CHAIRMAN'S STATEMENT

Results

The Group's unaudited consolidated profit attributable to shareholders of the Company for the period increased by 2.7% to HK$50.1 million (six months ended 30 June 2005: HK$48.8 million) and basic earnings per share attributable to the shareholders of the Company was HK0.75 cents (six months ended 30 June 2005: HK0.73 cents).

Subsequent to the period ended 30 June 2006, the Group disposed of 4% equity interests in Infomart Corporation ("Infomart") which, commencing 8 August 2006, is traded on the Tokyo Stock Exchange Mothers Board. The Group realised a profit of approximately HK$40.8 million that will be recorded in the second half of the year. Subsequent to the disposal, the Group holds 2% equity interests in Infomart.

Dividend

In line with past years and considering the seasonality of the Group's principal toy operation, the board of directors (the "Board") do not recommend the payment of an interim dividend for the six months ended 30 June 2006 (six months ended 30 June 2005: Nil) and will consider the payment of any final dividend for the year ending 31 December 2006.

Review of operations

The Group's turnover, including its share of associates' turnover, for the period ended 30 June 2006 amounted to HK$1,075.1 million, representing an increase of 5% over the same period in 2005. This increase reflects incremental rental income generated from The Center, a new Grade A commercial building in Shanghai, acquired during the final quarter of 2005, partially offset by reduced turnover of the Group's toy operation. Earnings before interest expense and taxation ("EBIT") for the period was HK$139.7 million, a 164% increase compared to HK$53.0 million for the same period in 2005. EBIT increased mainly due to the surplus from revaluation of the Group's investment properties in Shanghai, partially offset by expenses incurred by the technology operation on brand-building, product development and expansion of sales channels.

Toy operation

The toy operation remains the principal contributor to the Group's revenues. For the six months ended 30 June 2006, the turnover decreased from HK$704.4 million in 2005 to HK$645.9 million and EBIT decreased from HK$12.1 million to HK$6.8 million. With the increased global emphasis on just-in-time inventory policy and improved supply chain management, the trend is for customers to delay their orders to second half of the year, resulting in a drop in turnover. To meet this challenge in this increasingly competitive environment, the Group has been rationalising its production flows and measures have been taken to improve operational efficiency. At the same time, a supply chain management project has been established during the first half of 2006 focused on streamlining workflows and increasing efficiency through information technology infrastructure enhancement and a central procurement framework.

The toy manufacturing environment continues to be challenging in other areas, with increasing price competition and continually rising raw material costs, notably plastics and metals, as well as an increased shortage of skilled labour. In view of these rising cost pressures, the Group is re-engineering its operating strategy focused on selecting good quality orders with reasonable returns and enhancing long term relationships with strategic customers to develop higher margin products. Management also aims to strengthen its research and development capabilities by penetrating into the original design manufacturing ("ODM") market.

Technology operation

The technology operation experienced a slight decrease in turnover of 2.0% from HK$255.3 million in 2005 to HK$250.1 million in 2006 and reported a loss before interest expense and taxation ("LBIT") of HK$45.2 million compared to HK$8.2 million for the same period last year. The increase in LBIT was mainly attributable to increased investments in brand-building, expansion of sales channels, as well as strengthening of the research and development capabilities of the technology operation, in order to establish a good foundation to drive long-term growth and maintain the competitive advantage of the operation.

The Group's investment in Europe, in particular, in the United Kingdom and Italy, has provided a solid entry point to the European market. Meanwhile, management has recently concluded agreements with some renowned mobile phone manufacturers for the global supply of mobile phone accessories leveraging the Group's strong design capability and high production quality. In the Asia Pacific region, the Group benefited from market growth as well as increased brand awareness in Hong Kong, Mainland China and Taiwan during the first half of the year.

To stay at the forefront of the technology market, the technology operation consistently invests prudently in research and development. Leveraging on the success in the Bluetooth® headsets, the Group has developed a series of Bluetooth® dongles compatible with a world famous branded portable musical entertainment product. The recently launched mobile digital video recorder that enables real time recording of TV programmes and playback of recorded images on various digital devices has been well-received by the market. Enhanced versions of headsets with innovative and high-end built-in features will also be launched to cope with the changing demand of customers. To broaden its product offerings, the technology operation is expanding its product range to include in-car Bluetooth® application sets and personal entertainment multimedia products.

Licensing and sourcing operation

The licensing and sourcing operation reported a turnover of HK$57.3 million for the six months period ended 30 June 2006, representing strong growth of 42.7% over the same period in 2005. An LBIT of HK$3.7 million was recorded for the six months ended 30 June 2006, compared to an LBIT of HK$4.3 million for the same period last year. The brand-licensing agency business has continued to benefit from the launch of new cartoon and movie characters by Warner Bros., the Group's brand strategic licensing partner. The division expects to see benefits from the grand opening of the Warner Bros. flagship store in Shanghai in March 2006 which should improve awareness of the Warner Bros. brand in China.

Property operation

Turnover of the property operation for the period ended 30 June 2006 was HK$136.5 million and EBIT was HK$203.7 million, 483.0% and 637.8% higher than the same period last year respectively. The increased turnover reflects the rental income from The Center in Shanghai, which was purchased in November last year. In addition, EBIT increased due to a HK$93.5 million upward revaluation of the Group's investment property portfolio, which is credited to the profit and loss account. Excluding the revaluation surplus, EBIT of the property operation rose by 342.8% over the recurrent EBIT of 2005 to HK$110.2 million as a result of the incremental rental income generated by The Center. Currently, the Group's property portfolio is over 99% let.

Outlook

In line with the seasonal pattern and the anticipation of increase in sales demand, the toy operation is expected to experience a notable increase in turnover in the second half of 2006. Management is committed to strengthen its supply chain management and aims to achieve higher margins through rationalisation of its production process as well as centralising its purchasing function. In addition, management is focusing on good quality orders with higher margins as well as counter-seasonal products to minimise the cyclical impact of the toy operation.

The technology operation continues to strengthen its distribution network in selected good performing markets, like Asia Pacific region, in order to capture the area's growth potential. The Group will continue to make prudent investments in research and development to maintain its leadership in the Bluetooth® headset market and for further penetration into a wider spectrum of advanced and high-end wireless products with a view to improve margins. The licensing and sourcing operation will continue to explore opportunities in expanding its brand licensing business with Warner Bros.

Benefiting from the favourable economic environment and promising growth potential of China, the three investment properties in Shanghai are expected to maintain high occupancy rates and rental levels, contributing strong and steady earnings and cashflow to the Group.

The Board would like to thank all employees for their hard work and dedication and our shareholders and business partners for their continued support.

Fok Kin-ning, Canning
Chairman

Hong Kong, 17 August 2006