

INTERIM DIVIDEND

The Board of Directors does not recommend the payment of an interim dividend for the six months ended 30th June 2004 (2003: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS

During the period under review, the Group recorded a consolidated turnover of HK\$173,184,000, a slight increase of 4.60% as compared to the last corresponding period. The loss attributable to shareholders amounted to HK\$7,640,000 (2003: loss of HK\$11,037,000).

BUSINESS REVIEW

Toys

During the period under review, raw material prices such as resin, packaging materials and electronic components etc. remained high. At the same time, labour shortage in Guangdong Province, the PRC has led to higher labour costs and unstable supply of manpower. All these unfavourable conditions hamper profit margin and the Group's performance was adversely affected. During the period under review, the turnover for the Group's OEM/ODM toys business decreased by 26.94% as compared to the corresponding period of last year.

Model Trains

During the period under review, turnover in model trains increased by 22.46% as compared to the corresponding period of last year. The Group's model trains continued to be well received in both the European and American markets. This is attributable to the Group's efforts in widening product ranges and providing high quality products at competitive prices.

The Group has much pleasure to announce that at the recent National Model Railroad Convention held in the States, one of our colleagues was awarded the Pioneer Award. At the same time, he was also inducted into the Model Railroad Industry Hall of Fame. Both Awards were given to deserving individuals for their dedication and service to the model railroad industry. These prestigious Awards not only marked the Group's leading position in the industry, but also an encouraging news to our colleagues for their continuous dedication to the Group.

Property Investment

During the period under review, the Group's rental income slightly dropped by 2.84% as compared to the corresponding period of last year. With the completion of several newly erected industrial/commercial buildings in the East Kowloon district, the rent rates of the Group's prime investment property in Kowloon Bay, the Kader Building, was affected. Following the market trend, the rent rate of Kader Building had to be reduced. On the other hand, the Group benefited from the recent bloom in the property market in Shanghai city, the PRC. The rent rate of commercial buildings in Shanghai has been increasing, thus the rent rate of the Group's investment properties in Shanghai has increased by approximately 20%.

Looking forward, Hong Kong's economy is showing signs of strong recovery. During the period under review, some vacant areas of Kader Building were leased out, and the occupancy rate maintains at over 80%. The Board anticipates that the Group's investment properties will continue to generate steady revenue.

Investment Holding

During the period under review, the Group's major investment holding in the States, the Resort at Squaw Creek ("the Resort"), has been operating under the management of a new hotel operator. With signs of economic recovery in the States, the future development of the hotel industry is becoming more optimistic. The Group is confident that the Resort will generate revenue to the Group in the coming years.

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 30th June 2004, the Group's current ratio was 0.92 (at 31st December 2003: 0.80). The Group's total bank borrowings have decreased from approximately HK\$250 million as reported last year-end to approximately HK\$226 million as at period-end. The financial gearing of the Group, based on the total bank borrowings to the shareholder's equity was 52% (at 31st December 2003: 57%). There is no significant seasonality of borrowing requirements except that during peak sales period, 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 director's support, which are in HK dollars, sterling, US dollars and Canadian dollars at prevailing market rates.