Notes to the Financial Statements

31 December 2005

1. CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands as an exempted limited company. Its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The registered office of the Company is P.O. Box 1350 GT, Clifton House, 75 Fort Street, George Town, Grand Cayman, the Cayman Islands.

The Company is an investment holding company. Its subsidiaries and associates are principally engaged in the manufacturing and trading of toys, shoes, metal tooling, leather products, motors, machinery, capacitors, clothing and compressors, property investment and development, travel related businesses, provision of information technology related services and agricultural production.

In the opinion of the directors, the parent and the ultimate holding company of the Group is South China Holdings Limited ("SCH"), a company incorporated in the Cayman Islands with its shares also listed on the Stock Exchange.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, available-for-sale investments and biological assets, which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand (HK'000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2005. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

Notes to the Financial Statements

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2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group early adopted HKASs 17, 36, 40 and HKFRS 3 in the financial statements for the year ended 31 December 2004.

The following new and revised HKFRSs affect the Group and are adopted for the first time for the current year's financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 11	Construction Contracts
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 20	Accounting for Government Grants and Disclosure of Government Assistance
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKFRS 2	Share-based Payment
HKFRS 5	Non-current Assets Held for Sale and Discontinued Operations
HK(SIC)-Int 21	Income Taxes – Recovery of Revalued Non-depreciable Assets
HK-Int 4	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases

The adoption of HKASs 2, 7, 8, 10, 11, 12, 14, 16, 18, 19, 20, 23, 27, 28, 33, 37, 38, HKFRSs 2, 5 and HK-Int 4 has had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.

Notes to the Financial Statements

31 December 2005

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

HKAS 1 has affected the presentation of minority interests on the face of the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity and other disclosures. In addition, in prior periods, the Group's share of tax attributable to associates was presented as a component of the Group's total tax charge/(credit) in the consolidated income statement. Upon the adoption of HKAS 1, the Group's share of the post-acquisition results of associates is presented net of the Group's share of tax attributable to associates.

HKAS 21 had no material impact on the Group. As permitted by the transitional provisions of HKAS 21, goodwill arising in a business combination prior to 1 January 2005 and fair value adjustments arising on that acquisition are deemed to be in the currency of the Company. In respect of acquisitions subsequent to 1 January 2005, any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of the assets and liabilities are treated as assets and liabilities of the foreign operation and are translated at the closing rate in accordance with HKAS 21.

HKAS 24 has expanded the definition of related parties and affected the Group's related party disclosures.

The impact of adopting the other HKFRSs is summarised as follows:

(a) HKAS 32 and HKAS 39 – Financial Instruments

In prior years, the Group classified its investments in equity/debt securities as non-trading securities, which were held for non-trading purposes and were stated at their fair values on an individual basis with gains and losses recognised as movements in the investment revaluation reserve. Upon the adoption of HKAS 39, these securities held by the Group at 1 January 2005 in the amount of HK$31,747,000 are designated as available-for-sale investments under the transitional provisions of HKAS 39 and accordingly are stated at fair value with gains or losses being recognised as a separate component of equity until subsequent derecognition or impairment.

The adoption of HKAS 39 has not resulted in any change in the measurement of these equity/debt securities. Comparative amounts have been reclassified for presentation purposes.

(b) HK(SIC)-Int 21 – Income Taxes – Recovery of Revalued Non-depreciable Assets

In prior periods, deferred tax arising on the revaluation of investment properties was recognised based on the tax rate that would be applicable upon the sale of the investment properties.

Upon the adoption of HK(SIC)-Int 21, deferred tax arising on the revaluation of the Group's investment properties is determined depending on whether the properties will be recovered through use or through sale. The Group has determined that its investment properties will be recovered through use, and accordingly the profits tax rate has been applied to the calculation of deferred tax.

The effects of the above changes are summarised in note 2.4 to the financial statements. The changes have not resulted in any prior year adjustment.

Notes to the Financial Statements

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2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1 January 2006:

HKAS 1 Amendment	Capital Disclosures
HKAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKFRSs 1 & 6 Amendments	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease
HK(IFRIC)-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 "Financial Reporting in Hyperinflationary Economies"

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 will replace HKAS 32 and has modified the disclosure requirements of HKAS 32 relating to financial instruments. This HKFRS shall be applied for annual periods beginning on or after 1 January 2007.

The HKAS 21 Amendment requires exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation to be recognised initially in a separate component of equity in the consolidated financial statements, irrespective of the currency of the monetary item and of whether the monetary item results from a transaction with the reporting entity or any of its subsidiaries.

In accordance with the amendments to HKAS 39 regarding financial guarantee contracts, financial guarantee contracts are initially recognised at fair value and are subsequently measured at the higher of (i) the amount determined in accordance with HKAS 37 and (ii) the amount initially recognised, less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18.

Notes to the Financial Statements

31 December 2005

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

The HKAS 19 Amendment, HKAS 39 Amendment regarding cash flow hedge accounting of forecast intragroup transactions, HKFRSs 1 and 6 Amendments, HKFRS 6, HK(IFRIC)-Int 5, HK(IFRIC)-Int 6 and HK(IFRIC)-Int 7 do not apply to the activities of the Group. HK(IFRIC)-Int 6 and HK(IFRIC)-Int 7 shall be applied for annual periods beginning on or after 1 December 2005 and 1 March 2006, respectively.

Except as stated above, the Group expects that the adoption of the other pronouncements listed above will not have any significant impact on the Group's financial statements in the period of initial application.

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

(a) *Effect on the consolidated balance sheet*

	Effect of adopting			
At 1 January 2005	**HKAS 1 #**	**HKASs 32 # and 39***	**HK(SIC)-Int 21#**	
Effect of new policies (Increase/(decrease))	**Presentation**	**Change in classification of equity investments**	**Deferred tax on revaluation of investment properties**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
Assets				
Available-for-sale investments	—	31,747	—	31,747
Non-trading securities	—	(31,747)	—	(31,747)
				—
Liabilities/equity				
Other payables and accruals	(283)	—	—	(283)
Investment revaluation reserve	—	1,884	—	1,884
Available-for-sale investment revaluation reserve	—	(1,884)	—	(1,884)
Minority interests	283	—	—	283
				—

* *Adjustments taken effect prospectively from 1 January 2005*

\# *Adjustments/presentation taken effect retrospectively*

Notes to the Financial Statements

31 December 2005

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES *(Continued)*

(a) *Effect on the consolidated balance sheet (Continued)*

At 31 December 2005 Effect of new policies (Increase/(decrease))	Effect of adopting HKASs 32 and 39 Change in classification of equity investments HK$'000	Effect of adopting HK(SIC)-Int 21 Deferred tax on revaluation of investment properties HK$'000	Total HK$'000
Assets			
Interests in associates	—	(30,052)	(30,052)
Available-for-sale investments	11,667	—	11,667
Non-trading securities	(11,667)	—	(11,667)
			(30,052)
Liabilities/equity			
Deferred tax liabilities	—	10,292	10,292
Investment revaluation reserve	535	—	535
Available-for-sale investment revaluation reserve	(535)	—	(535)
Retained profits	—	(40,344)	(40,344)
			(30,052)

(b) *Effect on the balances of equity at 1 January 2005*

Effect of new policies (Increase/(decrease))	Effect of adopting HKAS 1 Classification of minority interests HK$'000	Effect of adopting HKAS 39 Designation of available-for-sale investments HK$'000	Total HK$'000
Investment revaluation reserve	—	1,884	1,884
Available-for-sale investment revaluation reserve	—	(1,884)	(1,884)
Minority interests	283	—	283
			283

The adoption of new and revised HKFRSs has no effect on the balances of equity at 1 January 2004.

Notes to the Financial Statements

31 December 2005

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES *(Continued)*

(c) *Effect on the consolidated income statement for the year ended 31 December 2005 and 2004*

	Effect of adopting		
	HKAS 1	**HK(SIC)-Int 21**	
Effect of new policies	**Share of post-tax profits and losses of associates**	**Deferred tax on revaluation of investment properties**	**Total**
	HK$'000	HK$'000	HK$'000
Year ended 31 December 2005			
Decrease in share of profits and losses of associates	(28,060)	—	(28,060)
Decrease/(increase) in tax	28,060	(40,344)	(12,284)
Total decrease in profit	—	(40,344)	(40,344)
Decrease in basic earnings per share	—	(HK7.6cents)	(HK7.6cents)
Year ended 31 December 2004			
Increase in share of profits and losses of associates	552	—	552
Increase in tax	(552)	—	(552)
Total increase/(decrease) in profit	—	—	—
Increase/(decrease) in basic earnings per share	—	—	—

Notes to the Financial Statements

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2.5 SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture entity and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture; or

(b) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture.

Associates

An associate is an entity, not being a subsidiary, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Notes to the Financial Statements

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2.5 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 "Segment Reporting".

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

Goodwill previously eliminated against the consolidated reserves

Prior to the adoption of SSAP 30 "Business Combinations" in 2001, goodwill arising on acquisition was eliminated against the consolidated retained profits in the year of acquisition. On the adoption of HKFRS 3, such goodwill remains eliminated against the consolidated retained profits and is not recognised in the income statement when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

Notes to the Financial Statements

31 December 2005

2.5 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill *(Continued)*

Excess over the cost of business combinations

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries (previously referred to as negative goodwill), after reassessment, is recognised immediately in the income statement.

Impairment of assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, biological assets, financial assets, investment properties and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Notes to the Financial Statements

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2.5 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a member of the key management personnel of the Group or its parent;

(d) the party is a close member of the family of any individual referred to in (a) or (c); or

(e) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (c) or (d).

Property, plant and equipment and depreciation

Property, plant and equipment, other than certain land and buildings and construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Certain land and buildings are stated in the balance sheet at amounts based on revaluations performed prior to 30 September 1995, less any subsequent accumulated depreciation and amortisation and impairment losses.

In accordance with the transitional provisions of paragraph 80A of HKAS 16 “Property, plant and equipment”, the Group’s land and buildings which are carried in financial statements at revalued amounts relating to periods ended before 30 September 1995 are not required to make regular revaluations. Accordingly, no revaluation of land and buildings was carried out subsequent to 30 September 1995. In previous years, the revaluation increase arising on the revaluation of these assets was credited to the land and buildings revaluation reserve. Any future decreases in value of these assets will be dealt with as an expense to the extent that they exceed the balance, if any, on the revaluation reserve relating to a previous revaluation of the same asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

Notes to the Financial Statements

31 December 2005

2.5 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment and depreciation *(Continued)*

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land and buildings	2% to 5%
Furniture and leasehold improvements	20%
Machinery and equipment	10% to 25%
Moulds and tools	20% to 25%
Motor vehicles and vessels	20% to 25%

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents mainly resettlement costs incurred for a piece of land, which is stated at cost less any impairment losses, and is not depreciated. Construction in progress is reclassified to the appropriate category of property, plant and equipment or investment properties when completed and ready for use.

Notes to the Financial Statements

31 December 2005

2.5 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date.

Gains or losses arising from changes in the fair values of investment properties are included in the income statement for the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

For a transfer from investment properties to owner-occupied properties, the deemed cost of property for subsequent accounting is its fair value at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment and depreciation" up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with the policy stated under "Property, plant and equipment and depreciation" above. For a transfer from properties held for sale to investment properties, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the income statement. When the Group completes the construction or development of a self-constructed investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the income statement.

Biological assets

Biological assets are fruit trees and are measured on initial recognition and at each balance sheet date at their fair value less estimated point-of-sale costs. The fair value of fruit trees is determined based on the present value of expected net cash flows from the fruit trees discounted at a current market-determined pre-tax rate. Fruit trees are perennial plants which have growth cycles of more than one year.

A gain or loss arising on initial recognition of a biological asset at fair value less estimated point-of-sale costs and from a change in fair value less estimated point-of-sale costs of a biological asset shall be included in the income statement for the period in which it arises.

Notes to the Financial Statements

31 December 2005

2.5 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Agricultural produce

Agricultural produce comprises litchi and longan fruits of fruit trees.

Litchi and longan fruits harvested from fruit trees are measured at their fair value less estimated point-of-sale costs at the time of harvest. The fair value of litchi and longan fruits is determined based on market prices in the local area. Such measurement is the cost at that date when applying HKAS 2 "Inventories".

A gain or loss arising on initial recognition of agricultural produce at fair value less estimated point-of-sale costs shall be included in the income statement for the period in which it arises.

Fair value represents the estimated purchase cost that the Group has to procure such inventories in the market on an arm's length basis.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Notes to the Financial Statements

31 December 2005

2.5 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets

Applicable to the year ended 31 December 2004:

The Group classified its equity investments, other than subsidiaries and associates, as non-trading securities. Non-trading securities are non-trading investments in securities intended to be held on a long term basis.

Listed securities are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. Unlisted securities are stated at their estimated fair values, on an individual basis. The estimated fair values of unlisted investments are determined by the directors having regard to, inter alia, the prices of the most recent reported sales or purchases of the securities, or comparison of price/earnings ratios and dividend yields of the securities with those of similar listed securities, with allowance made for the lower liquidity of the unlisted securities.

The gains or losses arising from changes in the fair value of a security are dealt with as movements in the investment revaluation reserve, until the security is sold, collected, or otherwise disposed of, or until the security is determined to be impaired, when the cumulative gain or loss derived from the security recognised in the investment revaluation reserve, together with the amount of any further impairment, is charged to the income statement in the period in which the impairment arises.

Applicable to the year ended 31 December 2005:

Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale investments, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, i.e., the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Notes to the Financial Statements

31 December 2005

2.5 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Available-for-sale investments

Available-for-sale investments are non-derivative financial assets in listed and unlisted securities that are designated as available for sale or are not classified in any of the other three categories (financial assets at fair value through profit or loss, loans and receivables and held-to-maturity investments). After initial recognition, available-for-sale investments are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

The fair value of available-for-sale investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For available-for-sale investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

When the fair value of unlisted available-for-sale investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Impairment of financial assets (applicable to the year ended 31 December 2005)

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Available-for-sale investments

If an available-for-sale investment is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the profit or loss, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss.

Impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event, occurring after the impairment loss was recognised in profit or loss.

Notes to the Financial Statements

31 December 2005

2.5 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition of financial assets (applicable to the year ended 31 December 2005)

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process.

Notes to the Financial Statements

31 December 2005

2.5 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition of financial liabilities (applicable to the year ended 31 December 2005)

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value. Cost is determined by apportionment of the total land and development costs attributed to the unsold properties.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Notes to the Financial Statements

31 December 2005

2.5 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with interests in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with interests in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Notes to the Financial Statements

31 December 2005

2.5 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

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 profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from sales of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) service income and management fees, when services are rendered;

(c) rental income, on a time proportion basis over the lease terms;

(d) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset; and

(e) dividend income, when the shareholders' right to receive payment has been established.

Notes to the Financial Statements

31 December 2005

2.5 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefits

Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A provision is recognised in respect of the probable future long service payments expected to be made. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their service to the Group to the balance sheet date.

Pension schemes

The Group operates a defined contribution staff retirement scheme registered under the Occupational Retirement Scheme Ordinance (the "ORSO Scheme") for its employees (including certain directors), the assets of which are held separately from those of the Group in an independently administered fund. Contributions are made based on a percentage of the eligible employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the ORSO Scheme. When an employee leaves the ORSO Scheme prior to his/her interest in the Group's employer contributions vesting fully, the ongoing contributions payable by the Group may be reduced by the relevant amount of forfeited contributions.

The Group also operates another defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance. Contributions to the MPF Scheme are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

Employees who joined the Group before 1 December 2000 had the option to join either one of the schemes. Employees who joined the Group on or after 1 December 2000 are only eligible to join the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a percentage of its payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Notes to the Financial Statements

31 December 2005

2.5 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Borrowing costs

Borrowing costs are recognised as expenses in the income statement in the period in which they are incurred.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries and associates are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Notes to the Financial Statements

31 December 2005

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Operating lease commitments - Group as lessor

The Group has entered into industrial property leases on its investment property portfolio. The Group has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as investment property.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2005 was HK$7,872,000 (2004: HK$8,497,000). More details are given in note 19 to the financial statements.

Notes to the Financial Statements

31 December 2005

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

Estimation uncertainty *(Continued)*

Estimates regarding the realisability of deferred tax assets

Estimating the amount for deferred tax asset arising from tax losses requires a process that involves determining appropriate provisions for taxation, forecasting future years' taxable income and assessing our ability to utilise tax benefits through future earnings. In cases where the actual future profits generated are less than expected, a material reversal of the deferred tax asset may arise, which would be recognised in the income statement for the period in which such a reversal takes place. The Group's deferred tax asset arising from tax losses is from its Hong Kong business. While the current financial models indicate that the tax losses can be utilised in the future, any changes in assumptions and estimates and in tax regulations can affect the recoverability of this deferred tax asset. The deferred tax assets in relation to unused tax losses recognised in the consolidated balance sheet at 31 December 2005 was HK$17,586,000 (2004: Nil).

Estimation of fair value of biological assets

In the absence of current prices in an active market for the Group's biological assets, litchi and longan fruit trees, the Group considers information from a variety of sources, including:

(a) current prices in an active market for fruit trees of a different age or location, adjusted to reflect those differences;

(b) recent prices of similar fruit trees on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and

(c) discounted cash flow projections based on reliable estimates of future cash flows, supported by external evidence such as current market prices for related agricultural produce in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

The principal assumptions for the Group's estimation of the fair value include those related to current market prices for similar fruit trees in the same location and condition, appropriate discount rates, expected future market prices and future yields.

The carrying amount of biological assets at 31 December 2005 was HK$62,000,000 (2004: HK$68,000,000) (note 14).

Notes to the Financial Statements

31 December 2005

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

Estimation uncertainty *(Continued)*

Estimation of fair value of investment properties

In the absence of current prices in an active market for similar properties, the Group considers information from a variety of sources, including:

(a) current prices in an active market for properties of a different nature, condition or location (or subject to a different lease or other contracts), adjusted to reflect those differences;

(b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and

(c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

The principal assumptions for the Group's estimation of the fair value include those related to current market rents for similar properties in the same location and condition, appropriate discount rates, expected future market rents and future maintenance costs.

The carrying amount of investment properties at 31 December 2005 was HK$341,121,000 (2004: HK$208,944,000) (note 16).

Notes to the Financial Statements

31 December 2005

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

(a) the trading and manufacturing segment is engaged in trading and manufacturing of merchandises including toys, shoes, metal tooling, leather products, motor, machinery, capacitors, clothing and compressors;

(b) the property investment and development segment is engaged in property investment and development;

(c) the travel business segment is engaged in the sales of travel-related products and services;

(d) the information technology segment is engaged in information technology related business;

(e) the agriculture segment is engaged in the cultivation of fruit trees and sales of fruits; and

(f) the investment holding segment comprises, principally, the Group's investment holding and related management functions.

In determining the Group's geographical segments, revenues are attributed to the segments based on the destination to which goods and services are delivered, and assets are attributed to the segments based on the location of the assets.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

Notes to the Financial Statements

31 December 2005

4. SEGMENT INFORMATION *(Continued)*

(a) Business segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2005 and 2004.

Group	Trading and manufacturing		Property investment and development		Travel business		Information technology		Agriculture		Investment holding		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
		(Restated)		(Restated)		(Restated)		(Restated)		(Restated)		(Restated)		(Restated)
Segment revenue:														
External sales	**2,245,703**	1,929,720	**12,578**	11,632	**1,629,861**	1,463,498	**82,386**	64,194	**1,306**	1,127	**–**	–	**3,971,834**	3,470,171
Segment results	**81,459**	27,522	**119,348**	26,760	**12,168**	17,674	**(49)**	(296)	**(11,151)**	(4,637)	**(6,847)**	(11)	**194,928**	67,012
Interest, dividend income and other unallocated gains													**18,384**	18,425
Write-back of provision for advances to associates	**–**	–	**20,647**	58,627	**–**	–	**–**	–	**–**	–	**–**	–	**20,647**	58,627
Finance costs													**(18,108)**	(9,675)
Share of profits and losses of associates	**(42,605)**	(12,874)	**88,597**	2,991	**–**	–	**(12)**	(728)	**–**	–	**–**	–	**45,980**	(10,611)
Profit before tax													**261,831**	123,778
Tax													**(27,411)**	(2,931)
Profit for the year													**234,420**	120,847

Notes to the Financial Statements

31 December 2005

4. SEGMENT INFORMATION *(Continued)*

(a) Business segments *(Continued)*

Group	Trading and manufacturing		Property investment and development		Travel business		Information technology		Agriculture		Investment holding		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	HK$'000 (Restated)	**HK$'000**	HK$'000 (Restated)	**HK$'000**	HK$'000	**HK$'000**	HK$'000 (Restated)	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000 (Restated)
Segment assets	**885,030**	892,585	**445,353**	228,165	**179,419**	102,204	**65,775**	56,260	**68,031**	76,996	**26,587**	31,747	**1,670,195**	1,387,957
Interests in associates	**73,574**	126,835	**302,169**	272,129	**–**	–	**714**	1,754	**–**	–	**–**	–	**376,457**	400,718
Unallocated corporate assets	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**19,678**	7,061
Total assets	**958,604**	1,019,420	**747,522**	500,294	**179,419**	102,204	**66,489**	58,014	**68,031**	76,996	**26,587**	31,747	**2,066,330**	1,795,736
Segment liabilities	**378,076**	277,689	**4,962**	122,619	**149,104**	60,039	**37,172**	34,101	**2,204**	2,023	**5,510**	–	**577,028**	496,471
Unallocated corporate liabilities	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**253,001**	261,570
Total liabilities	**378,076**	277,689	**4,962**	122,619	**149,104**	**60,039**	37,172	34,101	**2,204**	2,023	**5,510**	–	**830,029**	758,041

Group	Trading and manufacturing		Property investment and development		Travel business		Information technology		Agriculture		Investment holding		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Other segment Information:														
Capital expenditures	**32,698**	31,470	**54,598**	–	**2,318**	1,146	**6,473**	7,702	**714**	498	**26**	–	**96,827**	40,816
Depreciation and amortisation	**35,559**	38,622	**2**	429	**1,548**	1,023	**963**	974	**681**	769	**163**	162	**38,916**	41,979
Provision against obsolete inventories	**19,472**	40,605	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**19,472**	40,605
Impairment losses recognised in the income statement	**–**	–	**–**	5,000	**–**	–	**625**	–	**–**	–	**553**	–	**1,178**	5,000
Fair value losses/(gains) on biological assets	**–**	–	**–**	–	**–**	–	**–**	–	**5,588**	(123)	**–**	–	**5,588**	(123)

Notes to the Financial Statements

31 December 2005

4. SEGMENT INFORMATION *(Continued)*

(b) Geographical segments

The following table provides an analysis of the Group's revenue and results by geographical market to which the goods and services are delivered:

	Segment revenue		Segment results	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
				(Restated)
The PRC including Hong Kong and Macau	**1,877,657**	1,693,627	**120,282**	36,720
The United States of America	**1,293,659**	1,162,240	**52,631**	24,433
Europe	**515,504**	463,511	**13,685**	3,950
Japan	**34,168**	20,027	**947**	163
Others	**250,846**	130,766	**7,383**	1,746
	3,971,834	3,470,171	**194,928**	67,012

The following is an analysis of the Group's segment assets and capital expenditures by the geographical area in which the assets are located:

	Segment assets		Capital expenditures	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
		(Restated)		
Hong Kong	**769,250**	551,399	**2,823**	4,869
Other regions in the Mainland China	**900,256**	835,696	**93,996**	35,511
Macau	**689**	862	**8**	436
	1,670,195	1,387,957	**96,827**	40,816

Notes to the Financial Statements

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5. TURNOVER, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts; the value of services rendered; and gross rental income received and receivable from investment properties during the year.

An analysis of revenue, other income and gains is as follows:

	2005 HK$'000	2004 HK$'000
Revenue		
Sales of merchandise from manufacturing and trading business	2,245,703	1,929,720
Sales of travel-related products	1,629,861	1,463,498
Sales of computer products and service income from related business	82,386	64,194
Rental income	12,578	11,632
Sales of agricultural produce	1,306	1,127
	3,971,834	3,470,171
Other income		
Bank interest income	1,609	1,114
Interest income from associates	1,436	1,457
Dividend income from listed available-for-sale investments/non-trading securities	442	325
Others	5,124	2,651
	8,611	5,547
Gains		
Gain on disposal of items of property, plant and equipment	1,066	1,056
Others	9,741	11,792
	10,807	12,848
	19,418	18,395

Notes to the Financial Statements

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6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	2005 HK$'000	2004 HK$'000
Cost of inventories sold	**1,965,567**	1,727,824
Cost of service provided	**1,644,750**	1,448,371
Depreciation (note 15)	**38,553**	41,617
Auditors' remuneration	**2,016**	1,391
Employee benefits expense (including directors' remuneration (note 8)):		
Wages and salaries	**476,400**	380,985
Pension scheme contributions	**13,685**	20,709
Total employee benefits expense	**490,085**	401,694
Decrease in biological assets due to harvest	**412**	123
Minimum lease payments under operating leases in respect of land and buildings	**35,262**	32,839
Gross rental income	**(12,578)**	(11,632)
Less: Direct operating expenses	**1,679**	1,317
Net rental income	**(10,899)**	(10,315)
Amortisation of prepaid land lease payments (note 17)	**363**	362
Provision against obsolete inventories (included in cost of sales)*	**19,472**	40,605
Other expenses, net:		
Impairment of available-for-sale investments	**553**	—
Write-back of impairment of items of property, plant and equipment	**(109)**	—
Goodwill impairment (note 19)	**625**	—

* The amount represents a write-down of inventories to their estimated net realisable values.

Notes to the Financial Statements

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7. FINANCE COSTS

	GROUP	
	2005 HK$'000	2004 HK$'000
Interest on bank loans and overdrafts	15,854	8,381
Interest on finance leases	830	1,294
Interest on amount due to an intermediate holding company	1,424	—
	18,108	9,675

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules is as follows:

	GROUP	
	2005 HK$'000	2004 HK$'000
Fees	240	174
Other emoluments:		
Salaries, allowances and benefits in kind	2,760	2,878
Discretionary bonuses	10,000	50
Pension scheme contributions	120	120
	12,880	3,048
	13,120	3,222

(a) *Independent non-executive directors*

The fees paid to independent non-executive directors during the year were as follows:

	2005 HK$'000	2004 HK$'000
Mr. Lee Wai Choi, Albert	10	10
Mr. Chiu Sin Chun	50	50
Ms. Wong Siu Yin, Elizabeth	20	4
Ms. Li Yuen Yu, Alice	50	13
	130	77

There were no other emoluments payable to the independent non-executive directors during the year (2004: Nil).

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8. DIRECTORS' REMUNERATION *(Continued)*

(b) Executive directors and a non-executive director

	Fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Pension scheme contributions	Total remuneration
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2005					
Executive directors:					
Mr. Ng Hung Sang	20	720	4,000	36	4,776
Ms. Cheung Choi Ngor	20	720	3,000	36	3,776
Mr. Richard Howard Gorges	20	720	3,000	36	3,776
Ms. Ng, Jessica Yuk Mui *	5	—	—	—	5
Mr. Ng Yuk Fung, Peter	20	600	—	12	632
	85	2,760	10,000	120	12,965
Non-executive director:					
Ms. Ng, Jessica Yuk Mui	25	—	—	—	25
	110	2,760	10,000	120	12,990
2004					
Executive directors:					
Mr. Ng Hung Sang	20	720	—	36	776
Ms. Cheung Choi Ngor	20	720	—	36	776
Mr. Richard Howard Gorges	20	838	—	36	894
Ms. Ng, Jessica Yuk Mui	10	—	—	—	10
Mr. Ng Yuk Fung, Peter	20	600	50	12	682
	90	2,878	50	120	3,138
Non-executive director:					
Mr. Tan Boon Seng	7	—	—	—	7
	97	2,878	50	120	3,145

* re-designated as non-executive director on 1 July 2005

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

Notes to the Financial Statements

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9. FIVE HIGHEST PAID EMPLOYEES

Of the five highest paid employees in the Group, three (2004: none) were directors of the Company whose emoluments are included in note 8 above. Details of the remuneration of the remaining two (2004: five) non-director, highest paid employees for the year are as follows:

	2005 HK$'000	2004 HK$'000
Salaries, allowances and benefits in kind	3,872	7,339
Pension scheme contributions	105	104
Discretionary bonuses	1,029	2,213
	5,006	9,656

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2005	2004
HK$1,000,001 to HK$1,500,000	—	1
HK$1,500,001 to HK$2,000,000	—	2
HK$2,000,001 to HK$2,500,000	1	1
HK$2,500,001 to HK$3,000,000	1	1
	2	5

Notes to the Financial Statements

31 December 2005

10. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2005 HK$'000	2004 HK$'000 (Restated)
Group:		
Current – Hong Kong		
Charge for the year	4,767	2,575
Underprovision/(overprovision) in prior years	12,983	(1,604)
Current – Mainland China		
Charge for the year	8,096	969
Underprovision in prior years	3,002	—
Deferred tax (note 33)	(1,437)	991
Total tax charge for the year	27,411	2,931

Notes to the Financial Statements

31 December 2005

10. TAX *(Continued)*

A reconciliation of the tax expense applicable to profit before tax using the statutory rate for the country in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate, and a reconciliation of the applicable rate (i.e., the statutory tax rates) to the effective tax rate, are as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
		(Restated)
Profit before tax	**261,831**	123,778
Tax at the applicable tax rate	**45,820**	21,661
Profits and losses attributable to associates	**(8,046)**	1,857
Expenses not deductible for tax	**2,853**	2,602
Income not subject to tax	**(27,585)**	(21,061)
Adjustments in respect of current tax of previous periods	**15,985**	(1,604)
Tax losses arising from previous periods recognised	**(14,467)**	—
Tax losses utilised from previous periods	**(5,915)**	(5,589)
Tax losses not recognised	**13,920**	4,336
Effect of different tax rates of subsidiaries operating in Mainland China	**4,846**	729
Total tax charge for the year	**27,411**	2,931

The share of tax expense attributable to associates amounting to HK$28,060,000 (2004: tax credit of HK$552,000) is included in "Share of profits and losses of associates" on the face of the consolidated income statement.

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11. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The net loss from ordinary activities attributable to equity holders of the Company for the year ended 31 December 2005 dealt with in the financial statements of the Company, was HK$16,000 (2004: HK$217,000) (note 36(b)).

12. DIVIDEND

	2005	2004
	HK$'000	HK$'000
Proposed final - Nil (2004: HK5.7 cents) per ordinary share	—	30,229

13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic earnings per share amounts is based on the net profit for the year attributable to ordinary equity holders of the Company of HK$200,772,000 (2004: HK$100,896,000), and 530,335,000 (2004: 530,335,000) ordinary shares in issue during the year.

Diluted earnings per share amounts for the year ended 31 December 2005 and 2004 have not been disclosed as no diluting events existed for these years.

Notes to the Financial Statements

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14. BIOLOGICAL ASSETS

Group

	2005 HK$'000	2004 HK$'000
Litchi fruit trees:		
Carrying amount at 1 January	**51,300**	51,300
(Loss)/gain arising from changes in fair value less estimated point-of-sale costs	**(4,185)**	115
Decrease due to harvest	**(341)**	(115)
Carrying amount at 31 December	**46,774**	51,300
Longan fruit trees:		
Carrying amount at 1 January	**16,700**	16,700
(Loss)/gain arising from changes in fair value less estimated point-of-sale costs	**(1,403)**	8
Decrease due to harvest	**(71)**	(8)
Carrying amount at 31 December	**15,226**	16,700
Total carrying amount at 31 December	**62,000**	68,000

Quantities of fruit trees:	2005 Number of trees '000	2004 Number of trees '000
Litchi fruit trees	**333**	333
Longan fruit trees	**108**	108
	441	441

Notes to the Financial Statements

31 December 2005

14. BIOLOGICAL ASSETS *(Continued)*

Fair value and saleable output of litchi and longan fruits at the point of harvest are analysed as follows:

	GROUP	
	2005	2004
	HK$'000	HK$'000
Fair value less estimated point-of-sale costs:		
Litchi fruits	**341**	115
Longan fruits	**71**	8
	412	123
	Tons	Tons
Saleable output:		
Litchi fruits	139	76
Longan fruits	32	3
	171	79

Significant assumptions made in determining the fair value of the biological assets are as follows:

(a) the fruit trees will continue to be competently managed and remain free from irremediable disease in the remaining estimated useful lives;

(b) the expected prices of litchi and longan fruits are based on the past actual average district prices; and

(c) the future cash flows have been discounted at the target rate of return on equity of the agricultural produce segment.

Notes to the Financial Statements

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15. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold land and buildings HK$'000 (Restated)	Furniture and leasehold improvements HK$'000	Machinery and equipment HK$'000	Moulds and tools HK$'000	Motor vehicles and vessels HK$'000	Total HK$'000 (Restated)
31 December 2005						
At 31 December 2004 and at 1 January 2005:						
Cost or valuation	235,356	221,165	271,603	27,066	26,067	781,257
Accumulated depreciation and impairment	(67,937)	(180,306)	(227,126)	(20,787)	(18,829)	(514,985)
Net carrying amount	167,419	40,859	44,477	6,279	7,238	266,272
At 1 January 2005, net of accumulated depreciation and impairment	167,419	40,859	44,477	6,279	7,238	266,272
Additions	5,057	8,040	20,857	1,720	1,143	36,817
Disposals	(370)	(229)	(1,559)	(2)	(290)	(2,450)
Reclassification	(4,298)	750	6,659	(3,029)	(82)	—
Write-back/(provision) of impairment loss	2,409	(1,477)	(462)	(361)	—	109
Transfer to investment properties, net (note 16)	(4,312)	—	—	—	—	(4,312)
Depreciation provided during the year	(7,698)	(13,569)	(13,087)	(1,333)	(2,866)	(38,553)
Exchange realignment	468	30	537	—	29	1,064
At 31 December 2005, net of accumulated depreciation and impairment	158,675	34,404	57,422	3,274	5,172	258,947
At 31 December 2005:						
Cost or valuation	209,775	226,720	242,518	12,718	23,662	715,393
Accumulated depreciation and impairment	(51,100)	(192,316)	(185,096)	(9,444)	(18,490)	(456,446)
Net carrying amount	158,675	34,404	57,422	3,274	5,172	258,947
Analysis of cost or valuation:						
At cost	162,266	226,720	242,518	12,718	23,662	667,884
At 31 December 1988 valuation	31,112	—	—	—	—	31,112
At 31 December 1989 valuation	5,220	—	—	—	—	5,220
At 31 December 1992 valuation	204	—	—	—	—	204
At 31 December 1994 valuation	10,973	—	—	—	—	10,973
	209,775	226,720	242,518	12,718	23,662	715,393

Notes to the Financial Statements

31 December 2005

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

Group

	Leasehold land and buildings HK$'000 (Restated)	Furniture and leasehold improvements HK$'000	Machinery and equipment HK$'000	Moulds and tools HK$'000	Motor vehicles and vessels HK$'000	Total HK$'000 (Restated)
31 December 2004						
At 31 December 2003 and at 1 January 2004:						
Cost or valuation	226,984	204,635	266,131	31,903	24,818	754,471
Accumulated depreciation and impairment	(60,291)	(164,611)	(221,683)	(26,126)	(17,384)	(490,095)
Net carrying amount	166,693	40,024	44,448	5,777	7,434	264,376
At 1 January 2004, net of accumulated depreciation and impairment	166,693	40,024	44,448	5,777	7,434	264,376
Additions	3,146	16,848	11,967	2,972	2,379	37,312
Acquisition of subsidiaries	2,422	503	303	871	41	4,140
Disposals	—	(37)	(290)	(348)	(68)	(743)
Depreciation provided during the year	(7,646)	(16,479)	(11,951)	(2,993)	(2,548)	(41,617)
Transfer from investment properties (note 16)	2,804	—	—	—	—	2,804
At 31 December 2004, net of accumulated depreciation and impairment	167,419	40,859	44,477	6,279	7,238	266,272
At 31 December 2004:						
Cost or valuation	235,356	221,165	271,603	27,066	26,067	781,257
Accumulated depreciation and impairment	(67,937)	(180,306)	(227,126)	(20,787)	(18,829)	(514,985)
Net carrying amount	167,419	40,859	44,477	6,279	7,238	266,272
Analysis of cost or valuation:						
At cost	187,847	221,165	271,603	27,066	26,067	733,748
At 31 December 1988 valuation	31,112	—	—	—	—	31,112
At 31 December 1989 valuation	5,220	—	—	—	—	5,220
At 31 December 1992 valuation	204	—	—	—	—	204
At 31 December 1994 valuation	10,973	—	—	—	—	10,973
	235,356	221,165	271,603	27,066	26,067	781,257

Notes to the Financial Statements

31 December 2005

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

The Group's land and buildings are situated in Hong Kong and Mainland China and are held under the following lease terms:

	GROUP	
	2005	2004
	HK$'000	HK$'000
		(Restated)
Hong Kong:		
Medium term leases	**42,289**	45,831
Long term lease	**16,457**	16,807
Mainland China:		
Medium term land use rights	**69,743**	73,842
In the process of applying land use rights	**30,186**	30,939
	158,675	167,419

As at 31 December 2005, the Group had not obtained land use rights certificates in respect of the Group's certain leasehold properties amounting to approximately HK$30,186,000 (2004: HK$30,939,000).

The net book value of the Group's machinery and equipment held under finance leases and hire purchase contracts included in the total amount of machinery and equipment and motor vehicles at 31 December 2005 amounted to HK$27,042,000 (2004: HK$23,682,000).

Certain of the Group's land and buildings were revalued on and before 31 December 1994. The land and buildings were revalued at open market value, based on their existing use, and the plant and machinery were revalued using the depreciated replacement cost method. Since 1995, no further revaluations of the Group's land and buildings have been carried out, as the Group has relied upon the exemption granted under the transitional provisions in paragraph 80A of HKAS 16 from the requirement to carry out future revaluations of its property, plant and equipment which were stated at valuation at that time.

Had land and buildings been carried at cost less accumulated depreciation and impairment loss, the net book value of the Group's land and buildings as at 31 December 2005 would have been approximately HK$158,675,000 (2004: HK$167,419,000).

At 31 December 2005, certain of the Group's leasehold land and buildings and machinery and equipment with a net book value of approximately HK$72,683,000 (2004: HK$91,693,000) and HK$1,449,000 (2004: HK$2,914,000) respectively, were pledged to secure banking facilities granted to the Group (note 27).

Notes to the Financial Statements

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16. INVESTMENT PROPERTIES

	GROUP	
	2005	2004
	HK$'000	HK$'000
Carrying amount at 1 January	**208,944**	185,915
Transfer from/(to) land and buildings, net (note 15)	**4,312**	(2,804)
Transfer from properties held for sale	**19,221**	—
Net profit from a fair value adjustment	**108,568**	25,833
Exchange realignment	**76**	—
Carrying amount at 31 December	**341,121**	208,944

The Group's investment properties are situated in Hong Kong and Mainland China, and are held under the following lease terms:

	GROUP	
	2005	2004
	HK$'000	HK$'000
Hong Kong:		
Long term lease	**4,100**	3,700
Medium term leases	**300,185**	195,584
	304,285	199,284
Mainland China:		
Medium term leases	**36,836**	9,660
	341,121	208,944

The Group's investment properties were revalued on 31 December 2005 by BMI Appraisals Limited, an independent professionally qualified valuers, at HK$341,121,000 on an open market, existing use basis. The investment properties are leased to third parties under operating leases, further summary details of which are included in note 41(a) to the financial statements.

At 31 December 2005, the Group's investment properties with a value of HK$299,104,000 (2004: HK$196,484,000) were pledged and mortgaged to secure general banking facilities and bank loans granted to the Group (note 27).

Further particulars of the Group's investment properties are included on pages 110 to 114.

Notes to the Financial Statements

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17. PREPAID LAND LEASE PAYMENTS

	GROUP	
	2005	2004
	HK$'000	HK$'000
		(Restated)
Carrying amount at 1 January	**15,564**	15,926
Additions	**3,232**	—
Recognised during the year (note 6)	**(363)**	(362)
Carrying amount at 31 December	**18,433**	15,564
Current portion included in prepayments, deposits and other receivables	**(363)**	(363)
Non-current portion	**18,070**	15,201

The leasehold lands are held under medium term leases and are situated in Mainland China. At 31 December 2004, the balances were included in property, plant and equipment.

18. CONSTRUCTION IN PROGRESS

	Group
	HK$'000
Acquisition of a subsidiary (note 37)	40,385
Additions	56,777
Balance at 31 December 2005	97,162

Notes to the Financial Statements

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19. GOODWILL

	GROUP	
	2005	2004
	HK$'000	HK$'000
At 1 January:		
Cost and carrying amount	**8,497**	4,993
Carrying amount at 1 January	**8,497**	4,993
Acquisition of subsidiaries	**—**	3,504
Impairment during the year (note 6)	**(625)**	—
Carrying amount at 31 December	**7,872**	8,497
At 31 December:		
Cost	**8,497**	8,497
Accumulated impairment	**(625)**	—
Net carrying amount	**7,872**	8,497

The amount of goodwill remaining in the consolidated reserves, arising from the acquisition of subsidiaries prior to the adoption of SSAP 30 in 2001, was HK$3,067,000 (2004: HK$3,067,000) as at 31 December 2005.

Impairment testing of goodwill

Goodwill acquired through business combinations have been allocated to the following cash generating units, which are reportable segments, for impairment testing:

- Toy products cash-generating unit;
- Travel business cash-generating unit; and
- Information technology business cash-generating unit.

Toy products cash-generating unit

The recoverable amount of the toy products cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to cash flow projections is 17.7% (2004: 12.5%) and cash flows beyond the five-year period are extrapolated using a growth rate of 7.6% (2004: 7.3%) which is the same as the long term average growth rate of the toy products industry.

Notes to the Financial Statements

31 December 2005

19. GOODWILL *(Continued)*

Impairment testing of goodwill *(Continued)*

Travel business cash-generating unit

The recoverable amount of the travel business cash-generating unit is also determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 10.9% (2004: 10.7%). The growth rate used to extrapolate the cash flows of the travel business unit beyond the five-year period is 4% (2004: 4%) which is the same as the long term average growth rate of the travel business industry.

Information technology business cash-generating unit

The recoverable amount of the information technology business cash-generating unit is also determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 10.9% (2004: 10.7%). The growth rate used to extrapolate the cash flows of the information technology business unit beyond the five-year period is 4% (2004: 4%) which is the same as the long term average growth rate of the information technology business industry.

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	2005	2004
	HK$'000	HK$'000
Cash-generating unit:		
Toy products	**1,374**	1,374
Travel business	**2,994**	2,994
Information technology business	**3,504**	4,129
	7,872	8,497

Key assumptions were used in the value in use calculation of the toy products, travel business and information technology business cash-generating units for 31 December 2005 and 31 December 2004. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budgeted year, increased for expected efficiency improvements, and expected market development.

Discount rates – The discount rates used are before tax and reflect specific risks relating to the relevant units.

Notes to the Financial Statements

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20. INTERESTS IN SUBSIDIARIES

	Company	
	2005	2004
	HK$'000	HK$'000
Unlisted shares, at cost	**234,018**	234,018
Due from subsidiaries	**809,828**	844,061
	1,043,846	1,078,079

Except for amounts of HK$41,653,000 (2004: HK$15,000,000) due from subsidiaries which bear interest at Hong Kong Dollar Prime Rate plus 4% (2004: Hong Kong Dollar Prime Rate plus 4%) per annum, the amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment. In the opinions of the directors, the amounts due from subsidiaries are not repayable within twelve months from the balance sheet date and are therefore shown in the balance sheet as non-current. In the opinion of the directors, the carrying value of the amounts due from subsidiaries approximate to their fair values.

Details of the Company's principal subsidiaries are set out in note 48 to the financial statements.

During the year, the Group acquired Liaoning Da Fa (as defined in note 37 to the financial statements) from an independent third party. Further details of this acquisition are included in note 37 to the financial statements.

21. INTERESTS IN ASSOCIATES

	GROUP	
	2005	2004
	HK$'000	HK$'000
		(Restated)
Share of net assets:		
Listed associate in Hong Kong	**60,305**	86,224
Unlisted associates	**103,838**	42,215
	164,143	128,439
Advances to associates	**214,059**	293,632
Amounts due to associates	**(1,039)**	—
Provision for impairment	**(706)**	(21,353)
	212,314	272,279
	376,457	400,718
Market value of listed associate	**29,670**	57,059

Notes to the Financial Statements

31 December 2005

21. INTERESTS IN ASSOCIATES *(Continued)*

Except for the advances to Firm Wise Investment Limited ("FWIL") of HK$213,354,000 (2004: HK$292,917,000) which bears interest at 0.5% (2004: 0.5%) per annum, amounts with associates are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the directors, the amounts are not repayable within twelve months from the balance sheet date and are classified in the balance sheet as non-current accordingly.

As at 31 December 2005, the Group has given guarantee with total amount of HK$210,000,000 (2004: HK$174,000,000) to secure banking facilities granted to FWIL, of which HK$210,000,000 (2004: HK$139,922,000) (note 39 (a)) was utilised. The banking facilities are due to be matured in November 2010. The advances to FWIL and guarantees given were used to finance a property development project in Hong Kong.

Provision for advances to associates of approximately HK$20,647,000 (2004: HK$58,627,000) was written back during the year with reference to the valuation of the properties held by an associate performed by an independent professionally qualified valuers, BMI Appraisals Limited, at 31 December 2005.

The following table illustrates the summarised financial information of FWIL, extracted from its management accounts as adjusted for the fair value of the investment property based on the valuation performed by BMI Appraisal Limited.

	2005 **HK$'000**	2004 HK$'000
Assets	**1,623,824**	1,428,998
Liabilities	**1,495,640**	1,498,993
Turnover	**72,243**	59,548
Profit	**198,180**	258,171

Notes to the Financial Statements

31 December 2005

21. INTERESTS IN ASSOCIATES *(Continued)*

The following table illustrates the summarised financial information of the Group's other associates extracted from their management accounts and financial statements as adjusted for the fair value of their investment property based on the valuation performed by BMI Appraisal Limited, where appropriate.

	2005 HK$'000	2004 HK$'000
Assets	367,031	281,453
Liabilities	119,636	71,691
Turnover	297,638	259,472
Profit/(Loss)	(51,974)	(29,625)

Note: Included in the assets above are certain investment properties of an associate of which, up to the date of approval of these financial statements, the associate is yet to obtain the land use right certiticates and building ownership certificates pursuant to the verdict issued by the Court of Final Appeal of the PRC in late 2003 whereby the other equity holder of the associate, a PRC company, is obliged to complete the procedures in relation to the transfer of the land use rights to the associate at the cost of the associate.

Details of the principal associates are set out in note 49 to the financial statements.

22. AVAILABLE-FOR-SALE INVESTMENTS/NON-TRADING SECURITIES

	GROUP	
	2005 HK$'000	2004 HK$'000
Listed equity securities in Hong Kong, at fair value	10,317	29,844
Club debentures, at fair value	1,350	1,903
	11,667	31,747

During the year, the gross loss of the Group's listed equity securities recognised directly in equity amounted to HK$2,363,000 (2004: HK$3,022,000) and impairment of HK$553,000 (2004: Nil) in respect of the Group's debentures was recognised in the consolidated income statement.

The above investments consist of investments in equity securities and club debentures which were designated as available-for-sale investments on 1 January 2005.

The fair values of the Group's available-for-sale investments are based on quoted market prices.

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23. INVENTORIES

	GROUP	
	2005 HK$'000	2004 HK$'000
Raw materials	222,699	199,242
Work in progress	128,895	118,725
Finished goods	65,305	77,382
	416,899	395,349
Provision against obsolete inventories	(72,052)	(73,379)
	344,847	321,970

At 31 December 2005, the Group's inventories with a value of HK$81,225,000 (2004: HK$88,773,000) were pledged to secure general banking facilities granted to the Group (note 27).

24. PROPERTIES HELD FOR SALE

	GROUP	
	2005 HK$'000	2004 HK$'000
Held under medium term land use rights in Mainland China	—	19,221

Notes to the Financial Statements

31 December 2005

25. TRADE RECEIVABLES

The Group's trading terms with its customers are on credit with credit period ranging from period of one to three months, depends on a number of factors including trade practices, collection history and location of customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

An aged analysis of trade receivables as at the balance sheet date, based on invoice date, is as follows:

	GROUP	
	2005	2004
	HK$'000	HK$'000
Within 90 days	**232,305**	211,198
91 to 180 days	**11,367**	7,386
181 to 365 days	**665**	6,343
Over 365 days	**775**	—
	245,112	224,927

The carrying amounts of the trade receivables approximate to their fair values.

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26. TRADE AND BILLS PAYABLES

	GROUP	
	2005	2004
	HK$'000	HK$'000
Trade payables	**386,797**	360,199
Bills payable	**570**	3,090
	387,367	363,289

An aged analysis of the trade payables as at the balance sheet date, based on invoice date, is as follows:

	GROUP	
	2005	2004
	HK$'000	HK$'000
Within 90 days	**350,804**	275,422
91 to 180 days	**24,469**	69,937
181 to 365 days	**4,033**	8,227
Over 365 days	**7,491**	6,613
	386,797	360,199

The trade payables are non-interest-bearing and are normally settled on 90-day terms. The carrying amounts of the trade and bills payables approximate to their fair values.

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27. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective interest rate (%)	Maturity	Group 2005 HK$'000	Group 2004 HK$'000	Company 2005 HK$'000	Company 2004 HK$'000
Current						
Finance lease payables (note 28)	1.7-5.4	2006	**9,988**	9,266	**—**	—
Bank overdrafts - unsecured	5.8-9.8	On demand	**1,442**	1,512	**—**	—
Bank overdrafts - secured	5.0-7.8	On demand	**226**	24,190	**—**	—
Bank loans - unsecured	2.5-6.4	2006	**2,001**	5,582	**299**	874
Bank loans - secured	3.7-7.5	2006	**57,924**	66,005	**—**	—
Trust receipt loans - secured	1.9-5.6	2006	**81,225**	88,774	**—**	—
			152,806	195,329	**299**	874
Non-current						
Finance lease payables (note 28)	1.7-5.4	2007-2008	**6,414**	7,753	**—**	—
Bank loans - unsecured	—	—	**—**	296	**—**	296
Bank loans - secured	3.7-7.5	2007-2014	**41,827**	45,337	**—**	—
			48,241	53,386	**—**	296
			201,047	248,715	**299**	1,170
Analysed into:						
Bank loans and overdrafts repayable:						
Within one year or on demand			**142,818**	186,063	**299**	874
In the second year			**9,489**	12,046	**—**	296
In the third to fifth years, inclusive			**32,338**	33,587	**—**	—
			184,645	231,696	**299**	1,170
Finance leases repayable:						
Within one year or on demand			**9,988**	9,266	**—**	—
In the second year			**4,908**	6,551	**—**	—
In the third to fifth years, inclusive			**1,506**	1,202	**—**	—
			16,402	17,019	**—**	—
			201,047	248,715	**299**	1,170

Notes to the Financial Statements

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27. INTEREST-BEARING BANK AND OTHER BORROWINGS *(Continued)*

Notes:

(a) At the balance sheet date, the Group's overdraft facilities amounting to approximately HK$77,000,000 (2004: HK$53,000,000) and bank loans of approximately HK$99,751,000 (2004: HK$111,342,000) are secured by:

(i) pledges and mortgages over the Group's investment properties situated in Hong Kong, which had an aggregate carrying value at the balance sheet date of approximately HK$299,104,000 (2004: HK$196,484,000) (note 16);

(ii) pledges and mortgages over the Group's leasehold land and buildings, which had an aggregate carrying value at the balance sheet date of approximately HK$72,683,000 (2004: HK$91,693,000) (note 15);

(iii) pledges over the Group's inventories which had an aggregate carrying value at the balance sheet date of approximately HK$81,225,000 (2004: HK$88,773,000) (note 23);

(iv) charges over the Group's machinery and equipment, which had an aggregate carrying value at the balance sheet date of approximately HK$1,449,000 (2004: HK$2,914,000) (note 15); and

(v) the pledge of certain of the Group's time deposits amounting to HK$15,230,000 (2004: HK$14,450,000).

(b) Except for secured bank loans with aggregate amount of HK$7,115,000 (2004: HK$5,745,000) and an unsecured bank loan of HK$1,702,000 (2004: HK$1,662,000) which are denominated in Renminbi, all other borrowings are in Hong Kong dollars.

Other interest rate information:

	Group			
	2005		2004	
	Fixed rate HK$'000	**Floating rate HK$'000**	Fixed rate HK$'000	Floating rate HK$'000
Finance lease payables	**8,260**	**8,142**	4,537	12,482
Bank overdrafts - unsecured	**—**	**1,442**	—	1,512
Bank overdrafts - secured	**—**	**226**	—	24,190
Bank loans - unsecured	**1,702**	**299**	4,708	1,170
Bank loans - secured	**7,115**	**92,636**	2,699	108,643
Trust receipt loans - secured	**—**	**81,225**	—	88,774

	Company			
	2005		2004	
	Fixed rate HK$'000	**Floating rate HK$'000**	Fixed rate HK$'000	Floating rate HK$'000
Bank loans - unsecured	**—**	**299**	—	1,170

The carrying amounts of the Group's and the Company's borrowings approximate to their fair values.

Notes to the Financial Statements

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28. FINANCE LEASE PAYABLES

The Group leases certain of its machinery and equipment. These leases are classified as finance leases and have remaining lease terms ranging from two to five years.

At 31 December 2005, the total future minimum lease payments under finance leases and their present values were as follows:

	Minimum lease payment		Present value of minimum lease payment	
Group	**2005**	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable:				
Within one year	**10,711**	9,790	**9,988**	9,266
In the second year	**5,096**	6,718	**4,908**	6,551
In the third to fifth years, inclusive	**1,540**	1,226	**1,506**	1,202
Total minimum finance lease payments	**17,347**	17,734	**16,402**	17,019
Future finance charges	**(945)**	(715)		
Total net finance lease payables	**16,402**	17,019		
Portion classified as current liabilities (note 27)	**(9,988)**	(9,266)		
Non-current portion (note 27)	**6,414**	7,753		

29. AMOUNT DUE TO AN INTERMEDIATE HOLDING COMPANY

The amount due to an intermediate holding company is unsecured, bears interest at Hong Kong Dollar Prime Rate plus 3% and has no fixed repayment terms.

30. AMOUNT DUE TO A MINORITY SHAREHOLDER OF A SUBSIDIARY

The amount due to a minority shareholder of a subsidiary is unsecured, interest-free and is repayable on demand. The directors consider that the carrying amount approximate to its fair value.

31. ADVANCES FROM MINORITY SHAREHOLDERS OF SUBSIDIARIES

The advances from minority shareholders of subsidiaries are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the directors, the amounts will not be repayable within twelve months from the balance sheet date and are therefore shown in the balance sheet as non-current.

Notes to the Financial Statements

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32. DUE TO SUBSIDIARIES

The amounts due to subsidiaries of the Company are unsecured, interest-free and have no fixed terms of repayment. The amounts will not be repayable within twelve months from the balance sheet date and are therefore shown in the balance sheet as non-current.

33. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

Deferred tax liabilities

Group	Accelerated tax depreciation HK$'000 (Restated)	Revaluation of properties HK$'000	Loss available for offset against future taxable profits HK$'000 (Restated)	Total HK$'000
At 1 January 2004	753	—	—	753
Deferred tax charged to the income statement	991	—	—	991
At 31 December 2004 and at 1 January 2005	1,744	—	—	1,744
Deferred tax charged/(credited) to the income statement (note 10)	5,857	10,292	(6,353)	9,796
Exchange differences	(78)	—	—	(78)
At 31 December 2005	7,523	10,292	(6,353)	11,462

Notes to the Financial Statements

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33. DEFERRED TAX *(Continued)*

Deferred tax assets

Group	**Loss available for offset against future taxable profits** HK$'000
At 1 January 2004 and at 1 January 2005	—
Deferred tax credited to the income statement (note 10)	(11,233)
Deferred tax assets at 31 December 2005	(11,233)

The Group has tax losses of HK$639,729,000 (2004:HK$655,818,000) that are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax asset have not been recognised in respect of these losses as they have arisen in companies that have been loss-making for some time.

At 31 December 2005, there was no significant unrecognised deferred tax liability (2004: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries or associates as the Group has no liability to additional tax should such amounts be remitted.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

34. SHARE CAPITAL

Shares	**2005** **HK$'000**	2004 HK$'000
Authorised:		
1,000,000,000 (2004: 1,000,000,000) ordinary shares of HK$0.1 each	**100,000**	100,000
Issued and fully paid:		
530,335,000 (2004: 530,335,000) ordinary shares of HK$0.1 each	**53,033**	53,033

Share options

Details of the Company's share option scheme are included in note 35 to the financial statements.

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35. SHARE OPTION SCHEME

The directors and employees of the Company and its subsidiaries (the "Group") are entitled to participate in share option scheme operated by the Company. Details of the scheme are as follows:

1. *Purpose of the share option scheme*

In order to provide the Company with a flexible means of giving incentives or rewards to the participants for their contribution to the Group and to enable the Group to attract and retain employees of appropriate qualifications and with necessary experience to work for the Group and any entity in which any member of the Group holds equity interests (the "Invested Entity"), the shareholders of the Company have approved the adoption of the share option scheme (the "Share Option Scheme") at the annual general meetings held on 31 May 2002.

2. *Participants of the Share Option Scheme*

According to the Share Option Scheme, the board may, at its absolute discretion, grant options to any person belonging to any of the following classes of participants to subscribe for shares:

(i) any executive director, employee or proposed employee (whether full time or part time) of any member of the Group or any Invested Entity or substantial shareholder;

(ii) any non-executive director (including any independent non-executive director) of any member of the Group or any Invested Entity or substantial shareholder;

(iii) any individual for the time being seconded to work for any member of the Group or any Invested Entity or substantial shareholder;

(iv) any shareholder of any member of the Group or any Invested Entity or substantial shareholder or any holder of any securities issued by any member of the Group or any Invested Entity or substantial shareholder;

(v) any business partner, consultant or contractor of any member of the Group or any Invested Entity or substantial shareholder;

(vi) any supplier of goods or services to any member of the Group or any Invested Entity or substantial shareholder;

(vii) any customer of any member of the Group or any Invested Entity or substantial shareholder;

(viii) any person or entity that provides research, development or other technological support or any advisory, consultancy, professional or other services to any member of the Group or any Invested Entity or substantial shareholder; and

(ix) any company wholly owned by one or more persons belonging to any of the above classes of participants.

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35. SHARE OPTION SCHEME *(Continued)*

3. *Total number of shares available for issue under the Share Option Scheme*

The maximum aggregate number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme shall not exceed 30% (or such other percentage as may be allowed under the Listing Rules and all other applicable laws and regulations) of the total number of shares in issue from time to time.

A total of 53,033,474 shares of the Company are available for issue under the Share Option Scheme, which represents 10% of the issued share capital of the Company as at the date of this report.

Details of the principal terms of the Share Option Scheme are set out in the circular of the Company dated 30 April 2002.

No share options have been granted under the Share Option Scheme since its adoption. No valuation of share options was made as no option has been granted under the Share Option Scheme.

4. *Maximum entitlement of each participant*

The total number of shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme to each participant in any 12-month period must not exceed 1% of the issued share capital of the Company for the time being unless otherwise approved by the shareholders.

5. *Period within which the shares must be taken up under an option*

The board may at its absolute discretion determine the period during which a share option may be exercised, such period should expire no later than ten years from the date of grant. The board may also provide restrictions on the exercise of a share option during the period a share option may be exercised.

6. *Minimum period, if any, for which an option must be held before it can be exercised*

There is no specific requirement under the Share Option Scheme that an option must be held for any minimum period before it can be exercised, but the terms of the Share Option Scheme provide that the board has the discretion to impose a minimum period at the time of grant of any particular option.

7. *Amount payable upon acceptance of the option and the period within which the payment must be made*

An amount of HK$1 for each lot of share options granted is payable upon acceptance of the options within five business days from the date of offer of the option.

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35. SHARE OPTION SCHEME *(Continued)*

8. *Basis of determining the exercise price of the option*

The exercise price is determined by the board, and shall be at least the higher of: (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of offer; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of offer; and (iii) the nominal value of the Company's shares.

9. *Remaining life of the Share Option Scheme*

Subject to early termination of the Share Option Scheme pursuant to the terms thereof, the Share Option Scheme will be valid and effective for a period of 10 years commencing on the date on which it became unconditional on 18 June 2002.

Notes to the Financial Statements

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36. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

(b) Company

	Share premium account	Capital redemption reserve	Contributed surplus	Retained profits	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2004	193,410	223	195,775	130,271	519,679
Net loss for the year	—	—	—	(217)	(217)
Proposed final 2004 dividend (note 12)	—	—	—	(30,229)	(30,229)
At 31 December 2004	193,410	223	195,775	99,825	489,233
Net loss for the year	—	—	—	(16)	(16)
At 31 December 2005	193,410	223	195,775	99,809	489,217

The contributed surplus represents the difference between the consolidated shareholders' funds of the subsidiaries at the date on which they were acquired by the Company and the nominal value of the Company's shares issued for the acquisition at the time of a group reorganisation in 1992.

The Company's reserves available for distribution represent the share premium, contributed surplus and accumulated profits. Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its memorandum or articles of association and provided that immediately following the distribution of dividend, the Company is able to pay its debts as they fall due in the ordinary course of business. Accordingly, the Company's reserves available for distribution to shareholders as at 31 December 2005 amounted to approximately HK$488,994,000 (2004: HK$519,239,000).

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37. BUSINESS COMBINATIONS

In October 2005, the Group acquired a 75% interest in Liaoning Da Fa Real Estate Company Limited ("Liaoning Da Fa") from an independent third party. Liaoning Da Fa is engaged in the real estate development projects. The purchase consideration of HK$7,213,000 for the acquisition was in the form of cash, which was paid on the acquisition date.

The fair values of the identifiable assets and liabilities of Liaoning Da Fa as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Note	**Fair value recognised on acquisition**	**Carrying amount**
		HK$'000	HK$'000
Construction in progress	18	40,385	40,385
Other payables and accruals		(30,768)	(30,768)
Minority interests		(2,404)	(2,404)
		7,213	7,213
Satisfied by cash		7,213	

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of the subsidiary is as follows:

	HK$'000
Cash consideration	7,213
Net outflow of cash and cash equivalents in respect of the acquisition of the subsidiary	7,213

Since its acquisition, Liaoning Da Fa contributed a loss of HK$340,000 to the Group's consolidated profit for the year ended 31 December 2005.

38. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

Major non-cash transactions

(a) As at 31 December 2005, additions to plant and equipment amounting to approximately HK$11,056,000 (2004: HK$11,619,000) were financed by new finance leases.

(b) During the current year, an amount of HK$19,231,000 in respect of capital contribution from a minority shareholder of a subsidiary was settled against the amount due to the minority shareholder. There was no cash flow impact on this transaction.

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39. CONTINGENT LIABILITIES

(a) At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Guarantees given to banks in connection with banking facilities granted to:				
FWIL	**210,000**	174,000	**—**	—
Subsidiaries	**—**	—	**308,300**	281,600
Undertaking given to a former associate for banking facilities utilised by the former associate	**13,526**	13,526	**13,526**	13,526
	223,526	187,526	**321,826**	295,126

As at 31 December 2005, the banking facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately HK$94,720,000 (2004: HK$137,010,000), and the banking facilities guaranteed by the Group to FWIL was utilised to the extent of approximately HK$210,000,000 (2004: HK$139,922,000) (note 21).

(b) In the course of its normal business, the Group also had outstanding claims and counter claims arising from its investment and operating activities. In the opinion of the directors, ultimate resolution of these claims and counter claims will not have a material impact on its financial position or the results for the year.

Notes to the Financial Statements

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40. PLEDGES OF ASSETS

At the balance sheet date, certain of the Group's assets were pledged to secure the banking facilities granted to the Group and are analysed as follows:

	2005 HK$'000	2004 HK$'000
Net book value of pledged assets:		
Property, plant and machinery	74,132	94,607
Investment properties	299,104	196,484
Inventories	81,225	88,773
Bank deposits	15,230	14,450
	469,691	394,314

41. OPERATING LEASES ARRANGEMENTS

(a) *As lessor*

The Group leases its investment properties (note 16 to the financial statements) under operating lease arrangements, with leases negotiated for terms ranging from two to five years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2005, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	GROUP	
	2005 HK$'000	2004 HK$'000
Within one year	11,640	7,524
In the second to fifth years, inclusive	8,925	5,154
	20,565	12,678

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41. OPERATING LEASES ARRANGEMENTS (Continued)

(b) As lessee

The Group leases certain of its factory premises and office properties under operating lease arrangements. Leases for these factory premises are negotiated for terms ranging from three months to fifty years, and those for office properties are for terms of two years.

At 31 December 2005, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	GROUP	
	2005	2004
	HK$'000	HK$'000
		(Restated)
Within one year	**19,457**	18,055
In second to fifth years, inclusive	**47,606**	51,920
Over five years	**190,640**	197,767
	257,703	267,742

42. CAPITAL COMMITMENTS

In addition to the operating lease commitments detailed in note 41(b) above, the Group had the following capital commitments at the balance sheet date:

	GROUP	
	2005	2004
	HK$'000	HK$'000
Contracted but not provided for:		
Property, plant and equipment	**5,825**	3,984
Land use rights	**4,761**	4,192
	10,586	8,176

At the balance sheet date, the Company did not have any significant capital commitments (2004: Nil).

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43. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

	Notes	2005 HK$'000	2004 HK$'000
Transactions with fellow subsidiaries:			
Rental income received	(i)	**3,542**	2,324
Sales of finished goods	(i)	**28**	—
Brokerage fee paid	(i)	**682**	92
Purchase of plant and machinery	(i)	**1**	2
Repair and maintenance income received	(i)	**9**	9
Sharing of administrative expenses	(ii)	**15,044**	—
Promotion and marketing expenses paid	(ii)	**—**	8,000
Management fee paid	(ii)	**—**	2,000
Transaction with an intermediate holding company:			
Interest expense paid	(iii)	**1,424**	—
Transaction with an associate			
Interest income	(iv)	**1,436**	1,457
Transactions with related companies:			
Jessica Management Limited *			
Rental income received	(i)	**273**	241
Subscription of magazines paid	(i)	**11**	11
Capital Publishing Management Limited *			
Rental income received	(i)	**266**	240

* Mr. Ng Hung Sang, a director of the Company, is also a director and substantial shareholder of these companies

Note:

(i) These transactions were charged at prevailing market rates.

(ii) These transactions were carried out on terms determined and agreed by both parties.

(iii) Interest expense was charged at Hong Kong Dollar Prime Rate plus 3% on balance due to the intermediate holding company.

(iv) Interest was charged at 0.5% per annum on the outstanding advances to FWIL.

Notes to the Financial Statements

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43. RELATED PARTY TRANSACTIONS *(Continued)*

(b) Other transactions with related parties:

Details of a guarantee given by the Group to FWIL are set out in note 39(a) to the financial statements.

(c) Outstanding balances with related parties:

Details of the balances with related parties at the balance sheet date are included in notes 20, 21, 29, 30, 31 and 32 to the financial statements.

(d) Compensation of key management personnel of the Group:

The executive directors and the non-executive directors are the key management personnel of the Group. Details of their remuneration are disclosed in note 8 to the financial statements.

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans and overdrafts, other interest-bearing loans, finance leases, and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, foreign currency risk, credit risk, liquidity risk, equity instrument price risk and market price risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Cash flow interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

The directors expect that the interest rates will peak in 2006 and accordingly, the interest rate risk is considered limited.

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

Foreign currency risk

The Group operates in Hong Kong and Mainland China and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to Renminbi and US dollars. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in operations in Mainland China. The directors consider that the exchange rates of Hong Kong dollars against Renminbi and United States dollars in the foreseeable future are expected to be relatively stable and the appreciation in Renminbi against Hong Kong dollars is expected to be mild, there is no significant exposure to fluctuation in foreign exchange rates and any related hedges.

The Group has certain investments in operations in Mainland China, whose net assets are exposed to translation risk. The management does not expect any material adverse impact on the foreign exchange fluctuation, as an expected mild appreciation in Renminbi will further benefit the Group's net assets position in the PRC.

Credit risk

The amounts presented in the balance sheet are net of allowances for doubtful receivables, estimated by the Group's management based on prior experience and their assessment of the current economic environment. It has policies in place to ensure that sales of products are made to customers with an appropriate credit history. The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings agencies.

Liquidity risk

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

Equity instrument price risk

The Group is exposed to equity instrument price risk because investments held by the Group are classified on the consolidated balance sheet as available-for-sale investments.

Market price risk

The Group is exposed to financial risks arising from changes in prices of raw materials for its manufacturing operation and agricultural produce. The Group does not anticipate these prices will change significantly in the foreseeable future and, therefore, has not entered into derivative or other contracts to manage the risk of a change in prices of raw materials and agricultural produce. The Company reviews its outlook for prices of raw materials and agricultural produce regularly in considering the need for active financial risk management.

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45. POST BALANCE SHEET EVENT

(a) On 24 March 2006, Micon Limited ("Micon"), a subsidiary of the Company, acquired an additional 9.31% equity interest of Nority International Group Limited ("Nority") from independent third parties at a consideration of approximately HK$11.7 million. Pursuant to Rule 26.1 of the Hong Kong Code on Takeovers and Mergers, Micon, is required to make a mandatory unconditional cash offer for all the remaining issued share capital of Nority.

(b) At the Special General Meeting of Wah Shing International Holdings Limited ("Wah Shing") held on 20 February 2006, the resolution in relation to the proposed voluntary delisting of Wah Shing from the Official List of The Singapore Exchange Securities Trading Limited ("SGX-ST") pursuant to Rule 1306 of the SGX-ST Listing Manual was duly passed by its shareholders. Up to the date of this report, the Group had further acquired approximately 26.4% of Wah Shing for a total consideration of approximately HK$62.2 million. As at the date of this report, the Group holds 257,283,175 shares in Wah Shing, representing 94.5% of the total issued share capital of Wah Shing.

46. COMPARATIVE AMOUNTS

As further explained in notes 2.2 and 2.4 to the financial statements, due to the adoption of new HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

47. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 19 April 2006.

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48. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 31 December 2005 are as follow:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company	Principal activities
Buji Soft Toys Company (BVI) Limited	British Virgin Islands/the PRC	US$1,000	68.17%	Manufacturing of toys
Buji Soft Toys Company Limited	Hong Kong	HK$20 HK$6,000,000 Non-voting deferred (note b)	68.17%	Trading of toys
Chongqing Fortuna Information Technology Co. Ltd. (note c)	The PRC	RMB3,330,000	80.8%	Information and technology related business
Chongqing South China Incyber Opt. Inf. Sci. & Tech. Co. Ltd. (note c)	The PRC	RMB3,500,000	65%	Information and technology related business
Chongqing South China Zenith Information Technology Co. Ltd. (note c)	The PRC	RMB20,000,000	60%	Information and technology related business
Copthorne Holdings Corp.	Republic of Panama/ Hong Kong	US$200	68.17%	Property investment
Guangdong Huaxing Fruit Development Co. Ltd (note d)	The PRC	USD6,674,852	100%	Fruit plantation

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48. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company	Principal activities
Hong Kong Four Seas Tours Limited	Hong Kong	HK$20,800,000 HK$1,200,000 Non-voting deferred (note b)	100%	Sale of air tickets and provision of travel related services
Liaoning Da Fa Real Estate Company Limited	The PRC	RMB130,000,000	75%	Real estate development
Man Wah Trading Limited	Hong Kong	HK$10,000	68.17%	Investment in securities
Micon Limited	Hong Kong	HK$2	100%	Investment holding
Shenyang Shenglian Electronics Science & Technology Ltd. (note c)	The PRC	RMB4,000,000	70%	Information and technology related business
Shineway Investments Limited	Hong Kong	HK$500,000	68.17%	Trading of shoes
South China Garments Company Limited	Hong Kong	HK$500,000	100%	Trading of garments
South China Industries (BVI) Limited	British Virgin Islands/Hong Kong	US$1,000	100%	Investment holding
South China Leather Chemical Products Company (HK) Limited	Hong Kong	HK$2	100%	Trading of leather chemical products

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48. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company	Principal activities
South China Leesheng Sporting Goods Co., Limited	Hong Kong	HK$2	100%	Trading of sports products
South China Machinery Limited	Hong Kong	HK$10,000	60%	Trading of machinery
South China Shoes Products Company Limited	Hong Kong	HK$500,000	68.17%	Trading of shoes
South China Strategic Limited	Hong Kong	HK$308,593,789	100%	Investment holding
South China Strategic Property Development Limited	Hong Kong	HK$5,000,000	100%	Property development and investment holding
Strategic Finance Limited	Hong Kong	HK$2	100%	Provision of financing services
Tianjin South China Leather Chemical Products Co. Ltd. (note c)	The PRC	RMB20,516,500	80%	Manufacturing of leather products
Tianjin South China Li Sheng Sports Wear Co. Ltd. (note c)	The PRC	RMB9,940,167	80%	Manufacturing of sports products
Tianjin South China Shoes Products Co. Ltd (note c)	The PRC	RMB36,100,200	54.54%	Manufacturing of leather footwear products
Wah Shing Electronics Company Limited	Hong Kong/ The PRC	HK$571,500	47.72%	Manufacturing of toys

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48. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company	Principal activities
Wah Shing International Holdings Limited (listed on The Singapore Exchange Securities Trading Limited)	Bermuda/ Hong Kong	HK$54,432,000	68.17%	Investment holding
Wah Shing Toys Company Limited	Hong Kong	HK$2 HK$3,020,002 Non-voting deferred (note b)	68.17%	Trading of toys and investment holding

Notes:

a. Except South China Industries (BVI) Limited, the principal subsidiaries of the Group are all held indirectly by the Company.

b. The non-voting deferred shares have no voting rights and practically no entitlement to dividend of profit or distribution on winding up.

c. These are sino-foreign equity joint venture established in the PRC.

d. This is a wholly foreign owned equity enterprise established in the PRC.

The above summary lists only the subsidiaries of the Group which, in the opinion of the Company's directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

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

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49. PARTICULARS OF PRINCIPAL ASSOCIATES

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

Name of associates	Place of incorporation/ registration and operations	Class of share held	Percentage of equity interest indirectly held by the Group	Principal activities
Firm Wise Investment Limited	Hong Kong	Ordinary	30%	Property holding
Nanjing South China Dafang Electric Co., Ltd.	The PRC	Registered Capital	51%	Property holding
Nority International Group Limited (listed on the Stock Exchange)	Cayman Islands/ The PRC	Ordinary	42.5%	Manufacturing of shoes and footwear products

In determining whether an investment should be classified as an associate, the directors have also considered whether the Group is in a position to exercise significant influence over the investment even though its interest therein is less than 20% or whether the Group can exercise control over the investment even though its interest therein is more than 50%.

The above associates established in the PRC are sino-foreign equity joint venture companies.

The above summary lists only the associates of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of the other associates would, in the opinion of the directors, result in particulars of excessive length.