Management Discussion and Analysis

Financial Review

Due to the extreme fluctuation of material costs consisting of plastic resin, metal parts and packaging materials, all these affected the Group's gross margin in the 2004/05 financial period.

Apart from material, costs of direct labour were also higher during the period under review. Competition for workers led to extraordinary overtime due to limited labour and constant upgrading of working conditions, resulting in an additional 15% increase in manufacturing overhead.

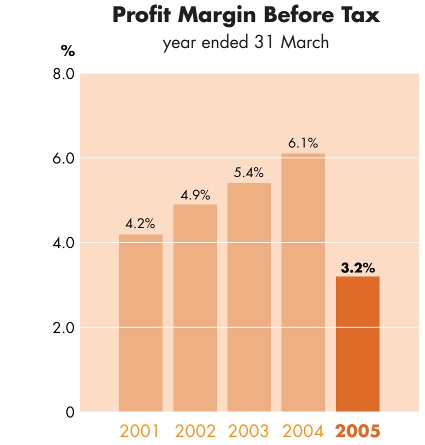
Overall, gross profit decreased to HK$208 million compared with HK$217 million in the previous year, gross margin decreased to 27% when compared to 29% in the previous year.

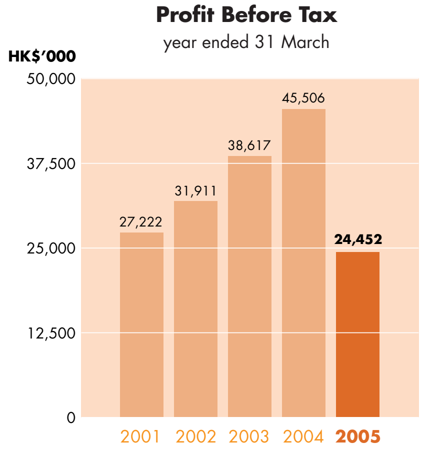
Operating expenses for the year ended 31 March 2005 comprised of selling and administration expenses totaling HK$31 million and HK$142 million respectively. The selling expenditure compared favourably to previous year's HK$33 million with the continued normalization of marketing expenses relating to Kid Galaxy. This is however offset by the increment of administrative expenses which were higher at 18% of turnover compared to 17% in the previous year. The increment consists of staff costs and depreciation of fixed assets amounting to HK$46 million (2004: HK$49 million) and HK$106 million (2004: HK$92 million) respectively. Additions to the administrative expenses comprised of write down of investment relating to an on-line interactive accessories business and losses incurred on foreign exchange mainly related to Indonesia Rupiah during the 2004/05 financial period.

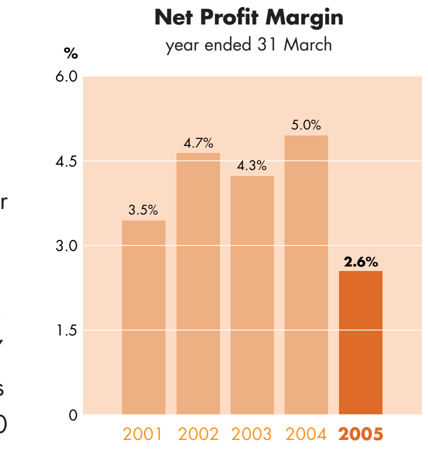
Operating profit reduced from HK$59 million to HK$36 million for the year ended 31 March 2005. Therefore, operating profit for the year under review decreased by 39% compared to the previous year.

The Group continued to benefit from the low interest rate environment. The Group entered into a new Term and Revolving facilities agreement with 17 banks totaling HK$300 million on 7 December 2004. Part of the proceeds were utilized to repay the previous syndication loan amounting to HK$200 million. The remaining balance would have been used as working capital and for construction of the new factory in Changping. Interest expense for the year under review was decreased to HK$10 million (2004: HK$11 million).

Overall, the Group achieved a profit before taxation of HK$24 million, a decrease of 46% compared to last year's HK$46 million. Taxation provided for the year ended 31 March 2005 showed a reduction to HK$4.2 million compared to HK$8.6 million for previous year. The reduction in tax provision were mainly due to the lower profits for the year under review.





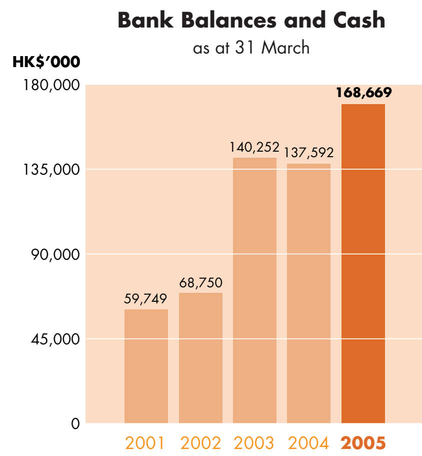


All in all, the Group's net profits attributable to shareholders were HK$20 million compared to HK$37 million in the previous year.

Net Profit margin was 2.6% as compared with 5% in the previous year. The basic earnings per share were HK4.2 cents for the year ended 31 March 2005 against HK8.3 cents for the year ended 31 March 2004.

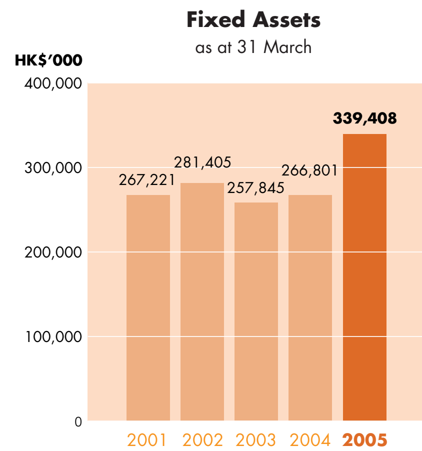
Group Resources and Liquidity

The shareholders' funds as at 31 March 2005 were HK$407 million, a 4.4% increase from HK$390 million reported for the financial year 2003/04. The net assets per share increase by 5% from HK80 cents to HK84 cents.

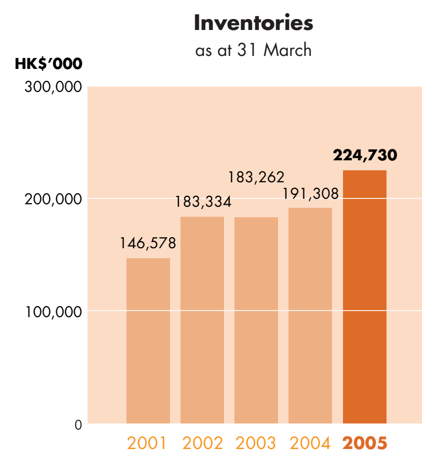


The capital expenditure in constructing the new Changping factory were the main additions to the Group's fixed assets. For the year ended 31 March 2005, the Group invested HK$89 million into the developing the new facility as well as HK$5 million in acquiring a showroom in Tsimshatsui, Kowloon for marketing functions. Total fixed assets increased from HK$267 million to HK$339 million in 2004/05 financial year.

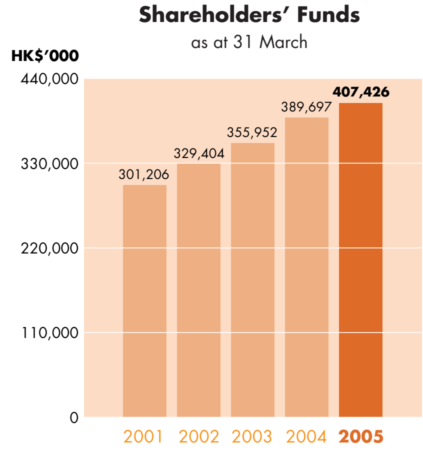
Goodwill of HK$19 million relating to the previous acquisition of Kid Galaxy, while other investments consist of life Insurance contracts for the Group's key officers being certain Executive Directors were valued at HK$28 million as at year end date.



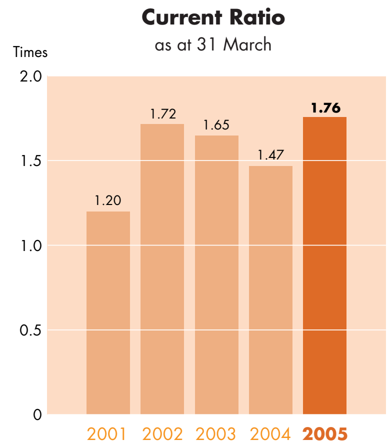
Management's effort to protect margins by advance purchase and warehousing of plastic materials plus utilization of slow season to stock up standard components continued into the new financial year. The inventory balance as at 31 March 2005 increased by 18% to HK$225 million, higher than HK$191 million at previous year end date. Another reason for this increment in material, work in progress and finished goods were the preparation for the new robotic products for the Group's newest customer which were shipped during the normally slower months of the year. As a result of this, inventory turnover increase from 92 days to 98 days for financial year 2004/05.



Trade receivables as at 31 March 2005 increased to HK$183 million compares with HK$164 million at the previous year end date. Management attributes the increase directly to sales to the Group's new customer made during the early months of 2005. Receivable turnover increased from 71 days in 2003/04 to 82 days in 2004/05. Management has consistently reviewed the Group's credit policies to keep up with competition. The Group continues to assess its customers financial position and risks factors, thus certain customers are covered by export credit insurance. Total cash and bank balances as at 31 March 2005 were HK$169 million compared with HK$138 million at the previous year end date. The cash holding were mainly in form of Hong Kong dollar and Renminbi. Management believed that Chinese currency appreciation were inevitable thus the Renminbi holding were higher than normal. These funds were in preparation for capital expenditure and material purchases. The funds were also for anticipated mainland China operation expenses for the coming months.



Other receivables and prepayments as at 31 March 2005 were HK$35 million a major increase from previous year end HK$19 million. Part of this increment related to deposits paid for materials and royalty fees advanced for newly obtained licenses.



Trade payables remained steady at HK$67 million at 31 March 2005 compared to HK$64 million at 31 March 2004 mainly to finance inventories. Credit turnover day increased to 43 days in 2004/05 from 40 days in 2003/04. Other payables were higher at 31 March 2005 at HK$47 million, against HK$30 million at 31 March 2004. Trust receipt loan also shown an increase from HK$84 million to HK$96 million as at 31 March 2005, mainly to finance the increment in trade receivables and inventories.

Short term loan decreased significantly from HK$162 million to HK$133 million as at 31 March 2005 mainly due to the full repayment of the second syndication loan financed by the new Term and Revolving facility agreement granted on 7 December 2004. The current outstanding were mostly relating to short term loans to finance trade receivables and inventories, plus a loan financing the key men insurance policy falling due in the later part of 2005.

Total interest bearing debt increased to HK$469 million as at 31 March 2005. This represents an increase in net debt (interest bearing liabilities less cash and bank balances) from HK$206 million in 2003/04 to HK$300 million in 2004/05. Thus the gearing ratio on a net debt to shareholders funds basis increased from 53% to 74%.

Capital Commitments and Contingencies

In the previous financial year, the Group had committed in constructing the new Changping factory. Part of the construction in progress was incurred during the financial year 2004/05 from internal resources and bank finances.

The balance of the Changping factory construction stood at HK$17 million at 31 March 2005. Apart of commitments to the new production facilities, the Group had lease commitment of HK$21 million in respect of an industrial facility currently occupied in Dongguan.