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.

Charges on Group Assets

As at 30th June 2006, certain investment properties, leasehold land and buildings and other assets of the Group valued at approximately HK$686.48 million (at 31st December 2005: HK$732.76 million) were pledged to several banks to secure banking facilities granted to the Group.

Material Acquisitions and Disposals

There are no material acquisitions and disposals during the period ended 30th June 2006. At the moment, there are no major plans for acquiring substantial investments or capital assets.

Exchange Rate Exposure

Major assets, liabilities and transactions of the Group are denominated in Hong Kong Dollars, U.S. Dollars, Sterling Pounds, Renminbi Yuan and Canadian Dollars. During the period under review, the majority of the Group's sales revenues were denominated in Hong Kong Dollars, U.S. Dollars and Sterling Pounds while the majority of its raw materials and equipment purchases were settled in Hong Kong Dollars. As such, the Group was facing a certain degree of exchange risk; mainly arising from Sterling Pounds denominated sales transactions of which the exchange rate volatility is relatively high. Meanwhile, forward contracts were arranged and the exchange risk in this respect was substantially covered.

EMPLOYEES AND REMUNERATION POLICIES

As at 30th June 2006, the Group employed approximately 7,650 (at 30th June 2005: 8,400; at 31st December 2005: 6,960) full time management, administrative and production staff in Hong Kong SAR, Mainland China, the United States and Europe. The Group had seasonal fluctuation in the number of workers employed in its production plant while the number of other management and administrative staff remained stable. The Group remunerates its employees based on their performance, experience and prevailing industry practices. In the area of staff training, the Group encourages staff to participate in courses on technical skills improvement and personal development.

PROSPECTS

Despite the recent recovery on global economic condition, the competition within the toys industry remained keen while the problems hindering manufacturers' business were increasing. The volatility of raw material prices and rising energy and labour costs in Guangdong province have been the immediate concern for manufacturers. These unfavourable factors were bringing adverse impact on manufacturers' profitability.

Looking ahead, in order to enhance the competitiveness of the Group and to maintain the leading position in the industry, the Group is improving its production efficiency through stringent management controls, and at the same time implementing series of exercises on cost saving and monitoring. The Group aims to sharpen its competitive edge in terms of productivity, quality and reliability. Moreover, the Group will endeavour to keep abreast of market trends, bring new ideas to its products, explore new markets as well as maintain good relationship with the existing valued customers. The Group is cautiously optimistic to achieve good result for year 2006 as a whole.