Notes To Financial Statements

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1. CORPORATE INFORMATION

Sewco International Holdings Limited is a limited liability company incorporated in Bermuda. The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

During the year, the Group was involved in the manufacture and trading of hard and stuffed toys.

In the opinion of the directors, the parent and the ultimate holding company of the Group is Great Victory International Inc., which is incorporated in the British Virgin Islands.

2. INVESTIGATION BY THE INDEPENDENT COMMISSION AGAINST CORRUPTION

In June 2005, certain senior executives and directors of the Group, including the then chairman of the board of directors (the "Board") of the Company and an executive director of the Company, were arrested by the Independent Commission Against Corruption (the "ICAC") and were alleged to have solicited illegal rebates from certain suppliers for placing purchase orders with them between the years 2002 and 2004 (the "Incident"). Further details of the above were included in the Company's announcement dated 6 July 2005 (the "Announcement"). The ICAC's investigation (the "ICAC Investigation") is currently underway. The Board had commissioned various reviews of the Group's internal control systems and also certain transactions relating to the subject matter of the ICAC Investigation following the Incident (the "Review"). The management came to the view that the internal measures in place were effective and no material internal control weakness was identified from the Review. Further details of the Review were included in the Company's announcement dated 26 January 2006 (the "Subsequent Announcement").

At the date of approval of these financial statements, save as disclosed above and in the Announcement and the Subsequent Announcement, the Company is not aware of the current status of the ICAC Investigation. In the absence of further information about the ICAC Investigation, the directors have conducted their own review of the financial implications of the ICAC Investigation and the Incident, and as at the date of approval of these financial statements, are not aware of any circumstances which lead them to believe that the ICAC Investigation and the Incident would result in significant adverse implications on the Group's operations and financial position.

Despite the lack of further information relating to the ICAC Investigation, the Board has taken a series of measures to minimise any possible impact or uncertainties that might be caused by the Incident and to safeguard the interests of the Group, its shareholders and customers by way of changes of certain directorships and to implement new measures to further enhance the effectiveness of the Group's internal control system. Further details of these changes and the new measures implemented were disclosed in the Announcement and the Subsequent Announcement.

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3.1 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 leasehold land and buildings, which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand ("HK$'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. 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.

3.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

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 17	Leases
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

3.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

HKAS 28	Investments in Associates
HKAS 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
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
HKAS 40	Investment Property
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
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 1, 2, 7, 8, 10, 11, 12, 14, 16, 18, 19, 20, 21, 23, 27, 28, 31, 32, 33, 37, 38, 39, 40, HKFRSs 2, 5, HK(SIC)-Int 21 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.

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 17 – Leases

In prior years, leasehold land and buildings held for own use were stated at cost or valuation less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17, the Group's leasehold interest in land and buildings is separated into leasehold land and buildings. The Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and is reclassified from property, plant and equipment to prepaid land premiums, while buildings continue to be classified as part of property, plant and equipment. Prepaid land premiums for land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term. 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.

3.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

(a) HKAS 17 – Leases (continued)

The effect of the above changes is summarised in note 3.4 to the financial statements. The comparative amounts for the year ended 31 December 2004 in the consolidated balance sheet have been restated to reflect the reclassification of the leasehold land.

(b) HKFRS 3 – Business Combinations and HKAS 36 – Impairment of Assets

In prior years, goodwill and negative goodwill arising on acquisitions prior to 1 January 2001 were eliminated against the consolidated retained profits and credited to the consolidated capital reserve, respectively, in the year of acquisition and were not recognised in the income statement until disposal or impairment of the acquired businesses.

Goodwill arising on acquisitions on or after 1 January 2001 was capitalised and amortised on the straight-line basis over its estimated useful life and was subject to impairment testing when there was any indication of impairment. Negative goodwill was carried in the balance sheet and was recognised in the consolidated income statement on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets.

The adoption of HKFRS 3 and HKAS 36 has resulted in the Group ceasing annual goodwill amortisation and commencing testing for impairment at the cash-generating unit level annually (or more frequently if events or changes in circumstances indicate that the carrying value may be impaired). Any impairment losses recognised for goodwill is not reversed in a subsequent period.

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 and associates (previously referred to as negative goodwill), after reassessment, is recognised immediately in the income statement.

The transitional provisions of HKFRS 3 have required the Group to eliminate at 1 January 2005 the carrying amounts of accumulated amortisation with a corresponding adjustment to the cost of goodwill and to derecognise at 1 January 2005 the carrying amounts of negative goodwill (including that remaining in the consolidated capital reserve) against retained profits. Goodwill previously eliminated against retained profits remains eliminated against 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.

The effects of the above changes are summarised in note 3.4 to the financial statements. In accordance with the transitional provisions of HKFRS 3, comparative amounts have not been restated.

3.3 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	The Effects of Changes in Foreign Exchange Rates
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 incorporates 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.

In accordance with the amendments to HKAS 39 and HKFRS 4 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.

3.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

The HKAS 19 Amendment, HKAS 21 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 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 pronouncements listed above will not have any significant impact on the Group's financial statements in the period of initial application.

3.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

(a) Effect on the consolidated balance sheet

At 1 January 2005 Effect of new policy (Increase/(decrease))	Effect of adopting HKAS 17# Prepaid land premiums/reversal of land revaluation surplus HK$'000
Assets	
Property, plant and equipment	(26,537)
Prepaid land premiums – non-current portion	10,070
Prepaid land premiums – current portion	247
	(16,220)
Liabilities/equity	
Deferred tax liabilities	(827)
Asset revaluation reserve	(15,393)
	(16,220)

Adjustment/presentation taken effect retrospectively

3.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES (continued)

(a) Effect on the consolidated balance sheet (continued)

At 31 December 2005 Effect of adopting new policies (Increase/(decrease))	Effect of adopting HKAS 17 Prepaid land premiums/reversal of land revaluation surplus HK$'000	HKFRS 3 Discontinuation of amortisation of goodwill HK$'000	Total HK$'000
Assets			
Property, plant and equipment	(26,116)	–	(26,116)
Prepaid land premiums – non-current portion	9,891	–	9,891
Prepaid land premiums – current portion	247	–	247
Interests in associates	–	805	805
	(15,978)	805	(15,173)
Liabilities/equity			
Deferred tax liabilities	(827)	–	(827)
Asset revaluation reserve	(15,151)	–	(15,151)
Retained profits	–	805	805
	(15,978)	805	(15,173)

(b) Effect on the balances of equity at 1 January 2004 and at 1 January 2005

At 1 January 2004	HK$'000
Decrease in asset revaluation reserve in respect of the effect of adopting HKAS 17 – reversal of land revaluation surplus	(15,635)

At 1 January 2005	HK$'000
Decrease in asset revaluation reserve in respect of the effect of adopting HKAS 17 – reversal of land revaluation surplus	(15,393)

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3.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES (continued)

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

Year ended 31 December 2005	**HK$'000**
Decrease in administrative expenses in respect of the effect of adopting:	
HKAS 17 – depreciation of land revaluation surplus	**242**
HKFRS 3 – discontinuation of amortisation of goodwill	**805**
Total increase in profit	**1,047**
Increase in basic earnings per share	**HK0.23 cent**

Year ended 31 December 2004	HK$'000
Decrease in administrative expenses and increase in profit in respect of the effect of adopting HKAS 17 – depreciation of land revaluation surplus	242
Increase in basic earnings per share	HK0.05 cent

3.5 SUMMARY OF 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.

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, 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. Goodwill arising from the acquisition of associates is included as part of the Group's interests in associates.

3.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

Goodwill arising on the acquisition of subsidiaries and associates 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. In the case of associates, goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

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.

3.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets 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.

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;

3.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties (continued)

(c) the party is a jointly-controlled entity;

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

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

(f) 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 (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than 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.

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the income statement. Any subsequent revaluation surplus is credited to the income statement to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

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3.5 SUMMARY OF 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	Over the lease terms
Leasehold improvements	10%
Plant and machinery	10% to 15%
Furniture, fixtures and office equipment	15% to 20%
Motor vehicles	20%

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 property, plant and equipment which are in their acquisition phase and is stated at cost less any impairment losses, and is not depreciated. The acquisition phase of an asset includes the period when the asset is under construction, installation and testing. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment or investment properties when completed and ready for use.

Intangible assets (other than goodwill)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

3.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 premiums 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.

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 short term investments.

Short term investments are investments in equity securities held for trading purposes and are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the income statement in the period in which they arise.

Applicable to the year ended 31 December 2005:

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, or available-for-sale financial assets, 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.

3.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (applicable to the year ended 31 December 2005) (continued)

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.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognised in the income statement.

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.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available for sale or are not classified in any of the other two categories. After initial recognition, available-for-sale financial assets 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.

When the fair value of unlisted equity securities 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.

3.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (applicable to the year ended 31 December 2005) (continued)

Fair value

The fair value of 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 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.

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.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

3.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (applicable to the year ended 31 December 2005) (continued)

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial assets

If an available-for-sale asset 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 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.

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.

3.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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.

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 first-in, first-out 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.

3.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

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.

3.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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 investments 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 investments 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.

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 related to the same taxable entity and the same taxation authority.

3.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 the sale 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) mould income from the manufacture of moulds for customers, upon completion of the production;

(c) 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;

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

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

Employee benefits

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

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.

3.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Employment Ordinance long service payments (continued)

A contingent liability is disclosed in respect of possible future long service payments to employees, as a number of current employees have achieved the required number of years of service to the Group, to the balance sheet date, in order to be eligible for long service payments under the Employment Ordinance if their employment is terminated in the circumstances specified. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

Pension schemes

The Group operates defined contribution retirement benefits schemes in Hong Kong, including a Mandatory Provident Fund Scheme, for those employees who are eligible and have elected to participate in the schemes. Contributions are made based on a percentage of the participating employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the schemes. The assets of the schemes are held separately from those of the Group in independently administered funds. When an employee leaves the schemes, with the exception of the Mandatory Provident Fund 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 any forfeited contributions. In respect of the Mandatory Provident Fund Scheme, the Group's employer contributions vest fully with the employees when contributed into the scheme.

The employees of the Group's subsidiary which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. This subsidiary is required to contribute a specific amount for the employees in Mainland China, pursuant to the local municipal government regulations. The contributions are charged to the income statement, as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

Borrowing costs are recognised as an expense 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.

3.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Dividends (continued)

Interim dividends are simultaneously proposed and declared, because the Company's bye-laws grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

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 into 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 currency of the subsidiary in Mainland China is currency other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of the entity are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date and, the income statement is 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 the subsidiary in Mainland China are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of the subsidiary in Mainland China which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

4. 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:

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 on acquisition of associates at 31 December 2005 was HK$4,964,000 (2004: HK$4,964,000). Further details are set out in note 18 to the financial statements.

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5. 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 hard toys segment manufactures and trades hard toy products;

(b) the stuffed toys segment manufactures and trades stuffed toy products; and

(c) the corporate segment comprises general corporate income and expense items.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the Group's markets and customers, 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.

5. 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

	Hard toys		Stuffed toys		Corporate		Eliminations		Consolidated	
	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
		(Restated)								(Restated)
Segment revenue:										
Sales to external customers	**473,783**	391,160	**91,958**	58,483	**-**	–	**-**	–	**565,741**	449,643
Other revenue from external sources	**2,976**	3,060	**313**	83	**383**	790	**-**	–	**3,672**	3,933
Intersegment other revenue	**1,231**	1,231	**-**	–	**-**	–	**(1,231)**	(1,231)	**-**	–
Total	**477,990**	395,451	**92,271**	58,566	**383**	790	**(1,231)**	(1,231)	**569,413**	453,576
Segment results	**6,345**	19,273	**5,418**	895	**(5,676)**	(1,429)	**-**	–	**6,087**	18,739
Interest income									**406**	459
Finance costs									**(610)**	(490)
Share of profits and losses of associates									**675**	(307)
Amortisation of goodwill on acquisition of associates									**-**	(805)
Profit before tax									**6,558**	17,596
Tax									**(3,122)**	(5,053)
Profit for the year attributable to equity holders of the parent									**3,436**	12,543

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5. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group

	Hard toys		Stuffed toys		Corporate		Eliminations		Consolidated	
	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
		(Restated)		(Restated)		(Restated)				(Restated)
Assets and liabilities										
Segment assets	**319,388**	304,426	**25,856**	40,368	**837**	1,051	**-**	–	**346,081**	345,845
Interest in associates									**6,007**	7,291
Unallocated assets									**1,115**	1,295
Total assets									**353,203**	354,431
Segment liabilities	**76,113**	82,887	**3,522**	8,547	**6,025**	7,855	**-**	–	**85,660**	99,289
Unallocated liabilities									**-**	15,530
Total liabilities									**85,660**	114,819
Other segment information:										
Capital expenditure	**8,546**	12,309	**-**	–	**-**	–	**-**	–	**8,546**	12,309
Amortisation of goodwill on acquisition of associates	**-**	–	**-**	–	**-**	805	**-**	–	**-**	805
Surplus on revaluation of buildings	**27,231**	–	**-**	–	**-**	–	**-**	–	**27,231**	–
Recognition of prepaid land premiums	**251**	241	**-**	–	**-**	–	**-**	–	**251**	241
Depreciation	**9,613**	8,534	**189**	247	**-**	–	**-**	–	**9,802**	8,781
Other non-cash expenses	**3,354**	6,807	**807**	1,275	**-**	–	**-**	–	**4,161**	8,082

5. SEGMENT INFORMATION (continued)

(b) Geographical segments

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments for the years ended 31 December 2005 and 2004.

Group

	USA and Canada		Japan and others		Hong Kong and Mainland China		Corporate and eliminations		Consolidated	
	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
						(Restated)				(Restated)
Segment revenue:										
Sales to external customers	**481,113**	376,286	**74,542**	57,166	**10,086**	16,191	**–**	–	**565,741**	449,643
Other revenue	**1,065**	944	**1,490**	724	**734**	1,475	**383**	790	**3,672**	3,933
Total	**482,178**	377,230	**76,032**	57,890	**10,820**	17,666	**383**	790	**569,413**	453,576
Other segment information:										
Segment assets	**–**	–	**–**	–	**346,318**	347,121	**6,885**	7,310	**353,203**	354,431
Capital expenditure	**–**	–	**–**	–	**8,546**	12,309	**–**	–	**8,546**	12,309

6. REVENUE, OTHER INCOME AND GAIN

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

An analysis of the Group's revenue, other income and gain is as follows:

	2005 HK$'000	2004 HK$'000
Revenue		
Sale of goods:		
Hard toys	**473,783**	391,160
Stuffed toys	**91,958**	58,483
	565,741	449,643
Other income		
Mould income	**1,588**	1,735
Bank interest income	**343**	315
Interest income for loan receivable	**63**	144
Sundry income	**1,702**	1,408
Dividend income from listed investments	**17**	80
	3,713	3,682
Gain		
Realised gain on equity investments at fair value through profit or loss/short term investments	**365**	710
	4,078	4,392

7. PROFIT BEFORE TAX

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

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
Cost of inventories sold		**496,080**	376,363
Provision against slow-moving inventories		**4,161**	6,743
Depreciation*	*15*	**9,802**	8,781
Recognition of prepaid land premiums	*16*	**251**	241
Minimum lease payments under operating leases in respect of land and buildings		**1,561**	1,106
Auditors' remuneration:			
Provision for the year		**1,900**	770
Underprovision in the prior year		**–**	50
		1,900	820
Employee benefits expense (excluding directors' remuneration – *note 9*)**:			
Wages and salaries		**112,618**	64,971
Other employee benefits		**672**	1,386
Gross pension scheme contributions		**2,393**	2,315
Less: Forfeited contributions***		**–**	–
Pension scheme contributions, net		**2,393**	2,315
		115,683	68,672
Loss/(gain) on disposal of items of property, plant and equipment, net****		**(236)**	262
Gross rental income		**(20)**	–
Foreign exchange differences, net		**969**	369

* The depreciation of HK$6,942,000 (2004: HK$6,863,000) is also included in "Cost of inventories sold".

** The employee benefits expense of HK$89,997,000 (2004: HK$44,756,000) is also included in "Cost of inventories sold".

*** At 31 December 2005, the Group had no material forfeited contributions available to reduce its contribution to the pension scheme in future years (2004: Nil).

**** The loss/(gain) on disposal of items of property, plant and equipment is included in "Other operating income/(expenses)" on the face of the consolidated income statement.

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8. FINANCE COSTS

	Group	
	2005	2004
	HK$'000	HK$'000
Interest on bank loans, overdrafts and other loans wholly repayable within five years	**540**	490
Interest on a loan from an ex-director	**70**	–
	610	490

9. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") and Section 161 of the Companies Ordinance, is as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Fees – independent non-executive directors	**200**	150
Other emoluments:		
Salaries, allowances and benefits in kind	**4,131**	4,403
Pension scheme contributions	**125**	112
	4,456	4,665

(a) Independent non-executive directors

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

	2005	2004
	HK$'000	HK$'000
Mr. Yeung Po Chin	**50**	50
Mr. Wong Yam Fung	**50**	50
Mr. Lam Yu Lung	**50**	50
Mr. Lam Chin Fung	**50**	–
	200	150

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

9. DIRECTORS' REMUNERATION (continued)

(b) Executive directors

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2005				
Mr. Cheung Po Lun	**–**	**895**	**25**	**920**
Ms. Cheung Yan, Priscilla	**–**	**726**	**25**	**751**
Ms. Cheung Man, Catherine	**–**	**781**	**12**	**793**
Mr. Kung Ka Pang	**–**	**793**	**34**	**827**
Mr. Hui Kwok Chu	**–**	**886**	**29**	**915**
Mr. Cheung Wang	**–**	**50**	**–**	**50**
	–	**4,131**	**125**	**4,256**
2004				
Mr. Cheung Po Lun	–	2,064	52	2,116
Ms. Cheung Man, Catherine	–	804	12	816
Mr. Kung Ka Pang	–	765	30	795
Mr. Hui Kwok Chu	–	770	18	788
	–	4,403	112	4,515

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

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10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year were all (2004: four) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining one non-director in the prior year are as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**–**	658
Pension scheme contributions	**–**	18
	–	676

11. 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.

The provision for income tax of the subsidiary operating in Mainland China has been calculated at the applicable rate of tax prevailing in the areas in which this subsidiary operates, based on existing legislations, interpretations and practices in respect thereof, during the year.

	Group	
	2005	2004
	HK$'000	HK$'000
Current – Hong Kong	**147**	39
Current – Mainland China	**1,226**	667
Underprovision in prior years – Hong Kong	**1,703**	5,894
Deferred *(note 26)*	**46**	(1,547)
Total tax charge for the year	**3,122**	5,053

11. TAX (continued)

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

Group – 2005

	Hong Kong		Mainland China		Total	
	HK$'000	**%**	**HK$'000**	**%**	**HK$'000**	**%**
Profit/(loss) before tax	**(3,021)**		**9,579**		**6,558**	
Tax at the statutory tax rate	**(528)**	**17.5**	**2,299**	**24.0**	**1,771**	**27.0**
Lower tax rate for specific provinces or local authority	**–**	**–**	**(1,149)**	**(12.0)**	**(1,149)**	**(17.5)**
Adjustments in respect of current tax of previous periods	**1,703**	**(56.4)**	**–**	**–**	**1,703**	**26.0**
Temporary differences not recognised in previous years	**(233)**	**7.7**	**–**	**–**	**(233)**	**(3.6)**
Profits and losses attributable to associates	**(118)**	**3.9**	**–**	**–**	**(118)**	**(1.8)**
Income not subject to tax	**(154)**	**5.1**	**–**	**–**	**(154)**	**(2.3)**
Expenses not deductible for tax	**1,226**	**(40.6)**	**76**	**0.8**	**1,302**	**19.9**
Tax charge at the Group's effective rate	**1,896**	**(62.8)**	**1,226**	**12.8**	**3,122**	**47.7**

Group – 2004

	Hong Kong		Mainland China		Total	
	HK$'000 (Restated)	%	HK$'000	%	HK$'000 (Restated)	%
Profit before tax	12,085		5,511		17,596	
Tax at the statutory tax rate	2,115	17.5	1,322	24.0	3,437	19.5
Lower tax rate for specific provinces or local authority	–	–	(661)	(12.0)	(661)	(3.8)
Adjustments in respect of current tax of previous periods	5,894	48.8	–	–	5,894	33.5
Temporary differences not recognised in previous years	(3,851)	(31.9)	–	–	(3,851)	(21.9)
Income not subject to tax	(45)	(0.3)	–	–	(45)	(0.3)
Expenses not deductible for tax	273	2.3	6	0.1	279	1.6
Tax charge at the Group's effective rate	4,386	36.4	667	12.1	5,053	28.6

The share of tax attributable to associates amounting to HK$144,200 (2004: Nil) is included in "Share of profits and losses of associates" on the face of the consolidated income statement.

12. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The net profit from ordinary activities attributable to equity holders of the parent for the year ended 31 December 2005 dealt with in the financial statements of the Company was HK$2,275,000 (2004: HK$3,760,000) *(note 28(b))*.

13. DIVIDENDS

	2005	2004
	HK$'000	HK$'000
Interim – Nil (2004: HK1 cent) per ordinary share	**–**	4,480
Proposed final – HK0.5 cent (2004: Nil) per ordinary share	**2,227**	–
	2,227	4,480

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

14. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share is based on the net profit for the year attributable to ordinary equity holders of the parent of HK$3,436,000 (2004: HK$12,543,000) and the weighted average number of ordinary shares of 446,301,000 (2004: 448,002,000) in issue during the year.

Since the exercise price of the Company's warrants was higher than the average market price of the Company's shares during the years ended 31 December 2005 and 2004, there were no dilutive potential ordinary shares outstanding during the years and therefore no diluted earnings per share amounts have been presented for both years.

15. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold land and buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
31 December 2005						
At 31 December 2004 and at 1 January 2005:						
Cost or valuation	104,032	1,054	56,496	11,452	6,482	179,516
Accumulated depreciation	(2,495)	(356)	(27,663)	(4,396)	(5,072)	(39,982)
Net carrying amount	101,537	698	28,833	7,056	1,410	139,534
At 1 January 2005, net of accumulated depreciation:	101,537	698	28,833	7,056	1,410	139,534
Additions	–	384	6,007	689	1,466	8,546
Disposals	(20)	–	(220)	(164)	(101)	(505)
Surplus on revaluation	27,231	–	–	–	–	27,231
Depreciation provided during the year	(2,413)	(201)	(4,828)	(1,789)	(571)	(9,802)
Exchange realignment	250	–	404	122	17	793
At 31 December 2005, net of accumulated depreciation	**126,585**	**881**	**30,196**	**5,914**	**2,221**	**165,797**
At 31 December 2005:						
Cost or valuation	**126,585**	**1,438**	**61,321**	**11,837**	**6,847**	**208,028**
Accumulated depreciation	**–**	**(557)**	**(31,125)**	**(5,923)**	**(4,626)**	**(42,231)**
Net carrying amount	**126,585**	**881**	**30,196**	**5,914**	**2,221**	**165,797**
Analysis of cost or valuation:						
At cost	**–**	**1,438**	**61,321**	**11,837**	**6,847**	**81,443**
At 31 December 2005 valuation	**126,585**	**–**	**–**	**–**	**–**	**126,585**
	126,585	**1,438**	**61,321**	**11,837**	**6,847**	**208,028**

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15. PROPERTY, PLANT AND EQUIPMENT (continued)

Group

	Leasehold land and buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000 (Restated)
31 December 2004							
At 1 January 2004:							
Cost or valuation	41,843	853	53,989	8,979	6,469	55,304	167,437
Accumulated depreciation	–	(170)	(24,287)	(5,124)	(4,728)	–	(34,309)
Net carrying amount	41,843	683	29,702	3,855	1,741	55,304	133,128
At 1 January 2004, net of accumulated depreciation:	41,843	683	29,702	3,855	1,741	55,304	133,128
Additions	–	201	2,692	3,573	124	8,776	15,366
Disposals	–	–	(164)	(86)	(12)	–	(262)
Depreciation provided during the year	(2,484)	(186)	(4,059)	(1,606)	(446)	–	(8,781)
Transfers	62,150	–	618	1,312	–	(64,080)	–
Exchange realignment	28	–	44	8	3	–	83
At 31 December 2004, net of accumulated depreciation	101,537	698	28,833	7,056	1,410	–	139,534
At 31 December 2004:							
Cost or valuation	104,032	1,054	56,496	11,452	6,482	–	179,516
Accumulated depreciation	(2,495)	(356)	(27,663)	(4,396)	(5,072)	–	(39,982)
Net carrying amount	101,537	698	28,833	7,056	1,410	–	139,534
Analysis of cost or valuation:							
At cost	62,150	1,054	56,496	11,452	6,482	–	137,634
At 31 December 2003 valuation	41,882	–	–	–	–	–	41,882
	104,032	1,054	56,496	11,452	6,482	–	179,516

15. PROPERTY, PLANT AND EQUIPMENT (continued)

At the balance sheet date, the Group's leasehold land and buildings situated in Hong Kong and buildings situated in Mainland China were revalued individually by Castores Magi Surveyors Limited ("CMS"), independent professionally qualified valuers, at an aggregate open market value of HK$126,585,000 based on their existing use. A revaluation surplus of HK$27,231,000, resulting from the above valuations, has been credited to the asset revaluation reserve. No revaluation of the Group's leasehold land and buildings had been carried out in 2004 as the directors considered that the carrying amounts of the Group's leasehold land and buildings did not differ materially from that which would otherwise be determined by valuation on the basis adopted as at 31 December 2004.

Had the Group's leasehold land and buildings been carried at historical cost less accumulated depreciation and impairment losses, their carrying amounts would have been HK$88,031,000 (2004: HK$90,360,000).

At 31 December 2005, certain of the Group's leasehold land and buildings with aggregate net book value of approximately HK$24,251,000 (2004: Nil) were pledged to secure general banking facilities granted to the Group.

16. PREPAID LAND PREMIUMS

	Group	
	2005	2004
	HK$'000	HK$'000
		(Restated)
Carrying amount at 1 January		
As previously reported	**–**	–
Effect of adopting HKAS 17 *(note 3.2(a))*	**10,317**	10,557
As restated	**10,317**	10,557
Recognised during the year	**(251)**	(241)
Exchange realignment	**72**	1
Carrying amount at 31 December	**10,138**	10,317
Current portion	**(247)**	(247)
Non-current portion	**9,891**	10,070

The leasehold land is held under medium term lease and is situated in Mainland China.

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17. INTERESTS IN SUBSIDIARIES

	Company	
	2005	2004
	HK$'000	HK$'000
Unlisted shares, at cost	**156,726**	156,726
Due from subsidiaries *(note (a))*	**60,390**	54,390
	217,116	211,116
Due from a subsidiary *(note (b))*	**4,090**	–

Notes:

(a) The amounts due from subsidiaries are unsecured, interest-free and are not repayable within the next financial year.

(b) The amount due from a subsidiary is unsecured, interest-free and has no fixed term of repayment.

The carrying amounts of these amounts due from subsidiaries approximate to their fair values.

Particulars of the subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued and fully paid-up share/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Sewco (B.V.I.) Limited	British Virgin Islands	Ordinary US$401	100	–	Investment holding
Sewco Toys & Novelty Limited	Hong Kong	Ordinary HK$200 Non-voting deferred HK$420,000	–	100	Investment holding and trading of toy products
Pearl Delta Toys Limited	Hong Kong	Ordinary HK$2 Non-voting deferred HK$2,000,000	–	100	Provision of agency services
Zhongshan Sewco Toys & Novelty Limited#	People's Republic of China	Paid-up registered HK$100,015,593	–	100	Manufacture of toy products
Huge Returns Enterprises Inc.	British Virgin Islands	Ordinary US$1	–	100	Investment holding

A wholly-foreign-owned enterprise registered in the People's Republic of China.

18. INTERESTS IN ASSOCIATES

		Group	
		2005	2004
	Notes	**HK$'000**	HK$'000
Share of net assets		**1,043**	368
Goodwill on acquisition:			
Cost as previously reported		**6,440**	6,440
Effect of adopting HKFRS 3 *(note 3.2(b))*		**(1,476)**	–
Cost as restated		**4,964**	6,440
Accumulated amortisation as previously reported		**(1,476)**	(1,476)
Effect of adopting HKFRS 3 *(note 3.2(b))*		**1,476**	–
Accumulated amortisation as restated		**–**	(1,476)
Goodwill, net carrying amount	*(a)*	**4,964**	4,964
Advance to an associate	*(b)*	**–**	1,959
		6,007	7,291

In 2004, goodwill not previously eliminated against the consolidated reserves was amortised on the straight-line basis over its estimated useful life of eight years.

Notes:

(a) Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the associates as one single cash-generating unit for impairment testing.

The recoverable amount of the associates is determined based on a value in use calculation using cash flow projections based on financial budgets covering a three-year period approved by senior management. The discount rate applied to the cash flow projections is 10.5%.

Key assumptions used in the future cash flows projection of associates for 31 December 2005 and 31 December 2004 are as follows:

Budgeted turnover – The basis used to determine the value assigned to the budgeted turnover is the expected sales orders that will be obtained during those years and expected product and market development.

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

(b) The advance was made to an associate, Jasman Asia Limited, which was unsecured, charged at the best lending rate quoted by The Hongkong and Shanghai Banking Corporation Limited plus 2% per annum and was repaid during the year.

18. INTERESTS IN ASSOCIATES (continued)

The Group's trade receivable with an associate is disclosed in note 22 to the financial statements.

Particulars of the associates are as follows:

Name	Particulars of issued shares/common stocks held	Place of incorporation/ registration	Percentage of ownership interest attributable to the Group	Principal activities
Jasman Asia Limited	Ordinary shares of HK$10 each	Hong Kong	20	Design and trading of toys
Jasman Inc.	Common shares of no par value	The United States of America	20	Trading of toys
Jasman USA Inc.	Common stocks of US$0.01 each	The United States of America	20	Trading of toys

The above associates are not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

The following table illustrates the summarised financial information of the Group's associates extracted from their financial statements:

	2005	2004
	HK$'000	HK$'000
Total assets	**32,687**	20,470
Total liabilities	**23,762**	14,918
Revenues	**126,209**	84,768
Net profit/(loss) for the year	**3,374**	(1,535)

19. OTHER INTANGIBLE ASSET

The balance represents deposit for a club membership. No amortisation is made in accordance with the useful economic life as, in the opinion of directors, the amount is not significant to the overall operating result of the Group.

The carrying amount of other intangible asset approximates to its fair value.

20. LOAN RECEIVABLE

The balance represents an advance made by a subsidiary of the Company to an employee of the Group. The loan interest rate is charged at 2% per annum (2004: 2%). The outstanding loan balance is repayable by monthly installments of HK$15,000 by the borrower.

The installments receivable in the next 12 months are included under current assets and the balance of HK$935,000 (2004: HK$1,115,000) is included under non-current assets as at 31 December 2005.

The carrying amount of the loan receivable approximates to its fair value.

21. INVENTORIES

	Group	
	2005	2004
	HK$'000	HK$'000
Raw materials	**35,007**	49,003
Work in progress	**28,609**	32,971
Finished goods	**23,874**	18,537
	87,490	100,511

22. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit, of which the credit periods generally range from 14 to 90 days. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by senior management. Trade receivables are non-interest-bearing.

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

	Group	
	2005	2004
	HK$'000	HK$'000
Current to 30 days	**28,830**	44,282
31 to 90 days	**4,469**	15,789
	33,299	60,071

22. TRADE RECEIVABLES (continued)

Included in the Group's trade receivable is an amount due from the Group's associate of HK$836,000 (2004: HK$153,000) which is repayable on similar credit terms to those offered to major customers of the Group.

23. CASH AND CASH EQUIVALENTS

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**26,243**	11,406	**8**	277
Time deposits	**7,814**	8,056	**–**	8,056
Cash and cash equivalents	**34,057**	19,462	**8**	8,333

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$1,168,000 (2004: HK$5,410,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and one week depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The carrying amounts of the cash and cash equivalents and the deposits approximate to their fair values.

24. TRADE PAYABLES

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

	Group	
	2005	2004
	HK$'000	HK$'000
Current to 30 days	**40,670**	48,443
31 to 90 days	**13,738**	28,370
Over 90 days	**222**	104
	54,630	76,917

The trade payables are non-interest-bearing and are normally settled on 30 to 60 days terms.

25. INTEREST-BEARING BANK LOANS

	Effective interest rate (%)	Maturity	Group 2005 HK$'000	Group 2004 HK$'000
Current				
Bank loans – unsecured	HIBOR+1.875	2007*	–	5,960
Non-current				
Bank loans – unsecured	HIBOR+1.875	2007*	–	9,570
			–	15,530

	Group 2005 HK$'000	Group 2004 HK$'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	–	5,960
In the second year	–	5,960
In the third to fifth years, inclusive	–	3,610
	–	15,530

* The bank loans were fully repaid during the year.

26. DEFERRED TAX LIABILITIES

The movements in the Group's deferred tax liabilities during the year are as follows:

	Accelerated tax depreciation HK$'000	Revaluation of properties HK$'000	Total HK$'000
2005			
At 1 January 2005			
Restated before opening balance adjustment	2,903	1,570	4,473
Opening balance adjustment *(note 3.4(a))*	–	(827)	(827)
As restated	2,903	743	3,646
Deferred tax debited to the income statement during the year *(note 11)*	46	–	46
Deferred tax debited to the asset revaluation reserve during the year	–	4,227	4,227
At 31 December 2005	**2,949**	**4,970**	**7,919**
2004			
At 1 January 2004 (restated)	4,390	803	5,193
Deferred tax credited to the income statement during the year *(note 11)*	(1,487)	(60)	(1,547)
At 31 December 2004 (restated)	2,903	743	3,646

At 31 December 2005, there was no unrecognised deferred tax liability (2004: Nil) for taxes that would be payable on the unremitted earnings of the Group's subsidiaries and 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.

27. SHARE CAPITAL

Shares

	Company 2005 HK$'000	Company 2004 HK$'000
Authorised:		
1,000,000,000 ordinary shares of HK$0.10 each	**100,000**	100,000
Issued and fully paid:		
445,430,000 (2004: 448,002,000) ordinary shares of HK$0.10 each	**44,543**	44,801

A summary of the movements of the Company's ordinary share capital is as follows:

	Number of shares	Issued share capital HK$'000	Share premium account HK$'000	Total HK$'000
Balance at 1 January 2004 and 31 December 2004	448,002,000	44,801	21,440	66,241
Repurchase of shares	(2,572,000)	(258)	(528)	(786)
Balance at 31 December 2005	**445,430,000**	**44,543**	**20,912**	**65,455**

Details of the repurchase of the shares of the Company during the year ended 31 December 2005 are as follows:

Month of repurchase	Number of Shares	Price per share Lowest HK$	Price per share Highest HK$	Aggregate consideration paid HK$'000
April 2005	1,280,000	0.280	0.300	385
May 2005	1,140,000	0.300	0.310	354
June 2005	152,000	0.300	0.305	47
	2,572,000			786

The above shares were cancelled upon repurchase. An amount of approximately HK$5,000, represented the brokerage expenses on the aforesaid repurchase, was charged against the share premium account.

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27. SHARE CAPITAL (continued)

Share options

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include any full-time employee or executive of the Company or any of its subsidiaries, including any executive or non-executive director, any discretionary object of a grantee which is a discretionary trust, and any shareholder of any member of the Group or any holder of any securities issued by any member of the Group. The Scheme was adopted and approved by the shareholders of the Company on 5 February 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The total number of ordinary shares which may be issued upon exercise of all options to be granted under the Scheme must not in aggregate exceed 40,000,000 shares, representing 10% of the ordinary shares of the Company in issue on 6 March 2002 (the commencement date of dealings of the Company's shares on the Stock Exchange) and approximately 8.98% of the issued share capital of the Company as at the date of this annual report. The Company may seek approval of its shareholders in a general meeting to refresh the 10% limit provided that the total number of ordinary shares which may be issued upon exercise of all options to be granted under the Scheme under the limit as "refreshed" must not exceed 10% of the ordinary shares in issue at the date of approval of the limit. The maximum number of ordinary shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme must not exceed 30% of the issued share capital of the Company from time to time. The maximum number of shares issued and to be issued upon exercise of the share options granted to each eligible participant in the Scheme (including both exercised and outstanding options) within any 12-month period, is limited to 1% of the shares of the Company in issue. Any further grant of share options in the 12-month period up to and including the date of such further grant in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors, other than an independent non-executive director who is proposed to be a grantee. In addition, any grant of share options to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue and with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period up to and including the date of such grant, is subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 30 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences at any time on or after the date upon which the option is deemed to be granted and accepted and expires not later than the 10th anniversary of that date. There is no specific requirement that an option must be held for any minimum period before it can be exercised.

27. SHARE CAPITAL (continued)

Share options (continued)

The exercise price of the share options is determinable by the directors, but shall not be less than the higher of:

(i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheet on the date of offer of the share options which must be a trading day; and

(ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of offer.

No share options have been granted since the adoption of the Scheme.

Warrants

On 5 February 2002, warrants were authorised to be issued by the Company by way of a bonus issue to the successful subscribers and placees of the Company's shares in connection with the Company's initial public offering, resulting in 80,000,000 warrants being issued on 6 March 2002. Each warrant entitles the holder thereof to subscribe for one ordinary share of HK$0.10 at a subscription price of HK$0.70 per share, payable in cash and subject to adjustment, from the date of issue to 31 December 2006.

No warrants were exercised during the year. At 31 December 2005, the Company had 79,998,000 (2004: 79,998,000) warrants outstanding. The exercise in full of such warrants would, under the present capital structure of the Company, result in the issue of 79,998,000 additional shares of HK$0.10 each, for gross proceeds of approximately HK$55,999,000.

28. 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 on page 33 of the financial statements.

Pursuant to the relevant laws and regulations applicable to wholly-foreign-owned enterprises in Mainland China, the Company's subsidiary in Mainland China is required to appropriate an amount of not less than 10% of its profit after tax to the statutory reserve fund, which may be distributed to shareholders in the form of a bonus issue.

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28. RESERVES (continued)

(b) Company

	Notes	Share premium account HK$'000	Contributed surplus # HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2004		21,440	152,762	1,365	175,567
Net profit for the year	12	–	–	3,760	3,760
Interim 2004 dividend	13	–	–	(4,480)	(4,480)
At 31 December 2004 and 1 January 2005		21,440	152,762	645	174,847
Repurchase of shares	27	(528)	–	–	(528)
Net profit for the year	12	–	–	2,275	2,275
Proposed final 2005 dividend	13	–	–	(2,227)	(2,227)
At 31 December 2005		**20,912**	**152,762**	**693**	**174,367**

\# The contributed surplus of the Company arose as a result of the reorganisation of the Group and represents the excess of the then combined net assets of the subsidiaries acquired pursuant to the reorganisation over the nominal value of the issued share capital of the Company issued in exchange therefor.

Under the Bermuda Companies Act 1981, the Company's contributed surplus is available for cash distribution and/or distribution in specie under certain circumstances.

29. CONTINGENT LIABILITIES

(a) The Group had a contingent liability in respect of possible future long service payments to employees under the Hong Kong Employment Ordinance, with a maximum possible amount of HK$1,386,000 as at 31 December 2005 (2004: HK$613,000), as further explained under the heading "Employee benefits" in note 3.5 to the financial statements. The contingent liability has arisen at the balance sheet date as a number of current employees have achieved the required number of years of service to the Group, and will be eligible for long service payments under the Employment Ordinance if their employment is terminated under certain circumstances. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

(b) At the balance sheet date, the Company had provided corporate guarantees of HK$35,500,000 (2004: HK$116,030,000) to certain banks in respect of banking facilities granted to its subsidiaries. At the same date, no banking facilities were utilised by the subsidiaries (2004: HK$15,530,000).

29. CONTINGENT LIABILITIES (continued)

(c) At the balance sheet date, the Company had provided corporate guarantees of HK$500,000 (2004: HK$500,000) to a bank in respect of banking facilities granted to one of its associates. At the same date, such banking facilities were utilised by the associate up to an amount of HK$500,000 (2004: HK$463,000).

30. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases an insignificant portion of its office premises under an operating lease arrangement, with the lease negotiated for a term of one year.

At the balance sheet date, the Group had a total future minimum lease receivable under a non-cancellable operating lease with a related company falling due as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Within one year	**28**	–

(b) As lessee

The Group leases certain of its properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to two years.

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Within one year	**310**	480
In the second to fifth years, inclusive	**47**	216
	357	696

At the balance sheet date, the Company had no operating lease arrangements.

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31. COMMITMENTS

In addition to the operating lease commitments detailed in note 30 above, the Group had the following commitments at the balance sheet date:

	Group	
	2005	2004
	HK$'000	HK$'000
Contracted for:		
Purchase commitment on additional interest in associates *(note 34)*	**1,560**	–
Construction costs	**148**	4,380
	1,708	4,380

At the balance sheet date, the Company had no significant commitments.

32. RELATED PARTY TRANSACTIONS

(a) The Group had the following material transactions with related parties during the year:

		2005	2004
	Notes	**HK$'000**	HK$'000
Rental expenses paid to a director	*(i)*	**204**	204
Rental expenses paid to an ex-director's associate	*(ii)*	**252**	432
Consultancy fee paid to an ex-director		**143**	–
Interest expenses paid to an ex-director	*(iii)*	**70**	–
Rental income received from a related company	*(iv)*	**(20)**	–
Sales to an associate	*(v)*	**(10,086)**	(16,191)

Notes:

(i) The rental expenses were paid to Ms. Cheung Man, Catherine, a director of the Company, for leasing a property as staff quarters by the Group. The rental was determined between both parties with reference to the then prevailing market conditions.

(ii) The rental expenses were paid to Ms. Fung Wai Chi, Philomena, the wife of Mr. Cheung Po Lun, an ex-director of the Company, who is also a substantial shareholder of the Company and is the father of Ms. Cheung Yan, Priscilla, Ms. Cheung Man, Catherine, and uncle of Mr. Cheung Wang, for leasing a property as staff quarters by the Group. The rental was determined between both parties with reference to the then prevailing market conditions.

32. RELATED PARTY TRANSACTIONS (continued)

Notes: (continued)

(iii) The interest expense was paid to Mr. Cheung Po Lun, for a loan advanced to the Group during the year at an interest rate of 1% below the Hong Kong dollar prime rate per annum (see note (b) below).

(iv) The rental income was received from a related company, of which Mr. Cheung Po Lun has beneficial interests, for leasing an insignificant portion of the Group's office premises. The rental was determined between both parties with reference to the then prevailing market conditions.

(v) Sales of goods to the Group's associate were made according to the published prices and conditions offered to major customers of the Group.

(b) Other transactions with related parties

During the year, Mr. Cheung Po Lun, had advanced a loan to the Group amounting to HK$3,500,000, which was unsecured and interest-bearing at 1% below the Hong Kong dollar prime rate per annum. The loan was fully repaid by the Group during the year.

(c) Outstanding balances with related parties

Details of the Group's trade balances with an associate as at the balance sheet date are disclosed in note 22 to the financial statements.

(d) Compensation of key management personnel of the Group is disclosed in notes 9 and 10 to the financial statements.

Except for items (a)(v), (c) and (d), the above transactions also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and short-term deposits and overdrafts. The main purpose of these financial instruments is to finance 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 foreign currency risk, credit risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency. Approximately 44.4% (2004: 52.0%) of the Group's sales are denominated in currencies other than the functional currency of the operating units making the sale, which is mainly the United States dollar, whilst almost 28.5% (2004: 34.7%) of costs are denominated in the functional currency. As the major foreign currency sales is denominated in the United States dollar and major foreign currency costs in RMB, the currency exposures are limited and it is the Group's policy not to enter into forward contracts until a firm commitment is in place.

Credit risk

The Group's sales are made to several major customers and there is concentration of credit risks. It is the Group's policy to trade only with recognised and creditworthy third parties and that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis to minimise credit risk and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents and loan receivable, arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility mainly through its own operating cash reserve, the use of bank overdrafts, bank loans, and other interest-bearing loans. The Group's policy is to source its funding from its own operating cash reserve in the first place.

34. POST BALANCE SHEET EVENT

Pursuant to a deed of settlement between the Group and the then shareholders of Jasman Asia Limited and Jasman Inc. *(note 18)* entered into on 30 December 2005, the Group acquired an additional 20% interest each in these associates for an aggregate cash consideration of US$200,000 (approximately HK$1,560,000) *(note 31)*.

35. COMPARATIVE AMOUNTS

As further explained in notes 3.2 and 3.4 to the financial statements, due to the adoption of new and revised 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 prior year and opening balance adjustments have been made and certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 13 April 2006.