1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The accounting policies adopted in the current year are consistent with those of the previous year except the Group has adopted the Amendments to HKAS 39 Financial instruments: Recognition and Measurement and HKFRS 4 Insurance Contracts – Financial Guarantee Contracts. The adoption of these amendments did not have significant effects on the financial statements of the Group and the Company.

The HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2006 and which have not been adopted in these financial statements. 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.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2006 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associated companies.

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.

(c) Group accounting

(i) Consolidation

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

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 in full in preparing the consolidated financial statements. 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) Associated companies

Associated companies are all entities over which the Group has significant influence but not control, over its management, including participation in the financial and operating policy decision, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Investments in associated companies are accounted for in the consolidated financial statements under 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 associated companies' net assets.

The Group's share of its associated companies' post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in reserves. When the Group's share of losses in an associated company 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 associated company.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) 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 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 costs are included in 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 value 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.

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

Depreciation of 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, vehicle, 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.

(e) 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.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) 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 fair values of unlisted managed funds are based on the market value of the underlying portfolio of securities reported by the administrators of the funds.

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.

(g) 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.

(h) 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 and provisions.

(i) Financial liabilities

The Group's financial liabilities include trade payables, other payables and bank loans. They are recognised initially at their fair value and subsequent stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(j) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer of the contract to make specified payments to reimburse the holder of the contract for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee contract is initially recognised as deferred income within trade and other payable at fair value, where such information is available, otherwise, it is recognised at consideration received and receivable. Subsequently, it is measured at the higher of the amount initially recognised, less accumulated amortisation, and the amount of the provision, if any, that is required to settle the commitment at the balance sheet date.

(k) 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 associated companies, 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.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) 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, by reference to the principal outstanding and at the interest rate applicable.

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

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

Property management income is recognised when services are rendered.

(m) 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.

(n) 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.

(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 expires (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.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Borrowing costs

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

(p) Cash and cash equivalents

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

(q) 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 HK 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.

(r) 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 for the purposes of these financial statements.

Segment assets consist primarily of fixed assets, goodwill, inventories, receivables and operating cash. Segment liabilities comprise operating liabilities. Segment capital expenditure comprises additions to fixed assets.

Unallocated items mainly comprise financial and corporate assets, bank loans, tax balances, corporate and inactive subsidiaries' expenses.

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

(s) 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/associated company at the date of acquisition. Goodwill on acquisitions of subsidiaries is recognised as a separate asset. Goodwill on acquisitions of associated companies is included in investments in associated companies. 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.

(t) 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 TURNOVER, REVENUE 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. Revenue recognised during the year are as follows:

	2006 HK$'000	2005 HK$'000
Turnover		
Sales of toys	**1,127,997**	1,277,607
Rental income from investment properties	**39,425**	29,077
Property management income	**4,430**	3,580
	1,171,852	1,310,264
Other revenue		
Interest income	**11,753**	14,938
Dividend income	**1,320**	2,794
	13,073	17,732
Total revenue	**1,184,925**	1,327,996

Business segments

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

	Year ended 31 December 2006			
	Toys business HK$'000	Property investment and associated business HK$'000	Elimination HK$'000	Group HK$'000
Revenue				
Turnover	1,127,997	43,855	–	1,171,852
Inter-segment revenue *(Note (iii))*	–	674	(674)	–
	1,127,997	44,529	(674)	1,171,852
Results				
Segment results	28,697	260,718	–	289,415
Inter-segment transactions	(674)	674	–	–
	28,023	261,392	–	289,415
Unallocated costs				(21,018)
Operating profit				268,397

2 TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

Business segments (Continued)

	Year ended 31 December 2006			
	Toys business HK$'000	Property investment and associated business HK$'000	Elimination HK$'000	Group HK$'000
Assets				
Segment assets	558,737	1,295,171	(222)	1,853,686
Unallocated assets				523,400
Total assets				2,377,086
Liabilities				
Segment liabilities	263,277	31,553	(222)	294,608
Unallocated liabilities				214,368
Total liabilities				508,976
Other information				
Capital expenditure	463	265,618		
Depreciation	2,810	2,328		

	Year ended 31 December 2005			
	Toys business HK$'000	Property investment and associated business HK$'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

2 TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

Business segments (Continued)

	Year ended 31 December 2005			
	Toys business HK$'000	Property investment and associated business HK$'000	Elimination HK$'000	Group HK$'000
Assets				
Segment assets	561,768	802,231	(143)	1,363,856
Unallocated assets				755,808
Total assets				2,119,664
Liabilities				
Segment liabilities	275,041	18,424	(143)	293,322
Unallocated liabilities				146,249
Total liabilities				439,571
Other information				
Capital expenditure	4,065	34,808		
Depreciation	2,846	1,544		

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 commercial, 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 segment capital expenditure is as follows:

	Turnover 2006 HK$'000	**Segment assets 2006 HK$'000**	**Segment capital expenditure 2006 HK$'000**
Americas			
– U.S.A.	**847,355**	**490,681**	**342**
– Others	**81,408**	**–**	**–**
Europe	**154,278**	**–**	**–**
Asia Pacific	**85,270**	**1,363,005**	**265,739**
Others	**3,541**	**–**	**–**
	1,171,852	**1,853,686**	**266,081**

	Turnover 2005 HK$'000	Segment assets 2005 HK$'000	Segment capital expenditure 2005 HK$'000
Americas			
– U.S.A.	948,833	519,599	3,390
– Others	52,766	–	–
Europe	236,402	–	–
Asia Pacific	69,980	844,257	35,483
Others	2,283	–	–
	1,310,264	1,363,856	38,873

3 OPERATING PROFIT

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

	2006 HK$'000	2005 HK$'000
Cost of inventories sold	522,981	560,095
Product development costs	22,073	21,847
Direct operating expenses arising from investment properties that generate rental income	2,809	1,409
Direct operating expenses arising from investment properties that did not generate rental income	1,792	1,233
Provision for customer concession	14,823	14,540
Unutilised provision for customer concession	(1,656)	(19,811)
Provision for customer and supplier claims *(Note 22)*	52,210	53,743
Unutilised provision for customer and supplier claims *(Note 22)*	(3,055)	(20,520)
Depreciation of fixed assets	7,554	4,979
Staff costs, including directors' remuneration *(Note 10)*	107,421	95,891
Operating leases expense on office and warehouse facilities	12,314	12,938
Loss on disposal of fixed assets	69	171
Auditors' remuneration	1,880	1,500

4 INTEREST EXPENSE AND BANK CHARGES

	2006 HK$'000	2005 HK$'000
Interest on bank loans and overdrafts	1,976	1,347
Other incidental borrowing costs	5,348	6,229
	7,324	7,576

5 NET GAIN ON INVESTMENTS

	2006 HK$'000	2005 HK$'000
Net realised gain/(loss) on investments	4,555	(944)
Net unrealised gain on investments	32,563	15,410
	37,118	14,466

6 TAXATION CHARGE

(a) Hong Kong profits tax has been provided at the rate of 17.5% (2005: 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:

	2006 HK$'000	2005 HK$'000
Current taxation		
Hong Kong profits tax	3,622	2,070
Overseas taxation	62	643
(Over)/under provision in prior years	(3,735)	4,376
	(51)	7,089
Deferred taxation		
Origination and reversal of temporary differences	54,404	(4,248)
	54,353	2,841

(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:

	2006 HK$'000	2005 HK$'000
Profit before taxation	314,722	198,831
Calculated at a taxation rate of 17.5% (2005: 17.5%)	55,076	34,795
Effect of different taxation rates in other countries	6,218	19,231
Non-taxable income	(9,295)	(9,324)
Non-deductible expenses for tax purposes	7,178	578
Decrease in unrecognised temporary differences and tax losses	(1,451)	(8,158)
Utilisation of previously unrecognised tax losses	(77)	(22,600)
Tax credit on settlement of tax cases	–	(15,996)
Prior year (over)/under provision	(3,735)	4,376
Current year over/(under) provision	439	(61)
Taxation charge	54,353	2,841

7 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders includes a loss of HK$5,857,000 (2005: HK$3,752,000) which is dealt with in the financial statements of the Company.

8 DIVIDENDS

	2006 HK$'000	2005 HK$'000
Interim dividend paid of HK$0.02 (2005: HK$0.025) per share	37,398	46,701
Final dividend proposed of HK$0.03 (2005: HK$0.025) per share	56,132	46,692
	93,530	93,393
Special dividend proposed of HK$0.02 (2005: HK$nil) per share	37,422	–
	130,952	93,393

At a meeting held on 12 March 2007, the directors proposed a final dividend of HK$0.03 per share and a special dividend of HK$0.02 per share. These proposed dividends are 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 2007.

9 EARNINGS PER SHARE

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

	2006 HK$'000	2005 HK$'000
Profit attributable to shareholders for the purpose of calculating basic and diluted earnings per share	260,369	195,990

	Number of shares	
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	1,869,407,000	1,781,283,000
Number of potential ordinary shares issuable under share options and warrants	14,475,000	29,480,000
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	1,883,882,000	1,810,763,000

10 STAFF COSTS

	2006 HK$'000	2005 HK$'000
Wages, salaries and other benefits	**94,114**	84,327
Share-based compensation	**10,816**	9,392
Employer's contributions to provident fund	**2,578**	2,192
Forfeited contributions	**(87)**	(20)
	107,421	95,891

As at 31 December 2006 and 2005, there was no contribution payable and no forfeited contribution available to reduce future contributions in respect of the provident fund schemes.

11 EMOLUMENTS OF THE DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' emoluments

The emoluments of each director for the year ended 31 December 2006 is set out below:

Name of Director	Director's fee 2006 HK$'000	Salary 2006 HK$'000	Bonus 2006 HK$'000	Share-based compen-sation 2006 HK$'000	Other benefits 2006 HK$'000 (Note 1)	Employer's contribution to provident fund 2006 HK$'000	Total 2006 HK$'000	Total 2005 HK$'000
Executive Directors								
CHAN Chun Hoo, Thomas	–	120	3,000	–	158	7	**3,285**	189
CHENG Bing Kin, Alain *(Note 2)*	–	1,416	600	338	303	12	**2,669**	–
TO Shu Sing, Sidney	–	1,740	750	528	58	12	**3,088**	2,634
	–	3,276	4,350	866	519	31	**9,042**	2,823
Non-executive Directors								
TSIM Tak Lung	100	–	–	353	91	–	**544**	419
CHOW Yu Chun, Alexander	84	–	–	154	47	–	**285**	–
IP Shu Wing, Charles	100	–	–	353	12	–	**465**	324
LEE Peng Fei, Allen	100	–	–	353	99	–	**552**	445
LO Kai Yiu, Anthony	100	–	–	353	99	–	**552**	451
YU Hon To, David	100	–	–	353	74	–	**527**	422
	584	–	–	1,919	422	–	**2,925**	2,061
	584	**3,276**	**4,350**	**2,785**	**941**	**31**	**11,967**	4,884

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

(a) Directors' emoluments (Continued)

Notes:

(1) Other benefits include insurance premium, club membership and housing allowance for executive directors, and committee work and meeting attendance allowance for non-executive directors.

(2) Mr. Cheng, an officer of the Group, was appointed a director of the Company in March 2006. The amount of HK$2,669,000 represents the total emoluments received by him for the whole year.

The emoluments of the directors are within the following bands:

	Number of directors	
	2006	2005
HK$		
Nil to 1,000,000	**6**	6
2,500,001 – 3,000,000	**1**	1
3,000,001 – 3,500,000	**2**	–
	9	7

(b) Five highest paid individuals' emoluments

Two (2005: one) of the five highest paid individuals are directors, whose emoluments are disclosed above. Details of the emoluments of the other three (2005: four) highest paid individuals are as follows:

	2006 HK$'000	2005 HK$'000
Salaries, other allowances and benefits in kind	**9,250**	11,309
Share-based compensation	**3,652**	5,483
Performance bonus	**1,110**	3,329
Employer's contribution to provident fund	**218**	279
	14,230	20,400

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

	Number of individuals	
	2006	2005
HK$		
2,500,001 – 3,000,000	**–**	1
3,000,001 – 3,500,000	**2**	1
3,500,001 – 4,000,000	**–**	1
7,500,001 – 8,000,000	**1**	–
10,000,001 – 10,500,000	**–**	1
	3	4

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.

12 FIXED ASSETS – GROUP

	Buildings HK$'000	Machinery, vehicle, equipment, furniture and fixtures HK$'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 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
At 1 January 2006	26,539	40,317	34,765	101,621	694,700	49,961	**846,282**
Additions	–	1,575	548	2,123	265,525	–	**267,648**
Revaluation surplus	–	–	–	–	238,475	–	**238,475**
Disposals	–	(15,479)	(4,031)	(19,510)	–	–	**(19,510)**
At 31 December 2006	**26,539**	**26,413**	**31,282**	**84,234**	**1,198,700**	**49,961**	**1,332,895**
Accumulated amortisation and depreciation							
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
At 1 January 2006	594	30,029	29,509	60,132	–	727	**60,859**
Charge for the year	927	3,389	2,106	6,422	–	1,132	**7,554**
Disposals	–	(15,407)	(4,030)	(19,437)	–	–	**(19,437)**
At 31 December 2006	**1,521**	**18,011**	**27,585**	**47,117**	**–**	**1,859**	**48,976**
Net book value							
At 31 December 2006	**25,018**	**8,402**	**3,697**	**37,117**	**1,198,700**	**48,102**	**1,283,919**
At 31 December 2005	25,945	10,288	5,256	41,489	694,700	49,234	785,423

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

	2006 HK$'000	2005 HK$'000
In Hong Kong, held under:		
Leases of over 50 years	**284,600**	24,500
Leases of between 10 and 50 years	**987,220**	745,379
	1,271,820	769,879

The investment properties were revalued as at 31 December 2006 on the 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 the properties being valued.

Other fixed assets are stated at cost less accumulated depreciation.

Details of the principal properties of the Group as at 31 December 2006 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%
A number of residential flats situate at Nos. 21 & 21A and Nos. 23 & 23A MacDonnell Road Midlevel	Residential	2895	39,040 Sq.ft.	100%

13 GOODWILL – GROUP

	HK$'000
Cost	
At 31 December 2005 and 31 December 2006	**5,976**

14 INVESTMENT IN SUBSIDIARIES – COMPANY

	2006 HK$'000	2005 HK$'000
Amounts due from subsidiaries, net of provisions	**1,157,826**	1,237,004

The amounts due from subsidiaries are unsecured, have no fixed term of repayment and, except for the amounts of HK$341,136,000 (2005: HK$343,712,000) which are interest free, are interest bearing at 1% (2005: 1%) per annum.

Details of the principal subsidiaries of the Company as at 31 December 2006 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
City Style Properties Limited	The British Virgin Islands	1 ordinary share of US$1	100%	Property investment, Hong Kong
PIL Finance Limited	The British Virgin Islands	1 ordinary share of US$1	100%	Investment holding, Hong Kong
PIL Investments Limited	The British Virgin Islands	100 ordinary shares of US$1 each	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.

15 INVESTMENT IN ASSOCIATED COMPANIES – GROUP

	2006 **HK$'000**	2005 HK$'000
Share of net assets other than goodwill	**21,789**	19,879
Share of goodwill	**5,548**	6,450
	27,337	26,329
Loan to an associated company	**7,499**	9,999
	34,836	36,328

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

As at 31 December 2006, 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.

15 INVESTMENT IN ASSOCIATED COMPANIES – GROUP (Continued)

Summary financial information of associated companies

	Assets HK$'000	Liabilities HK$'000	Equity HK$'000	Revenues HK$'000	Profit HK$'000
2006					
100 per cent	**103,812**	**48,061**	**55,751**	**214,275**	**7,034**
Group's effective interest	**51,190**	**23,853**	**27,337**	**105,993**	**3,458**
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

16 HELD-TO-MATURITY INVESTMENTS – GROUP

	2006 HK$'000	2005 HK$'000
Listed outside Hong Kong, at amortised cost	**–**	33,869

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

	2006 HK$'000	2005 HK$'000
Designated upon initial recognition		
Listed in Hong Kong	**–**	3,171
Listed outside Hong Kong	**134,214**	80,095
Unlisted managed funds	**196,990**	143,081
	331,204	226,347

18 INVENTORIES – GROUP

As at 31 December 2006, the carrying amount of inventories that are carried at net realisable value amounted to HK$8,848,000 (2005: HK$5,482,000).

19 TRADE RECEIVABLES – GROUP

As at 31 December 2006, 96.9% (2005: 99.0%) of the trade receivables net of provisions were current to 30 days, 1.2% (2005: 0.1%) were 31 to 60 days and the remaining were over 60 days. The provisions included provision on customer concession that is arrived at by using available contemporary and historical information to evaluate the exposure.

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.

20 BANK LOANS – GROUP

	2006 HK$'000	2005 HK$'000
Secured bank loans payable:		
Within one year	41,042	957
In the second year	276	1,041
In the third to fifth years	–	274
	41,318	2,272
Unsecured bank loan payable within one year	66,500	19,000
	107,818	21,272
Current portion included in current liabilities	(107,542)	(19,957)
	276	1,315

As at 31 December 2006, the Group has banking facilities amounting to approximately HK$777 million (2005: HK$363 million), of which HK$108 million (2005: HK$21 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$971 million (2005: HK$649 million) of the Group at 31 December 2006.

21 TRADE PAYABLES – GROUP

As at 31 December 2006, 59.1% (2005: 74.7%) of the trade payables were current to 30 days, 40.4% (2005: 24.7%) were 31 to 60 days and the remaining were over 60 days.

22 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 2006	51,775
Additional provisions made	52,210
Provisions utilised	(51,670)
Reversal of unutilised provisions	(3,055)
At 31 December 2006	49,260

23 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:

	2006		2005	
	Weighted average exercise price HK$	Number of options '000	Weighted average exercise price HK$	Number of options '000
At the beginning of the year	0.942	81,803	0.748	65,861
Granted *(Note (a))*	0.913	21,390	1.206	28,402
Exercised *(Note (b))*	0.384	(3,386)	0.362	(10,044)
Lapsed	1.013	(5,820)	1.184	(2,416)
At the end of the year *(Note (c))*	0.951	93,987	0.942	81,803

Notes:

(a) Share options were granted to directors and employees on 9 January 2006 and 4 May 2006 at the exercise price of HK$1.030 and HK$0.910 per share respectively (2005: 22 September 2005 at the exercise price of HK$1.206 per share) and expiring on 8 January 2016 and 3 May 2016 respectively (2005: 21 September 2015). The closing price of the ordinary shares of the Company on 6 January 2006 and 3 May 2006, being the trading days immediately before the dates on which the share options were granted, were HK$1.040 and HK$0.870 respectively. Consideration received was HK$1,053 (2005: HK$978) in respect of the share options granted during the year.

(b) These share options were exercised during the year ended 31 December 2006 at exercise prices ranging from HK$0.199 to HK$0.626 (2005: from HK$0.199 to HK$1.360) per share. The weighted average closing price per ordinary share of the Company immediately before the dates on which the options were exercised during the year was HK$0.9061.

23 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 2006 '000	Number of options 2005 '000	Vested number of options 2006 '000	Vested number of options 2005 '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**	1,024
8 August 2012	0.199	**1,450**	1,450	**1,450**	1,450
9 March 2013	0.550	**1,200**	1,200	**1,200**	900
6 January 2014	1.360	**1,790**	1,200	**1,340**	600
21 September 2015	1.206	**7,250**	6,500	**3,625**	1,625
3 May 2016	0.910	**6,000**	–	**1,500**	–
		20,983	13,643	**12,408**	7,868
Other employees					
14 May 2008	0.532	**282**	1,229	**282**	1,229
26 May 2009	0.506	**247**	512	**247**	512
21 July 2010	0.626	**905**	1,258	**905**	1,258
20 May 2011	0.297	**716**	1,796	**716**	1,796
27 August 2011	0.294	**8,163**	8,163	**8,163**	8,163
8 August 2012	0.199	**3,086**	3,876	**3,086**	3,876
9 March 2013	0.550	**4,953**	6,660	**4,953**	4,191
6 January 2014	1.360	**9,702**	11,890	**7,206**	5,774
18 March 2014	1.240	**11,000**	11,000	**8,250**	5,500
21 September 2015	1.206	**19,324**	21,776	**9,662**	5,444
8 January 2016	1.030	**500**	–	**125**	–
3 May 2016	0.910	**14,126**	–	**3,532**	–
		73,004	68,160	**47,127**	37,743
		93,987	81,803	**59,535**	45,611

No share options were cancelled during the year (2005: 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	**2006 (weighted average)**	2005
Fair value at measurement date	**0.361**	0.509
Share price	**0.913**	1.206
Exercise price	**0.913**	1.206
Expected volatility	**50.33%**	51.63%
Expected option life	**5 years**	5 years
Expected dividend yield	**2.59%**	2.00%
Risk-free interest rate (based on Exchange Fund Notes)	**4.35%**	4.17%

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.

24 DEFERRED TAXATION – GROUP

Deferred taxation is calculated in full on temporary differences under the liability method using taxation rate of 17.5% (2005: 17.5%) in Hong Kong, and federal and state tax rates of 35% (2005: 35%) and 8.46% (2005: 7.32%) respectively in the United States of America.

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

	2006 HK$'000	2005 HK$'000
At 1 January	**(40,466)**	(36,218)
Charged/(credited) to income statement	**54,404**	(4,248)
At 31 December	**13,938**	(40,466)

24 DEFERRED TAXATION – GROUP (Continued)

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	
	2006 HK$'000	2005 HK$'000	2006 HK$'000	2005 HK$'000	2006 HK$'000	2005 HK$'000
At 1 January	17,437	16,228	29,567	16,397	47,004	32,625
Charged to income statement	1,369	1,209	46,841	13,170	48,210	14,379
At 31 December	18,806	17,437	76,408	29,567	95,214	47,004

Deferred tax assets	Tax losses		Employees benefits		Total	
	2006 HK$'000	2005 HK$'000	2006 HK$'000	2005 HK$'000	2006 HK$'000	2005 HK$'000
At 1 January	(82,402)	(66,400)	(5,068)	(2,443)	(87,470)	(68,843)
Charged/(credited) to income statement	8,921	(16,002)	(2,727)	(2,625)	6,194	(18,627)
At 31 December	(73,481)	(82,402)	(7,795)	(5,068)	(81,276)	(87,470)

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:

	2006 HK$'000	2005 HK$'000
Deferred tax assets	(80,152)	(85,728)
Deferred tax liabilities	94,090	45,262
	13,938	(40,466)

Deferred tax assets shown in the consolidated balance sheet include an amount of HK$57,191,000 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.

25 SHARE CAPITAL

	Authorised Ordinary shares of HK$0.10 each	
	No. of shares	**HK$'000**
At 31 December 2005 and 2006	**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 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	(5,344,000)	(534)
At 1 January 2006	1,867,660,247	**186,766**
Exercise of warrants 2006 *(Note (i))*	30,650	**3**
Exercise of warrants 2007 *(Note (ii))*	4,520	**–**
Exercise of share options *(Note 23)*	3,386,000	**339**
At 31 December 2006	**1,871,081,417**	**187,108**

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 31 December 2006, 373,943,559 warrants issued on 24 May 2006 remained unexercised.

26 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 2005	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
At 1 January 2006	740,378	1,116	16,901	292,713	**1,051,108**
Loss for the year	–	–	–	(5,857)	**(5,857)**
2005 final dividend paid	–	–	–	(46,744)	**(46,744)**
2006 interim dividend paid	–	–	–	(37,398)	**(37,398)**
Issue of shares	63	–	–	–	**63**
Share issuing expenses	(391)	–	–	–	**(391)**
Employees share option scheme					
– value of employee services	–	–	10,816	–	**10,816**
– shares issued	1,060	–	(100)	–	**960**
– options lapsed	–	–	(1,535)	1,535	**–**
At 31 December 2006	**741,110**	**1,116**	**26,082**	**204,249**	**972,557**

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 directors and employees recognised in accordance with the accounting policy adopted for share-based compensation in note 1(n)(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$742,966,000 as at 31 December 2006.

27 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2006 HK$'000	2005 HK$'000
Profit before taxation	**314,722**	198,831
Interest income	**(11,753)**	(14,938)
Interest on bank loans and overdrafts	**1,976**	1,347
Dividend income from investments	**(1,320)**	(2,794)
Depreciation	**7,554**	4,979
Share-based compensation	**10,816**	9,392
Revaluation surplus on investment properties	**(238,475)**	(74,896)
Loss on disposal of fixed assets	**69**	171
Net gain on investments	**(37,118)**	(14,466)
Share of profits less losses of associated companies	**(3,458)**	(1,797)
Operating profit before working capital changes	**43,013**	105,829
Decrease/(increase) in inventories	**8,316**	(21,050)
Decrease/(increase) in trade receivables, other receivables, deposits and prepayments	**2,884**	(52,528)
Increase in trade payables, other payables and accrued charges and provisions	**5,531**	18,981
Cash generated from operations	**59,744**	51,232

(b) Analysis of cash and cash equivalents

	2006 HK$'000	2005 HK$'000
Cash and bank balances	**170,015**	443,954

28 CONTINGENT LIABILITIES

The Company has provided guarantees with respect to banking facilities made available to subsidiaries amounting to approximately HK$777 million (2005: HK$363 million), of which HK$108 million (2005: HK$21 million) of such banking facilities were utilised as at 31 December 2006.

29 COMMITMENTS

Licensing commitments

In the normal course of business, the Group enters into contractual licensing agreements to secure its rights to design, develop and 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 the end of the year were payable as follows:

	2006 HK$'000	2005 HK$'000
Within one year	24,469	31,220
In the second to fifth years inclusive	19,188	20,475
	43,657	51,695

The Company did not have any commitments at 31 December 2006 (2005: HK$nil).

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

	2006 HK$'000	2005 HK$'000
Within one year	8,759	11,071
In the second to fifth years inclusive	15,183	22,969
After the fifth year	–	936
	23,942	34,976

The Group did not have any non-cancellable subleases at 31 December 2006 (2005: there was future minimum sublease receipts of HK$5,446,000).

(b) As lessor

At 31 December 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:

	2006 HK$'000	2005 HK$'000
Within one year	**42,579**	27,990
In the second to fifth years inclusive	**55,683**	18,970
	98,262	46,960

31 RELATED-PARTY TRANSACTIONS

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

Key management compensation

Remuneration for key management personnel, including amounts paid to the company's executive directors and the highest paid employees as disclosed in note 11, is as follows:

	2006 HK$'000	2005 HK$'000
Salaries and other short-term employee benefits	**18,505**	15,587
Employer's contributions to provident fund	**249**	240
Share-based compensation	**4,518**	6,231
	23,272	22,058

Total remuneration is included in "staff cost" (note 10).

32 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 2006.

33 COMPARATIVE FIGURES

Certain comparative figures have been re-classified to conform to current year's presentation.

34 FINANCIAL RISK MANAGEMENT

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of business. The risks are minimised 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 2006 and 2005 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 dollars and the United States dollars 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 2006 and 2005.

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.

35 APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 12 March 2007.