

## BUSINESS REVIEW

For the six months ended 30 June 2005, the Group's turnover and net loss were approximately HK\$20.3 million (2004: HK\$34.2 million) and HK\$5.8 million (2004: net profit of HK\$1.2 million), respectively. Basic loss per share for the period was HK0.26 cent (2004: basic earning per share of HK0.06 cent). The Board has resolved not to pay any interim dividend for the period (2004: Nil).

For the period under review, revenue from toys and decorative gift items was approximately HK\$11.5 million and HK\$8.8 million (2004: approximately HK\$19.6 million and HK\$14.6 million), respectively, accounting for approximately 57% and 43% of the Group's total turnover, respectively. Turnover and profitability decreased mainly as a result of the intense competition in the People's Republic of China (the "PRC") toy and gift market. The continual increase in raw material costs resulting from the rise in crude oil price also further affected the Group's performance.

During the period, the Group has liquidated its investment in the spandex business by disposing its interest in Sangyang Spandex Co. Ltd. ("SY Spandex"). As SY Spandex has not commenced any operation, the disposal has negligible impact on the business operations of the Group.

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 had cash and bank balances of approximately HK\$36.0 million as at the balance sheet date. The Group's cash and bank balances were mostly held in Hong Kong dollars and Renminbi.

The Group's bank and other borrowings were made in Hong Kong dollars and Renminbi, approximately 74% of such borrowings bore interest at fixed lending rate. At 30 June 2005, the Group's bank and other borrowings amounted to approximately HK\$34.2 million, out of which approximately 93% was repayable within one year. The gearing ratio of the Group calculated as a ratio of total bank and other borrowings to total assets was approximately 24% as at 30 June 2005. Net current assets at 30 June 2005 was approximately HK\$15.9 million and the current ratio was approximately 134%. The Group had not used any financial instruments for hedging during the period.

At 30 June 2005, certain of the Group's land lease prepayment and leasehold properties with carrying value of approximately HK\$6.2 million and HK\$33.9 million, respectively, were pledged to secure general banking facilities granted to the Group.

As at 30 June 2005, the Group did not have any contingent liabilities (2004: Nil).

At 30 June 2005, the Group had a total of 1,002 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.

While sales of the Group's products generally peak in the second half of the year, we believe the second half of 2005 will continue to be difficult for the toy and gift industries due to fierce competition, high raw material costs and the PRC labour shortage. Moving forward, the Group will continue to invest in research and development and to develop new series of products with add-on features and functions. The Group will continue to develop its existing business by expanding its sales team and distribution channels in North America, Europe and the PRC. The Group will explore co-operation opportunity with famous brandnames and retail chain stores to increase its marketing efforts and broaden its customer base. In addition, the Group will continue to explore other investment opportunities that have earning potentials to diversify its business.

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 2005, 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.