

INTERIM DIVIDEND

The Board of Directors does not recommend the payment of an interim dividend for the six months ended 30th June 2006 (2005: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS

During the period under review, the Group recorded a consolidated turnover of HK\$202.76 million, a slight increase of 1.42% as compared to HK\$199.92 million reported for the corresponding period last year. The profit attributable to shareholders amounted to HK\$8.62 million, representing an increase of 9.96 times compared to HK\$0.79 million reported for the corresponding period. The good performance was mainly attributed to the improved results of the Group's interest in associates.

BUSINESS REVIEW

Model Trains and Toys

The model trains business continued to be the key contributor to the Group's performance. During the first half year, the turnover for model trains was HK\$130.11 million, represented an increase of 3.52% as compared to the corresponding period last year. With the strong base in the U.S. and Europe markets as well as the promising response in the Japan market, the Group's another focus would be on the potential of the Chinese trains series, which have been well received in the recent sales campaigns. With the growing demand for collectibles in the current booming China economy, the Group is anticipating a new milestone in its trains business.

During the period under review, the turnover for the Group's OEM/ODM toys business was approximately HK\$60.41 million, a slight decrease of 2.38% as compared to the corresponding period last year. The increase in raw material, energy and labour costs affected the Group's profit margin. Meanwhile, the Group continued to exercise stringent cost control and broaden the product range to capture the market of high value-added products so that such adverse impact was moderated.

Looking ahead, to cope with the global trend of integrating electronics and new technologies into toys, the Group will keep on making efforts in research and development for its new products and at the same time, further expand its markets by broadening the product range and customer base.

Property Investment

The Group's major investment property, Kader Building, continued to generate recurring revenue for the Group. During the second half of 2005, the occupancy rate increased to over 90% and there has been a considerable increase in the rental rates upon lease renewals, its outcome began to be realised. Kader Building reported rental income of HK\$11.03 million for the first six months of 2006, represents a 12.96% increment over the corresponding period in 2005. With the ever-increasing rental rates for commercial building in the central business district, tenants began to seek for more affordable alternative space in other areas such as the East Kowloon district. Benefiting from this factor, Kader Building still has room for improvement in both occupancy and rental rates, the Group anticipates that rental revenue will maintain a steady growth in the second half of 2006.

Investment in Associates

The Group's major investment holding in the United States, the resort at Squaw Creek, California, continued to sell its remaining condominium apartments and the response was encouraging. During the first six months of 2006, additional 10% of the units were sold. The sales proceeds remitted to the Company helped to reduce the Group's debt.

FINANCIAL REVIEW

Liquidity and Financial Resources

As at the period-end, the Group's net asset value per share amounted to HK\$0.94 (at 31st December 2005: HK\$0.92); the current ratio was 1.10 (at 31st December 2005: 1.01); the total bank borrowings were approximately HK\$124.03 million (at 31st December 2005: approximately HK\$190.97 million) while the Group secured total banking facilities of approximately HK\$330.10 million; the Group's financial gearing, based on the total interest bearing borrowings compared to the shareholders' equity, was 30.09% (at 31st December 2005: 49.70%). There is no significant seasonality of borrowing requirements except during peak production period in the second half year, the Group's facilities on trade finance will be substantially utilised. All borrowings are on floating interest rate terms.

The inventory turnover and trade receivable turnover days, based on the period-end figures, were steady at around 232 days and 47 days respectively (30th June 2005: 222 days and 57 days).

Capital Structure

During the period under review, there were no changes in the Company's share capital. The Group's source of financing was mainly bank loans and director's support, which were denominated in Hong Kong Dollars, U.S. Dollars and Sterling Pounds at prevailing interest rates.