

Notes to the Condensed Financial Information

1 Basis of preparation and accounting policies

This condensed consolidated financial information has been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

This condensed consolidated financial information should be read in conjunction with the 2005 annual financial statements.

The accounting policies and methods of computation used in the preparation of this condensed consolidated financial information are consistent with those used in the annual financial statements for the year ended 31 December 2005.

The Group has not applied any new standards or interpretation that is not yet effective for the current accounting period. The Group has already commenced an assessment of the impact of these new standards and interpretations but is not yet in a position to state whether they would significantly impact on its results of operations and financial position.

2 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.

Business segments

An analysis of the Group’s turnover and results for the period by business segments is as follows:

	Six months ended 30 June 2006			
	Toys business	Property investment and associated business	Elimination	Group
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Revenue				
Turnover	317,579	21,258	–	338,837
Inter-segment revenue (Note iii)	–	341	(341)	–
	<u>317,579</u>	<u>21,599</u>	<u>(341)</u>	<u>338,837</u>
Results				
Segment results	(31,719)	180,717	–	148,998
Inter-segment transactions	(341)	341	–	–
	<u>(32,060)</u>	<u>181,058</u>	<u>–</u>	<u>148,998</u>
Unallocated costs				(13,413)
Operating profit				<u>135,585</u>

Six months ended 30 June 2005

	Toys business	Property investment and associated business	Elimination	Group
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue				
Turnover	447,816	14,946	–	462,762
Inter-segment revenue (Note iii)	–	287	(287)	–
	<u>447,816</u>	<u>15,233</u>	<u>(287)</u>	<u>462,762</u>
Results				
Segment results	22,597	76,694	–	99,291
Inter-segment transactions	(287)	287	–	–
	<u>22,310</u>	<u>76,981</u>	<u>–</u>	99,291
Unallocated costs				<u>(7,802)</u>
Operating profit				<u>91,489</u>

Notes:

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

The segment assets and liabilities as at 30 June 2006 are as follows:

	Toys business HK\$'000	Property investment and associated business HK\$'000	Elimination HK\$'000	Group HK\$'000
Assets				
Segment assets	427,791	1,212,641	(183)	1,640,249
Unallocated assets				<u>395,079</u>
Total assets				<u><u>2,035,328</u></u>
Liabilities				
Segment liabilities	160,736	106,447	(183)	267,000
Unallocated liabilities				<u>4,572</u>
Total liabilities				<u><u>271,572</u></u>

The segment assets and liabilities as at 31 December 2005 are as follows:

	Toys business HK\$'000	Property investment and associated business HK\$'000	Elimination HK\$'000	Group HK\$'000
Assets				
Segment assets	631,500	802,274	(143)	1,433,631
Unallocated assets				<u>670,037</u>
Total assets				<u><u>2,103,668</u></u>
Liabilities				
Segment liabilities	351,132	63,416	(143)	414,405
Unallocated liabilities				<u>9,170</u>
Total liabilities				<u><u>423,575</u></u>

Geographical segments

An analysis of the Group's turnover for the period by geographical segments is as follows:

	Six months ended 30 June	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Americas		
– USA	231,030	296,328
– Others	28,049	23,117
Europe	42,707	109,473
Asia Pacific	35,967	32,996
Others	1,084	848
	<u>338,837</u>	<u>462,762</u>

Segment assets are allocated based on where the assets are located.

	30 June	31 December
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
America		
– USA	343,272	589,331
Asia Pacific	1,296,977	844,300
	<u>1,640,249</u>	<u>1,433,631</u>

3 Profit before taxation

Profit before taxation is stated after charging and crediting the following:

	Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
Charging:		
Cost of inventories sold	143,563	192,553
Provision for customer concession	2,557	2,785
Staff costs	45,142	38,862
Depreciation of fixed assets	3,794	1,913
Loss on disposal of fixed assets	39	22
	<u>195,195</u>	<u>276,935</u>
Crediting:		
Interest income	6,558	5,174
Dividend income from investments	1,044	1,370
Unutilised provision for customer concession	1,532	13,042
	<u>9,134</u>	<u>19,586</u>

4 Taxation (charge)/credit

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profit for the period. 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 taxation (charge)/credit in the condensed consolidated income statement comprises:

	Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
Current taxation		
Hong Kong profits tax	(392)	(1,329)
Overseas taxation	10,793	(7,410)
Over-provision in prior years	–	170
Over-provision for pending tax cases	3,558	–
	<u>13,959</u>	<u>(8,569)</u>
Deferred taxation		
Origination and reversal of temporary differences	(31,286)	12,037
	<u>(17,327)</u>	<u>3,468</u>

5 Dividend

At a meeting held on 2 March 2006 the Directors proposed a final dividend of HK cents 2.5 per share for the year ended 31 December 2005, which was paid on 12 May 2006 and has been reflected as an appropriation of retained profits for the six months ended 30 June 2006.

At a meeting held on 18 August 2006 the Directors declared an interim dividend of HK cents 2.0 (2005: HK cents 2.5) per share for the year ending 31 December 2006 to be paid on 20 September 2006 to shareholders on the Company's Register of Members on 13 September 2006. This proposed dividend is not reflected as a dividend payable in these condensed accounts, but will be reflected as an appropriation of retained profits for the year ending 31 December 2006.

6 Earnings per share

The calculations of basic and diluted earnings per share are based on the following data:

	Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
Profit attributable to shareholders for the purpose of calculating basic and diluted earnings per share	<u>125,105</u>	<u>94,814</u>
	Number of shares	
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	1,868,725,000	1,692,825,000
Number of potential ordinary shares issuable under share options and warrants	<u>16,172,000</u>	<u>61,352,000</u>
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	<u>1,884,897,000</u>	<u>1,754,177,000</u>

7 Fixed assets

	Investment properties <i>HK'000</i>	Other property, plant and equipment <i>HK\$'000</i>	Prepaid premium on leasehold land held for own use under an operating lease <i>HK\$'000</i>
Opening net book amount as at 1 January 2006	694,700	41,489	49,234
Additions	255,369	1,782	–
Revaluation surplus	167,931	–	–
Depreciation/Amortisation	–	(3,228)	(566)
Disposals	–	(39)	–
Exchange fluctuation	–	(41)	–
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Closing net book amount as at 30 June 2006	<u>1,118,000</u>	<u>39,963</u>	<u>48,668</u>
Opening net book amount as at 1 January 2005	662,000	8,031	–
Reclassification	(35,700)	12,385	23,315
Additions	19,629	3,078	–
Revaluation surplus	67,271	–	–
Depreciation/Amortisation	–	(1,651)	(262)
Disposals	–	(22)	–
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Closing net book amount as at 30 June 2005	713,200	21,821	23,053
Reclassification	(40,800)	14,154	26,646
Additions	14,675	8,264	–
Revaluation surplus	7,625	–	–
Depreciation/Amortisation	–	(2,601)	(465)
Disposals	–	(149)	–
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Closing net book amount as at 31 December 2005	<u>694,700</u>	<u>41,489</u>	<u>49,234</u>

The additions to investment properties represent a number of residential flats situate at Nos. 21 & 21A and Nos. 23 & 23A, MacDonnell Road, Hong Kong. All these properties are held under long term leases.

8 Trade receivables

As at 30 June 2006, 96.8% (31 December 2005: 99.0%) of the trade receivables net of provisions were current to 30 days, 1.3% (31 December 2005: 0.1%) were 31 to 60 days and the remaining were over 60 days.

The normal trade terms with toy 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.

9 Bank loans

	30 June 2006 HK\$'000	31 December 2005 HK\$'000
Secured bank loans payable:		
Within one year	997	957
In the second year	808	1,041
In the third to fifth years	–	274
	1,805	2,272
Unsecured bank loan payable within one year	–	19,000
	–	21,272
Current portion included in current liabilities	(997)	(19,957)
	808	1,315

As at 30 June 2006, the Group had banking facilities amounting to approximately HK\$658 million (31 December 2005: HK\$363 million), of which HK\$2 million (31 December 2005: HK\$21 million) were utilised.

The banking facilities of certain subsidiaries are secured by investment properties and other fixed assets with net book value of HK\$781 million (31 December 2005: HK\$649 million) of the Group at 30 June 2006.

10 Trade payables

As at 30 June 2006, 98.3% (31 December 2005: 74.7%) of the trade payables were current to 30 days, 1.6% (31 December 2005: 24.7%) were 31 to 60 days and the remaining were over 60 days.

11 Share capital

	Authorised Ordinary shares of HK\$0.10 each	
	No. of shares	HK\$'000
At 30 June 2006 and 31 December 2005	<u>3,000,000,000</u>	<u>300,000</u>
	Issued and fully paid Ordinary shares of HK\$0.10 each	
	No. of shares	HK\$'000
At 1 January 2005	1,563,512,773	156,351
Exercise of warrants 2005	299,441,936	29,944
Exercise of warrants 2006	5,538	1
Exercise of share options	10,044,000	1,004
Repurchase of shares	<u>(5,344,000)</u>	<u>(534)</u>
At 1 January 2006	1,867,660,247	186,766
Exercise of warrants 2006 (<i>Note i</i>)	30,650	3
Exercise of warrants 2007 (<i>Note ii</i>)	2,000	–
Exercise of share options	<u>2,234,000</u>	<u>224</u>
At 30 June 2006	<u>1,869,926,897</u>	<u>186,993</u>

Notes:

- (i) The warrants were exercisable from 24 May 2005 to 23 May 2006 at an initial subscription price of HK\$2.03 per share (subject to adjustment). On 23 May 2006, 366,756,897 warrants which had not been exercised, were lapsed.
- (ii) On 24 May 2006, 373,948,079 warrants were issued pursuant to an ordinary resolution passed at the general meeting of the Company held on 4 May 2006 on the basis of a bonus issue of one warrant for every five shares held by the shareholders. These warrants are exercisable from 26 May 2006 to 25 May 2007 at an initial subscription price of HK\$1.03 per share (subject to adjustment). As at 30 June 2006, 373,946,079 warrants issued on 24 May 2006 remained unexercised.

12 Contingent liabilities

The Company has provided guarantees in favour of banks with respect to banking facilities made available to subsidiaries amounting to approximately HK\$658 million (31 December 2005: HK\$363 million), of which HK\$2 million (31 December 2005: HK\$21 million) of such banking facilities was utilised as at 30 June 2006.

13 Commitments

(a) Capital commitments

The capital expenditure of HK\$196,515,000 committed for the acquisition of certain investment properties as at 31 December 2005 was fully settled during the period. There was no material capital commitment as at 30 June 2006.

(b) Licensing commitments

In the normal course of business, the Group enters into contractual licensing agreements to secure its rights to design, develop, market and distribute 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 30 June 2006 were payable as follows:

	30 June 2006 HK\$'000	31 December 2005 HK\$'000
Within one year	29,613	31,220
In the second to fifth years inclusive	38,853	20,475
	<u>68,466</u>	<u>51,695</u>

14 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 30 June 2006, the future aggregate minimum lease payments under non-cancellable operating leases for office and warehouse facilities payable by the Group were as follows:

	30 June 2006 HK\$'000	31 December 2005 HK\$'000
Within one year	9,602	11,071
In the second to fifth years inclusive	18,793	22,969
After the fifth year	34	936
	<u>28,429</u>	<u>34,976</u>

The Group has non-cancellable subleases with future minimum sublease receipts of HK\$4,544,000 (31 December 2005: HK\$5,446,000).

(b) As lessor

At 30 June 2006, the future aggregate minimum lease payments under non-cancellable operating leases for office, industrial and residential premises receivable by the Group were as follows:

	30 June 2006 HK\$'000	31 December 2005 HK\$'000
Within one year	33,648	27,990
In the second to fifth years inclusive	55,154	18,970
	<u>88,802</u>	<u>46,960</u>

15 Related party transactions

The Group did not enter into any material related party transaction during the period except the following:

Key management compensation

	Six months ended 30 June	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries and other short-term employee benefits	6,122	5,432
Employer's contribution to provident fund	158	149
Share-based compensation	3,623	1,694
	<u>9,903</u>	<u>7,275</u>

16 US dollar equivalents

These are shown for reference only and have been arrived at based on the exchange rate of HK\$7.75 to US\$1 ruling at 30 June 2006.