1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

(a) Basis of preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and accounting policies generally accepted in Hong Kong. The consolidated financial statements have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, investment properties and financial assets at fair value through profit or loss are stated at fair value.

The HKICPA has issued a number of new and revised HKFRSs that are effective for accounting periods commencing on or after 1 January 2005. Information on the changes in accounting policies resulting from initial application of these new and revised HKFRSs for the current and prior accounting periods reflected in the financial statements is provided in note 2.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Group accounting

(i) Consolidation

Subsidiaries are those entities in which the Company, directly or indirectly, controls the composition of the board of directors, controls more than one half of the voting power or holds more than half of the issued share capital.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gain on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Investments in subsidiaries are recorded in the Company's books at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(ii) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost and adjusted thereafter for the post acquisition change in the Group's share of the associates' net assets.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

(c) Fixed assets

(i) Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the consolidated Group, is classified as investment property.

Investment property comprises land held under operating leases and buildings held under finance leases.

Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Investment property is measured initially at its cost, including related transaction costs.

After initial recognition, investment property is carried at fair value. Fair value is based on open market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. These valuations are performed at least annually by external surveyors.

Subsequent expenditure is charged to the asset's carrying amount 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 costs are expensed in the income statement during the financial period in which they are incurred.

Changes in fair values are recognised in the income statement.

If an investment property becomes owner-occupied, it is reclassified as other property, plant and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes.

(ii) Other property, plant and equipment

All other property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Fixed assets (Continued)

(ii) Other property, plant and equipment (Continued)

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 income statement during the financial period in which they are incurred.

Depreciation of other property, plant and equipment is calculated using the straight-line method to allocate cost to their residual values over their estimated useful lives, as follows:

Buildings	40 years
Machinery, equipment, furniture and fixtures	3-10 years
Computers	3-5 years

The assets' residual values and 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.

(iii) Prepaid premium on leasehold land held for own use under an operating lease

Prepaid premium on leasehold land held for own use under an operating lease is amortised on a straight-line basis over the period of the lease term.

(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 income statement on a straight-line basis over the lease term.

(e) *Investments*

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss and held-to-maturity investments. The classification depends on the purpose for which the investments were acquired. Management determines the classification of investments at initial recognition.

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

Financial assets at fair value through profit or loss are those so designated 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 expected to be realised within 12 months of the balance sheet date.

(ii) *Held-to-maturity investments*

Held-to-maturity investments 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.

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, and in the case of financial assets not carried at fair value through profit or loss, plus transaction costs. 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. Financial assets at fair value through profit or loss are subsequently carried at fair value. Held-to-maturity investments are carried at amortised cost. Unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' are included in the income statement in the period in which they arise.

The fair values of quoted investments are based on current bid prices.

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

1 SUMMARY OF SIGNIFICANT 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) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost less impairment losses for bad and doubtful debts.

(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.

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 income statement 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) 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 income statement 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.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Employee benefits (Continued)

(iii) 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 with a corresponding increase in the employee share-based compensation reserve within equity. 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). At each balance sheet date, the Group revises the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period. The equity amount is recognised in the employee share-based compensation reserve until the option is exercised (when it is transferred to the share premium account) or the option is lapsed/cancelled (when it is released directly to retained profits).

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.

(l) Borrowing costs

Borrowing costs are charged to the income statement in the year in which they are incurred.

(m) Cash and cash equivalents

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) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements 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 financial statements 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 income statement.

(iii) Group companies

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

(a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(b) income and expenses for each income statement are translated at average exchange rates; and

(c) all resulting exchange differences are recognised as a separate component of equity.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

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

(p) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary / associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is recognised as a separate asset. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment. An impairment loss on goodwill is recognised as an expense and is not reversible. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

(q) Impairment of assets

Other property, plant and equipment, prepaid premium on leasehold land and investments in subsidiaries and associates are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of new and revised HKFRSs that are effective for accounting periods beginning on or after 1 January 2005.

The accounting policies of the Group after adoption of these new and revised HKFRSs have been summarized in note 1. The following sets out information on the significant changes in accounting policies for the current and prior accounting periods reflected in these financial statements.

The Group has not applied any new standards or interpretation that is not yet effective for the current accounting period.

In 2005, the Group adopted the following new and revised HKFRSs, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HKAS-Int 15	Operating Leases – Incentives
HKAS-Int 21	Income Taxes – Recovery of Revalued Non-depreciated Assets
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations

2 CHANGES IN ACCOUNTING POLICIES (Continued)

The adoption of new and revised HKASs 1, 2, 7, 8, 10, 16, 21, 23, 24, 27, 28, 33 and HKAS-Int 15 did not result in substantial changes to the Group's accounting policies. In summary:

- HKAS 1 has affected the presentation and disclosure of the accounts.
- HKASs 2, 7, 8, 10, 16, 23, 27, 28, 33 and HKAS-Int 15 had no material effect on the Group's policies.
- HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard.
- HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land attributable to own-use properties from other property, plant and equipment to operating leases. The up-front prepayments made for the leasehold land attributable to own-use properties are expensed in the income statement on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the income statement. In prior years, leasehold land and building with 15% or less by area or value that was occupied by the Company or another company in the Group was regarded as investment property under the previous SSAP 13. Following the adoption of HKAS 40, with effect from 1 January 2005 the portion of leasehold land and building that could be sold separately (or leased out separately under a finance lease) has been reclassified from investment property to prepaid premium on leasehold land held for own use under an operating lease and building, and accounted for in accordance with HKAS 17 and HKAS 16 respectively.

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit or loss.

The adoption of revised HKAS 40 has resulted in a change in the accounting policy of which the changes in fair values are recorded in the income statement. In prior years, the increases in fair value were credited to the investment properties revaluation reserve. Decreases in fair value were first set off against increases on earlier valuations on a portfolio basis and thereafter expensed in the income statement.

The adoption of revised HKAS-Int 21 has resulted in a change in the accounting policy relating to the measurement of deferred tax liabilities arising from the revaluation of investment properties. Such deferred tax liabilities are measured on the basis of tax consequences that would follow from recovery of the carrying amount of that asset through use. In prior years, the carrying amount of that asset was expected to be recovered through sale.

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. Until 31 December 2004, the provision of share options to employees did not result in an expense in the income statements. Effective on 1 January 2005, the Group expenses the cost of share options in the income statement. As a transitional provision, the cost of share options granted after 7 November 2002 and had not yet vested on 1 January 2005 was expensed retrospectively in the income statement of the respective periods (Note 1(k)(iii)).

The adoption of HKFRS 3 and HKAS 36 results in a change in the accounting policy for goodwill. Until 31 December 2004, goodwill was:

– amortised on a straight line basis over a period of 10 years; and

– assessed for an indication of impairment at each balance sheet date.

In accordance with the provisions of HKFRS 3 (Note 1(p)):

– The Group ceased amortisation of goodwill from 1 January 2005;

– Accumulated amortisation as at 31 December 2004 has been eliminated with a corresponding decrease in the cost of goodwill;

– From the year ended 31 December 2005 onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment.

All changes in the accounting policies have been made in accordance with the transitional provisions in the respective standards. All standards adopted by the Group require or permit retrospective application other than:

– HKAS 21 – prospective accounting for goodwill and fair value adjustments as part of foreign operations;

– HKAS 39 – does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous SSAP 24 “Accounting for investments in securities” to investments in securities and also to hedge relationships for the 2004 comparative information. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognised at 1 January 2005.

– HKFRS 2 – only retrospective application for all equity instruments granted after 7 November 2002 and not vested at 1 January 2005; and

– HKFRS 3 – prospectively after the adoption date.

2 CHANGES IN ACCOUNTING POLICIES (Continued)

The effects of changes in the above accounting policies on the consolidated balance sheet are as follows:

	Effects of adopting						
	HKAS 16/17	HKAS 32/39	HKAS 40	HKFRS 2	HKFRS 3	HKAS – Int 21	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 31 December 2005							
Increase/(decrease) in assets							
Goodwill	–	–	–	–	969	–	969
Other property, plant and equipment	25,945	–	–	–	–	–	25,945
Prepaid premium on leasehold land held for own use under an operating lease	49,234	–	–	–	–	–	49,234
Investment properties	(76,500)	–	74,896	–	–	–	(1,604)
Financial assets at fair value through profit or loss	–	226,347	–	–	–	–	226,347
Investments	–	(226,347)	–	–	–	–	(226,347)
Deferred tax assets	–	–	–	5,068	–	–	5,068
Increase in liabilities							
Deferred tax liabilities	–	–	–	–	–	29,567	29,567
Increase/(decrease) in reserves							
Employee share-based compensation reserve	–	–	–	17,366	–	–	17,366
Investment properties revaluation reserve	–	–	(77,297)	–	–	(16,397)	(93,694)
Retained profits	(1,321)	–	152,193	(12,298)	969	(13,170)	126,373
At 31 December 2004 (restated)							
Increase in assets							
Deferred tax assets	–	–	–	2,443	–	–	2,443
Increase/(decrease) in reserves							
Employee share-based compensation reserve	–	–	–	7,974	–	–	7,974
Retained profits	–	–	–	(5,531)	–	–	(5,531)

The effects of changes in the above accounting policies on the consolidated income statement are as follows:

	Effects of adopting					
	HKAS 16/17 HK$'000	HKAS 40 HK$'000	HKFRS 2 HK$'000	HKFRS 3 HK$'000	HKAS – Int 21 HK$'000	Total HK$'000
For the year ended 31 December 2005						
Increase/(decrease) in profit attributable to shareholders						
(Increase)/decrease in administrative expenses	(1,321)	–	(9,392)	969	–	(9,744)
Increase in revaluation surplus on investment properties	–	74,896	–	–	–	74,896
(Increase)/decrease in tax expense	–	–	2,625	–	(13,170)	(10,545)
Increase/(decrease) in profit attributable to shareholders	(1,321)	74,896	(6,767)	969	(13,170)	54,607
Increase/(decrease) in basic earnings per share (HK cents)	(0.07)	4.20	(0.38)	0.05	(0.74)	3.06
Increase/(decrease) in diluted earnings per share (HK cents)	(0.07)	4.14	(0.37)	0.05	(0.73)	3.02
For the year ended 31 December 2004						
Increase/(decrease) in profit attributable to shareholders						
Increase in administrative expenses	–	–	(7,419)	–	–	(7,419)
Decrease in tax expense	–	–	2,297	–	–	2,297
Decrease in profit attributable to shareholders	–	–	(5,122)	–	–	(5,122)
Decrease in basic earnings per share (HK cents)	–	–	(0.33)	–	–	(0.33)
Decrease in diluted earnings per share (HK cents)	–	–	(0.33)	–	–	(0.33)

3 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:

	2005 HK$'000	2004 HK$'000
Turnover		
Sales of toys	1,277,607	1,282,662
Rental income from investment properties	29,077	26,072
Property management income	3,580	3,542
	1,310,264	1,312,276
Other revenues		
Interest income	14,938	3,155
Dividend income from investments	2,794	3,269
	17,732	6,424
Total revenues	1,327,996	1,318,700

Business segments

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

	Year ended 31 December 2005			
	Toys HK$'000	Property investment and management HK$'000	Elimination HK$'000	Group HK$'000
Revenue				
Turnover	1,277,607	32,657	–	1,310,264
Inter-segment revenue *(Note (iii))*	–	574	(574)	–
	1,277,607	33,231	(574)	1,310,264
Results				
Segment results	97,017	94,293	–	191,310
Inter-segment transactions	(574)	574	–	–
	96,443	94,867	–	191,310
Unallocated costs				(18,898)
Operating profit				172,412

3 TURNOVER, REVENUES AND SEGMENT INFORMATION (Continued)

Business segments (Continued)

	Year ended 31 December 2005			
	Toys HK$'000	Property investment and management HK$'000	Elimination HK$'000	Group HK$'000
Assets				
Segment assets	631,500	802,274	(143)	1,433,631
Unallocated assets				670,037
Total assets				2,103,668
Liabilities				
Segment liabilities	351,132	63,416	(143)	414,405
Unallocated liabilities				9,170
Total liabilities				423,575
Other information				
Capital expenditure	4,065	34,808		
Depreciation	2,846	1,544		

	Year ended 31 December 2004			
	Toys	Property investment and management	Elimination	Group
	HK$'000	HK$'000	HK$'000	HK$'000
	(restated)	*(restated)*		*(restated)*
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	182,150	79,142	–	261,292
Inter-segment transactions	(829)	829	–	–
	181,321	79,971	–	261,292
Unallocated costs				(10,062)
Operating profit				251,230

3 TURNOVER, REVENUES AND SEGMENT INFORMATION (Continued)

Business segments (Continued)

	Year ended 31 December 2004			
	Toys	Property investment and management	Elimination	Group
	HK$'000	HK$'000	HK$'000	HK$'000
	(restated)	*(restated)*		*(restated)*
Assets				
Segment assets	519,913	675,847	(143)	1,195,617
Unallocated assets				409,922
Total assets				1,605,539
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		
Depreciation	4,328	198		
Amortisation of goodwill	–	969		

Notes:

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

(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 assets and capital expenditure is as follows:

	Turnover 2005 HK$'000	Segment assets 2005 HK$'000	Capital expenditure 2005 HK$'000
Americas			
– U.S.A.	948,833	589,331	3,390
– Others	52,766	–	–
Europe	236,402	–	–
Asia Pacific	69,980	844,300	35,483
Others	2,283	–	–
	1,310,264	1,433,631	38,873

	Turnover 2004 HK$'000	Segment assets 2004 HK$'000 *(restated)*	Capital expenditure 2004 HK$'000
Americas			
– U.S.A.	1,000,310	506,775	2,726
– Others	58,494	–	–
Europe	183,101	–	–
Asia Pacific	69,107	688,842	1,309
Others	1,264	–	–
	1,312,276	1,195,617	4,035

4 OPERATING PROFIT

Operating profit is stated after charging/(crediting) the following:

	2005 HK$'000	2004 HK$'000 *(restated)*
Cost of inventories sold	560,095	527,141
Product development costs	21,847	15,728
Direct operating expenses arising from investment properties that generate rental income	1,409	1,734
Direct operating expenses arising from investment properties that did not generate rental income	1,233	2,104
Provision for customer concession	14,540	26,248
Unutilised provision for customer concession	(19,811)	(15,378)
Depreciation of fixed assets	4,979	4,526
Staff costs, including directors' remuneration *(Note 11)*	95,891	98,539
Operating leases expense on office and warehouse facilities	12,938	10,485
Loss on disposal of fixed assets	171	506
Auditors' remuneration	1,500	1,500
Amortisation of goodwill (included in selling, distribution and administration expenses)	–	969

5 INTEREST EXPENSE AND BANK CHARGES

	2005 HK$'000	2004 HK$'000
Interest on bank loans and overdrafts	1,347	2,081
Other incidental borrowing costs	6,229	11,975
	7,576	14,056

6 NET GAIN ON INVESTMENTS

	2005 HK$'000	2004 HK$'000
Net realised loss on investments	(944)	(890)
Net unrealised gain on investments	15,410	4,735
	14,466	3,845

7 TAXATION (CHARGE)/CREDIT

(a) Hong Kong profits tax has been provided at the rate of 17.5% (2004: 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 (charged)/credited to the consolidated income statement represents:

	2005 HK$'000	2004 HK$'000 *(restated)*
Current taxation		
Hong Kong profits tax	(2,070)	(569)
Overseas taxation	15,353	(4,592)
Under provision in prior years	(5)	(6)
Provisions for pending tax cases *(Note)*	(4,371)	(53,082)
	8,907	(58,249)
Deferred taxation		
Origination and reversal of temporary differences	(11,748)	66,712
	(2,841)	8,463

7 TAXATION (CHARGE)/CREDIT (Continued)

Note: In 2005, the Group has reached a settlement with the Internal Revenue Service regarding the examination of the federal income tax returns of the US subsidiaries for the tax years 1996 and 1997. Under the terms of the settlement, the US subsidiaries will pay the net sum of approximately HK$52 million, including accrued interest, in 2006.

The Group has favorably settled part of the proposed adjustments raised by the California Franchise Tax Board and has filed an appeal to reverse the remaining proposed adjustments to certain tax returns of the US subsidiaries. While the outcome cannot be certain, 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 2005 is an aggregate provision of approximately HK$73 million for the contingent tax liability related to these tax matters. The directors of the Company believe that the provision at 31 December 2005 is a reasonable estimate of the tax liabilities that are due or 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:

	2005 HK$'000	2004 HK$'000 *(restated)*
Profit before taxation	198,831	246,793
Calculated at a taxation rate of 17.5% (2004: 17.5%)	(34,795)	(43,189)
Effect of different taxation rates in other countries	(19,231)	(40,103)
Non-taxable income	9,324	15,133
Non-deductible expenses for tax purposes	(578)	(770)
Decrease in unrecognised temporary differences and tax losses	8,158	61,758
Utilisation of previously unrecognised tax losses	22,600	68,751
Provisions for pending tax cases	(4,371)	(53,082)
Tax credit on settlement of tax cases	15,996	–
Prior year under provision	(5)	(6)
Current year under/(over) provision	61	(29)
Taxation (charge)/credit	(2,841)	8,463

8 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders includes a loss of HK$3,752,000 (2004: HK$1,918,000) which is dealt with in the accounts of the Company.

9 DIVIDENDS

	2005 HK$'000	2004 HK$'000
Interim dividend paid of HK$0.025 (2004: HK$0.02) per share	46,701	31,236
Final dividend proposed of HK$0.025 (2004: HK$0.04) per share	46,692	62,541
	93,393	93,777

At a meeting held on 2 March 2006, the directors proposed a final dividend of HK$0.025 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 2006.

10 EARNINGS PER SHARE

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

	2005 HK$'000	2004 HK$'000 *(restated)*
Profit attributable to shareholders for the purpose of calculating basic and diluted earnings per share	195,990	255,256
	Number of shares	
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	1,781,283,000	1,557,681,000
Number of potential ordinary shares issuable under share options and warrants	29,480,000	17,560,000
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	1,810,763,000	1,575,241,000

11 STAFF COSTS

	2005 HK$'000	2004 HK$'000 *(restated)*
Wages, salaries and other benefits	84,327	89,298
Share-based compensation	9,392	7,419
Employer's contribution to provident fund	2,192	1,963
Forfeited contributions	(20)	(141)
	95,891	98,539

As at 31 December 2005 and 2004, there was no contribution payable and no forfeited contribution available to reduce future contributions in respect of the provident fund schemes.

12 EMOLUMENTS OF THE DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' emoluments

The remuneration of each director for the year ended 31 December 2005 is set out below:

Name of Director	Director's fee 2005 HK$'000	Salary 2005 HK$'000	Bonus 2005 HK$'000	Share-based compensation 2005 HK$'000	Other benefits 2005 HK$'000 *(Note)*	Employer's contribution to provident fund 2005 HK$'000	Total 2005 HK$'000	Total 2004 HK$'000 *(restated)*
Executive Directors								
Thomas CHAN Chun Hoo	–	120	–	–	62	7	189	3,194
Sidney TO Shu Sing	–	1,620	450	497	55	12	2,634	2,441
	–	1,740	450	497	117	19	2,823	5,635
Non-executive Directors								
Charles IP Shu Wing	100	–	–	192	32	–	324	54
Allen LEE Peng Fei	100	–	–	192	153	–	445	143
Anthony LO Kai Yiu	100	–	–	192	159	–	451	149
TSIM Tak Lung	100	–	–	192	127	–	419	149
David YU Hon To	100	–	–	192	130	–	422	118
	500	–	–	960	601	–	2,061	613
	500	1,740	450	1,457	718	19	4,884	6,248

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

The emoluments of the directors are within the following bands:

	Number of directors 2005	2004
HK$		
Nil to 1,000,000	6	5
2,000,001 – 2,500,000	–	1
2,500,001 – 3,000,000	1	–
3,000,001 – 3,500,000	–	1
	7	7

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

(b) Five highest paid individuals' emoluments

One (2004: one) of the five highest paid individuals is a director, whose emolument is disclosed above. Details of the emoluments of the other four (2004: four) highest paid individuals are as follows:

	2005 HK$'000	2004 HK$'000 *(restated)*
Salaries, other allowances and benefits in kind	11,309	9,869
Share-based compensation	5,483	4,496
Performance bonus	3,329	9,655
Employer's contribution to provident fund	279	316
	20,400	24,336

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

	Number of individuals	
	2005	2004
HK$		
2,500,001 – 3,000,000	2	–
3,000,001 – 3,500,000	1	2
3,500,001 – 4,000,000	1	1
4,000,001 – 4,500,000	–	1
10,000,001 – 10,500,000	1	–
13,000,001 – 13,500,000	–	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.

13 FIXED ASSETS – GROUP

	Buildings HK$'000	Machinery, equipment, furniture and fixtures HK$'000	Computers HK$'000	Sub-total HK$'000	Investment properties HK$'000	Prepaid premium on leasehold land held for own use under an operating lease HK$'000	Total HK$'000
Cost or valuation							
At 1 January 2004	–	32,163	34,712	66,875	542,000	–	608,875
Additions	–	1,011	2,476	3,487	548	–	4,035
Revaluation surplus	–	–	–	–	155,452	–	155,452
Disposal of a subsidiary	–	–	–	–	(36,000)	–	(36,000)
Disposals	–	(1,762)	(3,908)	(5,670)	–	–	(5,670)
At 31 December 2004	–	31,412	33,280	64,692	662,000	–	726,692
At 1 January 2005	–	31,412	33,280	64,692	662,000	–	726,692
Additions	–	8,950	2,392	11,342	34,304	–	45,646
Revaluation surplus	–	–	–	–	74,896	–	74,896
Reclassification	26,539	–	–	26,539	(76,500)	49,961	–
Disposals	–	(45)	(907)	(952)	–	–	(952)
At 31 December 2005	26,539	40,317	34,765	101,621	694,700	49,961	846,282
Accumulated amortisation and depreciation							
At 1 January 2004	–	28,610	28,689	57,299	–	–	57,299
Charge for the year	–	1,093	3,433	4,526	–	–	4,526
Disposals	–	(1,256)	(3,908)	(5,164)	–	–	(5,164)
At 31 December 2004	–	28,447	28,214	56,661	–	–	56,661
At 1 January 2005	–	28,447	28,214	56,661	–	–	56,661
Charge for the year	594	1,608	2,050	4,252	–	727	4,979
Disposals	–	(26)	(755)	(781)	–	–	(781)
At 31 December 2005	594	30,029	29,509	60,132	–	727	60,859
Net book value							
At 31 December 2005	25,945	10,288	5,256	41,489	694,700	49,234	785,423
At 31 December 2004	–	2,965	5,066	8,031	662,000	–	670,031

13 FIXED ASSETS – GROUP (Continued)

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

	2005 HK$'000	2004 HK$'000
In Hong Kong, held under:		
Lease of over 50 years	24,500	22,000
Leases of between 10 and 50 years	670,200	640,000
	694,700	662,000

The investment properties were revalued as at 31 December 2005 on an open market value basis. The valuations were carried out by an independent firm of surveyors, Savills Valuation and Professional Services Limited, who have among their staff members of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued.

Other fixed assets are stated at cost less accumulated depreciation.

Details of the principal properties of the Group as at 31 December 2005 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 GOODWILL – GROUP

	HK$'000
Cost	
At 1 January and 31 December 2004	9,690
At 1 January 2005	9,690
Opening balance adjustment to eliminate accumulated amortisation	(3,714)
	5,976
Accumulated amortisation	
At 1 January 2004	2,745
Amortisation for the year	969
At 31 December 2004	3,714
At 1 January 2005	3,714
Eliminated against cost at 1 January 2005	(3,714)
	–
Carrying amount	
At 31 December 2005	5,976
At 31 December 2004	5,976

15 INVESTMENT IN SUBSIDIARIES – COMPANY

	2005 HK$'000	2004 HK$'000 *(restated)*
Unlisted shares, at cost	–	10,702
Less: Provision for impairment losses	–	(7,525)
	–	3,177
Amounts due from subsidiaries, net of provisions	1,237,004	929,375
Amounts due to subsidiaries	–	(3,781)
	1,237,004	928,771

The amounts due from/to subsidiaries are unsecured, have no fixed terms of repayment and are interest bearing at 1% (2004: Hong Kong Interbank Money Market Offer Rate plus 1.25%) per annum except for the amounts due from subsidiaries of HK$343,712,000 (2004: HK$510,873,000) which are interest free.

Details of the principal subsidiaries of the Company as at 31 December 2005 are as follows:

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

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.

16 INVESTMENT IN ASSOCIATED COMPANIES – GROUP

	2005 HK$'000	2004 HK$'000
Share of net assets other than goodwill	19,879	17,768
Share of goodwill	6,450	6,764
	26,329	24,532
Loan to an associated company	9,999	10,999
	36,328	35,531

The Group's share of taxation credit of associated companies for the year ended 31 December 2005 was HK$275,000 (2004: taxation charge of HK$1,394,000).

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

As at 31 December 2005, 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.

NTL is engaged in the business of engineering, development, sourcing and quality assurance of toy products, novelties and outdoor accessories.

Summary financial information of associated companies

	Assets HK$'000	Liabilities HK$'000	Equity HK$'000	Revenues HK$'000	Profit/(loss) HK$'000
2005					
100 per cent	109,086	55,353	53,733	160,482	3,641
Group's effective interest	53,852	27,523	26,329	79,231	1,797
2004					
100 per cent	102,467	52,375	50,092	199,505	(1,346)
Group's effective interest	50,551	26,019	24,532	98,774	(650)

17 HELD-TO-MATURITY INVESTMENTS– GROUP

	2005 HK$'000
Listed outside Hong Kong, at amortised cost	33,869

Held-to-maturity investments include bonds with fixed interest ranged from 7.625% to 8.875% and maturity dates ranged from 13 March 2007 to 15 April 2008.

The market value of the held-to-maturity investments as at 31 December 2005 was HK$33,024,000.

18 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS – GROUP

	2005 HK$'000
Listed in Hong Kong	3,171
Listed outside Hong Kong	80,095
Unlisted managed funds	143,081
	226,347

19 INVESTMENTS – GROUP

	2004
	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
Unlisted managed funds	95,295
Debt securities, at market value	
Listed outside Hong Kong	15,176
	186,701
	222,020

20 INVENTORIES – GROUP

As at 31 December 2005, the carrying amount of inventories that are carried at net realisable value amounted to HK$5,482,000 (2004: HK$3,599,000).

21 TRADE RECEIVABLES – GROUP

As at 31 December 2005, 99.0% (2004: 99.6%) of the trade receivables net of provisions were current to 30 days, 0.1% (2004: nil) were 31 to 60 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.

22 BANK LOANS – GROUP

	2005 HK$'000	2004 HK$'000
Secured bank loans payable:		
Within one year	957	2,964
In the second year	1,041	2,964
In the third to fifth years	274	8,892
After the fifth year	–	17,011
	2,272	31,831
Unsecured bank loan payable within one year	19,000	19,500
	21,272	51,331
Current portion included in current liabilities	(19,957)	(22,464)
	1,315	28,867

As at 31 December 2005, the Group has banking facilities amounting to approximately HK$363 million (2004: HK$392 million), of which HK$21 million (2004: HK$51 million) were utilised.

The banking facilities of certain subsidiaries are secured by investment properties and other fixed assets with aggregate net book value of HK$649 million (2004: HK$640 million) of the Group at 31 December 2005.

23 TRADE PAYABLES – GROUP

As at 31 December 2005, 74.7% (2004: 60.4%) of the trade payables were current to 30 days, 24.7% (2004: 36.6%) were 31 to 60 days and the remaining were over 60 days.

24 PROVISIONS – GROUP

The Group continually assesses potential exposures to customer and supplier claims and, where necessary, establishes provisions for any such exposures.

All provisions are established for specific exposures.

Management relies on available contemporary and historical information to evaluate each potential exposure and exercises its best judgment to estimate the amount of provision necessary and sufficient for each potential exposure.

Subsequent developments and the eventual settlement of each exposure in a subsequent period will determine whether the corresponding provision is insufficient or excessive as the case may be. The making up of an insufficient provision, or the reversal of an excessive provision, will have a corresponding negative or positive impact on the profit or loss of that subsequent period.

The summary of changes in provisions during the period reported is as follows:

	HK$'000
At 1 January 2005	64,809
Additional provisions made	53,743
Provisions utilised	(46,257)
Reversal of unutilised provisions	(20,520)
At 31 December 2005	51,775

25 EQUITY SETTLED SHARE-BASED TRANSACTIONS

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:

	2005		2004	
	Weighted average exercise price HK$	Number of options '000	Weighted average exercise price HK$	Number of options '000
At the beginning of the year	0.748	65,861	0.376	46,224
Granted *(Note (a))*	1.206	28,402	1.310	26,582
Exercised *(Note (b))*	0.362	(10,044)	0.367	(5,933)
Lapsed	1.184	(2,416)	0.721	(1,012)
At the end of the year *(Note(c))*	0.942	81,803	0.748	65,861

Notes:

(a) Share options were granted to directors and employees on 22 September 2005 at the exercise price of HK$1.206 (2004: 7 January 2004 and 19 March 2004 at the exercise price of HK$1.360 and HK$1.240 per share respectively) and expiring on 21 September 2015 (2004: 6 January 2014 and 18 March 2014 respectively). The closing price of the ordinary shares of the Company on 21 September 2005, being the trading day immediately before the date on which the share options were granted, was HK$1.190. Consideration received was HK$978 (2004: HK$880) in respect of the share options granted during the year.

(b) These share options were exercised during the year ended 31 December 2005 at exercise prices ranging from HK$0.199 to HK$1.360 (2004: from HK$0.199 to HK$1.360) per share. The weighted average closing price per share of the Company immediately before the dates on which the options were exercised during the year was HK$1.363.

25 EQUITY SETTLED SHARE-BASED TRANSACTIONS (Continued)

Notes: (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 2005 '000	Number of options 2004 '000	Vested number of options 2005 '000	Vested number of options 2004 '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	551
20 May 2011	0.297	1,024	1,024	1,024	819
8 August 2012	0.199	1,450	3,450	1,450	2,150
9 March 2013	0.550	1,200	1,200	900	600
6 January 2014	1.360	1,200	1,200	600	300
21 September 2015	1.206	6,500	–	1,625	–
		13,643	9,143	7,868	6,138
Other employees					
14 May 2008	0.532	1,229	1,729	1,229	1,729
26 May 2009	0.506	512	513	512	513
21 July 2010	0.626	1,258	1,395	1,258	1,395
20 May 2011	0.297	1,796	2,866	1,796	1,402
27 August 2011	0.294	8,163	8,163	8,163	6,122
8 August 2012	0.199	3,876	7,424	3,876	4,393
9 March 2013	0.550	6,660	9,548	4,191	3,770
6 January 2014	1.360	11,890	14,080	5,774	3,520
18 March 2014	1.240	11,000	11,000	5,500	2,750
21 September 2015	1.206	21,776	–	5,444	–
		68,160	56,718	37,743	25,594
		81,803	65,861	45,611	31,732

No share options were cancelled during the year (2004: nil).

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on the Black-Scholes option pricing model. The expected life of the option is used as an input into this model.

Fair value of share options and assumptions	2005	2004 (weighted average)
Fair value at measurement date	0.509	0.660
Share price	1.206	1.310
Exercise price	1.206	1.310
Expected volatility	51.63%	67.37%
Expected option life	5 years	5 years
Expected dividend yield	2.00%	2.00%
Risk-free interest rate (based on Exchange Fund Notes)	4.17%	2.73%

The expected volatility is based on the historic volatility (calculated based on the weighted average life of the share options), adjusted for any expected changes to future volatility due to publicly available information. Expected dividend yield is based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

26 DEFERRED TAXATION – GROUP

Deferred taxation is calculated in full on temporary differences under the liability method using taxation rate of 17.5% (2004: 17.5%) in Hong Kong, and federal and state tax rates of 35% and 7.32% respectively in the United States of America.

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

	2005 HK$'000	2004 HK$'000 *(restated)*
At 1 January	(52,615)	14,097
Adoption of HKAS-Int 21 *(Note 2)*	16,397	–
	(36,218)	14,097
Charged/(credited) to income statement	11,748	(66,712)
At 31 December	(24,470)	(52,615)

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 tax depreciation		Revaluation of properties		Total	
	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000
At 1 January	16,228	15,251	–	–	16,228	15,251
Adoption of HKAS-Int 21 *(Note 2)*	–	–	16,397	–	16,397	–
	16,228	15,251	16,397	–	32,625	15,251
Charged to income statement	1,209	977	13,170	–	14,379	977
At 31 December	17,437	16,228	29,567	–	47,004	16,228

Deferred tax assets	Tax losses		Employees benefits		Total	
	2005	2004	2005	2004	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
				(restated)		*(restated)*
At 1 January	(66,400)	(1,008)	(2,443)	(146)	(68,843)	(1,154)
Credited to income statement	(6)	(65,392)	(2,625)	(2,297)	(2,631)	(67,689)
At 31 December	(66,406)	(66,400)	(5,068)	(2,443)	(71,474)	(68,843)

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:

	2005	2004
	HK$'000	HK$'000
		(restated)
Deferred tax assets	(69,732)	(68,391)
Deferred tax liabilities	45,262	15,776
	(24,470)	(52,615)

Deferred tax assets shown in the consolidated balance sheet include an amount of HK$47,720,000 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.

27 SHARE CAPITAL

	Authorised Ordinary shares of HK$0.10 each	
	No. of shares	HK$'000
At 31 December 2004 and 2005	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 2004	1,546,417,840	154,642
Exercise of warrants 2004	11,099,771	1,110
Exercise of warrants 2005	62,162	6
Exercise of share options	5,933,000	593
At 1 January 2005	1,563,512,773	156,351
Exercise of warrants 2005 *(Note (i))*	299,441,936	29,944
Exercise of warrants 2006 *(Note (ii))*	5,538	1
Exercise of share options *(Note 25)*	10,044,000	1,004
Repurchase of shares *(Note (iii))*	(5,344,000)	(534)
At 31 December 2005	1,867,660,247	186,766

Notes:

(i) The warrants were exercisable from 24 May 2004 to 23 May 2005 at an initial subscription price of HK$1.42 per share (subject to adjustment). On 23 May 2005, 12,327,377 warrants which had not been exercised, were lapsed.

(ii) On 20 May 2005, 366,793,085 warrants were issued pursuant to an ordinary resolution passed at the general meeting of the Company held on 28 April 2005 on the basis of the bonus issue of one warrant for every five shares held. These warrants are exercisable from 24 May 2005 to 23 May 2006 at an initial subscription price of HK$2.03 per share (subject to adjustment). As at 31 December 2005, 366,787,547 warrants were outstanding.

(iii) Repurchase of shares

During the year, 5,344,000 shares were repurchased by the Company on the Stock Exchange at prices ranging from HK$0.98 to HK$1.02 each as follows:

Month/year	Number of shares repurchased	Highest price paid per share HK$	Lowest price paid per share HK$	Aggregate price paid HK$'000
October 2005	1,692,000	0.99	0.98	1,674
November 2005	1,900,000	1.00	0.99	1,883
December 2005	1,752,000	1.02	1.01	1,771

The above shares were cancelled and redeemed upon repurchase and accordingly the issued capital of the Company diminished by the nominal value of those shares. The premium paid on repurchase was charged against the share premium account. An amount equivalent to the nominal value of the shares cancelled was transferred from retained profits to capital redemption reserve (note 28).

28 RESERVES

Company

	Share premium HK$'000	Capital redemption reserve HK$'000	Employee share-based compensation reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2004, as previously reported	343,384	582	–	481,380	825,346
Employees share option scheme – value of employee services	–	–	555	–	555
At 1 January 2004, as restated	343,384	582	555	481,380	825,901
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	2,302	–	–	–	2,302
Employees share option scheme					
– value of employee services	–	–	7,419	–	7,419
– shares issued	1,585	–	–	–	1,585
At 31 December 2004	347,271	582	7,974	417,043	772,870
At 1 January 2005, as previously reported	347,271	582	–	417,043	764,896
Employees share option scheme – value of employee services	–	–	7,974	–	7,974
At 1 January 2005, as restated	347,271	582	7,974	417,043	772,870
Loss for the year	–	–	–	(3,752)	(3,752)
2004 final dividend paid	–	–	–	(73,359)	(73,359)
2005 interim dividend paid	–	–	–	(46,701)	(46,701)
Issue of shares	395,274	–	–	–	395,274
Share issuing expenses	(450)	–	–	–	(450)
Repurchase of shares	(4,793)	534	–	(534)	(4,793)
Employees share option scheme					
– value of employee services	–	–	9,392	–	9,392
– shares issued	3,076	–	(449)	–	2,627
– options lapsed	–	–	(16)	16	–
At 31 December 2005	740,378	1,116	16,901	292,713	1,051,108

Nature and purpose of reserves

Company

(i) Share premium and capital redemption reserve

The application of the share premium account and the capital redemption reserve is governed by the Companies Act 1981 of Bermuda.

(ii) Employee share-based compensation reserve

Employee share-based compensation reserve represents the fair value of the actual or estimated number of unexercised share options granted to employees recognised in accordance with the accounting policy adopted for share-based compensation in note 1(k)(iii).

Group

(iii) Reserve on consolidation

Reserve on consolidation arose upon the combination of the Company and a then fellow subsidiary pursuant to a group restructuring in 1993 which also created an amount of HK$1,856,000 included in the share premium of the Group of HK$742,234,000 as at 31 December 2005.

29 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2005 HK$'000	2004 HK$'000 *(restated)*
Profit before taxation	198,831	246,793
Interest income	(14,938)	(3,155)
Interest on bank loans and overdrafts	1,347	2,081
Dividend income from investments	(2,794)	(3,269)
Depreciation	4,979	4,526
Amortisation of goodwill	–	969
Share-based compensation	9,392	7,419
Revaluation surplus on investment properties	(74,896)	(52,758)
Loss on disposal of fixed assets	171	506
Net gain on investments	(14,466)	(3,845)
Gain on disposal of a subsidiary	–	(10,834)
Share of profits less losses of associated companies	(1,797)	650
Operating profit before working capital changes	105,829	189,083
Increase in inventories	(21,050)	(7,628)
Increase in trade receivables, other receivables, deposits and prepayments	(52,528)	(73,480)
Increase in trade payables, other payables and accrued charges and provisions	18,981	21,938
Cash generated from operations	51,232	129,913

(b) Analysis of cash and cash equivalents

	2005 HK$'000	2004 HK$'000
Cash and bank balances	443,954	195,839

30 CONTINGENT LIABILITIES

The Company has provided guarantees with respect to banking facilities made available to subsidiaries amounting to approximately HK$363 million (2004: HK$392 million), of which HK$21 million (2004: HK$51 million) of such banking facilities were utilised as at 31 December 2005.

31 COMMITMENTS

(a) Capital commitments

As at 31 December 2005, the Group has contracted but not provided for the acquisition of certain investment properties with a committed amount of HK$196,515,000 (2004: HK$nil).

(b) 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:

	2005 HK$'000	2004 HK$'000
Within one year	31,220	17,470
In the second to fifth years inclusive	20,475	15,990
	51,695	33,460

The Company did not have any commitments at 31 December 2005 (2004: HK$nil).

32 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 2005, the future aggregate minimum lease payments under non-cancellable operating leases for office and warehouse facilities payable by the Group were as follows:

	2005 HK$'000	2004 HK$'000
Within one year	11,071	10,420
In the second to fifth years inclusive	22,969	29,333
After the fifth year	936	2,831
	34,976	42,584

The Group has non-cancellable subleases with future minimum sublease receipts of HK$5,446,000 (2004: HK$6,621,000).

(b) As lessor

At 31 December 2005, the future aggregate minimum lease payments under non-cancellable operating leases for office, industrial and residential premises receivable by the Group were as follows:

	2005 HK$'000	2004 HK$'000
Within one year	27,990	19,853
In the second to fifth years inclusive	18,970	11,500
	46,960	31,353

33 RELATED-PARTY TRANSACTIONS

Key management compensation

Remuneration for key management personnel, including amounts paid to the company's directors and certain of the highest paid employees as disclosed in note 12, is as follows:

	2005 HK$'000	2004 HK$'000 *(restated)*
Salaries and other short-term employee benefits	15,587	23,581
Employer's contribution to provident fund	240	245
Share-based compensation	6,231	4,856
	22,058	28,682

Total remuneration is included in "staff cost" (note 11).

34 EVENT AFTER THE BALANCE SHEET DATE

On 21 November 2005, City Style Properties Limited, a wholly-owned subsidiary of the Group, entered into a Memorandum of Agreement for Sale and Purchase to acquire certain properties situate at MacDonnell Road, Hong Kong at an aggregate consideration of HK$209,000,000. The acquisition was completed on 20 January 2006.

On 21 November 2005, City Style Properties Limited, entered into an Agreement for Sale and Purchase to acquire a property situates at MacDonnell Road, Hong Kong at an aggregate consideration of HK$9,350,000. The acquisition was completed by a group company on 20 January 2006.

35 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 2005.

36 COMPARATIVE FIGURES

Certain comparative figures have been adjusted or re-classified as a result of the changes in accounting policies. Further details are disclosed in note 2.

37 FINANCIAL RISK MANAGEMENT

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of business. The risks are minimized by the financial management policies and practices described below.

(a) Credit Risk

Financial instruments that subject the Group to credit risk include cash equivalents and trade receivables. Cash equivalents consist principally of deposits and short-term money market funds placed with major financial institutions. These instruments are short-term in nature and bear minimal risk. To date, the Group has not experienced any losses on cash equivalents.

The Group sells its products primarily to national and regional mass-market retailers in the United States and to third party independent distributors outside the United States. Credit is extended to United States customers for domestic sales based on an evaluation of the customers' financial condition, and generally collateral is not required. The Group assigns the majority of its trade receivables to factoring agencies. These factoring agreements transfer the credit risk due to a customer's inability to pay to the factor. All shipments originating in Hong Kong for direct shipment to customers who are located either in the United States or internationally are secured by letters of credit. Credit losses sustained on trade receivables in 2005 and 2004 were not material.

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

(b) Concentrations of Credit Risk

The Group places its cash investments in highly rated financial institutions which limits the amount of credit exposure to any one financial institution.

The Group markets a substantial portion of its products to customers in the retail industry. The Group continually evaluates the credit risk of these customers. The percentages of sales for the year attributable to the Group's major customers were stated in the Report of the Directors – Major Customers and Suppliers.

(c) Interest Rate Risk

The Group maintains revolving credit facility with commercial banks that is used as the primary source of financing for the short term seasonal working capital requirement. As such, risk of changes in interest rate is not significant.

(d) *Foreign Currencies*

The Group is exposed to foreign currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations of certain subsidiaries to which they relate. The currency giving rise to this risk is United States dollars. The Group does not hedge its foreign currency risks, as the rate of exchange between Hong Kong dollar and the United States dollar is controlled within a tight range. Permanent changes in foreign exchange rates would have an impact on consolidated earnings.

(e) *Fair Values*

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2005 and 2004.

The Group has no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on its financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to shareholders.

38 APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 2 March 2006.