

Notes to the Accounts

1 GENERAL INFORMATION

Hutchison Harbour Ring Limited (the “Company”) and its subsidiary companies (hereinafter collectively referred to as the “Group”) are principally engaged in toy manufacturing, property development and investment, provision of integrated solutions of design and distribution of mobile phone accessories and other high-end electronic products as well as licensing and sourcing of consumer products. The Group has manufacturing plants in the Mainland China and sells mainly to the United States and Europe.

The Company is a limited liability company incorporated in Bermuda and listed on The Stock Exchange of Hong Kong Limited. The registered office of the Company is located at 22/F Hutchison House, 10 Harcourt Road, Hong Kong.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated accounts of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”). These accounts have been prepared under the historical cost convention, as modified by the revaluation of investment properties and certain financial instruments, which are carried at fair value, as explained in the significant accounting policies set out below.

(a) Basis of consolidation

The consolidated accounts include the accounts of the Company and all its subsidiary companies made up to 31 December.

The results of subsidiary companies acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate. The acquisition of subsidiary companies is accounted for using the purchase method of accounting.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiary companies.

(b) Subsidiaries

Subsidiary companies are all entities over which the Group has the power to govern the financial and operating policies, so as to obtain benefits from their activities.

Subsidiary companies are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

In the Company’s balance sheet the investments in subsidiary companies are stated at cost less provision for impairment losses. The results of subsidiary companies are accounted by the Company on the basis of dividend received and receivable.

Notes to the Accounts

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Associated companies

Associated companies are all entities over which the Group has significant influence and that are neither a subsidiary company nor an interest in a joint venture. Investments in associated companies are accounted for by the equity method of accounting and are initially recognised at cost.

The Group's share of its associated companies' post-acquisition profits and losses are recognised in the consolidated profit and loss account, and its share of post-acquisition movements in reserves are recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in associated companies equal or exceed its interests in associated companies, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associated companies.

Unrealised gains on transactions between the Group and its associated companies are eliminated to the extent of the Group's interests in the associated companies. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

(d) Foreign currency translation

(i) *Functional and presentation currency*

Items included in the accounts of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated accounts are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

(ii) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the investment revaluation reserve in reserves.

Notes to the Accounts

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Foreign currency translation (Continued)

(iii) Group's entities

The results and financial position of all the Group's entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each profit and loss account are translated at average exchange rates; and
- all resulting exchange differences are recognised in exchange reserve.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(e) Property, plant and equipment

Property, plant and equipment comprise mainly buildings, leasehold improvements, plant and machinery, furniture, fixtures and equipment and motor vehicles. Property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the profit and loss account during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their cost less accumulated impairment losses over their estimated useful lives, as follows:

Buildings	21 to 50 years
Leasehold improvements	3 to 10 years or over the term of the relevant leases, whichever is shorter
Plant and machinery	5 to 10 years
Furniture, fixtures and equipment	5 to 10 years
Motor vehicles	5 years

The gain or loss on disposal of a property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

Notes to the Accounts

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Property, plant and equipment (Continued)

The assets' useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

(f) Investment properties

Investment properties are interests in land held under operating leases and buildings in respect of which construction work and development have been completed and which are held for their investment potential. Investment properties are measured initially at cost and are subsequently carried in the balance sheet at fair value determined annually by independent professional valuers at the balance sheet date, and are not depreciated. Changes in fair values are recognised in the profit and loss account.

(g) Goodwill

Goodwill represents the excess of the cost of an acquisition over the Group's interest in the net fair value of the net identifiable assets of the acquired subsidiary or associated company at the date of acquisition. Goodwill is carried at cost less accumulated impairment losses at the balance sheet date as a separate asset or as applicable, included within investments in associated companies, and is tested annually for impairment.

(h) Licence rights

Licence rights comprise of the upfront payments made for acquiring licence on branded goods plus the capitalised present value of fixed periodic payments to be made in subsequent years.

The licences are amortised on a straight-line basis from the date of first commercial usage over the remaining licence periods.

(i) Investments in securities

The Group classifies its investments in securities in the following categories: held-to-maturity securities, available-for-sale financial assets, financial assets at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the investments were acquired.

(i) *Held-to-maturity securities*

Held-to-maturity securities are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. Held-to-maturity securities are stated at amortised cost using the effective interest method.

Notes to the Accounts

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Investments in securities (Continued)

(ii) *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 categories. Purchases and sales of investments are recognised on trade date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Changes in fair value are recognised in the investment revaluation reserve 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 profit and loss account.

The fair values of quoted investments are based on closing bid prices at the balance sheet date. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

(iii) *Financial assets at fair value through profit or loss*

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date. Financial assets at fair value through profit or loss are carried at fair value, realised and unrealised gains and losses arising from changes in the fair value of these investments are included in the profit and loss account in the period in which they arise.

(iv) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains or losses are recognised in the profit and loss account when the loans and receivables are derecognised or impaired, as well as through the amortisation process. They arise when the Group provides money or services directly to a debtor or a related company with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets.

Notes to the Accounts

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to depreciation or amortisation are reviewed to determine whether there is any indication that the carrying value of these assets may not be recoverable and have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Such impairment loss is recognised in the profit and loss account except where the financial asset is carried at fair value and the impairment loss does not exceed the revaluation surplus for that asset, in which case it is treated as a decrease in investment revaluation reserve.

(k) Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is calculated using the weighted average cost formula 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 to completion and the estimated costs necessary to make the sale.

(l) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the profit and loss account.

(m) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

Notes to the Accounts

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Borrowings

Borrowings comprise mainly bank loans and convertible notes. They are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(i) Bank loans

Bank loans are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Bank loans are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

(ii) Convertible notes

The fair value of the liability portion of a convertible note is determined using a market interest rate for an equivalent non-convertible note. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the notes. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects, if any.

(o) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

(p) Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Notes to the Accounts

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Income tax

- (i) 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 the profit and loss account except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.
- (ii) Current tax is expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.
- (iii) Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates enacted or substantively enacted by the balance sheet date and expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred taxation is not discounted.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiary and associated companies, except 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.

(r) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases (including up-front prepayments made for the leasehold land and land use rights) net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

(s) Finance costs

Finance costs are accounted for on the accrual basis and charged to the profit and loss account in the year incurred, except for costs related to funding of the construction of properties under development which are capitalised as part of the cost of that asset during the construction period and up to date of completion of construction.

Notes to the Accounts

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Employee benefits

- (i) Salaries, bonus, paid annual leave and the cost of other benefits to the Group are accrued in the year in which the associated services are rendered by employees of the Group.
- (ii) The Group operates two defined contribution schemes, the assets of which are held in separate administered funds. The Group's contributions to the defined contribution schemes are expensed as incurred and are not reduced by contributions forfeited by those employees who leave the schemes prior to vesting fully in the contributions.

The Group also contributes on a monthly basis to various defined contribution retirement benefit plans organised by relevant municipal and provincial governments in the People's Republic of China ("PRC"). The municipal and provincial governments undertake to assume the retirement benefit obligations payable to all existing and future retired employees for post-retirement benefits beyond the contributions made. The assets of these plans are held separately from those of the Group in independently administered funds managed by the PRC government. Contributions to these plans are expensed as incurred.

- (iii) 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.

(u) Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the profit and loss account and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

Notes to the Accounts

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) Revenue recognition

(i) Sale of goods

Revenue is recognised when goods are delivered to customers 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 or other sales taxes and is after deduction of any trade discounts.

(ii) Rental income from operating leases

Rental income receivable under operating leases is recognised in the profit and loss account in equal instalments 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 granted are recognised in the profit and loss account as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the year in which they are earned.

(iii) Licensing commission income

Licensing commission income is recognised on an accrual basis in accordance with the substance of the relevant agreements.

(w) Interest income

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

At the date of authorisation of these accounts, the following standards, amendments and interpretations were in issue but not yet effective:

HKFRS 7	Financial Instruments: Disclosures
HKAS 1 (Amendment)	Capital Disclosures
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	HKFRS 2 - Group and Treasury Share Transactions

The adoption of the above standards, amendments and interpretations in future periods is not expected to result in substantial changes to the Group's accounting policies.

Notes to the Accounts

3 FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and price risk), credit risk, liquidity risk, interest rate risk and fair value estimation risk. Risk management is carried out by senior management of the Group under policies approved by the board of directors of the Company.

(i) Market risk

Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from foreign currency exposures, primarily with respect to US dollar, Hong Kong dollar and Renminbi. Revenue and majority of its operating costs and cost of sales are in US dollar, Hong Kong dollar and Renminbi. No significant foreign exchange risk arising from future commercial transactions, recognised assets and liabilities is expected in the foreseeable future.

Price risk

As the Group purchases plastics, a by-product of crude oil, in its manufacturing process at market prices, it is exposed to fluctuation in these prices. The Group does not use any derivative instruments to reduce its economic exposure to changes in the price of crude oil.

The Group has available-for-sale financial assets which are exposed to equity securities price risk.

(ii) Credit risk

Sales to three (2005: Two) of the Group's major customers exceed 10% of the total turnover. The aggregate sales to the five largest customers represent 56.3% (2005: 55.9%) of total turnover.

The Group has policies in place to ensure that sale of products are made to customers with an appropriate credit history. The Group also performs periodic credit evaluations of its customers and believes that adequate provision for doubtful trade receivables has been made in the accounts. Rental deposits are required from tenants prior to the commencement of leases.

Notes to the Accounts

3 FINANCIAL RISK MANAGEMENT (Continued)

(a) Financial risk factors (Continued)

(iii) Liquidity risk

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

(iv) Interest rate risk

The Group has no significant interest-bearing assets except for cash and bank deposits, loans receivable and listed debt securities, the income and operating cash flows of which are substantially independent of changes in market interest rates.

The interest rate risk arises from convertible notes and bank loans. Convertible notes were issued at fixed rates. The short-term bank loans are interest bearing at floating rates and are repayable on demand.

(b) Fair value estimation

The fair value of financial instruments traded in active markets (such as publicly traded derivatives and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the closing bid price at the balance sheet date; the appropriate quoted market price for financial liabilities is the closing ask price at the balance sheet date.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

Notes to the Accounts

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Note 2 to the accounts includes a summary of the significant accounting policies used in the preparation of the accounts. The preparation of accounts often requires the use of judgements to select specific accounting methods and policies from several acceptable alternatives. Furthermore, significant estimates and assumptions concerning the future may be required in selecting and applying those methods and policies in the accounts. The Group bases its estimates and judgements on historical experience and various other assumptions that it believes are reasonable under the circumstances. Actual results may differ from these estimates and judgements under different assumptions or conditions.

The following is a review of the more significant assumptions and estimates, as well as the accounting policies and methods used in the preparation of the accounts.

(a) Estimated fair value of available-for-sale financial assets

The fair value of financial instruments traded in active markets (such as trading securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the closing bid price at the balance sheet date.

The fair value of financial instruments that are not traded in active market is determined based on available recent market information such as most recent market transaction price with third parties and the latest available financial information existing at each balance sheet date.

(b) Income taxes

The Group is subject to income taxes in various jurisdictions. Significant judgement is required in determining provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(c) Estimated fair value of investment properties

The fair value of each investment property individually is determined at each balance sheet date by independent professional valuers by reference to comparable market transactions and where appropriate on the basis of capitalisation of the net rental income/net income, after allowing for outgoings and in appropriate cases provisions for reversionary income potential. These methodologies are based upon estimates of future results and a set of assumptions as to income and expenses of the property and future economic conditions. The fair value of each investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions. The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property.

Notes to the Accounts

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(d) Estimated impairment of long-lived assets

The Group tests annually whether tangible and intangible long-lived assets not subject to amortisation have suffered any impairment. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

(e) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation expenses for the Group's property, plant and equipment. Management will revise the depreciation expenses where useful lives are different to previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

(f) Net realisable values of inventories

Inventories are carried at the lower of cost and net realisable value. The cost of inventories is written down to net realisable value when there is objective evidence that the cost of inventories may not be recoverable. The cost of inventories may not be recoverable if those inventories are damaged, if they have become wholly or partially obsolete, or if their selling prices have declined. The cost of inventories may not also be recoverable if the estimated costs to be incurred to make the sale have increased. The amount written off to the profit and loss account is the difference between the carrying value and net realisable value of the inventories. In determining whether the cost of inventories can be recoverable, significant judgement is required. In making this judgement, the Group evaluates, among other factors, the duration and extent by all means to which the amount will be recovered.

(g) Impairment of available-for-sale financial assets

In determining when an investment is other than temporarily impaired, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, change in technology and operational and financing cash flow.

Notes to the Accounts

5 TURNOVER, REVENUES AND SEGMENT INFORMATION

The principal activity of the Company is investment holding. The principal activities of the subsidiary companies are set out in note 48(a) to the accounts.

Turnover represents sales of toys, consumer electronic products and accessories, rental and service income, and licensing commission and other income. The amount of each category of revenue recognised during the year is as follows:

	2006	2005
	HK\$'000	HK\$'000
Turnover		
Sales of goods	2,296,717	2,543,651
Rental and service income from investment properties	279,210	69,037
Licensing commission and other income	11,881	7,701
Total revenues	2,587,808	2,620,389

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format. The Group's core business segments are toy division, technology division, licensing and sourcing division and property division. Other corporate income and expenses, investments in securities and cash held for non-operating purposes are not allocated to the above segments. An analysis by principal business and geographical location of the divisions of the Group is set out on pages 65 to 68.

In 2006, earnings before interest expense and taxation are presented as segment results in respect of the Group's business and geographical segments as directors consider that this can better reflect the performance of each division. Accordingly, 2005 comparative figures have been reclassified to conform with the current year's presentation.

Notes to the Accounts

5 TURNOVER, REVENUES AND SEGMENT INFORMATION (Continued)

Primary segment information by business:

	Year ended 31 December 2006						
	Toy division HK\$'000	Technology division HK\$'000	Licensing and sourcing division HK\$'000	Property division HK\$'000	Unallocated HK\$'000	Elimination HK\$'000	Group HK\$'000
Turnover							
Company and subsidiary companies							
— External sales	1,721,424	484,934	102,240	279,210	—	—	2,587,808
— Inter-segment sales	13,083	3,272	945	397	—	(17,697)	—
	1,734,507	488,206	103,185	279,607	—	(17,697)	2,587,808
Share of an associated company	5,577	—	—	—	—	—	5,577
	1,740,084	488,206	103,185	279,607	—	(17,697)	2,593,385
Segment results before change in fair value of investment properties and profits on disposal of investments and others							
Company and subsidiary companies	(27,949)	(74,945)	(10,295)	226,530	(54,584)	(377)	58,380
Share of an associated company	(3,299)	—	—	—	—	—	(3,299)
	(31,248)	(74,945)	(10,295)	226,530	(54,584)	(377)	55,081
Change in fair value of investment properties (Note)	3,020	—	—	96,014	—	—	99,034
Profits on disposal of investments and others (Note)	23,208	—	—	—	35,654	—	58,862
Earnings/(losses) before interest expense and taxation	(5,020)	(74,945)	(10,295)	322,544	(18,930)	(377)	212,977
Finance costs							(55,658)
Taxation							(105,709)
Profit for the year							51,610
Segment assets	823,925	294,495	130,251	4,272,092	—	—	5,520,763
Investment in an associated company	3,328	—	—	—	—	—	3,328
Tax recoverable	4,588	6,904	209	—	—	—	11,701
Deferred tax assets	12,151	11,751	6,353	—	—	—	30,255
Unallocated assets	—	—	—	—	314,907	—	314,907
Total assets							5,880,954
Segment liabilities	352,071	105,245	68,513	263,884	—	—	789,713
Loans from minority shareholders	7,485	—	—	39,605	—	—	47,090
Tax payables	1,367	—	542	75,990	—	—	77,899
Deferred tax liabilities	14,389	—	385	705,825	—	—	720,599
Unallocated liabilities	—	—	—	—	947,528	—	947,528
Total liabilities							2,582,829
Capital expenditure	(35,512)	(8,351)	(63,437)	(1,135)	—	—	(108,435)
Depreciation	(30,349)	(9,892)	(1,759)	(723)	—	—	(42,723)
Amortisation on leasehold land and land use rights	(575)	—	—	(103)	—	—	(678)

Notes to the Accounts

5 TURNOVER, REVENUES AND SEGMENT INFORMATION (Continued)

Primary segment information by business (Continued):

	Year ended 31 December 2005						Group HK\$'000
	Toy division HK\$'000	Technology division HK\$'000	Licensing and sourcing division HK\$'000	Property division HK\$'000	Unallocated HK\$'000	Elimination HK\$'000	
Turnover							
Company and subsidiary companies							
— External sales	1,833,653	620,990	96,709	69,037	—	—	2,620,389
— Inter-segment sales	16,062	5,581	2,004	—	—	(23,647)	—
	1,849,715	626,571	98,713	69,037	—	(23,647)	2,620,389
Share of associated companies	7,175	—	—	—	—	—	7,175
	1,856,890	626,571	98,713	69,037	—	(23,647)	2,627,564
Segment results before change in fair value of investment properties and profits on disposal of investments and others							
Company and subsidiary companies	48,713	14,803	(2,998)	53,256	6,792	(413)	120,153
Share of associated companies	321	—	—	(408)	—	—	(87)
	49,034	14,803	(2,998)	52,848	6,792	(413)	120,066
Change in fair value of investment properties (Note)	—	—	—	32,208	—	—	32,208
Profits on disposal of investments and others (Note)	6,440	—	—	32,752	34,345	—	73,537
Earnings/(losses) before interest expense and taxation	55,474	14,803	(2,998)	117,808	41,137	(413)	225,811
Finance costs							(6,739)
Taxation							(26,509)
Profit for the year							192,563
Segment assets	887,990	444,792	34,625	3,909,718	—		5,277,125
Investment in an associated company	6,025	—	—	—	—		6,025
Deferred tax assets	10,346	433	3,834	—	—		14,613
Unallocated assets	—	—	—	—	532,787		532,787
Total assets							5,830,550
Segment liabilities	319,287	116,138	10,760	495,608	—		941,793
Loans from minority shareholders	7,185	—	—	39,386	—		46,571
Tax payables	278	1,427	1,038	64,942	—		67,685
Deferred tax liabilities	355	—	395	627,607	—		628,357
Unallocated liabilities	—	—	—	—	902,878		902,878
Total liabilities							2,587,284
Capital expenditure	(26,253)	(15,062)	(721)	(477)	—		(42,513)
Depreciation	(31,438)	(8,865)	(221)	(219)	—		(40,743)
Amortisation on leasehold land and land use rights	(1,791)	—	—	(57)	—		(1,848)

Notes to the Accounts

5 TURNOVER, REVENUES AND SEGMENT INFORMATION (Continued)

Secondary segment information by geographical location:

In presenting information of geographical segments, segment turnover is based on the geographical destination of delivery of goods. Segment assets and capital expenditure are based on the geographical location of the assets.

	Year ended 31 December 2006								Total HK\$'000
	United States HK\$'000	Europe HK\$'000	Mainland China HK\$'000	Hong Kong HK\$'000	Japan HK\$'000	Korea HK\$'000	Other regions HK\$'000	Unallocated HK\$'000	
Turnover	1,102,341	497,602	359,837	131,301	148,281	108,757	239,689	—	2,587,808
Segment results before change in fair value of investment properties and profits on disposal of investments and others									
Company and subsidiary companies	(23,045)	(46,081)	214,462	11,963	(11,293)	(15,623)	(17,419)	(54,584)	58,380
Share of an associated company	—	—	(3,299)	—	—	—	—	—	(3,299)
	(23,045)	(46,081)	211,163	11,963	(11,293)	(15,623)	(17,419)	(54,584)	55,081
Change in fair value of investment properties (Note)	—	—	95,414	3,620	—	—	—	—	99,034
Profits on disposal of investments and others (Note)	—	—	823	22,441	(56)	—	—	35,654	58,862
Earnings/(losses) before interest expense and taxation	(23,045)	(46,081)	307,400	38,024	(11,349)	(15,623)	(17,419)	(18,930)	212,977
Segment assets	123,868	52,306	4,811,662	447,071	1,651	20,754	63,451	—	5,520,763
Investment in an associated company	—	—	3,328	—	—	—	—	—	3,328
Tax recoverable	—	70	1,332	10,299	—	—	—	—	11,701
Deferred tax assets	—	—	12,458	17,797	—	—	—	—	30,255
Unallocated assets	—	—	—	—	—	—	—	314,907	314,907
Total assets	123,868	52,376	4,828,780	475,167	1,651	20,754	63,451	314,907	5,880,954
Capital expenditure	—	498	36,329	71,608	—	—	—	—	108,435

Notes to the Accounts

5 TURNOVER, REVENUES AND SEGMENT INFORMATION (Continued)

Secondary segment information by geographical location (Continued):

	Year ended 31 December 2005								Total HK\$'000
	United States HK\$'000	Europe HK\$'000	Mainland China HK\$'000	Hong Kong HK\$'000	Japan HK\$'000	Korea HK\$'000	Other regions HK\$'000	Unallocated HK\$'000	
	Turnover	1,185,897	491,163	127,099	139,908	147,740	308,615	219,967	
Segment results before change in fair value of investment properties and profits on disposal of investments and others									
Company and subsidiary companies	10,966	10,516	56,004	14,294	5,594	13,410	2,577	6,792	120,153
Share of associated company	—	—	(87)	—	—	—	—	—	(87)
	10,966	10,516	55,917	14,294	5,594	13,410	2,577	6,792	120,066
Change in fair value of investment properties (Note)	—	—	29,738	2,470	—	—	—	—	32,208
Profits on disposal of investments and others (Note)	—	—	32,752	—	—	—	6,440	34,345	73,537
Earnings before interest expense and taxation	10,966	10,516	118,407	16,764	5,594	13,410	9,017	41,137	225,811
Segment assets	168,716	94,137	4,434,437	503,852	22,576	43,129	10,278	—	5,277,125
Investment in an associated company	—	—	6,025	—	—	—	—	—	6,025
Deferred tax assets	—	208	7,242	7,163	—	—	—	—	14,613
Unallocated assets	—	—	—	—	—	—	—	532,787	532,787
Total assets	168,716	94,345	4,447,704	511,015	22,576	43,129	10,278	532,787	5,830,550
Capital expenditure	—	2,637	36,769	3,107	—	—	—	—	42,513

Note:

See Note 6 to the accounts for further details on respective items.

Notes to the Accounts

6 OTHER NET INCOME

	2006 HK\$'000	2005 HK\$'000
Increase in fair value of investment properties (Note 19)	99,034	32,208
Net gain on disposal of available-for-sale financial assets	35,654	11,890
Gain on disposal of leasehold land and land use rights	22,441	—
Gain on disposal of investment properties	—	27,876
Written back of provision for investment in convertible notes	—	22,455
Net gain on disposal of subsidiary companies/an associated company	767	11,316
	157,896	105,745

7 OPERATING PROFIT

	2006 HK\$'000	2005 HK\$'000
Operating profit is stated after crediting and charging the following:		
Crediting		
Rental from investment properties less outgoings of HK\$28,562,000 (2005: HK\$9,381,000)	211,035	53,943
Gain on disposal property, plant and equipment	1,851	367
Recovery of bad debts provision	—	429
Net exchange gains	12,230	2,253
Charging		
Cost of inventories sold (Note)	2,190,351	2,279,642
Staff costs (Note 13)	544,453	491,715
Depreciation (Note 18)	42,723	40,743
Amortisation of leasehold land and land use rights (Note 20)	678	1,848
Operating lease charges in respect of properties	48,779	38,699
Auditors' remuneration		
— Audit and audit related work		
PricewaterhouseCoopers	3,310	2,670
Other auditors	350	386
— Non audit work		
PricewaterhouseCoopers	23	21
Other auditors	—	—
Provision for bad debts	5,270	—

Note:

Cost of inventories sold includes certain portion of staff costs, depreciation and operating lease charges totalling HK\$458,894,000 (2005: HK\$424,194,000), which are also included in the respective amounts of expenses disclosed separately.

Notes to the Accounts

8 FINANCE COSTS

	2006 HK\$'000	2005 HK\$'000
Interest on bank overdrafts	147	31
Interest on bank loans (wholly repayable within one year)	10,011	1,090
Interest on loans from minority shareholders (not wholly repayable within five years)	1,183	1,497
Interest on convertible notes		
— Cash portion	19,999	2,027
— Notional non-cash interest accretion	22,739	2,094
Interest accretion on licence fees payable	1,579	—
	55,658	6,739

9 TAXATION

	2006 HK\$'000	2005 HK\$'000
Current taxation		
— Hong Kong	1,378	369
— Outside Hong Kong	53,061	26,623
Deferred taxation (Note 33)	51,270	(483)
	105,709	26,509

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

The Group's operations in Mainland China are subject to Enterprise Income Tax of Mainland China ("PRC Enterprise Income Tax") and the standard income tax rate is 33% (2005: 33%) on assessable profits. The Group's certain major operating subsidiary companies are exempted from PRC Enterprise Income Tax in the first two profit making years followed by a 50% reduction in the PRC Enterprise Income Tax for the next three years thereafter.

Taxation outside Hong Kong and Mainland China has been provided for on the estimated assessable profits at applicable rate ruling in relevant countries or locations.

The Inland Revenue Department of Hong Kong has commenced a tax audit of the Group's operation for the past few years. The tax audit is presently ongoing and it is too early to assess the likely outcome of such audit.

Notes to the Accounts

9 TAXATION (Continued)

The differences between the Group's expected tax charges calculated at the domestic rates and the Group's tax charge for the years are as follows:

	2006 HK\$'000	2005 HK\$'000
Profit before taxation	157,319	219,072
Tax calculated at the domestic rates applicable to the profits in the countries concerned	65,390	34,617
Income not subject to taxation	(14,400)	(14,166)
Expenses not deductible for taxation purposes	43,964	8,412
Utilisation of previously unrecognised tax losses	(899)	(1,780)
Tax losses not recognised	15,989	2,892
Over provision in prior years	(4,147)	(5,455)
Other temporary differences	(188)	1,714
Effect of change in tax rate	—	275
Total taxation	105,709	26,509

The weighted average applicable tax rate was 41.6% (2005: 15.8%). The increase is caused by a change in the profitability of the Group's subsidiary companies in the respective countries and tax losses of certain subsidiary companies not recognised.

10 PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The profit attributable to shareholders of the Company is dealt with in the accounts of the Company to the extent of HK\$213,388,000 (2005: HK\$29,210,000).

11 DIVIDEND

	2006 HK\$'000	2005 HK\$'000
Final dividend proposed — HK0.6 cents per ordinary share (2005: HK2.2 cents)	40,230	147,510

At a meeting held on 7 March 2007 the directors declared a final dividend of HK0.6 cents per ordinary share. The amount of proposed final dividend for 2006 is based on 6,705,000,263 shares issued at 31 December 2006. This proposed dividend is not reflected as a dividend payable in these accounts but will be reflected as an appropriation of retained profits for the year ending 31 December 2007.

The amount of proposed final dividend for 2005 was based on 6,705,000,263 shares issued at 31 December 2005 and the amount paid of HK\$147,510,000 was based on 6,705,000,263 shares issued and recorded on the Register of Members of the Company on 10 May 2006.

Notes to the Accounts

12 EARNINGS PER SHARE

The calculation of earnings per share is based on the Group's profit attributable to shareholders of the Company of HK\$50,112,000 (2005: HK\$186,016,000) and 6,705,000,263 (2005: 6,705,000,263) ordinary shares in issue during the year.

The employee share options and the convertible notes outstanding as at 31 December 2006 did not have any dilutive effect on earnings per share.

13 STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	2006 HK\$'000	2005 HK\$'000
Wages and salaries	477,973	434,860
Other allowances and benefits	54,772	43,511
Pension costs	8,100	6,328
Employee share option benefits (Note 38)	3,608	7,016
	544,453	491,715

14 RETIREMENT BENEFITS SCHEMES

The Group has two defined contribution schemes for all qualified employees.

- (i) Hong Kong employees who commenced employment before 1 September 2000 and qualified employees from operations outside Hong Kong are members of the first defined contribution scheme. The assets of the first defined contribution scheme are held separately under a provident fund managed by an independent trustee. Pursuant to the rules of the scheme, the employers and its employees are each required to make contributions to the scheme calculated at 5% of the employees' basic salaries on a monthly basis. The employees are entitled to 100% of the employers' contributions and accrued interest after 10 years' service, or at an increasing scale of between 20% to 90% after completion of 2 to 9 years' service.

When there are employees who leave the scheme prior to vesting fully in the contributions, in accordance with the rules of the scheme, the forfeited employers' contributions arising from members terminating employment before becoming fully vested are allocated to the benefit of the remaining members instead of being used to reduce the future contributions of the employers.

- (ii) All qualified Hong Kong employees who commenced employment on or after 1 September 2000 are members of the second defined contribution scheme which has been set up in accordance with the guidelines of Mandatory Provident Fund Schemes Ordinance. Both the employers and employees contribute 5% of relevant income (limited to HK\$1,000) to the scheme each month. The assets of the second defined contribution scheme are held separately from those of the Group in funds under the control of trustees.
- (iii) The employees of the Group's subsidiary companies in the Mainland China are members of a state-managed retirement benefit plan operated by the government of the PRC. The subsidiary companies are required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions.

Notes to the Accounts

15 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

Directors' emoluments comprise payments to directors of the Company by the Group in connection with the management of the affairs of the Group. The emoluments of the directors of the Company are as follows:

Name of director	Basic salaries, allowances and benefits-in-kind		Discretionary bonus	Provident fund contributions	Share option benefits	2006 Total emoluments
	Fees					
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Fok Kin-ning, Canning ⁽¹⁾	90	—	—	—	—	90
Lai Kai Ming, Dominic	70	—	—	—	—	70
Ko Yuet Ming	70	510	—	26	201	807
Luk Tei, Lewis	70	1,540	300	66	503	2,479
Chan Wen Mee, May (Michelle)	70	2,130	1,000	142	604	3,946
Chow Woo Mo Fong, Susan	70	—	—	—	—	70
Chow Wai Kam, Raymond	70	—	—	—	—	70
Edith Shih	70	—	—	—	—	70
Endo Shigeru	70	—	—	—	251	321
Kwok Siu Kai, Dennis ⁽²⁾	18	406	500	19	201	1,144
Tam Yue Man	70	1,614	852	76	—	2,612
Ronald Joseph Arculli ⁽³⁾	140	—	—	—	—	140
Kwai Kai Cheong ^{(1) (3) (4)}	160	—	—	—	—	160
Lam Lee G. ^{(1) (3) (4)}	160	—	—	—	—	160
Lan Hong Tsung, David ⁽⁴⁾	70	—	—	—	—	70
Total — 2006	1,268	6,200	2,652	329	1,760	12,209

- (1) Members of the Remuneration Committee.
- (2) Appointed on 1 October 2006.
- (3) Members of the Audit Committee.
- (4) Independent non-executive directors.

Notes to the Accounts

15 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

(a) Directors' emoluments (Continued)

Name of director	Fees HK\$'000	Basic salaries, allowances and benefits-in- kind HK\$'000	Discret- ionary bonus HK\$'000	Provident fund contributions HK\$'000	Share option benefits HK\$'000	2005 Total emoluments HK\$'000
Fok Kin-ning, Canning ⁽¹⁾	87	—	—	—	—	87
Lai Kai Ming, Dominic	70	—	—	—	—	70
Ko Yuet Ming	70	2,520	1,700	108	718	5,116
Luk Tei, Lewis	70	2,285	500	97	598	3,550
Chan Wen Mee, May (Michelle)	70	1,586	500	83	718	2,957
Chow Woo Mo Fong, Susan	70	—	—	—	—	70
Chow Wai Kam, Raymond	70	—	—	—	—	70
Edith Shih	70	—	—	—	—	70
Endo Shigeru	70	—	—	—	299	369
Cheung Wing Han, Miranda	70	2,296	—	148	—	2,514
Tam Yue Man	70	2,316	800	99	598	3,883
Ronald Joseph Arculli ⁽²⁾	140	—	—	—	—	140
Cheng Ming Fun, Paul ⁽²⁾⁽³⁾	53	—	—	—	—	53
Kwai Kai Cheong ⁽¹⁾⁽²⁾⁽³⁾	157	—	—	—	—	157
Lam Lee G. ⁽¹⁾⁽²⁾⁽³⁾	157	—	—	—	—	157
Lan Hong Tsung, David ⁽³⁾	44	—	—	—	—	44
Total — 2005	1,338	11,003	3,500	535	2,931	19,307

(1) Members of the Remuneration Committee.

(2) Members of the Audit Committee.

(3) Independent non-executive directors.

Notes to the Accounts

15 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four directors (2005: five) whose emoluments are reflected in the analysis presented in note 15(a) to the accounts. The emoluments payable to the one remaining individual in 2006 are as follows:

	2006 HK\$'000	2005 HK\$'000
Basic salaries, allowances and benefits-in-kind	1,430	—
Provident fund contributions	66	—
Employee share option benefits	151	—
	1,647	—

The emoluments of the remaining individual with the highest emoluments in 2006 fell within the following bands:

Emolument bands	Number of individuals	
	2006	2005
HK\$1,500,001 — HK\$2,000,000	1	—

16 GOODWILL

	2006 HK\$'000	2005 HK\$'000
Cost		
At 1 January	328,359	—
Additions arising from acquisition of subsidiary companies (Note 43)	—	328,359
Exchange translation differences	13,681	—
At 31 December	342,040	328,359

Goodwill acquired through business combination has been allocated to the property division, which is a separate segment, for impairment testing.

The recoverable amount of the property division has been determined based on value-in-use calculation using cash flow projections based on financial budgets approved by management covering a five-year period. The discount rate applied to cash flow projections is 5.69%.

Notes to the Accounts

17 LICENCE RIGHTS

	2006 HK\$'000	2005 HK\$'000
Cost		
At 1 January	—	—
Additions	55,114	—
At 31 December	55,114	—

Balance represents licence rights on branded products.

On 20 June 2006, a subsidiary company of Hutchison Whampoa Limited (the "HWL Subsidiary") entered into a licence agreement ("Licence Agreement") with a third party to carry out a business to design, manufacture and trading of certain goods under certain licenced marks. The rights granted for the use of the licenced marks in pursuance of the Licence Agreement are conditional. On the same date, the HWL Subsidiary entered into a sub-licence agreement with the Group whereby the HWL Subsidiary sub-licenced the business governed under the Licence Agreement to the Group. Pursuant to the sub-licence agreement, the Group agrees to pay the HWL Subsidiary a non-refundable option fee of HK\$2,400,000 for a call option whereby the HWL Subsidiary agrees to grant to the Group an option to request the third party to enter into another agreement with the Group in replacement of the Licence Agreement. In addition, the HWL Subsidiary agrees to pay to the Group a non-refundable option fee of HK\$10 for a put option whereby the Group agrees to grant to the HWL Subsidiary an option to request the Group to enter into another agreement with the third party in replacement of the Licence Agreement. Both the call option and the put option may be exercisable within three months after 20 June 2007. The Licence Agreement became unconditional on 4 July 2006.

The cost of these licence rights represents capitalisation of the minimum licence fee payable, based on a discount rate equal to the Group's weighted average borrowing rate of 6% at the date of inception. No amortisation is charged for the year ended 31 December 2006 as the licence rights have not yet commenced its commercial usage.

The recoverable amount of the licence rights has been determined based on value-in-use calculation using cash flow projections based on financial budgets approved by management covering a five-year period. The discount rate applied to cash flow projections is 5.69%.

Notes to the Accounts

18 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvements	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost						
At 1 January 2006	118,778	137,641	238,952	57,138	11,394	563,903
Exchange translation differences	4,078	2,231	6,559	1,128	298	14,294
Transfer from investment properties	6,133	—	—	—	—	6,133
Additions	—	21,956	16,286	14,203	876	53,321
Disposals	(11,040)	(12,932)	(15,457)	(4,924)	(767)	(45,120)
Relating to subsidiary companies disposal of	—	—	—	(108)	—	(108)
At 31 December 2006	117,949	148,896	246,340	67,437	11,801	592,423
Accumulated depreciation						
At 1 January 2006	73,651	118,377	147,842	38,294	7,698	385,862
Exchange translation differences	2,209	1,742	2,679	796	197	7,623
Charge for the year (Note 7)	3,812	10,861	19,474	7,252	1,324	42,723
Disposals	(6,715)	(11,203)	(13,402)	(3,900)	(760)	(35,980)
Relating to subsidiary companies disposal of	—	—	—	(34)	—	(34)
At 31 December 2006	72,957	119,777	156,593	42,408	8,459	400,194
Net book value						
At 31 December 2006	44,992	29,119	89,747	25,029	3,342	192,229

Notes to the Accounts

18 PROPERTY, PLANT AND EQUIPMENT (Continued)

	Buildings HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost						
At 1 January 2005	116,768	126,300	217,733	50,845	10,495	522,141
Exchange translation differences	2,010	2,311	3,915	561	143	8,940
Additions	—	9,030	23,345	8,310	1,828	42,513
Disposals	—	—	(6,041)	(2,578)	(1,072)	(9,691)
At 31 December 2005	118,778	137,641	238,952	57,138	11,394	563,903
Accumulated depreciation						
At 1 January 2005	67,323	107,397	130,623	35,226	7,481	348,050
Exchange translation differences	870	2,145	2,079	353	93	5,540
Charge for the year (Note 7)	5,458	8,835	20,069	5,254	1,127	40,743
Disposals	—	—	(4,929)	(2,539)	(1,003)	(8,471)
At 31 December 2005	73,651	118,377	147,842	38,294	7,698	385,862
Net book value						
At 31 December 2005	45,127	19,264	91,110	18,844	3,696	178,041

The Group's interests in buildings at their net book values are analysed as follows:

	2006 HK\$'000	2005 HK\$'000
Leases of between 10 to 50 years		
Hong Kong	8,040	12,593
Outside Hong Kong	36,952	32,534
	44,992	45,127

Notes to the Accounts

19 INVESTMENT PROPERTIES

	2006 HK\$'000	2005 HK\$'000
Valuation		
At 1 January	3,204,650	681,130
Exchange translation differences	130,398	11,161
Transfer to property, plant and equipment and leasehold land and land use rights	(8,662)	—
Additions through acquisition of subsidiary companies (Note 39(b))	—	2,574,000
Disposals	—	(93,849)
Increase in fair value (Note 6)	99,034	32,208
At 31 December	3,425,420	3,204,650

Notes:

(a) The Group's investment properties comprise:

	2006 HK\$'000	2005 HK\$'000
Leases of between 10 to 50 years		
Hong Kong	13,470	9,850
Outside Hong Kong	3,411,950	3,194,800
	3,425,420	3,204,650

(b) The investment properties at 31 December 2006 and 31 December 2005 were revalued on an open market value basis by independent professional valuers, DTZ Debenham Tie Leung Limited.

Notes to the Accounts

20 LEASEHOLD LAND AND LAND USE RIGHTS

The Group's interests in leasehold land and land use rights represent prepaid operating lease payments.

	2006 HK\$'000	2005 HK\$'000
Net book value at 1 January	62,515	63,899
Exchange translation differences	542	464
Transfer from investment properties	2,529	—
Disposal	(25,523)	—
Relating to a subsidiary company disposed of (Note 39(c))	(10,253)	—
Amortisation (Note 7)	(678)	(1,848)
Net book value at 31 December	29,132	62,515
Representing:		
Non-current assets for continuing operation	29,132	52,262
Non-current assets classified as held for sale	—	10,253
	29,132	62,515

The Group's leasehold land comprise:

	2006 HK\$'000	2005 HK\$'000
Leases of between 10 to 50 years		
Hong Kong	14,293	40,128
Outside Hong Kong	14,839	22,387
	29,132	62,515

21 INVESTMENTS IN SUBSIDIARY COMPANIES

	Company 2006 HK\$'000	2005 HK\$'000
Unlisted investments, at cost	659,099	659,099

Particulars of the principal subsidiary companies at 31 December 2006 are set out in note 48(a) to the accounts.

Notes to the Accounts

22 INVESTMENT IN AN ASSOCIATED COMPANY

	2006 HK\$'000	2005 HK\$'000
Unlisted investment, at cost	3,884	3,884
Share of post acquisition reserves	(556)	2,141
	3,328	6,025

Notes:

- (a) The share of taxation credit attributable to an associated company for the year ended 31 December 2006 amounted to HK\$396,000 (2005: charge of HK\$641,000).
- (b) Particulars of the principal associated company at 31 December 2006 are set out in note 48(b) to the accounts.
- (c) The Group's interest in its associated companies, all of which are unlisted, were as follows:

Name	2006				2005			
	Assets HK\$'000	Liabilities HK\$'000	Revenues HK\$'000	Loss HK\$'000	Assets HK\$'000	Liabilities HK\$'000	Revenues HK\$'000	Profit/(loss) HK\$'000
Panyu Crown-Li Mould Co. Ltd.	9,367	3,130	5,577	(3,299)	9,149	3,124	7,175	321
Shanghai Jia Hua Real Estate Development Company Limited	—	—	—	—	—	—	—	(408)
	9,367	3,130	5,577	(3,299)	9,149	3,124	7,175	(87)

23 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2006 HK\$'000	2005 HK\$'000
Listed debt securities, overseas	209,280	480,978
Listed equity securities, overseas	13,819	—
Unlisted equity securities, overseas	—	8,968
Total	223,099	489,946
Less: current portion	(223,099)	(271,552)
Non-current portion	—	218,394

At 31 December 2006, the listed debt securities with a net book value amounting to HK\$89,142,000 (2005: HK\$360,688,000) have been pledged as security for the Group's bank loan facilities (Note 32).

Notes to the Accounts

24 LOANS RECEIVABLE

	2006 HK\$'000	2005 HK\$'000
Loans receivable	6,393	8,762
Less: amount due within one year	(2,514)	(2,369)
	3,879	6,393

The loans receivable of HK\$6,393,000 at 31 December 2006 (2005: HK\$8,762,000) represented the net amount of unsecured loans advanced by the Group to a third party (the "Third Party") to finance the Third Party to construct factory buildings in the Mainland China. The Third Party leased the factory buildings back to the Group and used the rent derived thereon to repay the principal and the related interest. The loans bear interest at a range of Hong Kong dollar prime rate to 2% above Hong Kong dollar prime rate. The carrying value of loans receivable approximate to its fair value. The effective interest rate at 31 December 2006 was 8.2% (2005: 7.0%).

25 INVENTORIES

	2006 HK\$'000	2005 HK\$'000
Raw materials	154,514	187,776
Work in progress	83,050	111,329
Finished goods	59,492	82,446
	297,056	381,551

Notes to the Accounts

26 TRADE RECEIVABLES

Included in trade receivables at 31 December 2006 are amounts due from certain subsidiary companies of Hutchison Whampoa Limited (Note 45) totalling HK\$3,906,000 (2005: HK\$14,992,000).

The Group's average credit period granted to trade debtors mainly ranges from 30 to 60 days. At 31 December, the aging analysis of trade receivables, net of provision, based on the date of invoice is as follows:

	2006 HK\$'000	2005 HK\$'000
0-30 days	179,715	188,203
31-60 days	134,295	124,262
61-90 days	53,121	32,936
Over 90 days	59,150	27,759
	426,281	373,160

27 DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

Included in deposits, prepayments and other receivables are amounts due from certain subsidiary companies of Hutchison Whampoa Limited (Note 45) totalling HK\$8,667,000 (2005: HK\$850,000).

28 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2006 HK\$'000	2005 HK\$'000
Equity securities at market value, listed — overseas	—	7

29 CASH AND BANK DEPOSITS

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Deposits with banks	368,990	314,106	55,004	14,593
Cash at banks and in hand	348,774	358,338	3,417	2,688
	717,764	672,444	58,421	17,281

Bank balances of HK\$537,263,000 (2005: HK\$415,205,000) are placed with banks in the Mainland China. The remittance of these funds out of the Mainland China is subject to exchange control restrictions imposed by the PRC government.

The average effective interest rate on short term bank deposits during the year was approximately 1.93% (2005: 2.87%) per annum. These deposits have an average maturity of less than 38 days (2005: 35 days).

Notes to the Accounts

30 TRADE PAYABLES

Included in trade payables at 31 December 2006 is amount due to an associated company of the Group totalling HK\$9,718,000 (2005: HK\$11,438,000). The aging analysis of trade payables at 31 December is as follows:

	2006 HK\$'000	2005 HK\$'000
0-30 days	221,417	171,873
31-60 days	62,704	76,054
61-90 days	11,177	15,738
Over 90 days	18,720	13,102
	314,018	276,767

31 OTHER CREDITORS AND ACCRUALS

Included in other creditors and accruals are amounts due to certain subsidiary companies and jointly controlled entities of Hutchison Whampoa Limited and loan from a minority shareholder of a subsidiary company of the Group totalling HK\$19,204,000 (2005: HK\$19,189,000), HK\$41,857,000 (2005: HK\$19,762,000) and HK\$7,485,000 (2005: HK\$7,185,000) respectively.

32 BANK LOAN WHOLLY REPAYABLE WITHIN ONE YEAR

The bank loan which was guaranteed by the Company and secured by the pledge of certain of the Group's listed debt securities amounting to HK\$89,142,000 (2005: HK\$360,688,000) at 31 December 2006, bore interest at 0.3% above London Inter-bank offer rate.

The bank loan was repaid in full during the year, and bank loan facilities available to the Group companies at 31 December 2006 amounted to HK\$300,000,000 (2005: HK\$58,200,000).

Notes to the Accounts

33 DEFERRED TAXATION

	2006 HK\$'000	2005 HK\$'000
Deferred tax assets	30,255	14,613
Deferred tax liabilities	720,599	628,357
Net deferred tax liabilities	690,344	613,744

Notes:

(a) The gross movement on the net deferred tax liabilities is as follows:

	2006 HK\$'000	2005 HK\$'000
At 1 January	613,744	37,186
Exchange translation difference	25,330	217
Charged/(credited) to profit and loss account (Note 9)	51,270	(483)
Additions through acquisition of subsidiary companies (Note 39(b))	—	576,824
At 31 December	690,344	613,744

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

Deferred tax liabilities

	Accelerated tax depreciation		Changes in fair value of investment properties and others		Total	
	2006	2005	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January	59,468	41,824	568,889	6,479	628,357	48,303
Exchange translation differences	2,967	225	22,452	(8)	25,419	217
Charged/(credited) to profit and loss account	21,453	5,858	45,370	(2,845)	66,823	3,013
Additions through acquisition of subsidiary companies	—	11,561	—	565,263	—	576,824
At 31 December	83,888	59,468	636,711	568,889	720,599	628,357

Deferred tax assets

	Accelerated tax depreciation		Impairment of assets and provisions		Tax losses		Total	
	2006	2005	2006	2005	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January	(2,909)	(2,356)	(5,871)	(5,059)	(5,833)	(3,702)	(14,613)	(11,117)
Exchange translation differences	(21)	—	(49)	—	(19)	—	(89)	—
Charged/(credited) to profit and loss account	1,112	(553)	(564)	(812)	(16,101)	(2,131)	(15,553)	(3,496)
At 31 December	(1,818)	(2,909)	(6,484)	(5,871)	(21,953)	(5,833)	(30,255)	(14,613)

Notes to the Accounts

33 DEFERRED TAXATION (Continued)

Notes (Continued) :

- (c) Deferred tax assets are recognised for unused tax losses carried forward to the extent it is probable that future taxable profit will be available against which the unused tax losses can be utilised, based on all available evidence. The Group has not recognised deferred tax assets of HK\$16,698,000 (2005: HK\$25,471,000) in respect of the unused tax losses carried forward amounting to HK\$97,971,000 (2005: HK\$97,194,000). Of these, HK\$90,504,000 (2005: HK\$87,262,000) can be carried forward indefinitely and the remaining HK\$7,467,000 (2005: HK\$9,932,000) expires in the following years:

	2006 HK\$'000	2005 HK\$'000
2006	—	6,684
2007	756	2,569
2009	3,591	—
2010	679	679
2011	2,441	—
	7,467	9,932

- (d) No provision for deferred taxation has been made for taxes which would arise on the remittance of retained profits of an overseas subsidiary company to Hong Kong as it is not anticipated that these amounts will be remitted in the foreseeable future. The unremitted earnings at 31 December 2005 was HK\$3,476,000.

Notes to the Accounts

34 OTHER NON-CURRENT FINANCIAL LIABILITIES

	2006 HK\$'000	2005 HK\$'000
Loans from minority shareholders (Note a)	39,605	39,386
Non-current portion of licence fees payable (Notes b and 17)	29,496	—
	69,101	39,386

Notes:

(a) Loans from minority shareholders

At 31 December 2006, the interest bearing loans from minority shareholders were advanced by a minority shareholder of the Group's two PRC property development equity joint ventures. The loans from the minority shareholders are interest bearing at 3% (2005: 3%) per annum, unsecured and have no fixed terms of repayment.

The carrying amounts of loans from minority shareholders approximate to their fair values and are denominated in the following currencies.

	2006 HK\$'000	2005 HK\$'000
US dollar	36,605	36,506
Renminbi	3,000	2,880
	39,605	39,386

(b) Non-current portion of licence fees payable

The balance represents non-current portion of licence fees payable (Note 17). The carrying value of the licence fees payable approximates to its fair value and is denominated at US dollars. The carrying value is calculated using cash flows discounted at a rate based on effective interest rate of 6%.

Notes to the Accounts

35 CONVERTIBLE NOTES

On 25 November 2005, the Company issued five-year 2% convertible notes with a nominal value of US\$128,200,000 to a subsidiary company of Hutchison Whampoa Limited. The convertible notes are convertible at the option of the Company or the note holders into ordinary shares of the Company. The notes are redeemable at a price of HK\$0.89 per share at any time before maturity after the third anniversary of 25 November 2005. Unless previously redeemed, converted or purchased and cancelled, the convertible notes are redeemable at face value together with any accrued interest at the end of the maturity period on 24 November 2010. The convertible notes carry interest at a rate of 2% per annum which is payable half-yearly in arrears.

No conversion has been made during the year.

The fair value of the liability portion was estimated at the issuance date using an equivalent market interest rate for a similar note without a conversion option. The residual amount is assigned as the equity portion and is included in shareholders' equity.

The net proceeds received from the issue of the convertible notes have been split between the liability and equity portions of HK\$899,955,000 (2005: HK\$877,298,000) and HK\$123,975,000 (2005: HK\$123,975,000) respectively.

The fair value of the liability portion of the convertible notes at 31 December 2006 approximates to their fair values. The fair value is calculated using cash flows discounted at a rate based on the borrowings rate of 4.82% per annum.

Interest expenses on the convertible notes are calculated using the effective interest method by applying the effective interest rate of 4.82% per annum to the liability portion.

The convertible notes are secured by the pledge of equity interests in and loans to Newscott Investments Limited ("Newscott") and Great Winwick Limited ("Great Winwick") by City Island Developments Limited amounting to HK\$1,888,599,000 (2005: HK\$1,654,366,000).

36 SHARE CAPITAL

	2006		2005	
	Number of shares	Amount HK\$'000	Number of shares	Amount HK\$'000
Authorised:				
Ordinary shares of HK\$0.1 each	20,000,000,000	2,000,000	20,000,000,000	2,000,000
Issued and fully paid:				
At 1 January and at 31 December	6,705,000,263	670,500	6,705,000,263	670,500

Notes to the Accounts

37 SHARE OPTIONS

The Company operates a share option scheme. On 3 June 2005, 123,750,000 share options were granted to directors and employees at an exercise price of HK\$0.822 per share, which is higher than the market price of the shares on the date of grant. Options are conditional on the employee completing the prescribed years of services. One third of the options are exercisable after one year from the grant date; another one third are exercisable after two years from the grant date and the remaining one third are exercisable after three years from the grant date and up to 16 September 2014. The options have a contractual option term of 10 years. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

No options were exercised up to 31 December 2006 but 50,518,000 (2005: 1,500,000) share options had lapsed. The number of share options outstanding at 31 December 2006 is 71,732,000 (2005: 122,250,000) of which 26,756,000 (2005: Nil) are exercisable, and these options will expire on 16 September 2014 unless exercised before then.

The fair value of options granted, determined using the Binomial valuation model, was HK\$0.2498 per share. The significant inputs into the model were share price of HK\$0.82 at the grant date, exercise price of HK\$0.822 per share, standard deviation of expected share price returns of 31.7%, expected life of options of 7 years, expected dividend paid out rate of 2.44% and annual risk-free interest rate of 3.444%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over one year immediately preceding the grant date. Any change in variables so adopted may affect the fair value estimation.

	Number of share options				At 31 December 2006
	At 1 January 2006	Granted	Cancelled/lapsed	Other transfer	
Directors					
Ko Yuet Ming ⁽¹⁾	12,000,000	—	(8,000,000)	—	4,000,000
Luk Tei, Lewis	10,000,000	—	—	—	10,000,000
Chan Wen Mee, May (Michelle)	12,000,000	—	—	—	12,000,000
Endo Shigeru	5,000,000	—	—	—	5,000,000
Kwok Siu Kai, Dennis ⁽²⁾	—	—	—	4,000,000	4,000,000
Tam Yue Man ⁽³⁾	10,000,000	—	(10,000,000)	—	—
Cheung Wing Han, Miranda ⁽⁴⁾	10,000,000	—	(10,000,000)	—	—
	59,000,000	—	(28,000,000)	4,000,000	35,000,000
Employees	63,250,000	—	(22,518,000)	(4,000,000)	36,732,000
	122,250,000	—	(50,518,000)	—	71,732,000

Note:

- (1) Mr. Ko Yuet Ming resigned as Non-executive Director and Deputy Chairman of the Company with effect from 1 January 2007.
- (2) Mr. Kwok Siu Kai, Dennis has been appointed as an Executive Director of the Company with effect from 1 October 2006.
- (3) Mr. Tam Yue Man was re-designated as Non-executive Director of the Company with effect from 1 October 2006 and resigned as Non-executive Director with effect from 1 January 2007.
- (4) Ms. Cheung Wing Han, Miranda resigned as an Executive Director of the Company with effect from 1 January 2006.

Notes to the Accounts

38 RESERVES

Company

	Share premium HK\$'000	Capital redemption reserve HK\$'000	Share-based compensation reserve HK\$'000	Convertible notes reserve HK\$'000	Contributed surplus HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2006	1,813,437	3,558	7,016	123,975	1,456	305,099	2,254,541
Employee share option benefits	—	—	3,608	—	—	—	3,608
Transfer of reserves	—	—	(986)	—	—	986	—
Profit for the year	—	—	—	—	—	213,388	213,388
2005 final dividend paid	—	—	—	—	—	(147,510)	(147,510)
At 31 December 2006	1,813,437	3,558	9,638	123,975	1,456	371,963	2,324,027
At 1 January 2005	1,813,437	3,558	—	—	1,456	409,989	2,228,440
Issuance of convertible notes	—	—	—	123,975	—	—	123,975
Employee share option benefits	—	—	7,016	—	—	—	7,016
Profit for the year	—	—	—	—	—	29,210	29,210
2004 final dividend paid	—	—	—	—	—	(134,100)	(134,100)
At 31 December 2005	1,813,437	3,558	7,016	123,975	1,456	305,099	2,254,541

The contributed surplus of the Company represents the difference between the consolidated shareholders' funds of subsidiary companies when they were acquired by the Company and the nominal amount of the Company's share capital issued for the acquisition.

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

Under the Companies Act 1981 of Bermuda (as amended), contributed surplus is available for distribution to shareholders. However, a company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if:

- (i) the company is, or would after the payment be, unable to pay its liabilities as they become due; or
- (ii) the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

Notes to the Accounts

39 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of operating profit to net cash inflow/(outflow) generated from operations:

	2006 HK\$'000	2005 HK\$'000
Operating profit	216,276	225,898
Adjustments for:		
Interest income, net of amortisation of premium of held-to-maturity securities, listed	—	(39,670)
Interest income, available-for-sale financial assets	(20,369)	(6,470)
Interest income, others	(13,021)	(19,703)
Depreciation of property, plant and equipment	42,723	40,743
Amortisation of leasehold land and land use rights	678	1,848
Loss on disposal of held-to-maturity securities	—	354
Gain on disposal of an associated company	—	(4,876)
Net gain on disposal of subsidiary companies	(767)	—
Gain on disposal of investment properties	—	(27,876)
Gain on disposal of property, plant and equipment	(1,851)	(367)
Gain on disposal of leasehold land and land use rights	(22,441)	—
Increase in fair value of investment properties	(99,034)	(32,208)
Net gain on disposal of available-for-sale financial assets	(35,654)	(11,890)
Employee share options benefits	3,608	7,016
Operating profit before working capital changes	70,148	132,799
(Increase)/decrease in trade and other receivables	(68,963)	19,204
Decrease in loans receivable	2,369	2,770
Decrease/(increase) in inventories	81,468	(90,882)
Increase/(decrease) in trade and other payables	63,547	(111,754)
Exchange differences	14,453	(2,903)
Net cash inflow/(outflow) generated from operations	163,022	(50,766)

Notes to the Accounts

39 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Acquisition of subsidiary companies

	2006	2005
	HK\$'000	HK\$'000
Net assets acquired:		
Investment properties (Note 19)	—	2,574,000
Trade and other receivables	—	34,789
Cash and cash equivalents	—	99,950
Trade and other payables	—	(225,987)
Tax payables	—	(37,262)
Deferred taxation (Note 33)	—	(576,824)
	—	1,868,666
Goodwill	—	328,359
	—	2,197,025
Satisfied by:		
Cash paid	—	2,184,956
Consideration payable	—	6,925
Direct costs relating to the acquisition	—	5,144
	—	2,197,025

Analysis of net cash outflow in respect of acquisition of subsidiary companies:

	2006	2005
	HK\$'000	HK\$'000
Cash consideration paid	—	2,190,100
Cash and cash equivalents acquired	—	(99,950)
Net cash outflow in respect of acquisition of subsidiary companies	—	2,090,150

Notes to the Accounts

39 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(c) Disposal of subsidiary companies

	2006 HK\$'000	2005 HK\$'000
Net assets disposed of:		
Property, plant and equipment	74	—
Leasehold land and land use rights (Note 20)	10,253	—
Inventories	3,027	—
Trade and other receivables	2,051	—
Financial assets at fair value through profit or loss	7	—
Cash and cash equivalents	599	—
Trade and other payables	(7,010)	—
Minority interest	(673)	—
	8,328	—
Exchange reserve realised	(287)	—
Gain on disposal	767	—
	8,808	—
Satisfied by:		
Cash	8,808	—

Analysis of net cash inflow in respect of disposal of subsidiary companies:

	2006 HK\$'000	2005 HK\$'000
Cash consideration received	8,808	—
Cash and cash equivalents disposed of	(599)	—
Net cash inflow in respect of disposal of subsidiary companies	8,209	—

Notes to the Accounts

40 CONTINGENT LIABILITIES

At 31 December, contingent liabilities not provided for in the accounts are as follows:

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Guarantees given to banks in connection with facilities granted to subsidiary companies	—	—	300,000	300,000
Guarantees given to banks in connection with facilities granted to purchasers of the Group's properties in the Mainland China	3,095	19,137	—	—
	3,095	19,137	300,000	300,000

41 CAPITAL COMMITMENTS

	2006 HK\$'000	2005 HK\$'000
Capital commitments for property, plant and equipment:		
Contracted but not provided for	10,749	28,263
Authorised but not contracted for	82,566	73,299
	93,315	101,562

Notes to the Accounts

42 OPERATING LEASES

- (a) At 31 December, the Group had future aggregate minimum lease receivables under non-cancellable operating leases in respect of investment properties as follows:

	2006	2005
	HK\$'000	HK\$'000
Not later than one year	235,535	222,576
Later than one year and not later than five years	245,619	393,714
Later than five years	3,815	6,856
	484,969	623,146

- (b) At 31 December, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of properties as follows:

	2006	2005
	HK\$'000	HK\$'000
Not later than one year	46,763	43,923
Later than one year and not later than five years	81,642	110,393
Later than five years	—	4,855
	128,405	159,171

Notes to the Accounts

43 BUSINESS COMBINATIONS

There were no acquisitions during the year ended 31 December 2006.

On 25 November 2005, the Group acquired 100% of the share capital of and loans to Newscott Investments Limited, Great Winwick Limited, Shanghai Xin Hui Property Development Co. Limited and Shanghai He Hui Property Development Co. Limited which, together, have their entire interests in a commercial property, namely "The Center", in Shanghai. The acquired business contributed revenues of HK\$20,997,000 and profit for the year of HK\$9,735,000 to the Group for the period from 26 November 2005 to 31 December 2005. If the acquisition had occurred on 1 January 2005, the Group's revenue would have been HK\$2,758,962,000 and profit for the year would have been HK\$255,082,000. These amounts have been calculated using the Group's accounting policies and assuming the fair value adjustments to investment properties had applied from 1 January 2005, together with the consequential tax effects.

Details of net assets acquired and goodwill are as follows:

	HK\$'000
Purchase consideration:	
— Cash paid	2,184,956
— Consideration payable	6,925
— Direct costs relating to the acquisition	5,144
Total purchase consideration	2,197,025
Fair value of net assets acquired — shown as below	(1,868,666)
Goodwill (Note 16)	328,359

The goodwill is attributable to the future expected profitability of the acquired business and the significant synergies expected to arise after the Group's acquisition of the property business in Shanghai.

The assets and liabilities arising from the acquisition are as follows:

	Aggregated fair value HK\$'000	Acquirees' aggregated carrying amount HK\$'000
Cash and cash equivalents	99,950	99,950
Investment properties	2,574,000	2,340,000
Trade receivables, deposits, prepayment and other receivables	34,789	49,631
Trade payables, other creditors and accruals	(225,987)	(225,987)
Tax payables	(37,262)	(37,262)
Deferred tax liabilities	(576,824)	(499,605)
Net assets acquired	1,868,666	1,726,727
Purchase consideration paid up to 31 December 2005	2,190,100	
Cash and cash equivalents of subsidiary companies acquired	(99,950)	
Net cash outflow in respect of acquisition of subsidiary companies	2,090,150	

Notes to the Accounts

44 MATERIAL RELATED PARTY TRANSACTIONS

Saved as disclosed in Notes 17, 35 and 43 to the accounts, the Group had the following significant transactions during the year with related parties which were carried out in the normal course of business at terms determined and agreed by both parties, details of which are as follows:

- (a) The Group had transactions with minority shareholders of subsidiary companies and their affiliates during the year as follows:

	2006	2005
	HK\$'000	HK\$'000
Rental expenses	23,314	22,651
Management fee expenses	3,858	3,871
Interest expenses	1,183	1,497
	28,355	28,019

- (b) The Group manufactured a range of products including cap covers, premium items and mobile phone accessories for certain subsidiary companies and an associated company of Hutchison Whampoa Limited. The aggregate invoiced amounts for the year were approximately HK\$108,444,000 (2005: HK\$127,426,000).
- (c) Hutchison International Limited, a wholly owned subsidiary company of Hutchison Whampoa Limited, has been providing and will continue to provide administrative and support services to the Group. The aggregate fees charged for the year were HK\$5,000,000 (2005: HK\$4,000,000).
- (d) During the year, the Group paid rental expenses and management fee to subsidiary companies of Hutchison Whampoa Limited of approximately HK\$9,883,000 (2005: HK\$152,000). During the year, the Group received rental income from subsidiary companies of Hutchison Whampoa Limited of approximately HK\$4,694,000 (2005: HK\$350,000).
- (e) On 29 December 2006, the Group disposed of its equity interest of 65% in Try Electronics Japan Limited ("Try") at a consideration of HK\$1,281,000 to Mr. Ryoichi Tanaka, who is a director and substantial shareholder of Try.
- (f) Details of directors' remuneration (being the key management personnel compensation) are shown in Note 15 to the accounts.

Notes to the Accounts

45 HOLDING COMPANIES

The directors consider the ultimate holding company to be Hutchison Whampoa Limited, which is incorporated and listed in Hong Kong. Promising Land International Inc., a company incorporated in the British Virgin Islands, is the immediate holding company.

46 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation.

47 APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 7 March 2007.

48 PARTICULARS OF THE PRINCIPAL SUBSIDIARY AND ASSOCIATED COMPANIES

(a) Details of the principal subsidiary companies at 31 December 2006 are as follows:

Name of subsidiary companies	Place of operations/ incorporation	Particulars of issued/registered capital	Group's effective interest %	Principal activity
* Hutchison Harbour Ring Holdings Limited	Hong Kong/ Cayman Island	US\$1 ordinary share	100	Portfolio investment
* Hutchison Harbour Ring Toys Group Limited	Hong Kong/ British Virgin Islands	US\$1,000 ordinary shares	100	Investment holding
* Hutchison Harbour Ring Property Holdings Limited	Hong Kong/ British Virgin Islands	US\$1 ordinary share	100	Investment holding
* i. Tech Holdings Limited	Hong Kong/ British Virgin Islands	US\$100 ordinary shares	100	Investment holding
* PMW Holdings Limited	Hong Kong/ British Virgin Islands	US\$1,000 ordinary shares	100	Investment holding

Notes to the Accounts

48 PARTICULARS OF THE PRINCIPAL SUBSIDIARY AND ASSOCIATED COMPANIES (Continued)

(a) Details of the principal subsidiary companies at 31 December 2006 are as follows (Continued):

Name of subsidiary companies	Place of operations/ incorporation	Particulars of issued/registered capital	Group's effective interest %	Principal activity
Acefield Limited	Hong Kong	HK\$100,000 ordinary shares HK\$2,000,000 non-voting deferred shares	100	Trading of moulds, materials and provision of management services and investment holding
Billymax Investments Limited	Hong Kong	HK\$2 ordinary shares	100	Property holding
Cardner International Inc.	Macau and PRC/ British Virgin Islands	US\$200 ordinary shares	100	Trading of toys
[^] City Island Developments Limited ("City Island")	Hong Kong/ British Virgin Islands	US\$1,000 ordinary shares	100	Investment holding
Coronet Toys Company Limited	Hong Kong	HK\$100,000 ordinary shares HK\$200,000 non-voting deferred shares	100	Trading of moulds and provision of management services
[#] Dongguan Crown-Ace Toys Co., Ltd	PRC	HK\$79,890,000 registered capital	95.72	Manufacture of toys
Goodway Electronic Technology Limited	PRC/ Hong Kong	HK\$5,000,000 ordinary shares	100	Manufacture and trading of electronics toys
[^] Great Winwick Limited ("Great Winwick")	PRC/ British Virgin Islands	US\$100 ordinary shares	100	Investment holding

Notes to the Accounts

48 PARTICULARS OF THE PRINCIPAL SUBSIDIARY AND ASSOCIATED COMPANIES (Continued)

(a) Details of the principal subsidiary companies at 31 December 2006 are as follows (Continued):

	Name of subsidiary companies	Place of operations/ incorporation	Particulars of issued/registered capital	Group's effective interest %	Principal activity
#	Guangzhou i. Tech Electronic Technology Ltd	PRC	HK\$68,800,000 registered capital	97.79	Manufacture of toys
	Hutchison Harbour Ring Industries Limited	Hong Kong	HK\$2 ordinary shares HK\$1,000,000 non-voting deferred shares	100	Investment holding and provision of management services
	i. Tech Dynamic Limited	Hong Kong	HK\$10,000 ordinary shares HK\$850,000 non-voting deferred shares	100	Trading of electronic technology and premium products
	i. Tech Europe Sprl	Belgium	EUR53,550 ordinary shares	100	Investment holding
	i. Tech Italy Srl	Italy	EUR10,000 quota	100	Trading of electronic technology products
	Macau International Toys Limited	Hong Kong	HK\$9,998 ordinary shares HK\$2 non-voting deferred shares	100	Provision of management services and trading of moulds
^	Newscott Investments Limited ("Newscott")	PRC/British Virgin Islands	US\$100 ordinary shares	100	Investment holding

Notes to the Accounts

48 PARTICULARS OF THE PRINCIPAL SUBSIDIARY AND ASSOCIATED COMPANIES (Continued)

(a) Details of the principal subsidiary companies at 31 December 2006 are as follows (Continued):

Name of subsidiary companies	Place of operations/ incorporation	Particulars of issued/registered capital	Group's effective interest %	Principal activity
P & H Development Limited	Hong Kong	HK\$7 ordinary shares HK\$3 non-voting deferred shares	100	Investment holding
PMW-GB Agency Limited	Hong Kong	HK\$100 ordinary shares	65	Provision of agency services
PMW Global Sourcing Limited	Hong Kong	HK\$1,000 ordinary shares	100	Sourcing and trading of business goods and other consumer products
PMW International Limited	Hong Kong	HK\$1,000 ordinary shares	100	Trading of toys, premium goods and other consumer products
PMW Management Limited	Hong Kong	HK\$1,000 ordinary shares	100	Provision of management services
PMW Product Licence Limited	Hong Kong	HK\$1,000 ordinary shares	100	Licensing business
PMW Retail Group Limited	Hong Kong/ British Virgin Islands	US\$1,250 ordinary shares	80	Investment holding
PMW Retail Store Limited	PRC/British Virgin Islands	US\$2,000 ordinary shares	51	Investment holding
PRD Electronics Limited	Hong Kong	HK\$600 ordinary shares	65	Trading of toys

Notes to the Accounts

48 PARTICULARS OF THE PRINCIPAL SUBSIDIARY AND ASSOCIATED COMPANIES (Continued)

(a) Details of the principal subsidiary companies at 31 December 2006 are as follows (Continued):

	Name of subsidiary companies	Place of operations/ incorporation	Particulars of issued/registered capital	Group's effective interest %	Principal activity
#	Shanghai Gang Lu Real Estate Development Co., Ltd.	PRC	US\$16,000,000 registered capital	88	Property holding
	Shanghai He Hui Property Development Co., Ltd.	PRC	US\$46,330,000 registered capital	100	Property holding
#	Shanghai Pu Gang Real Estate Development Co., Ltd.	PRC	US\$7,000,000 registered capital	80	Property holding
	Shanghai Xin Hui Property Development Co., Ltd.	PRC	US\$15,600,000 registered capital	100	Property holding
	Zhong Shan Coronet Toys Ltd.	PRC	HK\$43,200,000 registered capital	100	Manufacture of toys
#	Zhongshan International Toys Ltd.	PRC	HK\$153,330,000 registered capital	78.04	Manufacture of toys
	上海歐享龍工貿有限公司	PRC	RMB5,000,000 registered capital	100	Trading of licensing products
@	港陸騰輝(上海)商業有限公司	PRC	US\$2,000,000 registered capital	40.8	Retailing of licensed products

The non-voting deferred shares practically carry no rights to dividends or receive notice of or to attend or vote at any general meeting of the respective companies or to participate in any distribution on winding up.

* Shares held directly by the Company.

Sino-foreign equity joint ventures.

^ The issued shares of Great Winwick and Newscott, held by City Island, together with loans advanced by City Island to Newscott and Great Winwick have been pledged to secure the convertible notes (Note 35).

@ The Group's voting power is more than 50%

Notes to the Accounts

48 PARTICULARS OF THE PRINCIPAL SUBSIDIARY AND ASSOCIATED COMPANIES (Continued)

(b) Particulars of the associated company at 31 December 2006 are as follows:

Name of associated company	Place of operations/ incorporation	Particulars of issued/registered capital	Group's effective interest %	Principal activity
Panyu Crown-Li Mould Co. Ltd.	PRC	US\$1,130,000	50	Manufacture of moulds

The above tables list the principal subsidiary and associated companies of the Group which, in the opinion of the directors, principally affect the results and net assets of the Group. To give full details of subsidiary and associated companies would, in the opinion of the directors, result in particulars of excessive length.