

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

1. BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (HKAS) 34, Interim financial reporting, issued by the Hong Kong Institute of Certified Public Accountants (HKICPA). It was authorised for issuance on 15th September 2005.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2004 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2005 annual financial statements. Details of these changes in accounting policies are set out in note 2.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the group since the 2004 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (HKFRSs, which term collectively includes HKASs and Interpretations).

The interim financial report is unaudited, but has been reviewed by the Audit Committee.

The financial information relating to the financial year ended 31st December 2004 that is included in the interim financial report as being previously reported information does not constitute the company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31st December 2004 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 12th April 2005.

2. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of new and revised HKFRSs that are effective or available for early adoption for accounting periods beginning on or after 1st January 2005. The Board of Directors has determined the accounting policies to be adopted in the preparation of the group's annual financial statements for the year ending 31st December 2005, on the basis of HKFRSs currently in issue.

The HKFRSs that will be effective or are available for voluntary early adoption in the annual financial statements for the year ending 31st December 2005 may be affected by the issue of additional interpretation(s) or other changes announced by the HKICPA subsequent to the date of issuance of this interim report. Therefore the policies that will be applied in the group's financial statements for that period cannot be determined with certainty at the date of issuance of this interim financial report.

The following sets out further information on the changes in accounting policies for the annual accounting period beginning on 1st January 2005 which have been reflected in this interim financial report.

(a) Summary of the effect of changes in the accounting policies

(i) Effect on opening balance of total equity at 1st January 2005 (as adjusted)

The following table sets out the adjustments that have been made to the opening balances at 1st January 2005. These are the aggregate effect of retrospective adjustments to the net assets as at 31st December 2004 and opening balance adjustments made as at 1st January 2005.

<i>Effect of new policy (increase/ (decrease))</i>	<i>Note</i>	Retained profits <i>HK\$'000</i>	Capital and other reserves <i>HK\$'000</i>	Total equity <i>HK\$'000</i>
Prior period adjustments:				
<i>HKAS 17</i>				
Leasehold land and buildings held for own use	2(b)	435	–	435
<i>HKAS 40</i>				
Investment properties	2(c)	<u>70,040</u>	<u>(70,040)</u>	<u>–</u>
Total effect at 1st January 2005		<u>70,475</u>	<u>(70,040)</u>	<u>435</u>

(ii) Effect on opening balance of total equity at 1st January 2004 (as adjusted)

The following table sets out only those adjustments that have been made to the opening balances at 1st January 2004. As explained in note 2(d), certain of the changes in policy did not result in retrospective adjustments being made to the opening balances as at 1st January 2004 as this was prohibited by the relevant transitional provisions.

<i>Effect of new policy (increase/ (decrease))</i>	<i>Note</i>	Retained profits <i>HK\$'000</i>	Capital and other reserves <i>HK\$'000</i>	Total equity <i>HK\$'000</i>
Prior period adjustments:				
<i>HKAS 17</i>				
Leasehold land and buildings held for own use	2(b)	411	–	411
<i>HKAS 40</i>				
Investment properties	2(c)	<u>17,718</u>	<u>(17,718)</u>	<u>–</u>
Total effect at 1st January 2004		<u>18,129</u>	<u>(17,718)</u>	<u>411</u>

- (iii) Effect on profit after taxation for the six months ended 30th June 2005 (estimated) and 30th June 2004 (as adjusted)

In respect of the six months period ended 30th June 2005, the following table provides estimates of the extent to which the profits for that period are higher or lower than they would have been had the previous policies still been applied in the interim period, where it is practicable to make such estimates.

In respect of the six months period ended 30th June 2004, the table discloses the adjustments that have been made to the losses as previously reported for that period, in accordance with the transitional provisions of the respective HKFRSs. As retrospective adjustments have not been made for all changes in policies, as explained in note 2(d), the amounts shown for the six months period ended 30th June 2004 may not be comparable to the amounts shown for the current interim period.

<i>Effect of new policy (increase/(decrease))</i>	<i>Note</i>	Six months ended 30th June 2005			Six months ended 30th June 2004		
		Equity holders of		Total	Equity holders of		Total
		the parent	Minority interests		the parent	Minority interests	
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<i>HKAS 17</i>							
Leasehold land and buildings held for own use	2(b)	9	-	9	12	-	12
<i>HKFRS 3</i>							
Amortisation of goodwill	2(d)	242	-	242	-	-	-
Total effect for the period		<u>251</u>	<u>-</u>	<u>251</u>	<u>12</u>	<u>-</u>	<u>12</u>

(b) Leasehold land and buildings held for own use (HKAS 17, Leases)

In prior years, leasehold land and buildings held for own use were stated at cost less accumulated depreciation and accumulated impairment losses.

With the adoption of HKAS 17 as from 1st January 2005, the leasehold interest in the land held for own use is accounted for as being held under an operating lease where the carrying value of the interest in any buildings situated on the leasehold land could be separately identified from the carrying value of the leasehold interest in the land at the time the lease was first entered into by the group, or taken over from the previous lessee, or at the date of construction of those buildings, if later.

Any pre-paid land premiums for acquiring the land leases, or other lease payments, are amortised on a straight line basis over the lease term. If the property is in the course of development or re-development, or the property is otherwise being used in the production of inventory, the amortisation charge is included as part of the costs of the property under development or other inventory. In all other cases the amortisation charge for the period is recognised in the income statement immediately.

Any buildings held for own use which are situated on such land leases continue to be presented as part of property, plant and equipment and stated at cost less accumulated depreciation and accumulated impairment losses.

The new accounting policies have been adopted retrospectively, with the opening balances of retained profits and the comparative information adjusted for the amounts relating to prior periods as disclosed in note 2(a) and the consolidated statement of changes in equity while the effect on the profit before tax has been disclosed on note 2(a)(iii).

(c) **Investment properties (HKAS 40, Investment property, and HK(SIC) Interpretation 21, Income taxes – Recovery of revalued non-depreciable assets)**

Changes in accounting policies relating to investments properties are as follows.

(i) Timing of recognition of movements in fair value in the income statement

In prior years movements in the fair value of the group's investment properties were recognised directly in the investment properties revaluation reserve except when, on a portfolio basis, the reserve was insufficient to cover a deficit on the portfolio, or when a deficit previously recognised in the income statement had reversed, or when an individual investment property was disposed of. In these limited circumstances movements in the fair value were recognised in the income statement.

Upon adoption of HKAS 40 as from 1st January 2005, all changes in the fair value of investment properties are recognised directly in the income statement in accordance with the fair value model in HKAS 40. These changes in accounting policy have been adopted retrospectively by increasing the opening balance of retained earnings as of 1st January 2005 by \$70,040,000 (1st January 2004: \$17,718,000).

(d) **Amortisation of positive and negative goodwill (HKFRS 3, Business combinations and HKAS 36, Impairment of assets)**

In prior periods:

- positive or negative goodwill which arose prior to 1st January 2001 was taken directly to reserves at the time it arose, and was not recognised in the income statement until disposal or impairment of the acquired business;
- positive goodwill which arose on or after 1st January 2001 was amortised on a straight line basis over its useful life and was subject to impairment testing when there were indications of impairment; and
- negative goodwill which arose on or after 1st January 2001 was amortised over the weighted average useful life of the depreciable/amortisable non-monetary assets acquired, except to the extent it related to identified expected future losses as at the date of acquisition. In such cases it was recognised in the income statement as those expected losses were incurred.

With effect from 1st January 2005, in accordance with HKFRS 3 and HKAS 36, the group no longer amortises positive goodwill. Such goodwill is tested annually for impairment, including in the year of its initial recognition, as well as when there are indications of impairment. Impairment losses are recognised when the carrying amount of the cash generating unit to which the goodwill has been allocated exceeds its recoverable amount.

Also with effect from 1st January 2005 and in accordance with HKFRS 3, if the fair value of the net assets acquired in a business combination exceeds the consideration paid (i.e. an amount arises which would have been known as negative goodwill under the previous accounting policy), the excess is recognised immediately in the income statement as it arises.

The new policy in respect of positive goodwill has been applied prospectively in accordance with the transitional arrangements under HKFRS 3. As a result, comparative amounts have not been restated, the cumulative amount of amortisation as at 1st January 2005 has been offset against the cost of the goodwill and no amortisation charge for goodwill has been recognised in the income statement for the six months ended 30th June 2005. This has increased the group's profit after tax for the six months ended 30th June 2005 by \$242,000.

Also in accordance with the transitional arrangements under HKFRS 3, goodwill which had previously been taken directly to reserves (i.e. goodwill which arose before 1st January 2001) will not be recognised in the income statement on disposal or impairment of the acquired business, or under any other circumstances.

The change in policy relating to negative goodwill had no effect on the interim financial report as there was no negative goodwill deferred as at 31st December 2004.

3. SEGMENTAL INFORMATION

The entity's primary format for reporting segment information is business segments.

Business segments

The Group comprises the following main business segments:

Toys and model trains:	The manufacture and sale of plastic, electronic and stuffed toys and model trains.
Property investment:	The leasing of office premises, industrial building and residential units to generate rental income and to gain from the appreciation in the properties' value in the long term.
Investment holding and trading:	The investment in partnership and trading of listed securities.

Six months ended 30th June	Toys and model trains		Property leasing		Investment holding and trading		Unallocated		Inter-segment elimination		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	(restated)	(restated)	(restated)	(restated)	(restated)	(restated)	(restated)	(restated)	(restated)	(restated)	(restated)	(restated)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from external customers	187,567	160,784	12,356	12,400	-	-	-	-	-	-	199,923	173,184
Inter-segment revenue	-	-	429	343	-	-	-	-	(429)	(343)	-	-
Other revenue from external customers	1,587	1,617	3,094	2,479	75	-	773	87	-	-	5,529	4,183
Total	189,154	162,401	15,879	15,222	75	-	773	87	(429)	(343)	205,452	177,367
Segment result	2,747	(938)	8,986	9,565	(2,458)	(3,034)	(201)	38	-	-	9,074	5,631
Inter-segment transactions	429	343	(429)	353	-	(696)	-	-	-	-	-	-
Contribution from operations	3,176	(595)	8,557	9,918	(2,458)	(3,730)	(201)	38	-	-	9,074	5,631
Unallocated operating income and expenses											607	111
Profit from operations											9,681	5,742

4. SEASONALITY OF OPERATIONS

The Group's toys and model trains division, a separate business segment (see note 3), on average experiences higher sales in the second half year, compared to the first half year, due to the increased demand of its products during holiday season. As such, the first half year reports lower revenues and segment results for this segment than the second half.

5. LOSS BEFORE TAXATION

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

	Six months ended 30th June	
	2005	2004
	HK\$'000	Restated HK\$'000
Cost of inventories	122,688	95,363
Amortisation of positive goodwill included in the share of profits less losses of associates	–	242
Amortisation of land lease premium	42	58
Interest on borrowings	7,220	6,764
Depreciation	10,172	9,936
Impairment loss in respect of fixed assets	–	5,706
Net (gain)/loss on sale of fixed assets	(205)	4
Net realised and unrealised gain on trading and other securities carried at fair value	–	(5)
(Decrease)/increase in liability for long service payment	(187)	38
Increase /(decrease) in liability for accrued leave pay	113	(111)
	<u>113</u>	<u>(111)</u>

6. INCOME TAX

	Six months ended 30th June	
	2005	2004
	HK\$'000	HK\$'000
Hong Kong taxation	–	363
Overseas taxation	260	687
Deferred taxation	(3,094)	(156)
	<u>(2,834)</u>	<u>894</u>

No provision for Hong Kong Profits Tax is made for the six months ended 30th June 2005 as certain group companies' accumulated tax losses brought forward exceed the estimated taxable profits for the period or they sustained losses for taxation purposes.

The provision for Hong Kong Profits Tax was calculated by applying the estimated annual effective tax rate of 17.5% to the profits for the six months ended 30th June 2004. Taxation for overseas subsidiaries is similarly calculated by using the estimated annual effective rates of taxation that are expected to be applicable in the relevant countries.

7. EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the profit/(loss) attributable to equity holders of the parent of HK\$787,000 (six months ended 30th June 2004 (restated): Loss of HK\$7,628,000) and the weighted average number of ordinary shares of 665,412,000 shares (2004: 665,412,000 shares).

(b) Diluted earnings/(loss) per share

The diluted earnings/(loss) per share is not presented as the Company does not have dilutive potential ordinary shares outstanding during the six months ended 30th June 2005 and 30th June 2004.

8. FIXED ASSETS

During the six months ended 30th June, 2005, the Group moved its head office from 1st floor to 11th and 12th floor of Kader Building located at Kowloon Bay. Consequently, 1st floor previously held for own use was transferred to investment property at fair value of HK\$48,000,000 with the revaluation surplus of HK\$42,430,000 credited to the land and buildings revaluation reserve (note 13) and 11th and 12th floor were transferred from investment property to owner-occupied property at fair value of HK\$14,049,000 and HK\$15,381,000 respectively.

9. INVENTORIES

During six months ended 30th June 2005 HK\$274,000 (six months ended 30th June 2004: HK\$3,679,000) has been recognised as a reduction in the amount of inventories recognised as an expense during the period, being the amount of a write-down of inventories to estimated net realisable value.

10. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables are trade debtors (net of specific provisions for bad and doubtful debts) with the following ageing analysis:

	At 30th June 2005 HK\$'000	At 31st December 2004 HK\$'000
Current	50,183	71,821
1 to 3 months overdue	11,490	7,854
More than 3 months overdue but less than 12 months overdue	1,051	963
More than 12 months overdue	203	799
	<hr/>	<hr/>
Total trade debtors	62,927	81,437
Other debtors and prepayments	12,026	7,977
	<hr/>	<hr/>
	74,953	89,414

Debtors are due within 30 days from the date of billing. Debtors with balances that are more than 3 months overdue are requested to settle all outstanding balances before any further credit is granted.

11. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade creditors with the following ageing analysis:

	At 30th June 2005 HK\$'000	At 31st December 2004 HK\$'000
Due within 1 month or on demand	27,172	12,708
Due after 1 month but within 3 months	3,220	6,417
Due after 3 months but within 6 months	350	780
Due after 6 months but within 12 months	<u>1,003</u>	<u>123</u>
Total trade creditors	31,745	20,028
Other payables	<u>55,935</u>	<u>51,406</u>
	<u>87,680</u>	<u>71,434</u>

12. SHARE CAPITAL

	At 30th June 2005 HK\$'000	At 31st December 2004 HK\$'000
<i>Authorised:</i>		
1,000,000,000 ordinary shares of HK\$0.10 each	<u>100,000</u>	<u>100,000</u>
<i>Issued and fully paid:</i>		
665,412,000 ordinary shares of HK\$0.10 each	<u>66,541</u>	<u>66,541</u>

13. RESERVES

	Investment properties revaluation	Land & buildings revaluation	Exchange reserves	Contributed surplus	Capital reserve	Share premium	Revenue reserves	Total
Note	reserve	reserve	reserves	surplus	reserve	premium	reserves	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January 2004								
- as previously reported	17,718	-	5,044	169,994	10,815	109,942	61,478	374,991
- prior period adjustments in respect of								
- Leasehold land and buildings held for own use	2(b)	-	-	-	-	-	411	411
- Investment properties	2(c)	(17,718)	-	-	-	-	17,718	-
- as restated	-	-	5,044	169,994	10,815	109,942	79,607	375,402
Surplus arising on revaluation net of deferred tax	-	-	-	-	-	-	52,322	52,322
Exchange difference on translation of financial statements of foreign entities	-	-	5,313	-	-	-	-	5,313
Write off of goodwill	-	-	-	3,403	-	-	-	3,403
Profit for the year (as restated)	-	-	-	-	-	-	3,422	3,422
At 31st December 2004 (as restated)	<u>-</u>	<u>-</u>	<u>10,357</u>	<u>173,397</u>	<u>10,815</u>	<u>109,942</u>	<u>135,351</u>	<u>439,862</u>
At 1st January 2005 (as restated)	-	-	10,357	173,397	10,815	109,942	135,351	439,862
Exchange difference on translation of financial statements of foreign entities	-	-	(5,029)	-	-	-	-	(5,029)
Revaluations surplus	-	42,430	-	-	-	-	-	42,430
Profit for the period	-	-	-	-	-	-	787	787
At 30th June 2005	<u>-</u>	<u>42,430</u>	<u>5,328</u>	<u>173,397</u>	<u>10,815</u>	<u>109,942</u>	<u>136,138</u>	<u>478,050</u>

14. MATERIAL RELATED PARTY TRANSACTIONS

- (a) One of the directors of the Company is also a director and shareholder of a supplier which sold packaging and printing materials to the Group under the same terms as those available to other customers in the ordinary course of business. Total purchases from the supplier amounted to HK\$2,462,000 (2004: HK\$2,282,000) during the period. The amount due to the supplier at the period end amounted to HK\$2,001,000 (at 31st December 2004: HK\$1,551,000).
- (b) During the period, the Group had net interests in certain associates amounting to HK\$172,204,000 (at 31st December 2004: HK\$173,231,000) in which a director of the Company has beneficial interests.

- (c) During the period, the Group has obtained funding from certain directors, shareholders, related companies and related parties to finance its operations. The outstanding balances are as follows:

	Outstanding	
	At 30th June 2005 <i>HK\$'000</i>	At 31st December 2004 <i>HK\$'000</i>
Directors	93,184	92,122
Shareholders	58,214	58,980
Related companies	8,544	8,329
Related parties	1,200	1,351

The above balances are unsecured, interest bearing at 3% or prime less 1% to prime plus 0.5% and repayable after 30th June 2006.