NOTES TO THE FINANCIAL STATEMENTS 31 December 2006

1. CORPORATE INFORMATION

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

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

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

2. PROCEEDINGS BY THE INDEPENDENT COMMISSION AGAINST CORRUPTION

As previously disclosed in the 2005 financial statements, in June 2005, certain senior executives and directors of the Group (the "Defendants"), including the then Chairman of the board of directors of the Company and a then executive director of the Company, were arrested by the Independent Commission Against Corruption (the "ICAC") and were alleged to have solicited illegal rebates from certain suppliers for placing purchase orders with them between the years 2002 and 2004 (the "Incident"). In December 2006, the above individuals have been charged by the ICAC for defrauding and embezzling funds (the "Charge"). Further details of the Charge were included in the ICAC's press release dated 6 December 2006. The Defendants pleaded not guilty in the first court hearing held on 8 December 2006. No decision has yet been reached by the court and the next trial hearing is expected to be held in November 2007 for further judgement.

Management has continued to execute the measures as adopted in the prior year to minimise the uncertainties due to the Incident and to safeguard the interests of the Group, its shareholders and customers during the year, and has concluded that such measures are sufficient and effective and no material internal control weaknesses exist. In the absence of further information about the Charge, the directors have conducted their own review of the financial implications of the Incident and the Charge, and, as at the date of approval of these financial statements, are of the view that there are no circumstances which would lead them to believe that the Incident and the Charge will result in significant adverse implications to the Group's operations and financial position.

3.1 BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2006. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

3.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following revised HKFRSs for the first time for the current year's financial statements. Except in certain cases giving rise to new and revised accounting policies and additional disclosures, the adoption of these revised standards and the interpretation has had no material effect on these financial statements.

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

The principal changes in accounting policies are as follows:

(a) HKAS 21 The Effects of Changes in Foreign Exchange Rates

Upon the adoption of the HKAS 21 Amendment regarding a net investment in a foreign operation, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements irrespective of the currency in which the monetary item is denominated. This change has had no material impact on these financial statements as at 31 December 2006 or 31 December 2005.

(b) HKAS 39 Financial Instruments: Recognition and Measurement

Amendment for financial guarantee contracts

This amendment has revised the scope of HKAS 39 to require financial guarantee contracts issued that are not considered insurance contracts, to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*. The adoption of this amendment has had no material impact on these financial statements.

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

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HKFRS 8	Operating Segments
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 *Financial Reporting in Hyperinflationary Economies*
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	HKFRS2-Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements

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

HKFRS 7 shall be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments.

HKFRS 8 shall be applied for annual periods beginning on or after 1 January 2009. This HKFRS replaces HKAS 14 *Segment Reporting* and has main changes on the identification of segments and the measurement of segment information.

HK(IFRIC)-Int 7, HK(IFRIC)-Int 8, HK(IFRIC)-Int 9, HK(IFRIC)-Int 10, HK(IFRIC)-Int 11 and HK(IFRIC)-Int 12 shall be applied for annual periods beginning on or after 1 March 2006, 1 May 2006, 1 June 2006, 1 November 2006, 1 March 2007 and 1 January 2008, respectively.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of the HKAS 1 Amendment and HKFRS 7 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Associates

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

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Goodwill arising from the acquisition of associates is included as part of the Group's interests in associates.

Goodwill

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

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses. In the case of associates, goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

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

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

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 *Segment Reporting*.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill (Continued)

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

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

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

Excess over the cost of business combinations

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

The excess for associates is included in the Group's share of the associates' profits or losses in the period in which the investments are acquired.

Impairment of non-financial assets other than goodwill

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

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

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

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties

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

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

(b) the party is an associate;

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

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

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

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

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

Property, plant and equipment and depreciation

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

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

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation (Continued)

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

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

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

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

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

Intangible assets (other than goodwill)

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

Leases

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

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

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, or loans and receivables, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group considers whether a contract contains an embedded derivative when the Group first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading these financial assets are recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

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

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Available-for-sale financial assets (Continued)

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

Fair value

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

Impairment of financial assets

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

Assets carried at amortised cost

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

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

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

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

Assets carried at amortised cost (Continued)

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Assets carried at cost

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

Available-for-sale financial assets

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

Derecognition of financial assets

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

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

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

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial assets (Continued)

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

Financial liabilities at amortised cost (including interest-bearing bank loans)

Financial liabilities, including trade and other payables, and interest-bearing bank loans, are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial guarantee contracts

Financial guarantee contracts in the scope of HKAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*.

Derecognition of financial liabilities

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

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

Derivative financial instruments and hedging

The group uses derivative financial instruments, such as forward currency contracts to hedge its risks associated with foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the income statement.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

Inventories

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

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and cash equivalents

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

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

Provisions

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

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

Income tax

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

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

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

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

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

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

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

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

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

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

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

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

Revenue recognition

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

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

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

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

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

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

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

Employee benefits

Paid leave carried forward

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

Employment Ordinance long service payments

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

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

Pension schemes

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

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee benefits (Continued)

Pension schemes (Continued)

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

Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

Dividends

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

Foreign currencies

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

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

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

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

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

Classification between investment properties and owner-occupied properties

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

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

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

Estimation uncertainty

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill on the acquisition of associates at 31 December 2006 was HK$4,964,000 (2005: HK$4,964,000). Further details are set out in note 18 to the financial statements.

Useful lives and residual values of items of property, plant and equipment

In determining the useful lives and residual values of items of property, plant and equipment, the Group has to consider various factors, such as expected usage of the asset, expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from previous estimation. Useful lives and residual values are reviewed at each financial year end date based on changes in circumstances.

5. SEGMENT INFORMATION

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

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

(a) the hard toys segment manufactures and trades hard toy products;

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

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

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

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

5. SEGMENT INFORMATION (Continued)

(a) Business segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2006 and 2005.

Group	Hard toys		Stuffed toys		Corporate		Eliminations		Consolidated	
	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
Segment revenue:										
Sales to external customers	**543,815**	473,783	**78,385**	91,958	**–**	–	**–**	–	**622,200**	565,741
Other revenue from external sources	**2,246**	2,976	**72**	313	**–**	383	**–**	–	**2,318**	3,672
Intersegment other revenue	**1,231**	1,231	**–**	–	**–**	–	**(1,231)**	(1,231)	**–**	–
Total	**547,292**	477,990	**78,457**	92,271	**–**	383	**(1,231)**	(1,231)	**624,518**	569,413
Segment results	**5,865**	6,345	**5,031**	5,418	**(6,252)**	(5,676)	**–**	–	**4,644**	6,087
Interest income									**644**	406
Finance costs									**(207)**	(610)
Share of profits of associates									**5,214**	675
Profit before tax									**10,295**	6,558
Tax									**(6,287)**	(3,122)
Profit for the year attributable to equity holders of the parent									**4,008**	3,436
Assets and liabilities										
Segment assets	**391,879**	319,388	**22,188**	25,856	**824**	837	**–**	–	**414,891**	346,081
Interest in associates									**8,541**	6,007
Unallocated assets									**935**	1,115
Total assets									**424,367**	353,203
Segment liabilities	**116,043**	76,113	**5,271**	3,522	**4,489**	1,271	**–**	–	**125,803**	80,906
Unallocated liabilities									**20,079**	4,754
Total liabilities									**145,882**	85,660
Other segment information:										
Capital expenditure	**4,013**	8,546	**–**	–	**–**	–	**–**	–	**4,013**	8,546
Surplus on revaluation of land and buildings	**1,219**	27,231	**–**	–	**–**	–	**–**	–	**1,219**	27,231
Recognition of prepaid land premiums	**254**	251	**–**	–	**–**	–	**–**	–	**254**	251
Depreciation	**9,919**	9,613	**725**	189	**–**	–	**–**	–	**10,644**	9,802
Other non-cash expenses	**5,863**	6,593	**183**	817	**3,169**	–	**–**	–	**9,215**	7,410

5. SEGMENT INFORMATION (Continued)

(b) Geographical segments

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments for the years ended 31 December 2006 and 2005.

Group	USA and Canada		Japan and others		Hong Kong and Mainland China		Corporate and eliminations		Consolidated	
	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
Segment revenue:										
Sales to external customers	**454,801**	481,113	**134,789**	74,542	**32,610**	10,086	**–**	–	**622,200**	565,741
Other revenue	**173**	1,065	**536**	1,490	**1,609**	734	**–**	383	**2,318**	3,672
Total	**454,974**	482,178	**135,325**	76,032	**34,219**	10,820	**–**	383	**624,518**	569,413
Other segment information:										
Segment assets	**–**	–	**–**	–	**414,049**	346,318	**10,318**	6,885	**424,367**	353,203
Capital expenditure	**–**	–	**–**	–	**4,013**	8,546	**–**	–	**4,013**	8,546

6. REVENUE, OTHER INCOME AND GAIN

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

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

	2006	2005
	HK$'000	HK$'000
Revenue		
Sale of goods:		
Hard toys	**543,815**	473,783
Stuffed toys	**78,385**	91,958
	622,200	565,741
Other income		
Mould income	**691**	1,588
Bank interest income	**623**	343
Interest income from loan receivable	**21**	63
Sundry income	**1,627**	1,702
Dividend income from listed investments	**–**	17
	2,962	3,713
Gain		
Realised gain on equity investments at fair value through profit or loss	**–**	365
	2,962	4,078

7. PROFIT BEFORE TAX

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

	Notes	2006 HK$'000	2005 HK$'000
Cost of inventories sold		**537,071**	496,080
Provision for slow-moving inventories		**4,660**	4,161
Depreciation*	*15*	**10,644**	9,802
Recognition of prepaid land premiums	*16*	**254**	251
Minimum lease payments under operating leases in respect of land and buildings		**2,710**	1,561
Auditors' remuneration		**950**	1,900
Employee benefits expense (excluding directors' remuneration – note 9)**:			
Wages and salaries		**130,069**	112,618
Other employee benefits		**367**	672
Gross pension scheme contributions		**4,228**	2,393
Less: Forfeited contributions***		**–**	–
Pension scheme contributions, net		**4,228**	2,393
		134,664	115,683
(Gain)/loss on disposal of items of property, plant and equipment****		**59**	(236)
Gross rental income		**(4)**	(20)
Foreign exchange differences, net		**1,400**	969
Fair value losses, net:			
Derivative instruments – transactions not qualifying as hedges	*25*	**3,169**	–

* *Depreciation of HK$6,901,000 (2005: HK$6,942,000) is also included in "Cost of inventories sold" above.*

** *Employee benefits expense of HK$100,604,000 (2005: HK$89,997,000) is also included in "Cost of inventories sold" above.*

*** *At 31 December 2006, the Group had no material forfeited contributions available to reduce its contribution to the pension scheme in future years (2005: Nil).*

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

8. FINANCE COSTS

	Group	
	2006	2005
	HK$'000	HK$'000
Interest on bank loans and overdrafts wholly repayable within five years	**207**	540
Interest on a loan from an ex-director	**–**	70
	207	610

9. DIRECTORS' REMUNERATION

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

	Group	
	2006	2005
	HK$'000	HK$'000
Fees – independent non-executive directors	**150**	200
Other emoluments:		
Salaries, allowances and benefits in kind	**3,769**	4,131
Pension scheme contributions	**124**	125
	4,043	4,456

(a) Independent non-executive directors

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

		2006	2005
		HK$'000	HK$'000
Mr. Lam Yu Lung		**50**	50
Mr. Lam Chin Fung		**50**	50
Mr. Tse Wei Kin		**50**	–
Mr. Yeung Po Chin	(resigned on 20 June 2005)	**–**	50
Mr. Wong Yam Fung	(resigned on 20 March 2006)	**–**	50
		150	200

There were no other emoluments payable to the independent non-executive directors during the year (2005: Nil).

9. DIRECTORS' REMUNERATION (Continued)

(b) Executive directors

	Fees	Salaries, allowances and benefits in kind	Pension scheme contributions	Total remuneration
	HK$'000	HK$'000	HK$'000	HK$'000
2006				
Ms. Cheung Yan, Priscilla	**–**	**1,368**	**50**	**1,418**
Ms. Cheung Man, Catherine	**–**	**777**	**12**	**789**
Mr. Hui Kwok Chu (resigned on 4 December 2006)	**–**	**825**	**28**	**853**
Mr. Kung Ka Pang	**–**	**799**	**34**	**833**
	–	**3,769**	**124**	**3,893**
2005				
Mr. Cheung Po Lun (resigned on 28 June 2005)	–	895	25	920
Ms. Cheung Yan, Priscilla	–	726	25	751
Ms. Cheung Man, Catherine	–	781	12	793
Mr. Hui Kwok Chu	–	886	29	915
Mr. Kung Ka Pang	–	793	34	827
Mr. Cheung Wang (resigned on 15 June 2006)	–	50	–	50
	–	4,131	125	4,256

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

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year were four (2005: all) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining one non-director, highest paid employee for the year is as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**671**	–
Pension scheme contributions	**22**	–
	693	–

11. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits arising in Hong Kong during the year.

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

	Group	
	2006	2005
	HK$'000	HK$'000
Current – Hong Kong	**1,113**	147
Current – Mainland China	**1,358**	1,226
Underprovision in prior years – Hong Kong	**6,509**	1,703
Deferred (note 27)	**(2,693)**	46
Total tax charge for the year	**6,287**	3,122

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

Group – 2006

	Hong Kong		**Mainland China**		**Total**	
	HK$'000	**%**	**HK$'000**	**%**	**HK$'000**	**%**
Profit before tax	**1,848**		**8,447**		**10,295**	
Tax at the statutory tax rates	**323**	**17.5**	**2,027**	**24.0**	**2,350**	**22.8**
Lower tax rate for specific provinces or local authority	**–**	**–**	**(1,013)**	**(12.0)**	**(1,013)**	**(9.9)**
Adjustments in respect of current tax of previous periods	**6,509**	**352.2**	**–**	**–**	**6,509**	**63.3**
Reversal of temporary differences recognised in previous years as a result of change in tax assessment	**(2,693)**	**(145.7)**	**–**	**–**	**(2,693)**	**(26.1)**
Profits attributable to associates	**(912)**	**(49.4)**	**–**	**–**	**(912)**	**(8.9)**
Income not subject to tax	**(294)**	**(15.9)**	**–**	**–**	**(294)**	**(2.9)**
Expenses not deductible for tax	**1,996**	**108.0**	**344**	**4.1**	**2,340**	**22.8**
Tax charge at the Group's effective rate	**4,929**	**266.7**	**1,358**	**16.1**	**6,287**	**61.1**

11. TAX (Continued)

Group – 2005

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

The share of tax attributable to associates amounting to HK$1,080,000 (2005: HK$144,000) is included in "Share of profits of associates" on the face of the consolidated income statement.

12. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated profit attributable to equity holders of the parent for the year ended 31 December 2006 includes a profit of HK$2,314,000 (2005: HK$2,275,000) which has been dealt with in the financial statements of the Company (note 29(b)).

13. DIVIDEND

	2006	2005
	HK$'000	HK$'000
Proposed final – HK0.5 cent (2005: HK0.5 cent) per ordinary share	**2,227**	2,227

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

The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent of HK$4,008,000 (2005: HK$3,436,000) and the weighted average of 445,430,000 (2005: 446,301,000) in issue during the year.

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

Since the Company's warrants expired on 31 December 2006 and the exercise price of the Company's warrants was higher than the average market price of the Company's shares during the years ended 31 December 2006 and 2005, there were no dilutive potential ordinary shares outstanding during the years. Therefore no diluted earnings per share amounts have been presented for both years.

15. PROPERTY, PLANT AND EQUIPMENT

Group	Leasehold land and buildings HK$'000	Leasehold improve-ments HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
31 December 2006						
At 31 December 2005 and at 1 January 2006:						
Cost or valuation	126,585	1,438	61,321	11,837	6,847	208,028
Accumulated depreciation	–	(557)	(31,125)	(5,923)	(4,626)	(42,231)
Net carrying amount	126,585	881	30,196	5,914	2,221	165,797
At 1 January 2006, net of accumulated depreciation:	126,585	881	30,196	5,914	2,221	165,797
Additions	–	42	1,738	2,233	–	4,013
Disposals	–	–	(17)	(42)	–	(59)
Surplus on revaluation	1,219	–	–	–	–	1,219
Depreciation provided during the year	(3,079)	(126)	(5,117)	(1,772)	(550)	(10,644)
Exchange realignment	375	–	522	149	20	1,066
At 31 December 2006, net of accumulated depreciation	125,100	797	27,322	6,482	1,691	161,392
At 31 December 2006:						
Cost or valuation	125,100	1,480	64,272	14,097	6,975	211,924
Accumulated depreciation	–	(683)	(36,950)	(7,615)	(5,284)	(50,532)
Net carrying amount	125,100	797	27,322	6,482	1,691	161,392
Analysis of cost or valuation:						
At cost	–	1,480	64,272	14,097	6,975	86,824
At 31 December 2006 valuation	125,100	–	–	–	–	125,100
	125,100	1,480	64,272	14,097	6,975	211,924

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

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

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

At the balance sheet date, the Group's leasehold land and buildings situated in Hong Kong and buildings situated in Mainland China were revalued individually by RHL Appraisal Limited ("RHL"), independent professionally qualified valuers, at an aggregate open market value of HK$125,100,000 based on their existing use. A revaluation surplus of HK$1,219,000, resulting from the above valuations, has been credited to the asset revaluation reserve.

Had the Group's leasehold land and buildings been carried at historical cost less accumulated depreciation and impairment losses, their carrying amounts would have been HK$85,702,000 (2005: HK$88,031,000).

At 31 December 2006, certain of the Group's leasehold land and buildings in Mainland China with an aggregate net book value of approximately HK$27,313,000 (2005: HK$28,324,000) were pledged to secure general banking facilities granted to the Group (note 26).

The leasehold land and buildings situated in Hong Kong are held under long-term leases.

16. PREPAID LAND PREMIUMS

	Group	
	2006	2005
	HK$'000	HK$'000
Carrying amount at 1 January	**10,138**	10,317
Recognised during the year	**(254)**	(251)
Exchange realignment	**142**	72
Carrying amount at 31 December	**10,026**	10,138
Current portion	**(247)**	(247)
Non-current portion	**9,779**	9,891

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

17. INTERESTS IN SUBSIDIARIES

	Company	
	2006	2005
	HK$'000	HK$'000
Unlisted shares, at cost	**156,726**	156,726
Due from subsidiaries *(note (a))*	**60,777**	60,390
	217,503	217,116
Due from a subsidiary *(note (b))*	**3,810**	4,090

17. INTERESTS IN SUBSIDIARIES (Continued)

Notes:

(a) The amounts due from subsidiaries are unsecured, interest-free and not repayable within the next financial year. In the opinion of the Company's directors, the advances are considered as quasi-equity loans to the subsidiaries.

(b) The amount due from a subsidiary was unsecured, interest-free, and had no fixed terms of repayment.

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

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued and fully paid up share/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Sewco (B.V.I.) Limited*	British Virgin Islands	Ordinary US$401	100	–	Investment holding
Sewco Toys & Novelty Limited	Hong Kong	Ordinary HK$200 Non-voting deferred HK$420,000	–	100	Investment holding and trading of toy products
Pearl Delta Toys Limited	Hong Kong	Ordinary HK$2 Non-voting deferred HK$2,000,000	–	100	Provision of agency services
Zhongshan Sewco Toys & Novelty Limited#*	The People's Republic of China/ Mainland China	Paid-up registered HK$100,015,593	–	100	Manufacture of toy products
Huge Returns Enterprises Inc.*	British Virgin Islands	Ordinary US$10	–	100	Investment holding
Gee Wiz Limited*	Hong Kong	Ordinary HK$51	–	100	Design and trading of toys

\# *A wholly-foreign-owned enterprise registered in the People's Republic of China*
* *Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms*

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

18. INTERESTS IN ASSOCIATES

	Group 2006 HK$'000	2005 HK$'000
Share of net assets	**3,577**	1,043
Goodwill on acquisition, net carrying amount (note)	**4,964**	4,964
	8,541	6,007
Dividend receivable from an associate	**800**	–

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

Note: Impairment testing of goodwill

The goodwill acquired through business combinations has been allocated to a single cash-generating unit for impairment testing. The recoverable amount of the associates is determined based on a value in use calculation using cash flow projections based on the financial budgets covering a one-year period approved by senior management. The discount rate applied to the cash flow projections is 10.5% (2005: 10.5%).

The key assumptions used in the value in use calculation of associates for 31 December 2006 and 31 December 2005 are as follows:

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

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

Particulars of the associates are as follows:

Name	Particulars of issued shares/common stocks held	Place of incorporation/ registration	Percentage of ownership interest attributable to the Group 2006	2005	Principal activities
Jasman Asia Limited	Ordinary shares of HK$10 each	Hong Kong	**40**	20	Design and trading of toys
Jasman Inc.	Common shares of no par value	The United States of America	**40**	20	Dormant
Jasman USA Inc.	Common stocks of US$0.01 each	The United States of America	**40**	20	Dormant

18. INTERESTS IN ASSOCIATES (Continued)

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

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

	2006	2005
	HK$'000	HK$'000
Assets	**29,801**	32,687
Liabilities	**19,003**	23,762
Revenues	**172,874**	126,209
Profit	**12,472**	3,374

19. OTHER INTANGIBLE ASSET

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

20. LOAN RECEIVABLE

The balance represents an advance made by a subsidiary of the Company to an employee of the Group. The loan interest rate is charged at 2% per annum (2005: 2%). The outstanding loan balance is repayable by monthly installments of HK$15,000 by the borrower.

The installments receivable in the next 12 months are included under current assets and the balance of HK$755,000 (2005: HK$935,000) is included under non-current assets as at 31 December 2006.

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

21. INVENTORIES

	Group	
	2006	2005
	HK$'000	HK$'000
Raw materials	**51,338**	35,007
Work in progress	**42,970**	28,609
Finished goods	**21,563**	23,874
	115,871	87,490

22. TRADE RECEIVABLES

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

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

	Group	
	2006	2005
	HK$'000	HK$'000
Current to 30 days	**50,408**	28,830
31 to 90 days	**26,179**	4,469
Over 90 days	**2,012**	–
	78,599	33,299

Included in the Group's trade receivables is an amount due from an associate of the Group of HK$6,726,000 (2005: HK$836,000) which is repayable on credit terms similar to those offered to major customers of the Group.

23. CASH AND CASH EQUIVALENTS

	Group		**Company**	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**26,623**	26,243	**3**	8
Time deposits	**–**	7,814	**–**	–
Cash and cash equivalents	**26,623**	34,057	**3**	8

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$7,559,000 (2005: HK$1,168,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

24. TRADE PAYABLES

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

	Group	
	2006	2005
	HK$'000	HK$'000
Current to 30 days	**52,438**	40,670
31 to 90 days	**40,747**	13,738
Over 90 days	**2,568**	222
	95,753	54,630

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

25. DERIVATIVE FINANCIAL INSTRUMENTS

	Group	
	2006	2005
	HK$'000	HK$'000
Forward currency contracts	**3,169**	–

The Group has entered into various forward currency contracts during the year to manage its exchange rate exposures which did not meet the criteria for hedge accounting. Changes in the fair value of non-hedging currency derivatives amounting to HK$3,169,000 (note 7) were charged to the consolidated income statement during the year (2005: Nil).

The carrying amounts of forward currency contracts approximate to their fair values.

26. INTEREST-BEARING BANK LOANS

	Effective interest rate (%)	**Maturity**	Group **2006** **HK$'000**	2005 HK$'000
Current				
Secured bank loans repayable within one year	Fixed rate of 0.51 per month	September 2007	**7,963**	–

26. INTEREST-BEARING BANK LOANS (Continued)

Notes:

(a) The Group's bank loans are secured by the pledge of certain of the Group's leasehold land and buildings in Mainland China with aggregate net book value of approximately HK$27,313,000 (2005: HK$28,324,000) (note 15).

(b) The secured bank loans are denominated in RMB.

(c) The carrying amounts of the Group's current borrowings approximate to their fair values.

27. DEFERRED TAX LIABILITIES

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

	Accelerated tax depreciation	Revaluation of properties	Total
	HK$'000	HK$'000	HK$'000
2006			
At 1 January 2006	**2,949**	**4,970**	**7,919**
Deferred tax credited to the income statement during the year (note 11)	**(2,693)**	**–**	**(2,693)**
Deferred tax credited to the asset revaluation reserve during the year	**–**	**(3,745)**	**(3,745)**
At 31 December 2006	**256**	**1,225**	**1,481**
2005			
At 1 January 2005	2,903	743	3,646
Deferred tax debited to the income statement during the year (note 11)	46	–	46
Deferred tax debited to the asset revaluation reserve during the year	–	4,227	4,227
At 31 December 2005	2,949	4,970	7,919

At 31 December 2006, there was no unrecognised deferred tax liability (2005: Nil) for taxes that would be payable on the unremitted earnings of the Group's subsidiaries and associates as the Group has no liability to additional tax should such amounts be remitted.

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

28. SHARE CAPITAL

Shares

	Company	
	2006	2005
	HK$'000	HK$'000
Authorised:		
1,000,000,000 ordinary shares of HK$0.10 each	**100,000**	100,000
Issued and fully paid:		
445,430,000 ordinary shares of HK$0.10 each	**44,543**	44,543

Share options

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

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

28. SHARE CAPITAL (Continued)

Share options (Continued)

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

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

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

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

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

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

Warrants

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

No warrants were exercised during the year. At 31 December 2006, all warrants were fully expired (2005: 79,998,000 were outstanding).

29. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 40 of the financial statements.

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

(b) Company

	Notes	**Share premium account** HK$'000	**Contributed surplus#** HK$'000	**Retained profits** HK$'000	**Total** HK$'000
At 1 January 2005		21,440	152,762	645	174,847
Repurchase of shares		(528)	–	–	(528)
Profit for the year	*12*	–	–	2,275	2,275
Proposed final 2005 dividend	*13*	–	–	(2,227)	(2,227)
At 31 December 2005 and 1 January 2006		20,912	152,762	693	174,367
Profit for the year	*12*	–	–	2,314	2,314
Proposed final 2006 dividend	*13*	–	–	(2,227)	(2,227)
At 31 December 2006		20,912	152,762	780	174,454

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

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

30. CONTINGENT LIABILITIES

(a) The Group had a contingent liability in respect of possible future long service payments to employees under the Hong Kong Employment Ordinance, with a maximum possible amount of HK$1,054,000 as at 31 December 2006 (2005: HK$1,386,000), as further explained under the heading "Employee benefits" in note 3.4 to the financial statements. The contingent liability has arisen at the balance sheet date as a number of current employees have achieved the required number of years of service to the Group, and will be eligible for long service payments under the Employment Ordinance if their employment is terminated under certain circumstances. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

(b) At the balance sheet date, the Company had provided corporate guarantees of HK$95,100,000 (2005: HK$35,500,000) to certain banks in respect of banking facilities granted to its subsidiaries. As at the balance sheet date, no banking facilities were utilised by the subsidiaries (2005: Nil).

(c) At the balance sheet date, the Company had provided corporate guarantees of HK$500,000 (2005: HK$500,000) to a bank in respect of banking facilities granted to one of its associates. As at the balance sheet date, such banking facilities were fully utilised by the associate (2005: HK$500,000).

31. OPERATING LEASE ARRANGEMENTS

(a) As lessor

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

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

	Group	
	2006	2005
	HK$'000	HK$'000
Within one year	–	28

31. OPERATING LEASE ARRANGEMENTS (Continued)

(b) As lessee

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

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

	Group	
	2006	2005
	HK$'000	HK$'000
Within one year	**2,681**	310
In the second to fifth years, inclusive	**1,616**	47
	4,297	357

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

32. COMMITMENTS

In addition to the operating lease commitments detailed in note 31(b) above, the Group had the following capital commitments at the balance sheet date:

	Group	
	2006	2005
	HK$'000	HK$'000
Contracted for:		
Office equipment	**765**	–
Construction costs	**96**	148
Purchase commitment in respect of additional interests in associates	**–**	1,560
	861	1,708

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

33. RELATED PARTY TRANSACTIONS

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

	Notes	**2006 HK$'000**	2005 HK$'000
Rental expenses to a director	*(i)*	**204**	204
Rental expenses to an ex-director's associate	*(ii)*	**–**	252
Consultancy fee to an ex-director		**77**	143
Interest expenses to an ex-director		**–**	70
Rental income from an ex-director	*(iii)*	**(4)**	(20)
Sales to an associate	*(iv)*	**(24,862)**	(10,086)

Notes:

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

(ii) The rental expenses were paid by the Group to Ms. Fung Wai Chi, Philomena, the wife of Mr. Cheung Po Lun, an ex-director and a substantial shareholder of the Company and is the father of Ms. Cheung Yan, Priscilla, and Ms. Cheung Man, Catherine, directors of the Company. The rental expenses were for leasing a property as staff quarters in 2005. The rental was agreed by both parties with reference to the then prevailing market conditions in 2005.

(iii) The rental income was received from a related company, in which Mr. Cheung Po Lun, an ex-director of the Company and a substantial shareholder of the Company, has beneficial interests, for leasing an insignificant portion of the Group's office premises. The rental was agreed by both parties with reference to the then prevailing market conditions. Starting from February 2006, the above-mentioned office premises were occupied by Mr. Cheung for nil consideration.

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

(b) Outstanding balances with related parties:

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

(c) Compensation of key management personnel of the Group is disclosed in note 9 to the financial statements.

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

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency. Approximately 46.4% (2005: 44.4%) of the Group's sales are denominated in currencies other than the functional currency of the operating units making the sale, which is mainly the United States dollar, whilst almost 53.5% (2005: 28.5%) of costs are denominated in the functional currency. As the major foreign currency sales are denominated in the United States dollar and major foreign currency costs in RMB, the currency exposures are limited.

Credit risk

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

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

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

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility mainly through the use of its own operating cash reserve, bank overdrafts, and bank loans. The Group's policy is to use its own operating cash reserve as its primary source of funding.

35. EVENT AFTER THE BALANCE SHEET DATE

During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law ("the New Corporate Income Tax Law") was approved and will become effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Since the detailed implementation and administrative rules and regulations have not yet been announced, the financial impact of the New Corporate Income Tax Law to the Group cannot be reasonably estimated at this stage.

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 17 April 2007.