RESULTS

For the year ended 31st December, 2006, the Group encountered a drop in both consolidated turnover and the profit attributable to equity holders of the Company in 4.7% amounted to HK$867,959,000 as compared to the last year's HK$911,044,000 and in 28.6% amounted to HK$100,646,000 as compared to the last year's HK$140,929,000 respectively. The basic earnings per share was HK17 cents (2005: HK24 cents).

Both consolidated turnover and profit attributable to equity holders of the Company decreased as a result of the intensified retail price competition, increase in oil prices and the continual rising in labour cost as well as other production costs in the PRC. However, the Group mapped out various measures to meet the challenges. The efficient production management measures and cost control were put in place to keep abreast the profitability of the Group.

DIVIDENDS

During the year, the Company paid an interim dividend of HK8 cents in cash with a scrip dividend alternate (2005: HK8 cents in cash) per share and declared a special dividend of HK3 cents (2005: HK3 cents) per share to the shareholders. The Directors had resolved to recommend the payment of final dividend of HK9 cents (2005: HK9 cents) per share for the year ended 31st December, 2006, payable to shareholders whose names appear on the Register of Members of the Company on 29th May, 2007 with a scrip dividend alternate to offer the right to shareholders to elect to receive such final dividend wholly or partly by allotment of new shares credited as fully paid in lieu of cash. Together with the interim dividend and special dividend paid and declared of HK8 cents and HK3 cents per share respectively, the total dividend per share for the year is HK20 cents (2005: HK20 cents).

The scrip dividend alternate is conditional upon (a) the issue price of a new share to be issued pursuant thereto being not less than the nominal value of a share of the Company; (b) the approval of the proposed final dividend at the forthcoming annual general meeting; and (c) the granting by the Listing Committee of the Stock Exchange of the listing of and permission to deal in the new shares to be issued pursuant thereto. The issue price of the new shares to be issued under the 2006 final scrip dividend alternate will be fixed after the Company's annual general meeting equivalent to the average closing price of the shares of the Company quoted on the Stock Exchange for the five consecutive trading days to be determined by the Directors. Thereafter, a press announcement setting out the basis of allotment of new shares and the issue price of new shares under the 2006 final scrip dividend alternate will be published. A circular containing details of the 2006 final scrip dividend alternate and the form of election will be mailed to shareholders of the Company in due course.

Definitive share certificates in respect of the scrip dividend and cheques (for those shareholders who do not elect for scrip dividend) are expected to be despatched to shareholders on or about 6th July, 2007.

BUSINESS REVIEW

In common with many toy manufacturers, the Group faced retail challenges and cost pressures that negatively impacted its profitability. The infant and pre-school children toy market was characterized by customers' conservative order policy in the first half-year and the sustained pricing pressure. Overall profitability of the Group was further affected as a result of increased investments in the product portfolio expansion and development and marketing of new toy brands. Nevertheless, consistent with the Group's strategic objective on long-term growth, plans were put in place to diversify the product portfolio and develop retail business in the PRC.

Management Discussion and Analysis

TOYS OPERATION

Manufacturing

PRC Plant

Zhongshan — Plant

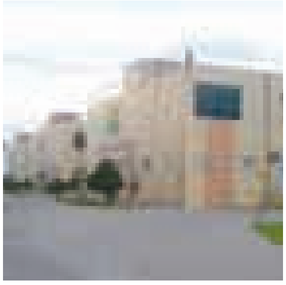
Zhongshan Plant — Warehouse

During the year under review, a number of plastic injection machines were further installed in the plant to meet the production of varieties of toy products and to boost the toy productivity. An additional production spaces was constructed for enhancing production capacity and an increase in warehouse space enabled the factory to accommodate more raw materials and finished goods inventories so as to improve the logistics operation.

With continuous enhancing cost-effectiveness of production, the Group has established its own production line for producing electronic components. This backward integration in overall production has accomplished the Group's aim at providing 'one-stop-shop' production line and vertical integration manufacturing.

Vietnam Plant

To cope with the development of the Group and the needs on increasing production capacity to meet the customers' demand on varieties of products, the Group's third production plant had been planned to construct in Danang City, Vietnam. With such a giant manufacturing momentum of the Group, this new production plant contributed to meet future customers' orders.



Danang City — First Plant

Danang City, Second Plant — Leisure Centre

Danang City, Second Plant — Production Workshop

The Group is conscious of adhering to its strict production code of conduct and takes social responsibility on providing comfortable working place and leisure centre to ensure our staff working in a humanity environment. Frequent human resources and social activities were taken place to enhance the loyalty of our workers. In addition, the Group strives to ensure that the working conditions in its plant such as safety standards, staff employment terms and environment conditions, meet international standards.

Danang City — Second Plant

Shelcore Operation

U.S.A. — Office

Toy retail market that was continuously characterized by intensified retail prices competition threatened against the Group's existing customers. Despite that, the Group has extended its distribution network to other international markets and gained exposure to its newly developed markets mainly Latin America, Eastern Europe, Australia, Spain, South Africa and the PRC. During the year under review, the Original Design Manufacturing ("ODM") business has struggled with top-line sales growth and implemented emerging market price strategy. In year 2006, the Group emphasized the introduction of new products and the enhancement and expansion of existing product portfolio in the ODM business.

During the year under review, the Group continued to reduce operation costs by minimizing outsourcing and integrating ODM production operation to maximize manufacturing profits. In addition, the Group continued to maximize the full potential of the distribution channels spanning over the existing markets in North America and those newly developed markets by implementing emerging market pricing strategy and effective advertising and promotion campaigns so as to reposition the Group as truly global company and strengthen its brand awareness during the year under review.

H. K. — Showroom

Based on the Group's strong manufacturing expertise and its expansion of a team of well-trained and highly skilled engineers to handle the development and improvement of its innovative products, the product mix was enlarged to enhance the satisfaction and appeal to its customers.

The Group continued to use licensed trademarks to enrich the styles of its own branded products. The additional licences in year 2006 accounted for an increasing percentage of the sales of new licensed products reflecting the growth of the development of licensed products. The Group would continue to identify potential licences for additional trademarks to offer a broader choice of licensed products for enhancing the satisfaction to its customers. Product research and development and marketing activities for new branded products are being largely invested.

Retail Business

With strong manufacturing foothold, financial and operational support from the Group, the Group revitalized its 'Shelcore' brandname worldwide by opening a total of 8 new retail stores in Beijing and Chengdu, the PRC. Effective market studies and product research and development are crucial to the success as the toys with new design were launched to meet demand of these new markets.


SHELCORE
SHAKE 'N BOBBLES
Come into this action-filled world of cool bobble kids and bring their world to life with a touch on their head! Shake 'N Bobbles is a fantasy world of fun characters, vehicles and play sets that come to life through actions, lights, sounds and music.

Toddler

Welcome to this preschool-friendly world full of interaction, giggles, fun and surprise! The Toddler line presents interactive and simply fun preschool toys offering timeless cause and effect play. With its new character styling, when kids touch 'em, turn 'em, twist 'em, roll 'em, put 'em, take 'em, nest 'em, stack 'em, sort 'em, push 'em, pull 'em, pound 'em, they are sure to love 'em!

Sound Beginnings

Learn Through Sound

An exciting new way for kids to have fun and learn faster at the same time! The exclusive use of vocal and natural sound will entertain and capture a child's attention for hours and hours of fun and learning. Each toy, rich with vocal and natural sounds is designed to engage and stimulate children at an early age.

Sunny Steps

This is a premium styled brand of juvenile play toys designed to stimulate and engage a baby in their earliest years. The line is segmented into three developmental stages so that mom can select the toys that are perfect for her baby.

Shelter

Loonie Goonie Monsters

Loonie Goonies are a work of art.
They giggle, laugh, burp and..........
A little naughty but most of all so **hilarious**,
You'll bust a gut!
This collection of cool and silly monsters are packed with fun surprises and endless laughter.

NASCAR

PRINTING OPERATION

The printing operation continued to expand its customer base and bring in a stable source of revenue to the Group. The Group's companies continued to have internal consumption of this vertical integrated printing arm of the Group.

MARKETING AND PROMOTIONAL OPERATION

During the year under review, owing to marketing and promotional operation did not achieve the expected market share in the promotional industry in the PRC, the Company had disposed of its marketing and promotional operation on 29th June, 2006.

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 31st December, 2006, the Group had bank balances and cash of approximately HK$30,871,000 (2005: HK$42,258,000) and pledged bank deposit of approximately HK$5,291,000 (2005: HK$51,990,000) secured for banking facilities granted. During the year under review, the Group obtained banking facilities in a total of approximately HK$40,000,000 (2005: HK$81,000,000) secured by fixed deposits and corporate guarantee given by the Company.

As at 31st December, 2006, the Group had bank overdrafts of approximately HK$13,525,000 (2005: Nil). The Group's gearing ratio, representing the total debt divided by equity attributable to equity holders of the Company, was 4.5% (2005: Nil).

During the year, net cash generated from operating activities amounted to approximately HK$85,840,000 (2005: HK$224,919,000). The Group has maintained an adequate level of cash flows for its business operations and capital expenditures.

Capital Expenditure

During the year, the Group acquired property, plant and equipment at a cost of approximately HK$36,854,000 (2005: HK$46,766,000 directly and HK$48,234,000 through the acquisition of subsidiaries) to further enhance and upgrade the production capacity. These capital expenditures were financed primarily by cash flow generated from operations.

Assets and Liabilities

At 31st December, 2006, the Group had total assets of approximately HK$528,789,000 (2005: HK$512,691,000), total liabilities of approximately HK$225,282,000 (2005: HK$179,234,000) and equity attributable to equity holders of the Company of approximately HK$303,507,000 (2005: HK$333,457,000). The net assets of the Group decreased 9.0% (2005: increased 17.8%) to approximately HK$303,507,000 as at 31st December, 2006 (2005: HK$333,457,000).

Sales of Properties

In the current year, the Group disposed of certain of its vacant properties at a sales proceeds of approximately HK$10,000,000 with a gain amounting to approximately HK$1,344,000, which has been recognised directly in the income statement during the year. The revaluation surplus of the disposed properties amounted to approximately HK$2,612,000 was released and transferred from asset revaluation reserve to retained profits directly upon the disposal.

FINANCIAL REVIEW (CONTINUED)

Repurchase of Shares

During the year ended 31st December, 2006, the Company repurchased a total of 9,924,000 ordinary shares of the Company of HK$0.10 each on The Stock Exchange of Hong Kong Limited at an aggregate consideration (including expenses) of approximately HK$20,465,000. The repurchased shares were subsequently cancelled and the issued share capital of the Company was reduced by the par value thereof.

Exchange Rate Risk

Several subsidiaries of the Company have foreign currency sales, which expose the Group to foreign currency risk. Certain bank balances, trade receivables and trade payables of the Group are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

NUMBER OF EMPLOYEES AND REMUNERATION POLICIES

As at 31st December, 2006, the Group had a total of approximately 19,000 (2005: 17,000) employees in Hong Kong, Macau, PRC, Vietnam, U.S.A., Canada and Europe. The Group provides its employees with competitive remuneration packages commensurate to the level of pay established by the market trend in comparable businesses. A share option scheme was adopted for selected participants (including full time employees) as incentives or rewards for their contributions to the business and operation of the Group. A mandatory provident fund scheme and respective local retirement benefit schemes are also in place.

PROSPECTS

Numerous challenges in the coming years would be expected to encounter on both plastic and plush toy businesses and the infant and pre-school children toy market. Increasing expenses, in particular, the increase in the rental expenses as operation costs, increase in labour costs and other expenses due to the appreciation in Renminbi currency rate, would adversely affect the Group. To face up to this challenge and intensified toy markets competition, the Group would dedicate its efforts to broaden its worldwide and local distribution and network, to secure its niche in the premium toy market, to enrich its product mix and to adopt further cost-saving measures. The Group showed great resilience amid the adverse global toy markets conditions.

In addition, a third plant in Vietnam would be completed in coming year. Upon construction of this new plant, the overall production efficiency of the Group would be further enhanced.

The Group would continue to implement its strategic plan on expanding its customer base, conduct effective market studies and product research and development so as to expand the mass merchandise markets.

Apart from its Original Equipment Manufacturing ("OEM") products, the Group committed to the development of new products and would continue in product diversification in ODM. The ODM's research and development team in a cost effective location was reorganized to increase efficiency and creativity for new product design. With the reinforcement of such product development team, the Group is enabled to develop its own branded name and licensed products in the international markets, targeting North America, Latin America, Eastern Europe, Australia, Spain, South Africa and the PRC. Product diversification would facilitate business expansion and reduce the Group's dependence on limit branded product mix, providing greater flexibility and increased operating profit. Sales of own branded

PROSPECTS (CONTINUED)

products accounts for an increasing percentages of total sales and development of new products including Sunny Steps, Toddler, Shake 'N Bobbles, NASCAR, Loonie Goonies, Sound beginnings and Sheltek for lines extension in the current branded lines.

The Group would continuously diversify toy products to meet the customers' appeal and revitalize the Shelcore's brand worldwide with extended distribution network and would develop retail network in the PRC by further setting up new retail stores in Chongging and Suzhou. With all the above in place, including a steady foothold in the retail toy market, the Group would be poised to obtain global recognition in the international toy market and phases of metamorphosis in terms of production and marketing. The Group would continue to review business and enterprise with its expansion plans with a view to achieving rational return in scale, structure and profitability.

'Shelcore' is one of the leading designers, developers and marketers of innovative products for infants in its major market — North America. Product support through investing in advertising and brand promotion programs would have reward. Effective market studies and product research and development are crucial to the success of the launch of new toys to meet demand of those new markets. The marketing efforts supported with public relations, marketing, advertising and promotional campaigns as well as continuous media presence offering another way for the Group to increase its market share.

Though the operating conditions is challenging, the Group is dedicated to strive for the best performance by implementing its strategy to produce high quality products with competitive prices. Besides, the Group will continue to strengthen its core business, streamline its existing operations and control its costs. The Group is confident all these efforts can sustain its business return.