

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS

During the period under review, the Group recorded a consolidated turnover of HK\$165,560,000 representing an increase of approximately 42% as compared to the last corresponding period. The loss attributable to shareholders amounted to HK\$11,037,000 (2002 restated : loss of HK\$24,098,000).

BUSINESS REVIEW

Toys

During the period under review, the Group recorded a substantial increase in turnover for the OEM/ODM toys business, an increase of 109% as compared to the corresponding period of last year. This tremendous achievement was a fruitful success of our efforts in strengthening and providing our high value added service. Thus, when there were signs of economic recovery in the US, the Group succeeded in obtaining more orders from existing customers. It is anticipated that the Group will continue to benefit from its strategies on maintaining our usual high product quality while improving productivity at the same time.

Model Trains

During the period under review, turnover in model trains has increased by 29% as compared to the corresponding period of last year. Our new model trains are well received in both Europe and the US. Looking forward, the Group will continue to widen our product ranges and develop high quality models in model train business, and this will make further contribution to the Group's revenue. We are confident in increasing our market share and continuing our leading position in the industry.

Property Investment

During the period under review, the Group recorded a 11% decrease in rental income as compared to the corresponding period of last year, mainly caused by the termination of several leases. Furthermore, with the outbreak of the SARS epidemic in March, Hong Kong's property market, as well as the rental market, was adversely affected. With the recent economic recovery, the Group is confident in securing a high occupancy rate. The Group's rental income is expected to increase steadily in the second half of the year.

Investment Holding

During July 2002, the Group was brought into litigation arising from the termination of the agency in relation to the management of the Resort at Squaw Creek ("the Resort"). In March of this year, the Group has reached a Settlement Agreement with the other party. The Settlement was now completed and thus ended the litigation. After the Settlement, the proportion of ownership interest held by the Group in the Resort remains the same. The directors agreed that the settlement was in the best interests of the Group.

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 30th June 2003, the Group's current ratio was 0.80 (at 31st December 2002: 0.83). The Group's total bank borrowings have increased from approximately HK\$278 million as reported last year-end to approximately HK\$282 million as at period-end. The financial gearing of the Group, based on the total bank borrowings to the shareholder's equity was maintained at 66% (at 31st December 2002 - restated: 64%). No significant seasonality of borrowing requirements exists except during the peak sales period when the Group's trade loans will be comparatively higher.

Capital Structure

During the period under review, there were no movements in the Company's share capital. The Group's capital instruments are mainly composed of bank loans and directors' support, which are in HK dollars, sterling and US dollars at prevailing market rates.

Charges on Group Assets

As at 30th June 2003, certain investment properties, leasehold land and buildings and other assets of the Group with a total net book value of approximately HK\$500 million (at 31st December 2002: HK\$502 million) were pledged to banks to secure banking facilities granted to the Group.

Material Acquisitions and Disposals

There are no material acquisitions and disposals during the period ended 30th June 2003. At the moment, there are no major plans for material investments or capital assets.

Exchange Rate Exposure

Major assets, liabilities and transactions of the Group are denominated either in sterling, U.S. dollars, Canadian dollars, Renminbi or Hong Kong dollars. As the exchange rate of sterling, US dollars, Canadian dollars and Renminbi against Hong Kong dollars was relatively stable during the period under review, the Group was not exposed to material exchange risk.

Contingent Liabilities

As at 30th June 2003 and 31st December 2002, the Group did not have significant contingent liabilities.

EMPLOYEES AND REMUNERATION POLICIES

As at 30th June 2003, the Group employed approximately 7,000 (at 31st December 2002: 5,100) full time management, administrative and production staff in USA, Europe, PRC and Hong Kong. During the period under review, there was no significant change in the Company's employees and remuneration policies.

PROSPECTS

The directors feel sorry about the outbreak of the SARS epidemic in Hong Kong and several other districts of the world during March of the year. Hong Kong's economic growth was adversely affected during such period. Fortunately, the epidemic was under control very soon, and the world economy was recovering. During the outbreak of the epidemic, the Group's staff and the PRC factory were not affected, thus maintaining our usual high productivity. The Group will continue to exercise the internal control system and closely monitor the hygiene environment of the factory.

Looking ahead, the directors are cautiously optimistic in the recent economic recovery in the US. In Mainland China, the economy is prospering as well. The directors believe that Hong Kong will benefit from the economic recovery of both countries. In fact, during the period under review, the Group had recorded a remarkable growth in turnover and is expecting the situation to be encouraging in the second half of the year.

DISCLOSURE OF INTERESTS

Directors' and Chief Executives' Interests and Short Positions in the Share Capital of the Company and the Associated Corporations

As at 30th June 2003, the interests and short positions of the directors and the chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows :

Interests in the Company

Name of Directors	Number of Ordinary Shares			Total
	Personal Interests	Family Interests	Corporate Interests	
Kenneth Ting Woo-shou	93,865,385	586,629	244,175,800 (i)	338,627,814
Dennis Ting Hok-shou	9,692,817	275,000	236,969,800 (ii)	246,937,617
William Li Kai-wan	—	—	—	—
Liu Chee-ming	—	—	1,000,000	1,000,000
Moses Cheng Mo-chi	11,000	—	—	11,000