



BUSINESS REVIEW

For the six months ended 30 June 2004, the Group reported healthy growth in revenue and profit. During the period, the Group's turnover and net profit attributable to shareholders were approximately HK\$34.2 million (2003: HK\$29.7 million) and HK\$0.6 million (2003: HK\$0.3 million), respectively, representing increases of approximately 15% and 111%, respectively, over the corresponding period in 2003. Earnings per share also increases from HK0.01 cent for 2003 to HK0.03 cent for 2004.

The Board has resolved not to pay any interim dividend for the period (2003: Nil).

For the period under review, revenue from toy segment has declined by approximately 11% while revenue from decorative gift item segment has increased by 90% over the previous period. The pleasing increase in turnover for decorative gift items was attributable to the management's efforts in securing new orders from renowned customers and for becoming the authorised manufacturer for prestigious companies.

The Group generally finances its operations with internally generated cash flow and facilities provided by its principal bankers in Hong Kong and in the PRC. The Group has cash and bank balances of approximately HK\$37.9 million as at the balance sheet date. The Group's cash and bank balances are mostly held in Hong Kong dollars and Renminbi.

The Group's bank and other borrowings are made in Hong Kong dollars and Renminbi, approximately 79% of such borrowings bear interest at fixed lending rate. At 30 June 2004, the Group's bank and other borrowings amounted to approximately HK\$31.9 million, out of which approximately 60% is repayable within one year. The gearing ratio of the Group calculated as a ratio of total bank and other borrowings to total assets is approximately 13% as at 30 June 2004. Net current assets at 30 June 2004 was approximately HK\$10.5 million and the current ratio was approximately 116%. As the Group's operations are all located in Hong Kong and the PRC, no use of financial instruments for hedging is considered necessary.

At 30 June 2004, certain of the Group's leasehold land and buildings with carrying value of approximately HK\$103,700,000, were pledged to secure general banking facilities granted to the Group.

As at 30 June 2004, the Group did not have any contingent liabilities (2003: Nil).

At 30 June 2004, the Group has a total of 1,192 employees. The Group always maintains good working relations with its employees and has committed itself to staff training and development. Remuneration packages are maintained at a competitive level and are being reviewed on a periodical basis. Bonus is awarded to employees according to the assessment of individual performance and industrial practice. Up to the date of this report, no share option had been granted under the share option scheme adopted by the Company.

Looking forward, the Group will continue to explore collaboration opportunities with prestigious brand names and retail chain stores to underpin our reputation and broaden our customer base. The Group will also keep on to bolsters its sales and marketing force to expand our market. The application of nanotechnology will help the Group further upgrade the product quality to meet the discerning need of the customers. On the other hand, the Group will cautiously monitor the progress of the spandex joint venture and plan ahead of the joint venture's future development strategy. With the committed effort of our management and employees, we are optimistic on the prospect of the Group.

The proceeds from the Company's issue of new shares at the time of its listing on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 22 January 2001, after deduction of related expenses, amounted to approximately HK\$43 million. As of 30 June 2004, the net proceeds were applied in accordance with the proposed applications set out in the Company's prospectus dated 9 January 2001, as follows:

- approximately HK\$5 million was used for developing new models and new products;
- approximately HK\$5 million was used for the acquisition of new machinery and auxiliary equipment;



- approximately HK\$10 million was used for establishing retail outlets and developing distribution channels in major cities in the PRC; and
- approximately HK\$18 million was used as general working capital of the Group.

The Group has placed the unused balance of the net proceeds with licensed banks in Hong Kong and the PRC. These deposits have been receiving reasonable and steady interest income which preserves the best interests of the Group and the shareholders.

DIRECTORS' INTERESTS IN SHARES

As at 30 June 2004, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are deemed or taken to have under such provisions of the SFO) or which were required pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules to be notified to the Company and the Stock Exchange were as follows:

Name of Directors	Capacity	Number of Shares	Approximate shareholding
Hui Kee Fung	Interest of a controlled corporation (<i>note</i>)	1,567,500,000 Long position	70.81%
Hui Ki Yau	Not applicable	-	-
Hui Hung Tan, Teresa	Not applicable	-	-