Notes to the Financial Statements

For the year ended 31st December, 2005

1. GENERAL

The Company was incorporated in Bermuda on 24th November, 1993 as an exempted company under the Companies Act 1981 of Bermuda (as amended). The Company is a public limited company and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its parent and ultimate holding company is Suncorp Investments Group Limited ("Suncorp"), a company incorporated in the British Virgin Islands.

The principal activities of the Company are investment holding and those of its principal subsidiaries are set out in note 19.

The financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

In October 1999, there was a court judgment regarding the ownership of Matrix Plastic Manufacturing (Zhongshan) Co., Ltd. ("MPMZ"), an indirect wholly-owned major subsidiary of the Company, in connection with a claim made by a trade creditor, which had subsequently been settled. The Company has made an application for a judicial review of the judgment regarding the ownership of MPMZ. In 2002, the Company received an acknowledgement from Zhongshan Intermediate People's Court that Guangdong High People's Court has transferred the Company's application to Zhongshan Intermediate People's Court for processing. The directors have sought independent legal advice and are of the opinion that the aforesaid judgment can be overruled and will have no material impact on the financial position and operations of the Group. Accordingly, MPMZ is still treated as an indirect subsidiary of the Company.

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for accounting periods beginning on or after 1st January, 2005, other than HKFRS 3 "Business Combinations", HKAS 36 "Impairment of Assets" and HKAS 38 "Intangible Assets" that had been early adopted for the year ended 31st December, 2004. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of the minority interest has been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting years are prepared and presented:

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES (Continued)

Financial Instruments

In the current year, the Group has applied HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 39, which is effective for annual periods beginning on or after 1st January, 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The principal effect resulting from the implementation of HKAS 39 is summarised below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

By 31st December, 2004, the Group classified and measured its debt and equity securities in accordance with the alternative treatment of Statement of Standard Accounting Practice 24 ("SSAP 24"). Under SSAP 24, investments in debt or equity securities are classified as "trading securities", "non-trading securities" or "held-to-maturity investments" as appropriate. Both "trading securities" and "non-trading securities" are measured at fair value. Unrealised gains or losses of "trading securities" are reported in the profit or loss for the period in which gains or losses arise. Unrealised gains or losses of "non-trading securities" are reported in equity until the securities are sold or determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the profit or loss for that period. From 1st January, 2005 onwards, the Group classifies and measures its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method.

On 1st January, 2005, trading securities reported under SSAP 24 was classified as held for trading investment of "financial assets at fair value through profit or loss" category upon the adoption of the HKAS 39. Accordingly, no adjustment to retained profits at 1st January, 2005 was required.

Notes to the Financial Statements

For the year ended 31st December, 2005

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES (Continued)

Owner-occupied Leasehold Interest in Land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the revaluation model. In the current year, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are classified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment. This change in accounting policy does not have effect to prior periods because the amount of land and buildings cannot be allocated reliably between the land and buildings elements at 31st December, 2004.

4. POTENTIAL IMPACT OF NEW STANDARDS NOT YET EFFECTIVE

The Group has not early applied the following Standards or Interpretations ("Ints") that have been issued but are not yet effective. The directors of the Company anticipate that the application of these Standards or Ints will have no material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures[2]
HKAS 21 (Amendment)	Net Investment in a Foreign Operation[2]
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions[2]
HKAS 39 (Amendment)	The Fair Value Option[2]
HKAS 39 & HKFRS 4 (Amendments)	Financial Guarantee Contracts[2]
HKFRS 6	Exploration for and Evaluation of Mineral Resources[2]
HKFRS 7	Financial Instruments: Disclosures[1]
HK(IFRIC)-Int 4	Determining whether an Arrangement Contains a Lease[2]
HK(IFRIC)-Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds[2]
HK(IFRIC)-Int 6	Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment[3]
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]

[1] Effective for annual periods beginning on or after 1st January, 2007.
[2] Effective for annual periods beginning on or after 1st January, 2006.
[3] Effective for annual periods beginning on or after 1st December, 2005.
[4] Effective for annual periods beginning on or after 1st March, 2006.

Notes to the Financial Statements

For the year ended 31st December, 2005

5. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing of the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain property, plant and equipment and financial instruments, which are measured at revalued amounts or fair values, as explained in the accounting policies set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of change in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Goodwill

Goodwill arising on acquisitions of subsidiaries for which the agreement date in on or after 1st January, 2004 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of a subsidiary at the date of acquisition. Goodwill is carried at cost less accumulated impairment losses and presented separately in the balance sheet.

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill (Continued)

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Excess of an acquirer's interest in the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over cost ("discount on acquisitions").

A discount on acquisition arising on an acquisition of subsidiaries for which an agreement date is on or after 1st January, 2005 represents the excess of the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination. Discount on acquisition is recognised immediately in profit or loss.

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Property, plant and equipment

Leasehold land and buildings and plant and machinery are stated in the balance sheet at their revalued amount, being the fair value on the basis of their existing use at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

Any revaluation increase arising on revaluation of leasehold land and buildings and plant and machinery is credited to the other asset revaluation reserves, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is charged as an expense to the income statement to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

Other assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost or valuation of items of property, plant and equipment, over their estimated useful lives, using the straight line method, at the following rates per annum:

Leasehold land and buildings	2% – 4% or over the lease term, if shorter
Leasehold improvement	2% or over the lease term, if shorter
Plant and machinery	14% – 33.3%
Furniture and equipment	10% – 20%
Motor vehicle	30% – 33.3%
Moulds	33.3%

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets, other than goodwill as stated above, to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.

Notes to the Financial Statements

For the year ended 31st December, 2005

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operation leases.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than functional currency of that entity (foreign currencies) are recorded in its functional currency at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the year in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the year except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the year, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the year in which the foreign operation is disposed of.

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Retirement benefits scheme

The retirement benefits costs representing the contributions payable in respect of the current year to the Mandatory Provident Fund Scheme ("MPFS") and other schemes by the Group, are charged to the income statement as they fall due.

Notes to the Financial Statements

For the year ended 31st December, 2005

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of the two categories, including financial assets at fair value through profit or loss and, loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, pledged deposit and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are mainly financial liabilities other than financial liabilities at fair value through profit and loss ("other financial liabilities"). The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Other financial liabilities

Other financial liabilities including trade and other payables and dividend payable are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Equity-settled share-based payment transactions

Share options granted to employees of the Group

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained profits.

Notes to the Financial Statements

For the year ended 31st December, 2005

6. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies which are described in note 5, management has made the following estimates that have significant effect on the amounts recognised in the financial statements. The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also discussed below.

Depreciation

The Group depreciates the property, plant and equipment on a straight line basis over the estimated useful life as set out in note 16 to the financial statements, commencing from the date the property, plant and equipment is placed into intended use. The estimated useful life and the dates the Group places the property, plant and equipment into use reflects the directors' estimate of the periods that the Group intend to derive future economic benefits from the use of the Group's property, plant and equipment.

Income taxes

As at 31st December, 2005, a deferred tax asset of HK$380,000 in relation to unused tax losses has been recognised in the Group's balance sheet. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less or more than expected, a reversal or additional recognition of deferred tax asset may arise, which would be recognised in the income statement for the period in which such a reversal or additional recognition takes place.

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade and other receivables, pledged bank desposit, bank balances and cash, trade and other payables, and dividend payable. Details of these financial instruments are disclosed in respective notes. The risk associated with these financial instruments and the polices on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Currency risk

Several subsidiaries of the Company have foreign currency sales, which expose the Group to foreign currency risk. Certain bank balances, pledged bank deposit and trade receivables of the Group are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Market risk (Continued)

(ii) Interest rate risk

The Group's bank balances have exposure to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank balances.

In addition, the Group has exposure to fair value interest rate risk through the impact of the rate changes on pledged bank balances which are carried at fixed interest rate. The directors consider the Group's exposure to interest rate risk is not significant as interest bearing bank balances are within short maturity periods.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31st December, 2005 in relation to each class of recognised financial assets is the carrying amount of those asset as stated in the consolidated balance sheet. In order to minimise the credit risk, the Group has monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regards, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The Group's credit risk on its trade receivables is concentrated over some of its major customers, the Group has policies in place to ensure that sales of products are made to those customers with an appropriate credit history.

Notes to the Financial Statements

For the year ended 31st December, 2005

8. SEGMENT INFORMATION

The Group is mainly engaged in the manufacture and trading of gifts, novelties and infant and pre-school children toys. The nature of products, the production processes and the methods used to distribute the products to customers in different geographical areas are similar. Accordingly, no analysis on the basis of business segment is presented. The Group's production facilities are located in the People's Republic of China (the "PRC") (other than Hong Kong) and the Socialist Republic of Vietnam ("Vietnam"). The directors of the Company consider the geographical segments by location of customers as primary source of the Group's risks and returns.

The Group's customers are mainly located in United States. The Europe segment is a new geographical segment in the year ended 31st December, 2005. The following table provides an analysis of the Group's segment information by geographical location of the Group's customers:

2005

	United States HK$'000	Europe HK$'000	Canada HK$'000	Hong Kong HK$'000	Others HK$'000	Consolidated HK$'000
TURNOVER						
External sales	808,258	49,334	28,881	5,098	19,473	911,044
RESULTS						
Segment results	247,466	22,623	9,206	1,191	8,452	288,938
Unallocated income						6,754
Unallocated expenses						(156,791)
Finance costs						(35)
Profit before taxation						138,866
Income tax credit						1,931
Profit for the year						140,797
ASSETS						
Segment assets	135,043	5,636	5,541	20,121	3,451	169,792
Unallocated corporate assets						342,899
						512,691
LIABILITIES						
Segment liabilities	34,463	–	1,034	8	676	36,181
Unallocated corporate liabilities						143,053
						179,234

Notes to the Financial Statements

For the year ended 31st December, 2005

8. SEGMENT INFORMATION (Continued)

2004

	United States HK$'000	Canada HK$'000	Hong Kong HK$'000	Others HK$'000	Consolidated HK$'000
TURNOVER					
External sales	618,711	17,594	43,570	6,809	686,684
RESULTS					
Segment results	196,398	4,675	11,749	1,893	214,715
Unallocated income					1,892
Unallocated expenses					(38,755)
Finance costs					(89)
Profit before taxation					177,763
Income tax charge					(26,137)
Profit for the year					151,626
ASSETS					
Segment assets	162,158	3,298	26,561	1,162	193,179
Unallocated corporate assets					260,828
					454,007
LIABILITIES					
Segment liabilities	57,471	1,138	8,534	1,593	68,736
Unallocated corporate liabilities					102,164
					170,900

No analysis of capital expenditures, depreciation and amortisation and non-cash expenses by location of customers is disclosed for both years as in the opinion of the directors, there is no appropriate basis in allocating the capital expenditures, depreciation and amortisation and non-cash expenses by location of customers.

Notes to the Financial Statements

For the year ended 31st December, 2005

8. SEGMENT INFORMATION (Continued)

The following is an analysis of the carrying amount of segment assets and additions to property, plant and equipment analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
PRC	**238,910**	217,272	**76,395**	4,373
Vietnam	**109,903**	109,823	**6,190**	10,766
Hong Kong	**132,789**	107,602	**9,419**	62
Macau	**19,489**	17,386	**–**	36
United States	**7,745**	–	**2,990**	–
Canada	**3,475**	–	**6**	–
	512,311	452,083	**95,000**	15,237

9. OTHER INCOME

	2005	2004
	HK$'000	HK$'000
Interest income on bank deposits	**590**	565
Others	**3,631**	1,530
	4,221	2,095

10. FINANCE COSTS

	2005	2004
	HK$'000	HK$'000
Interest on convertible loan stock	**–**	73
Finance lease charges	**7**	16
Interest on bank overdraft	**28**	–
	35	89

11. PROFIT BEFORE TAXATION

	2005 HK$'000	2004 HK$'000
Profit before taxation has been arrived at after charging:		
Auditors' remuneration		
– current year	**1,445**	775
– underprovision in previous year	**129**	24
Amortisation of prepaid lease payments	**30**	–
Bad debt written off	**–**	975
Loss on disposal of property, plant and equipment	**69**	20
Unrealised loss on held for trading investments	**447**	–
Unrealised loss on investments in securities	**–**	530
Depreciation of property, plant and equipment		
– owned assets	**35,205**	18,912
– assets held under a finance lease	**–**	127
	35,205	19,039
Revaluation deficit in respect of property, plant and equipment	**804**	–
Net exchange loss	**2,143**	11
Employees share option benefits	**1,625**	–
Staff costs (including wages and directors' remuneration)	**204,382**	112,138

Notes to the Financial Statements

For the year ended 31st December, 2005

12. DIRECTORS' EMOLUMENTS AND EMPLOYEES' EMOLUMENTS

Directors' emoluments

The emoluments paid or payable to each of the six (2004: seven) directors were as follows:

2005		Other emoluments			
	Fees	Salaries and allowances	Contributions to MPFS	Other benefits (Note a)	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Executive directors					
Cheng Yung Pun	–	975	12	–	987
Yu Sui Chuen	–	926	47	542	1,515
Cheng Wing See, Nathalie	–	251	11	–	262
Independent non-executive directors					
Loke Yu alias Loke Hoi Lam	66	–	–	–	66
Mak Shiu Chung, Godfrey	66	–	–	–	66
Wan Hing Pui	66	–	–	–	66
Total for 2005	198	2,152	70	542	2,962

2004		Other emoluments		
	Fees	Salaries and allowances	Contributions to MPFS	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Executive directors				
Cheng Yung Pun	–	1,013	12	1,025
Yu Sui Chuen	–	870	42	912
Cheng Wing See, Nathalie	–	256	11	267
Independent non-executive directors				
Loke Yu alias Loke Hoi Lam (Note b)	17	–	–	17
Mak Shiu Chung, Godfrey	66	–	–	66
Wan Hing Pui (Note b)	17	–	–	17
Heng Kwoo Seng (Note c)	49	–	–	49
Total for 2004	149	2,139	65	2,353

Notes to the Financial Statements

For the year ended 31st December, 2005

12. DIRECTORS' EMOLUMENTS AND EMPLOYEES' EMOLUMENTS (Continued)

Directors' emoluments (Continued)

Notes:

(a) Other benefits represent employees share option benefits.
(b) Appointed on 30th September, 2004.
(c) Resigned on 30th September, 2004.

No director waived any emoluments in the two years ended 31st December, 2005.

Employees' emoluments

Of the five individuals with the highest emoluments in the Group, one (2004: two) was director of the Company whose emoluments are included in the above disclosures. The emoluments of the remaining four (2004: three) individuals are as follows:

	2005 HK$'000	2004 HK$'000
Salaries and allowances	15,845	2,362
Contributions to retirement benefit schemes and MPFS	394	25
	16,239	2,387

Their emoluments were within the following bands:

	2005 No. of employees	2004 No. of employees
HK$nil to HK$1,000,000	–	3
HK$1,500,001 to HK$2,000,000	2	–
HK$6,000,001 to HK$6,500,000	1	–
HK$6,500,001 to HK$7,000,000	1	–
	4	3

Notes to the Financial Statements

13. TAXATION

	2005 HK$'000	2004 HK$'000
Current tax:		
Hong Kong	**3,027**	26,335
Other jurisdiction	**223**	912
	3,250	27,247
(Over) under provision in prior years:		
Hong Kong	**(5,889)**	95
Deferred tax:		
Current year (Note 27)	**708**	(1,205)
Taxation (credit) charge attributable to the Company and its subsidiaries	**(1,931)**	26,137

Hong Kong Profits Tax is calculated at 17.5% (2004: 17.5%) on the estimated assessable profit for the year.

According to the Investment License granted by Vietnam authority to the Vietnam subsidiaries, the Vietnam enterprise income tax rate is 10% on the estimated assessable profits during the operating period. The Vietnam subsidiaries are eligible for exemption from Vietnam enterprise income tax for four years from the first profit-making year followed by a 50% reduction in the Vietnam enterprise income tax for the next four years.

Vietnam enterprise income tax is calculated at 10% (2004: 5%) on the estimated assessable profit for the year.

Notes to the Financial Statements

For the year ended 31st December, 2005

13. TAXATION (Continued)

The tax (credit) charge for the year can be reconciled to the profit before taxation per the income statement as follows:

	Total	
	2005	2004
	HK$'000	HK$'000
Profit before taxation	**138,866**	177,763
Tax at the average income tax rate (Note)	**20,405**	28,770
Tax effect of expenses not deductible for tax purpose	**4,630**	1,131
Tax effect of income not taxable for tax purpose	**(18,966)**	(2,396)
(Over) under provision in respect of prior year	**(5,889)**	95
Tax effect of tax losses/deferred tax assets not recognised	**72**	993
Utilisation of tax losses/deferred tax assets previously not recognised	**(2,239)**	(2,319)
Others	**56**	(137)
Tax effect for the year	**(1,931)**	26,137

Note: The weighted average applicable tax rate for other jurisdictions was 14% (2004: 11%). The weighted average applicable tax rate represents the weighted average tax rate of the operations in different jurisdictions on the basis of the relative amounts of profit or loss before taxation and the relevant statutory rates.

14. DIVIDENDS

	2005	2004
	HK$'000	HK$'000
Ordinary shares:		
Interim, paid – HK8 cents (2004: HK8 cents) per share	**46,778**	46,778
Special, declared – HK3 cents (2004: HK3 cents) per share	**17,542**	17,542
Final, proposed – HK9 cents (2004: HK9 cents) per share	**51,732**	52,625
	116,052	116,945

The final dividend of HK9 cents (2004: HK9 cents) per share has been proposed by the directors and is subject to approval by the shareholders in the annual general meeting.

Notes to the Financial Statements

For the year ended 31st December, 2005

15. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share attributable to the equity holders of the Company is based on the following data:

Earnings

	2005 HK$'000	2004 HK$'000
Earnings for the purposes of basic earnings per share	**140,929**	151,810
Effect of dilutive potential ordinary shares: Interest on convertible loan stock	–	73
Earnings for the purposes of diluted earnings per share	**140,929**	151,883

Number of shares

	2005 '000	2004 '000
Weighted average number of ordinary shares for the purposes of basic earnings per share	**584,720**	570,013
Effect of dilutive potential ordinary shares: Convertible loan stock	–	14,707
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**N/A**	584,720

The computation of diluted earnings per share does not assume the exercise of the Company's outstanding share options as the exercise price of those options is higher than the average market price for shares for 2005.

Notes to the Financial Statements

For the year ended 31st December, 2005

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK$'000	Leasehold improvement HK$'000	Plant and machinery HK$'000	Moulds HK$'000	Furniture and equipment HK$'000	Motor vehicle HK$'000	Total HK$'000
COST OR VALUATION							
At 1st January, 2004	82,097	5,686	67,580	–	3,893	423	159,679
Exchange adjustments	(216)	–	(281)	–	(24)	–	(521)
Additions	801	648	12,046	–	1,295	–	14,790
Acquired on acquisition of subsidiaries	–	127	–	–	320	–	447
Disposals	(470)	–	(649)	–	–	–	(1,119)
At 1st January, 2005	82,212	6,461	78,696	–	5,484	423	173,276
Exchange adjustments	(209)	2	(333)	–	(24)	–	(564)
Additions	5,375	3,219	28,161	8,126	1,885	–	46,766
Acquired on acquisition of subsidiaries	19,698	5,350	5,296	16,116	1,479	295	48,234
Disposals	–	(221)	(282)	(147)	(728)	–	(1,378)
Revaluation	2,776	–	(46,365)	–	–	–	(43,589)
At 31st December, 2005	109,852	14,811	65,173	24,095	8,096	718	222,745
Comprising							
At cost	–	14,811	–	24,095	8,096	718	47,720
At valuation – 31st December, 2005	109,852	–	65,173	–	–	–	175,025
	109,852	14,811	65,173	24,095	8,096	718	222,745
DEPRECIATION AND IMPAIRMENT LOSSES							
At 1st January, 2004	5,464	472	24,990	–	1,195	254	32,375
Exchange adjustments	(17)	–	(125)	–	(2)	–	(144)
Provided for the year	2,646	141	15,180	–	945	127	19,039
Eliminated on disposals	(470)	–	(405)	–	–	–	(875)
At 1st January, 2005	7,623	613	39,640	–	2,138	381	50,395
Exchange adjustments	(22)	–	(157)	–	–	–	(179)
Provided for the year	3,240	1,704	19,271	9,611	1,106	273	35,205
Eliminated on disposals	–	(210)	(22)	(114)	(704)	–	(1,050)
Eliminated on revaluation	(10,841)	–	(58,732)	–	–	–	(69,573)
At 31st December, 2005	–	2,107	–	9,497	2,540	654	14,798
CARRYING VALUES							
At 31st December, 2005	109,852	12,704	65,173	14,598	5,556	64	207,947
At 31st December, 2004	74,589	5,848	39,056	–	3,346	42	122,881

The carrying value of leasehold land and buildings, under medium term leases, shown above comprises:

	2005 HK$'000	2004 HK$'000
Land in Hong Kong	**8,610**	–
Land outside Hong Kong	**101,242**	74,589
	109,852	74,589

Notes to the Financial Statements

For the year ended 31st December, 2005

16. PROPERTY, PLANT AND EQUIPMENT (Continued)

The Group's leasehold land and buildings and the plant and machinery in Hong Kong and the PRC as at 31st December, 2005 were revalued by RHL Appraisal Ltd., Chartered Surveyors, at open market value on a continued use basis. The Group's leasehold land and buildings and the plant and machinery in Vietnam as at 31st December, 2005 were revalued by FCC Control and Fumigation Company, Danang Branch, Chartered Surveyors, at open market value on a continued use basis. Both RHL Appraisal Ltd. and FCC Control and Fumigation Company, Danang Branch are not connected with the Group. The revaluation resulted in a surplus and a deficit amounting to approximately HK$26,788,000 and HK$804,000 respectively.

At 31st December, 2005, had all of the leasehold land and buildings and plant and machinery of the Group been carried at historical cost less accumulated depreciation and accumulated impairment losses, their carrying amounts would have been HK$69,886,000 (2004: HK$51,341,000) and HK$50,930,000 (2004: HK$37,004,000) respectively.

In 2004, the motor vehicle was held under a finance lease.

The Group has pledged land and buildings having a net book value of approximately HK$59,580,000 (2004: HK$52,928,000) to a bank for general banking facilities granted to the Group.

17. GOODWILL

As at 31st December, 2005, the directors reassessed the recoverable amount of goodwill arising on acquisition of subsidiaries. Due to continuous losses made by these subsidiaries, the directors, by discounting the future cash flow generated from the subsidiaries with reference to the average borrowing rate of the Group, considered the goodwill of approximately HK$807,000 was fully impaired.

18. PREPAID LEASE PAYMENTS

	2005	2004
	HK$'000	HK$'000
The Group's prepaid lease payments comprise:		
Leasehold land outside Hong Kong under medium term lease	**1,175**	–
Analysed for reporting purposes as:		
Current	**32**	–
Non-current	**1,143**	–
	1,175	–

Notes to the Financial Statements

For the year ended 31st December, 2005

19. INTERESTS IN SUBSIDIARIES

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

Name of subsidiary	Place/country of incorporation or registration/ operation	Issued and fully paid share capital/ registered capital/ contributed legal capital	Class of capital held	Proportion of nominal value of issued capital/ registered capital/ contributed legal capital held by the Company	Principal activities
Associated Traders Hong Kong Limited	Hong Kong	HK$10,000	Ordinary share	100%	Trading of gifts and novelties
Besco Enterprises Limited	Hong Kong	HK$10,000	Ordinary share	100%	Manufacture of gifts and novelties
Goldpex Technology Limited	The British Virgin Islands	US$10	Ordinary share	100%	Products design
Keengold Enterprises Limited	The British Virgin Islands	US$10	Ordinary share	100%	Investment holding
Keyhinge Holdings Limited	Hong Kong	HK$10,000	Ordinary share	100%	Trading of gifts and investment holding
Keyhinge Procurement Limited	Hong Kong	HK$10,000	Ordinary share	100%	Purchasing
Keyhinge Toys Company Limited	The British Virgin Islands	US$10	Ordinary share	100%	Trading of gifts and novelties
Keyhinge Toys Vietnam Company Limited	Vietnam	US$5,504,956	Capital contribution	100%	Manufacture of gifts and novelties
Matrix International Holdings Limited	The British Virgin Islands	US$6	Ordinary share	100%	Investment holding
Matrix Investments Group Limited	The British Virgin Islands	US$10	Ordinary share	100%	Investment holding
Matrix Manufacturing Limited	The British Virgin Islands	US$1	Ordinary share	100%	Investment holding

Notes to the Financial Statements

For the year ended 31st December, 2005

19. INTERESTS IN SUBSIDIARIES (Continued)

Name of subsidiary	Place/country of incorporation or registration/ operation	Issued and fully paid share capital/ registered capital/ contributed legal capital	Class of capital held	Proportion of nominal value of issued capital/ registered capital/ contributed legal capital held by the Company	Principal activities
Matrix Manufacturing Vietnam Company Limited	Vietnam	US$3,800,000	Capital contribution	100%	Manufacture of gifts and novelties
Matrix Plastic Manufacturing (Zhongshan) Co., Ltd	PRC **	US$5,910,000	Capital contribution	100%	Manufacture of gifts and novelties
Matrix Resources Enterprise Limited	Hong Kong	HK$10,000	Ordinary share	100%	Provision of management services
Toytrix Company Limited	Hong Kong	HK$2	Ordinary share	100%	Manufacture of printing materials
Matrix Development Group Limited	The British Virgin Islands	US$10	Ordinary Share	100%	Investment holding
Matrix Media Communications Limited	Hong Kong	HK$2	Ordinary share	100%	Investment holding
深圳智又盈投資顧問有限公司	PRC *	RMB2,775,000	Paid up registered capital	70%	Marketing and promotional services
Keyhinge Enterprises (Macao Commercial Offshore) Company Limited	Macau	MOP100,000	Quota capital	100%	Purchasing and trading of gifts and novelties
Keysuccess International Limited	The British Virgin Islands	US$1	Ordinary share	100%	Investment holding
Maxguard Limited	The British Virgin Islands	US$10	Ordinary share	100%	Investment holding

Notes to the Financial Statements

For the year ended 31st December, 2005

19. INTERESTS IN SUBSIDIARIES (Continued)

Name of subsidiary	Place/country of incorporation or registration/ operation	Issued and fully paid share capital/ registered capital/ contributed legal capital	Class of capital held	Proportion of nominal value of issued capital/ registered capital/ contributed legal capital held by the Company	Principal activities
Shelcore Hong Kong Limited	Hong Kong	HK$10,000	Ordinary share	100%	Manufacture and trading of toys
Shelcore, Inc.	United States of America	USD1,000	Common stock	100%	Trading
Shelcore Canada Limited	Canada	CAD957,085	Common share	100%	Trading
Mediaway Technology Company Limited	PRC **	HK$500,000	Paid up registered capital	100%	Products research and development

* Sino-foreign equity joint venture.
** Wholly-owned foreign enterprise.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

All of the subsidiaries are owned indirectly by the Company except for Matrix International Holdings Limited, Matrix Investments Group Limited and Matrix Development Group Limited which are owned directly.

None of the subsidiaries had any debt securities outstanding at the end of the year.

Notes to the Financial Statements

For the year ended 31st December, 2005

20. INVENTORIES

	2005 HK$'000	2004 HK$'000
Raw materials	**43,693**	53,143
Work in progress	**33,781**	29,161
Finished goods	**71,821**	83,958
	149,295	166,262

All of the inventories above are carried at cost.

21. TRADE AND OTHER RECEIVABLES

The trade and other receivables include trade receivables of HK$46,021,000 (2004: HK$44,574,000). The Group allows a credit period of 14 days to 90 days to its trade customers.

The following is an aged analysis of trade receivables at the balance sheet date:

	2005 HK$'000	2004 HK$'000
0 – 60 days	**40,734**	44,239
61 – 90 days	**1,443**	141
> 90 days	**3,844**	194
	46,021	44,574

The fair value of the Group's trade and other receivables at 31st December, 2005 was approximate to the corresponding carrying amount.

Included in the Group's trade receivables, there are trade receivables of HK$43,900,000 denominated in the United States dollar other than the functional currency of the Group.

22. HELD FOR TRADING INVESTMENTS/INVESTMENT IN SECURITIES

The amount represents equity investments listed in United States of America, stated at quoted market bid price.

Notes to the Financial Statements

For the year ended 31st December, 2005

23. PLEDGED BANK DEPOSIT AND BANK BALANCES

The amount represents deposit pledged to a bank to secure a banking facility of short term borrowing granted to the Group and is therefore classified as a current asset. The pledged bank deposit carried average fixed interest rate of 3% and will be released upon the settlement of relevant bank borrowings. The bank balances carried interest at prevailing interest rates.

The fair value of pledged bank deposits and bank balances at 31st December, 2005 approximates to the corresponding carrying amount.

Included in the Group's pledged bank deposit and bank balances, there are pledged bank deposit of HK$46,872,000 denominated in the Japanese Yen and bank balances of HK$34,866,000 denominated in the United States dollar other than the functional currency of the Group.

24. TRADE AND OTHER PAYABLES

The trade and other payables include trade payables of HK$57,434,000 (2004: HK$71,536,000).

The following is an aged analysis of trade payables at the balance sheet date:

	2005 HK$'000	2004 HK$'000
0 – 60 days	**53,944**	69,482
61 – 90 days	**2,723**	1,603
> 90 days	**767**	451
	57,434	71,536

The fair value of the Group's trade and other payables at 31st December, 2005 approximates to the corresponding carrying amount.

25. SHARE CAPITAL

	Number of shares			
	2005 '000	2004 '000	**2005 HK$'000**	2004 HK$'000
Ordinary shares of HK$0.1 each				
Authorised				
At the beginning of the year	**1,000,000**	700,000	**100,000**	70,000
Increased at 20th April, 2004	**–**	300,000	**–**	30,000
At the end of the year	**1,000,000**	1,000,000	**100,000**	100,000
Issued and fully paid				
At the beginning of the year	**584,720**	462,720	**58,472**	46,272
Conversion of convertible loan stock	**–**	122,000	**–**	12,200
At the end of the year	**584,720**	584,720	**58,472**	58,472

Notes to the Financial Statements

For the year ended 31st December, 2005

26. OBLIGATIONS UNDER A FINANCE LEASE

	Minimum lease payments		Present value of minimum lease payments	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	–	120	–	113
In the first to second year inclusive	–	61	–	60
	–	181	–	173
Less: Future finance charges	–	(8)	–	–
Present value of lease obligations	–	173	–	173
Less: Amount due for settlement within 12 months shown under current liabilities			–	(113)
Amount due for settlement after 12 months			–	60

It was the Group's policy to lease its motor vehicle under finance lease. The lease term was 4 years. For the year ended 31st December, 2005, the effective borrowing rate was 3.68% per annum. Interest rate was fixed at the contract date. The lease was on a fixed repayment basis and no arrangement has been entered into for contingent rental payments.

The Group's obligations under a finance lease were secured by the lessor's charge over the leased asset. The fair value of the obligations under a finance lease as at 31st December, 2004, was approximate to the corresponding carrying amount.

Notes to the Financial Statements

For the year ended 31st December, 2005

27. DEFERRED TAXATION

The following are the major deferred tax liabilities and (assets) recognised and movements thereon during the current and prior reporting periods:

	Accelerated tax depreciation HK$'000	Accelerated accounting depreciation HK$'000	Revaluation of property, plant and equipment HK$'000	Retirement benefit obligation HK$'000	Tax losses HK$'000	Others HK$'000	Total HK$'000
At 1st January, 2004	2,035	(103)	1,975	(43)	–	–	3,864
Charge (credit) to income for the year	575	(203)	–	(80)	(1,330)	(167)	(1,205)
Exchange difference	–	2	–	–	–	–	2
At 31st December, 2004	2,610	(304)	1,975	(123)	(1,330)	(167)	2,661
Charge (credit) to income for the year	331	(90)	–	52	284	131	708
Charge (credit) to equity for the year	–	–	1,058	–	–	–	1,058
Exchange difference	–	3	–	1	2	2	8
At 31st December, 2005	2,941	(391)	3,033	(70)	(1,044)	(34)	4,435

For the purposes of balance sheet presentation, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2005 HK$'000	2004 HK$'000
Deferred tax liabilities	**4,815**	4,585
Deferred tax assets	**(380)**	(1,924)
	4,435	2,661

At the balance sheet date, the Group has unused estimated tax losses of HK$57,095,000 (2004: HK$49,049,000) available for offset against future profits. A deferred tax asset had been recognised in respect of HK$9,422,000 (2004: HK$11,166,000) of such losses. No deferred tax asset has been recognised in respect of the remaining estimated tax losses of HK$47,673,000 (2004: HK$37,883,000) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of HK$10,216,000 (2004: HK$17,349,000) that will expire in 2006. Other losses may be carried forward indefinitely.

Notes to the Financial Statements

For the year ended 31st December, 2005

28. ACQUISITION OF SUBSIDIARIES

Acquisition of Subsidiaries in 2005

On 27th January, 2005, the Group acquired 100% of the issued share capital of each of Shelcore, Inc., Shelcore Hong Kong Limited, Shelcore Canada Limited and Shelcore UK Limited (together referred to as "Shelcore Companies"). The acquisition has been accounted for by the purchase method of accounting. The principal activity of the Shelcore Companies is engaged in the manufacturing and trading of infant and pre-school children toys.

The net assets acquired in the transaction, and the discount on acquisition arising, are as follows:

	Acquirees' carrying amount before combination	**Fair values**
	HK$'000	HK$'000
Net assets acquired		
Property, plant and equipment	48,234	48,234
Prepaid lease payments	1,205	1,205
Inventories	26,013	26,013
Trade and other receivables	22,522	22,522
Bank balances and cash	6,239	6,239
Trade and other payables	(21,530)	(21,530)
Tax payable	(774)	(774)
Bank borrowings	(8,201)	(8,201)
	73,708	73,708
Discount on acquisition of subsidiaries		(3,390)
		70,318
Satisfied by:		
Cash		60,373
Deposit for acquisition of investments in subsidiaries		9,945
		70,318
Net cash outflow arising on acquisition:		
Cash consideration		(60,373)
Cash and cash equivalents acquired		6,239
		(54,134)

The discount on acquisition arising on the above acquisition is attributable to the consideration agreed by both parties that are less than the fair value of the net assets acquired.

28. ACQUISITION OF SUBSIDIARIES (Continued)

Acquisition of Subsidiaries in 2005 (Continued)

Shelcore Companies contributed approximately HK$235.8 million turnover and loss of approximately HK$3.3 million to the Group's profit before tax for the year between the date of acquisition and the balance sheet date.

If the acquisition had been completed on 1st January, 2005, total turnover of the Group for the year would have been approximately HK$919.9 million, and profit for the year would have been approximately HK$133.7 million. The pro forma information is for illustrative purposes only and is not necessarily an indicative turnover and profit for the year of the Group that actually would have been achieved had the acquisition been completed on 1st January, 2005, nor is it intended to be a projection of future results.

Acquisition of Subsidiaries in 2004

On 31st October, 2004, the Group acquired 70% interest in 深圳智又盈投資顧問有限公司 (formerly known as 深圳市智又盈投資顧問有限公司) ("深圳智又盈") and its subsidiary. The acquisition has been accounted for by the purchase method. The amount of goodwill arising as a result of the acquisition was HK$807,000.

	Acquirees' carrying amount before combination HK$'000	Fair values HK$'000
Net assets acquired		
Property, plant and equipment	447	447
Trade and other receivables	1,670	1,670
Bank balances and cash	1,261	1,261
Trade and other payables	(2,322)	(2,322)
Minority interest	(316)	(316)
	740	740
Goodwill		807
		1,547
Satisfied by:		
Cash		1,547
Net cash outflow arising on acquisition:		
Cash consideration		(1,547)
Bank balances and cash acquired		1,261
		(286)

Notes to the Financial Statements

For the year ended 31st December, 2005

28. ACQUISITION OF SUBSIDIARIES (Continued)

Acquisition of Subsidiaries in 2004 (Continued)

The subsidiary acquired during the year of 2004 did not contribute significantly to the Group's cash flows, turnover and profit from operations.

Unaudited pro forma turnover and results of operations for 深圳智又盈 have not been presented as the amounts were insignificant to the Group.

29. MAJOR NON-CASH TRANSACTION

During the year ended 31st December, 2005, there was no major non-cash transaction.

In February 2004, convertible loan stock of HK$12,200,000 was converted into 122,000,000 shares of HK$0.10 each in the Company.

30. OPERATING LEASE COMMITMENTS

	2005	2004
	HK$'000	HK$'000
Minimum lease payments in respect of land and buildings under operating leases recognised in the income statement for the year	**5,323**	2,267

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2005	2004
	HK$'000	HK$'000
Within one year	**6,325**	1,162
In the second to fifth year inclusive	**5,799**	1,329
After five years	**4,582**	4,250
	16,706	6,741

Operating lease payments represent rentals payable by the Group for its interest in leasehold lands of factory properties and office properties. Leases are negotiated for a term of 8 to 20 years for leasehold lands of factory properties and a term of 1 to 3 years for office properties. The rentals are fixed throughout the lease period.

Notes to the Financial Statements

For the year ended 31st December, 2005

31. CAPITAL COMMITMENTS

	2005 HK$'000	2004 HK$'000
Capital expenditure in respect of the acquisition of property, plant and equipment		
– contracted for but not provide in the financial statements	**6,688**	1,677
– authorised but not contracted for	**1,114**	–
Capital expenditure in respect of the acquisition of subsidiaries contracted for but not provided in the financial statements	**–**	58,114

32. RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following related party transactions:

	2005 HK$'000	2004 HK$'000
Interest paid or payable on convertible loan stock to ultimate holding company	**–**	73
Rental paid or payable to a related company	**144**	144
Purchases of plant and equipment from a related company	**703**	920

Mr. Cheng, a director of the Company, has a beneficial interest in ultimate holding company and the related companies.

Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2005 HK$'000	2004 HK$'000
Salaries and other short term employee benefits	**8,136**	4,806
Termination benefits	**138**	111
Share-based payments	**1,625**	–
	9,899	4,917

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

33. SHARE BASED PAYMENT TRANSACTION

Equity-settled share option scheme

Pursuant to the Company's share option scheme (the "Scheme"), the Company's directors may grant options to any full time employees, executives or officers, directors of the Group and any suppliers, consultants, agents or advisers who have contributed to the business and operation of the Group to subscribe for the shares in the Company at a price equal to the highest of (i) the official closing price of the shares as stated in the Stock Exchange's daily quotation sheets on the date of grants; (ii) the average of the official closing price of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares to be issued to each participant in any twelve-month period must not exceed 1% of the share capital of the Company in issue, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK$5 million must be approved in advance by the Company's shareholders.

Options granted must be taken up not later than 28 days after the date of grant, upon payment of HK$1 per option. The period during which an option may be exercised will be determined by the board of directors of the Company at its absolute discretion, save that no option may be exercised more than 10 years after it has been granted. No option may be granted more than 10 years after the date of approval of the Scheme.

As at 31st December, 2005, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 8,768,000 (2004: nil), representing 1.5% (2004: nil) of the shares of the Company in issue at that date. Options may be exercised at any time from three months from the date of grant of the share option, 27th January, 2006 to 26th January, 2009.

Details of specific category of share options are as follows:

	Date of grant	Vesting period	Exercise period	Exercise price
2005	27th October, 2005	3 months	27th January, 2006 to 26th January, 2009	HK$2.34

The following table discloses movements of the Company's share options held by director and chief executive during the year:

	Outstanding at 1/1/05	Granted during year	Exercised during year	Outstanding at 31/12/05
2005	–	8,768,000	–	8,768,000

33. SHARE BASED PAYMENT TRANSACTION (Continued)

Equity-settled share option scheme (Continued)

During the year ended 31st December, 2005, options were granted on 27th October, 2005. The estimated fair value of the options granted was HK$2,437,000. No option was granted during the year ended 31st December, 2004.

The fair value was calculated using the Black-Scholes pricing model. The inputs into the model were as follows:

	2005
Weighted average share price	HK$2.26
Exercise price	HK$2.34
Expected volatility	30%
Expected life	3 years
Risk-free rate	4.224%
Expected dividend yield	8.6%

Expected volatility was determined by using the historical volatility of the Company's share price over the previous one year.

Because the Black-Scholes pricing model requires the input of highly substantive assumptions, including the volatility of share price, changes in subjective input assumptions can materially affect the fair value estimate.

The Group recognised the total expense of HK$1,625,000 for the year ended 31st December, 2005 (2004: nil) in relation to share options granted by the Company.

34. RETIREMENT BENEFIT SCHEMES AND MANDATORY PROVIDENT FUND

The Group operates a MPFS for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll cost to the scheme which is matched by the employee.

The eligible employees of the subsidiaries in the PRC are members of pension schemes operated by the Chinese local government. The subsidiaries are required to contribute certain percentages of the relevant part of the payroll of these employees to the pension schemes to fund the benefits.

Eligible employees in Vietnam currently participate in a defined contribution pension scheme operated by the local municipal government. The calculation of contributions is based on certain percentage of the employees' payroll.

Notes to the Financial Statements

34. RETIREMENT BENEFIT SCHEMES AND MANDATORY PROVIDENT FUND (Continued)

There are retirement plans established in the United States for all domestic employees who meet certain eligibility requirements as to age and length of service.

The retirement benefits cost charged to income statement of approximately HK$5,259,000 (2004: HK$2,339,000) represents contributions payable to the schemes by the Group at the rates specified in the rules of the various schemes.

35. POST BALANCE SHEET EVENT

Subsequent to the balance sheet date, the Company repurchased a total of 9,924,000 ordinary shares of the Company of HK$0.10 each through the Stock Exchange as follows:

Month of repurchase	Number of ordinary shares repurchased of HK$0.1 each	Price per share		Aggregate consideration (before expenses) paid
		Highest	Lowest	
		HK$	HK$	HK$
January 2006	9,924,000	2.15	1.98	20,369,910

The above shares were cancelled upon repurchases and the issued share capital of the Company was reduced by the par value thereof.