREMENT BENEFITS SCHEMES

The Group has two defined contribution schemes for all qualified employees.

(i) Hong Kong employees who commenced employment before 1 September 2000 and qualified employees from operations outside Hong Kong are members of the first defined contribution scheme. The assets of the defined contribution scheme are held separately under a provident fund managed by an independent trustee. Pursuant to the rules of the scheme, the employer and its employees are each required to make contributions to the scheme calculated at 5% of the employees' basic salaries on a monthly basis. The employees are entitled to 100% of the employer's contributions and accrued interest after 10 years' service, or at an increasing scale of between 20% to 90% after completion of 2 to 9 years' service.

When there are employees who leave the scheme prior to vesting fully in the contributions, in accordance with the rules of the scheme, the forfeited employer's contributions arising from members terminating employment before becoming fully vested are allocated to the benefit of the remaining members instead of being used to reduce the future contributions of the employer.

(ii) All qualified Hong Kong employees who commenced employment on or after 1 September 2000 are members of the second defined contribution scheme which has been set up in accordance with the guidelines of Mandatory Provident Fund. Both the employers and employees contribute 5% of relevant income (limited to HK$1,000) to the scheme each month.

Notes to the Accounts

14 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

Directors' emoluments comprise payments to directors of the Company by the Group in connection with the management of the affairs of the Group. The emoluments of the directors of the Company are as follows:

Name of director	Fees HK$'000	Basic salaries, allowances and benefits-in-kind HK$'000	Discretionary bonus HK$'000	Provident fund contributions HK$'000	Employee share option benefits HK$'000	2005 Total emoluments HK$'000	2004 Total emoluments HK$'000
Fok Kin-ning, Canning	87	–	–	–	–	87	70
Lai Kai Ming, Dominic	70	–	–	–	–	70	70
Ko Yuet Ming	70	2,520	1,700	108	718	5,116	4,378
Luk Tei, Lewis	70	2,285	500	97	598	3,550	3,402
Chan Wen Mee, May (Michelle)	70	1,586	500	83	718	2,957	70
Chow Woo Mo Fong, Susan	70	–	–	–	–	70	70
Chow Wai Kam, Raymond	70	–	–	–	–	70	70
Edith Shih	70	–	–	–	–	70	70
Endo Shigeru	70	–	–	–	299	369	70
Cheung Wing Han, Miranda	70	2,296	–	148	–	2,514	3,124
Tam Yue Man	70	2,316	800	99	598	3,883	3,435
Ronald Joseph Arculli	140	–	–	–	–	140	140
Cheng Ming Fun, Paul (*)	53	–	–	–	–	53	140
Kwai Kai Cheong (*)	157	–	–	–	–	157	37
Lam Lee G. (*)	157	–	–	–	–	157	37
Lan Hong Tsung, David (*)	44	–	–	–	–	44	–
Total – 2005	1,338	11,003	3,500	535	2,931	19,307	
Total – 2004	1,124	9,417	4,190	452	–	–	15,183

(*) Independent non-executive directors

14 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year are all directors (2004: four) whose emoluments are reflected in the analysis presented in note 14(a) to the accounts. The emoluments payable to the one remaining individual in 2004 are as follows:

	2005 HK$'000	2004 HK$'000
Basic salaries, allowances and benefits-in-kind	–	1,570
Discretionary bonus	–	240
Provident fund contributions	–	72
	–	1,882

The emoluments of the remaining individual in 2004 with the highest emoluments in prior year fell within the following bands:

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

15 GOODWILL

	Group	
	2005 HK$'000	2004 HK$'000
Cost at 1 January 2005	–	–
Additions arising from acquisition of subsidiaries (Note 43)	**328,359**	–
Cost at 31 December 2005	**328,359**	–

Goodwill acquired through business combination has been allocated to the property operation, which is a separate segment, for impairment testing.

The recoverable amount of the property operation has been determined based on value-in-use calculation using cash flow projections based on financial budgets approved by management covering a five-year period. The discount rate applied to cash flow projections is 5.85%.

Notes to the Accounts

16 PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost						
At 1 January 2005, as previously reported	224,541	126,300	217,733	50,845	10,495	629,914
Effect of adopting HKAS 17	(107,773)	–	–	–	–	(107,773)
At 1 January 2005, as restated	116,768	126,300	217,733	50,845	10,495	522,141
Exchange translation differences	2,010	2,311	3,915	561	143	8,940
Additions	–	9,030	23,345	8,310	1,828	42,513
Disposals	–	–	(6,041)	(2,578)	(1,072)	(9,691)
At 31 December 2005	118,778	137,641	238,952	57,138	11,394	563,903
Accumulated depreciation and impairment						
At 1 January 2005, as previously reported	111,197	107,397	130,623	35,226	7,481	391,924
Effect of adopting HKAS 17	(43,874)	–	–	–	–	(43,874)
At 1 January 2005, as restated	67,323	107,397	130,623	35,226	7,481	348,050
Exchange translation differences	870	2,145	2,079	353	93	5,540
Charge for the year	5,458	8,835	20,069	5,254	1,127	40,743
Disposals	–	–	(4,929)	(2,539)	(1,003)	(8,471)
At 31 December 2005	73,651	118,377	147,842	38,294	7,698	385,862
Net book value						
At 31 December 2005	45,127	19,264	91,110	18,844	3,696	178,041

16 PROPERTY, PLANT AND EQUIPMENT (Continued)

Group

	Buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost						
At 1 January 2004, as previously reported	214,453	123,133	197,546	44,952	9,957	590,041
Effect of adopting HKAS 17	(97,488)	–	–	–	–	(97,488)
At 1 January 2004, as restated	116,965	123,133	197,546	44,952	9,957	492,553
Exchange translation differences	41	135	228	17	(3)	418
Additions	–	7,519	26,477	6,882	1,526	42,404
Disposals	(238)	(4,487)	(6,518)	(1,006)	(985)	(13,234)
At 31 December 2004	116,768	126,300	217,733	50,845	10,495	522,141
Accumulated depreciation and impairment						
At 1 January 2004, as previously reported	102,398	100,351	115,297	31,551	7,284	356,881
Effect of adopting HKAS 17	(41,058)	–	–	–	–	(41,058)
At 1 January 2004, as restated	61,340	100,351	115,297	31,551	7,284	315,823
Exchange translation differences	–	33	96	10	(4)	135
Charge for the year	6,221	11,500	20,243	4,639	1,106	43,709
Disposals	(238)	(4,487)	(5,013)	(974)	(905)	(11,617)
At 31 December 2004	67,323	107,397	130,623	35,226	7,481	348,050
Net book value						
At 31 December 2004	49,445	18,903	87,110	15,619	3,014	174,091

The Group's interests in buildings at their net book values are analysed as follows:

	2005 HK$'000	2004 HK$'000
Leases of between 10 to 50 years		
Hong Kong	**12,593**	13,101
Outside Hong Kong	**32,534**	36,344
	45,127	49,445

17 INVESTMENT PROPERTIES

	Group 2005 HK$'000	2004 HK$'000
Net book value at 1 January	**681,130**	680,140
Exchange translation differences	**11,161**	–
Additions through acquisition of subsidiaries (Note 39(b))	**2,574,000**	–
Disposals	**(93,849)**	(10,500)
Increase in fair value (Note 6)	**32,208**	11,490
Net book value at 31 December	**3,204,650**	681,130

(a) The Group's investment properties at their carrying values are analysed as follows:

	2005 HK$'000	2004 HK$'000
Leases of between 10 to 50 years		
Hong Kong	**9,850**	7,380
Outside Hong Kong	**3,194,800**	673,750
	3,204,650	681,130

(b) The investment properties are revalued at 31 December 2005 on an open market value basis by independent professional valuers, DTZ Debenham Tie Leung Limited.

18 LEASEHOLD LAND AND LAND USE RIGHTS

The Group's interests in leasehold land and land use rights represent prepaid operating lease payments.

	Group	
	2005 HK$'000	2004 HK$'000
Net book value at 1 January, as previously reported	**–**	–
Effect of adopting HKAS 17	**63,899**	56,430
Net book value at 1 January, as restated	**63,899**	56,430
Exchange translation differences	**464**	26
Additions	**–**	10,262
Amortisation and impairment	**(1,848)**	(2,819)
Net book value at 31 December	**62,515**	63,899
Representing:		
Non-current assets for continuing operation	**52,262**	63,899
Non-current assets classified as held for sale	**10,253**	–
	62,515	63,899

The leasehold land at their carrying values are analysed as follows:

	2005 HK$'000	2004 HK$'000
Leases of between 10 to 50 years		
Hong Kong	**40,128**	41,094
Outside Hong Kong	**22,387**	22,805
	62,515	63,899

Notes to the Accounts

19 INVESTMENTS IN SUBSIDIARIES

	Company	
	2005	2004
	HK$'000	HK$'000
Unlisted investments, at cost	**659,099**	659,099
Amount due from subsidiaries	**–**	2,187,953
Amount due to subsidiaries	**–**	(76,138)
	659,099	2,770,914

Particulars of the principal subsidiaries at 31 December 2005 are set out in note 49(a) to the accounts.

20 INVESTMENTS IN ASSOCIATES

	Group	
	2005	2004
	HK$'000	HK$'000
Unlisted investments, at cost	**3,884**	23,384
Share of post acquisition reserves	**2,141**	(10,681)
	6,025	12,703

(a) The share of taxation attributable to associates for the year ended 31 December 2005 amounted to HK$641,000 (2004: HK$112,000).

(b) Particulars of the principal associate at 31 December 2005 are set out in note 49(b) to the accounts.

20 INVESTMENTS IN ASSOCIATES (Continued)

(c) The Group's interest in its associates, all of which are unlisted, were as follows:

Name	2005				2004			
	Assets HK$'000	Liabilities HK$'000	Revenues HK$'000	Profit/(loss) HK$'000	Assets HK$'000	Liabilities HK$'000	Revenues HK$'000	Profit/(loss) HK$'000
Panyu Crown-Li Mould Co. Ltd.	9,149	3,124	7,175	321	8,709	3,047	8,501	440
Shanghai Jia Hua Real-Estate Development Co., Ltd.	–	–	–	(408)	11,116	4,075	–	(269)
	9,149	3,124	7,175	(87)	19,825	7,122	8,501	171

21 HELD-TO-MATURITY SECURITIES, LISTED

	Group 2005 HK$'000	Group 2004 HK$'000
Listed, overseas		
Held-to-maturity securities, at cost	–	1,488,090
Less: amortisation	–	(30,056)
	–	1,458,034

At 31 December 2004, the market value of held-to-maturity securities was approximately HK$1,461,809,000. The held-to-maturity securities were reclassified as available-for-sale financial assets upon disposal of some of these securities before maturity during the year in accordance with HKAS 39.

Notes to the Accounts

22 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group
	2005 **HK$'000**
Listed debt securities, overseas	480,978
Unlisted equity securities, overseas	8,968
Total	489,946
Less: current portion	(271,552)
Non-current portion	218,394

During the year, the revaluation deficit of the Group's available-for-sale financial assets recognised directly in investment revaluation reserve amounted to HK$2,368,000.

At 31 December 2005, the listed debt securities with a net book value amounting to HK$360,688,000 (2004: Nil) have been pledged as security secured for the Group's bank loan (Note 32).

23 NON-TRADING SECURITIES

	Group		Company	
	2005 **HK$'000**	2004 HK$'000	**2005** **HK$'000**	2004 HK$'000
Unlisted shares, Hong Kong	–	273	–	–
Unlisted securities, overseas				
Equity securities	–	65,912	–	62,979
Convertible notes	–	19,500	–	19,500
	–	85,685	–	82,479
Less: impairment provision	–	(85,412)	–	(82,479)
	–	273	–	–

Pursuant to the transitional provisions of HKAS 39, the Group has redesignated all of those equity investments previously classified as "non-trading securities" as shown above as "available-for-sale financial assets" with effect from 1 January 2005. The investment in convertible notes was redesignated as loans receivable with effect from 1 January 2005 and the entire balance was repaid in full during the year.

24 LOANS RECEIVABLE

	Group 2005 HK$'000	Group 2004 HK$'000
Gross loans receivable	**8,762**	11,532
Less: amount due within one year	**(2,369)**	(2,770)
	6,393	8,762

The gross loans receivable of HK$8,762,000 at 31 December 2005 (2004: HK$11,532,000) represented the net amount of unsecured loans advanced by the Group to a third party (the "Third Party") to finance the Third Party to construct factory buildings in the Mainland China. The Third Party leased the factory buildings back to the Group and used the rent derived thereon to repay the principal and the related interest. The loans bear interest at a range of Hong Kong dollar prime rate to 2% above Hong Kong dollar prime rate. The carrying value of loans receivable approximate to its fair value. The effective interest rate at 31 December 2005 was 7.0% (2004: 5.9%).

25 INVENTORIES

	Group 2005 HK$'000	Group 2004 HK$'000
Raw materials	**187,776**	162,478
Work in progress	**111,329**	75,964
Finished goods	**82,446**	52,227
	381,551	290,669

26 TRADE RECEIVABLES

Included in trade receivables at 31 December 2005 are amounts due from certain subsidiaries of Hutchison Whampoa Limited totalling HK$14,992,000 (2004: HK$13,036,000).

The Group's average credit period granted to trade debtors mainly ranges from 30 to 60 days. At 31 December, the aging analysis of trade receivables, net of provision, based on the date of invoice is as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
0-30 days	**188,203**	175,498
31-60 days	**124,262**	97,838
61-90 days	**32,936**	50,820
Over 90 days	**27,759**	27,426
	373,160	351,582

27 DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

Included in deposits, prepayments and other receivables are amounts due from certain subsidiaries of Hutchison Whampoa Limited totalling HK$850,000 (2004: HK$2,487,000).

28 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS/TRADING SECURITIES

	Group	
	2005	2004
	HK$'000	HK$'000
Equity securities at market value, listed		
– Overseas	**7**	7

Pursuant to the adoption of HKAS 39, the above equity securities were reclassified from "trading securities" to "financial assets at fair value through profit and loss" with effect from 1 January 2005.

29 CASH AND BANK DEPOSITS

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Deposits with banks	**314,106**	419,046	**14,593**	130,854
Cash at banks and in hand	**358,338**	166,225	**2,688**	1,541
	672,444	585,271	**17,281**	132,395

Bank balances of HK$415,205,000 (2004: HK$183,489,000) are placed with banks in the Mainland China. The remittance of these funds out of the Mainland China is subject to exchange control restrictions imposed by the PRC government.

The average effective interest rate on short term bank deposits during the year was approximately 2.87% (2004: 1.16%) per annum. These deposits have an average maturity of less than 35 days (2004: 38 days).

30 TRADE PAYABLES

Included in trade payables at 31 December 2005 are amounts due to certain subsidiaries of Hutchison Whampoa Limited and an associate of the Group totalling HK$395,000 (2004: HK$81,000) and HK$11,438,000 (2004: HK$8,859,000) respectively. The aging analysis of trade payables at 31 December is as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
0 – 30 days	**171,873**	193,255
31 – 60 days	**76,054**	108,400
61 – 90 days	**15,738**	19,091
Over 90 days	**13,102**	26,333
	276,767	347,079

31 OTHER CREDITORS AND ACCRUALS

Included in other creditors and accruals are amounts due to certain subsidiaries and jointly controlled entities of Hutchison Whampoa Limited and loan from a minority shareholder of a subsidiary of the Group totalling HK$19,189,000 (2004: Nil), HK$19,762,000 (2004: Nil) and HK$7,185,000 (2004: HK$7,035,000) respectively.

Liabilities directly associated with non-current assets classified as held for sales amounted to HK$3,588,000 (2004: Nil).

32 BANK LOAN WHOLLY REPAYABLE WITHIN ONE YEAR

The bank loan, which is guaranteed by the Company, bears interest at 0.3% above London Inter-bank offer rate and was secured by the pledge of certain of the Group's listed debt securities amounting to HK$360,688,000 (2004: Nil) (Note 22). The carrying amount of the bank loan approximates to its fair value and is denominated in US dollar. The effective interest rate at 31 December 2005 was 4.5% (2004: Nil).

The Group has undrawn bank loan facilities amounting to HK$58,200,000 (2004: Nil).

33 DEFERRED TAXATION

(a) The gross movement on the net deferred tax liabilities is as follows:

	Group	
	2005 HK$'000	2004 HK$'000
At 1 January	**37,186**	31,024
Exchange translation difference	**217**	–
(Credited)/charged to profit and loss account	**(483)**	6,162
Additions through acquisition of subsidiaries (Note 39(b))	**576,824**	–
At 31 December	**613,744**	37,186

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

Deferred tax liabilities

	Group					
	Accelerated tax depreciation		Changes in fair value of investment properties and others		Total	
	2005 HK$'000	2004 HK$'000	**2005 HK$'000**	2004 HK$'000	**2005 HK$'000**	2004 HK$'000
At 1 January	**41,824**	29,218	**6,479**	14,115	**48,303**	43,333
Exchange translation differences	**225**	–	**(8)**	–	**217**	–
Charged/(credited) to profit and loss account	**5,858**	12,606	**(2,845)**	(7,636)	**3,013**	4,970
Additions through acquisition of subsidiaries	**11,561**	–	**565,263**	–	**576,824**	–
At 31 December	**59,468**	41,824	**568,889**	6,479	**628,357**	48,303

33 DEFERRED TAXATION (Continued)

(b) (Continued)

Deferred tax assets

	Group							
	Accelerated tax depreciation		Impairment of assets and provisions		Tax losses		Total	
	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000
At 1 January	(2,356)	(1,834)	(5,059)	(4,982)	(3,702)	(5,493)	(11,117)	(12,309)
Charged/(credited) to profit and loss account	(553)	(522)	(812)	(77)	(2,131)	1,791	(3,496)	1,192
At 31 December	(2,909)	(2,356)	(5,871)	(5,059)	(5,833)	(3,702)	(14,613)	(11,117)

(c) The utilisation of unused tax losses depends on future taxable profit in excess of the profits arising from the reversal of existing taxable temporary differences. The Group did not recognise deferred tax assets of HK$25,471,000 (2004: HK$25,413,000) in respect of the unused tax losses carried forwards amounted to HK$97,194,000 (2004: HK$104,589,000). Of these, HK$87,262,000 (2004: HK$87,717,000) can be carried forward indefinitely and the remaining HK$9,932,000 (2004: HK$16,872,000) expires in the following years:

	Group	
	2005 HK$'000	2004 HK$'000
2005	–	3,832
2006	6,684	10,598
2007	2,569	2,442
2010	679	–
	9,932	16,872

(d) No provision for deferred taxation has been made for taxes which would arise on the remittance of retained profits of an overseas subsidiary to Hong Kong as it is not anticipated that these amounts will be remitted in the foreseeable future. The unremitted earnings at 31 December 2005 was HK$3,476,000 (2004: HK$9,277,000).

34 LOANS FROM MINORITY SHAREHOLDERS

At 31 December 2005, the interest bearing loans from minority shareholders were advanced by a minority shareholder of the Group's two PRC property development equity joint ventures. The loans from the minority shareholders are interest bearing at 3% (2004: 3%) per annum.

At 31 December 2005, the loans from minority shareholders were unsecured and have no fixed terms of repayment.

The carrying amounts of loans from minority shareholders approximate to their fair values and are denominated in the following currencies.

	2005	2004
	HK$'000	HK$'000
US dollar	**36,506**	36,506
Renminbi	**2,880**	2,820
	39,386	39,326

35 CONVERTIBLE NOTES

On 25 November 2005, the Company issued five-year 2% convertible notes with a nominal value of US$128,200,000 to a subsidiary of Hutchison Whampoa Limited. The convertible notes are convertible at the option of the Company or the note holders into ordinary shares of the Company. The notes are redeemable at a price of HK$0.89 per share at any time before maturity after third anniversary of 25 November 2005. Unless previously redeemed, converted or purchased and cancelled, the convertible notes are redeemable at face value together with any accrued interest at the end of the maturity period on 24 November 2010. The convertible notes carry interest at a rate of 2% per annum which is payable half-yearly in arrears.

No conversion has been made during the year.

The fair value of the liability portion was estimated at the issuance date using an equivalent market interest rate for a similar note without a conversion option. The residual amount is assigned as the equity portion and is included in shareholders' equity.

35 CONVERTIBLE NOTES (Continued)

The net proceeds received from the issue of the convertible notes have been splitted between the liability and equity portion, as follows:

	Group and Company	
	2005 HK$'000	2004 HK$'000
Nominal value of convertible notes issued during the year	**999,960**	–
Equity portion	**(123,975)**	–
Liability portion at the issuance date	**875,985**	–
Transaction costs capitalised	**(864)**	–
Interest expense charged to profit and loss account (Note 7)	**4,121**	–
Interest payable recorded under current liabilities	**(1,944)**	–
Liability portion at 31 December	**877,298**	–

The fair value of the liability portion of the convertible notes at 31 December 2005 approximates to their fair values. The fair value is calculated using cash flows discounted at a rate based on the borrowings rate of 4.82% per annum.

Interest expenses on the convertible notes are calculated using the effective interest method by applying the effective interest rate of 4.82% per annum to the liability portion.

The convertible notes are secured by the pledge of equity interests in and loans to Newscott Investments Limited and Great Winwick Limited by City Island Developments Limited amounting to HK$1,654,366,000.

36 SHARE CAPITAL

	2005		2004	
	Number of shares	**Amount HK$'000**	Number of shares	Amount HK$'000
Authorised:				
Ordinary shares of HK$0.1 each	**20,000,000,000**	**2,000,000**	20,000,000,000	2,000,000
Issued and fully paid:				
At 1 January and at 31 December	**6,705,000,263**	**670,500**	6,705,000,263	670,500

37 SHARE OPTIONS

The Company operates a share option scheme. On 3 June 2005, 123,750,000 share options were granted to directors and employees at an exercise price of HK$0.822 per share, which is higher than the market price of the shares on the date of grant. Options are conditional on the employee completing the prescribed years of services. One third of the options are exercisable after one year from the grant date; another one third are exercisable after two years from the grant date and the remaining one third are exercisable after three years from the grant date and up to 16 September 2014. The options have a contractual option term of 10 years. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

No option is exercisable or has been exercised up to 31 December 2005 but 1,500,000 share options were forfeited. The number of share options outstanding at 31 December 2005 is 122,250,000 and these options expire on 16 September 2014 unless exercised before then.

The fair value of options granted, determined using the Binomial valuation model, was HK$0.2498 per share. The significant inputs into the model were share price of HK$0.82 at the grant date, exercise price of HK$0.822 per share, standard deviation of expected share price returns of 31.7%, expected life of options of 7 years, expected dividend paid out rate of 2.44% and annual risk-free interest rate of 3.444%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over one year immediately preceding the grant date.

	Number of shares			
	At 1 January 2005	Granted	Forfeited	At 31 December 2005
By directors				
Ko Yuet Ming	–	12,000,000	–	12,000,000
Luk Tei, Lewis	–	10,000,000	–	10,000,000
Chan Wen Mee, May (Michelle)	–	12,000,000	–	12,000,000
Endo Shigeru	–	5,000,000	–	5,000,000
Cheung Wing Han, Miranda	–	10,000,000	–	10,000,000
Tam Yue Man	–	10,000,000	–	10,000,000
	–	59,000,000	–	59,000,000
Other employees	–	64,750,000	(1,500,000)	63,250,000
Total	–	123,750,000	(1,500,000)	122,250,000

38 RESERVES

Company

	Share premium HK$'000	Capital redemption reserve HK$'000	Share-based compensation reserve HK$'000	Convertible notes reserve HK$'000	Contributed surplus HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2005	**1,813,437**	**3,558**	**–**	**–**	**1,456**	**409,989**	**2,228,440**
Issuance of convertible notes (Note 35)	**–**	**–**	**–**	**123,975**	**–**	**–**	**123,975**
Employee share option benefits (Note 12)	**–**	**–**	**7,016**	**–**	**–**	**–**	**7,016**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**29,210**	**29,210**
2004 final dividend paid	**–**	**–**	**–**	**–**	**–**	**(134,100)**	**(134,100)**
At 31 December 2005	**1,813,437**	**3,558**	**7,016**	**123,975**	**1,456**	**305,099**	**2,254,541**
At 1 January 2004	1,813,437	3,558	–	–	1,456	300,499	2,118,950
Profit for the year	–	–	–	–	–	223,475	223,475
2003 final dividend paid	–	–	–	–	–	(113,985)	(113,985)
At 31 December 2004	1,813,437	3,558	–	–	1,456	409,989	2,228,440

The contributed surplus of the Company represents the difference between the consolidated shareholders' funds of subsidiaries when they were acquired by the Company and the nominal amount of the Company's share capital issued for the acquisition.

Under the Companies Act 1981 of Bermuda (as amended), contributed surplus is available for distribution to shareholders. However, a company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if:

(i) the company is, or would after the payment be, unable to pay its liabilities as they become due; or

(ii) the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

The application of share premium account is governed by section 40 of the Companies Act 1981 of Bermuda (as amended).

Notes to the Accounts

39 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of operating profit to net cash (outflow)/inflow generated from operations

	2005 HK$'000	2004 HK$'000 (Restated)
Operating profit	**225,898**	197,684
Adjustment for:		
Interest income, net of amortisation of premium of held-to-maturity securities, listed	**(39,670)**	(59,210)
Interest income, available-for-sale financial assets	**(6,470)**	–
Interest income, others	**(19,703)**	–
Depreciation of property, plant and equipment	**40,743**	43,709
Amortisation and impairment charge	**1,848**	2,819
Loss on disposal of held-to-maturity securities	**354**	–
Gain on disposal of an associate	**(4,876)**	(3)
Gain on disposal of investment properties	**(27,876)**	(6,227)
Gain on disposal of property, plant and equipment	**(367)**	(592)
Gain on disposal of non-trading securities	**–**	(4,000)
Increase in fair value of investment properties	**(32,208)**	(11,490)
Gain on disposal of available-for-sale financial assets	**(11,890)**	–
Employee share options benefits	**7,016**	–
Operating profit before working capital changes	**132,799**	162,690
Decrease/(increase) in trade and other receivables	**19,204**	(39,115)
Decrease in loans receivable	**2,770**	3,712
Increase in inventories	**(90,882)**	(65,828)
(Decrease)/increase in trade and other payables	**(111,754)**	39,157
Exchange differences	**(2,903)**	991
Net cash (outflow)/inflow generated from operations	**(50,766)**	101,607

39 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Acquisition of subsidiaries

	2005 HK$'000	2004 HK$'000
Net assets acquired:		
Investment properties (Note 17)	2,574,000	–
Trade receivables, deposits, prepayments and other receivables	34,789	–
Cash and cash equivalents	99,950	–
Trade payables, other creditors and accruals	(225,987)	–
Taxation	(37,262)	–
Deferred tax liabilities (Note 33)	(576,824)	–
	1,868,666	–
Goodwill	328,359	–
	2,197,025	–
Satisfied by:		
Cash paid	2,184,956	–
Consideration payable	6,925	–
Direct costs relating to the acquisition	5,144	–
	2,197,025	–

Analysis of net cash outflow in respect of acquisition of subsidiaries:

	2005 HK$'000	2004 HK$'000
Cash consideration paid up to 31 December 2005	2,190,100	–
Cash and cash equivalents acquired	(99,950)	–
Net cash outflow in respect of acquisition of subsidiaries	2,090,150	–

40 CONTINGENT LIABILITIES

At 31 December, contingent liabilities not provided for in the accounts are as follows:

	Group		Company	
	2005 HK$'000	2004 HK$'000	**2005 HK$'000**	2004 HK$'000
Guarantees given to banks in connection with facilities granted to subsidiaries	–	–	**300,000**	–
Guarantees given to banks in connection with facilities granted to purchasers of the Group's properties in the Mainland China	**19,137**	–	–	–
	19,137	–	**300,000**	–

At 31 December 2005, the banking facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of HK$241,800,000 (Note 32).

41 CAPITAL COMMITMENTS

	Group	
	2005 HK$'000	2004 HK$'000
Capital commitments for property, plant and equipment:		
Contracted but not provided for	**28,263**	4,729
Authorised but not contracted for	**73,299**	94,744
	101,562	99,473

42 OPERATING LEASES

(a) At 31 December, the Group had future aggregate minimum lease receivables under non-cancellable operating leases in respect of investment properties as follows:

	Group	
	2005 HK$'000	2004 HK$'000
Not later than one year	222,576	33,138
Later than one year and not later than five years	393,714	30,111
Later than five years	6,856	5,434
	623,146	68,683

(b) At 31 December, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of properties as follows:

	Group	
	2005 HK$'000	2004 HK$'000
Not later than one year	43,923	37,066
Later than one year and not later than five years	110,393	117,165
Later than five years	4,855	14,857
	159,171	169,088

Notes to the Accounts

43 BUSINESS COMBINATIONS

On 25 November 2005, the Group acquired 100% of the share capital of and loans to Newscott Investments Limited, Great Winwick Limited, Shanghai Xin Hui Property Development Co., Ltd. and Shanghai He Hui Property Development Co., Ltd. which, together, have their entire interests in a commercial property, namely "The Center", in Shanghai. The acquired business contributed revenues of HK$20,997,000 and profit for the year of HK$11,012,000 to the Group for the period from 26 November 2005 to 31 December 2005. If the acquisition had occurred on 1 January 2005, the Group's revenue would have been HK$2,758,962,000 and profit for the year would have been HK$255,082,000. These amounts have been calculated using the Group's accounting policies and assuming the fair value adjustments to investment properties had applied from 1 January 2005, together with the consequential tax effects.

Details of net assets acquired and goodwill are as follows:

	HK$'000
Purchase consideration:	
– Cash paid	2,184,956
– Consideration payable	6,925
– Direct costs relating to the acquisition	5,144
Total purchase consideration (Note 39(b))	2,197,025
Fair value of net assets acquired – shown on page 109	(1,868,666)
Goodwill (Note 15)	328,359

The goodwill is attributable to the future expected profitability of the acquired business and the significant synergies expected to arise after the Group's acquisition of the property business in Shanghai.

43 BUSINESS COMBINATIONS (Continued)

The assets and liabilities arising from the acquisition are as follows:

	Aggregated fair value HK$'000	Acquirees' aggregated carrying amount HK$'000
Cash and cash equivalents	99,950	99,950
Investment properties (Note 17)	2,574,000	2,340,000
Trade receivables, deposits, prepayment and other receivables	34,789	49,631
Trade payables, other creditors and accruals	(225,987)	(225,987)
Taxation	(37,262)	(37,262)
Deferred tax liabilities (Note 33)	(576,824)	(499,605)
Net assets acquired	1,868,666	1,726,727
Purchase consideration paid up to 31 December 2005	2,190,100	
Cash and cash equivalents of subsidiaries acquired	(99,950)	
Net cash outflow in respect of acquisition of subsidiaries	2,090,150	

There were no acquisitions during the year ended 31 December 2004.

44 MATERIAL RELATED PARTY TRANSACTIONS

During the year, the Group had significant transactions with related parties which were carried out in the normal course of business at terms determined and agreed by both parties, details of which are as follows:

(a) The Group had transactions with minority shareholders of subsidiaries and their affiliates during the year as follows:

	2005 HK$'000	2004 HK$'000
Rental expenses	22,651	20,458
Management fee expenses	3,871	3,756
Interest expenses	1,497	7,806
	28,019	32,020

44 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(b) During the year, the Group issued convertible notes of US$128,200,000 (approximately HK$999,960,000) to a subsidiary of Hutchison Whampoa Limited (Note 35) and the interest payable thereon amounted to HK$4,121,000.

(c) The Group manufactured a range of products including cap covers, premium items and mobile phone accessories for certain subsidiaries of Hutchison Whampoa Limited. The aggregate invoiced amounts for the year were approximately HK$127,426,000 (2004: HK$155,804,000).

(d) Hutchison International Limited, a wholly owned subsidiary of Hutchison Whampoa Limited, has been providing and will continue to provide administrative and support services to the Group. The aggregate fees charged for the year were approximately HK$4,000,000 (2004: HK$3,000,000).

(e) During the year, the Group acquired subsidiaries which were previously jointly owned by Hutchison Whampoa Limited and Cheung Kong (Holdings) Limited, a shareholder of Hutchison Whampoa Limited, for an aggregated consideration of HK$2,197,025,000. Further details of the transactions are included in Note 43 to the accounts.

(f) During the year, the Group paid management fee to and received rental income from a subsidiary of Hutchison Whampoa Limited of approximately HK$152,000 (2004: Nil) and HK$350,000 (2004: Nil) respectively.

(g) Details of directors' remuneration (being the key management personnel compensation) are shown in Note 14 to the accounts.

45 SUBSEQUENT EVENTS

On 17 January 2006, the Group entered into a sale and purchase agreement with a third party to dispose of its entire interest in certain wholly owned subsidiaries. The aggregated net asset value of these subsidiaries as at 31 December 2005 was approximately HK$5,815,000.

46 ULTIMATE HOLDING COMPANY

The directors consider the ultimate holding company to be Hutchison Whampoa Limited, which is incorporated and listed in Hong Kong.

47 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation and accounting treatments.

48 APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 8 March 2006.

49 PARTICULARS OF THE PRINCIPAL SUBSIDIARIES AND ASSOCIATE

(a) Details of the principal subsidiaries at 31 December 2005 are as follows:

Name of subsidiary	Place of operations/ incorporation	Particulars of issued/registered capital	Group's effective interest %	Principal activity
* Hutchison Harbour Ring Holdings Limited	Hong Kong/ Cayman Island	US$1 ordinary shares	100	Investment in securities
* Hutchison Harbour Ring Toys Group Limited	Hong Kong/ British Virgin Islands	US$1,000 ordinary shares	100	Investment holding
* Hutchison Harbour Ring Property Holdings Limited	Hong Kong/ British Virgin Islands	US$1 ordinary share	100	Investment holding
* i. Tech Holdings Limited	Hong Kong/ British Virgin Islands	US$100 ordinary shares	100	Investment holding
* PMW Holdings Limited	Hong Kong/ British Virgin Islands	US$1,000 ordinary shares	100	Investment holding
Acefield Limited	Hong Kong	HK$100,000 ordinary shares HK$2,000,000 non-voting deferred shares	100	Trading of moulds, materials and provision of management services
Billymax Investments Limited	Hong Kong	HK$2 ordinary shares	100	Property holding
Cardner International Inc.	Hong Kong and Macau/ British Virgin Islands	US$200 ordinary shares	100	Trading of toys
^ City Island Developments Limited	Hong Kong/ British Virgin Islands	US$1,000 ordinary shares	100	Investment holding
Coronet Toys Company Limited	Hong Kong	HK$100,000 ordinary shares HK$200,000 non-voting deferred shares	100	Trading of moulds and provision of management services

Notes to the Accounts

49 PARTICULARS OF THE PRINCIPAL SUBSIDIARIES AND ASSOCIATE (Continued)

(a) (Continued)

Name of subsidiary	Place of operations/ incorporation	Particulars of issued/registered capital	Group's effective interest %	Principal activity
# Dongguan Crown-Ace Toys Co., Ltd	PRC	HK$72,890,000 registered capital	95.31	Manufacture of toys
Goodway Electronic Technology Limited	Hong Kong	HK$5,000,000 ordinary shares	100	Manufacture and trading of electronics toys
^ Great Winwick Limited	PRC/ British Virgin Islands	US$100 ordinary shares	100	Investment holding
# Guangzhou i.Tech Electronic Technology Ltd	PRC	HK$68,800,000 registered capital	97.79	Manufacture of toys
Hutchison Harbour Ring Industries Limited	Hong Kong	HK$2 ordinary shares HK$1,000,000 non-voting deferred shares	100	Investment holding and provision of management services
Harbour Ring Property Development Limited	Hong Kong	HK$1,000 ordinary shares	100	Real estate agency, provision of project management services
i. Tech Dynamic Limited	Hong Kong	HK$10,000 ordinary shares HK$850,000 non-voting deferred shares	100	Trading of electronic technology and premium products
i. Tech Europe Sprl	Belgium	EUR18,550 ordinary shares	100	Investment holding
i. Tech Italy Srl	Italy	EUR10,000 quota	100	Provision of sales liaison and marketing services
i. Tech Services UK Limited	UK	GBP1,000 ordinary shares	100	Provision of sales liaison and marketing services

49 PARTICULARS OF THE PRINCIPAL SUBSIDIARIES AND ASSOCIATE (Continued)

(a) (Continued)

Name of subsidiary	Place of operations/ incorporation	Particulars of issued/registered capital	Group's effective interest %	Principal activity
Macau International Toys Limited	Hong Kong	HK$9,998 ordinary shares HK$2 non-voting deferred shares	100	Provision of management services and trading of moulds
^ Newscott Investments Limited	PRC/ British Virgin Islands	US$100 ordinary shares	100	Investment holding
P & H Development Limited	Hong Kong	HK$7 ordinary shares HK$3 non-voting deferred shares	100	Investment holding
PMW-GB Agency Limited	Hong Kong	HK$100 ordinary shares	65	Provision of agency services
PMW Global Sourcing Limited	Hong Kong	HK$1,000 ordinary shares	100	Trading of toys, premium goods and other consumer products
PMW International Limited	Hong Kong	HK$1,000 ordinary shares	100	Sourcing business goods and other consumer products
PMW Management Limited	Hong Kong	HK$1,000 ordinary shares	100	Provision of management services
PMW Product Licence Limited	Hong Kong	HK$1,000 ordinary shares	100	Licensing business
港陸騰輝(上海)商業有限公司	PRC	US$2,000,000 registered capital	80	Trading of licensing products
PRD Electronics Limited	Hong Kong	HK$600 ordinary shares	65	Trading of toys

49 PARTICULARS OF THE PRINCIPAL SUBSIDIARIES AND ASSOCIATE (Continued)

(a) (Continued)

Name of subsidiary	Place of operations/ incorporation	Particulars of issued/registered capital	Group's effective interest %	Principal activity
# Shanghai Gang Lu Real Estate Development Co., Ltd.	PRC	US$16,000,000 registered capital	88	Property development
Shanghai He Hui Property Development Co., Ltd.	PRC	US$46,330,000 registered capital	100	Property holding
# Shanghai Pu Gang Real Estate Development Co., Ltd.	PRC	US$7,000,000 registered capital	80	Property development
Shanghai Xin Hui Property Development Co., Ltd.	PRC	US$15,600,000 registered capital	100	Property holding
Try Electronics Japan Limited	Japan	JPY30,000,000 ordinary shares	65	Trading of toys
Zhongshan Coronet Toys Ltd.	PRC	HK$43,200,000 registered capital	100	Manufacture of toys
# Zhongshan International Toys Ltd.	PRC	HK$153,330,000 registered capital	78.04	Manufacture of toys
上海歐享龍工貿有限公司	PRC	RMB5,000,000 registered capital	100	Manufacturing and licensing

The non-voting deferred shares practically carry no rights to dividends or receive notice of or to attend or vote at any general meeting of the respective companies or to participate in any distribution on winding up.

* Shares held directly by the Company
\# Sino-foreign equity joint ventures
^ The issued shares of Newscott Investments Limited ("Newscott") and Great Winwick Limited ("Great Winwick"), held by City Island Developments Limited ("City Island"), together with loans advanced by City Island to Newscott and Great Winwick have been pledged to secure the convertible notes (Note 35).

49 PARTICULARS OF THE PRINCIPAL SUBSIDIARIES AND ASSOCIATE (Continued)

(b) Particulars of the principal associate at 31 December 2005 are as follows:

Name of associate	Place of operations/ incorporation	Particulars of registered capital	Group's effective interest %	Principal activity
Panyu Crown-Li Mould Co. Ltd.	PRC	US$1,130,000	50	Manufacture of moulds

The above tables list the principal subsidiaries and associate of the Group which, in the opinion of the directors, principally affect the results and net assets of the Group. To give full details of subsidiaries and associate would, in the opinion of the directors, result in particulars of excessive length.