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.

Charges on Group Assets

As at 30th June 2004, certain investment properties, leasehold land and buildings and other assets of the Group with a total net book value of approximately HK$612 million (at 31st December 2003: HK$621 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 2004. 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, US 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 2004, the Group did not have significant contingent liabilities except:

(a) As reported in the Group's 2003 Annual Report, around May 2003, a Group company was brought into litigation with a supplier of resin materials. The supplier has taken action against the Group company for settlement of a trading debt amounting to HK$643,980. However, the Group company has counter claimed for US$590,000 as the resin materials supplied did not meet the required specifications. The litigation is still in its early stage and there is no material progress during the period under review. The directors believe the Group will not suffer any material loss as a result of these claims.

(b) As reported in the Group's 2003 Annual Report, during the last quarter of 2003, a Mexican company commenced a law suit in the State of Arizona against the Company based on their claims that the Company is a guarantor for a Lease Agreement of factory premises occupied by Siempre Novedoso De Mexico (Sinomex) S.A. de C.V. ("Sinomex") as tenant ("Litigation"). Sinomex was a member company of the Group that was disposed in mid 1996. The plaintiffs allege claims against Sinomex and the Company of approximately US$5,000,000 for unpaid obligations of Sinomex under the Lease Agreement.

In early January of 2004, the Company's legal counsel filed a Motion to Dismiss the complaint in the Litigation based upon the applicable law of Arizona and that of the location of the property, Hermosillo, Mexico. In that Motion, the Company argues that the Arizona court has insufficient subject matter and personal jurisdiction over the Company under the Guarantee for the case to continue in that court, and as such, the case should be dismissed against the Company. Plaintiffs have recently responded to the Company's Motion to Dismiss refuting the positions of the Company based upon submitted documentation. The Company is in the process of replying to the plaintiffs' Response.

Management having considered the Litigation with legal counsel to the Company, the Directors believe that the Company's Motion to Dismiss plaintiffs' complaint is meritorious, and that the Company has valid defenses to the claims of the Plaintiffs. As such, the Company intends to vigorously defend the matter. On that basis, the Company has not made provision in relation to this claim.

EMPLOYEES AND REMUNERATION POLICIES

As at 30th June 2004, the Group employed approximately 7,500 (at 31st December 2003: 4,800) full time management, administrative and production staff in the United States, Europe, the PRC and Hong Kong. The Group remunerates its employees based on their performance, experience and prevailing industry practice. In the area of staff training, the Group encourages and supports staff to engage and participate in continuing studies or self-enhancement courses.

PROSPECTS

During the period under review, Hong Kong economy has exhibited a broad-based upturn. There are signs that Hong Kong's fiscal deficit is gradually declining, consumer confidence is returning, the property market is heating up, deflation is expecting to subside and unemployment rate is falling. The launching of the Closer Economic Partnership Arrangement ("CEPA") not only brought business opportunities for the retailing sector but to manufacturing industry as well. Moreover, the States has shown good signs of economic recovery. With the coming of the peak season for toys industry, the Board anticipates that the Group's performance for the second half of the year would be better.

However, adverse factors still exist. For instance, the Board is concerned about the fluctuation of raw material prices and shortage of labour in Guangdong Province. The possibility of a drastic increase in interest rates and the price fluctuation in crude oil also hinder global economic growth. All these unfavourable factors will increase production costs and reduce manufacturers' profits.

The Board will closely monitor the operational situation and adhere to cautious business policies. Meanwhile, measures and policies have been carried out in materials control and planning, cost control, as well as in labour efficiency. Every effort will be made to achieve our goal of enhancing product quality and improving productivity.