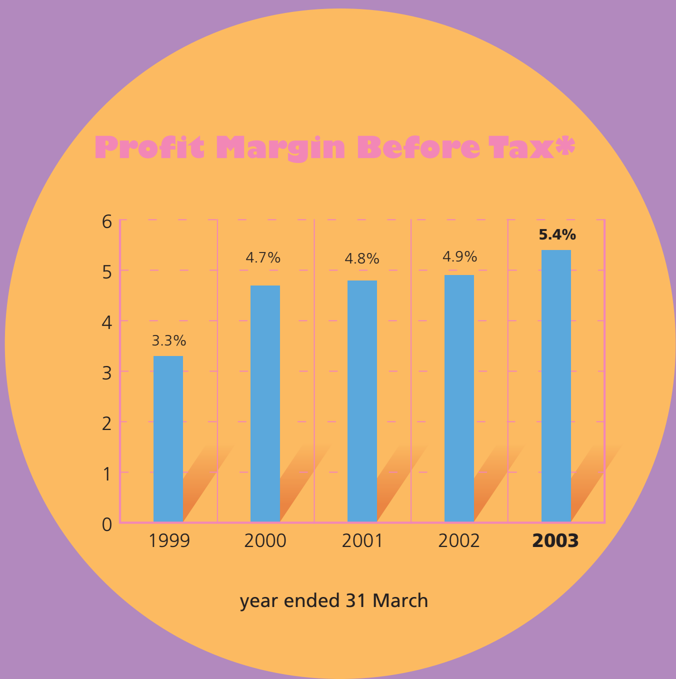
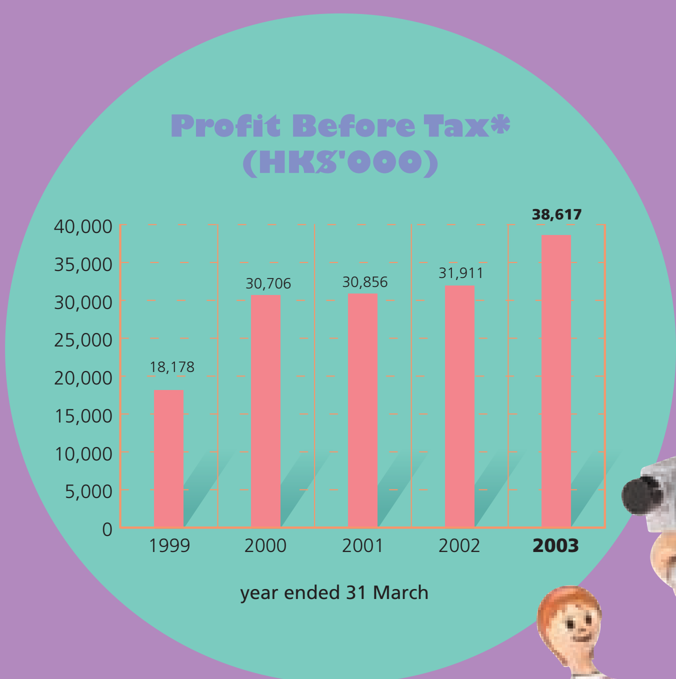
Financial Review





* excluding revaluation deficit on leasehold land and buildings charged to the profit and loss account

FINANCIAL ANALYSIS

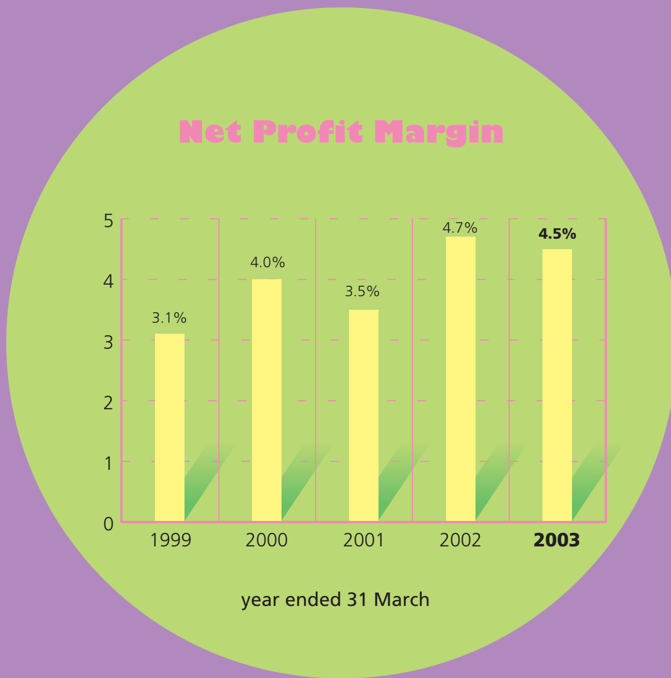
The Group generates revenues mainly from the manufacturing and sales of toys and moulds. Total revenue for the year ended 31 March 2003 was HK$717 million, representing an increase of 9.0% over previous year's HK$657 million. Despite sluggish global economy, management attributes the growth in sales to continued support from major OEM customers. Sales from consignment and wholesale businesses on the Mainland China formed a part of the Group's revenue. Kid Galaxy ("KG"), with a whole year operation, also contributed to the annual turnover.

Due to uncertainties in the market, there were pricing pressures at the retail level causing customers to seek lower price alternatives. Enhancement in product engineering capabilities and manufacturing process, leveraging the Group's volume advantage in purchasing to reduce material costs, allowed it to keep prices competitive without sacrificing margins. Consequently, gross profit and gross margin increased to HK$210 million and 29.3% of turnover compared to HK$181 million and 27.6% of 2001/02. The increase was mainly attributable to the Group's strategy of focusing on higher margin products in the OEM business.

Financial Review

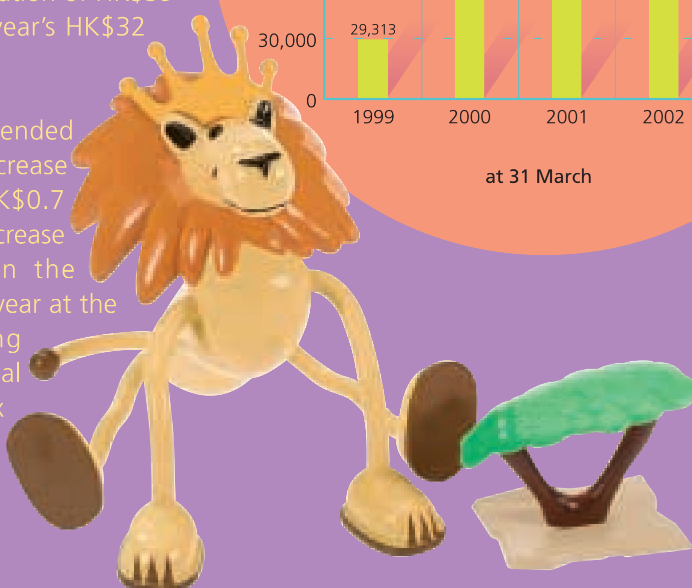
Since the investment in KG, the Group launched aggressive marketing, sales and product development campaigns. This resulted in a disproportionate increase in spending on advertising and promotion dollars, which resulted in an increase in the Group's selling expenses to HK$36 million compared to HK$26 million in the last financial year. Toy show expenses and licensing fees formed part of the increment.

The restructuring costs relating to the acquisition of KG also contributed towards an increase in the Group's administrative expenses. Staff cost, with the addition of KG's payroll also formed a portion of the administrative expenditure. The total administrative expenses for the year ended 31st March 2003 was HK$124 million, compared to HK$110 million in the previous year.

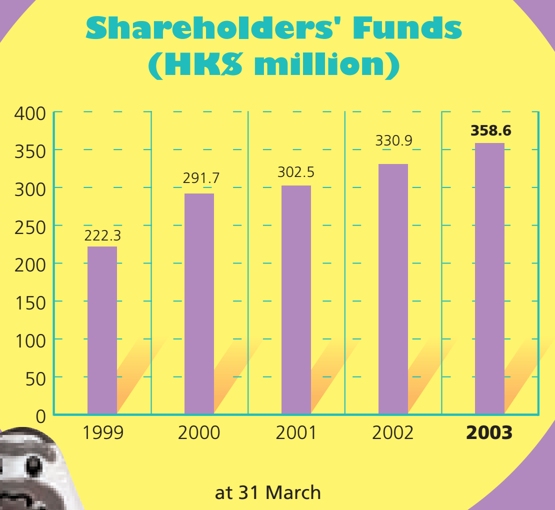


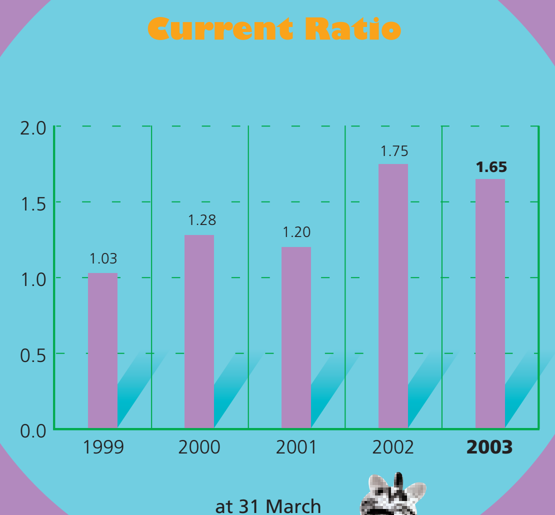
In spite of the above increment in expenses, the operating profit improved from HK$50 million in the previous year to HK$53 million for the current year. Operating margin remained steady at around 7.4%. This increase in expenses was slightly offset by savings from interest expenses due to the current low interest rates environment. Interest expense decreased from HK$18 million to HK$14 million. The Group entered into a three year transferable loan agreement ("Second Syndication Loan") with a group of banks in December 2002 for a sum of HK$200 million. Low interest rate, despite an increase in borrowing, benefited the Group in achieving a profit before taxation of HK$39 million, an increase over last year's HK$32 million.

Taxation provided for the year ended 31st March 2003 showed an increase to HK$6 million compared to HK$0.7 million in the previous year. The increase was mainly due to taxation on the estimated assessable profits for the year at the rates applicable to profit-making subsidiaries. There was no substantial write back in over provision of tax unlike the previous year.



Financial Review





Overall, the Group's net profits attributable to shareholders were HK$33 million compared to HK$31 million in the previous year. Net profit margin was 4.5% as compared to 4.7% of the previous year. The basic earnings per share were HK7.6 cents for the year ended 31 March 2003 against HK7.2 cents for the year ended 31 March 2002 whereas the diluted earnings per share were also higher at HK 6.7 cents compared to HK6.5 cents of last year.

Liquidity and capital resources

The capital expenses in equipment at the latter part of the financial year were the main addition to the Group's fixed assets. Total fixed asset reduced from 281 million to 258 million as at 31st March 2003. The main reason for the reduction was the refund of cost arising from the cancellation of a major asset acquisition.

Goodwill of HK$23 million consists mainly of the acquisition costs of KG and the Bendos' brand. The Board has made a decision to amortize this asset expenditure over a period of 15 years commencing from the date of acquisitions.

Other investments showed an increase from HK$10 million to HK$33 million as at 31st March 2003. This increment comprised of investments in life insurance contracts for the Group's key officers, being the Executive Directors. Given the importance of these senior executives and to ensure minimal disruption to operations, the insurance shall provide the Group with short-term financial relief in the event of the loss of any one of these key personnel. The investments have a cash surrender value of HK$28 million as at the balance sheet date.

Notwithstanding management's effort to improve working capital and despite recording an increase in turnover, the inventory balance as at 31st March 2003 remained steady at HK$183 million. This was caused by stocking of plastic materials prior to year end, worried by the possible increase in price due to

the Iraqi war. The delayed shipment of goods during the SARS period also contributed towards stock turnover days to remain at 93 days as in 2002/03.

Trade receivables at 31 March 2003 increased to HK$124 million compared to HK$106 million in the previous year. Management attributes the increase directly to increase in turnover as well as extension of payment terms to customers with strong financials. Receivable turnover increased from 52 days in 2001/02 to 59 days in 2002/ 03. Management has a policy of constantly reviewing the Group's credit policy and assessing its customer's financial status. Sales to certain customers are covered by export credit insurance.

US dollar remains the Group's major transaction currency. Since the Hong Kong currency is pegged to the US dollar, foreign exchange risk exposure to the Group is considered minimal. The other source of currency generated is in the form of Renminbi ("Rmb") from China sales, which are fully expensed in the Mainland in salaries, material purchases and other forms of expenditures. Total cash and bank balances of the Group increased significantly to HK$140 million as at 31 March 2003 compared to HK$69 million as at 31 March 2002. The reasons for the increase were mainly due to the unused portion of the Second Syndication Loan and the refund received from the cancellation of fixed assets purchase. The Group's current assets position as at 31 March 2003 improved significantly to HK$476 million from HK$380 million in the previous year-end date.

Short-term trust receipt loans increased from HK$42 million in the previous year to HK$75 million at 31 March 2003. The major reason for this increment was to finance the increase in trade receivables. With part of the first syndication loan ("First Syndication Loan") granted in June 2001 due for repayment within the coming financial year, current portion of loan from banks and financial institutions increased from HK$65 million to HK$115 million as at 31st March 2003. The Group's net current assets overall improved steadily from HK$164 million to HK$187 million.

On 3 December 2002, the Group entered into the Second Syndication Loan which will be used to repay the First Syndication Loan, expansion of OBM business, additional purchase of production equipments as well as for working capital. The additional funding was reflected in the long-term loan from banks and financial institutions remaining steady at approximately HK$139 million as at 31 March 2003.

Total interest bearing liability increased from HK$263 million to HK$344 million at the end of financial year 2002/03. This represented a slight increase in net debt (interest bearing liability less cash and bank balances) from HK$194 million to HK$204 million. Due to the higher than normal cash holding at balance sheet date, gearing ratio on net debt to shareholders' funds basis reduced from 59% to 57%. However, management will constantly review the Group's gearing ratio and strive to strengthen our financial position.

Net asset value of the Group showed a growth to HK$359 million compared to HK$331 million at the previous balance sheet date. The Group's working capital needs have been constantly financed by internally generated cash flow and credit facilities granted by banks.

Bearing unforeseen circumstances and with the current cash balances and available banking facilities, management believes the Group has adequate financial resources to meet its future working capital requirements.