

Notes to the Accounts

31 December 2004

1 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below.

(a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The accounts are prepared under the historical cost convention except that, as disclosed in the accounting policies below, investment properties and other investments are stated at fair value.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the accounts for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to analyse and quantify the impact of these new HKFRSs on its results of operations and financial position.

(b) Group accounting

(i) Consolidation

The consolidated accounts comprise the accounts of the Company and its subsidiaries made up to 31 December. All significant inter-company transactions and balances within the Group are eliminated on consolidation.

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove a majority of the members of the board of directors; or to cast a majority of votes at the meetings of the board of directors.

Investments in subsidiaries are recorded in the Company's books at cost, being the fair value of the consideration given plus related acquisition costs, less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Negative goodwill arising on consolidation represents the excess of the fair value of the net assets of subsidiaries acquired over the purchase consideration. Goodwill arising on consolidation represents the excess of the purchase consideration over the fair value of the net assets of subsidiaries acquired. Any goodwill on acquisitions of subsidiaries occurring on or after 1 January 2001 is included as an intangible asset and amortised over its estimated useful economic life to the Group of ten years.

Any goodwill or negative goodwill on acquisitions of subsidiaries occurring prior to 1 January 2001 was charged or credited, as appropriate, directly to reserves on consolidation.

The turnover and results of subsidiaries are included in the consolidated accounts from the date of acquisition. In the case of disposals, turnover and results are included up to the date of disposal.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill or reserve on consolidation which was not previously charged or recognised in the consolidated profit and loss account.

(ii) Associated companies

Associated companies are companies other than subsidiaries in which the Group effectively holds a long term equity investment and over whose management it is able to exercise significant influence.

The consolidated profit and loss account includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of associated companies.

Goodwill, which represents the excess of purchase consideration over the fair values ascribed to the separable net assets of associated companies, is recognised as an asset and amortised through the consolidated profit and loss account over their estimated economic lives to the Group of between three and fifteen years as deemed appropriate.

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1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(c) Fixed assets

(i) Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties held on leases with unexpired periods of greater than 20 years are valued annually by independent valuers. The valuations are on an open market value basis related to individual properties and separate values are not attributed to land and buildings. The valuations are incorporated in the annual accounts. Increases in valuation are credited to the investment properties revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations on a portfolio basis and thereafter are debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited.

Upon the disposal of an investment property, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the investment properties revaluation reserve to the profit and loss account.

Investment properties held on leases with unexpired periods of 20 years or less are depreciated over the remaining portion of the leases.

(ii) Other fixed assets

Fixed assets other than investment properties are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated to write off the costs of these assets on a straight-line basis over their expected useful lives to the Group. The principal annual rates used for this purpose are as follows:

	Percent
Machinery, equipment, furniture and fixtures	10 to 13
Computers	20 to 25

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

At each balance sheet date, both internal and external sources of information are considered to assess whether the recoverable amounts of other fixed assets have declined below their carrying amounts. When such a decline has occurred, the carrying amount of the asset is reduced to its recoverable amount.

The gain or loss on disposal of other fixed assets 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.

(d) Operating leases

Operating leases are leases where substantially all the rewards and risks of ownership of assets remain with the lessors. Related rental payments are charged to the profit and loss account on a straight-line basis over the lease term.

(e) Investments

(i) Other investments

Other investments are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of other investments are recognised in the profit and loss account. Profits or losses on disposal of other investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

(ii) Held-to-maturity securities

Held-to-maturity securities are stated in the balance sheet at cost plus/less any discount/premium amortised to date. The discount or premium is amortised over the period to maturity and included as interest income/expense in the profit and loss account. Provision is made when there is a diminution in value other than temporary.

The carrying amounts of individual held-to-maturity securities or holdings of the same securities are reviewed at the balance sheet date in order to assess the credit risk and whether the carrying amounts are expected to be recovered. Provisions are made when carrying amounts are not expected to be recovered and are recognised in the profit and loss account as an expense immediately.

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1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(f) Inventories

Inventories comprise toys merchandise and are stated at the lower of cost and net realisable value. Cost is determined on a weighted average basis. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(g) Accounts receivable

Provision is made against accounts receivable to the extent which they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(h) Deferred taxation

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. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

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 subsidiaries and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

(i) Revenue recognition

Revenue from sales is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time of product shipment.

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

Dividend income is recognised when the right to receive payment is established.

Rental income from letting the Group's portfolio of investment properties is recognised on a straight-line basis over the lease term.

Property management income is recognised when services are rendered.

(j) Advertising and marketing expenses, advanced royalties and product development costs

Advertising and marketing expenses are expensed as incurred, except for the production costs of commercials and related programming costs which are deferred and expensed in the year the commercial is first aired.

Advanced royalties represent prepayments made to licensors of intellectual properties under licensing agreements which are recoupable against future royalties. Advanced royalties are amortised at the contractual royalty rate based on actual product sales. Management evaluates the future realisation of advanced royalties periodically and charges to expense any amounts that management deems unlikely to be recoupable at the contractual royalty rate through product sales. All advanced royalties are amortised within the term of the license agreement and are written off upon the abandonment of the product or upon the determination that there is significant doubt as to the success of the product.

Expenses relating to product development are charged to the profit and loss account as incurred.

(k) Employee benefits

(i) Employee leave entitlements

Employees' entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

(ii) Equity compensation benefits

Share options are granted to directors and employees at or above the market price of the shares on the date of the grant and no compensation cost is recognised.

When the options are exercised, the proceeds received net of any transaction costs are credited to share capital (par value) and share premium.

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1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(k) Employee benefits (Continued)

(iii) Pension obligations

The Group operates defined contribution provident fund schemes for its employees, the assets of which are held separately from those of the Group in independently administered funds. The Group's contributions under the schemes are charged to the profit and loss account as incurred. The amount of the Group's contributions is based on specified percentages of the basic salaries of employees. Any contributions forfeited by employees who leave the Group, relating to unvested benefits, are used to reduce the Group's ongoing contributions otherwise payable.

(l) Borrowing costs

Borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(m) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment less bank overdrafts.

(n) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheets of subsidiaries and associated companies expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss accounts are translated at an average rate. Exchange differences are dealt with as movements in reserves.

(o) Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical one as the secondary reporting format.

Unallocated costs represent mainly corporate and inactive subsidiaries' expenses. Segment assets consist primarily of fixed assets, goodwill, inventories, receivables and operating cash, and exclude investments. Segment liabilities comprise bank loans and operating liabilities. Capital expenditure comprises additions to fixed assets, including additions resulting from acquisitions of subsidiaries.

In respect of geographical segment reporting, turnover and results are based on the country in which the customer is located. Total assets and capital expenditure are based on where the assets are located.

2 TURNOVER, REVENUES AND SEGMENT INFORMATION

The Group is principally engaged in the design, development, marketing and distribution of toys and family entertainment activity products, and property investment and management. Revenues recognised during the year are as follows:

	2004 HK\$'000	2003 HK\$'000
Turnover		
Sales of toys	1,282,662	945,464
Rental income from investment properties	26,072	28,898
Property management income	3,542	3,402
	1,312,276	977,764
Other revenues		
Interest income	3,155	2,625
Dividend income from other investments	3,269	1,284
	6,424	3,909
Total revenues	1,318,700	981,673

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2 TURNOVER, REVENUES AND SEGMENT INFORMATION (Continued)

Business segments

An analysis of the Group's turnover, results, assets and liabilities by business segments is as follows:

	Year ended 31 December 2004			
	Toys HK\$'000	Property investment and management HK\$'000	Elimination HK\$'000	Group HK\$'000
Revenue				
Turnover	1,282,662	29,614	–	1,312,276
Inter-segment revenue (Note (iii))	–	829	(829)	–
	1,282,662	30,443	(829)	1,312,276
Results				
Segment results	188,582	79,685	–	268,267
Inter-segment transactions	(829)	829	–	–
	187,753	80,514	–	268,267
Unallocated costs				(9,618)
Operating profit				258,649
Assets				
Segment assets	517,470	675,847	(143)	1,193,174
Investment in associated companies	35,531	–	–	35,531
Unallocated assets				1,228,705 374,391
Total assets				1,603,096
Liabilities				
Segment liabilities	348,099	62,233	(143)	410,189
Unallocated liabilities				7,255
Total liabilities				417,444
Other information				
Capital expenditure	3,339	696	–	4,035
Depreciation	4,328	198	–	4,526
Amortisation of goodwill	–	969	–	969

	Year ended 31 December 2003			
	Toys HK\$'000	Property investment and management HK\$'000	Elimination HK\$'000	Group HK\$'000
Revenue				
Turnover	945,464	32,300	–	977,764
Inter-segment revenue (<i>Note (iii)</i>)	–	1,011	(1,011)	–
	945,464	33,311	(1,011)	977,764
Results				
Segment results	113,164	(25,979)	–	87,185
Inter-segment transactions	(1,011)	1,011	–	–
	112,153	(24,968)	–	87,185
Unallocated costs				(7,875)
Operating profit				79,310
Assets				
Segment assets	388,761	560,009	(245)	948,525
Investment in associated companies	39,631	–	–	39,631
				988,156
Unallocated assets				526,041
Total assets				1,514,197
Liabilities				
Segment liabilities	407,858	216,490	(245)	624,103
Unallocated liabilities				1,691
Total liabilities				625,794
Other information				
Capital expenditure	5,599	171	–	5,770
Depreciation	6,370	199	–	6,569
Amortisation of goodwill	–	969	–	969

Notes to the Accounts

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2 TURNOVER, REVENUES AND SEGMENT INFORMATION (Continued)

Business segments (Continued)

Notes:

- (i) **Toys** business refers to the design, development, marketing and distribution of toys and family entertainment activity products.

The Group's associated companies are engaged mainly in toys business. The Group's share of net loss after taxation of associated companies for the year amounted to HK\$650,000 (2003: HK\$194,000), which has not been included in the segment results shown above.

- (ii) **Property investment and management** business refers to the leasing of office, industrial and residential premises to generate rental income, and the provision of property management services.

- (iii) Inter-segment revenue eliminated on consolidation represents inter-company rental charges on properties owned by the Group. Inter-segment transactions are conducted at arm's length.

Geographical segments

A geographical analysis of the Group's turnover, segment results, segment assets and capital expenditure is as follows:

	Turnover 2004 HK\$'000	Segment results 2004 HK\$'000	Segment assets 2004 HK\$'000	Capital expenditure 2004 HK\$'000
America				
– U.S.A.	1,000,310	130,249	504,332	2,726
– Others	58,494	10,137	–	–
Europe	183,101	39,638	–	–
Asia Pacific	69,107	87,962	688,842	1,309
Others	1,264	281	–	–
	1,312,276	268,267	1,193,174	4,035

	Turnover 2003 HK\$'000	Segment results 2003 HK\$'000	Segment assets 2003 HK\$'000	Capital expenditure 2003 HK\$'000
America				
– U.S.A.	776,743	83,767	380,071	3,462
– Others	30,909	4,899	–	–
Europe	110,512	19,581	–	–
Asia Pacific	57,710	(21,420)	568,454	2,308
Others	1,890	358	–	–
	977,764	87,185	948,525	5,770

3 OPERATING PROFIT

Operating profit is stated after charging the following:

	2004 HK\$'000	2003 HK\$'000
Cost of inventories sold	527,141	373,034
Depreciation of fixed assets	4,526	6,569
Amortisation of goodwill (included in selling, distribution and administration expenses)	969	969
Staff costs, including directors' remuneration (<i>Note 10</i>)	91,120	75,636
Operating leases expense on office and warehouse facilities	10,485	10,748
Loss on disposal of fixed assets	506	1
Product development costs	15,728	15,646
Outgoings in respect of investment properties	3,838	2,370
Auditors' remuneration	1,500	1,350

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4 INTEREST EXPENSE AND BANK CHARGES

	2004 HK\$'000	2003 HK\$'000
Interest on bank loans and overdrafts	2,081	9,347
Other incidental borrowing costs	11,975	8,079
	14,056	17,426

5 NET GAIN ON OTHER INVESTMENTS

	2004 HK\$'000	2003 HK\$'000
Net realised (loss)/gain on other investments	(890)	2,811
Net unrealised gain on other investments	4,735	17,767
	3,845	20,578

6 TAXATION CREDIT/(CHARGE)

- (a) Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profit for the year. Overseas taxation is provided on the profits/losses of the overseas subsidiaries in accordance with the tax laws of the countries in which these entities operate.

The amount of taxation credited/(charged) to the consolidated profit and loss account represents:

	2004 HK\$'000	2003 HK\$'000
Current taxation		
Hong Kong profits tax	(569)	(320)
Overseas taxation	(4,592)	(10,917)
Under provision in prior years	(6)	(55)
Provisions for pending tax cases <i>(Note)</i>	(53,082)	–
	(58,249)	(11,292)
Deferred taxation		
Origination and reversal of temporary differences	64,415	(2,204)
Deferred taxation resulting from an increase in tax rate	–	(1,032)
	64,415	(3,236)
Share of taxation attributable to associated companies	6,166	(14,528)
	(1,394)	(579)
	4,772	(15,107)

Note: These relate to the examination by the US Tax Authorities of certain tax returns of the US subsidiaries ("the Subsidiaries").

The Internal Revenue Service ("IRS") of the United States of America has completed its routine examination of the federal income tax returns of the Subsidiaries for the tax years 1996 and 1997 and has proposed adjustments to these returns in respect of the Subsidiaries' transfer pricing policy and timing of certain deductions. The Subsidiaries are in negotiation with the IRS to settle these issues and expect a final settlement could be reached during 2005.

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6 TAXATION CREDIT/(CHARGE) (Continued)

The California Franchise Tax Board has completed its examination of the state tax returns of the Subsidiaries for the tax years 1988 through 1990 and has proposed adjustments to the Subsidiaries' apportionment of income to the State of California for these tax years. The Subsidiaries have filed an appeal to the proposed adjustments and believe they have meritorious defenses and intend to vigorously contest the issue.

Although the ultimate outcome of these matters cannot be predicted with certainty, the Group has established, and periodically reviews and re-evaluates, an estimated contingent tax liability to provide for the possibility of adverse outcomes in the tax proceedings. Included in tax payable of the Group at 31 December 2004 is a provision of approximately HK\$68 million for the contingent tax liability related to these tax matters. The directors of the Company believe that the provision at 31 December 2004 is a reasonable estimate of the additional tax liabilities that may be due.

- (b) The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of Hong Kong as follows:

	2004 HK\$'000	2003 HK\$'000
Profit before taxation	255,606	86,756
Calculated at a taxation rate of 17.5% (2003: 17.5%)	(44,731)	(15,182)
Effect of different taxation rates in other countries	(41,395)	(25,875)
Non-taxable income	15,622	4,850
Non-deductible expenses for tax purposes	(1,624)	(10,497)
Effect on opening deferred tax balances resulting from an increase in tax rate during the year	–	(1,032)
Decrease/(increase) in unrecognised temporary differences and tax losses	61,266	(5,335)
Utilisation of previously unrecognised tax losses	68,751	38,037
Provisions for pending tax cases	(53,082)	–
Prior year under provision	(6)	(55)
Current year over provision	(29)	(18)
Taxation credit/(charge)	4,772	(15,107)

7 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders includes a loss of HK\$1,918,000 (2003: a profit of HK\$43,015,000) which is dealt with in the accounts of the Company.

8 DIVIDENDS

	2004 HK\$'000	2003 HK\$'000
Interim dividend paid of HK\$0.02 (2003: HK\$0.01) per share	31,236	13,083
Final dividend proposed of HK\$0.04 (2003: HK\$0.02) per share	62,541	30,928
	93,777	44,011

At a meeting held on 23 February 2005, the directors proposed a final dividend of HK\$0.04 per share. 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 2005.

9 EARNINGS PER SHARE

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

	2004 HK\$'000	2003 HK\$'000
Profit attributable to shareholders for the purpose of calculating basic and diluted earnings per share	260,378	71,649
	Number of shares	
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	1,557,681,102	1,286,206,635
Number of potential ordinary shares issuable under share options and warrants	17,559,891	19,367,184
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	1,575,240,993	1,305,573,819

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10 STAFF COSTS

	2004 HK\$'000	2003 HK\$'000
Wages, salaries and other benefits	89,298	74,061
Contributions to defined contribution schemes	1,963	1,904
Forfeited contributions	(141)	(329)
	91,120	75,636

As at 31 December 2004 and 2003, there was no contribution payable and no forfeited contribution available to reduce future contributions in respect of the provident fund schemes.

11 EMOLUMENTS OF THE DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' emoluments

The remuneration, excluding share option benefits, of each director for the year ended 31 December 2004 is set out below:

Name of Director	Director's	Salary	Bonus	Other	Employer's	Total	Total
	fee			benefits	contribution		
	2004	2004	2004	2004	to provident	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	fund	HK\$'000	HK\$'000
				(Note)	2004	HK\$'000	HK\$'000
<i>Executive Directors</i>							
Thomas CHAN Chun Hoo	-	120	3,000	68	6	3,194	189
Sidney TO Shu Sing	-	1,386	600	5	12	2,003	1,703
	-	1,506	3,600	73	18	5,197	1,892
<i>Non-executive Directors</i>							
Charles IP Shu Wing	50	-	-	4	-	54	50
Allen LEE Peng Fei	50	-	-	93	-	143	100
Anthony LO Kai Yiu	50	-	-	99	-	149	100
TSIM Tak Lung	50	-	-	99	-	149	100
David YU Hon To	50	-	-	68	-	118	75
	250	-	-	363	-	613	425
	250	1,506	3,600	436	18	5,810	2,317

Note: Other benefits include insurance premium and club membership for executive directors, and committee work and meeting attendance allowance for non-executive directors.

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11 EMOLUMENTS OF THE DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS (Continued)

(a) Directors' emoluments (Continued)

In addition to the above emoluments, an executive director was granted share options under the Company's Share Option Scheme. Details of the options are disclosed under the section headed "Share Options" in the Report of the Directors.

The emoluments of the directors are within the following bands:

	Number of directors	
	2004	2003
HK\$		
Nil to 1,000,000 (Note)	5	7
1,500,001 – 2,000,000	–	1
2,000,001 – 2,500,000	1	–
3,000,001 – 3,500,000	1	–
	7	8

Note: This emolument band includes a director who resigned in 2003.

(b) Five highest paid individuals' emoluments

One (2003: none) of the five highest paid individuals is a director whose emolument is disclosed above. Details of the emoluments of the other four (2003: five) highest paid individuals, excluding share option benefits, are as follows:

	2004 HK\$'000	2003 HK\$'000
Salaries, other allowances and benefits in kind	9,869	11,353
Performance bonus	9,655	6,418
Employer's contribution to provident fund	316	348
	19,840	18,119

The emoluments of these five individuals are within the following bands:

	Number of individuals	
HK\$	2004	2003
2,500,001 – 3,000,000	1	1
3,000,001 – 3,500,000	2	2
3,500,001 – 4,000,000	–	1
4,000,001 – 4,500,000	1	–
5,000,001 – 5,500,000	–	1
9,000,001 – 9,500,000	1	–
	5	5

The employees, whose emoluments are disclosed above, include senior executives who were also directors of subsidiaries during the year. No directors of subsidiaries waived any emoluments.

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12 GOODWILL - GROUP

	HK\$'000
Cost	
At 1 January and 31 December 2004	9,690
Accumulated amortisation	
At 1 January 2004	2,745
Amortisation for the year	969
At 31 December 2004	3,714
Net book value	
At 31 December 2004	5,976
At 31 December 2003	6,945

13 FIXED ASSETS – GROUP

	Investment properties HK\$'000	Machinery, equipment, furniture and fixtures HK\$'000	Computers HK\$'000	Total HK\$'000
Cost or valuation				
At 1 January 2004	542,000	32,163	34,712	608,875
Additions	548	1,011	2,476	4,035
Surplus on revaluation	155,452	–	–	155,452
Disposal of a subsidiary	(36,000)	–	–	(36,000)
Disposals	–	(1,762)	(3,908)	(5,670)
At 31 December 2004	662,000	31,412	33,280	726,692
Accumulated depreciation				
At 1 January 2004	–	28,610	28,689	57,299
Charge for the year	–	1,093	3,433	4,526
Disposals	–	(1,256)	(3,908)	(5,164)
At 31 December 2004	–	28,447	28,214	56,661
Net book value				
At 31 December 2004	662,000	2,965	5,066	670,031
At 31 December 2003	542,000	3,553	6,023	551,576

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13 FIXED ASSETS – GROUP (Continued)

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

	2004 HK\$'000	2003 HK\$'000
In Hong Kong, held under:		
Lease of over 50 years	22,000	18,000
Leases of between 10 and 50 years	640,000	524,000
	662,000	542,000

The investment properties were revalued by FPD Savills (Hong Kong) Limited, an independent professional valuer, on an open market value basis as at 31 December 2004. Surplus on revaluation of HK\$52,758,000 and HK\$102,694,000 were credited to the profit and loss account and investment properties revaluation reserve respectively for the year ended 31 December 2004.

Other fixed assets are stated at cost less accumulated depreciation.

Details of the principal properties of the Group as at 31 December 2004 are as follows:

Location	Use	Lease expiry	Approximate gross floor area	Group's interest
The Toy House 100 Canton Road Tsimshatsui	Commercial	2049	107,400 Sq.ft.	100 %
Playmates Factory Building 1 Tin Hau Road Tuen Mun	Industrial	2047	317,100 Sq.ft.	100 %

14 INVESTMENT IN SUBSIDIARIES - COMPANY

	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	10,702	10,702
Less: Provision for impairment losses	(7,525)	(7,525)
	3,177	3,177
Amounts due from subsidiaries, net of provisions	921,401	1,175,586
Amounts due to subsidiaries	(3,781)	(200,767)
	920,797	977,996

The amounts due from/to subsidiaries are unsecured, have no fixed terms of repayment and are interest free except for the amounts due from subsidiaries of HK\$418,502,000 (2003: HK\$287,852,000) which bear interest at Hong Kong Interbank Money Market Offer Rate ("HIBOR") plus 1.25% (2003: HIBOR plus 1%) per annum.

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14 INVESTMENT IN SUBSIDIARIES – COMPANY (Continued)

Details of the principal subsidiaries of the Company as at 31 December 2004 are as follows:

Name of company	Place of incorporation	Total issued and fully paid shares	Effective percentage holding	Principal activities and place of operation
<i>Shares held directly:</i>				
Playmates International Limited	The British Virgin Islands	5 ordinary shares of US\$1 each	100%	Investment holding in Hong Kong
<i>Shares held indirectly:</i>				
Playmates Asia Services Limited	The British Virgin Islands	1 ordinary share of US\$1	100%	Provision of services, based in Hong Kong
Belmont Limited	Hong Kong	100 ordinary shares of HK\$1 each	100%	Property investment in Hong Kong
Bagnols Limited	Hong Kong	3,001,000 ordinary shares of HK\$10 each	100%	Property investment in Hong Kong
Bourges Limited	The British Virgin Islands	1 ordinary share of US\$1	100%	Property investment in Hong Kong
Prestige Property Management Limited	Hong Kong	2 ordinary shares of HK\$1 each	100%	Property management in Hong Kong
PIL Finance Limited	The British Virgin Islands	1 ordinary share of US\$1	100%	Investment holding in Hong Kong
Playmates Toys Inc.	U.S.A.	305,000 common stock of US\$30 each	100%	Toys development, marketing and distribution in the U.S.A.

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

15 INVESTMENT IN ASSOCIATED COMPANIES – GROUP

	2004 HK\$'000	2003 HK\$'000
Share of net assets other than goodwill	17,768	19,515
Share of goodwill	6,764	8,117
	24,532	27,632
Loan to an associated company	10,999	11,999
	35,531	39,631
Unlisted shares, at cost	18,078	18,078

The loan to an associated company is unsecured, interest free and has no fixed terms of repayment.

As at 31 December 2004, the Group held interests in the following associated companies:

Name of company	Place of incorporation	Particulars of issued shares held	Effective percentage holding
Unimax Holdings Limited (“Unimax”)	The British Virgin Islands	Ordinary shares of US\$1 each	49%
Nippon Toys Limited (“NTL”)	Hong Kong	Ordinary shares of HK\$1 each	50%

The associated companies are held indirectly by the Company and operate in Hong Kong.

Unimax is an investment holding company whose subsidiaries are principally engaged in the design and marketing of pre-school toys and dolls.

The principal business of NTL is to develop and act as sourcing and purchasing agent of finished products such as toys, novelties, sales promotion items, premiums and gift products.

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16 INVESTMENTS - GROUP

	2004 HK\$'000	2003 HK\$'000
Non-current		
Held-to-maturity securities listed outside Hong Kong, at amortised cost	35,319	–
Current		
Equity securities, at market value		
Listed in Hong Kong	4,640	–
Listed outside Hong Kong	71,590	68,166
Unlisted quoted equity funds	95,295	43,321
Debt securities, at market value		
Listed outside Hong Kong	15,176	5,207
	186,701	116,694
	222,020	116,694

17 INVENTORIES - GROUP

As at 31 December 2004, the carrying amount of inventories that are carried at net realisable value amounted to HK\$3,599,000 (2003: HK\$4,566,000).

18 TRADE RECEIVABLES - GROUP

As at 31 December 2004, 99.6% (2003: 99.8%) of the trade receivables net of provisions were current to 30 days and the remaining were over 60 days.

The normal trade terms with toys business customers are letters of credit at sight or usance or on open accounts with credit term of 60 days on average. For property investment and management business, no credit term is granted to tenants.

19 BANK LOANS - GROUP

	2004 HK\$'000	2003 HK\$'000
Secured bank loans payable:		
Within one year	2,964	133,123
In the second year	2,964	16,945
In the third to fifth years	8,892	55,776
After the fifth year	17,011	100,068
	31,831	305,912
Unsecured bank loan payable within one year	19,500	24,911
	51,331	330,823
Current portion included in current liabilities	(22,464)	(158,034)
	28,867	172,789

As at 31 December 2004, the Group has banking facilities amounting to approximately HK\$392 million (2003: HK\$511 million), of which HK\$51 million (2003: HK\$333 million) were utilised.

The banking facilities of certain subsidiaries are secured by investment properties with aggregate net book value of HK\$640 million (2003: bank balances of HK\$49 million, other investments of HK\$112 million and investment properties of HK\$542 million) of the Group at 31 December 2004.

20 TRADE PAYABLES - GROUP

As at 31 December 2004, 60.4% (2003: 73.0%) of the trade payables were current to 30 days, 36.6% (2003: 24.0%) were 31 to 60 days and the remaining were over 60 days.

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31 December 2004

21 DEFERRED TAXATION - GROUP

Deferred taxation is calculated in full on temporary differences under the liability method using taxation rate of 17.5% (2003: 17.5%) in Hong Kong, and federal and state tax rates of 35% and 7.57% respectively in the United States of America.

The movement on the deferred tax liabilities/(assets) account is as follows:

	2004 HK\$'000	2003 HK\$'000
At 1 January	14,243	11,007
(Credited)/charged to profit and loss account	(64,415)	3,236
At 31 December	(50,172)	14,243

The movement in deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year is as follows:

Deferred tax liabilities	Accelerated taxation depreciation	
	2004 HK\$'000	2003 HK\$'000
At 1 January	15,251	13,018
Charged to profit and loss account	977	2,233
At 31 December	16,228	15,251

Deferred tax assets	Tax losses	
	2004 HK\$'000	2003 HK\$'000
At 1 January	(1,008)	(2,011)
(Credited)/charged to profit and loss account	(65,392)	1,003
At 31 December	(66,400)	(1,008)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:

	2004 HK\$'000	2003 HK\$'000
Deferred tax assets	(65,948)	–
Deferred tax liabilities	15,776	14,243
	(50,172)	14,243

As at 31 December 2004, there was no unrecognised deferred tax assets in respect of deductible temporary differences (2003: HK\$25,295,000) and unutilised tax losses (2003: HK\$99,835,000).

Deferred tax assets shown in the consolidated balance sheet include an amount of HK\$56,806,000 which is expected to be settled within 12 months.

Deferred tax liabilities shown in the consolidated balance sheet are expected to be settled after more than 12 months.

Notes to the Accounts

31 December 2004

22 SHARE CAPITAL

	Authorised Ordinary shares of HK\$0.10 each	
	No. of shares	HK\$'000
At 31 December 2003 and 2004	3,000,000,000	300,000
	Issued and fully paid Ordinary shares of HK\$0.10 each	
	No. of shares	HK\$'000
At 1 January 2003	1,210,867,810	121,087
Issue of shares	130,000,000	13,000
Exercise of warrants 2004	190,364,030	19,036
Exercise of share options	15,186,000	1,519
At 1 January 2004	1,546,417,840	154,642
Exercise of warrants 2004 (Note (i))	11,099,771	1,110
Exercise of warrants 2005 (Note (ii))	62,162	6
Exercise of share options (Note (iii))	5,933,000	593
At 31 December 2004	1,563,512,773	156,351

Notes:

- (i) The warrants were exercisable from 13 May 2002 to 12 May 2004 at an initial subscription price of HK\$0.30 per share (subject to adjustment). On 12 May 2004, 346,100 warrants which had not been exercised, were lapsed.
- (ii) On 20 May 2004, 311,831,475 warrants were issued pursuant to an ordinary resolution passed at the general meeting of the Company held on 14 May 2004 on the basis of the bonus issue of one warrant for every five shares held. These warrants are exercisable from 24 May 2004 to 23 May 2005 at an initial subscription price of HK\$1.42 per share (subject to adjustment). As at 31 December 2004, 311,769,313 warrants were outstanding.

- (iii) At the special general meetings of the Company held on 4 May 1998 and 28 June 2002, a Share Option Plan (“Plan”) and a Share Option Scheme (“Scheme”) respectively were approved and adopted. A nominal consideration at HK\$10 or US\$1.5 was paid by each option holder for each lot of share option granted. Share options are exercisable in stages in accordance with the terms of the Plan and the Scheme within ten years after the date of grant. Movements in the number of share options outstanding during the year are as follows:

	Number of options	
	2004 '000	2003 '000
At the beginning of the year	46,224	51,653
Granted (<i>Note (a)</i>)	26,582	13,772
Exercised (<i>Note (b)</i>)	(5,933)	(15,186)
Lapsed	(1,012)	(4,015)
At the end of the year (<i>Note (c)</i>)	65,861	46,224

Notes:

- (a) Share options were granted to directors and employees on 7 January 2004 and 19 March 2004 at the exercise price of HK\$1.360 and HK\$1.240 per share respectively (2003: 10 March 2003 at HK\$0.550 per share) and expiring on 6 January 2014 and 18 March 2014 respectively (2003: expiring on 9 March 2013). The closing prices of the ordinary shares of the Company on 6 January 2004 and 18 March 2004, being the trading days immediately before the dates on which the share options were granted, were HK\$1.330 and HK\$1.250 per share respectively. Consideration received was HK\$880 (2003: HK\$813) in respect of the share options granted during the year.
- (b) These share options were exercised during the year ended 31 December 2004 at exercise prices ranging from HK\$0.199 to HK\$1.360 (2003: from HK\$0.199 to HK\$0.626) per share.

Notes to the Accounts

31 December 2004

22 SHARE CAPITAL (Continued)

(c) The terms of the share options outstanding at the end of the year are as follows:

Expiry Date	Exercise price HK\$	Number of options		Vested number of options	
		2004 '000	2003 '000	2004 '000	2003 '000
Directors					
25 August 2008	0.532	529	529	529	529
26 May 2009	0.506	529	529	529	529
19 October 2009	0.434	660	660	660	660
21 July 2010	0.626	551	551	551	441
20 May 2011	0.297	1,024	1,024	819	614
8 August 2012	0.199	3,450	4,200	2,150	1,600
9 March 2013	0.550	1,200	1,200	600	300
6 January 2014	1.360	1,200	–	300	–
		9,143	8,693	6,138	4,673
Other employees					
14 May 2008	0.532	1,729	2,619	1,729	2,619
26 May 2009	0.506	513	963	513	963
21 July 2010	0.626	1,395	1,580	1,395	1,114
20 May 2011	0.297	2,866	4,158	1,402	1,115
27 August 2011	0.294	8,163	8,163	6,122	4,898
8 August 2012	0.199	7,424	8,977	4,393	2,757
9 March 2013	0.550	9,548	11,071	3,770	1,957
6 January 2014	1.360	14,080	–	3,520	–
18 March 2014	1.240	11,000	–	2,750	–
		56,718	37,531	25,594	15,423
		65,861	46,224	31,732	20,096

No share options were cancelled during the year (2003: nil).

23 RESERVES

Company

	Share premium HK\$'000	Capital redemption reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2003	110,697	582	451,448	562,727
Profit for the year	–	–	43,015	43,015
2003 interim dividend paid	–	–	(13,083)	(13,083)
Issue of shares	236,950	–	–	236,950
Share issuing expenses	(4,263)	–	–	(4,263)
At 31 December 2003	343,384	582	481,380	825,346
At 1 January 2004	343,384	582	481,380	825,346
Loss for the year	–	–	(1,918)	(1,918)
2003 final dividend paid	–	–	(31,183)	(31,183)
2004 interim dividend paid	–	–	(31,236)	(31,236)
Issue of shares	3,887	–	–	3,887
At 31 December 2004	347,271	582	417,043	764,896

Group

Included in the share premium of the Group of HK\$349,127,000 at 31 December 2004 was an amount of HK\$1,856,000 which arose upon the combination of the Company and a then fellow subsidiary pursuant to a group restructuring in 1993.

Notes to the Accounts

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24 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit before taxation to net cash inflow generated from operations

	2004 HK\$'000	2003 HK\$'000
Profit before taxation	255,606	86,756
Interest income	(3,155)	(2,625)
Interest on bank loans and overdrafts	2,081	9,347
Dividend income from other investments	(3,269)	(1,284)
Depreciation	4,526	6,569
Amortisation of goodwill	969	969
Revaluation (surplus)/deficit on investment properties	(52,758)	49,300
Loss on disposal of fixed assets	506	1
Net gain on other investments	(3,845)	(20,578)
Gain on disposal of a subsidiary	(10,834)	–
Share of profits less losses of associated companies	(744)	(385)
Operating profit before working capital changes	189,083	128,070
Increase in inventories	(7,628)	(7,066)
Increase in trade receivables, other receivables, deposits and prepayments	(73,480)	(140,102)
Increase in trade payables, other payables and accrued charges	21,938	99,641
Net cash inflow generated from operations	129,913	80,543

(b) Analysis of cash and cash equivalents

	2004 HK\$'000	2003 HK\$'000
Cash and bank balances	195,839	471,457
Less: Deposits as securities for banking facilities (Note 19)	–	(48,605)
Cash and cash equivalents	195,839	422,852

(c) Disposal of a subsidiary

The assets and liabilities disposed of are as follows:

	2004 HK\$'000
Investment property	36,000
Other liabilities less assets	(211)
Shareholder's loan	(24,408)
Fair value of net assets disposed	11,381
Release of investment properties revaluation reserve upon disposal of subsidiary	(9,000)
Shareholder's loan assigned	24,408
Gain on disposal	10,834
Total cash consideration	37,623

25 CONTINGENT LIABILITIES

The Company has provided guarantees with respect to banking facilities made available to subsidiaries amounting to approximately HK\$392 million (2003: HK\$344 million), of which HK\$51 million (2003: HK\$195 million) were utilised as at 31 December 2004.

Notes to the Accounts

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26 COMMITMENTS

Licensing commitments

In the normal course of business, the Group enters into contractual licensing agreements to secure its rights to create, develop and market certain toys and family entertainment activity products for future sales. Certain licensing agreements contain financial commitments by the Group to the licensors to be fulfilled during the terms of the contracts. The amounts of financial commitments contracted but not provided for at the end of the year were payable as follows:

	2004 HK\$'000	2003 HK\$'000
Within one year	17,470	4,695
In the second to fifth years inclusive	15,990	5,256
	33,460	9,951

The Company did not have any commitments at 31 December 2004 (2003: HK\$nil).

27 OPERATING LEASE ARRANGEMENTS

The Group acts as lessee and lessor under operating leases. Details of the Group's commitments under non-cancellable operating leases are set out as follows:

(a) As lessee

At 31 December 2004, the future aggregate minimum lease payments under non-cancellable operating leases for office and warehouse facilities payable by the Group were as follows:

	2004 HK\$'000	2003 HK\$'000
Within one year	10,420	9,961
In the second to fifth years inclusive	29,333	15,058
After the fifth year	2,831	2,005
	42,584	27,024

The Group has non-cancellable subleases with future minimum sublease receipts of HK\$6,621,000 (2003: HK\$6,009,000).

(b) As lessor

At 31 December 2004, the future aggregate minimum lease payments under non-cancellable operating leases for office, industrial and residential premises receivable by the Group were as follows:

	2004 HK\$'000	2003 HK\$'000
Within one year	19,853	24,014
In the second to fifth years inclusive	11,500	17,344
	31,353	41,358

28 US DOLLAR EQUIVALENTS

These are shown for reference only and have been arrived at based on the exchange rate of HK\$7.8 to US\$1 ruling at 31 December 2004.

29 APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 23 February 2005.