Notes to the Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2 provides information on the changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31st December 2006 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and a jointly controlled entity.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that investment property (see note 1(g)) and financial instruments classified as available-for-sale (see note 1(f)) are stated at their fair value as explained in the accounting policies set out below.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, 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 judgements 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.

Judgements made by management in the application of HKFRSs that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 35.

Notes to the Financial Statements *(Continued)*

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Subsidiaries and minority interest

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a controlled subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 1(k)).

(d) Associates and jointly controlled entities

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group or Company and other parties, where the contractual arrangement establishes that the Group or Company and one or more of the other parties share joint control over the economic activity of the entity.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Associates and jointly controlled entities *(Continued)*

An investment in an associate or a jointly controlled entity is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's or the jointly controlled entity's net assets. The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the associates and jointly controlled entities for the year, including any impairment loss on goodwill relating to the investment in associates and jointly controlled entities recognised for the year (see note 1(e) and (k)).

When the Group's share of losses exceeds its interest in the associate or the jointly controlled entity, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or the jointly controlled entity. For this purpose, the Group's interest in the associate or the jointly controlled entity is the carrying amount of the investment under equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the jointly controlled entity.

Unrealised profits and losses resulting from transactions between the Group and its associates and jointly controlled entities are eliminated to the extent of the Group's interest in the associate or jointly controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

(e) Goodwill

Goodwill represents the excess of the cost of a business combination or an investment in an associate over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 1(k)). In respect of associates, the carrying amount of goodwill is included in the carrying amount of the interest in the associate.

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate is recognised immediately in profit or loss.

On disposal of a cash generating unit or an associate during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

Notes to the Financial Statements *(Continued)*

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Other investments in securities

The Group's and the Company's policies for investments in debt and equity securities, other than investments in subsidiaries, associates and jointly controlled entities, are as follows:

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses (see note 1(k)).

Other investments in securities are classified as available-for-sale securities. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised directly in equity, except for foreign exchange gains and losses in respect of monetary items such as debt securities which are recognised directly in profit or loss. Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss. When these investments are derecognised or impaired (see note 1(k)), the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss.

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

(g) Investment property

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 1(j)) to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use.

Investment properties are stated in the balance sheet at fair value. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 1(u)(iii).

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note 1(j)), and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note 1(j).

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Other property, plant and equipment

The following items of property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 1(k)):

– land held under operating leases and buildings thereon, where the fair values of the leasehold interest in the land and buildings cannot be measured separately at the inception of the lease and the building is not clearly held under an operating lease;

– buildings held for own use which are situated on leasehold land, where the fair value of the building could be measured separately from the fair value of the leasehold land at the inception of the lease (see note 1(j)); and

– other items of plant and equipment.

Where land and buildings are transferred from investment properties, cost represents the fair value at the date of change in use of the properties.

In preparing these financial statements, the Group has relied upon the provision set out in paragraph 80A of HKAS 16 "Property, plant and equipment" issued by the HKICPA, with the effect that the fair value of investment property transferred to land and buildings in prior years has been treated as the deemed cost of those land and buildings at the date of transfer. Such previously revalued land and buildings have not been revalued to fair value at the balance sheet date and are stated at deemed cost less accumulated depreciation and impairment losses and will not be revalued in future years.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal. Any related revaluation surplus is transferred from the revaluation reserve to retained profits.

Depreciation is calculated to write off the cost or valuation of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

(i) Leasehold land and buildings situated thereon over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion.

(ii) Other fixed assets at the following rates:

Plant and machinery	–	20% to 25% per annum
Furniture and fixtures	–	20% to 25% per annum
Moulds and tools	–	10% to 30% per annum
Vehicles and pleasure craft	–	30% per annum

Notes to the Financial Statements *(Continued)*

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Other property, plant and equipment *(Continued)*

(iii) No depreciation is provided in respect of construction in progress until it is ready for its intended use.

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(i) Intangible assets (other than goodwill)

Intangible assets that are acquired by the Group are stated in the balance sheet at cost less accumulated amortisation and impairment losses (see note 1(k)). Amortisation of intangible assets is charged to profits or loss on a straight line basis over the assets' estimated useful lives. Club memberships are amortised from the date they are available for use and their estimated useful lives are 20 years. Both the period and method of amortisation are reviewed annually.

(j) Leased assets

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exceptions:

– property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis, and if classified as investment property, is accounted for as if held under a finance lease (see note 1(g)); and

– land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group or taken over from the previous lessee.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Leased assets *(Continued)*

(ii) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 1(h). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(k). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period in which they are incurred.

(iii) Operating lease charges

Where the Group has the use of assets under operating leases, payments made under the leases are charged to profit or loss in equal installments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made.

(k) Impairment of assets

(i) Impairment of investments in debt and equity securities and other receivables

Investments in debt and equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

– For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities are not reversed.

Notes to the Financial Statements *(Continued)*

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Impairment of assets *(Continued)*

(i) Impairment of investments in debt and equity securities and other receivables (Continued)

– For financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

– For available-for-sale securities, the cumulative loss that had been recognised directly in equity is removed from equity and is recognised in profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised directly in equity.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment (other than properties carried at revalued amounts);

– pre-paid interests in leasehold land classified as being held under an operating lease;

– intangible assets;

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Impairment of assets *(Continued)*

(ii) Impairment of other assets (Continued)

– investments in subsidiaries, associates and jointly controlled entities; and

– goodwill

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

Notes to the Financial Statements *(Continued)*

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Impairment of assets *(Continued)*

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 1(k)(i) and (ii)).

Impairment losses recognised in an interim period in respect of goodwill, available-for-sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

(l) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the first-in first-out method and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(m) Properties held for resale

Properties held for resale are stated at the lower of specific identified cost and estimated net realisable value. Net realisable value represents the estimated selling price less estimated costs to be incurred in selling the property.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 1(k)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see note 1(k)).

(o) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings using the effective interest method.

(p) Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(q) Cash and cash equivalents

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. 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 for the purpose of the consolidated cash flow statement.

(r) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Notes to the Financial Statements *(Continued)*

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Employee benefits *(Continued)*

(ii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(s) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Income tax *(Continued)*

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(t) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantee are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the “holder”) for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Financial guarantees issued, provisions and contingent liabilities *(Continued)*

(i) Financial guarantees issued (Continued)

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of assets. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recongised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 1(t)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) Other provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Sale of properties

Revenue arising from the sale of properties held for sale is recognised upon the signing of the sale and purchase agreement or the issue of an occupation permit by the relevant government authorities, whichever is the later.

(iii) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable.

(iv) Dividends

– Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

– Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(v) Interest income

Interest income is recognised as it accrues using the effective interest method.

(vi) Air-conditioning, management and maintenance service charges from tenants

Air-conditioning, management and maintenance service charges from tenants is recognised when the related services are rendered.

Notes to the Financial Statements *(Continued)*

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(v) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items, including goodwill arising on consolidation of foreign operations are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity.

On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

(w) Borrowing costs

Borrowing costs are expensed in profit or loss in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

(x) Related parties

For the purposes of these financial statements, parties are 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 policy decisions, or has joint control over the Group;

(ii) the Group or and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(x) Related parties *(Continued)*

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to note 1(x)(i) or is an entity under the control, joint control or significant influence of such individuals; or

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

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(y) 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 financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

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.

For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between Group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

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

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financing expenses.

2. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group.

Note 1 summarises the accounting policies of the Group after the adoption of these developments to the extent that they are relevant to the Group. The adoption of these developments did not result in significant changes in accounting policies for the current and prior accounting periods reflected in these financial statements, except as follows.

Financial guarantees issued (Amendments to HKAS 39, Financial instruments: recognition and measurement: financial guarantee contracts)

In prior years, financial guarantees issued by the Group were disclosed as contingent liabilities in accordance with HKAS 37, Provisions, contingent liabilities and contingent assets. No provisions were made in respect of these guarantees unless it was more likely than not that the guarantee would be called upon.

With effect from 1st January 2006, in order to comply with the amendments to HKAS 39 in respect of financial guarantee contracts, the Group has changed its accounting policy for financial guarantees issued. Under the new policy, financial guarantees issued are accounted for as financial liabilities under HKAS 39 and measured initially at fair value, where the fair value can be reliably measured. Subsequently, they are measured at the higher of the amount initially recognised, less accumulated amortisation, and the amount of the provision, if any, that should be recognised in accordance with HKAS 37. Further details of the new policy are set out in note 1(t)(i).

The adoption of this accounting policy has not affected the Group's profit for the years ended 31st December 2005 and 2006, or the Company's and the Group's net assets as at those year end dates.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 36).

3. TURNOVER

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are the manufacture and sale of plastic, electronic and stuffed toys and model trains, property investment, investment holding and trading.

Turnover represents the sales value of goods supplied to customers, rental income, proceeds from sales of investments and investment income. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2006	2005
	HK$'000	*HK$'000*
Sale of goods	**617,833**	515,319
Gross rentals from investment properties	**25,378**	24,491
Investment income – dividends from unlisted investments	**5**	4
	643,216	539,814

4. OTHER REVENUE AND NET EXPENSE

	2006	2005
	HK$'000	*HK$'000*
(a) Other revenue		
Interest income	**586**	222
Air conditioning, management and maintenance service charges from tenants	**5,339**	4,965
Waiver of amounts due to related party and related companies	**2,960**	–
Others	**4,527**	4,293
	13,412	9,480
(b) Other net expense		
Net gain on disposal of properties held for resale	**80**	–
Net gain on disposal of fixed assets	**220**	101
Net exchange loss	**(1,826)**	(3,234)
	(1,526)	(3,133)

Notes to the Financial Statements *(Continued)*

5. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

	2006 HK$'000	2005 HK$'000
(a) Finance costs		
Interest on bank borrowings repayable within 5 years	**9,100**	8,688
Interest on advances from directors	**1,808**	4,913
Interest on advances from shareholders	**1,325**	2,897
Interest on amounts due to related companies	**55**	130
Interest on other loans	**146**	247
Finance charges on obligations under finance leases	**148**	187
	12,582	17,062
(b) Other items		
Salaries, wages and other benefits	**176,006**	159,274
Employer's contributions to defined contribution retirement plans, net of forfeited contributions of HK$115,000 (2005: HK$58,000) *(note 32)*	**4,982**	5,731
	180,988	165,005
Cost of inventories	**409,865**	339,902
Amortisation of intangible assets	**34**	33
Depreciation		
– owned assets	**21,787**	31,394
– assets held under finance leases	**1,008**	771
Impairment		
– fixed assets	**4,834**	3,195
– goodwill (included in share of profits less losses of associates)	**–**	9,037
Auditors' remuneration	**1,856**	1,758
Operating lease charges		
– rental on land and buildings	**11,251**	12,505
– other rental	**157**	513
Rentals receivable from investment properties less direct outgoings of HK$2,131,000 (2005: HK$2,333,000)	**(23,247)**	(21,503)

Cost of inventories includes HK$129,822,000 (2005: HK$123,314,000) relating to staff costs, depreciation charges, impairment loss in respect of fixed assets and operating lease charges, which amount is also included in the respective total amounts disclosed separately above and in the income statement for each of these types of expenses.

6. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	2006 HK$'000	2005 HK$'000
Current tax – Hong Kong Profits Tax		
Provision for the year	**–**	17
Under-provision in respect of prior years	**4**	–
	4	17
Current tax – Overseas including the PRC		
Provision for the year	**19,033**	7,446
Under/(over)-provision in respect of prior years	**249**	(2,311)
	19,282	5,135
Deferred tax		
Origination and reversal of temporary differences *(note 27(b))*	**9,234**	10,753
	28,520	15,905

The provision for Hong Kong Profits Tax for 2006 is calculated at 17.5% (2005: 17.5%) of the estimated assessable profits for the year. Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2006 HK$'000	2005 HK$'000
Profits before taxation	**58,492**	96,252
Notional tax on profit before taxation, calculated at the rates applicable to profits in the countries concerned	**14,220**	15,043
Tax effect of non-deductible expenses	**14,957**	8,563
Tax effect of non-taxable income	**(1,970)**	(5,762)
Tax effect of tax losses utilised	**–**	(19)
Tax effect of unused tax losses not recognised	**662**	–
Under/(over)-provision in prior years	**253**	(2,311)
Others	**398**	391
Actual tax expense	**28,520**	15,905

Notes to the Financial Statements *(Continued)*

7. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	Directors' fees *HK$'000*	Salaries, allowances and benefits in kind *HK$'000*	Discretionary bonuses *HK$'000*	Retirement scheme contributions *HK$'000*	2006 Total *HK$'000*
Executive Directors:					
Kenneth Ting Woo-shou	**70**	**588**	**–**	**59**	**717**
Ivan Ting Tien-li					
(appointed on 4th April 2006)	**40**	**437**	**–**	**33**	**510**
Patrick Leung Shing-cheung					
(resigned on 4th April 2006)	**15**	**413**	**200**	**16**	**644**
Non-executive Directors:					
Dennis Ting Hok-shou	**60**	**334**	**–**	**33**	**427**
Moses Cheng Mo-chi	**50**	**–**	**–**	**–**	**50**
Independent Non-executive Directors:					
Liu Chee-ming	**100**	**–**	**–**	**–**	**100**
Floyd Chan Tsoi-yin	**100**	**–**	**–**	**–**	**100**
Andrew Yao Cho-fai	**100**	**–**	**–**	**–**	**100**
	535	**1,772**	**200**	**141**	**2,648**

	Directors' fees *HK$'000*	Salaries, allowances and benefits in kind *HK$'000*	Discretionary bonuses *HK$'000*	Retirement scheme contributions *HK$'000*	2005 Total *HK$'000*
Executive Directors:					
Kenneth Ting Woo-shou	70	588	–	59	717
Patrick Leung Shing-cheung	60	1,200	100	68	1,428
Non-executive Directors:					
Dennis Ting Hok-shou	60	334	–	33	427
Moses Cheng Mo-chi	50	–	–	–	50
Independent Non-executive Directors:					
Liu Chee-ming	100	–	–	–	100
Floyd Chan Tsoi-yin	100	–	–	–	100
Andrew Yao Cho-fai	100	–	–	–	100
	540	2,122	100	160	2,922

8. INDIVIDUAL WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, none are (2005: one is) a Director whose emoluments are set out in note 7. The aggregate of the emoluments in respect of the five (2005: other four) individuals are as follows:

	2006	2005
	HK$'000	*HK$'000*
Salaries and other emoluments	**6,175**	4,754
Discretionary bonuses	**1,044**	766
Pension scheme contributions	**821**	330
	8,040	5,850

The emoluments of the five (2005: four) individuals with the highest emoluments are within the following bands:

	2006	2005
	Number of employees	Number of employees
Nil to HK$1,000,000	**–**	–
HK$1,000,001 to HK$1,500,000	**2**	3
HK$1,500,001 to HK$2,000,000	**3**	1

9. PROFIT/(LOSS) ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a profit of HK$85,130,000 (2005: loss HK$8,484,000) which has been dealt with in the financial statements of the Company.

10. DIVIDEND

Dividend payable to equity shareholders of the Company attributable to the year

	2006	2005
	HK$'000	*HK$'000*
Final dividend proposed after the balance sheet date of HK1.5 cents per ordinary share (2005: HK nil cents per ordinary share)	**9,981**	–

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

11. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of HK$29,972,000 (2005: HK$80,347,000) and the weighted average of 665,412,000 ordinary shares (2005: 665,412,000 ordinary shares) in issue during the year.

(b) Diluted earnings per share

The diluted earnings per share is not presented as the Company does not have dilutive potential ordinary shares outstanding during both 2005 and 2006.

12. SEGMENT REPORTING

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

Business segments

The Group comprises the following main business segments:

Toys and model trains : The manufacture and sale of plastic, electronic and stuffed toys and model trains.

Property investment : The leasing of office premises, industrial building and residential units to generate rental income and to gain from the appreciation in the properties' value in the long-term.

Investment holding and trading : The investment in and trading of listed securities.

	Toys and model trains		Property investment		Investment holding and trading		Unallocated		Inter-segment elimination		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue from external customers	**617,833**	515,319	**25,378**	24,491	**5**	4	**–**	–	**–**	–	**643,216**	539,814
Inter-segment revenue	**–**	–	**979**	892	**–**	–	**–**	–	**(979)**	(892)	**–**	–
Other revenue from external customers	**3,304**	2,350	**5,908**	5,525	**481**	82	**173**	1,301	**–**	–	**9,866**	9,258
Total	**621,137**	517,669	**32,265**	30,908	**486**	86	**173**	1,301	**(979)**	(892)	**653,082**	549,072
Segment result	**64,544**	33,783	**63,922**	82,723	**(21,934)**	(14,214)	**(1,953)**	(408)			**104,579**	101,884
Unallocated operating income and expenses											**806**	539
Profit from operations											**105,385**	102,423
Finance costs											**(12,582)**	(17,062)
Share of profits less losses of associates							**(34,908)**	10,891			**(34,908)**	10,891
Share of profit of a jointly controlled entity							**597**	–			**597**	–
Income tax											**(28,520)**	(15,905)
Profit after taxation											**29,972**	80,347
Depreciation and amortisation for the year	**22,817**	28,184	**–**	3,347	**34**	33	**–**	687	**–**	–	**22,851**	32,251
Impairment of fixed assets	**4,834**	3,195	**–**	–	**–**	–	**–**	–	**–**	–	**4,834**	3,195

Notes to the Financial Statements *(Continued)*

12. SEGMENT REPORTING *(Continued)*

Business segments *(Continued)*

	Toys and model trains		Property investment		Investment holding and trading		Unallocated inter-company and other balances		Inter-segment elimination		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment assets	**368,672**	347,423	**555,244**	525,423	**8,960**	739	**314,978**	273,762	**(308,568)**	(269,895)	**939,286**	877,452
Interests in associates and jointly controlled entity											**54,594**	163,741
Unallocated assets											**24,085**	19,590
Total assets											**1,017,965**	1,060,783
Segment liabilities	**361,475**	307,759	**42,079**	43,168	**77,418**	51,729	**116,788**	261,211	**(308,568)**	(269,895)	**289,192**	393,972
Unallocated liabilities											**75,405**	55,792
Total liabilities											**364,597**	449,764
Capital expenditure incurred during the year	**21,973**	30,960	**–**	–	**–**	–	**–**	–	**–**	–	**21,973**	30,960

Geographical segments

The Group's business is managed on a worldwide basis, but participates in four principal economic environments. Hong Kong and China is a major market for the Group's toys and model trains and property investment, and it is the location of most of its toys and model trains manufacturing. Toys and model trains are also sold to North America, Europe and other locations. The Group also has investments and investment properties in North America.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets and capital expenditure are based on the geographical location of assets.

	Hong Kong and China		North America		Europe		Others	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue from external customers	**75,408**	62,182	**355,454**	171,649	**172,440**	289,604	**39,914**	16,379
Segment assets	**999,749**	913,240	**137,718**	144,334	**110,387**	89,773	**–**	–
Capital expenditure incurred during the year	**18,816**	26,585	**695**	525	**2,462**	3,850	**–**	–

13. FIXED ASSETS

The Group

	Land and buildings held for own use carried at cost		Construction			Investment property			Interests in leasehold land held for own use under operating	
	In Hong Kong	Outside Hong Kong	in progress	Equipment	Sub-total	In Hong Kong	Outside Hong Kong	Sub-total	lease	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost or valuation:										
At 1st January 2005	5,368	28,438	2,679	447,566	484,051	393,961	73,402	467,363	6,963	958,377
Exchange adjustments	–	(1,948)	–	(2,652)	(4,600)	–	107	107	–	(4,493)
Transfer	26,359	4,734	(4,734)	–	26,359	17,311	(2,962)	14,349	(5,622)	35,086
Additions	–	155	2,055	28,750	30,960	–	–	–	–	30,960
Disposals	–	–	–	(34,511)	(34,511)	(1,680)	(33,547)	(35,227)	–	(69,738)
Surplus on revaluation	–	–	–	–	–	57,279	1,000	58,279	–	58,279
At 31st December 2005	31,727	31,379	–	439,153	502,259	466,871	38,000	504,871	1,341	1,008,471
Representing:										
Cost	1,038	31,379	–	439,153	471,570	–	–	–	1,341	472,911
Valuation – 2005	30,689	–	–	–	30,689	466,871	38,000	504,871	–	535,560
	31,727	31,379	–	439,153	502,259	466,871	38,000	504,871	1,341	1,008,471
At 1st January 2006	**31,727**	**31,379**	**–**	**439,153**	**502,259**	**466,871**	**38,000**	**504,871**	**1,341**	**1,008,471**
Exchange adjustments	**–**	**2,668**	**–**	**3,643**	**6,311**	**–**	**–**	**–**	**–**	**6,311**
Additions	**–**	**390**	**–**	**21,583**	**21,973**	**–**	**–**	**–**	**–**	**21,973**
Disposals	**–**	**–**	**–**	**(4,688)**	**(4,688)**	**–**	**–**	**–**	**–**	**(4,688)**
Surplus on revaluation	**–**	**–**	**–**	**–**	**–**	**34,341**	**2,000**	**36,341**	**–**	**36,341**
At 31st December 2006	**31,727**	**34,437**	**–**	**459,691**	**525,855**	**501,212**	**40,000**	**541,212**	**1,341**	**1,068,408**
Representing:										
Cost	**31,727**	**34,437**	**–**	**459,691**	**525,855**	**–**	**–**	**–**	**1,341**	**527,196**
Valuation – 2006	**–**	**–**	**–**	**–**	**–**	**501,212**	**40,000**	**541,212**	**–**	**541,212**
	31,727	**34,437**	**–**	**459,691**	**525,855**	**501,212**	**40,000**	**541,212**	**1,341**	**1,068,408**
Accumulated amortisation and depreciation:										
At 1st January 2005	3,282	9,621	–	367,113	380,016	–	3,333	3,333	2,072	385,421
Exchange adjustments	–	(237)	–	(1,859)	(2,096)	–	–	–	–	(2,096)
Transfer	(2,678)	–	–	–	(2,678)	–	–	–	(1,704)	(4,382)
Charge for the year	532	765	–	27,534	28,831	–	3,334	3,334	53	32,218
Impairment loss	–	–	–	3,195	3,195	–	–	–	–	3,195
Written back on disposals	–	–	–	(32,014)	(32,014)	–	(6,667)	(6,667)	–	(38,681)
At 31st December 2005	1,136	10,149	–	363,969	375,254	–	–	–	421	375,675
At 1st January 2006	**1,136**	**10,149**	**–**	**363,969**	**375,254**	**–**	**–**	**–**	**421**	**375,675**
Exchange adjustments	**–**	**333**	**–**	**2,719**	**3,052**	**–**	**–**	**–**	**–**	**3,052**
Charge for the year	**762**	**702**	**–**	**21,331**	**22,795**	**–**	**–**	**–**	**22**	**22,817**
Impairment loss	**–**	**–**	**–**	**4,834**	**4,834**	**–**	**–**	**–**	**–**	**4,834**
Written back on disposals	**–**	**–**	**–**	**(4,335)**	**(4,335)**	**–**	**–**	**–**	**–**	**(4,335)**
At 31st December 2006	**1,898**	**11,184**	**–**	**388,518**	**401,600**	**–**	**–**	**–**	**443**	**402,043**
Net book value:										
At 31st December 2006	**29,829**	**23,253**	**–**	**71,173**	**124,255**	**501,212**	**40,000**	**541,212**	**898**	**666,365**
At 31st December 2005	30,591	21,230	–	75,184	127,005	466,871	38,000	504,871	920	632,796

Notes to the Financial Statements *(Continued)*

13. FIXED ASSETS *(Continued)*

(a) The analysis of net carrying value of investment properties is as follows:

	2006	2005
	HK$'000	*HK$'000*
At valuation:		
In Hong Kong		
Medium-term leases	**501,212**	466,871
Outside Hong Kong		
Medium-term leases	**40,000**	38,000

All investment properties of the Group were revalued as at 31st December 2006 on an open market value basis, by either making reference to the comparable sales evidence in the relevant locality, or otherwise, by capitalising the current rent passing derived from the existing tenancies with the provision for any reversionary income potential. The valuations were carried out by an independent firm of surveyors, DTZ Debenham Tie Leung, who have among their staff, Fellows of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being revalued.

(b) The analysis of net book value of other properties is as follows:

	2006	2005
	HK$'000	*HK$'000*
Medium-term leases in Hong Kong	**30,727**	31,511
Freehold outside Hong Kong	**23,253**	21,230
	53,980	52,741
Representing:		
Land and buildings carried at cost	**53,082**	51,821
Interest in leasehold land held for own use under operating lease	**898**	920
	53,980	52,741

During the year ended 31st December 2005, certain land and buildings held for own use by the Group were leased out to third parties for rental income. In accordance with HKAS 16 and HKAS 40, the property was transferred from land and buildings to investment property at fair value with the surplus on revaluation net of deferred tax of HK$35,005,000 being recognised in the land and buildings revaluation reserve, see note 28.

13. FIXED ASSETS *(Continued)*

(c) Impairment loss

During the year, the Group assessed the recoverable amount of the Group's moulds and equipment. Based on this assessment, the carrying amount of certain moulds and equipment was written down by HK$4,834,000 (2005: HK$3,195,000) (included in "Other operating expenses"). The estimates of recoverable amount were based on the moulds' and equipments' fair value less costs to sell, determined by reference to anticipated future use.

(d) Secured assets

Certain fixed assets of the Group were mortgaged to various banks to secure banking facilities granted to the Group. Details are disclosed in note 25.

(e) Fixed assets held under finance leases

The Group leases production plant and machinery under finance leases expiring in four to five years. At the end of the lease term the Group has the option to purchase the equipment at a price deemed to be a bargain purchase option. None of the leases includes contingent rentals. During the year, additions to plant and machinery financed by new finance leases amounted to HK$Nil (2005: HK$3,755,000). At the balance sheet date, the net book value of plant and machinery held under finance leases of the Group was HK$3,177,000 (2005: HK$4,409,000).

(f) Fixed assets leased out under operating leases

The Group leases out investment property under operating leases. The leases typically run for an initial period of one to three years, with an option to renew the lease after that date at which time all terms are renegotiated. None of the leases includes contingent rentals.

The carrying amount of the investment properties of the Group held for use in operating leases was HK$541,212,000 (2005: HK$504,871,000). All properties held under operating leases that would otherwise meet the definition of investment property are classified as investment property.

The Group's total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	The Group	
	2006	2005
	HK$'000	*HK$'000*
Within 1 year	**19,930**	18,551
After 1 year but within 5 years	**12,144**	10,354
	32,074	28,905

Notes to the Financial Statements *(Continued)*

14. INTANGIBLE ASSETS

	Club memberships *HK$'000*
Cost:	
At 1st January 2005, 31st December 2005, 1st January 2006 and 31st December 2006	670
Accumulated amortisation:	
At 1st January 2005	–
Charge for the year	33
At 31st December 2005	33
At 1st January 2006	**33**
Charge for the year	**34**
At 31st December 2006	**67**
Net book value:	
At 31st December 2006	**603**
At 31st December 2005	637

The amortisation charge for the year is included in "other operating expenses" in the consolidated income statement.

15. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2006 ***HK$'000***	2005 *HK$'000*
Unlisted shares, at cost	**244,285**	244,480
Add: amounts due from subsidiaries	**657,464**	612,041
Less: impairment losses	**(182,788)**	(233,067)
	718,961	623,454

Details of the major subsidiaries at 31st December 2006 which principally affected the results, assets or liabilities of the Group are listed on pages 92 and 93.

16. INTERESTS IN ASSOCIATES

	The Group	
	2006	2005
	HK$'000	*HK$'000*
Share of net assets	**25,744**	82,959
Amounts due from associates	**25,296**	78,246
	51,040	161,205

The following list contains only the particulars of associates, all of which are unlisted corporate entities, which principally affected the results or assets of the Group:

Name of associate	Form of business structure	Place of incorporation and operation	Proportion of ownership interest held by a subsidiary	Principal activity
Allman Holdings Limited ("Allman")	Incorporated	British Virgin Islands	36.11%	Investment holding
Melville Street Trust	Incorporated	Canada	27.27%	Property investment
Squaw Creek Associates, LLC ("SCA")	Limited liability company	USA	10.00% (see below)	Resort operation, and the sale and management of condominium apartments

The Group's effective interest in SCA as at 31st December 2006 was approximately 32% (2005: 32%).

Goodwill of HK$9,707,000 arose when the Group changed its ownership interest and SCA became an associate. The goodwill represented the excess of the carrying value of the investment immediately prior to the change over the Group's share of the fair value of the identifiable assets and liabilities acquired. During the year ended 31st December 2005 based on a discounted cash flow forecast prepared by management, an impairment loss on goodwill of HK$9,037,000 was recognised.

SCA engaged an external professional valuer to value the SCA's property, plant and equipment as at 31st December 2006 (the "Valuation"). As a result of the Valuation, the Group recognised an impairment charge in respect the property, plant and equipment of SCA of approximately HK$53,075,000 for the year ended 31st December 2006. The Valuation did not take into account potential phase two land development at the resort operated by SCA because, at the balance sheet date, full approval from the relevant local authorities for the phase two development has not been obtained.

Notes to the Financial Statements *(Continued)*

16. INTERESTS IN ASSOCIATES *(Continued)*

Summary financial information on associates

	Assets	Liabilities	Equity	Revenue	(Loss)/ profit
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2006					
100 per cent	**560,111**	**(428,741)**	**131,370**	**710,460**	**(63,808)**
Group's effective interest	**184,869**	**(159,125)**	**25,744**	**304,531**	**(34,908)**
2005					
100 per cent	1,155,235	(590,794)	564,441	1,081,364	282,773
Group's effective interest	326,717	(243,758)	82,959	491,968	19,928

17. INTEREST IN A JOINTLY CONTROLLED ENTITY

	The Group	
	2006	2005
	HK$'000	*HK$'000*
Unlisted equity, at cost	**–**	2,536
Share of net assets	**3,554**	–
	3,554	2,536

Details of the Group's interest in a jointly controlled entity as at 31st December 2006 is as follows:

Name	Form of business structure	Place of and operation	Particulars of issued and paid up capital	Proportion of ownership interest held by a subsidiary	Principal activity
Precise Moulds (Shenzhen) Company Limited 精機模具(深圳)有限公司	Registered	PRC	RMB4,580,000	64.69%	Manufacture and sale of moulds

17. INTEREST IN A JOINTLY CONTROLLED ENTITY *(Continued)*

Summary financial information on jointly controlled entity – Group's effective interest

	2006
	HK$'000
Non-current assets	**2,428**
Current assets	**1,437**
Current liabilities	**(311)**
Net assets	**3,554**
Income	**4,212**
Expenses	**(3,615)**
Profit for the year	**597**

The Group acquired the interest in a jointly controlled entity during the year ended 31st December 2005, and as the Group did not have joint control or significant influence over the jointly controlled entity, the jointly controlled entity was stated at cost less impairment losses as at 31st December 2005. During the year ended 31st December 2006 the Group acquired significant influence over the jointly controlled entity, and accordingly, the jointly controlled entity has been accounted for in accordance with the equity method as detailed in the accounting policy set out in note 1(d).

18. OTHER NON-CURRENT FINANCIAL ASSETS

	The Group	
	2006	2005
	HK$'000	*HK$'000*
Available-for-sale equity securities:		
– Unlisted equity securities	**100**	100
– Listed outside Hong Kong	**8,249**	–
	8,349	100

Notes to the Financial Statements *(Continued)*

19. INVENTORIES

(a) Inventories in the balance sheet comprise:

	The Group	
	2006	2005
	HK$'000	*HK$'000*
Raw materials	**22,874**	27,326
Work in progress	**5,867**	3,579
Finished goods	**106,462**	85,894
	135,203	116,799

Finished goods amounting to HK$97,832,000 (2005: HK$76,849,000) were pledged to banks to secure banking facilities granted to the Group, see note 25.

(b) The analysis of the amount of inventories recognised as an expense is as follows:

	The Group	
	2006	2005
	HK$'000	*HK$'000*
Carrying amount of inventories sold	**411,161**	333,472
(Write back)/write down of inventories	**(1,296)**	6,430
	409,865	339,902

20. PROPERTIES HELD FOR RESALE

During the year ended 31st December 2002, certain land held for resale was sold for cash consideration of RMB30,000,000 and three residential units in the PRC initially valued at RMB5,000,000. Two of these residential units were sold to third parties in prior years and the remaining residential unit was sold during the year ended 31st December 2006.

During the year ended 31st December 2005, a residential unit in Canada with a net carrying value of HK$2,926,000 was reclassified from "investment property" to "properties held for resale" and the unit was sold during the year ended 31st December 2006.

21. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Debtors and prepayments	**104,326**	86,122	**169**	–

All trade and other receivables are expected to be recovered within one year.

Included in trade and other receivables are trade debtors (net of impairment losses for bad and doubtful debts) with the following ageing analysis as of the balance sheet date:

	The Group	
	2006	2005
	HK$'000	*HK$'000*
Current	**89,019**	67,116
1 to 3 months overdue	**2,064**	10,519
More than 3 months overdue but less than 12 months overdue	**547**	630
More than 12 months overdue	**–**	202
	91,630	78,467

The Group's credit policy is set out in note 29(a). Included in trade and other receivables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

		The Group	
		2006	2005
United States Dollars	USD'000	**1,201**	790
Renminbi Yuan	RMB'000	**1,164**	1,643

Notes to the Financial Statements *(Continued)*

22. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and cash equivalents in the balance sheet	**24,440**	36,491	**5,457**	287
Bank overdrafts *(note 25)*	**(37,140)**	(49,141)		
Cash and cash equivalents in the consolidated cash flow statement	**(12,700)**	(12,650)		

Included in cash and cash equivalents are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

		The Group	
		2006	2005
United States Dollars	USD'000	**703**	123
Sterling Pounds	GBP'000	**297**	361
Renminbi Yuan	RMB'000	**2,038**	7,198

23. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Advances from directors	**16,312**	14,653	**–**	–
Advances from shareholders	**–**	319	**–**	–
Amounts due to related companies	**15,733**	3,314	**–**	–
Amount due to related party	**–**	1,200	**–**	–
Amounts due to subsidiaries	**–**	–	**–**	3,298
Creditors and accrued charges	**104,493**	73,685	**28,143**	9,094
Rental deposits	**4,281**	2,604	**–**	–
	140,819	95,775	**28,143**	12,392

All trade and other payables are expected to be settled within one year. The principal amounts outstanding not expected to be settled within one year as at 31st December 2005 are included under non-current interest-bearing borrowings *(note 24)*.

23. TRADE AND OTHER PAYABLES *(Continued)*

Advances from directors of HK$16,000,000 (2005: HK$14,653,000) are unsecured, bear interest at Hong Kong dollar prime rate less 2% (2005: prime rate less 0.5%) and has no fixed terms of repayment. The balance of advance from directors is unsecured, interest free and has no fixed terms of repayment.

Amounts due to related companies of HK$15,733,000 (2005: HK$1,447,000) and amount due to related party are unsecured, interest free and have no fixed terms of repayment.

Included in trade and other payables are trade creditors with the following ageing analysis as of the balance sheet date:

	The Group	
	2006	2005
	HK$'000	*HK$'000*
Due within 1 month or on demand	**20,695**	8,218
Due after 1 month but within 3 months	**2,630**	8,812
Due after 3 months but within 6 months	**109**	264
Due after 6 months	**885**	1,239
	24,319	18,533

Included in trade and other payables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

		The Group	
		2006	2005
United States Dollars	USD'000	**264**	238

Notes to the Financial Statements *(Continued)*

24. NON-CURRENT INTEREST-BEARING BORROWINGS

The analysis of the carrying amount of non-current interest-bearing borrowings is as follows:

	The Group	
	2006	2005
	HK$'000	*HK$'000*
Bank loans *(note 25)*	**34,283**	50,480
Advances from directors	**–**	45,293
Advances from shareholders	**–**	46,621
Amounts due to related companies	**–**	5,306
	34,283	147,700

None of the non-current interest-bearing borrowings are expected to be settled within one year.

25. BANK LOANS AND OVERDRAFTS

At 31st December 2006 bank loans and overdrafts were repayable as follows:

	The Group	
	2006	2005
	HK$'000	*HK$'000*
Within 1 year or on demand	**106,841**	140,485
After 1 year but within 2 years	**8,178**	16,387
After 2 years but within 5 years	**25,709**	33,228
After 5 years	**396**	865
	34,283	50,480
	141,124	190,965

25. BANK LOANS AND OVERDRAFTS *(Continued)*

At 31st December 2006 bank loans and overdrafts were secured as follows:

	The Group	
	2006	2005
	HK$'000	*HK$'000*
Bank overdrafts *(note 22)*		
– secured	**35,730**	48,428
– unsecured	**1,410**	713
	37,140	49,141
Bank loans		
– secured	**103,984**	141,526
– unsecured	**–**	298
	103,984	141,824
	141,124	190,965

At 31st December 2006, certain investment properties, leasehold land and buildings and other assets of the Group with net book value of HK$746,205,000 (2005: HK$732,762,000) were mortgaged to various banks to secure banking facilities granted to the Group. Details of the secured assets are as follows:

	The Group	
	2006	2005
	HK$'000	*HK$'000*
Investment properties	**501,212**	504,871
Land and buildings	**53,980**	52,741
Inventories	**97,832**	76,849
Property held for resale	**–**	2,962
Other assets	**93,181**	95,339
	746,205	732,762

25. BANK LOANS AND OVERDRAFTS *(Continued)*

Included in bank loans and overdrafts are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

		The Group	
		2006	2005
United States Dollars	USD'000	**–**	417

26. OBLIGATIONS UNDER FINANCE LEASES

At 31st December 2006, the Group had obligations under finance leases repayable as follows:

	2006		2005	
	Present value of minimum lease payments	**Total minimum lease payments**	Present value of minimum lease payments	Total minimum lease payments
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Within 1 year	**1,380**	**1,465**	1,318	1,465
After 1 year but within 2 years	**582**	**618**	1,380	1,465
After 2 years but within 5 years	**498**	**513**	1,080	1,132
	1,080	**1,131**	2,460	2,597
	2,460	**2,596**	3,778	4,062
Less: total future interest expenses		**(136)**		(284)
Present value of lease obligations		**2,460**		3,778

27. INCOME TAX IN THE CONSOLIDATED BALANCE SHEET

(a) Current taxation in the balance sheet represents:

	The Group	
	2006	2005
	HK$'000	*HK$'000*
Provision for Hong Kong Profits Tax for the year	**–**	17
Provisional Profits Tax paid	**(22)**	–
	(22)	17
Balance of Profits Tax provision relating to prior years	**–**	(482)
	(22)	(465)
Overseas taxation payable	**8,678**	3,202
	8,656	2,737
Representing:		
Tax recoverable	**(1,317)**	(1,386)
Tax payable	**9,973**	4,123
	8,656	2,737

Notes to the Financial Statements *(Continued)*

27. INCOME TAX IN THE CONSOLIDATED BALANCE SHEET *(Continued)*

(b) Deferred tax assets and liabilities recognised:

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

Deferred tax arising from:	Depreciation allowance in excess of related depreciation	Revaluation of investment property	Revaluation of land and buildings	Interests in associates	Provisions and allowances	Future benefit of tax losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January 2005	15,430	21,614	124	12,004	(10,718)	(23,177)	15,277
Charged/(credited) to profit or loss *(note 6(a))*	2,342	10,015	–	1,873	(6,780)	3,303	10,753
Charged to reserves *(note 28)*	–	–	7,425	–	–	–	7,425
Exchange difference	–	–	–	–	10	–	10
At 31st December 2005	17,772	31,629	7,549	13,877	(17,488)	(19,874)	33,465
At 1st January 2006	**17,772**	**31,629**	**7,549**	**13,877**	**(17,488)**	**(19,874)**	**33,465**
Charged/(credited) to profit or loss *(note 6(a))*	**408**	**6,988**	**–**	**(13,645)**	**(4,157)**	**19,640**	**9,234**
Exchange difference	**(35)**	**–**	**–**	**–**	**–**	**–**	**(35)**
At 31st December 2006	**18,145**	**38,617**	**7,549**	**232**	**(21,645)**	**(234)**	**42,664**

27. INCOME TAX IN THE CONSOLIDATED BALANCE SHEET *(Continued)*

(b) Deferred tax assets and liabilities recognised: *(Continued)*

Representing:

	The Group	
	2006	2005
	HK$'000	*HK$'000*
Net deferred tax asset recognised on the balance sheet	**(22,768)**	(18,202)
Net deferred tax liability recognised on the balance sheet	**65,432**	51,667
	42,664	33,465

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 1(s), the Group and the Company have not recognised deferred tax assets in respect of respective cumulative tax losses of HK$53,848,000 (2005: HK$44,652,000) and HK$8,243,000 (2005: HK$7,473,000). The tax losses do not expire under current tax legislation.

Notes to the Financial Statements *(Continued)*

28. CAPITAL AND RESERVES

(a) The Group

	Attributable to equity shareholders of the Company								
	Share capital	Share premium	Capital reserve	Contributed surplus	Exchange reserve	Land and buildings revaluation reserve	Fair value reserve	Revenue reserves	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January 2005	66,541	109,942	10,815	173,397	10,357	586	–	133,864	505,502
Exchange difference on translation of financial statements of overseas subsidiaries	–	–	–	–	(9,835)	–	–	–	(9,835)
Revaluation surplus, net of deferred tax	–	–	–	–	–	35,005	–	–	35,005
Profit for the year	–	–	–	–	–	–	–	80,347	80,347
At 31st December 2005	66,541	109,942	10,815	173,397	522	35,591	–	214,211	611,019
At 1st January 2006	**66,541**	**109,942**	**10,815**	**173,397**	**522**	**35,591**	**–**	**214,211**	**611,019**
Exchange difference on translation of financial statements of overseas subsidiaries	**–**	**–**	**–**	**–**	**12,169**	**–**	**–**	**–**	**12,169**
Share of exchange reserve of associates	**–**	**–**	**–**	**–**	**(351)**	**–**	**–**	**–**	**(351)**
Share of exchange reserve of a jointly controlled entity	**–**	**–**	**–**	**–**	**110**	**–**	**–**	**–**	**110**
Changes in fair value of available-for-sale securities	**–**	**–**	**–**	**–**	**–**	**–**	**449**	**–**	**449**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**29,972**	**29,972**
At 31st December 2006	**66,541**	**109,942**	**10,815**	**173,397**	**12,450**	**35,591**	**449**	**244,183**	**653,368**

28. CAPITAL AND RESERVES (Continued)

(a) The Group *(Continued)*

Exchange reserve and revenue reserves of the Group are retained as follows:

	The Group			
	Exchange reserve		Revenue reserves	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
By the Company and its subsidiaries	**13,009**	840	**266,331**	202,048
By associates	**(669)**	(318)	**(22,745)**	12,163
By a jointly controlled entity	**110**	–	**597**	–
Total at 31st December	**12,450**	522	**244,183**	214,211

Apart from the above, all other reserves of the Group are retained by the Company and its subsidiaries.

(b) The Company

	Share capital	Share premium	Capital reserve	Contributed surplus	Retained profits	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January 2005	66,541	109,942	9,347	175,594	258,311	619,735
Loss for the year	–	–	–	–	(8,484)	(8,484)
At 31st December 2005	66,541	109,942	9,347	175,594	249,827	611,251
At 1st January 2006	**66,541**	**109,942**	**9,347**	**175,594**	**249,827**	**611,251**
Profit for the year	**–**	**–**	**–**	**–**	**85,130**	**85,130**
At 31st December 2006	**66,541**	**109,942**	**9,347**	**175,594**	**334,957**	**696,381**

Notes to the Financial Statements *(Continued)*

28. CAPITAL AND RESERVES *(Continued)*

(c) Share capital

	2006		2005	
	Number of shares *('000)*	***HK$'000***	Number of shares *('000)*	*HK$'000*
Authorised:				
Ordinary shares of HK$0.10 each	**1,000,000**	**100,000**	1,000,000	100,000
Issued and fully paid:				
At 1st January and 31st December	**665,412**	**66,541**	665,412	66,541

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(d) Nature and purpose of reserves

(i) Share premium

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

(ii) Capital reserve and contributed surplus

The capital reserve and contributed surplus have been set up and will be dealt with in accordance with the accounting policies adopted for goodwill, and discounts arising on subsidiaries, associates and jointly controlled entities.

(iii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 1(v).

(iv) Revaluation reserve

The revaluation reserve has been set up and is dealt with in accordance with the accounting policies adopted for land and buildings in note 1(h).

28. CAPITAL AND RESERVES *(Continued)*

(d) Nature and purpose of reserves *(Continued)*

(v) Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale securities held at the balance sheet date and is dealt with in accordance with the accounting policies in notes 1(f) and 1(k).

(e) Distributability of reserves

At 31st December 2006, the aggregate amount of reserves available for distribution to equity shareholders of the Company was HK$510,551,000 (2005: HK$425,421,000).

29. FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below.

(a) Credit risk

The Company's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, credit evaluations are performed on all customers requiring credit over a certain amount. Debtors are due within 30 to 60 days from the date of billing. Debtors with balances that are more than 3 months overdue are requested to settle all outstanding balances before any further credit is granted.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demand, subject to the approval by the parent Company's board in respect of borrowings. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

Notes to the Financial Statements *(Continued)*

29. FINANCIAL INSTRUMENTS *(Continued)*

(c) Interest rate risk

In respect of income-earning financial assets and interest-bearing financial liabilities, the following indicates the effective interest rate at the balance sheet date and the periods in which they reprice or the maturity date if earlier.

The Group

	2006						2005					
	Effective interest rate	Total	One year or less	1-2 years	2-5 years	More than 5 years	Effective interest rate	Total	One year or less	1-2 years	2-5 years	More than 5 years
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Repricing dates for assets/(liabilities) which reprice before maturity												
Cash and cash equivalents	1.61%	24,440	24,440	-	-	-	3.23%	36,491	36,491	–	–	–
Bank overdrafts	7.14%	(37,140)	(37,140)	-	-	-	7.32%	(49,141)	(49,141)	–	–	–
Bank loans	5.33%	(103,984)	(69,701)	(8,178)	(25,709)	(396)	5.60%	(141,824)	(91,344)	(16,387)	(33,228)	(865)
Advances from directors	5.64%	(16,312)	(16,312)	-	-	-	7.25%	(59,946)	(14,653)	(45,293)	–	–
Advances from shareholders	-	-	-	-	-	-	6.82%	(46,940)	(319)	(46,621)	–	–
		(132,996)	(98,713)	(8,178)	(25,709)	(396)		(261,360)	(118,966)	(108,301)	(33,228)	(865)
Repricing dates for liabilities which do not reprice before maturity												
Amount due to related company	-	-	-	-	-	-	3.00%	(5,820)	(514)	(5,306)	–	–
Finance lease liabilities	4.64%	(2,460)	(1,380)	(582)	(498)	-	4.64%	(3,778)	(1,318)	(1,380)	(1,080)	–
		(2,460)	(1,380)	(582)	(498)	-		(9,598)	(1,832)	(6,686)	(1,080)	–

The Company

The Company did not have any income-earning financial assets or interest-bearing financial liabilities as at 31st December 2006 and 2005.

29. FINANCIAL INSTRUMENTS *(Continued)*

(d) Foreign currency risk

The Group is exposed to foreign currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily United States Dollars ("USD") and Renminbi Yuan ("RMB").

As the HKD is pegged to the USD, and the RMB pegged to the USD within a narrow band, the Company does not expect any significant movements in the USD/HKD or RMB/HKD exchange rate.

The Group's foreign operations do not undertake significant transactions in a currency other than their respective functional currencies. Funds are retained by the foreign operations for use within the respective operations. Based on this, management considers the foreign exchange exposure to be low.

(e) Fair values

All significant financial assets and liabilities are carried at amounts not materially different from their fair values as at 31st December 2006 and 2005.

The fair value of financial guarantees issued is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made.

30. COMMITMENTS

(a) Capital commitments outstanding at 31st December 2006 not provided for in the financial statements were as follows:

	The Group	
	2006	2005
	HK$'000	*HK$'000*
Contracted for	**1,173**	1,669

At 31st December 2006 and 2005, the Company did not have any capital commitments.

30. COMMITMENTS *(Continued)*

(b) At 31st December 2006, the total future lease payments under non-cancellable operating leases are payable as follows:

	The Group			
	Land and buildings		Others	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Within 1 year	**3,328**	10,203	**209**	267
After 1 year but within 5 years	**1,995**	2,493	**334**	429
After 5 years	**287**	–	**–**	–
	5,610	12,696	**543**	696

At 31st December 2006 and 2005, the Company did not have any commitments under operating leases.

Significant leasing arrangements in respect of land and buildings classified as being held under finance leases and land held under operating leases are described in note 13.

Apart from these leases, the Group is the lessee in respect of a number of properties and items of equipment under operating leases. The leases typically run for an initial period of one to ten years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

31. CONTINGENT LIABILITIES

At 31st December 2006, there were contingent liabilities in respect of the following:

(a) Financial guarantees issued

(i) The Company has issued guarantees to banks to secure banking facilities of subsidiaries amounting to HK$327,600,000 (2005: HK$363,760,000).

(ii) The Company has issued letters of support in connection with certain wholly owned subsidiaries with deficiencies in shareholders' funds of HK$89,989,000 (2005: HK$265,230,000) as at 31st December 2006.

The guarantees were issued by the Company at nil consideration. The transactions were not at arm's length, and it is not possible to measure reliably the fair value of these transactions in accordance with HKAS 39 had they been at arm's length. Accordingly the guarantees have not been accounted for as financial liabilities and measured at fair value.

31. CONTINGENT LIABILITIES *(Continued)*

(a) Financial guarantees issued *(Continued)*

As at the balance sheet date, the directors do not consider to be probable that a claim will be made against the Company under any of the guarantees issued. The maximum liability of the company at the balance sheet date under the guarantees issued is the amount of banking facilities drawn down by the relevant subsidiaries of HK$134,313,000 (2005: HK$183,353,000), and the amount of the deficiencies in the shareholder's funds as noted above.

(b) Litigation

(i) As reported in the Group's 2003, 2004 and 2005 Annual Report, an action was commenced in 2003 by a supplier of resin materials (the "Supplier") against a Group company in the Hong Kong High Court for payment of a trading debt amounting to HK$643,980. HK$20,853 of this debt has already been paid by the Group company pursuant to a court order. About 75% of the remaining debt was not disputed by the Group company. However, this was not paid because the court ordered that this action should be tried together with a separate action commenced by the Group company against the Supplier in 2003 for damages amounting to approximately US$590,000 on the basis, inter alia, that bulk resin supplied by the Supplier did not reasonably correspond with the sample first provided and tested by the Group company. The effect of both actions being tried together was that the court could take into account, and set-off, any damages awarded in either action to produce a net result. The trial was heard in September 2006. At trial, the Group company was advised not to, and did not, pursue its defence to payment of any of the invoices remaining unpaid in the Supplier action, save that set-off was sought in respect of the damages the Group company was claiming in its action. Judgement was handed down on 30th March 2007 ("Judgement"). The Group company was unsuccessful in its action. Accordingly, the Group company was ordered to pay the Supplier HK$619,127 (plus interest) in the Supplier action (the Supplier was found to have abandoned HK$4,000 of its claim) and HK$160,305 (plus interest) in its action (representing the Supplier's counterclaim for unpaid invoices). The issue of costs was held over pending written submissions from the parties dealing with the payment of costs. The directors believe that the Group will not suffer any material loss as a result of the Judgement. The Group has made adequate provision for the legal costs incurred in taking both actions to trial (including any legal costs of the other parties to the action that the Group company might have to pay).

(ii) As reported in the Group's 2004 and 2005 Annual Report, during the last quarter of 2003, a Mexican company commenced a law suit in the State of Arizona against the Company on the ground that the Company is a guarantor for a Lease Agreement of factory premises occupied by Siempre Novedoso De Mexico (Sinomex) S.A. de C.V. ("Sinomex") as tenant (the "Litigation"). Sinomex was a member company of the Group at that time and it was disposed of in 1996. The plaintiffs alleged claims against Sinomex and the Company of approximately US$5,000,000 for unpaid obligations of Sinomex under such Lease Agreement plus interest (in the amount of 2% per month, or 24% annually), court costs and attorney fees.

31. CONTINGENT LIABILITIES *(Continued)*

(b) Litigation *(Continued)*

(ii) *(Continued)*

In 2004, the Company filed a Motion to Dismiss (the "Motion") the complaint in the Litigation based upon the applicable laws of Arizona and those of the location of the property, Hermosillo, Mexico. In the Motion, the Company primarily argued that the Arizona court did not have sufficient subject matter and personal jurisdiction over the Company under the guarantee for the case to continue in that court, and as such, the case should be dismissed in favor of the Company.

In January 2005, the Arizona court denied the initial Motion submitted by the Company. Since then the Company has taken some discovery and will continue to take additional discovery as well as filing one or more motions to vindicate the Company. The Company plans to continue to vigorously defend the Litigation, and to assert the defenses available to it. This would eliminate or at least significantly reduce the exposure of the Company if those defenses prove to be successful. Currently, the Company is continuing to undertake discovery to develop the various factual and legal defenses to the lawsuit.

Having considered the Litigation with the Company's legal counsel, management and the Board believe that the Company's opposition to the plaintiffs' complaint, and its defenses, including defenses to the amount of damages awardable, are meritorious. As such, the Company intends to continue to vigorously defend the Litigation. On that basis, the Company has made adequate provision in relation to the Litigation.

32. EMPLOYEE RETIREMENT BENEFITS

In Hong Kong, the Group has a defined contribution pension scheme ("ORSO scheme") for all qualifying employees. Effective from 1st December 2000, all Hong Kong based employees were also covered under a Mandatory Provident Fund ("MPF") scheme, and the existing ORSO scheme was modified to provide extra benefits for existing and new employees. The amount of employer's and employees' contributions to the ORSO scheme are reduced by the amount required to be paid to the MPF scheme. The contributions to the ORSO scheme are supplementary contributions, over and above the minimum MPF requirements. The assets of the ORSO scheme are held separately under a provident fund managed by an independent trustee. Pursuant to the rules of the ORSO scheme, the employees are required to make contributions to the ORSO scheme calculated at 5% of their basic salaries on a monthly basis whilst the employer's contributions are varied with the number of years of service of the employees from 5% to 10% of the basic monthly salary. The employees are entitled to 100% of the employer's contributions to the ORSO scheme and the accrued interest after 10 complete years' service, or at an increasing scale of between 50% to 90% after completion of 5 to 9 years' service.

Where there are employees who leave the ORSO scheme prior to vesting fully in the contributions, in accordance with the rules of the ORSO scheme, the forfeited employer's contributions shall be used to reduce the future contributions of the employer.

32. EMPLOYEE RETIREMENT BENEFITS *(Continued)*

Employees in the People's Republic of China are covered by a retirement insurance policy.

Employees in the United States of America are covered by a profit sharing plan under section 401(k) of the Internal Revenue Code covering all eligible employees. The plan provides for contributions from both the employer and eligible employees. Employer's contributions are voluntary and are determined each year at the discretion of management.

As regards employees in Europe, contributions are made by the employer to a money purchase defined contribution scheme for certain of its employees. The assets of the scheme are held separately by an independent administered fund.

33. MATERIAL RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following material related party transactions:

(a) Remuneration for key management personnel of the Group are disclosed in notes 7 and 8 to the financial statements.

(b) One of the directors of the Company is also a director and shareholder of a supplier which sold packaging and printing materials to the Group. Total purchases from the supplier amounted to HK$3,723,000 (2005: HK$5,020,000) during the year. The amount due to the supplier at the year end amounted to HK$610,000 (2005: HK$1,311,000).

(c) During the year, the Group purchased moulds from a jointly-controlled entity amounting to HK$3,337,000 (2005: HK$Nil).

(d) During the year, the Group had net interests in certain associates amounting to HK$50,608,000 (2005: HK$158,584,000) in which a director of the Company has beneficial interests. Further details of the associates are given in note 16 to the financial statements.

(e) During the year, the Group has obtained funding from certain directors, shareholders, related companies and related parties to finance its operations. Details of the terms of the advances and the balances outstanding are disclosed in notes 23 and 24 to the financial statements.

(f) The Group has provided funding to associates. Details of the balance outstanding are disclosed in note 16 to the financial statements.

34. NON-ADJUSTING POST BALANCE SHEET EVENT

On 12th March 2007, a subsidiary of the Company, Bachmann Industries Inc., acquired a 16.5% interest in The Robot Factory, LLC ("Robotgalaxy") for cash consideration of approximately HK$7,800,000. An additional HK$7,800,000 was invested in Robotgalaxy via a convertible note issued by Robotgalaxy to the Group.

Robotgalaxy is a limited liability company incorporated under the laws of the State of Delaware, United States of America. Robotgalaxy is principally engaged in the sale of toys.

35. ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group believes the following critical accounting policy involves the most significant judgements and estimates used in the preparation of the financial statements.

Impairments

If circumstances indicate that the carrying value of fixed assets and receivables 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". The carrying amounts of fixed assets and receivables are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amount is reduced to recoverable amount. The recoverable amount of fixed assets is the greater of the net selling price and the value in use. The recoverable amount of receivables is the estimated future cash flows discounted at the current market rate of return of similar assets. It is difficult to precisely estimate selling price because quoted market prices for the Group's asset are not available. 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.

36. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31ST DECEMBER 2006

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31st December 2006 and which have not been adopted in these financial statements.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

36. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31ST DECEMBER 2006 *(Continued)*

In addition, the following developments may result in new or amended disclosures in the financial statements:

	Effective for accounting periods beginning on or after
Amendment to HKAS 1, Presentation of financial statements: capital disclosures	1st January 2007
HKFRS 7, Financial instruments: disclosures	1st January 2007
HKFRS 8, Operating segments	1st January 2009
HK(IFRIC) 7, Applying the restatement approach under HKAS 29 Financial reporting in hyperinflationary economies	1st March 2006
HK(IFRIC) 8, Scope of HKFRS 2	1st May 2006
HK(IFRIC) 9, Reassessment of embedded derivatives	1st June 2006
HK(IFRIC) 11, HKFRS 2 – Group and treasury share transactions	1st March 2007
HK(IFRIC) 12, Service concession arrangements	1st January 2008