

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Core businesses

During the period, the total turnover of the Group increased by about 96% to approximately HK\$194,262,000, while the net profit increased by about 69% to approximately HK\$7,155,000.

The substantial growth in turnover, almost a double of first half of 2003, was mainly due to the contribution from the toys segment, which was acquired in last December, amounting to approximately HK\$59,428,000, representing a growth of about 60%. Despite such effect, the growth in turnover of the other three segments was approximately 36%. Since both the global and local economies were adversely affected due to the effects of outbreak of the Iraqi War and SARS in Asia, the corresponding figures for 2003 were relatively lower than average. And global and local economies seems to recover since the last quarter of 2003.

The turnover of the novelties and decoration segment remained quite stable with a growth of about 8%, while the segment result increased substantially, since the bases for both figures for the first half of last year were too low as a result of seasonal factors.

The turnover in the packaging segment increased by about 22%, while the segment result also increased substantially. The growth in turnover was mainly due to the increase in demand of a wide range of products in the segment, which satisfies the customers' need for a one-stop products/services providers and it's the Group's strategy to maintain itself as one of the leading suppliers in the packaging business.

Since the price of oil and petroleum increased substantially for the past few months, the price for both PVC film and plastic materials also increased substantially. As a result, the turnover of the trading segment increased by about 1.5 times. The other main cause was that the segment was under a course of restructure in the first half of 2003, hence the turnover for such period was lower than average. Since the price for both oil and petroleum and their related products will continue to be volatile in coming months, the Group will strictly monitor such trend and adopt a prudent policy in the business.

For the toys segment, which was acquired in last December, the turnover was quite stable when compared with its historical figures. However, the segment result was not as good as expected, since extra costs were incurred in the course of restructuring. Nevertheless, the performance of this segment will be improved in the second half of the year, since the course of restructuring has been completed.

To the Group, the finance cost amounted to approximately HK\$606,000 (2003: HK\$35,000), representing a substantial growth with last year's figure. The reasons for the growth were, partly due to the higher utilisation of banking facilities, and partly as a result of the opportunity cost of better utilisation of funds.

Investments

With available surplus funds on hand, the Group continues to utilize a limited portion of it to invest in the securities of both listed and unlisted companies. At 30th June, 2004, the market value of total investment in securities was approximately HK\$11,111,000, of which approximately HK\$2,849,000 was invested in the interest-bearing securities of unlisted companies.

FUTURE PLAN AND PROSPECT

Since the acquisition of the toys segment in December, 2003, the first phase of its restructuring has been completed. It is expected the segment will run at its normal pace of operation, and it is also expected that it will contribute to the Group's results. In order to further consolidate the segment with the Group's existing operations to further benefit from the synergy effects, plans for re-location of certain production facilities are under study.

In view of the recovering global economy atmospheres, the directors of the Company are prudently optimistic on the performance of the Group for the second half of 2004. Nevertheless, the directors also pay much attention on the trend of the price of oil and petroleum and the effects on both global and local economies.

Liquidity and financial resources

As at 30th June, 2004, the long-term finance lease obligations of the Group were approximately HK\$234,000 (31st December, 2003: HK\$331,000), while the short term bank and other borrowings were approximately HK\$32,029,000 (31st December, 2003: HK\$26,835,000), and the net book value of the Group's plant and machinery of approximately HK\$499,000 (31st December, 2003: HK\$527,000) was held under a finance lease. The gearing ratio, measured by total bank and other borrowings divided by equity, of the Group was approximately 12.99% (31st December, 2003: 11.52%)

At 30th June, 2004, the Group had bank balances and cash in aggregate of approximately HK\$44,724,000 (31st December, 2003: HK\$77,724,000)

Employees and remuneration policies

As at 30th June, 2004, the Group employed approximately 7,200 full time employees. The Group remunerates its employees by reference to the prevailing industry practice as well as individual merits. The Group has also established a share option scheme for its full time employees.