

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **INTERIM DIVIDEND**

The Directors have resolved to declare an interim dividend for the six months ended 30th June, 2006 of 1 cent per share (2005: 0.5 cent) payable on or about 12th October, 2006 to shareholders on the register of members of the Company (the “Register of Members”) on 6th October, 2006.

### **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members will be closed from 5th October, 2006 to 6th October, 2006, both days inclusive, during which period no share transfer will be registered. In order to qualify for the proposed interim dividend, all transfer accompanied by the relevant share certificates must be lodged with the Company’s Hong Kong Share Registrar, Standard Registrars Limited, 26th Floor, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong not later than 4:00 p.m. on 4th October, 2006.

### **BUSINESS REVIEW**

During the period under review, the total revenue of the Group as a whole remained quite constant at approximately HK\$196,231,000 (2005: HK\$197,567,000), representing a less-than-one-percent decrease and recorded a profit attributable to equity shareholders of approximately HK\$3,740,000 (2005: loss of HK\$5,097,000).

The revenues of the segment of PVC film and plastic materials dropped by about 37% compared with last corresponding period’s figure, and this difference in revenue was the biggest amongst the four business segments of the Group. For segment results, the greatest improvement comes from the segment of toy products which achieved turnaround from loss to profit and was the most profitable segment for the period under review. The worst performance comes from the segment of packaging products, which incurred a further loss of almost 4 times the amount from the last corresponding period. Details of the performance of each business segment during the period under review are discussed further below.

After going through a tough year of 2005, the Group continues to face a challenging year of 2006. Keen competitions exist where opportunities exist. The ever-increasing price of petroleum, the by-products of which form major components of the Group’s business, and the annual increase in the minimum wages for labour in the PRC are the two major issues faced by the Group.

#### **Novelties and decorations**

The revenue of the novelties and decorations segment increased by about 8% amounting to approximately HK\$27,835,000, with a profit of approximately HK\$1,219,000. As stated in the 2005 Annual Report, it is the Group’s policy to improve the profit margin by raising the selling price. The segment was quite successful in adopting such policy and its performance was thus improved during the first half of the year.

## **Packaging products**

Although the revenue in the packaging segment increased slightly by about 4% amounting to HK\$70,778,000, the segment still recorded a loss of approximately HK\$3,175,000, representing almost 4 times the loss incurred in the last corresponding period. Certain old business lines/products, especially the sales and manufacture of PVC-film packaging products, were no longer profitable and the Group is now in the process of repositioning the product mix. Thus, the performance of this segment will be highly dependent on the success of the new product lines.

## **Trading activities**

Since the price of oil and petroleum has experienced a continuous increase since 2004, the prices for both PVC film and plastic materials have surged accordingly and keep fluctuating significantly. In order to minimize the risks of bad debts from customers who may suffer from high cost of sales due to the high prices of by-products of petroleum, the segment adopts a prudent policy in selecting customers and in controlling the volume of business. As such, the revenue of the segment dropped by about 37% to approximately HK\$37,821,000. Nevertheless, as the segment adopts the policy of maintaining profit margin at a reasonable level, the segment made a contribution of approximately HK\$1,013,000 to the profit of the Group.

## **Toy products**

With the completion of the acquisition of the entire interest in the toy business in June 2005, the benefits from synergy effects, together with the improvement in efficiency and productivity since then, began to reflect in the results of the segment in the first half of the year. The segment recorded a profit of approximately HK\$5,117,000 (while there was a loss of approximately HK\$813,000 in the first half of 2005) and was the most profitable segment of the Group during the period under review. Revenue also increased by about 35% to approximately HK\$59,797,000, almost the same level as in 2004.

## **Investments**

To better utilize the available cash on hand, the Group has invested in the securities of several unlisted companies in different industries as long-term investments. As at 30th June, 2006, the total investments therein were approximately HK\$257,000 (31st December, 2005: HK\$629,000). All of these investments were held in convertible notes or preferred shares, which ensured the earning of regular income from the investments.

Investment in listed securities is held for short-term purposes for capital gain in the value of the securities. As at the balance sheet date, the market value of investment in securities was approximately HK\$15,581,000 (31st December, 2005: HK\$8,451,000).

As at 30th June, 2006, the Group carried outstanding forward contracts which entailed a commitment for purchase of listed securities of notional amount of approximately HK\$50,804,000 (31st December, 2005: HK\$27,963,000). The commitment will be settled monthly with an amount ranging from approximately HK\$4 million to HK\$7 million. Usually the securities acquired will be disposed of shortly, and thus the commitment is not expected to have a material adverse impact on cash flow.