1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited. The Company's immediate holding company is Barrican Investments Corporation, a company incorporated in the British Virgin Islands. In the opinion of the directors, the ultimate holding company is The Grande International Holdings Limited, a company incorporated in the British Virgin Islands.

During the year, the Company acted as an investment holding company. The principal activities of the principal subsidiaries and associates are set out in notes 42 and 16, respectively.

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

The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information on page 7 of the annual report.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards, amendments and interpretations (new "HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for accounting periods beginning on or after 1 January 2006. The adoption of these new HKFRSs below does not result in substantial changes to the Group's accounting policies and has no significant effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures
HKAS 21 (Amendment)	Net investment in a foreign operation
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions
HKAS 39 (Amendment)	The fair value option
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts
HKFRS 6	Exploration for and evaluation of mineral resources
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

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

The Group has not early applied the following new HKFRSs that have been issued but are not yet effective for the year ended 31 December 2006, and is in the process of assessing their impact on future accounting periods.

HKAS 1 (Amendment)	(i)	Capital disclosures
HKFRS 7	(i)	Financial instruments: Disclosures
HKFRS 8	(ii)	Operating segments
HK(IFRIC) – Int 7	(iii)	Applying the restatement approach under HKAS 29 "Financial reporting in hyperinflationary economies"
HK(IFRIC) – Int 8	(iv)	Scope of HKFRS 2
HK(IFRIC) – Int 9	(v)	Reassessment of embedded derivatives
HK(IFRIC) – Int 10	(vi)	Interim financial reporting and impairment
HK(IFRIC) – Int 11	(vii)	HKFRS 2 – Group and treasury share transactions
HK(IFRIC) – Int 12	(viii)	Service concession arrangements

(i) Effective for annual periods beginning on or after 1 January 2007.
(ii) Effective for annual periods beginning on or after 1 January 2009.
(iii) Effective for annual periods beginning on or after 1 March 2006.
(iv) Effective for annual periods beginning on or after 1 May 2006.
(v) Effective for annual periods beginning on or after 1 June 2006.
(vi) Effective for annual periods beginning on or after 1 November 2006.
(vii) Effective for annual periods beginning on or after 1 March 2007.
(viii) Effective for annual periods beginning on or after 1 January 2008.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The consolidated financial statements have been prepared under the historical cost basis except for certain properties and financial instruments, which are measured at revalued amounts or fair values, as explained in the accounting policies set out below. The consolidated financial statements have been prepared in accordance with HKFRS issued by HKICPA. In addition, the consolidated financial statements included applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and by the Hong Kong Companies Ordinance.

The preparation of consolidated financial statements in conformity with HKFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Judgement made by management in the application of HKFRSs that have significant effect in the consolidated financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 4.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries for the year ended 31 December 2006. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their respective dates of acquisition or disposal, respectively. All intercompany transactions and balances within the Group are eliminated on consolidation.

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

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 basis:

- on the sale of goods, when the goods are delivered and title, 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;

- on the rendering of services, based on the stage of completion of the transaction, provided that this and the costs incurred as well as the estimated costs to completion can be measured reliably. The stage of completion of a transaction associated with the rendering of services is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction;

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

- income from properties held for sale is recognised on the execution of a binding sales agreement;

- income from sale of investments held for trading is recognised on a trade-date basis and the execution of a binding contract; and

- royalties income is recognised on an accrual basis in accordance with the substance of the relevant agreement.

Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Associates *(Continued)*

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

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in income statement.

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

Goodwill

Goodwill arising on acquisitions represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary or an associate, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Discount on acquisition

A discount on acquisition arising on an acquisition of a subsidiary or an associate represents the excess of the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination. Discount on acquisition is recognised immediately in income statement. A discount on acquisition arising on an acquisition of an associate is included as income in the determination of the investor's share of results of the associate in the period in which the investment is acquired.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Segment reporting

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

In accordance with the Group's internal management reporting, the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format. Inter-segment transfer pricing is based on cost plus an appropriate margin.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before inter-segment balances and inter-segment transactions are eliminated as part of the consolidation.

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

Property, plant and equipment

Property, plant and equipment are stated at cost or valuation less accumulated depreciation and impairment losses, except for freehold land which is stated at cost less impairment loss and is not depreciated.

Advantage has been taken of the transitional relief provided by paragraph 80A of HKAS 16 "Property, plant and equipment" from the requirement to make regular revaluations of the Group's land and buildings which had been carried at revalued amounts prior to 30 September 1995, and accordingly no further revaluation of land and buildings is carried out. Prior to 30 September 1995, the revaluation increase arising on the revaluation of these assets was credited to reserve. Any future decreases in value of these assets will be dealt with as an expense to the extent that they exceed the balance, if any, on the reserve relating to a previous revaluation of the same asset. On the subsequent sale or retirement of a revalued asset, the corresponding revaluation surplus is transferred to retained profits.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset over its estimated useful life as set out below:

Freehold buildings outside Hong Kong	5 to 50 years
Long-term leasehold buildings outside Hong Kong	45 years
Medium-term leasehold buildings in Hong Kong	20 to 40 years
Medium-term leasehold buildings outside Hong Kong	Over the lease terms
Plant, equipment and other assets	2 to 15 years
Moulds	2 to 5 years

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Upon the disposal of properties which have been revalued, the relevant portion of the revaluation reserve attributable to the properties realised is transferred directly to retained profits as a reserve movement.

An item of property, plant and equipment is derecognised upon disposal or when on future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Land use rights

Land use rights represented the prepaid lease payments of leasehold interests in land under operating lease arrangements and are amortised on a straight-line basis over the lease terms.

Investment properties

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

Leased assets

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. The rentals applicable to such operating leases are charged to the income statement on the straight-line basis over the lease terms.

Investments

Investments are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the time frame established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs.

Investments in equity securities are classified as either investments held for trading or as available-for-sale, and are measured at subsequent reporting dates at fair value. For investments in equity available-for-sale that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. Where securities are held for trading purposes, gains and losses arising from changes in fair value are included in profit or loss for the period. For investments available-for-sale, gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the profit or loss for the period. Impairment losses recognised in profit or loss for equity investments classified as available-for-sale are not subsequently reversed through profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Loans and receivables

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

Financial liabilities and equity

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

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

– Financial liabilities:

  Financial liabilities including bank borrowings, other borrowings, trade and other payables are subsequently measured at amortised cost, using the effective interest rate method.

– Equity instruments:

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

Convertible notes and exchangeable bonds

Convertible notes are bonds convertible into shares of the issuer and are recognised by splitting the liability portion and the call option. The liability portion is initially recognised at fair value and is accounted for using the amortised cost method whilst the call option value, which is computed as the difference between the liability portion and the proceeds of the bonds issue, is included in a specific equity reserve or as a liability when the number of shares to be converted is variable. If the option is classified as a liability, it is measured at fair value.

Exchangeable bonds are bonds exchangeable into shares of entities other than the issuer and are recognised by splitting the liability portion and the call option. The liability portion is initially recognised at fair value and is accounted for using the amortised cost method whilst the call option is classified as a derivative liability and is carried at fair value.

Gains and losses arising from the changes in fair value are recognised in the income statement at each reporting date.

Derivative instruments

Derivative instruments are initially recognised at fair value on the contract date, and are remeasured to fair value at subsequent reporting dates. Changes in the fair value of derivative instruments that do not qualify for hedge accounting are recognised in income statement as they arise.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Embedded derivatives

Derivatives embedded in non-derivative host contracts are separated from the relevant host contracts and deemed as held-for-trading when the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contracts, and the combined contracts are not measured at fair value through income statement. In all other circumstances, derivatives embedded are not separated and are accounted for together with the host contracts in accordance with appropriate standards. Where the Group needs to separate an embedded derivative but is unable to measure the embedded derivative, the entire combined contracts are treated as held-for-trading.

Brands and trademarks

The brands and trademarks with indefinite lives are not subject to amortisation, but are tested for impairment annually or more frequently when there are indications of impairment.

Gains or losses arising from derecognition of brands and trademarks are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

Research and deferred development costs

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

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

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

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 further costs expected to be incurred to completion and disposal.

Impairment of assets

– Tangible assets:

  At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of individual assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

  If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another accounting standard, in which case the impairment loss is treated as a revaluation decrease under that accounting standard.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of assets *(Continued)*

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

– Intangible assets:

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually by comparing their carrying amounts with their recoverable amounts, irrespective of whether there is any indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as revaluation decrease.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

Intangible assets with finite useful lives are tested for impairment when there is an indication that an asset may be impaired.

Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in income statement in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financials statements. Exchange differences arising on the retranslation on non-monetary items carried at fair value are included in income statement for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

Goodwill and fair value adjustments arising on acquisitions of foreign operations prior to 1 January 2005 are treated as non-monetary foreign currency items of the Group and reported using the historical exchange rate prevailing at the date of the acquisition.

Retirement benefit costs

Payments to defined contribution retirement benefit plans and the Mandatory Provident Fund Scheme are charged as expenses as they fall due.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Provision for retirement and long service

The provision for retirement and long service are provided based on the employees' basic salaries and their respective length of service in accordance with the applicable rules and regulations in their respective countries of employment. The amounts credited in the income statement represent the reversal of previous provisions no longer necessary.

Borrowing costs

Borrowing costs are interests and other costs incurred in connection with the borrowing of funds. All borrowing costs are charged to the income statement in the year in which they are incurred.

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.

Tax

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

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

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

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

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

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

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

Related parties

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

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence ;

(ii) the party is a member of the key management personnel of the Group;

(iii) the party is a close member of the family of any individual referred to in (i) or (ii) ;

(iv) 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 (ii) or (iii) ; or

(v) 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.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies which are described in note 3, management has made the following estimates that have most significant effect on the amounts recognised in the financial statements. 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 also discussed below.

(a) Impairment review of investments in associates

The Group applies the requirements of HKAS 39 to determine whether it is necessary to recognise any additional impairment loss with respect to the Group's investments in associates. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the market values of investments in listed associates is less than their respective carrying amounts; and the financial health of and near-term business outlook for the investees, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

(b) Impairment of property, plant and equipment, interests in leasehold land held for own use under operating leases

If the circumstances indicate that the carrying values of property, plant and equipment, interests in leasehold land held for own use under operating leases may not be recoverable, the assets may be considered "impaired", and an impairment loss may be recognised in accordance with HKAS 36 "Impairment of assets". Under HKAS 36, these assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the net selling price and the value in use. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of sale volume, selling price and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sale volume, selling price and amount of operating costs. However, actual sale volume, selling price and operating costs may be different from assumptions which may require a material adjustment to the carrying amount of the assets affected.

(c) Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account the estimated residual values, if any. The Group reviews the estimated useful lives and the estimated residual values, if any, of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives and residual values are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

(d) Impairment loss for bad and doubtful debts

The Group maintains an impairment loss for bad and doubtful debts for estimated losses resulting from the inability of the debtors to make required payments. The Group bases the estimates of future cash flows on the ageing of the trade receivables balance, debtors' credit-worthiness, and historical write-off experience. If the financial condition of the debtors were to deteriorate, actual write-offs would be higher than estimated.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

(e) Write down of inventories

The Group performs regular review of the carrying amounts of inventories with reference to aged inventories analysis, expected future sales and management judgement. Based on this review, write down of inventories will be made when the carrying amount of inventories decline below the estimated net realisable value. However, actual sales may be different from estimation and profit or loss could be affected by differences in this estimation.

(f) Estimated impairment of goodwill, brands and trademarks

Determining whether goodwill, brands and trademarks are impaired requires an estimation of the value in use of the cash-generating units to which goodwill, brands and trademarks have been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2006, the carrying amount of goodwill, brands and trademarks are HK$179 million and HK$1,780 million, respectively. Particulars of the impairment test are disclosed in note 22.

(g) Income taxes

As at 31 December 2006, a deferred tax asset of HK$59 million in relation to unused tax losses has been recognised in the Group's balance sheet. The releasability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in the income statement for the period in which such a reversal takes place.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include equity and debt investments, borrowings, trade receivables, trade payables, convertible debenture and exchangeable bonds. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

Several subsidiaries of the Company have foreign currency sales, which expose the Group to foreign currency risk. In order to mitigate the foreign currency risk, foreign currency forward contracts (note 26) are entered into in respect of highly probable foreign currency forecast sales in accordance with the Group's risk management policies.

Certain trade receivables and borrowings of the Group are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

Fair value interest rate risk

The Group's fair value interest rate risk relates primarily to fixed-rate bank borrowings (note 28). In relation to these fixed-rate borrowing, the Group aims at keeping borrowings at variable rates. In order to achieve this result, the Group entered into interest rate swaps (note 26) to hedge against its exposures to changes in fair values of the borrowings. The critical terms of these interest rate swaps are similar to those of hedged borrowings.

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

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

The credit risk for bank balances is considered minimal as such amounts are placed with banks with good credit ratings.

Price risk

The Group's investments available-for-sale and investments held for trading are measured at fair value at each balance sheet date. Therefore, the Group is exposed to equity and debt security price risk. The management reviews the market situation and consults to the professionals to monitor the exposure periodically.

6. RELATED PARTY TRANSACTIONS

(a) Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation are not disclosed in this note. Details of material transactions between the Group and other related parties are disclosed below:

	2006	2005
	HK$ million	HK$ million
Associates:		
Sales of goods	**38**	–
Purchases of materials	**54**	75
Trade and other receivables	**242**	3
Trade and other payables	**(32)**	(12)

Sales of goods to and purchase of materials from associates were negotiated on an arm's length basis. The amounts outstanding are unsecured, non-interest bearing and repayable on demand. The carrying amounts of these amounts due from/to associates approximate their fair values.

	2006	2005
Related companies:		
Settlement of security trading	**–**	225
Purchases of materials	**–**	4
Research and development cost charged by related company	**–**	4
Trade receivables	**–**	4
Other payables	**(6)**	(47)

In 2005, the settlement of an option arrangement of HK$225 million from a third party to the Group had been made through a related company of which the Chairman of the Group has a deemed beneficial benefit. There is no gain or loss incurred to the Group of this arrangement. The amounts due from / to the related companies are unsecured, non-interest bearing and repayable on demand. The carrying amounts of these amounts due from/to related companies approximate their fair values.

6. RELATED PARTY TRANSACTIONS *(Continued)*

(b) Compensation of key management personnel:

The remuneration of directors and other members of key management during the year was as follows:

	2006 **HK$ million**	2005 HK$ million
Short-term employee benefits	**12**	13

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

(c) Guarantee

The Chairman provided a personal guarantee amounting to HK$60 million (2005: HK$50 million) to the Company for a banking facility.

7. TURNOVER

Turnover represents the net invoiced value of goods sold after allowances for returns and trade discounts, royalty income and securities trading, but excludes intra-group transactions.

An analysis of the Group's turnover by principal activity for the year is as follows:

	2006 **HK$ million**	2005 HK$ million
By principal activity:		
Branded distribution	**6,734**	3,707
Electronics manufacturing services	**2,578**	2,331
	9,312	6,038

8. PROFIT BEFORE TAX

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

	2006 HK$ million	2005 HK$ million
Depreciation of property, plant and equipment	**84**	94
Operating lease rentals:		
Land and buildings	**23**	18
Finance costs:		
Interest on bank overdrafts and loans wholly repayable within five years	**88**	53
Interest on bank loans wholly repayable beyond five years	**7**	3
	95	56
Auditors' remuneration:		
Current year	**9**	7
Under-provision in prior year	**2**	–
	11	7
Amortisation of other assets included in other operating expenses	**27**	24
Amortisation of prepaid lease payments	**6**	6
Allowance for doubtful debts	**34**	3
Staff costs:		
Salaries and other benefits	**263**	181
Retirement benefit costs	**4**	2
	267	183
Cost of inventories recognised as expenses	**7,860**	4,816
Research and development expenditure	**3**	17
Loss on disposal of property, plant and equipment	**21**	–
Impairment loss recognised in respect of interests in associates	**58**	–
Impairment loss recognised in respect of investments available-for-sale	**16**	6
Change in fair value of derivative instruments	**–**	1
Change in fair value of investments held for trading	**1**	(70)
Net foreign exchange gain	**(12)**	(57)
Gain on disposal of investment properties	**(1)**	–
Net increase in fair value of investment properties	**(84)**	(1)
Discount on increased investment in subsidiaries	**(27)**	(1)
Share of tax of associates included in share of loss of associates	**–**	(1)
Interest income	**(29)**	(6)

9. DIRECTORS' REMUNERATION AND EMPLOYEE COSTS

Directors' Remuneration

	Fees HK$ million	Basic salaries, housing allowances and other benefits HK$ million	Discretionary bonuses HK$ million	Total emoluments HK$ million
2006				
Mr. Christopher W. Ho	–	1.5	–	1.5
Mr. Adrian C. C. Ma	–	1.8	–	1.8
Mrs. Christine L. S. Asprey	–	0.6	–	0.6
Mr. Michael A. B. Binney	–	1.2	–	1.2
Mr. C. F. Lam	–	2.0	–	2.0
Mr. Paul K. F. Law	–	1.2	–	1.2
Mr. Johnny W. H. Lau	0.2	–	–	0.2
Mr. Martin I. Wright	0.2	–	–	0.2
	0.4	8.3	–	8.7
2005				
Mr. Christopher W. Ho	–	1.3	–	1.3
Mr. Adrian C. C. Ma	–	1.8	–	1.8
Mrs. Christine L. S. Asprey	–	0.6	–	0.6
Mr. Michael A. B. Binney	–	1.1	–	1.1
Mr. C. F. Lam	–	2.0	–	2.0
Mr. Paul K. F. Law	–	1.0	–	1.0
Mr. Johnny W. H. Lau	0.1	–	–	0.1
Mr. Martin I. Wright	0.1	–	–	0.1
	0.2	7.8	–	8.0

Mr. Herbert H. K. Tsoi waived the directors' emoluments of HK$0.3 million for the year ended 31 December 2006 and HK$0.2 million for the year ended 31 December 2005.

The remuneration package of the directors are reviewed and approved by the Remuneration Committee. Details please see Corporate Governance Report on page 18.

Employee Costs

During the year, the five highest paid individuals included three (2005: two) directors, detail of whose emoluments are set out above. The emoluments of the remaining highest paid individual were as follows:

	2006 HK$ million	2005 HK$ million
Basic salaries, housing, other allowances and benefits in kind	**3**	5
Bonuses paid and payable	**–**	–
	3	5

9. DIRECTORS' REMUNERATION AND EMPLOYEE COSTS *(Continued)*

Employee Costs *(Continued)*

The number of non-directors whose remuneration fell within the bands set out below is as follows:

HK$	**2006** Number of non-directors	2005 Number of non-directors
1,000,001 – 1,500,000	**1**	1
1,500,001 – 2,000,000	**1**	2

Staff are entitled to receive a basic salary according to their contracts which are reviewed annually by the Company. In addition, staff are entitled to receive a discretionary bonus which is decided by the Company at its absolute discretion having regard to his / her performance.

10. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2005:17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been provided at the applicable rates of tax in the countries in which the subsidiaries operate, based on existing legislation, interpretations and practices in respect thereof.

	2006 HK$ million	2005 HK$ million
The tax charge/(credit) comprises:		
Current year provision		
Hong Kong	**6**	4
Overseas	**19**	6
Under provision in prior year		
Hong Kong	**–**	4
Overseas	**4**	–
Deferred tax *(Note 18)*		
Hong Kong	**–**	(1)
Overseas	**5**	–
	34	13

Reconciliation between tax charge and profit before tax at applicable tax rates is as follows:

	2006 HK$ million	2005 HK$ million
Profit before tax	**394**	315
Notional tax calculated at Hong Kong profits tax rate of 17.5% (2005: 17.5%)	**69**	55
Effect of different tax rates in overseas jurisdictions	**(24)**	(20)
Income and expenses not subject to tax	**(88)**	(77)
Unused tax losses not recognised	**70**	55
Utilisation of unrecognised tax losses	**(3)**	(3)
Under provision in prior year	**4**	4
Others	**6**	(1)
	34	13

11. DIVIDENDS

	2006 HK$ million	2005 HK$ million
Interim dividend of HK12 cents (2005: HK12 cents) per share on 460.2 million shares	**55**	55
2005 final dividend of HK12 cents (2004: HK19 cents) per share on 460.2 million shares	**55**	88
	110	143

A final dividend in respect of 2006 of HK14 cents per share on 460.2 million shares amounting to a total of HK$64 million was approved by the Board after the balance sheet date, and this has not been recognised as a liability as at 31 December 2006.

12. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on the following data:

	2006 HK$ million	2005 HK$ million
Earnings for the purposes of basic earnings per share: Profit attributable to shareholders of the Company	**360**	302
Effect of dilutive potential ordinary shares: Interest on Convertible Debenture	**9**	1
Earnings for the purposes of diluted earnings per share	**369**	303

	2006 Number of ordinary shares million	2005 Number of ordinary shares million
Weighted average number of ordinary shares for the purposes of basic earnings per share	**460.2**	460.2
Effect of dilutive potential ordinary shares: Convertible Debenture	**28.3**	2.0
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**488.5**	462.2

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$ million	Plant, equipment and other assets HK$ million	Moulds HK$ million	Total HK$ million
Cost or valuation:				
At 1 January 2005	421	967	208	1,596
Foreign currency adjustment	2	4	–	6
Additions	3	49	10	62
Disposals	(3)	(34)	(41)	(78)
At 31 December 2005 and 1 January 2006	423	986	177	1,586
Foreign currency adjustment	4	14	–	18
Additions	66	101	9	176
Acquisition of subsidiaries	9	33	1	43
Surplus on revaluation	10	–	–	10
Transferred from other current assets	–	10	–	10
Transferred to investment properties	(22)	–	–	(22)
Subsidiaries reclassified as associates (Note 36(c)(i))	(163)	(119)	(47)	(329)
Disposals	–	(81)	(9)	(90)
At 31 December 2006	327	944	131	1,402
Accumulated depreciation and impairment:				
At 1 January 2005	65	658	150	873
Provided during the year	11	65	18	94
Disposals	(1)	(30)	(41)	(72)
At 31 December 2005 and 1 January 2006	75	693	127	895
Foreign currency adjustment	2	7	–	9
Provided during the year	10	62	12	84
Transferred to investment properties	(4)	–	–	(4)
Subsidiaries reclassified as associates (Note 36(c)(i))	(25)	(1)	(4)	(30)
Disposals	–	(58)	(6)	(64)
At 31 December 2006	58	703	129	890
Carrying values:				
At 31 December 2006	269	241	2	512
At 31 December 2005	348	293	50	691

The net book value of plant and machinery held under finance leases at 31 December 2006 amounted to HK$2 million (2005: nil).

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

Buildings comprise:

	2006 HK$ million	2005 HK$ million
Freehold buildings outside Hong Kong:		
At cost	**9**	–
Long-term leasehold buildings outside Hong Kong:		
At cost	**60**	60
Medium-term leasehold buildings in Hong Kong:		
At cost	**11**	11
At 1993 professional valuation	**51**	63
	62	74
Medium-term leasehold buildings outside Hong Kong:		
At cost	**138**	231
At 1993 professional valuation	**58**	58
	196	289
Total cost or valuation	**327**	423

The valuation of medium-term leasehold buildings in Hong Kong of HK$51 million was carried out by Chesterton Petty Limited, a firm of independent professional valuers, on an open market, existing use basis as at 31 December 1993.

The valuation of medium-term leasehold buildings outside Hong Kong of HK$58 million was carried out by Chesterton Petty Limited, a firm of independent professional valuers, on an open market value basis as at 31 January 1993.

Had the revalued assets been stated at their cost less accumulated depreciation, the carrying amount of buildings as at 31 December 2006 would be restated at HK$226 million (2005: HK$301 million).

Certain of the above properties and plant and machinery held by the Group were pledged to secure banking and finance lease facilities (note 39).

14. PREPAID LEASE PAYMENTS

	2006 HK$ million	2005 HK$ million
The Group's prepaid lease payments comprise:		
Leasehold land in Hong Kong:		
Medium-term lease	**41**	52
Leasehold land outside Hong Kong:		
Long-term lease	**7**	7
Medium-term lease	**181**	199
	229	258
Analysed for reporting purposes as:		
Current portion (included in prepayments, deposits and other assets)	**6**	6
Non-current portion	**223**	252
	229	258

15. INVESTMENT PROPERTIES

	2006 HK$ million	2005 HK$ million
At fair value		
At beginning of year	**54**	58
Foreign currency adjustment	**16**	(5)
Transferred from property, plant and equipment and prepaid lease payments	**28**	–
Additions	**229**	–
Disposals	**(7)**	–
Net increase in fair value recognised in income statement	**84**	1
At end of year	**404**	54

The carrying amount of investment properties comprises land as follows:

	2006 HK$ million	2005 HK$ million
Land outside Hong Kong:		
Freehold	**346**	40
Medium-term leasehold	**9**	8
	355	48
Medium-term leasehold land in Hong Kong	**49**	6
Carrying amount	**404**	54

The investment properties in United Kingdom of HK$77 million were revalued to market value as at 31 December 2006 with reference to the consideration agreed with a third party near the balance sheet date for selling the entire shareholding interests in a subsidiary holding the properties.

15. INVESTMENT PROPERTIES *(Continued)*

The investment properties in Singapore of HK$269 million were revalued by DTZ Debenham Tie Leung (Sea) Pte Ltd, independent professional surveyors, on an open market value basis as at 31 December 2006.

The investment properties in Hong Kong and Macau were valued at HK$58 million as at 31 December 2006 by Dudley Surveyors Limited, independent professional surveyors, by reference to market evidence of transaction prices for similar properties.

All the Group's investment properties are held for earning rental income or for capital appreciation purposes and are measured using the fair value model.

Certain investment properties have been pledged to secure general banking facilities granted to the Group (note 39).

16. INTERESTS IN ASSOCIATES

	2006 **HK$ million**	2005 HK$ million
Cost of investment less impairment	**811**	407
Share of post-acquisition losses and reserves	**(3)**	(1)
	808	406
Listed investments, at market value	**684**	237

Particulars of the Group's principal associates are as follows:

Name	Notes	Place of incorporation / registration and operation	Percentage of equity attributable to the Group 2006	2005	Principal activities
Advanced Microsensors, Inc.	(a)	United States of America	**45%**	41%	Development and manufacturing of magnetic materials
Sansui Electric Co., Ltd. +	(b)	Japan	**30%**	49%	Sale of audio, visual and other electronic products
Ross Group Plc ^	(c)	United Kingdom	**41%**	71%	Design and manufacture of engineering projects, and the sale and distribution of electronic products
ZS Kawa Electronics (Group) Co., Ltd.	(d)	The People's Republic of China	**50%**	50%	Property leasing

\+ Listed on the first section of the Tokyo Stock Exchange.
^ Listed on the London Stock Exchange.

The above table lists the associates of the Group which in the opinion of the directors of the Company, principally affected the results of the year or form a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors of the Company, result in particulars of excessive length.

16. INTERESTS IN ASSOCIATES *(Continued)*

Notes:

(a) No share of the net assets and results of Advanced Microsensors, Inc. is recorded as the investee is considered an associate of the Group by virtue of the Group's investment in convertible preference shares, which when converted, would constitute 45% of the equity interest of the investee.

(b) As at December 2005, the Group had approximately 49.51% interest in Sansui Electric Co., Ltd. ("SEC"), recorded as 48.78% and 0.73% respectively as investments held for trading under current assets and investments available-for-sale under non-current assets.

During the first half year, the Group reduced its interest in SEC to approximately 29.99%. In June 2006, the directors reviewed the Group's intention of holding the interest in SEC. The Group is required to maintain a certain level of shareholding in SEC to meet its obligations under the exchangeable bonds due 2011 issued in February 2006. The Group is also considering issuing additional exchangeable bonds under similar terms in the near future. Besides, the Group has increasingly participated in the financial and operating decisions of SEC. Consequently, the directors considered it more appropriate to hold the interest in SEC as long-term and account for it as interest in associates starting from April 2006.

(c) In June 2006, the Group disposed of 30% interest in Ross Group Plc ("Ross") to an independent third party. As a result of this transaction, the Group's interest in Ross reduced from 71% to 41%. Accordingly, Ross was reclassified from a subsidiary to an associate.

(d) In October 2006, the Group reclassified its investment in ZS Kawa Electronics (Group) Co., Ltd. and its fellow subsidiaries ("Kawa") held under TWD Asia Limited from subsidiaries to associates. Kawa has reduced its principal activities from the manufacture of electronic products to property leasing. The Group has no longer any unilateral control over the financial and operating policies of Kawa. Consequently, the directors consider it more appropriate to account for its shareholding interests in Kawa as interests in associates.

The land and buildings of Kawa in Zhongshan, the PRC are leased to the Group as part of its manufacturing facilities. These properties, carrying a net book value of HK$153 million as at 31 December 2006, were valued at HK$287 million by Zhongshan Caixing Assets Appraisal Co., Ltd, independent professional surveyors, on an open market value basis at the same date. The investment in Kawa has not been increased for the Group's share of the difference between the properties' carrying amounts in Kawa's books and their respective fair values since the properties are leased by the Group.

(e) On 5 December 2005, the Group acquired a 37% equity interest in Emerson Radio Corp. ("ERC"), a company listed on the American Stock Exchange of the United States of America, from an independent third party. The investment in ERC was accounted for as an associate at 31 December 2005. The Group has since then continuously increased its shareholding in ERC through purchase of stock on the exchange. The Group has also increasingly exercised its control over ERC's operating and financial policies. On 30 March 2006, a director of the Company was appointed as Chairman and Chief Executive Officer of ERC. Accordingly, the directors consider ERC as a subsidiary of the Group since that date. As at 31 December 2006, the Group's effective interest in ERC was 51% (note 42).

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

	2006 **HK$** **million**	2005 HK$ million
Total assets	**1,176**	799
Total liabilities	**(594)**	(236)
Net assets	**582**	563
Group's share of net assets of associates	**191**	198
Revenue	**118**	241
Loss for the year	**(22)**	(13)
Group's share of result of associates for the year	**(5)**	(1)

17. INVESTMENTS AVAILABLE-FOR-SALE

	2006 HK$ million	2005 HK$ million
Listed investments, at market value outside Hong Kong	**1**	21
Unlisted investments		
Credit Linked Note *(Note)*	**92**	–
Others, at cost less impairment	**71**	87
	163	87
	164	108

Note: Included in unlisted investments is a long-term investment in the amount of US$11.8 million (HK$92 million) in an interest-bearing Credit Linked Note ("CLN") issued in August 2006 by DBS Bank Ltd. The CLN has a nominal value of US$10 million (HK$78 million), is not transferable and is linked to US$50 million Zero Coupon Guaranteed Exchangeable Bonds ("Exchangeable Bonds") issued by Hi-Tech Precision Products Ltd to independent third parties (note 31). The CLN is unsecured and bears interest at 3 months LIBOR plus 2.5% p.a. and will mature at the issue price of US$11.8 million in February 2009. If a credit fault event occurs (including failure to make interest payments on the Exchangeable Bonds) before February 2009, the CLN will be exchanged for US$10 million Exchangeable Bonds. The CLN is classified as available-for-sale financial assets.

18. DEFERRED TAX

(a) Deferred tax assets and liabilities recognised:

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

	Accelerated tax depreciation HK$ million	**Tax losses** HK$ million	**Others** HK$ million	**Total** HK$ million
At 1 January 2005	(8)	17	–	9
Charged to equity *(Note 35)*	–	–	(6)	(6)
Credited to income statement *(Note 10)*	1	–	–	1
At 31 December 2005 and 1 January 2006	(7)	17	(6)	4
Arising from acquisition of subsidiaries	1	47	–	48
Debited to income statement *(Note 10)*	–	(5)	–	(5)
At 31 December 2006	(6)	59	(6)	47

18. DEFERRED TAX *(Continued)*

(b) Deferred tax assets not recognised:

The deferred tax assets have not been recognised in respect of the following items:

	2006 HK$ million	2005 HK$ million
Tax losses carried forward	**7,296**	7,361
Accelerated depreciation allowances	**234**	278
	7,530	7,639

19. BRANDS AND TRADEMARKS

	2006 HK$ million	2005 HK$ million
Gross amount		
At 1 January	**1,539**	1,543
Acquisition of subsidiaries	**464**	–
Foreign currency adjustment	**5**	(4)
At 31 December	**2,008**	1,539
Accumulated amortisation at 31 December	**(228)**	(228)
Carrying amount at 31 December	**1,780**	1,311

Prior to 1 January 2005, brands and trademarks are amortised over their estimated useful lives but not more than 20 years and stated at their cost less accumulated amortisation and impairment losses.

On 1 January 2005, the Group reassessed the useful lives of the brands and trademarks and concluded that all brands and trademarks have indefinite useful lives. As a result, the brands and trademarks are not subject to amortisation from 1 January 2005 onwards, but are tested for impairment annually or more frequently when there are indications of impairment. Particulars of the impairment testing are disclosed in note 22.

20. OTHER ASSETS

	Notes	2006 HK$ million	2005 HK$ million
Deferred development costs:	(a)		
At beginning of year		**164**	149
Acquisition of subsidiaries		**8**	–
Additions		**2**	15
At end of year		**174**	164
Accumulated amortisation and impairment:			
At beginning of year		**74**	50
Provided for the year		**27**	24
At end of year		**101**	74
Carrying amount of deferred development costs at end of year		**73**	90
Other receivable	(b)	**189**	–
Total other assets at end of year		**262**	90

20. OTHER ASSETS *(Continued)*

Notes :

(a) The deferred development costs have definite useful lives and are amortised on a straight-line basis over 3 to 5 years.

(b) On 28 December 2006, the Group entered into an agreement with an independent third party for the disposal of 15% of its equity interest in Capetronic Group Ltd ("Sales Shares"), a wholly-owned subsidiary of the Group, for a consideration of approximately HK$245 million. On the same date at completion, approximately HK$24 million of the consideration was received by the Group. The balance of the consideration of approximately HK$221 million is payable by seven equal annual instalments by the purchaser. The first annual instalment of approximately HK$32 million is classified as current assets while the balance of approximately HK$189 million is classified as non-current assets. The outstanding balance of the unpaid consideration is secured by the Sales Shares and bears interest charged at LIBOR plus 1.5% p.a.

21. GOODWILL

	2006	(Restated) 2005
	HK$ million	HK$ million
At beginning of year	**151**	304
Prior year adjustment *(Note)*	**–**	(118)
As restated	**151**	186
Acquisition of subsidiaries	**58**	1
Increased investment in subsidiaries	**14**	–
Partial disposal of subsidiaries	**(44)**	–
Amortisation – adjustment on adoption of HKFRS 3	**–**	(36)
Carrying amount at end of year	**179**	151

Prior to 1 January 2005, the goodwill / (negative goodwill) was (amortised) / released to the income statement on a straight-line basis of 20 years. According to HKFRS 3 and HKAS 36, the Group ceased amortisation of goodwill from 1 January 2005 and eliminated the accumulated amortisation of goodwill as at 31 December 2004 with the cost of goodwill, the carrying amount of negative goodwill was derecognised with a corresponding adjustment to the retained earnings at 1 January 2005.

Goodwill arising on acquisitions on or after 1 January 2005 is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Particulars of the impairment testing are disclosed in note 22.

From 1 January 2005 onwards, any discount on acquisition of a subsidiary is recognised immediately in the income statement.

Note:

The cash-generating unit to which goodwill of HK$118 million was allocated was disposed of during 2004. However, the goodwill was not written off in the year of disposal and continued to be carried forward in the balance sheet. Such prior period error was corrected retrospectively by reducing the same amount against the opening balance of the retained profits at 1 January 2005.

22. IMPAIRMENT TESTING ON GOODWILL, BRANDS AND TRADEMARKS

Goodwill, brands and trademarks are allocated to the Group's cash-generating units ("CGU") identified according to business segment as follows:

	Goodwill		**Brands and trademarks**	
		(Restated)		
	2006	2005	**2006**	2005
	HK$ million	HK$ million	**HK$ million**	HK$ million
Branded distribution	**115**	87	**1,780**	1,311
Electronics manufacturing services	**64**	64	**–**	–
	179	151	**1,780**	1,311

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial projections approved by management. A five-year period financial budget is used for testing the impairment of goodwill. The brands and trademarks are considered by management as having indefinite useful lives. A ten-year financial budget base on management's approved long-term plans of product development and business expansion is used for testing the impairment of these brands and trademarks.

The discount rate used for value-in-use calculations is in a range of 10% to 13% (2005: 12% to 15%). Management determined the budgeted gross margin based on past performance and its expectation for market development. The weighted average growth rates of 2% to 3% used are consistent with the forecasts included in industry reports.

23. INVENTORIES

	2006	2005
	HK$ million	HK$ million
Raw materials	**254**	260
Work in progress	**57**	49
Finished goods	**642**	346
	953	655

24. ACCOUNTS, BILLS AND OTHER RECEIVABLES

The Group allows an average credit period of 30 to 90 days to its trade customers. The aged analysis of trade and other receivables (net of allowance for doubtful debts) is as follows:

	2006	2005
	HK$ million	HK$ million
0 – 3 months	**1,251**	511
3 – 6 months	**11**	31
Over 6 months	**40**	106
	1,302	648

24. ACCOUNTS, BILLS AND OTHER RECEIVABLES *(Continued)*

Included in the balance at 31 December 2006 is a present value of HK$423 million representing certain receivables repayable by instalments during 2007. The original amount, denominated in Japanese yen, was discounted at a rate of 0.75% p.a. to its present value.

The carrying amount of accounts, bills and other receivables approximates their fair value.

25. INVESTMENTS HELD FOR TRADING

	2006	2005
	HK$ million	HK$ million
Listed investments, at market value		
Hong Kong	**10**	20
Outside Hong Kong	**–**	1,398
Unlisted investments, at fair value	**–**	1
	10	1,419

26. DERIVATIVE INSTRUMENTS

	2006		2005	
	Assets	**Liabilities**	Assets	Liabilities
	HK$ million	**HK$ million**	HK$ million	HK$ million
Held for trading or not qualifying as hedges:				
Derivatives embedded in non-derivative host contract	**–**	**(1)**	–	(23)
Derivatives instrument element of exchangeable bonds	**–**	**(76)**	–	–
Forward foreign exchange contracts	**–**	**(2)**	–	(12)
Interest rate swaps	**4**	**(14)**	11	–
Classified as current assets/ (liabilities)	**4**	**(93)**	11	(35)

Interest rate swaps mature at various dates up to 4 August 2008 with variable interest rates.

27. ACCOUNTS AND BILLS PAYABLE

The aged analysis of accounts and bills payable is as follows:

	2006	2005
	HK$ million	HK$ million
0 – 3 months	**928**	399
3 – 6 months	**65**	12
Over 6 months	**60**	48
	1,053	459

The carrying amount of the Group’s accounts and bills payable approximates their fair value.

28. BANK LOANS

	2006 HK$ million	2005 HK$ million
Secured bank loans wholly repayable:		
Within one year	**115**	377
In the second year	**18**	29
In the third to fifth years, inclusive	**169**	34
Beyond five years	**35**	38
	337	478
Portion classified as current liabilities	**(115)**	(377)
Portion classified as non-current liabilities	**222**	101
Unsecured bank loans wholly repayable:		
Within one year	**149**	155
In the second year	**15**	14
In the third to fifth years, inclusive	**32**	–
	196	169
Portion classified as current liabilities	**(149)**	(155)
Portion classified as non-current liabilities	**47**	14

The carrying amounts of the borrowings are denominated in the following currencies:

	2006 HK$ million	2005 HK$ million
Hong Kong Dollar	**143**	93
Renminbi Yuan	**20**	111
United States Dollar	**197**	413
Great British Pound	**30**	28
Singapore Dollar	**143**	–
Others	**–**	2
	533	647

As at the balance sheet date, 4% (2005: 17%) of the Group's total borrowings were with interest rates fixed to maturity, all such borrowings will mature within one year.

The ranges of effective interest rates on the Group's borrowings at the balance sheet date were as follows:

	2006	2005
Effective interest rate:		
Fixed-rate borrowings	**6.12%**	5.22% to 5.69%
Variable-rate borrowings	**4.73% to 9.75%**	5.75% to 7.75%

29. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2006	2005	**2006**	2005
	HK$ million	HK$ million	**HK$ million**	HK$ million
Amounts payable under finance leases:				
Within one year	**1**	–	**1**	–
In the second year	**1**	–	**1**	–
Less: future finance charges	**–**	–	**–**	–
Present value of lease obligations	**2**	–	**2**	–
Portion classified as current liabilities			**(1)**	–
Portion classified as non-current liabilities			**1**	–

30. CONVERTIBLE DEBENTURE

On 5 December 2005, the Company issued a principal amount of US$26 million (equivalent to HK$202 million) Convertible Debenture ("Convertible Debenture") at par value as part of the purchase consideration of a 37% equity interest in ERC (note 16). The Debentureholder is entitled to require the Company to convert the whole or any part(s) of the principal amount outstanding under the Convertible Debenture into ordinary shares in the capital of the Company at any time between the date of issue of the Convertible Debenture and the settlement date on 5 December 2008 at a conversion price of HK$7.16 per ordinary share of the Company, provided that such part to be converted shall not be less than Hong Kong dollar equivalent to US$5 million and shall be in a multiple of US$1 million. If the Convertible Debenture has not been converted, it will be redeemed on 5 December 2008 at par, provided that the Company shall have the right, at any time by a 30-day prior written notice to debentureholder, to early redeem the whole or part of the outstanding principal amount of this Convertible Debenture. No interest for the period from the issue date to the day prior to the first anniversary of the issue date and 3% per annum for the period from the first anniversary of the issue date on 5 December 2005 until the maturity date on 5 December 2008.

The Convertible Debenture was split between the liability and derivative instrument. The derivative instrument element is presented in note 26.

	2006	2005
	HK$ million	HK$ million
Liability component at beginning of year	**179**	–
Issue of Convertible Debenture	**–**	179
Change in fair value	**13**	–
Liability component at end of year	**192**	179

The fair value of the liability component of the Convertible Debenture determined based on the present value of the estimated future cash outflows discounted at the prevailing market rate for an equivalent non-convertible loan at the balance sheet date.

31. EXCHANGEABLE BONDS ISSUED BY A SUBSIDIARY

On 22 February 2006, Hi-Tech Precision Products Ltd ("Hi-Tech"), a wholly-owned subsidiary of the Group, issued a principal amount of US$50 million (equivalent to HK$388 million) Zero Coupon Guaranteed Exchangeable Bonds ("Exchangeable Bonds") at par value to independent third parties. The holder of each Exchangeable Bond will have an exchange right to exchange such Exchangeable Bond for SEC shares at the exchange price of 40.36929 Yen per SEC share during the period beginning on and after 23 March 2006 and up to the earlier of (i) 8 February 2011 (but in no event thereafter), or (ii) if such Exchangeable Bonds shall have been called for redemption prior to 8 February 2011, then up to on the third business day immediately prior to the date fixed for redemption thereof. Assuming full exchange of the Exchangeable Bonds at the exchange price, the Exchangeable Bonds will be exchangeable into 146,683,283 SEC shares, representing 10.76% of the common stocks of SEC (subject to adjustment).

The Exchangeable Bonds are split between the liability and derivative instrument. The fair value of the liability component of the Exchangeable Bonds has been determined based on the present value of its future cash outflows discounted at the prevailing market yield of non-convertible loans with similar grading as the Exchangeable Bonds as at the balance sheet date.

	2006 **HK$** **million**	2005 HK$ million
Liability component at beginning of year	**–**	–
Issue of Exchangeable Bonds	**219**	–
Change in fair value	**91**	–
Liability component at end of year	**310**	–

32. PROVISION FOR RETIREMENT AND LONG SERVICE

	2006 **HK$** **million**	2005 HK$ million
At beginning of year	**58**	60
Foreign currency adjustment	**–**	(1)
Additional provision	**3**	2
Utilisation/reversal of provision	**(26)**	(3)
At end of year	**35**	58
Analysis of provision:		
Current liabilities	**21**	–
Non-current liabilities	**14**	58
	35	58

33. SHARE CAPITAL

	Number of ordinary shares of HK$0.10 each million	Amount HK$ million
Authorised:		
At 1 January 2005, 31 December 2005 and 31 December 2006	**1,000**	100
Issued and fully paid:		
At 1 January 2005, 31 December 2005 and 31 December 2006	**460**	46

On 5 December 2005, the Company issued a principal amount of US$26 million Convertible Debenture due 5 December 2008 (note 30) as part of the purchase consideration of a 37% equity interest in ERC (note 16). The Debentureholder is entitled to require the Company to convert the whole or any part(s) of the principal amount outstanding under the Convertible Debenture into ordinary shares in the capital of the Company. Based on the conversion price of HK$7.16 per share, a total number of 28,324,022 conversion shares will be allotted and issued upon full exercise of the conversion rights attached to the Convertible Debenture which represents approximately 6.15% of the then issued share capital of the Company and approximately 5.80% of the then enlarged issued share capital of the Company.

No conversion rights were exercised during the years ended 31 December 2005 and 2006.

34. SHARE PREMIUM

	2006 HK$ million	2005 HK$ million
At 1 January 2005, 31 December 2005 and 31 December 2006	**1,173**	1,173

35. RESERVES AND MINORITY INTERESTS

	Contributed reserve HK$ million	Investment revaluation reserve HK$ million	Capital reserve HK$ million	Exchange fluctuation reserve HK$ million	Retained profits HK$ million	Total HK$ million	Minority interests HK$ million
At 1 January 2005	961	13	49	(196)	616	1,443	512
Prior year adjustments *(Note)*	–	–	–	–	(118)	(118)	–
As restated	961	13	49	(196)	498	1,325	512
Increased investment in subsidiaries	–	–	–	–	–	–	(29)
Deferred tax charged to equity	–	(6)	–	–	–	(6)	–
Arising on consolidation of overseas subsidiaries	–	–	–	11	–	11	(1)
Profit for the year	–	–	–	–	302	302	–
Dividend paid	–	–	–	–	(143)	(143)	(24)
At 31 December 2005 and 1 January 2006	961	7	49	(185)	657	1,489	458
Increased investment in subsidiaries	–	–	–	–	–	–	475
Partial disposal of subsidiaries	–	–	–	–	–	–	51
Subsidiaries reclassified as associates	–	–	–	–	–	–	(2)
Investments available-for-sale reclassified as associates	–	(7)	–	–	–	(7)	–
Surplus on revaluation of investments available-for-sale	–	1	–	–	–	1	–
Surplus on revaluation of other properties	–	–	10	–	–	10	–
Share of reserves of overseas associates	–	–	–	2	–	2	–
Arising on consolidation of overseas subsidiaries	–	–	–	29	–	29	2
Profit for the year	–	–	–	–	360	360	–
Dividend paid	–	–	–	–	(110)	(110)	(21)
At 31 December 2006	961	1	59#	(154)	907	1,774	963

The balance of capital reserve represents property revaluation reserve.

Note:

The cash-generating unit to which goodwill of HK$118 million was allocated was disposed of during 2004. However, the goodwill was not written off in the year of disposal and continued to be carried forward in the balance sheet. Such prior period error was corrected retrospectively by reducing the same amount against the opening balance of the retained profits at 1 January 2005.

36. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Increased investment in subsidiaries

	2006 HK$ million	2005 HK$ million
Net assets acquired:		
Property, plant and equipment	**19**	–
Investments available-for-sale	**1**	–
Deferred tax	**48**	–
Brands and trademarks	**464**	–
Other non-current assets	**8**	–
Cash and bank balances	**136**	–
Pledged deposits with banks	**23**	–
Accounts and bills receivable	**148**	–
Tax recoverable	**39**	–
Inventories	**256**	–
Prepayments, deposits and other assets	**40**	–
Accounts and bills payable	**(169)**	–
Bank loans	**(4)**	–
	1,009	–
Discount on increased investment in subsidiaries	**(27)**	(1)
Goodwill arising on increased investment in subsidiaries	**14**	–
	996	(1)
Represented by:		
Cash consideration paid	**115**	28
Interests in associates	**406**	–
Minority interests	**475**	(29)
	996	(1)

The subsidiaries acquired during the year utilised HK$124 million of the Group's net operating cash flows, generated HK$100 million in respect of financing activities, paid interest and tax for HK$7 million and HK$19 million, respectively.

The subsidiaries acquired during the year contributed HK$1,949 million to the Group's turnover, and HK$92 million to the Group's profit from operations.

The analysis of net inflow/(outflow) of cash and cash equivalents in respect of the increased investment in subsidiaries is as follows:

	2006 HK$ million	2005 HK$ million
Cash consideration paid	**(115)**	(28)
Cash and bank balances of acquired subsidiaries	**136**	–
	21	(28)

36. NOTES TO CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(b) Partial disposal of subsidiaries

Summary of the effects on partial disposal of subsidiaries

	2006 HK$ million	2005 HK$ million
Net assets disposed of:		
Cash and bank balances	**1**	–
Accounts and bills receivable	**2**	–
Inventories	**6**	–
Accounts and bills payable	**(5)**	–
Accrued liabilities and other payables	**(6)**	–
	(2)	–
Gain on partial disposal of subsidiaries	**191**	–
	189	–
Represented by:		
Cash consideration received	**24**	–
Prepayments, deposits and other assets	**69**	–
Other non-current receivables	**189**	–
Amounts due from associates	**2**	–
Release of goodwill	**(44)**	–
Minority interests	**(51)**	–
	189	–

The subsidiaries partial disposed of during the year had no material effect on the profit and cashflow of the Group.

The analysis of net inflow of cash and cash equivalents in respect of the partial disposal of subsidiaries is as follows:

	2006 HK$ million	2005 HK$ million
Cash consideration received	**24**	–
Cash and bank balances of disposed subsidiaries	**(1)**	–
	23	–

36. NOTES TO CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(c) Major non-cash transactions

(i) Subsidiaries reclassified as associates *(Notes 16(c) and (d))*

Summary of the effects of subsidiaries reclassified as associates

	2006 HK$ million	2005 HK$ million
Net assets reclassified:		
Property, plant and equipment	**299**	–
Prepaid lease payments	**13**	–
Accounts and bills receivable	**59**	–
Prepayments, deposits and other assets	**7**	–
Accounts and bills payable	**(12)**	–
Accrued liabilities and other payables	**(23)**	–
Bank loans	**(110)**	–
Minority interests	**(2)**	–
	231	–
Represented by:		
Interests in associates	**8**	–
Amounts due from associates	**223**	–
	231	–

(ii) Acquisition of subsidiaries:

	2006 HK$ million	2005 HK$ million
Net assets acquired:		
Property, plant and equipment	**24**	–
Investments available-for-sale	**–**	70
Cash and bank balances	**6**	–
Accounts and bills receivable	**21**	–
Prepayments, deposits and other assets	**2**	–
Accounts and bills payable	**(8)**	–
Accrued liabilities and other payables	**(2)**	–
Obligations under finance leases	**(13)**	–
Bank loans	**(8)**	–
	22	70
Goodwill arising on acquisition	**58**	1
	80	71
Represented by:		
Amounts due to associates	**80**	–
Discharged through accounts, bills and other receivables	**–**	71
	80	71

The subsidiaries acquired during the years 2005 and 2006 had no material effect on the profit and cashflow of the Group.

36. NOTES TO CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(c) Major non-cash transactions *(Continued)*

(iii) During the year 2005, purchase consideration for associates of HK$202 million was satisfied by the same principle amount of a Convertible Debenture issued by the Company.

37. CONTINGENT LIABILITIES

	2006	2005
	HK$ million	HK$ million
Bills discounted with recourse	**136**	–
Guarantee of trade finance banking facilities granted to a former associate	**15**	23

Towards the end of the 2005, the Hong Kong Inland Revenue Department ("HKIRD") initiated a field audits on certain subsidiaries of the Group for the financial years from 1998 to 2005 for the purpose of ascertaining the Hong Kong tax liabilities of these subsidiaries. The Group has appointed tax advisers in Hong Kong to advise them with respect to the field audits. The HKIRD has granted the Group time to collate information requested by the HKIRD and in the meantime has issued protective assessments to which the Group has filed objections. In addition, additional assessments were issued to certain subsidiaries for which Tax Reserve Certificates of amount HK$45 million have been purchased during the year and HK$35 million have been purchased in March 2007. The Group's tax advisers had advised that at this preliminary stage it is premature and impractical to determine whether the field audits will result in any additional tax liabilities for the subsidiaries. In the circumstances, the directors are of the opinion that the Group's Hong Kong tax provision is sufficient and it is not feasible and they are not able at this time to make any judgement or determination as to whether the field audit will result in any additional tax liability. Accordingly no provision for any liability that may result has been made in the financial statements.

38. COMMITMENTS

	2006 HK$ million	2005 HK$ million
(a) Capital commitments:		
Contracted for	–	1
Authorised, but not contracted for	–	37
	–	38
(b) The future minimum lease payments under non-cancellable operating leases for each of the following periods:		
Land and buildings:		
Not later than one year	**38**	12
Later than one year and not later than five years	**88**	4
Later than five years	**33**	–
	159	16

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average term of 3 years (2005: 3 years) and rentals are fixed for an average of 3 years (2005: 3 years).

	2006 HK$ million	2005 HK$ million
Others :		
Not later than one year	**7**	–
Later than one year and not later than five years	**17**	–
	24	–

(c) At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	2006 HK$ million	2005 HK$ million
Investment properties:		
Not later than one year	**2**	1
Later than one year and not later than five years	**3**	4
	5	5

Property rental income earned during the year was HK$4 million (2005: HK$3 million). The properties are expected to generate rental yields of 0.9% (2005: 4.8%) on an ongoing basis. All of the properties held have committed tenants for the next 2 years.

39. BANKING AND OTHER BORROWING FACILITIES

Certain banking and other borrowing facilities available to the Group were secured by assets for which the aggregate carrying values were as follows:

		2006 HK$ million	2005 HK$ million
(a)	Legal charges over brands and trademarks, account receivables and inventories	**493**	581
(b)	Legal charges over medium-term prepaid lease and buildings in Hong Kong	**59**	79
(c)	Legal charges over investment properties	**394**	40
(d)	Legal charges over plant and equipments	**36**	–
(e)	Pledge of medium-term prepaid lease and buildings outside Hong Kong	**64**	103
(f)	Pledge of marketable securities	**587**	559
(g)	Pledge of bank deposits	**33**	9
		1,666	1,371

40. PROVIDENT FUND SCHEMES

From 1 December 2000 onwards, all the staff of the Group in Hong Kong were offered the opportunity to join the Mandatory Provident Fund Scheme (the "MPF Scheme"), introduced by the Hong Kong Special Administrative Region. Under the MPF Scheme, the employees are required to contribute 5% of their monthly salaries up to a maximum of HK$1,000 per employee and they can choose to make additional contributions. The employer's monthly contributions are calculated at 5% of each employee's monthly salaries up to a maximum of HK$1,000. The employees are entitled to 100% of the employer's mandatory contributions upon their retirement at the age of 65 years old, death or total incapacity.

The PRC employees of the subsidiaries in the PRC are members of the pension scheme operated by the PRC local government. The subsidiaries are required to contribute a certain percentage of the relevant payroll of these employees to the pension scheme to fund the benefits. The only obligation for the Group with respect of the pension scheme is the required contribution under the pension scheme.

The staff in United States of America who wish to participate in the plan may contribute upto the legal limits, to which a specified percentage is matched by the subsidiaries in accordance with their plans.

The Group also operates various retirement benefit schemes for qualifying employees of its overseas subsidiaries, including subsidiaries in the Denmark, Singapore and Malaysia. The assets of the retirement benefit schemes are held separately from those of the Group, in funds under control of trustees. The Group contributes a certain percentage of the relevant payroll costs to the schemes, which contribution is matched by employees.

41. SEGMENT REPORTING

(a) Business segments
The Group comprises of:

	Groups	Principal activities
(i)	Branded distribution	Trading of audio & video products, licensing business and securities trading
(ii)	Electronics manufacturing services	Manufacture and trading of electronic and computer products

2006	Branded distribution HK$ million	Electronics manufacturing services HK$ million	Inter-segment elimination HK$ million	Unallocated HK$ million	Consolidated HK$ million
Turnover:					
Sales of goods to external customers	6,608	2,578	–		9,186
Royalty income from external customers	37	–	–		37
Securities trading	89	–	–		89
Inter-segment sales	–	40	(40)		–
Total	6,734	2,618	(40)		9,312
Result:					
Segment results	234	46	–		280
Unallocated corporate expenses					(23)
					257
Loss on disposal of property, plant and equipment	(2)	(19)	–	–	(21)
Gain on disposal of investment properties	1	–	–	–	1
Gain on partial disposal of subsidiaries	191	–	–	–	191
Net increase in fair value of investment properties	64	–	–	20	84
Discount on increased investment in subsidiaries	26	1	–	–	27
Impairment loss recognised in respect of interests in associates	(58)	–	–	–	(58)
Impairment loss recognised in respect of investments available-for-sale	(16)	–	–	–	(16)
Share of loss of associates	(1)	(4)	–	–	(5)
Interest income					29
Interest expenses					(95)
Taxation					(34)
Profit for the year					360

41. SEGMENT REPORTING *(Continued)*

(a) Business segments *(Continued)*

2006	Branded distribution HK$ million	Electronics manufacturing services HK$ million	Inter-segment elimination HK$ million	Unallocated HK$ million	Consolidated HK$ million
Assets:					
Segment assets	5,720	3,228	(2,026)	257	7,179
Interests in associates	797	11	–	–	808
	6,517	3,239	(2,026)	257	7,987
Liabilities:					
Segment liabilities	4,178	1,897	(2,399)	355	4,031
Other information:					
Depreciation and amortisation	58	51		8	117
Capital expenditure	367	39		1	407
Allowance of doubtful debts	34	–		–	34

2005	Branded distribution HK$ million	Electronics manufacturing services HK$ million	Inter-segment elimination HK$ million	Unallocated HK$ million	Consolidated HK$ million
Turnover:					
Sales of goods to external customers	3,120	2,331	–		5,451
Royalty income from external customers	386	–	–		386
Security trading	201	–	–		201
Inter-segment sales	20	123	(143)		–
Total	3,727	2,454	(143)		6,038
Result:					
Segment results	426	(54)	–		372
Unallocated corporate expenses					(7)
					365
(Loss)/gain on disposal of property, plant and equipment	–	(1)	–	1	–
Net increase in fair value of investment properties	1	–	–	–	1
Share of loss of associates	(1)	–	–	–	(1)
Interest income					6
Interest expenses					(56)
Taxation					(13)
Profit for the year					302

41. SEGMENT REPORTING *(Continued)*

(a) Business segments *(Continued)*

2005	Branded distribution	Electronics manufacturing services	Inter-segment elimination	Unallocated	Consolidated
	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million
Assets: *(Restated)*					
Segment assets	5,010	3,224	(2,086)	148	6,296
Interests in associates	406	–	–	–	406
	5,416	3,224	(2,086)	148	6,702
Liabilities:					
Segment liabilities	3,624	1,779	(2,212)	345	3,536
Other information:					
Depreciation and amortisation	45	72		7	124
Capital expenditure	49	25		3	77
Allowance of doubtful debts	–	3		–	3

Royalty Income

The gross royalty income consists of license income of HK$360 million earned from an independent third party, before expenses. During the year 2005, the Group granted the independent third party the rights to use the Group's brands and trademarks under certain product categories in certain countries for sales made in 2005.

Security Trading

Security trading includes the gain on derivative securities investments amounting to HK$201 million, before expenses, earned from an independent third party arising from an option in the shares of SEC which was exercised on 30 December 2005. The exercisable period of the option was within three years from 24 June 2005, the date of the option agreement.

(b) Geographical segments

	Turnover		Carrying amount of segment assets	(Restated)	Capital expenditure incurred during the year	
	2006	2005	**2006**	2005	**2006**	2005
	HK$ million	HK$ million	**HK$ million**	HK$ million	**HK$ million**	HK$ million
Asia	**4,022**	3,784	**5,688**	4,033	**407**	77
North America	**4,277**	1,580	**321**	1,070	**–**	–
Europe	**1,013**	674	**198**	288	**–**	–
Unallocated	**–**	–	**1,780**	1,311	**–**	–
	9,312	6,038	**7,987**	6,702	**407**	77

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES

The table below lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results of the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would result in particulars of excessive length.

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Group 2006	2005	Principal activities
Directly held:					
Broadland Investments Limited	British Virgin Islands	US$106	**100%**	100%	Investment holding
The Grande Capetronic Holdings Limited	British Virgin Islands	US$100	**100%**	100%	Investment holding
The Grande (Nominees) Limited	British Virgin Islands	US$1	**100%**	100%	Investment holding
The Grande (Secretaries) Service Limited	British Virgin Islands	US$1	**100%**	100%	Investment holding
The Grande Group Limited	Singapore	S$5,000,000	**100%**	100%	Provision of management services
Grande N.A.K.S. Ltd	British Virgin Islands	US$10,000	**100%**	100%	Investment holding
The Grande Industries Limited	British Virgin Islands	US$101	**100%**	100%	Investment holding
The Grande Capital Group Limited	British Virgin Islands	US$1	**100%**	100%	Corporate finance and investment holding
Sheer Profit Corporation	British Virgin Islands	US$1	**100%**	100%	Investment holding
Indirectly held:					
Sansui Enterprises Limited	British Virgin Islands	US$1	**100%**	100%	Trading of audio and video products
Sansui Acoustics Research Corporation	British Virgin Islands	US$2	**100%**	100%	Brands and trademarks holding
Nakamichi Designs Limited	British Virgin Islands	US$50,000	**100%**	100%	Brands and trademarks holding

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Group 2006	2005	Principal activities
Indirectly held: *(Continued)*					
Nakamichi Enterprises Limited	British Virgin Islands	US$10,001	**100%**	100%	Trading of audio and video products
Nakamichi Research (S) Pte Ltd	Singapore	S$600,000	**100%**	100%	Research and development
Nakamichi Corporation Limited	Singapore	S$2	**100%**	100%	Trading of audio and video products
Sound View International Limited	Hong Kong	HK$100,000	**100%**	100%	Trading of audio and video products
Capetronic Display Devices Holdings Limited	British Virgin Islands	US$100	**100%**	100%	Investment holding
The Capetronic Group Limited (Formerly Lafe International Holdings Limited)	Cayman Islands	HK$62,844,690	**100%**	100%	Investment holding
The Grande Properties Limited	Hong Kong	HK$10,000,000	**100%**	100%	Property holding
Akai Electric Co., Ltd.	Japan	JPY 4,684,650,000	**88%**	88%	Trading of audio and video products
Phenomenon Agents Limited	British Virgin Islands	US$50,000	**88%**	88%	Brands and trademarks holding
N.A.K.S. Enterprises Limited	British Virgin Islands	US$2	**88%**	88%	Trading of audio and video products
Akai Sales Pte. Ltd.	Singapore	S$2	**88%**	88%	Trading of audio and video products
Nakamichi Corporation	Japan	JPY 209,640,000	**100%**	100%	Trading of audio and video products
Tomei Kawa Electronics International Limited	British Virgin Islands	US$1	**100%**	100%	Brands and trademarks holding

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Group 2006	2005	Principal activities
Indirectly held: *(Continued)*					
Nakamichi Corporation Berhad#	Malaysia	RM55,410,180	**60%**	60%	Manufacture of consumer electronic products
Dorset International Overseas Limited	British Virgin Islands	US$1	**100%**	100%	Property holding
S&T International Distribution Limited	British Virgin Islands	US$1	**100%**	100%	Investment holding
Emerson Radio Corp.^ (Note 16(e))	United States of America	US$529,000	**51%**	37%	Engaged in the consumer electronics industry
The Alpha Capital Services Ltd	British Virgin Islands	US$100	**100%**	100%	Corporate finance
The Alpha Capital Limited	Hong Kong	HK$13,121,760	**100%**	100%	Provision of corporate finance and financial advisory services
Hi-Tech Precision Products Ltd	British Virgin Islands	US$1	**100%**	100%	Investment holding

Listed on the Kuala Lumpur Stock Exchange.
^ Listed on the American Stock Exchange of United States of America.

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Group 2006	Percentage of equity attributable to the Group 2005	Principal activities
Indirectly held: *(Continued)*					
Vigers Property Management Services (Hong Kong) Limited	Hong Kong	HK$8,000,000	**100%**	100%	Property management
Vigers Realty Limited	Hong Kong	HK$10,000	**100%**	100%	Realty services
Vigers Appraisal and Consulting Limited	Hong Kong	HK$1,000,000	**100%**	100%	Assets appraisal services
Vigers Building Consultancy Limited	Hong Kong	HK$100	**100%**	100%	Building consultancy services
Vigers International Properties Pte. Ltd. (Formerly The Grande International Properties Pte Ltd)	Singapore	S$1,000,000	**100%**	–	Property holding
Tomei Technologies Ltd	British Virgin Islands	US$100	**100%**	100%	Investment holding
Tomei Asia Limited	British Virgin Islands	US$1	**100%**	100%	Manufacture of mechadecks and video products
Tomei Shoji Limited	British Virgin Islands	US$1	**85%**	100%	Manufacture of mechadecks and video products
Lafe Technology Limited+	Bermuda	US$40,000,000	**69%**	67%	Investment holding
Lafe Computer Magnetics Limited	Hong Kong	HK$10,000,000	**69%**	67%	Marketing agent

+ Listed on the Singapore Stock Exchange.

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Group 2006	2005	Principal activities
Indirectly held: *(Continued)*					
Lafe Management Services Limited	Hong Kong	HK$20	**69%**	67%	Procurement agent
Lafe Investment Limited	Hong Kong	HK$20	**69%**	67%	Property holding
Lafe Electronic Components (Panyu) Co. Limited	The People's Republic of China	HK$17,766,220	**69%**	67%	Manufacture of computer magnetic heads
Lafe Peripherals International Limited	British Virgin Islands	US$100	**69%**	67%	Trading of computer magnetic heads
Lafe (China) Corporation Limited	British Virgin Islands	US$100	**69%**	67%	Manufacture of computer magnetic heads
E-Zone Group Holdings Limited	British Virgin Islands	US$50,000	**100%**	100%	Investment holding
Capetronic Group Ltd	British Virgin Islands	US$10,000	**85%**	100%	Investment holding
The Grande Group (Hong Kong) Limited	Hong Kong	HK$20	**100%**	100%	Provision of administration services
Polycrown Company Limited	Hong Kong	HK$100,000	**86%**	86%	Property holding
South Sea International Press Limited	Hong Kong	HK$10,000,000	**86%**	86%	Manufacture and sale of printed products

43. COMPARATIVE FIGURES

Certain comparative figures have been restated as explained in notes 21 and 35 to the financial statements.

44. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 11 April 2007.