

Management Discussion and Analysis 管理層討論及分析

FINANCIAL REVIEW

For the year ended 31 December 2005, the Group reported turnover amounting to HK\$1,040.4 million (2004: HK\$1,158.1 million). Rising labour costs and labour shortages in coastal cities of the PRC, as well as persistently hefty raw material costs remained serious concerns for toy manufacturers. The unfavourable circumstances affected the Group's gross profit, which stood at HK\$186.9 million for the year (2004: HK\$290.5 million). Due to a loss of HK\$14.1 million from a financial activity, loss attributable to shareholders widened to HK\$36.3 million (2004: profit of HK\$49.1 million).

Nevertheless, the Group maintained a healthy financial position. As at 31 December 2005, its cash and bank deposits amounted to HK\$173.0 million (31 December 2004: HK\$234.7 million).

BUSINESS REVIEW

To deal with the challenging market environment which was expected to persist, the Group embarked on reinforcing, reorganizing and restructuring its business during the year under review.

財務回顧

截至二零零五年十二月三十一日止年度，本集團錄得營業額1,040,400,000港元（二零零四年：1,158,100,000港元）。中國沿海城市勞工成本上漲及勞工短缺，加上原材料價格持續高企，仍然是玩具製造商最為關注的問題。受到不利的經營環境影響，集團本年度的毛利錄得186,900,000港元（二零零四年：290,500,000港元）。由於財務活動錄得14,100,000港元的虧損，股東應佔虧損擴大至36,300,000港元（二零零四年：溢利49,100,000港元）。

然而，本集團仍維持良好財政狀況，於二零零五年十二月三十一日的現金及銀行存款達173,000,000港元（二零零四年十二月三十一日：234,700,000港元）。

業務回顧

集團預期嚴峻的市場環境將會持續，因此，集團在回顧年內採取行動，鞏固、整頓及改組現有業務。



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On the one hand, the Group sought to expand its existing customer base and markets by offering an enriched product mix. More resources were allocated to set up production facilities in Vietnam and inland PRC to mitigate labour shortages and increasing labour costs in the coastal cities of the PRC. The Group also streamlined its business structure to reduce cost and enhance efficiency. These strategies strengthened not only the Group's position as a market leader, but also its foundation in meeting challenges.

Product Analysis

Representing 94.4% of the total turnover, plush stuffed toys remained the core business of the Group and recorded HK\$981.8 million in sales during the year. Within this sector, the OEM business contributed HK\$810.6 million in turnover. With major character owners and licensors as customers, the Group focused on exploring business opportunities in its existing customer base, such as cross-selling of steel and plastic toys to these OEM customers.

首先，集團透過提供更多樣化的產品組合，致力擴大現有的客戶基礎及市場。此外，集團投放更多資源在越南及中國內陸地區，設立生產設施，以減低中國沿海城市的勞工短缺及勞工成本上升的影響。集團積極精簡業務架構，從而減低成本及提高效率。此等策略不但鞏固本集團作為市場領導者的地位，亦加強集團的基礎以面對種種挑戰。

產品分析

年內，毛絨玩具仍是集團的核心業務，佔總營業額94.4%，並錄得981,800,000港元的銷售額。其中，原設備製造（「OEM」）業務帶來810,600,000港元的營業額貢獻。集團已獲得主要角色造型擁有人及特許商成為客戶，因此集中在現有客戶基礎上開拓商機，例如向此等OEM客戶銷售金屬及塑膠玩具。





The proportion of the ODM business to the total turnover of the Group rose from 14.2% last year to 16.4% this year. Driven by increased orders from US customers such as new customer KOHL'S for its Christmas promotion programme, the business segment reported continuous growth during the year. After extensive preparation, the Group's new product line - infant products such as rattle, plush and bedding, will be launched in the infant section of Walmart in 2006. This is going to bring in significant revenue to the Group and allow the Group to gain more exposure in the global infant products market.

Revenue from the steel and plastic toy business increased by 33.8% to HK\$58.6 million when compared with last year and accounted for 5.6% of the Group's total turnover. During the year, the Group invested in C & H HK Corp., Ltd. and J.Y. Plasteel (Suzhou) Co., Ltd. to acquire the trademarks "Great", "Far Great", the right and machineries to manufacture and distribute tricycles, bicycles, scooters, infant carts, inline skates, etc. under these brands. J.Y. Plasteel (Suzhou) Co., Ltd. will build a new plant, which will cost US\$4 million in capital investment including machinery, in Taicang city, Jiangsu province, to expand the steel and plastic toy product mix. These new subsidiaries would engage in manufacturing and distribution of steel and plastic toys under the character products of world-leading brands, and enables the Group to get access to the domestic PRC market and earn Renminbi revenue.

集團的原設計製造(「ODM」)業務佔總營業額的比例，由去年14.2%增加至本年度的16.4%。受惠於集團的美國客戶增加訂單，如新客戶KOHL'S在聖誕期間進行的推廣計劃，此業務於年內繼續取得增長。經過周密部署，本集團的嬰兒用品新產品線，如撥浪鼓、毛絨及寢具等，將於二零零六年在沃爾瑪的嬰兒用品部推出。此新產品線將為本集團帶來重大收益，並提升集團在全球嬰兒產品市場的知名度。

本集團來自金屬及塑膠玩具業務的收入較去年增長33.8%，至58,600,000港元，並佔本集團總營業額5.6%。年內，本集團投資於C & H HK Corp., Ltd.及正潤童車(蘇州)有限公司，藉此收購「Great」及「Far Great」商標、有關生產機器及以該等品牌生產和分銷三輪車、自行車、踏板車、嬰兒車及單線滾軸溜冰鞋等的權利。正潤童車(蘇州)有限公司將於江蘇省太倉市興建一座新廠房，擴大金屬及塑膠玩具產品組合，涉及的資本投資額(包括機器)為4,000,000美元。此等新成立的附屬公司將為世界主要品牌的角色造型產品生產及分銷金屬及塑膠玩具，而本集團亦得以涉足中國本地市場，賺取人民幣的收入。

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Market Analysis

During the year, North American remained the largest market of the Group, accounting for 46.0% of the Group's total turnover. Even though the US economy was affected by dampened consumption sentiment as a result of rising oil price and hurricanes devastation, the US market was resilient and only experienced a mild decrease in sales. Japan, the Group's second-largest market, contributed 31.1% of the total turnover. The Group continued to launch ODM products under the "CALTOY" brand in this market, where non-character toys were well received. The reduced sales to the Japan market was anticipated as the Group had been rationalizing its clientele by trimming the numbers of low margin customers or orders.

Benefited from the increasing orders of the OEM customer, IKEA, the Group enjoyed remarkable business growth in the Europe market. The proportion of turnover contribution from the Europe market increased to 16.0% of the Group's turnover for the year.

市場分析

年內，北美仍然是集團的最大市場，佔本集團總營業額46.0%。儘管油價上升及颶風災害打擊消費意欲，影響了美國經濟，但美國市場卻迅速復甦，故銷售僅略為下跌。日本為集團第二大市場，佔總營業額的31.1%。非特許角色造型的玩具深受日本顧客歡迎，因此本集團繼續在日本市場推出以「CALTOY」為品牌的ODM產品。年內，本集團重整其客戶結構，削減低利潤客戶或訂單的數量，導致日本市場的銷售額下跌。

受惠於OEM客戶宜家 (IKEA) 的訂單增加，集團在歐洲市場的業務增長理想。歐洲市場對營業額貢獻的比例，於本年度增至佔集團營業額的16.0%。



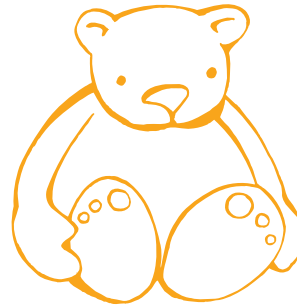


Operational Analysis

Fluctuation in oil price during the year adversely affected material costs, which pushed up production costs. However, capitalising on its leading industry position, the Group was able to obtain better prices for bulk purchase of raw materials. In view of greater market demand for polyester as raw materials for toys, the Group has established its own polyester production line to secure steady supply of this staple raw material at a lower cost.

In the coastal cities of the PRC, labour shortages persisted and the official minimum wage rose over 20% during the year. Even though the wage offered by the Group was higher than the minimum level, it still had to shoulder cost pressure with other factories raising their wages to attract workers. In view of this, the Group planned to shift part of its production facilities to inland PRC where the wage level was lower. Moreover, to lessen reliance on manpower, the Group has been automating its manufacturing processes by engaging state-of-the-art equipment as much as feasible.

In Vietnam, the pioneer plant was in full operation in July 2005 and the larger plant commenced operation in September 2005. These two new plants together handled orders worth over US\$4.2 million during the year. Fully utilized, the two plants will be able to produce US\$7 million worth of products each year. Moreover, expansion of the



營運分析

年內，油價波動對原材料成本造成不利影響，並推高生產成本。然而，憑藉於行業的領導地位，集團在大量採購原材料時享有較優惠的價格。有見於市場以聚酯作為玩具原材料的需求增加，本集團已自設聚酯生產線，以較低成本獲取此基本原材料的穩定供應。

中國沿海多個城市均繼續出現勞工短缺，而政府設訂的最低工資亦上升逾20%。儘管本集團給予工人的工資已高於最低工資，但由於其他廠商提高工資以吸引工人，令本集團仍要承受成本壓力。有見及此，本集團計劃把部份生產設施遷往工資水平較低的中國內陸地區。此外，為減低對勞工的依賴，集團已將部份生產工序自動化，盡量採用最先進的設備。

集團位於越南的首間廠房已於二零零五年七月全面投產，而另一更大規模的廠房亦於二零零五年九月開始運作。兩個廠房年內合共處理價值逾4,200,000美元的訂單。兩間廠房最多可於每年合共生產總值達7,000,000美元的產品。此外，位於江

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existing plant in Shuyang, Jiangsu province was completed ahead of schedule and the Group's production capacity was boosted up by 6.5%. The new facilities, especially those in Vietnam, have not only helped to mitigate the persistent labour shortage problem, but also lowered production risk of the Group from relying on China as a single production base and the continuing appreciation of the Renminbi. During the year, the average utilization rate of the Group's production facilities bounded back to above 80%.

PROSPECTS

The toy industry will stay very competitive in the coming years as the trends of hiking raw material costs and increasing labour costs in the coastal areas in the PRC are likely to persist. Continuous pressure on margins is anticipated for the next couple of years. However, the difficult operational environment has sparked consolidation of the toy industry, which will result in the ousting of small players leaving the most scalable players, including the Company. In the long run, the Group is set to enjoy better margins and will have yet stronger bargaining power in negotiating with customers and suppliers.

蘇沅陽的現有廠房擴建工程已經完成，時間較集團預期為早，將本集團的產能提升6.5%。此等新設施，尤其位於越南的設施，不但有助紓緩持續出現的勞工短缺問題，而且亦減低了本集團依賴中國作為單一生產基地的風險及人民幣持續升值的壓力。年內，本集團平均的生產設備使用率已回升至80%以上。

展望

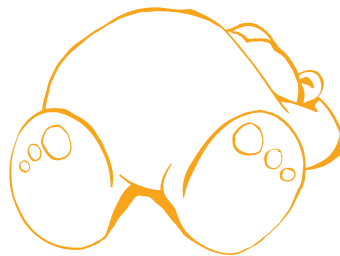
原材料成本上漲及中國沿海地區勞工成本上升的情況相信將會持續，因此，玩具業今後數年的競爭情況將仍然激烈，預期邊際利潤亦會繼續受壓。然而，艱苦的經營環境觸發玩具行業進入整固時期，結果規模較小的廠商將被淘汰，最後只餘下最具規模的企業，包括德林國際。長遠而言，本集團深信邊際利潤將有所改善，而在與客戶及供應商磋商時亦將有更大的議價能力。





Looking ahead, the Group will continue to reinforce, reorganise and restructure its business to fortify its operational foundation and enhance profitability. Reassessment of customer mix will continue. Besides easing out low margin customers, the Group will explore business opportunities with retained large customers. More emphasis will also be put on R&D with the aim of enriching the Group's product mix and to develop innovative products with higher margins. The Group will also streamline and relocate certain operations to enhance cost-effectiveness. It is expected that the positive results of these initiatives will be reflected in the Group's results in the coming year.

While continuing to focus on its major plush stuffed toys business, the Group will exploit every opportunity for its steel and plastic toy business. Riding on the "Great" and "Far Great" brands acquired and the Group's new plant in Taicang, the Group will be able to take up orders from existing Far Great customers and add more new product lines designed by the Group's strong team of product designers to boost its business growth. Moreover, the acquired distribution network can provide the Group a platform to enlarge its customer base in existing markets as well as explore new markets, such as the PRC. As scheduled, the new plant in Taicang will be completed by the end of April 2006 and is expected to be full operational in August. This new plant together with additional new machineries will cost about US\$4 million, which will be



展望未來，本集團將繼續鞏固、整頓及改組業務，務求加強營運基礎及提升盈利能力。集團將繼續評估客戶組合，除逐步減少邊際利潤較低的客戶外，亦將開拓與現有大客戶進一步合作的商機。集團將更注重研發，以豐富產品組合，並開發利潤較高的創新產品。另一方面，集團將精簡運作及重置部份營運地點，務求提高成本效益。集團預期此等措施所產生的成效，將會反映在集團來年的業績之中。

本集團一方面繼續專注其毛絨玩具的主要業務，同時將發掘在金屬和塑膠玩具業務方面的商機。憑藉收購「Great」和「Far Great」品牌加上在太倉市開設新廠房，本集團將吸納Far Great現有客戶的訂單，並增添更多由集團強大設計隊伍開發的新產品線，從而推動業務增長。此外，已被集團一併收購的分銷網絡為集團提供一個平台，藉此擴大於現有市場的客戶基礎，同時亦可開發其他新市場，例如中國。太倉新廠房將如期於二零零六年四月底竣工，並預計於八月全面運作。該新廠房加上額外新機器將耗資約4,000,000美元，由集團內部資源及銀行借貸支付。該廠房將用作生產OEM產品及以

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funded by its internal resource and bank borrowing. The plant will manufacture OEM products and products under the "Great" and "Far Great" brands with anticipated annual sales over US\$15 million.

The Group will continue to relocate its production facilities inland in the coming year. New plants in Mingguang and Chaohu of Anhui province and in Beiliu of Guangxi province were set up early this year, which will boost its production capacity by 30% when they are in full operation. At the same time, 200 more sewing machines will be shipped to Vietnam in the first half of 2006. The Vietnam plants will be able to support sales up to US\$7 million a year. The expanded capacity will provide the Group a significant edge to capture more business opportunities in future.

「Great」和「Far Great」為品牌的產品，預期每年銷售額可達15,000,000美元以上。

未來一年，本集團將繼續重置生產設施往內陸地區。位於安徽省明光市及巢湖市以及廣西省北流市的新廠房於今年年初成立，待該等廠房全面投產後，將提升集團的產能達30%。同時，新增200部縫紉機將於二零零六年上半年運抵越南。兩間越南廠房共可應付每年高達7,000,000美元的銷售。擴充後的產能將為集團帶來重大優勢，於日後把握更多商機。

