Notes to the Consolidated Financial Statements

For the year ended 31st December, 2006

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 address of the registered office and principal place of business of the Company are disclosed in the corporate information section of this annual report.

The principal activities of the Company are investment holding and those of its principal subsidiaries are set out in note 20.

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

2. BASIS OF PREPARATION OF CONSOLIDATION

In October 1999, there was a court judgment in connection with a claim made by a trade creditor, which had subsequently been settled. According to the court judgment, the Company did not hold the legal ownership of Matrix Plastic Manufacturing (Zhongshan) Co., Ltd. ("MPMZ"), an indirect wholly owned major subsidiary of the Company. 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, based on independent legal advice, 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 continues to be treated as an indirect subsidiary of the Company.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new standard, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are either effective for accounting periods beginning on or after 1st December, 2005 or 1st January, 2006. The adoption of the new HKFRSs has had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

4. POTENTIAL IMPACT OF NEW STANDARDS NOT YET EFFECTIVE

The Group has not early applied the following new standards, amendment or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendment or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKFRS 7	Financial Instruments: Disclosures[1]
HKFRS 8	Operating Segments[2]
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[3]
HK(IFRIC)-Int 8	Scope of HKFRS 2[4]
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives[5]
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment[6]
HK(IFRIC)-Int 11	HKFRS 2 — Group and Treasury Share Transactions[7]
HK(IFRIC)-Int 12	Service Concession Arrangements[8]

[1] Effective for annual periods beginning on or after 1st January, 2007.
[2] Effective for annual periods beginning on or after 1st January, 2009.
[3] Effective for annual periods beginning on or after 1st March, 2006.
[4] Effective for annual periods beginning on or after 1st May, 2006.
[5] Effective for annual periods beginning on or after 1st June, 2006.
[6] Effective for annual periods beginning on or after 1st November, 2006.
[7] Effective for annual periods beginning on or after 1st March, 2007.
[8] Effective for annual periods beginning on or after 1st January, 2008.

5. CHANGES OF ACCOUNTING ESTIMATES

In previous years, certain plant and machinery was depreciated over their estimated useful lives of five to seven years. Management reviewed the economic useful lives of the plant and machinery during the year and determined that with effect from 1st January, 2006, such plant and machinery are to be depreciated over their estimated useful lives of ten years. In the opinion of the directors, the change reflects management's current best estimate of the economic useful lives of plant and machinery based on their previous experiences of these assets. This change, which has been applied prospectively, has resulted in a decrease in the depreciation charge for the year of approximately HK$12,044,000.

6. 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 the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") 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.

6. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from the activities.

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 changes 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.

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under *HKFRS 3 Business Combinations* are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with *HKFRS 5 Non-Current Assets Held for Sale and Discontinued Operations*, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

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.

6. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment

Leasehold land and buildings and plant and machinery are stated in the consolidated 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 any 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.

Any revaluation increase arising on revaluation of leasehold land and buildings and plant and machinery is credited to the asset revaluation reserve, 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 consolidated 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 consolidated 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	10%–20%
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 form 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 consolidated 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 assets 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.

6. 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 operating leases.

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.

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classifications, leasehold land which title is not expected to pass to the lessee by the end of the lease term is classified as an operating lease unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is classified as a finance lease.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) 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.

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 Group (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.

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the period in which they are incurred.

6. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

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 consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes items of income or expense 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 recognised on differences between the carrying amounts of assets and liabilities in the consolidated 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.

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 consolidated 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 as an expense when employees have rendered service entitling them to the contributions.

6. 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 of the Group represents held-for-trading investments. 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 bank 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 the 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.

6. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (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 accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

Financial liabilities including trade and other payables, dividend payable and bank overdrafts are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

Repurchase of shares

The repurchased shares will be cancelled during the year and the issued share capital of the Company is reduced by the nominal value thereof. The premium payable on repurchase of the shares will be charged to the share premium account.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

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 each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in profit or loss, with a corresponding adjustment to 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 forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained profits.

7. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies which are described in note 6, management has made the following estimates that have significant effects 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 its property, plant and equipment on a straight line basis over their estimated useful lives as set out in note 6 to the consolidated financial statements, commencing from the date the items of property, plant and equipment are put into their intended use. The estimated useful lives and the dates the items of property, plant and equipment are put into use reflects the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the property, plant and equipment. The Group assesses the residual value and useful lives of the property, plant and equipment on a regular basis and if the expectation differs from the original estimate, such difference will impact the depreciation charge in the year in which such estimate has been changed.

Income taxes

As at 31st December, 2006, a deferred tax asset of HK$344,000 in relation to unused tax losses and other taxable temporary differences have been recognised in the Group's consolidated balance sheet. No deferred tax asset has been recognised on the tax losses of approximately HK$37,378,000 due to unpredictability of future profit streams. 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 consolidated income statement for the period in which such a reversal or additional recognition takes place.

8. FINANCIAL INSTRUMENTS

(a) Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, pledged bank deposit, bank balances, trade and other payables, dividend payable and bank overdrafts. Details of these financial instruments are disclosed in respective notes. The risk associated with these financial instruments and the policies 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.

Currency risk

Several subsidiaries of the Company have foreign currency sales and purchases, which expose the Group to foreign currency risk. Certain bank balances, pledged bank deposit, trade receivables and trade payables of the Group are denominated in foreign currencies and the amounts are disclosed in notes 24, 22 and 25 respectively. 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.

8. FINANCIAL INSTRUMENTS (Continued)

(a) Financial risk management objectives and policies (Continued)

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, 2006 in relation to each class of recognised financial assets is the carrying amounts of those assets 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 five largest customers of the Group together accounted for approximately 84.0% of the Group's turnover, therefore, the Group's credit risk on its trade receivables is concentrated on a few of its major customers, the Group has policies in place to ensure that sales of products are made to those customers with good credit history.

(b) Fair value

The fair value of financial assets and financial liabilities are determined as follows:

— the fair value of held-for-trading investments which are traded on active liquid markets are determined with reference to quoted market bid prices; and

— the fair value of other financial assets and financial liabilities are determined based on discounted cash flow analysis or using prices from observable current market transactions.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

9. SEGMENT INFORMATION

The Group is mainly engaged in the manufacture and trading of gift items, 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 other than Hong Kong (the "PRC") and the Socialist Republic of Vietnam ("Vietnam"). The directors of the Company consider the geographical segments by location of customers as the primary source of the Group's risks and returns.

The Group's customers are mainly located in the United States of America ("United States"). The following table provides an analysis of the Group's segment information by geographical location of the Group's customers:

2006

	United States HK$'000	Europe HK$'000	Canada HK$'000	Hong Kong HK$'000	Others HK$'000	Consolidated HK$'000
TURNOVER						
External sales	737,507	59,663	19,505	32,234	19,050	867,959
RESULTS						
Segment results	197,388	19,728	4,252	1,817	7,121	230,306
Unallocated income						5,363
Unallocated expenses						(131,116)
Finance costs						(503)
Profit before taxation						104,050
Income tax charge						(3,404)
Profit for the year						100,646
ASSETS						
Segment assets	215,589	16,992	8,559	9,039	6,280	256,459
Unallocated corporate assets						272,330
						528,789
LIABILITIES						
Segment liabilities	72,700	4,380	943	2,749	2,408	83,180
Unallocated corporate liabilities						142,102
						225,282

9. SEGMENT INFORMATION (Continued)

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

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 on which allocation can be made.

9. SEGMENT INFORMATION (Continued)

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

	Carrying amounts of segment assets		Additions to property, plant and equipment	
	2006	*2005*	**2006**	*2005*
	HK$'000	HK$'000	**HK$'000**	HK$'000
PRC	**282,138**	238,910	**22,801**	76,395
Vietnam	**118,774**	109,903	**13,576**	6,190
Hong Kong	**99,443**	132,789	**344**	9,419
Macau	**18,462**	19,489	**9**	—
United States	**8,231**	7,745	**124**	2,990
Canada	**70**	3,475	**—**	6
Europe	**1,327**	—	**—**	—
	528,445	512,311	**36,854**	95,000

10. OTHER INCOME

	2006	2005
	HK$'000	HK$'000
Interest income on bank deposits	**730**	590
Gain on disposal of subsidiaries	**715**	—
Gain on disposal of property, plant and equipment	**648**	—
Others	**4,113**	3,631
	6,206	4,221

11. FINANCE COSTS

	2006	2005
	HK$'000	HK$'000
Interest on bank overdrafts	**503**	28
Finance lease charges	**—**	7
	503	35

12. PROFIT BEFORE TAXATION

	2006 HK$'000	2005 HK$'000
Profit before taxation has been arrived at after charging:		
Auditors' remuneration	**1,559**	1,574
Amortisation of prepaid lease payments	**32**	30
Loss on fair value changes on held-for-trading investments	**122**	447
Depreciation of property, plant and equipment	**36,530**	35,205
Revaluation deficit in respect of property, plant and equipment	**—**	804
Net exchange loss	**177**	2,143
Research and development costs (including staff costs of HK$10,877,000 (2005: HK$9,143,000))	**17,730**	14,886
Staff costs (Note)	**233,481**	196,864

Note: Staff costs include directors' remuneration and employees benefits in respect of share options granted, but excludes staff costs included in research and development costs.

13. DIRECTORS' EMOLUMENTS AND EMPLOYEES' EMOLUMENTS

Directors' emoluments

The emoluments paid or payable to each of the six (2005: six) directors are as follows:

2006

		Other emoluments			
	Fees HK$'000	Salaries and allowances HK$'000	Contributions to MPFS HK$'000	Other benefits (Note) HK$'000	Total HK$'000
Executive directors					
Cheng Yung Pun	—	1,050	12	—	1,062
Yu Sui Chuen	—	1,008	47	270	1,325
Cheng Wing See, Nathalie	—	283	12	—	295
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 2006	198	2,341	71	270	2,880

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

Directors' emoluments (Continued)

2005

		Other emoluments			
	Fees HK$'000	Salaries and allowances HK$'000	Contributions to MPFS HK$'000	Other benefits (Note) HK$'000	Total 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

Note: Other benefits represent employees share option benefits.

No director waived any emoluments in the two years ended 31st December, 2006.

Employees' emoluments

Of the five individuals with the highest emoluments in the Group, one (2005: one) are directors of the Company whose emoluments are included in the above disclosures. The emoluments of the remaining four (2005: four) individuals are as follows:

	2006 HK$'000	2005 HK$'000
Salaries and allowances	**11,507**	15,845
Contributions to retirement benefit schemes and MPFS	**292**	394
	11,799	16,239

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

Employees' emoluments (Continued)

Their emoluments are within the following bands:

	2006 No. of employees	2005 No. of employees
HK$1,000,001 to HK$1,500,000	**1**	—
HK$1,500,001 to HK$2,000,000	**2**	2
HK$6,000,001 to HK$6,500,000	**—**	1
HK$6,500,001 to HK$7,000,000	**—**	1
HK$7,000,001 to HK$7,500,000	**1**	—
	4	4

14. INCOME TAX CHARGE (CREDIT)

	2006 HK$'000	2005 HK$'000
Current tax:		
Hong Kong	**3,233**	3,027
Other jurisdictions	**316**	223
	3,549	3,250
Overprovision in prior years:		
Hong Kong	**(4)**	(5,889)
Other jurisdictions	**(730)**	—
	(734)	(5,889)
Deferred tax:		
Current year (Note 28)	**589**	708
Taxation charge (credit) attributable to the Company and its subsidiaries	**3,404**	(1,931)

Hong Kong Profits Tax is calculated at 17.5% (2005: 17.5%) on the estimated assessable profit for the year.

According to the Investment License granted by Vietnam authority to certain subsidiaries operating in Vietnam, the applicable Vietnam enterprise income tax rate is 10% on the estimated assessable profits during their operating periods. These 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.

14. INCOME TAX CHARGE (CREDIT) (Continued)

The tax position of the Group is currently being reviewed by the Hong Kong Inland Revenue Department ("IRD"). As a matter of IRD's practice, IRD has issued assessments to certain subsidiaries in respect of the year of assessment 2000/2001. The Group has filed an objection against such assessments. Although the review is still at a preliminary fact-finding stage, the directors are of the opinion that the outcome of the review would not result in material impact on the consolidated financial statements.

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

	2006 **HK$'000**	2005 HK$'000
Profit before taxation	**104,050**	138,866
Tax at the average income tax rate (Note)	**14,499**	20,405
Tax effect of expenses not deductible for tax purpose	**2,953**	4,630
Tax effect of income not taxable for tax purpose	**(12,487)**	(18,966)
Overprovision in respect of prior year	**(734)**	(5,889)
Tax effect of tax losses not recognised	**72**	72
Utilisation of tax losses	**(891)**	(2,239)
Others	**(8)**	56
Tax charge (credit) for the year	**3,404**	(1,931)

Note: The weighted average applicable tax rate for different jurisdictions is approximately 14% (2005: 14%). The weighted average applicable tax rate represents the weighted average tax rate in different jurisdictions in which the Group operates and is calculated on the basis of the profit or loss before taxation arising in these jurisdictions and on the statutory rates applicable.

15. DIVIDENDS

	2006 **HK$'000**	2005 HK$'000
Dividends recognised as distribution during the year		
Prior year final, paid — HK9 cents (2005: HK9 cents) per share	**51,732**	52,625
Interim, paid — HK8 cents (2005: HK8 cents) per share	**45,984**	46,778
Special, declared — HK3 cents (2005: HK3 cents) per share	**17,315**	17,542
	115,031	116,945

15. DIVIDENDS (Continued)

During the year, a scrip dividend alternate was offered to shareholders in respect of the 2006 interim dividend. The scrip dividend alternate was accepted by some of the shareholders as follows:

	2006 HK$'000	2005 HK$'000
Dividends:		
Cash	41,474	—
Shares (Note 31)	4,510	—
	45,984	—

The final dividend of HK9 cents (2005: HK9 cents) per share amounting to approximately HK$51,944,000 (2005: HK$51,732,000) has been proposed by the directors and is subject to approval by the shareholders in the annual general meeting. The proposed final dividend for 2006 will be payable in cash with a scrip dividend alternate.

16. 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

	2006 HK$'000	2005 HK$'000
Earnings for the purposes of basic earnings per share	100,646	140,929

Number of shares

	2006 '000	2005 '000
Weighted average number of ordinary shares for the purposes of basic earnings per share	575,763	584,720

The weighted average number of ordinary shares for the purpose of basic earnings per share has been adjusted for the effects of the repurchase of shares and scrip dividend in January and October 2006 respectively.

Diluted earnings is not shown as the exercise price of the share options outstanding is higher than the average market price for shares for both 2006 and 2005.

17. 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, 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
Exchange adjustments	(201)	—	(229)	—	(29)	—	(459)
Additions	3,539	846	22,068	9,149	1,252	—	36,854
Disposals	(8,610)	(930)	(60)	—	(187)	—	(9,787)
Disposal of subsidiaries	—	(115)	—	—	(325)	—	(440)
At 31st December, 2006	104,580	14,612	86,952	33,244	8,807	718	248,913
Comprising							
At cost	—	14,612	—	33,244	8,807	718	57,381
At valuation	104,580	—	86,952	—	—	—	191,532
	104,580	14,612	86,952	33,244	8,807	718	248,913
DEPRECIATION AND IMPAIRMENT LOSSES							
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
Exchange adjustments	(7)	—	(46)	—	(13)	—	(66)
Provided for the year	3,922	2,126	18,770	10,046	1,602	64	36,530
Eliminated on disposals	(87)	(181)	(36)	—	(120)	—	(424)
Eliminated on disposal of subsidiaries	—	(63)	—	—	(159)	—	(222)
At 31st December, 2006	3,828	3,989	18,688	19,543	3,850	718	50,616
CARRYING VALUES							
At 31st December, 2006	100,752	10,623	68,264	13,701	4,957	—	198,297
At 31st December, 2005	109,852	12,704	65,173	14,598	5,556	64	207,947

17. PROPERTY, PLANT AND EQUIPMENT (Continued)

The leasehold land and buildings are situated on land, under medium term leases, their carrying values are analysed below:

	2006 HK$'000	2005 HK$'000
In Hong Kong	—	8,610
Outside Hong Kong	100,752	101,242
	100,752	109,852

The directors consider that the carrying values of the leasehold land and buildings and plant and machinery at 31st December, 2006 approximate their fair values. The Group's leasehold land and buildings and the plant and machinery in Hong Kong and the PRC 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 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.

At 31st December, 2006, 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 values would have been approximately HK$60,980,000 (2005: HK$69,886,000) and HK$54,204,000 (2005: HK$50,930,000) respectively.

The Group has pledged its land and buildings having a net book value of approximately HK$56,912,000 (2005: HK$ 59,580,000) to a bank for banking facilities granted to the Group.

18. GOODWILL

In the prior year, 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.

19. PREPAID LEASE PAYMENTS

	2006 HK$'000	2005 HK$'000
The Group's prepaid lease payments comprise:		
Leasehold land outside Hong Kong under medium term lease	1,143	1,175
Analysed for reporting purposes as:		
Current	32	32
Non-current	1,111	1,143
	1,143	1,175

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For the year ended 31st December, 2006

20. LIST OF SUBSIDIARIES

Details of the principal subsidiaries at 31st December, 2006 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 Enterprises (Macao Commercial Offshore) Company Limited	Macau	MOP100,000	Quota capital	100%	Purchasing and trading of gifts and novelties
Keyhinge Holdings Limited	Hong Kong	HK$10,000	Ordinary share	100%	Investment holding
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$9,538,863	Capital contribution	100%	Manufacture of gifts and novelties
Keysuccess International Limited	The British Virgin Islands	US$1	Ordinary share	100%	Investment holding
Matrix Development Group Limited	The British Virgin Islands	US$10	Ordinary share	100%	Investment holding
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
Matrix Manufacturing Vietnam Company Limited	Vietnam	US$3,800,000	Capital contribution	100%	Manufacture of gifts and novelties

20. LIST OF 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 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
Maxguard Limited	The British Virgin Islands	US$10	Ordinary share	100%	Investment holding
Mediaway Technology Company Limited	PRC*	HK$500,000	Paid up registered capital	100%	Products research and development
Shelcore Hong Kong Limited	Hong Kong	HK$10,000	Ordinary share	100%	Manufacture and trading of toys
Shelcore, Inc.	United States of America	US$1,000	Common stock	100%	Trading
Shelcore Canada Limited	Canada	CAD957,085	Common share	100%	Trading
Toytrix Company Limited	Hong Kong	HK$2	Ordinary share	100%	Manufacture of printing materials

* 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.

21. INVENTORIES

	2006 HK$'000	2005 HK$'000
Raw materials	55,799	43,693
Work in progress	52,850	33,781
Finished goods	83,907	71,821
	192,556	149,295

22. TRADE AND OTHER RECEIVABLES

The trade and other receivables include trade receivables of approximately HK$85,377,000 (2005: HK$46,021,000). 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:

	2006 HK$'000	2005 HK$'000
0–60 days	76,073	40,734
61–90 days	6,999	1,443
> 90 days	2,305	3,844
	85,377	46,021

Included in the Group's trade receivables are receivables of approximately HK$83,932,000 (2005: HK$43,900,000) denominated in the United States dollar which is not the functional currency of the relevant group entities.

23. HELD-FOR-TRADING INVESTMENTS

The investments represent equity securities listed in the United States which are stated at quoted market bid price.

24. PLEDGED BANK DEPOSIT AND BANK BALANCES

The pledged bank deposit was to secure bank facilities granted to the Group and is therefore classified as a current asset. The pledged bank deposit carried interest at average fixed rate of 3.5% (2005: 3.0%) per annum and will be released upon the settlement of the bank borrowings. The bank balances carried interest at prevailing interest rates.

The bank balances of approximately HK$15,909,000 (2005: HK$34,866,000) are denominated in the United States dollar which is not the functional currency of the relevant group entities.

25. TRADE AND OTHER PAYABLES

The trade and other payables include trade payables of approximately HK$83,931,000 (2005: HK$57,434,000).

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

	2006	2005
	HK$'000	HK$'000
0–60 days	**62,143**	53,944
61–90 days	**15,160**	2,723
> 90 days	**6,628**	767
	83,931	57,434

Included in the Group's trade payables are payables of approximately HK$5,537,000 (2005: HK$8,199,000) denominated in the Japanese Yen which is not the functional currency of the relevant group entities.

26. BANK OVERDRAFTS

Bank overdrafts carry interest at market rates ranging from 3.15% to 7.25% per annum.

27. SHARE CAPITAL

	Number of shares		**Nominal value**	
	2006	*2005*	**2006**	*2005*
	'000	'000	**HK$'000**	HK$'000
Ordinary shares of HK$0.1 each				
Authorised				
At the beginning and 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**	584,720	**58,472**	58,472
Issued in lieu of cash dividend (Note a)	**2,361**	—	**236**	—
Shares repurchased and cancelled (Note b)	**(9,924)**	—	**(992)**	—
At the end of the year	**577,157**	584,720	**57,716**	58,472

27. SHARE CAPITAL (Continued)

Notes:

(a) On 16th October, 2006, the Company issued and allotted a total of 2,360,967 shares of HK$0.1 each in the Company at par to the shareholders who elected to receive shares in the Company in lieu of cash payment for the 2006 interim dividend. These shares rank *pari passu* in all respects with other shares then in issue. The details of the scrip dividend alternate are set out in note 31.

(b) During the year, the Company repurchased a total of 9,924,000 ordinary shares of the Company of HK$0.10 each on the Stock Exchange as follows:

Month of repurchase	Number of ordinary shares	Price per share Highest	Price per share Lowest	Aggregate consideration paid
		HK$	HK$	HK$'000
January 2006	9,924,000	2.15	1.98	20,465

The shares repurchased were cancelled.

None of the Company's subsidiaries purchased, sold and redeemed any of the Company's shares during the year.

28. DEFERRED TAXATION

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

	Accelerated tax depreciation	Accelerated accounting depreciation	Revaluation of property, plant and equipment	Retirement benefit obligation	Tax losses	Others	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1st January, 2005	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 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
Charge (credit) to income for the year	123	188	(522)	38	784	(22)	589
Exchange difference	—	2	(4)	—	3	—	1
At 31st December, 2006	3,064	(201)	2,507	(32)	(257)	(56)	5,025

28. DEFERRED TAXATION (Continued)

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:

	2006	2005
	HK$'000	HK$'000
Deferred tax liabilities	**5,369**	4,815
Deferred tax assets	**(344)**	(380)
	5,025	4,435

At the balance sheet date, the Group had unused estimated tax losses of HK$42,275,000 (2005: HK$57,095,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK$4,897,000 (2005: HK$9,422,000) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses of HK$37,378,000 (2005: HK$47,673,000) due to the unpredictability of future profit streams. Included in year 2005 unrecognised tax losses are losses of HK$10,216,000 that expired in 2006. Other tax losses may be carried forward indefinitely.

29. 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 the "Shelcore Companies"). The acquisition has been accounted for by the purchase method of accounting. The Shelcore Companies are principally engaged in the manufacturing and trading of infant and pre-school children toys.

29. ACQUISITION OF SUBSIDIARIES (Continued)

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

	Acquirees' carrying amount before combination HK$'000	Fair values HK$'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 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 31st December, 2005.

If the acquisition had been completed on 1st January, 2005, the total turnover of the Group for the year 2005 would have been approximately HK$919.9 million, and profit for the year 2005 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 2005 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.

30. DISPOSAL OF SUBSIDIARIES

Certain subsidiaries were disposed on 29th June, 2006. The net liabilities of the subsidiaries at the date of disposal are as follows:

	HK$'000
Net liabilities disposed of	
Property, plant and equipment	218
Trade and other receivables	451
Bank balances and cash	125
Trade and other payables	(1,509)
	(715)
Gain on disposal of subsidiaries	715
Cash consideration	—
Net cash outflow arising on disposal:	
Bank balances and cash disposed of	(125)

The subsidiaries disposed of during the year did not have any significant impact on the cash flows, turnover and profit of the Group for the year.

31. MAJOR NON-CASH TRANSACTIONS

During the year, the directors have declared an interim dividend of HK8 cents to be satisfied by cash and, with an alternative to the shareholder to elect to receive such dividend (or part thereof) by way of scrip dividend by allotment of new shares in the Company, credited as fully paid. The market price for the purpose of the scrip dividend was determined at HK$1.91 per share, which is equivalent to the average closing prices of the shares quoted on the Stock Exchange for the five consecutive trading days, from 30th August, 2006 to 5th September, 2006.

As a result, 2,360,967 shares were issued to the shareholders who had elected to receive new shares in the Company in lieu of cash dividend. An amount of HK$236,000 equal to the nominal value of the shares issued is credited to share capital and approximately HK$4,510,000 is credited to retained profits as if the shareholders had forgone their dividends and accepted a bonus issue of share in the place of those dividends.

32. OPERATING LEASE COMMITMENTS

	2006 HK$'000	2005 HK$'000
Minimum lease payments in respect of land and buildings under operating leases recognised in the consolidated income statement for the year	**9,283**	5,323

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

	2006 HK$'000	2005 HK$'000
Within one year	**5,822**	6,325
In the second to fifth year inclusive	**1,669**	5,799
After five years	**4,311**	4,582
	11,802	16,706

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

33. CAPITAL COMMITMENTS

	2006 HK$'000	2005 HK$'000
Capital expenditure in respect of the acquisition of property, plant and equipment		
— contracted for but not provided in the consolidated financial statements	**7,548**	6,688
— authorised but not contracted for	**547**	1,114

34. RELATED PARTY TRANSACTIONS

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

	2006 HK$'000	2005 HK$'000
Rental paid or payable to a related company	144	144
Purchases of plant and equipment from a related company	709	703

Mr. Cheng Yung Pun, a director of the Company, has beneficial interests in the related companies.

Compensation of key management personnel

The remunerations of directors and other members of key management in respect of the year are as follows:

	2006 HK$'000	2005 HK$'000
Salaries and other short-term employee benefits	9,340	8,136
Termination benefits	83	138
Share-based payments	812	1,625
	10,235	9,899

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

35. 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.

35. SHARE BASED PAYMENT TRANSACTION (Continued)

Equity-settled share option scheme (Continued)

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, 2006, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 8,768,000 (2005: 8,768,000), representing 1.52% (2005: 1.50%) of the shares of the Company in issue at that date. Options may be exercised at any time from 27th January, 2006 to 26th January, 2009.

Details of specific category of share options are as follows:

Option type	**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:

Option type	**Outstanding at 1st January, 2006**	**Granted during year**	**Exercised during year**	**Outstanding at 31st December, 2006**
2005	**8,768,000**	**—**	**—**	**8,768,000**
Exercisable at the end of the year				**8,768,000**

Option type	Outstanding at 1st January, 2005	Granted during year	Exercised during year	Outstanding at 31st December, 2005
2005	—	8,768,000	—	8,768,000

No option was granted, exercised, lapsed or cancelled during the year ended 31st December, 2006. The estimated fair value of the options granted on 27th October, 2005 was HK$2,437,000.

35. SHARE BASED PAYMENT TRANSACTION (Continued)

Equity-settled share option scheme (Continued)

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

	Option type 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 subjective 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$812,000 for the year ended 31st December, 2006 (2005: HK$1,625,000) in relation to share options granted by the Company.

36. 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 employees.

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.

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 the consolidated income statement of approximately HK$5,306,000 (2005: HK$5,259,000) represents contributions payable to the schemes by the Group at the rates specified in the rules of the various schemes.

37. POST BALANCE SHEET EVENTS

(a) On 26th February, 2007, the Company entered into a non-legally binding letter of intent in relation to the possible acquisition of the controlling equity interests in various entities involved in the business of design and sale of a range of toy products (the "Proposed Acquisition"). The Proposed Acquisition may or may not proceed and is subject to the entering into of a formal sales and purchase agreement. Details of the possible acquisition were set out in the Company's announcement made pursuant to 13.09(1) of the Listing Rules dated 21st March, 2007.

(b) Subsequent to the balance sheet date, one of the subsidiaries of the Company entered into an agreement for the construction of factory buildings in Vietnam at the cost of approximately HK$15,520,000.