



# Managing Director's Review of Operations

**Mr Leung Chung Ming,**  
*Managing Director*

## Market Review

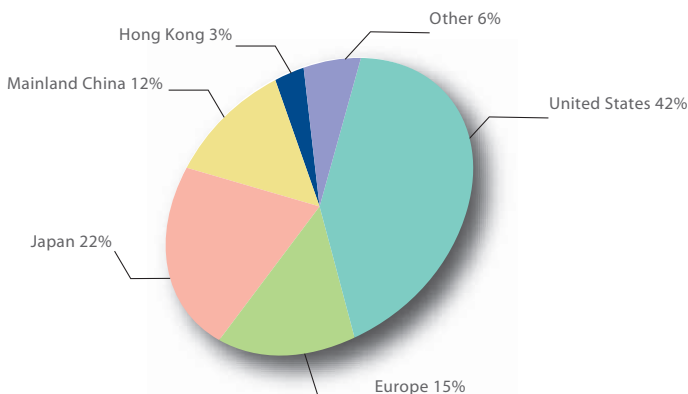
For the year ended 31 March 2006, Export to the U.S. has been persistent, achieving sales of HK\$308 million, which constituted 42% (2005:45%) of the Group's total turnover.

Exports to Europe and Japan remained steady at 15% (2005: 15%) and 22% (2005: 21%) of the Group's turnover respectively. This represents a consolidated performance in these regions.

Sales in Mainland China increased from 8% to 12% due to increase in local deliveries. In the local Hong Kong market, our exposure was widened with the cartoon-licensed products and popular sport license. Kid Galaxy's ("KG") sales and distribution network expanded into sports and gift outlets, as well as the premium market.

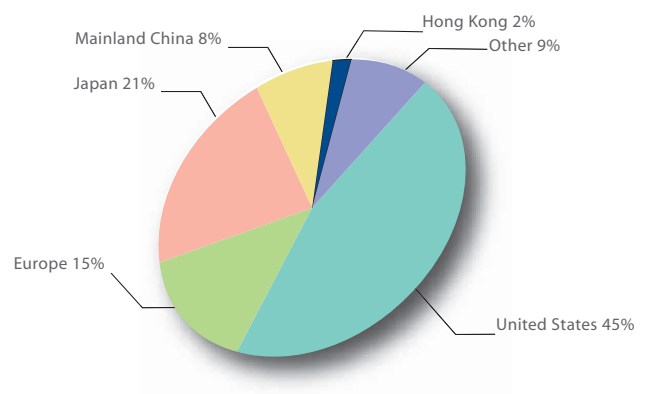
**Turnover by Geographical Segment**

(For the year ended 31 March 2006)



**Turnover by Geographical Segment**

(For the year ended 31 March 2005)



# Managing

## Director's Review of Operations

### Product Review

#### Radio control toys

The radio control ("R/C") toys segment remained the major source of revenue for the Group with growth recorded in the previous year, accounted for 58% of the total turnover (2005: 55%). Consistent sale of new and innovative ranges of R/C cars, boats and planes to its major toy customers showed the devoted effort of the Group in development and engineering capabilities in this sector. Licensed R/C toys relating to popular movies continued to perform. KG branded R/C toys with new styles and multi-functionalities received warm market response. KG branded Backyard Flyer and My First RC Buggies were awarded the Oppenheim Best Toys Award, while My First RC Buggies was also the winner of Oppenheim Special Needs Award. Our RC vehicle series was awarded the Learning Express Best Vehicle Toy Award.



*China Toy Expo in Shanghai, 18-20 October 2005*

#### Electronic and plastic toys

The electronic and plastic toys segment accounted for 23% of the total turnover. With the commitment of STP in product design, moulding and engineering, the Group were assured orders from leading pre-school customers from the U.S. and Japan. The Group's competence in producing quality products that meet stringent requirement has gained customers' continuous trust.

Besides distribution of the licensed Major League Baseball ("MLB"), Major Soccer League ("MLS") and National Hockey League ("NHL") products, the Group also successfully acquired the National Basketball Association ("NBA") and 2006 FIFA World Cup

licenses for Bendos. With such popular licenses, KG brands were well accepted and penetrated into the U.S. sports and gift outlets, and expanded extensively in Europe and Mainland China.

#### Consumer electronic products

Sales contribution from this segment was encouraging, representing 19% of the total turnover (2005: 14%). Sales for the year amounted to HK\$141 million. New series of educational and competition based wireless robotics as well as bluetooth earphones received overwhelming response from the market, contributed to this non-toy segment of the Group. With a competitive edge in technology, the Group continued to strengthen in this non-toy segment.

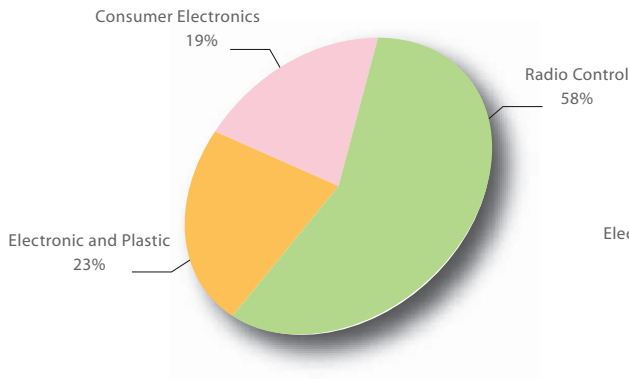


*China Changchun International Education Exhibition, 23-25 September 2005*

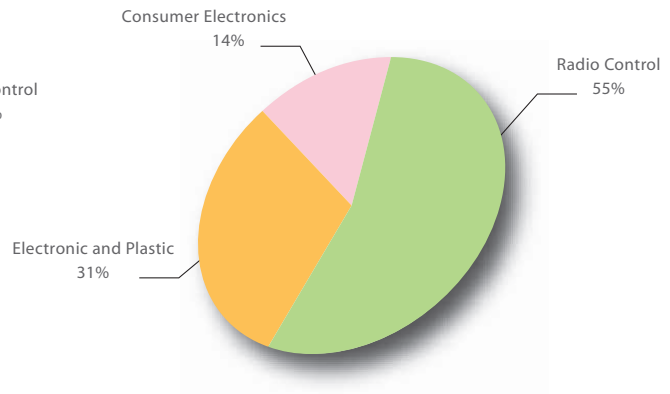
# Managing

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**Turnover by Product Type**  
(For the year ended 31 March 2006)



**Turnover by Product Type**  
(For the year ended 31 March 2005)



## Divisional and Resources Review

### China

Construction of the new industrial plant in Changping was completed in early 2006. Decoration had commenced, taking into consideration requirements for export to EU, thus meeting the RoHS Directives (the restriction of the use of certain hazardous substances in electrical and electronic equipment). The new dormitory buildings were designed and constructed in compliance with current labour regulations. Meanwhile, the two existing Dongguan factories were constantly renovated and upgraded to comply with revised codes.



*Shanghai Licensing Show, 19-22 October 2005*

### Indonesia

With a South East Asian factory, the Group had benefited from the depreciation of the local currency in this financial year. Administrative expenses shrunk. With lower operation costs, the Indonesia plant was able to support peak season needs of our Dongguan plants.

### United States

Our KGI operation continuously focused on marketing, product design and sales. Their concentration in developing marketing strategies, innovative products, brands and servicing our U.S. customers had contributed positively to the Group this financial year.

# Managing

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*Hong Kong Book Fair, 19-24 July 2006*

### Employee Incentive Scheme

As at 31 March 2006, the Group had approximately 6,260 employees of which 67, 5,978, 204 and 11 employees, which were based in Hong Kong headquarter, Dongguan factories, the Indonesian factory and the US office respectively. The number of people employed by the Group varies from time to time depending on production needs and staff are remunerated based on industry practices.

The Group operates different remuneration schemes for different employees. Apart from pension funds and year end bonuses, in-house and external

training programs are offered. Details of share option scheme granted to the Group's employees are set out on pages 23 to 25 of this report.

### Appreciation

On behalf of management, I would like to take this opportunity to extend my sincere thanks to our customers, suppliers, licensors and business partners for their continued support over the past year. I would also like to extend my appreciation to our senior executives and staff for their hard work and dedication, despite a challenging year in the toy business.

**Leung Chung Ming**

*Managing Director*

28 July 2006



*Lung Cheong Sports Day, 1 May 2006*