Management
Discussion and Analysis

Financial Review

The 2005/06 financial report must be read in conjunction with the notes commencing on page 41, most importantly taking into consideration the impact of significant accounting policies on note 2(a) commencing on page 41 which have affected the presentation of the financial statements, both for the current and corresponding period.

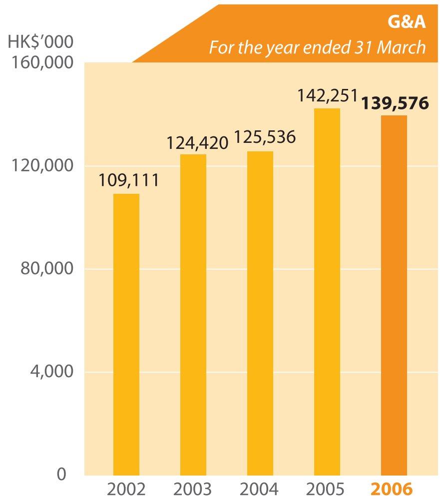
The Group's existing peak season capacity, peer competition and stringent customers' pricing strategies were obstacles to our overall sales drive. The Group's OEM and ODM business would have contributed if not for the reduced orders from a major US retailer and certain toy customer. Delay shipments of certain licensed products also contributed to the lower turnover by 3% to HK$751 million for the year ended 31 March 2006.

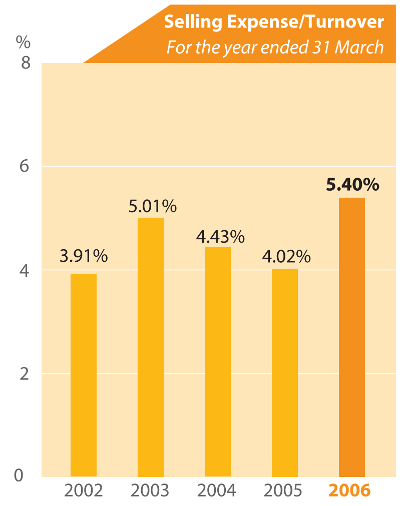
The fluctuation in plastic resin prices, extreme swing in oil prices and the upward valuation of the Yuan against the US currency led to increase in operating costs. Incentives, in addition to wages and overtime pay, were required to retain experienced and competent workers, had influenced to the costs of goods.

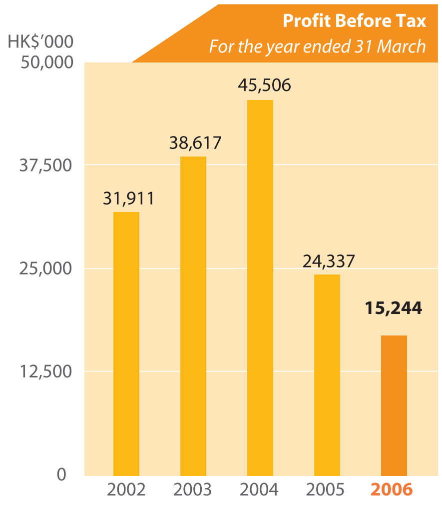
ODM business contributed to the Group's gross margin stabilizing strategy despite tough pricing competition in the market, resulting in the gross profit increased from HK$208 million to HK$216 million but gross margin steady at 28%. However, it had been difficult to maintain margin high margin for ODM products when compared to previous years.

Selling and distribution expenses for the period ended 31 March 2006 amounting to HK$41 million. The 30% increase in selling expenditures compared to previous year HK$31 million were mainly attributable to increase in royalty payment for sport licenses, commission paid relating to increment in KGI sales, additional marketing expenses relating to product promotion, exhibitions and shows and expansion in the European market for Kid Galaxy. Transportation costs kept distribution expenses high due to ever increasing cost of fuel.

General and administrative expenses ("G&A") were HK$140 million, slightly less than previous year's HK$142 million. G&A remained constant at approximately 18% of turnover. Staff costs and depreciation of fixed assets formed the bulk of G&A expenses. For the current financial period, G&A also consist of impairment of investment relating to an on-line interactive gaming venture, loss on disposal of listed trading securities and foreign exchange losses, mainly relating to Rupiah, the Indonesian currency. Overall, operating profit for the year increased by 9% from HK$36 million to HK$39 million.







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Unlike previous financial year, the Group was affected by the steep increases in interest rates during this financial year. The Group's interest expense more than doubled from previous year HK$11 million to HK$24 million, denting the Group's overall profit level. Profit margin before tax for the year ended 31 March were reduced from 3.2% in 2005 to 2.0% in 2006. The Earnings before Interests expense, Taxation, Depreciation and Amortisation ("EBITDA")divided by Interest paid was approximately 3.5 times compared to 7.3 times in the previous period.

All in all, the Group's profit before taxation was HK$15 million, a decrease of 37% when compared to previous year's HK$24 million. With a reduced profit, adding back overprovision of taxation in previous years and the net effect on deferred income tax accounting, the Group's net profits attributable to shareholders were HK$17 million, 17% less than previous year's HK$20 million.

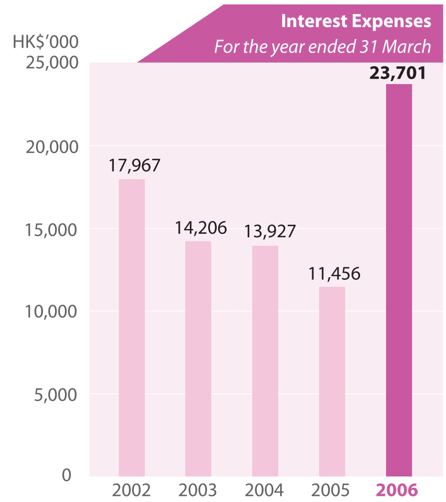
Net profit margin was 2.1% as compared with 2.6% in the previous year. The basic earnings per share were HK3.45 cents for the year ended 31 March 2006 against HK4.17 cents for the year ended 31 March 2005.

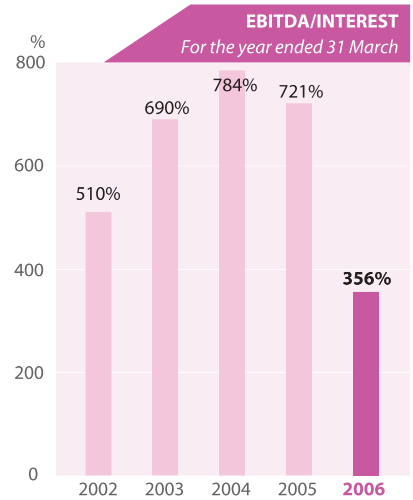
Group Resources and Liquidity

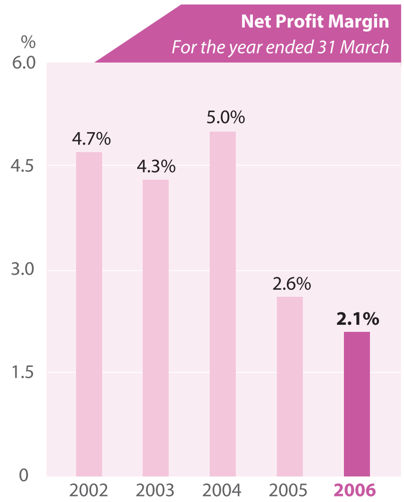
Shareholders' funds as at 31 March 2006 stood at HK$438 million, recording 5.5% increase over previous year's HK$416 million. The net assets per share increase by 5.5% from HK86 cents to HK91 cents.

The capital expenditures consisting of construction costs of the new factory in Changping, and tooling the Group ODM and OBM products were the main additions to the property, plant and equipment in non-current assets. Funds were invested in renovating the Hong Kong headquarter in Fanling and upgrading the Group existing China production facilities to meet revised export requirements and local labour regulations. Total property, plant and equipment increased from HK$299 million to HK$387 million as at 31 March 2006.

Club memberships and goodwill associated with the previous acquisition of a wholly owned US subsidiary formed the intangible asset value at HK$22 million. Available-for-sale financial assets consists of investments in life insurance contracts for the Group's key officers to the value of HK$28 million.







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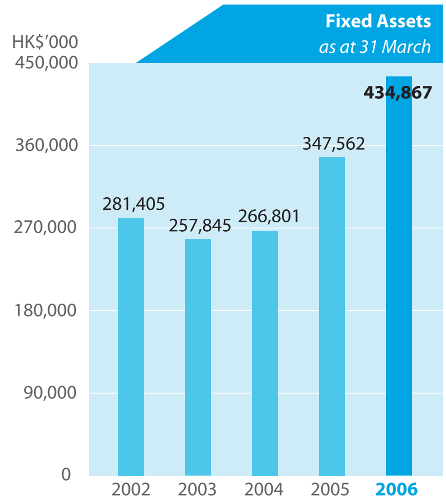
Management's policy of advance purchase and warehousing of certain materials plus hoarding of standard components during the slow season continued in the 2005/06 financial year. However, management's effort to control inventories was adhered to resulting a 16% reduction in stock level from HK$225 million in 2005 to HK$188 million as at 31 March 2006. Only stockpiling of certain licensed products shipped in the early part of 2006/07 financial year prevented even lower inventories level. Inventory turnover were 100 days compared to 98 days in the previous year.

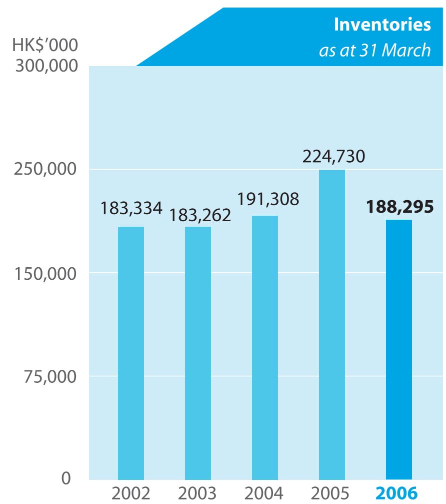
Trade receivables as at 31 March 2006 were HK$187 million, recording a slight increase when compared to HK$183 million at the previous year end date. Management attributed the relative receivables to extended credit terms to reputable customers and shipments made during the early months of 2006. Due to the lower sales, debtor turnover increased from 82 days in 2004/05 to 90 days in 2005/06. Management have a policy of constantly evaluate its customers' known financial position and credit risks, thus certain clientele are covered by export credit insurance.

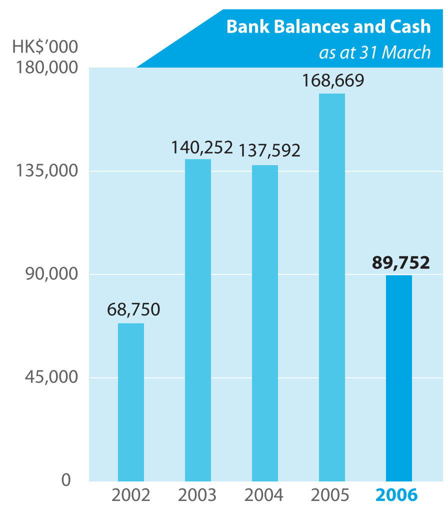
Other receivables shown an increase from HK$35 million at year-end date in 2005 to HK$67 million as at 31 March 2006. In addition to the normal prepayments, portion of the increment related to deposits paid for new equipment for the Changping factory and receivables due from sale of excessive materials on hand, part of the stock reduction scheme adopted by management.

Cash and bank balances as at 31 March 2006 were HK$90 million, substantially less than HK$169 million in the previous year-end date. The excess funds were mainly utilized to reduce trust receipt loans and trade payables. The bank balances were mainly in form of Hong Kong dollars and Renminbi. The recent appreciation of the Chinese currency encouraged management to place higher emphasis on holding more Chinese currency. More so these funding were anticipated for China operating expenses in the coming months. Overall, total current assets decreased by 14% from HK$621 million in 2005 to HK$535 million in 2006.

As part of the management program to reduce borrowings, trade payables was reduced to HK$47 million at 31 March 2006 compared to HK$67 million at 31 March 2005. Credit turnover days increased to 56 days in 2005/06 from 50 days in 2004/05. Other payables remained steady at HK$46 million at year-end date.







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Borrowings under current liabilities showed a major increase from HK$230 million at 31 March 2005 to HK$472 million at 31 March 2006. The increase in current liabilities was due to the reclassification of a bank loan payable of approximately HK$218 million, which would be repayable on June 2008, as current liabilities as at 31 March 2006 as a result of the Group's breach of certain financial covenants of a long-term bank loan agreement ("Loan Agreement").

The Group obtained waivers from the relevant banks in respect of such non-compliance subsequent to 31 March 2006. Upon receipt of the waivers and in the absence of further breach in financial covenants or any events of default as defined under the Loan Agreement leading to immediate demand for repayment from the lenders of this long-term bank loan, the bank loan of HK$218 million would be reclassified back to long-term liabilities for the financial statements ending on a date subsequent to the date when the waivers were obtained.

The current ratio of the Group as at 31 March 2006, calculated by dividing the total current assets by total current liabilities, taking into account the reclassification of the long-term bank loan, which led to a net current liabilities of HK$36 million, was 94% at 31 March 2006 compared to 176% in 2005.

The gearing ratio, calculated as the total borrowings less cash and bank balances and divided by shareholders' equity, was approximately 87% as at 31 March 2006 compared to 72% in 2005.

In the opinion of the Board, the Group has sufficient financial resources to meet the future operational needs.