

Notes to the Consolidated Financial Statements

For the year ended 31 December 2005

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability under the Companies Act 1981 of Bermuda (as amended). The shares of the Company are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section to the annual report.

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 39.

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

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRS(s)"), Hong Kong Accounting Standards ("HKAS(s)") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests has been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current and prior accounting years are prepared and presented:

Business Combinations

In the current year, the Group has applied HKFRS 3 "Business Combinations" which is effective for business combinations for which the agreement date is on or after 1 January 2005 and goodwill and negative goodwill previously recognised and brought forward as at 1 January 2005. The principal effects of the application of transitional provisions of HKFRS 3 to the Group are summarised below:

Goodwill

In previous years, goodwill arising on acquisitions prior to 1 January 2001 was held in goodwill reserves. The Group has applied the relevant transitional provisions in HKFRS 3. Goodwill previously recognised in goodwill reserves of HK\$88,000 has been transferred to the Group's retained profits on 1 January 2005 (see note 3 for the financial impact).

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES *(continued)*

Business Combinations *(continued)*

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

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") is recognised immediately in profit or loss in the period in which the acquisition takes place. In previous periods, negative goodwill arising on acquisitions prior to 1 January 2005 was presented as a deduction from assets and released to income based on an analysis of the circumstances from which the balance resulted. In accordance with the relevant transitional provisions in HKFRS 3, the Group derecognised all negative goodwill on 1 January 2005. A corresponding adjustment to the Group's retained profits of HK\$2,818,000 has been made (see note 3 for the financial impact).

Financial Instruments

In the current year, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application and the adoption of HKAS 32 has had no material impact on how the financial instruments of the Group are presented for the current or prior accounting periods. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

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

Debt and equity securities previously accounted for under the benchmark treatment of SSAP 24.

By 31 December 2004, the Group classified and measured its equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 ("SSAP 24"). Under SSAP 24, investments in equity securities are classified as "investment securities" and "other investments" as appropriate. "Investment securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealised gains or losses included in profit or loss. From 1 January 2005 onwards, the Group has classified and measured its equity securities in accordance with HKAS 39. Financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets" and "loans and receivables". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity, respectively. Available-for-sale equity investments that do not have quoted market prices in an active market and whose fair value cannot be reliably measured are measured at cost less impairment after initial recognition. "Loans and receivables" is measured at amortised cost using the effective interest method after initial recognition.

On 1 January 2005, the Group classified and measured its equity securities in accordance with the transitional provisions of HKAS 39. As a result, "other investments" amounted to HK\$3,963,000 has been classified as available-for-sale investments on 1 January 2005. There was no material effect on the results of current and prior years (see note 3 for the financial impact).

notes to the consolidated financial statements

For the year ended 31 December 2005

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Financial assets and financial liabilities other than debt and equity securities

From 1 January 2005 onwards, the Group has classified and measured its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. Financial assets under HKAS 39 are classified as “financial assets at fair value through profit or loss”, “available-for-sale financial assets” and “loans and receivables”. Financial liabilities are generally classified as “financial liabilities at fair value through profit or loss” or “other financial liabilities”. Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognised in profit or loss directly. Other financial liabilities are carried at amortised cost using the effective interest method after initial recognition. However, there has been no material effect on how the results for the current accounting period are prepared and presented.

Derivatives

From 1 January 2005 onwards, all derivatives that are within the scope of HKAS 39 are required to be carried at fair value at each balance sheet date regardless of whether they are deemed as held for trading or designated as effective hedging instruments. Under HKAS 39, derivatives (including embedded derivatives separately accounted for from the non-derivative host contracts) are deemed as held-for-trading financial assets or financial liabilities, unless they qualify and are designated as effective hedging instruments. The corresponding adjustments on changes in fair values would depend on whether the derivatives are designated as effective hedging instruments, and if so, the nature of the item being hedged. For derivatives that are deemed as held for trading, changes in fair values of such derivatives are recognised in profit or loss for the period in which they arise.

The Group did not have any derivatives in prior years. For the year ended 31 December 2005, as the derivatives do not meet the requirements of hedge accounting in accordance with HKAS 39, the Group has deemed such derivative as held for trading. The Group measured its derivative at fair value with the change in fair values recognised in profit or loss for the period in which they arise.

Owner-occupied Leasehold Interest in Land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the revaluation model. In the current year, the Group has applied HKAS 17 “Leases”. Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively (see note 3 for the financial impact). Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES *(continued)*

Investment Properties

In the current year, the Group has, for the first time, applied HKAS 40 "Investment Property". The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in profit or loss for the year in which they arise. In previous years, investment properties under the predecessor standard were measured at open market values, with revaluation surplus or deficits credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and a revaluation surplus subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. The Group has applied the relevant transitional provisions in HKAS 40 and elected to apply HKAS 40 from 1 January 2005 onwards. The application of HKAS 40 has had no major impact on current year and prior year figures.

Deferred Taxes related to Investment Properties

In previous years, deferred tax consequences in respect of revalued investment properties were assessed on the basis of the tax consequence that would follow from recovery of the carrying amount of the properties through sale in accordance with the predecessor Interpretation. In the current year, the Group has applied HK(SIC) Interpretation 21 Income Taxes — Recovery of Revalued Non-Depreciable Assets which removes the presumption that the carrying amount of investment properties is to be recovered through sale. Therefore, the deferred tax consequences of the investment properties are now assessed on the basis that reflect the tax consequences that would follow from the manner in which the Group expects to recover the property at each balance sheet date. In the absence of any specific transitional provisions in HK(SIC) Interpretation 21, this change in accounting policy has been applied retrospectively. The application of the interpretation has had no major impact on current year and prior year figures.

Share-based Payments

In the current year, the Group has applied HKFRS 2 "Share-based Payment" which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of share options granted to directors and employees of the Company, determined at the date of grant of the share options, over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. HKFRS 2 is applicable to options granted on or after 1 January 2005 and retrospectively to options granted after 7 November 2002 and remained unvested as at 1 January 2005. As no option has been granted under the Company's share option scheme since 2002, the adoption of HKFRS 2 has had no effect on the results of the Group.

notes to the consolidated financial statements

For the year ended 31 December 2005

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in the accounting policies described in note 2 on the results for the current and prior years are as follows:

| | Effect of adopting | 2005 HK\$'000 | 2004 HK\$'000 |
|--|-----------------------|------------------|------------------|
| Decrease in negative goodwill released to income (included in other income) | HKFRS 3 | (420) | — |
| Decrease in depreciation and amortisation, net of changes in valuation (included in cost of sales) | HKAS 17 | 854 | 542 |
| Gains arising from changes in fair value of derivative financial instruments (included in other income) | HKAS 39 | 504 | — |
| Increase in profit for the year | | 938 | 542 |

The cumulative effects of the changes in accounting policies on 31 December 2004 and 1 January 2005 are summarised below:

| | At 31 December 2004 <i>(Originally stated)</i> HK\$'000 | HKAS 17 Adjustments HK\$000 | HKAS 1 and HKAS 27 Adjustment HK\$000 | At 31 December 2004 <i>(Restated)</i> HK\$000 | Effect of HKFRS 3 adjustments HK\$000 | HKAS 39 Adjustment HK\$000 | At 1 January 2005 <i>(Restated)</i> HK\$'000 |
|--|--|-----------------------------------|--|---|--|----------------------------------|--|
| Balance sheet items affected: | | | | | | | |
| Property, plant and equipment | 391,103 | (47,374) | — | 343,729 | — | — | 343,729 |
| Prepaid lease payments | | | | | | | |
| — Non-current | — | 33,308 | — | 33,308 | — | — | 33,308 |
| — Current | — | 849 | — | 849 | — | — | 849 |
| Negative goodwill | (2,818) | — | — | (2,818) | 2,818 | — | — |
| Other investments | 3,963 | — | — | 3,963 | — | (3,963) | — |
| Available-for-sale investments | — | — | — | — | — | 3,963 | 3,963 |
| Deferred tax liabilities | (9,509) | 2,050 | — | (7,459) | — | — | (7,459) |
| Total effects on assets and liabilities | 382,739 | (11,167) | — | 371,572 | 2,818 | — | 374,390 |
| Property revaluation reserve | 65,291 | (15,983) | — | 49,308 | — | — | 49,308 |
| Goodwill reserve | (88) | — | — | (88) | 88 | — | — |
| Retained profits | 444,557 | 4,816 | — | 449,373 | 2,730 | — | 452,103 |
| Minority interests | — | — | 16,812 | 16,812 | — | — | 16,812 |
| Total effects on equity | 509,760 | (11,167) | 16,812 | 515,405 | 2,818 | — | 518,223 |
| Minority interests | 16,812 | — | (16,812) | — | — | — | — |

notes to the consolidated financial statements

For the year ended 31 December 2005

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES *(continued)*

The financial effects of the changes in accounting policies to the total equity on 1 January 2004 are summarised below:

| | As originally stated <i>HK\$'000</i> | Effect of HKAS 17 Adjustments <i>HK\$'000</i> | Effect of HKAS 1 and HKAS 27 Adjustment <i>HK\$'000</i> | As restated <i>HK\$'000</i> |
|--------------------------------|--|---|---|---------------------------------------|
| Property revaluation reserve | 45,819 | (13,952) | — | 31,867 |
| Retained profits | 429,235 | 4,274 | — | 433,509 |
| Minority interests | — | — | 18,464 | 18,464 |
| Total effects on equity | 475,054 | (9,678) | 18,464 | 483,840 |

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

The Group has not early applied the following new standards and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the financial statements of the Group.

| | |
|--------------------------------|--|
| HKAS 1 (Amendment) | Capital disclosures ¹ |
| HKAS 19 (Amendment) | Actuarial gains and losses, group plans and disclosures ² |
| HKAS 21 (Amendment) | The effects of changes in foreign exchanges rates — Net investment in a foreign operation ² |
| HKAS 39 (Amendment) | Cash flow hedge accounting of forecast intragroup transactions ² |
| HKAS 39 (Amendment) | The fair value option ² |
| HKAS 39 & HKFRS 4 (Amendments) | Financial guarantee contracts ² |
| HKFRS 6 | Exploration for and evaluation of mineral resources ² |
| HKFRS 7 | Financial instruments: Disclosures ¹ |
| HK(IFRIC) — INT 4 | Determining whether an arrangement contains a lease ² |
| HK(IFRIC) — INT 5 | Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds ² |
| HK(IFRIC) — INT 6 | Liabilities arising from participating in a specific market — waste electrical and electronic equipment ³ |
| HK(IFRIC) — INT 7 | Applying the restatement approach under HKAS 29 "Financial Reporting in Hyperinflationary Economies" ⁴ |

¹ Effective for annual periods beginning on or after 1 January 2007.

² Effective for annual periods beginning on or after 1 January 2006.

³ Effective for annual periods beginning on or after 1 December 2005.

⁴ Effective for annual periods beginning on or after 1 March 2006.

notes to the consolidated financial statements

For the year ended 31 December 2005

5. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

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

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

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

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

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

Goodwill

Goodwill arising on an acquisition of a subsidiary for which the agreement date is before 1 January 2001 representing the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiary at the date of acquisition, was held in reserve. This amount has been transferred to the Group's retained profits on 1 January 2005.

Goodwill arising on an acquisition of a subsidiary for which the agreement date is on or after 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. An impairment loss for goodwill is not reversed in subsequent periods.

5. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Excess of an acquirer's interest in the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over cost ("discount on acquisitions")

A discount on acquisition arising on an acquisition of subsidiaries represents the excess of the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination.

All negative goodwill as at 1 January 2005 has been derecognised with a corresponding adjustment to the Group's retained profits.

Property, plant and equipment

Property, plant and equipment other than construction in progress and land and buildings are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Construction in progress is stated at cost less any identified impairment losses. Cost which includes all development expenditure and other direct costs, including borrowing cost capitalised, attributable to such projects. Construction in progress is not depreciated or amortised until the completion of construction. Cost of completed construction work is transferred to the appropriate category of property, plant and equipment.

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

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the balance sheet at their revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and any subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on the revaluation of land and buildings is credited to the property revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the property revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

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

notes to the consolidated financial statements

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5. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investment properties

Investment properties are completed properties which held for their investment potential, any rental income being negotiated at arm's length.

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

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

Intellectual property rights

Intellectual property rights are stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is calculated to write off the cost of the intellectual property rights over their estimated useful lives, using the straight-line method.

Interests in associates

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

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Financial instruments

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

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets

The Group's financial assets are mainly classified into loans and receivables, available-for-sale financial assets, financial assets at fair value through profit or loss and bank balances. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Loans and receivables

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

Available-for-sale financial assets

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

Derivative financial instruments

Derivatives financial instruments of the Group do not qualify for hedge accounting thus they are deemed as held for trading. Changes in fair values of such derivatives are recognised directly in profit or loss.

Financial liabilities and equity

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

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

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5. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity (continued)

Financial liabilities

Financial liabilities including trade and other payables and loans from minority shareholders are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

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

Inventories

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

Impairment losses (other than goodwill)

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that other standard.

Revenue recognition

Revenue represents the fair value of the amounts received and receivable for goods sold by the Group, less returns, to outside customers.

Sales of goods are recognised when goods are delivered and title has passed.

Rental income, including rental invoiced in advance, from properties under operating leases, is recognised on a straight-line basis over the term of the relevant lease.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments is recognised where the shareholders' rights to receive payment have been established.

5. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes income statement items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

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

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

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5. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasing

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

The Group as lessor

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

The Group as lessee

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

Retirement benefit scheme

Payments to the Mandatory Provident Fund Scheme ("MPF Scheme") and state-managed retirement benefit schemes are charged as an expense as they fall due.

Borrowing costs

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

Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financial statements.

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

6. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies described in note 5, management makes various estimations based on past experiences, expectations of the future and other information. The key source of estimation uncertainty that may significantly affect the amounts recognised in the financial statements are disclosed below:

Land and buildings and investment properties

The Group's land and buildings and investment properties of HK\$224,826,000 and HK\$15,700,000, respectively, were stated at fair value in accordance with the accounting policy stated in note 5. The fair value of the land and buildings and investment properties are determined by Grant Sherman Appraisal Limited, a firm of independent property valuers and the fair value of land and buildings and investment properties as at respective year end were set out in notes 17 and 18, respectively. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the judgement, consideration has been given to assumptions that are mainly based on market conditions existing at the balance sheet dates and appropriate capitalisation rates. These estimates are regularly compared to actual market data and actual transactions entered into by the Group.

Impairment on intellectual property rights

The Group's net book value of intellectual property rights as at 31 December 2005 was approximately HK\$25,677,000. The Group amortises the intellectual property rights on a straight-line basis over their useful lives. The estimated useful lives reflect the directors' estimate of the periods that the Group intends to derive economic benefits from the use of the Group's intellectual property rights. During the year ended 31 December 2005, as sales and manufacturing of certain models of strollers and beds and playards products declined substantially, the carrying amount of the respective intellectual property rights of HK\$8,540,000 was fully impaired. For the remaining intellectual property rights, if the conditions of its sales are deteriorated, resulting in the recoverable amount of the intellectual property rights less than its carrying amount, additional impairment loss may be required.

Allowances for inventories

The management of the Group reviews the inventories listing at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. As at 31 December 2005, the carrying amount of inventories (net of allowances) is HK\$121,793,000. The management estimates the net realisable value for such finished goods and work-in progress based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at each balance sheet date and makes allowance for obsolete items. If the conditions of inventories are deteriorated, resulting in an allowance of recoverable amount, additional allowances may be required.

Impairment of trade debts

The policy for impairment of bad and doubtful debts of the Group is based on the evaluation of collectability and aged analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these debts, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group are deteriorated, resulting in an impairment of their ability to make payments, additional impairment may be required. As at 31 December 2005, the carrying value of trade receivables net of impairment was HK\$164,456,000.

notes to the consolidated financial statements

For the year ended 31 December 2005

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade receivables, loan to an associate, cash and cash equivalent and trade payables. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. There is concentration of credit risk by certain major customers. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with good reputation.

Foreign exchange risk

As substantial transactions entered into by the Group are denominated in United States Dollar ("USD") and Renminbi ("RMB"), the Group's exposure to foreign exchange risk is insignificant.

8. REVENUE

Revenue represents the amounts received and receivable for goods sold by the Group, less returns, to outside customers during the year.

9. INVESTMENT INCOME

| | 2005 HK\$'000 | 2004 HK\$'000 |
|---|------------------|------------------|
| Bank interest income (<i>note i</i>) | 1,962 | 529 |
| Gain on derivative financial instruments | 504 | — |
| Property rental income (<i>note ii</i>) | 396 | 297 |
| Dividend income from available-for-sale investments | 32 | — |
| Other interest income | — | 7 |
| | 2,894 | 833 |

(i) Bank interest income bears interest at fixed rates ranging from 1.0%–4.1% per annum.

(ii) The Group had no significant outgoings in respect of the property rental income generated for both years.

notes to the consolidated financial statements

For the year ended 31 December 2005

10. FINANCE COSTS

| | 2005 HK\$'000 | 2004 HK\$'000 |
|--|------------------|------------------|
| Interest on: | | |
| Bank borrowings wholly repayable within five years | — | 740 |
| Bank overdrafts | 5 | — |
| Other borrowings | — | 2 |
| | 5 | 742 |

11. PROFIT BEFORE TAX

| | 2005 HK\$'000 | 2004 HK\$'000 |
|--|------------------|------------------|
| | | (Restated) |
| Profit before tax has been arrived at after charging: | | |
| Salaries and allowances, including those of directors | 136,310 | 157,859 |
| Contribution to retirement benefits schemes, including those of directors | 5,011 | 4,715 |
| Total employee benefits expense including those of directors | 141,321 | 162,574 |
| Depreciation and amortisation for property, plant and equipment | 33,112 | 31,544 |
| Amortisation of intellectual property rights (included in other expenses) | 5,250 | 5,309 |
| Amortisation of prepaid lease payments (included in cost of sales) | 870 | 924 |
| Total depreciation and amortisation | 39,232 | 37,777 |
| Impairment for bad and doubtful debts | 6,958 | 2,618 |
| Auditors' remuneration | 1,915 | 1,632 |
| Deficit arising on revaluation of land and building | 975 | — |
| Loss on dissolution of subsidiaries | — | 198 |
| Loss on disposal of property, plant and equipment | 78 | — |
| Unrealised holding loss on other investments | — | 9,700 |
| Impairment loss on intellectual property rights (included in other expenses) | 8,540 | — |
| Impairment loss on loan to an associate | 3,600 | — |
| and after crediting: | | |
| Gain on disposal of property, plant and equipment | — | 169 |
| Negative goodwill released to income | — | 420 |
| Surplus arising on revaluation of investment properties | 3,700 | 4,500 |
| Surplus arising on revaluation of land and buildings | — | 6,674 |

notes to the consolidated financial statements

For the year ended 31 December 2005

12. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the eight (2004: nine) directors were as follows:

2005

| | Huang Ying Yuan HK\$'000 | Chen Hsing Shin HK\$'000 | Huang Chen Li Chu HK\$'000 | Leung Man Fai HK\$'000 | Chen An-Hsin (Note) HK\$'000 | Lim Pat Wah Patrick HK\$'000 | Huang Zhi Wei HK\$'000 | Yang Yu Fu HK\$'000 | Total HK\$'000 |
|--|-----------------------------------|-----------------------------------|-------------------------------------|------------------------------|---------------------------------------|---------------------------------------|------------------------------|---------------------------|-------------------|
| Fees | — | — | — | — | — | 160 | 160 | 160 | 480 |
| Other emoluments | | | | | | | | | |
| Salaries and allowances | 2,111 | 1,639 | 1,413 | 1,005 | 322 | — | — | — | 6,490 |
| Bonus | 253 | 253 | 253 | 41 | — | — | — | — | 800 |
| Contributions to retirement benefits schemes | — | — | — | 64 | — | — | — | — | 64 |
| Total emoluments | 2,364 | 1,892 | 1,666 | 1,110 | 322 | 160 | 160 | 160 | 7,834 |

2004

| | Huang Ying Yuan HK\$'000 | Chen Hsing Shin HK\$'000 | Huang Chen Li Chu HK\$'000 | Leung Man Fai HK\$'000 | Chen An-Hsin (Note) HK\$'000 | Lim Pat Wah Patrick HK\$'000 | Huang Zhi Wei HK\$'000 | Yang Yu Fu HK\$'000 | Ng Kwun Wan (Note) HK\$'000 | Total HK\$'000 |
|--|-----------------------------------|-----------------------------------|-------------------------------------|------------------------------|---------------------------------------|---------------------------------------|------------------------------|---------------------------|---|-------------------|
| Fees | — | — | — | — | — | 160 | 42 | 42 | 111 | 355 |
| Other emoluments | | | | | | | | | | |
| Salaries and allowances | 2,167 | 1,712 | 1,469 | 613 | 1,397 | — | — | — | — | 7,358 |
| Bonus | 1,694 | 1,694 | 1,048 | 262 | 1,170 | — | — | — | — | 5,868 |
| Contributions to retirement benefits schemes | — | — | — | 86 | — | — | — | — | — | 86 |
| Total emoluments | 3,861 | 3,406 | 2,517 | 961 | 2,567 | 160 | 42 | 42 | 111 | 13,667 |

Note: Mr. Chen An-Hsin and Mr. Ng Kwun Wan resigned on 1 March 2005 and 30 September 2004, respectively.

No directors waived any emoluments in the year ended 31 December 2005 (2004: nil).

notes to the consolidated financial statements

For the year ended 31 December 2005

13. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (2004: five) were directors of the Company whose emoluments are included in the disclosures in note 12 above. The remaining one (2004: none) individual was as follows:

| | 2005 <i>HK\$'000</i> | 2004 <i>HK\$'000</i> |
|-------------------------|--------------------------------|-------------------------|
| Salaries and allowances | 486 | — |
| Bonus | 411 | — |
| Total emoluments | 897 | — |

Their emoluments were within the following bands:

| | 2005 No. of employees | 2004 No. of employees |
|----------------------|--|-----------------------------|
| Nil to HK\$1,000,000 | 1 | — |

No emoluments were paid by the Group to the directors or the above individual as an inducement to join or upon joining the Group or as compensation for loss of office.

notes to the consolidated financial statements

For the year ended 31 December 2005

14. INCOME TAX EXPENSE

| | 2005 HK\$'000 | 2004 HK\$'000 |
|---------------------------------------|------------------|------------------|
| Current tax: | | |
| Hong Kong | 3,567 | 4,783 |
| The PRC | 1,816 | 2,537 |
| Other jurisdictions | 894 | 391 |
| | 6,277 | 7,711 |
| Under(over) provision in prior years: | | |
| Hong Kong | (41) | 389 |
| The PRC | — | 476 |
| Other jurisdictions | 117 | 93 |
| | 76 | 958 |
| Deferred tax (note 25): | | |
| Current year | (2,914) | (463) |
| Attributable to a change in tax rate | — | (2,189) |
| | (2,914) | (2,652) |
| | 3,439 | 6,017 |

Hong Kong Profits Tax is calculated at 17.5% (2004: 17.5%) of the estimated assessable profit for the year.

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

The statutory tax rate for the PRC subsidiaries is 24% and those subsidiaries regarded as export enterprises by local tax authority are subject to preferential income tax rate of 12%. During the year, two PRC subsidiaries were qualified as export enterprises and the change in applicable tax rate has been reflected in the calculation of current and deferred tax.

A portion of the Group's profit neither arises in, nor is derived from Hong Kong. Accordingly, that portion of the Group's profit is not subject to Hong Kong Profits Tax.

notes to the consolidated financial statements

For the year ended 31 December 2005

14. INCOME TAX EXPENSE *(continued)*

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

| | 2005 <i>HK\$'000</i> | 2004 <i>HK\$'000</i> |
|---|--------------------------------|-------------------------|
| | | <i>(Restated)</i> |
| Profit before tax | 13,993 | 80,394 |
| Tax at Hong Kong Profits Tax rate of 17.5% (2004: 17.5%) | 2,449 | 14,069 |
| Tax effect of expenses not deductible for tax purpose | 5,628 | 595 |
| Tax effect of income not taxable for tax purpose | (273) | (1,075) |
| Tax effect of tax losses not recognised | 596 | — |
| Tax effect of other deferred tax assets not recognised | 1,625 | 177 |
| Utilisation of tax losses previously not recognised | (4,893) | — |
| Recognition of deferred tax assets previously not recognised | (2,129) | — |
| Decrease in opening deferred tax liability resulting from change in applicable tax rate | — | (2,189) |
| Effect of different tax rates of subsidiaries | 1,170 | (2,821) |
| Income tax on concessionary rate | (810) | (3,697) |
| Underprovision in prior year | 76 | 958 |
| Tax charge for the year | 3,439 | 6,017 |

Details of deferred tax are set out in note 25.

15. DIVIDENDS

| | 2005 <i>HK\$'000</i> | 2004 <i>HK\$'000</i> |
|---|--------------------------------|-------------------------|
| 2004 final dividend of HK3.5 cents (2003 final dividend: HK5 cents) per share | 25,273 | 36,142 |
| 2005 interim dividend of HK1.5 cents (2004 interim dividend: HK2 cents) per share | 10,832 | 14,457 |
| | 36,105 | 50,599 |

The 2005 final dividend of HK3 cents (2004: HK3.5 cents) per share has been proposed by the directors and is subject to approval by the shareholders in general meeting.

notes to the consolidated financial statements

For the year ended 31 December 2005

16. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the equity holders of the Company is based on the following data:

| | 2005 | 2004 |
|---|----------------------|-------------------|
| | | <i>(Restated)</i> |
| Profit for the year and earnings for the purposes of the basic and diluted earnings per share | HK\$9,155,000 | HK\$69,677,000 |
| | Number of shares | Number of shares |
| Weighted average number of ordinary shares for the purposes of basic earnings per share | 722,096,724 | 722,722,938 |
| Effect of dilutive potential ordinary shares in respect of share options | — | 1,215,827 |
| Weighted average number of ordinary shares for the purposes of diluted earnings per share | 722,096,724 | 723,938,765 |

The adjustment to basic and diluted earnings per share, arising from the changes in accounting policies shown in note 3, is as follows:

| | Impact on basic earnings per share | | Impact on diluted earnings per share | |
|---|------------------------------------|------|--------------------------------------|------|
| | 2005 | 2004 | 2005 | 2004 |
| Reconciliation of earnings per share: | | | | |
| Reported figure before adjustment | 1.14 | 9.57 | N/A | 9.55 |
| Adjustment arising from the adoption of HKAS 17 | 0.13 | 0.07 | N/A | 0.07 |
| Restated | 1.27 | 9.64 | N/A | 9.62 |

Diluted earnings per share for the year ended 31 December 2005 has not been presented as the exercise price of the Company's outstanding share options was higher than the average market price per share.

notes to the consolidated financial statements

For the year ended 31 December 2005

17. PROPERTY, PLANT AND EQUIPMENT

| | Land and buildings HK\$'000 | Leasehold improvements HK\$'000 | Plant and machinery HK\$'000 | Furniture, fixtures and equipment HK\$'000 | Motor vehicles HK\$'000 | Construction in progress HK\$'000 | Total HK\$'000 |
|---|-----------------------------------|---------------------------------------|------------------------------------|---|-------------------------------|---|-------------------|
| COST OR VALUATION | | | | | | | |
| At 1 January 2004 as originally stated | 227,066 | 6,369 | 138,803 | 58,340 | 12,248 | 27,524 | 470,350 |
| Effects of changes in accounting policies | (46,415) | — | — | — | — | — | (46,415) |
| At 1 January 2004 as restated | 180,651 | 6,369 | 138,803 | 58,340 | 12,248 | 27,524 | 423,935 |
| Exchange realignment | 3,458 | 15 | 219 | 309 | (22) | 81 | 4,060 |
| Additions | 536 | 38 | 7,745 | 9,672 | 1,053 | 5,828 | 24,872 |
| Disposals | — | (19) | (485) | (4,846) | (3,251) | — | (8,601) |
| Attributable to dissolution of subsidiaries | — | — | — | (291) | — | — | (291) |
| Transfer | 27,271 | — | — | 4,719 | — | (31,990) | — |
| Adjustment on valuation (restated) | 15,964 | — | — | — | — | — | 15,964 |
| At 31 December 2004 as restated | 227,880 | 6,403 | 146,282 | 67,903 | 10,028 | 1,443 | 459,939 |
| Exchange realignment | 1,481 | (62) | 3,225 | 849 | 209 | 57 | 5,759 |
| Additions | 404 | 70 | 5,936 | 1,455 | 459 | 1,204 | 9,528 |
| Disposals | (102) | (308) | (69) | (506) | (366) | — | (1,351) |
| Transfer | (536) | — | — | — | — | 536 | — |
| Adjustment on valuation | (4,301) | — | — | — | — | — | (4,301) |
| At 31 December 2005 | 224,826 | 6,103 | 155,374 | 69,701 | 10,330 | 3,240 | 469,574 |
| Comprising: | | | | | | | |
| At cost | — | 6,103 | 155,374 | 69,701 | 10,330 | 3,240 | 244,748 |
| At valuation — 2005 | 224,826 | — | — | — | — | — | 224,826 |
| | 224,826 | 6,103 | 155,374 | 69,701 | 10,330 | 3,240 | 469,574 |
| DEPRECIATION AND AMORTISATION | | | | | | | |
| At 1 January 2004 | — | 4,253 | 55,733 | 32,959 | 8,377 | — | 101,322 |
| Exchange realignment | 183 | 25 | 68 | 152 | 16 | — | 444 |
| Provided for the year (restated) | 9,598 | 555 | 11,758 | 8,461 | 1,172 | — | 31,544 |
| Eliminated on disposals | — | (11) | (374) | (4,070) | (2,669) | — | (7,124) |
| Attributable to dissolution of subsidiaries | — | — | — | (195) | — | — | (195) |
| Adjustment on valuation (restated) | (9,781) | — | — | — | — | — | (9,781) |
| At 31 December 2004 | — | 4,822 | 67,185 | 37,307 | 6,896 | — | 116,210 |
| Exchange realignment | 679 | (55) | 1,764 | 460 | 156 | — | 3,004 |
| Provided for the year | 12,561 | 45 | 11,907 | 7,968 | 631 | — | 33,112 |
| Eliminated on disposals | (42) | (310) | (21) | (409) | (291) | — | (1,073) |
| Adjustment on valuation | (13,198) | — | — | — | — | — | (13,198) |
| At 31 December 2005 | — | 4,502 | 80,835 | 45,326 | 7,392 | — | 138,055 |
| CARRYING VALUES | | | | | | | |
| At 31 December 2005 | 224,826 | 1,601 | 74,539 | 24,375 | 2,938 | 3,240 | 331,519 |
| At 31 December 2004 as restated | 227,880 | 1,581 | 79,097 | 30,596 | 3,132 | 1,443 | 343,729 |

Note: Owner-occupied leasehold land is included in property, plant and equipment only when the allocation between the land and buildings elements cannot be made reliably.

notes to the consolidated financial statements

For the year ended 31 December 2005

17. PROPERTY, PLANT AND EQUIPMENT (continued)

Certain buildings erected on the lands of the Group in the PRC were not granted formal title of their ownership. At 31 December 2005, the net book value of buildings in the PRC for which the Group had not been granted formal title amounted to HK\$69,436,000 (2004: HK\$71,650,000). In the opinion of directors, the absence of formal title does not impair the value of the relevant buildings. The directors also believe that formal title to these buildings will be granted to the Group in due course.

The above items of property, plant and equipment other than construction in progress are depreciated and amortised on a straight-line basis at the following rates per annum:

| | |
|-----------------------------------|--|
| Freehold land | Nil |
| Land and buildings | 2% or the remaining period of the leases, if shorter |
| Leasehold improvements | 10–20% |
| Plant and machinery | 10–20% |
| Furniture, fixtures and equipment | 20–33 $\frac{1}{3}$ % |
| Motor vehicles | 20–50% |

The carrying values of land and buildings held by the Group at the balance sheet date comprises:

| | 2005 HK\$'000 | 2004 HK\$'000 |
|---|------------------|------------------|
| | | (Restated) |
| Held in Hong Kong under long leases | 46,200 | 42,000 |
| Held in the PRC under medium term land use rights | 141,326 | 145,280 |
| Held in Taiwan, freehold | 37,300 | 40,600 |
| | 224,826 | 227,880 |

A leasehold land and buildings of the Group with carrying values of HK\$340,000 (2004: HK\$354,000) as at 31 December 2005 was valued by the directors, who estimated that its fair value was not materially different from its carrying amount.

The remaining land and buildings of the group were revalued at 31 December 2005 by Grant Sherman Appraisal Limited, a firm of independent property valuers not connected with the Group. All the land and buildings in Hong Kong and in the PRC of an aggregate carrying value of HK\$59,700,000 were valued on an open market value basis. The remaining land and buildings in the PRC amounting to HK\$127,486,000 and the land and buildings in Taiwan amounting to HK\$37,300,000 were valued on depreciated replacement cost basis.

Decrease in fair value of HK\$975,000 was charged (2004: increase of HK\$6,674,000 was credited) to the income statement and an increase of HK\$9,872,000 (2004: increase HK\$19,071,000) was credited to property revaluation reserve.

If the land and buildings had not been revalued, they would have been included in these financial statements at historical cost less accumulated amortisation at HK\$146,444,000 (2004: HK\$158,182,000).

notes to the consolidated financial statements

For the year ended 31 December 2005

18. INVESTMENT PROPERTIES

| | <i>HK\$'000</i> |
|---|-----------------|
| FAIR VALUE | |
| At 1 January 2004 | 7,500 |
| Net increase in fair value recognised in the income statement | 4,500 |
| At 31 December 2004 | 12,000 |
| Net increase in fair value recognised in the income statement | 3,700 |
| At 31 December 2005 | 15,700 |

The fair value of the Group's investment properties at 31 December 2005 have been arrived at on the basis of a valuation carried out on that date by Grant Sherman Appraisal Limited, a firm of independent property valuers not connected with the Group. The valuation, which conforms to International Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties.

The investment properties are held under long leases and are situated in Hong Kong.

19. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments of HK\$32,970,000 (2004: HK\$33,308,000) represent leasehold land in the PRC held under medium-term lease. An amount of HK\$870,000 (2004: HK\$849,000) is classified under current assets for reporting purpose.

20. NEGATIVE GOODWILL

| | <i>HK\$'000</i> |
|--|-----------------|
| GROSS AMOUNT | |
| At 1 January 2004 and 31 December 2004 | 4,196 |
| RELEASED TO INCOME | |
| At 1 January 2004 | 958 |
| Released during the year | 420 |
| At 31 December 2004 | 1,378 |
| CARRYING VALUES | |
| At 31 December 2004 as originally stated | 2,818 |
| Derecognised upon the application of HKFRS 3 | (2,818) |
| At 1 January 2005 as restated | — |

As explained in note 3, all negative goodwill arising on acquisition prior to 1 January 2005 was derecognised as a result of the application of HKFRS 3.

notes to the consolidated financial statements

For the year ended 31 December 2005

21. INTELLECTUAL PROPERTY RIGHTS

| | <i>HK\$'000</i> |
|--|-----------------|
| <hr/> | |
| COST | |
| At 1 January 2004, 31 December 2004 and 31 December 2005 | 88,982 |
| Exchange realignment | (3,091) |
| <hr/> | |
| At 31 December 2005 | 85,891 |
| <hr/> | |
| AMORTISATION AND IMPAIRMENT | |
| At 1 January 2004 | 42,898 |
| Provided for the year | 5,309 |
| <hr/> | |
| At 31 December 2004 | 48,207 |
| Exchange realignment | (1,783) |
| Provided for the year | 5,250 |
| Impairment loss recognised in the year | 8,540 |
| <hr/> | |
| At 31 December 2005 | 60,214 |
| <hr/> | |
| CARRYING VALUES | |
| At 31 December 2005 | 25,677 |
| <hr/> | |
| At 31 December 2004 | 40,775 |
| <hr/> | |

The amount represents the carrying amount of the Group's intellectual property rights acquired in 1996. The intellectual property rights entitle the Group to manufacture infant products using the registered technology for a period of 4 to 18 years from the date of acquisition. The net carrying amount will therefore be amortised over the remaining useful lives, using the straight-line method.

notes to the consolidated financial statements

For the year ended 31 December 2005

22. INTERESTS IN ASSOCIATES

| | 2005 <i>HK\$'000</i> | 2004 <i>HK\$'000</i> |
|-----------------------------------|--------------------------------|-------------------------|
| Share of net assets of associates | — | — |

Details of the Group's associates at 31 December 2005 are as follows:

| Name of associate | Form of business structure | Place of incorporation/ establishment | Issued and fully paid share capital/ registered capital | Proportion of nominal value of issued share capital/ registered capital held by the Group | Principal activity |
|--|----------------------------|---------------------------------------|---|---|---|
| FLT Hong Kong Technology Limited | Incorporated | British Virgin Islands ("BVI") | US\$1 | 30% | Trading of optical fibre peripheral products |
| Weblink Technology Limited ("Weblink") | Incorporated | BVI | US\$100 | 30% | Investment holding |
| 珠海保稅區隆宇光電科技有限公司 | Established | PRC | US\$1,548,000 | 30% | Manufacturing and distribution of optical fibre peripheral products |

The summarised financial information in respect of the Group's associates is set out below:

| | 2005 <i>HK\$'000</i> | 2004 <i>HK\$'000</i> |
|----------------------------|--------------------------------|-------------------------|
| Total assets | 33,788 | 32,042 |
| Total liabilities | (45,862) | (43,766) |
| Net liabilities | (12,074) | (11,724) |
| Revenue | 24,758 | 17,967 |
| Profit (loss) for the year | 278 | (2,049) |

notes to the consolidated financial statements

For the year ended 31 December 2005

22. INTERESTS IN ASSOCIATES (continued)

The Group has discontinued recognition of its share of losses of an associate. The amounts of unrecognised share of the associate for the year and cumulatively, are as follows:

| | 2005 HK\$'000 | 2004 HK\$'000 |
|---|------------------|------------------|
| Unrecognised share of losses of associates for the year | — | (615) |
| Accumulated unrecognised share of losses of associates | (3,596) | (3,680) |

23. OTHER INVESTMENTS

Upon the application of HKAS 39 on 1 January 2005, other investments at 31 December 2004 of HK\$3,963,000 were reclassified to available-for-sale investments under HKAS 39 (see note 3 for details).

24. AVAILABLE-FOR-SALE INVESTMENTS

The Group's available-for-sale investments at 31 December 2005 represent non-current investments in unlisted equity securities issued by private entities incorporated in the PRC and Taiwan. They are measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

notes to the consolidated financial statements

For the year ended 31 December 2005

25. DEFERRED TAX

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

| | Accelerated tax depreciation <i>HK\$'000</i> | Revaluation of properties <i>HK\$'000</i> | Others <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|---|--|---|----------------------------------|---------------------------------|
| At 1 January 2004 as originally stated | 606 | 5,511 | 3,257 | 9,374 |
| Effects of changes in accounting policies (<i>see note 3</i>) | — | (1,734) | — | (1,734) |
| At 1 January 2004 as restated | 606 | 3,777 | 3,257 | 7,640 |
| Charge (credit) to the income statement for the year | (424) | 1,345 | (1,384) | (463) |
| Charge to equity for the year | — | 1,705 | — | 1,705 |
| Effects of changes in tax rates | | | | |
| — credit to the income statement for the year | — | — | (2,189) | (2,189) |
| — credit to equity for the year | — | (75) | — | (75) |
| At 1 January 2005 as restated | 182 | 6,752 | (316) | 6,618 |
| Charge (credit) to the income statement for the year | 52 | (2,129) | (837) | (2,914) |
| Charge to equity for the year | — | 280 | — | 280 |
| At 31 December 2005 | 234 | 4,903 | (1,153) | 3,984 |

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

| | 2005 <i>HK\$'000</i> | 2004 <i>HK\$'000</i> |
|--------------------------|--------------------------------|-------------------------|
| | | <i>(Restated)</i> |
| Deferred tax assets | (4,107) | (841) |
| Deferred tax liabilities | 8,091 | 7,459 |
| | 3,984 | 6,618 |

notes to the consolidated financial statements

For the year ended 31 December 2005

25. DEFERRED TAX (continued)

At 31 December 2005, the Group has unused tax losses of HK\$48,648,000 (2004: HK\$73,202,000). At 31 December 2004, the Group had deductible temporary difference amounted to HK\$7,543,000. Deferred tax assets have not been recognised because of the unpredictability of future profit streams. The unrecognised tax losses are losses that will expire in five year's time since its initial recognition.

26. INVENTORIES

| | 2005 HK\$'000 | 2004 HK\$'000 |
|------------------|------------------|------------------|
| Raw materials | 69,719 | 77,674 |
| Work in progress | 19,418 | 16,671 |
| Finished goods | 32,656 | 49,777 |
| | 121,793 | 144,122 |

27. TRADE AND OTHER RECEIVABLES

The Group has defined credit terms which are agreed with its trade customers. Included in trade and other receivables are trade receivables of HK\$164,456,000 (2004: HK\$167,147,000) and their aged analysis is as follows:

| | 2005 HK\$'000 | 2004 HK\$'000 |
|----------------|------------------|------------------|
| Within 30 days | 88,899 | 84,313 |
| 31 to 90 days | 47,292 | 65,388 |
| Over 90 days | 28,265 | 17,446 |
| | 164,456 | 167,147 |

The directors consider that the carrying amount of the Group's trade and other receivables approximates their fair values.

notes to the consolidated financial statements

For the year ended 31 December 2005

28. CONNECTED AND RELATED PARTY DISCLOSURES

During the year, the group had transactions and/or balances with the directors and/or related parties, some of which are also deemed to be connected persons pursuant to the Listing Rules. The transactions during the year and balances with them at the balance sheet date, are as follows:

(a) Transactions with connected or related parties:

| Name of party | Interested directors | Nature of transactions | 2005 HK\$'000 | 2004 HK\$'000 |
|------------------------------|---|--|------------------|------------------|
| 好萊兒嬰兒用品有限公司 | (note i) | Sales made by the Group | 4,537 | 4,328 |
| Yojin Industrial Corporation | Huang Ying Yuan Huang Chen Li Chu (note ii) | Rental expenses paid by the Group (note iii) | 636 | 848 |
| Chen Chin Yuan | (note iv) | Rental expenses paid by the Group (note iii) | 88 | 164 |
| Chen Hung Jung | (note v) | Rental expenses paid by the Group (note iii) | 87 | 151 |

(b) Transactions with directors:

| Name of director | Nature of transactions | 2005 HK\$'000 | 2004 HK\$'000 |
|-------------------|--|------------------|------------------|
| Huang Ying Yuan | Rental expenses paid by the Group (note iii) | 219 | 379 |
| Chen Hsing Shin | Rental expenses paid by the Group (note iii) | 219 | 379 |
| Huang Chen Li Chu | Rental expenses paid by the Group (note iii) | 15 | 28 |

- (c) Other than the above, at 31 December 2005, the Group also had (i) loan to an associate of HK\$8,100,000 (2004: HK\$11,700,000) and (ii) loan from minority shareholder of HK\$780,000 (2004: HK\$780,000). The loan from minority shareholder is made by the minority shareholder to the related subsidiaries in the proportion of their interests in the respective subsidiaries, as appropriate.

The amounts are unsecured, interest-free and repayable on demand. The directors consider that the carrying amount of the balances approximates their fair values.

notes to the consolidated financial statements

For the year ended 31 December 2005

28. CONNECTED AND RELATED PARTY DISCLOSURES (continued)

(d) Compensation of key management personnel

The remuneration of directors as key management of the Group during the year was as follows:

| | 2005 HK\$'000 | 2004 HK\$'000 |
|--------------------------|------------------|------------------|
| Short-term benefits | 7,290 | 13,226 |
| Post-employment benefits | 64 | 86 |
| | 7,354 | 13,312 |

The remuneration of directors is decided by the directors, who are authorised by the shareholders, having regard to the performance of the individuals and market trends.

Notes:

- 好萊兒嬰兒用品有限公司 is controlled by Huang Tien Cheng, who is a brother of Huang Ying Yuan.
- Huang Ying Yuan and Huang Chen Li Chu have beneficial interests in Yojin Industrial Corporation.
- The rentals were charged in accordance with the relevant tenancy agreements agreed by both parties.
- Chen Chin Yuan is a brother of Chen Hsing Shin.
- Chen Hung Jung is a brother of Huang Chen Li Chu.

29. DERIVATIVE FINANCIAL INSTRUMENTS

During the year, the Group had entered into forward sale contracts in USD in exchange for RMB. At 31 December 2005, the notional principal amount of the outstanding contracts is USD3,000,000 which will be matured within one year and the changes in their fair value are recognised in the income statement in accordance with HKAS 39.

The above financial instruments are measured at fair value based on the quoted market prices for equivalent instruments at the balance sheet date.

30. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK\$128,384,000 (2004: HK\$153,109,000) and their aged analysis is as follows:

| | 2005 HK\$'000 | 2004 HK\$'000 |
|----------------|------------------|------------------|
| Within 30 days | 53,892 | 63,230 |
| 31 to 90 days | 51,010 | 79,325 |
| Over 90 days | 23,482 | 10,554 |
| | 128,384 | 153,109 |

The directors consider that the carrying amount of the Group's trade and other payables approximates their fair values.

notes to the consolidated financial statements

For the year ended 31 December 2005

31. SHARE CAPITAL

| | Number of ordinary shares | Amount HK\$'000 |
|--|---------------------------------|--------------------|
| Ordinary shares of HK\$0.10 each | | |
| Authorised: | | |
| At 1 January 2004, 31 December 2004 and 31 December 2005 | 1,000,000,000 | 100,000 |
| Issued and fully paid: | | |
| At 1 January 2004 | 722,838,724 | 72,284 |
| Shares repurchased and cancelled (<i>note</i>) | (742,000) | (74) |
| At 31 December 2004 and 31 December 2005 | 722,096,724 | 72,210 |

Note: The repurchased shares were subsequently cancelled during the year ended 31 December 2004 upon repurchase and accordingly, the issued capital of the Company was diminished by the nominal value thereof. The premium payable on repurchase was charged against the share premium account of the Company as set out in the consolidated statement of changes in equity.

32. SHARE OPTIONS

The Company adopted a share option scheme on 2 December 1998 (the "1998 Scheme") for the primary purpose of providing incentives to directors and eligible employees, which will expire on 1 December 2008. Under the 1998 Scheme, the board of directors (the "Board") of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company for a consideration of HK\$1 for each lot of share options granted.

An option may be exercised in accordance with the terms of the 1998 Scheme at any time after the date upon which the option is deemed to be granted and accepted and prior to the expiry of ten years from that date. Subject to earlier termination by the Company in general meeting or by the Board, the 1998 Scheme shall be valid and effective for a period of 10 years after the date of adoption of the 1998 Scheme.

notes to the consolidated financial statements

For the year ended 31 December 2005

32. SHARE OPTIONS (continued)

At 31 December 2005, the number of shares in respect of which options had been granted and remained outstanding under the 1998, representing 1.8% (2004: 1.8%) of the shares of the Company in issue at that date, with details set out below.

| | | | | | Number of shares to be issued upon exercise of the share options |
|-----------------|--------------------------|---------------------------|---------------------------|---|---|
| | Date of grant | Vesting period | Exercisable period | Exercise price per share | Outstanding at 1 January 2004, and 31 December 2005 |
| | | | | <i>HK\$</i> | |
| Total directors | 18.8.1999 | 4.5 months | 1.1.2000–17.8.2009 | 1.26 | 13,000,000 |

As a result of the amendments of Chapter 17 of the Listing Rules on 1 September 2001, certain terms of the 1998 Scheme are no longer in compliance with the Listing Rules and the Company can no longer grant any further options under the 1998 Scheme without being in breach of the Listing Rules. Accordingly, the Company terminated the 1998 Scheme and adopted a new share option scheme (the "2002 Scheme"), which was approved in the Company's annual general meeting on 30 May 2002, for the primary purpose of providing incentives to directors and eligible participants.

Except that no further options may be granted under the 1998 Scheme subsequent to its termination, all the other provisions of the 1998 Scheme will remain in force so as to give effect to the exercise of all outstanding options granted under the 1998 Scheme prior to 1 September 2001 and all such options will remain valid and exercisable in accordance with the provisions of the 1998 Scheme.

According to the 2002 Scheme, the Board of the Company may offer to grant options to eligible employees, including directors of the Company or any of its subsidiaries and any suppliers, consultants, agents and advisers who have contributed to the Group, to subscribe for shares in the Company for a consideration of HK\$1 for each lot of share options granted.

Any offer to grant options should be accepted within 30 days from the date of offer. The total number of shares in respect of which options may be granted under the 2002 Scheme and any other share option scheme of the Company at any time shall not exceed 10% of the shares of the Company in issue at any point in time. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or any of its associates in excess of 0.1% of the Company's share capital or with a value in excess of HK\$5 million must be approved in advance by the Company's shareholders.

32. SHARE OPTIONS *(continued)*

The directors may at its absolute discretion determine the period during which an option may be exercised, such period to expire not later than 10 years from the date of grant of the option. No option may be granted 10 years after the date of approval of the 2002 Scheme. Subject to earlier termination by the Company in general meeting or by the Board's meeting, the 2002 Scheme shall be valid and effective for a period of 10 years after the date of adoption of the 2002 Scheme. The exercise price is determined by the directors and shall not be less than the highest of (i) the closing price of the Company's shares on the date on which the option is offered, (ii) the average closing price of the Company's shares for the five business days immediately preceding the date of offer, and (iii) the nominal value of the share.

No options were granted under the 2002 Scheme since its adoption up to 31 December 2005.

After the balance sheet date, on 14 February 2006, the Company granted share options to certain eligible employees to subscribe for a total of 8,000,000 shares of the Company (equally divided into two batches, namely Batch I and Batch II) at an exercise price of HK\$0.54 per share under the 2002 Scheme.

The eligible employees have rights to exercise their respective share options at any time during the period from the date the share options become vested (i.e. 17 January 2007 for Batch I and 17 January 2008 for Batch II) to the expiry date (i.e. 16 January 2011 for both Batches).

Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

notes to the consolidated financial statements

For the year ended 31 December 2005

33. DISSOLUTION OF SUBSIDIARIES

| | 2005 HK\$'000 | 2004 HK\$'000 |
|--|------------------|------------------|
| Net assets disposed of: | | |
| Property, plant and equipment | — | 96 |
| Trade and other receivables | — | 31 |
| Bank balances and cash | — | 931 |
| Trade and other payables | — | (2,749) |
| Minority interests | — | 2,288 |
| | — | 597 |
| Loss on dissolution of subsidiaries | — | (198) |
| | | |
| Cash return upon dissolution of subsidiaries | — | 399 |
| | | |
| Cash outflow arising on dissolution: | | |
| Bank balances and cash disposed of | — | (931) |
| Cash return | — | 399 |
| | — | (532) |

The subsidiaries dissolved during the year ended 31 December 2004 did not contribute significantly to the turnover, operating results or cash flows of the Group.

34. LOAN TO AN ASSOCIATE

| | 2005 HK\$'000 | 2004 HK\$'000 |
|-----------------------|------------------|------------------|
| Loan to an associate | 11,700 | 11,700 |
| Less: impairment loss | (3,600) | — |
| | 8,100 | 11,700 |

The amount is unsecured, interest-free and repayable on demand. The directors consider that the carrying amount of the balance approximates its fair value.

notes to the consolidated financial statements

For the year ended 31 December 2005

35. OPERATING LEASE ARRANGEMENTS

The Group as lessee

| | 2005 | 2004 |
|--|-----------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Minimum lease payments paid under operating leases in respect of rented premises during the year | 2,213 | 3,414 |

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

| | 2005 | 2004 |
|---------------------------------------|-----------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Within one year | 100 | 2,105 |
| In the second to fifth year inclusive | 67 | 2,111 |
| | 167 | 4,216 |

At 31 December 2004, the above amount included operating lease commitments for premises of HK\$1,513,000 entered into by the Group with, amongst others, the directors of the Company, Messrs. Huang Ying Yuan and Chen Hsing Shin.

Operating lease payments represent rentals payable by the Group for certain of its office premises and staff quarters. Leases are negotiated for an average term ranging from one to four years and rentals are fixed for an average of four years.

The Group as lessor

Property rental income earned during the year was HK\$396,000 (2004: HK\$297,000). The investment properties held have committed tenant for the next year.

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

| | 2005 | 2004 |
|---------------------------------------|-----------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Within one year | 363 | 396 |
| In the second to fifth year inclusive | — | 363 |
| | 363 | 759 |

notes to the consolidated financial statements

For the year ended 31 December 2005

36. CAPITAL COMMITMENTS

| | 2005 HK\$'000 | 2004 HK\$'000 |
|--|------------------|------------------|
| Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements | 106 | 729 |

37. RETIREMENT BENEFIT SCHEME

The Group operates a MPF Scheme for all qualifying employees in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes a certain percentage of relevant payroll costs to the Scheme.

The employees of the Group's subsidiaries in the PRC and Taiwan are members of the state-managed retirement benefit schemes operated by the PRC and Taiwan government. The PRC and Taiwan subsidiaries are required to contribute a certain percentage of payroll costs to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the specified contributions.

notes to the consolidated financial statements

For the year ended 31 December 2005

38. BALANCE SHEET OF THE COMPANY

The balance sheet of the Company as at 31 December 2005 is as follows:

| | <i>Notes</i> | 2005 HK\$'000 | 2004 <i>HK\$'000</i> |
|------------------------------|--------------|--------------------------------|-------------------------|
| <hr/> | | | |
| Non-current asset | | | |
| Investments in subsidiaries | | 244,660 | 244,660 |
| <hr/> | | | |
| Current assets | | | |
| Other receivables | | 73 | 73 |
| Amount due from a subsidiary | (a) | 168,312 | 165,877 |
| Bank balances | | 70 | 12 |
| | | 168,455 | 165,962 |
| <hr/> | | | |
| Current liabilities | | | |
| Other payables | | 505 | 66 |
| Amounts due to subsidiaries | (a) | 1,552 | 3,424 |
| | | 2,057 | 3,490 |
| <hr/> | | | |
| Net current assets | | 166,398 | 162,472 |
| <hr/> | | | |
| | | 411,058 | 407,132 |
| <hr/> | | | |
| Capital and reserves | | | |
| Share capital | | 72,210 | 72,210 |
| Reserves | (b) | 338,848 | 334,922 |
| | | 411,058 | 407,132 |
| <hr/> | | | |

Notes:

- (a) Amount due from a subsidiary/amounts due to subsidiaries
The amounts are unsecured, interest-free and repayable on demand. The directors consider that the carrying amount of the balances approximates their fair values.

notes to the consolidated financial statements

For the year ended 31 December 2005

38. BALANCE SHEET OF THE COMPANY (continued)

Notes: (continued)

(b) Reserves

| | Share premium <i>HK\$'000</i> | Contributed surplus <i>HK\$'000</i> | Capital redemption reserve <i>HK\$'000</i> | (Accumulated losses)/ retained profit <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|---|-------------------------------------|---|---|--|--------------------------|
| At 1 January 2004 | 90,916 | 244,461 | 1,057 | 1,215 | 337,649 |
| Profit for the year | — | — | — | 48,732 | 48,732 |
| Premium on repurchase of shares | (860) | — | — | — | (860) |
| Transfer of reserve for cancellation of shares | — | — | 74 | (74) | — |
| Dividends (note 15) | — | — | — | (50,599) | (50,599) |
| At 1 January 2005 | 90,056 | 244,461 | 1,131 | (726) | 334,922 |
| Profit for the year | — | — | — | 40,031 | 40,031 |
| Dividends (note 15) | — | — | — | (36,105) | (36,105) |
| At 31 December 2005 | 90,056 | 244,461 | 1,131 | 3,200 | 338,848 |

notes to the consolidated financial statements

For the year ended 31 December 2005

39. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31 December 2005 are as follows:

| Name of subsidiary | Place of incorporation/ establishment | Issued and fully paid share capital/ registered capital | Proportion of nominal value of issued share capital/ registered capital held by the Company (Note a) | Principal activities (Note b) |
|---|---------------------------------------|---|--|---|
| Angel Juvenile Products (Zhongshan) Co., Ltd. | PRC (Note c) | US\$2,400,000 registered capital | 100% | Manufacture and trading of infant products |
| Glory Time Investments Limited | BVI | US\$1,540,000 ordinary shares | 52% | Investment holding |
| Kintop Limited | Hong Kong | HK\$2 ordinary shares | 100% | Trading of infant products |
| Lerado China Limited | BVI | HK\$5,000 ordinary shares | 100% | Investment holding and trading of infant products in Taiwan |
| Lerado Group Limited | BVI | HK\$10,702 ordinary shares | 100% | Investment holding |
| Lerado H.K. Limited | Hong Kong | HK\$5,000 ordinary shares | 100% | Trading of infant products in Hong Kong and Taiwan |
| Lerado Overseas Limited | BVI | HK\$5,000 ordinary shares | 100% | Provision of purchasing and marketing services in Taiwan |
| Link Treasure Limited | BVI | US\$5,000 ordinary shares | 100% | Provision of research and development services in Taiwan |
| Shanghai Lerado Daily Article Co., Ltd. | PRC (Note c) | US\$6,260,000 registered capital | 100% | Manufacture and trading of nursery products |
| 中山市隆成日用製品有限公司 | PRC (Note c) | US\$20,750,000 registered capital | 100% | Manufacture and trading of infant products |
| 中山市國宏塑膠製品有限公司 | PRC (Note c) | US\$2,800,000 registered capital | 52% | Manufacture and trading of stroller wheels |
| 金和信股份有限公司 | Taiwan | NTD205,000,000 ordinary shares | 100% | Provision of purchasing services and trading of infant products |

Notes:

- (a) The Company directly holds the interest in Lerado Group Limited, all other interests shown above are indirectly held by the Company.
- (b) The principal activities are carried out in place of incorporation/establishment except as otherwise stated under principal activities above.
- (c) These PRC subsidiaries are foreign investment enterprises.

notes to the consolidated financial statements

For the year ended 31 December 2005

39. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

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

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or assets and liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

40. SEGMENT INFORMATION

Business segments

For management purposes, the Group is currently organised into three major operating divisions — strollers, beds and playards and miscellaneous infant products. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

| | | |
|-------------------------------|---|--|
| Strollers | — | manufacture and distribution of strollers |
| Beds and playards | — | manufacture and distribution of beds and playards |
| Miscellaneous infant products | — | manufacture and distribution of miscellaneous infant products such as soft goods, car seats, high chairs, bouncers and walkers, etc. |
| Others | — | manufacture and distribution of battery-operated ride-on cars and other products |

notes to the consolidated financial statements

For the year ended 31 December 2005

40. SEGMENT INFORMATION (continued)

Business segments (continued)

Segment information about these businesses is presented below:

2005

| | Strollers HK\$'000 | Beds and playards HK\$'000 | Miscellaneous infant products HK\$'000 | Others HK\$'000 | Consolidated HK\$'000 |
|---|-----------------------|----------------------------------|---|--------------------|--------------------------|
| REVENUE | | | | | |
| External sales | 516,259 | 115,408 | 307,603 | 108,058 | 1,047,328 |
| RESULTS | | | | | |
| Segment results | 9,605 | (2,457) | 3,113 | 1,718 | 11,979 |
| Unallocated corporate expenses | | | | | (4,580) |
| Investment income | | | | | 2,894 |
| Surplus arising on revaluation of investment properties | | | | | 3,700 |
| Profit before tax | | | | | 13,993 |
| Income tax expense | | | | | (3,439) |
| Profit for the year | | | | | 10,554 |

notes to the consolidated financial statements

For the year ended 31 December 2005

40. SEGMENT INFORMATION (continued)

Business segments (continued)

2005 (continued)

Balance Sheet

| | Strollers HK\$'000 | Beds and playards HK\$'000 | Miscellaneous infant products HK\$'000 | Others HK\$'000 | Consolidated HK\$'000 |
|-----------------------------------|-----------------------|----------------------------------|---|--------------------|--------------------------|
| ASSETS | | | | | |
| Segment assets | 438,911 | 84,018 | 254,688 | 98,401 | 876,018 |
| Unallocated corporate assets | | | | | 33,165 |
| Consolidated total assets | | | | | 909,183 |
| LIABILITIES | | | | | |
| Segment liabilities | 88,002 | 16,906 | 48,881 | 19,480 | 173,269 |
| Unallocated corporate liabilities | | | | | 10,584 |
| Consolidated total liabilities | | | | | 183,853 |

Other Information

| | Strollers HK\$'000 | Beds and playards HK\$'000 | Miscellaneous infant products HK\$'000 | Others HK\$'000 | Unallocated HK\$'000 | Consolidated HK\$'000 |
|---|-----------------------|----------------------------------|---|--------------------|-------------------------|--------------------------|
| Capital additions | 4,358 | 909 | 2,942 | 1,319 | — | 9,528 |
| Depreciation and amortisation for property, plant and equipment | 15,663 | 2,937 | 9,821 | 4,691 | — | 33,112 |
| Amortisation of intellectual property rights and prepaid lease payments | 2,659 | 879 | 2,351 | 231 | — | 6,120 |
| Impairment loss on intellectual property rights | 2,811 | 5,059 | 670 | — | — | 8,540 |
| Allowance for bad and doubtful debts | 2,911 | 663 | 2,275 | 1,109 | — | 6,958 |
| Impairment loss on loan to an associate | — | — | — | — | 3,600 | 3,600 |
| Loss on disposal of properties, plant and equipment | 78 | — | — | — | — | 78 |

notes to the consolidated financial statements

For the year ended 31 December 2005

40. SEGMENT INFORMATION *(continued)*

Business segments *(continued)*

2004

| | Strollers | Beds and playards | Miscellaneous infant products | Others | Consolidated |
|--|-------------------|------------------------------|--|-------------------|---------------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | <i>(Restated)</i> | <i>(Restated)</i> | <i>(Restated)</i> | <i>(Restated)</i> | <i>(Restated)</i> |
| REVENUE | | | | | |
| External sales | 636,005 | 113,155 | 317,706 | 204,169 | 1,271,035 |
| RESULTS | | | | | |
| Segment results | 48,691 | 4,652 | 15,064 | 10,422 | 78,829 |
| Unallocated corporate expenses | | | | | (10,442) |
| Investment income | | | | | 833 |
| Surplus arising on revaluation of investment properties | | | | | 4,500 |
| Surplus arising on revaluation of land and buildings | | | | | 6,674 |
| Profit before tax | | | | | 80,394 |
| Income tax expense | | | | | (6,017) |
| Profit for the year | | | | | 74,377 |

notes to the consolidated financial statements

For the year ended 31 December 2005

40. SEGMENT INFORMATION (continued)

Business segments (continued)

2004 (continued)

Balance Sheet

| | Strollers | Beds and playards | Miscellaneous infant products | Others | Consolidated |
|---------------------------------------|-------------------|------------------------------|--|-------------------|---------------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | <i>(Restated)</i> | <i>(Restated)</i> | <i>(Restated)</i> | <i>(Restated)</i> | <i>(Restated)</i> |
| ASSETS | | | | | |
| Segment assets | 459,774 | 74,150 | 244,451 | 145,972 | 924,347 |
| Unallocated corporate assets | | | | | 28,504 |
| Consolidated total assets | | | | | 952,851 |
| LIABILITIES | | | | | |
| Segment liabilities | 106,386 | 17,717 | 48,961 | 31,058 | 204,122 |
| Unallocated corporate liabilities | | | | | 14,291 |
| Consolidated total liabilities | | | | | 218,413 |

Other Information

| | Strollers | Beds and playards | Miscellaneous infant products | Others | Consolidated |
|---|-------------------|------------------------------|--|-------------------|---------------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | <i>(Restated)</i> | <i>(Restated)</i> | <i>(Restated)</i> | <i>(Restated)</i> | <i>(Restated)</i> |
| Capital additions | 13,964 | 2,025 | 5,537 | 3,346 | 24,872 |
| Depreciation and amortisation for property, plant and equipment | 15,381 | 2,272 | 8,607 | 5,284 | 31,544 |
| Amortisation of intellectual property rights and prepaid lease payments | 2,714 | 888 | 2,403 | 228 | 6,233 |
| Allowance for bad and doubtful debts | 1,180 | 205 | 866 | 367 | 2,618 |

notes to the consolidated financial statements

For the year ended 31 December 2005

40. SEGMENT INFORMATION (continued)

Geographical segments

The Group's operations are principally located in the PRC, Taiwan and Hong Kong. The Group's administration is carried out in Taiwan and Hong Kong and the manufacturing function is carried out in the PRC.

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods:

| | 2005 HK\$'000 | 2004 HK\$'000 |
|--------------------------|------------------|------------------|
| United States of America | 480,984 | 658,058 |
| Europe | 301,296 | 282,118 |
| Australia | 47,565 | 68,112 |
| South America | 67,242 | 96,615 |
| Others | 150,241 | 166,132 |
| | 1,047,328 | 1,271,035 |

The following is an analysis of the carrying amount of total assets, and additions to property, plant and equipment and intangible assets, analysed by the geographical area in which the assets are located:

| | Carrying amount of segment assets | | Additions to property, plant and equipment | |
|-----------|--------------------------------------|------------------|---|------------------|
| | 2005 HK\$'000 | 2004 HK\$'000 | 2005 HK\$'000 | 2004 HK\$'000 |
| PRC | 470,793 | 497,924 | 9,002 | 16,978 |
| Taiwan | 285,997 | 316,068 | 524 | 7,815 |
| Hong Kong | 144,293 | 127,159 | 2 | 79 |
| | 901,083 | 941,151 | 9,528 | 24,872 |