

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

For the year ended 31st December 2000, the Group's turnover and net loss for the year were approximately HK\$134 million and HK\$45 million respectively. The loss per share was 10.1 HK cents.

The decrease in turnover in 2000, compared to the turnover for the 9-month ended 31st December 1999, was mainly due to the fact that the demand for the Group's old OEM (Original Equipment Manufacturing) toy item such as mechanical ride-on was reduced as a result of keen competitions while majority of the Group's new OEM toy items, such as motorized ride-on, motorized scooter and light and sound items, developed in the year 2000 are scheduled for sale only in the year of 2001.

The increase in net loss was a result of the decrease in turnover and increase in the net loss margins (calculated by loss before tax/sales). The net loss for the year ended 31st December 2000 included a deficit arising on revaluation of the Group's property of HK\$8 million, a significant provision to the stock of HK\$9.9 million and a provision of doubtful debts of HK\$3.6 million. There was no such deficit on revaluation in 1999 and the stock and bad debt provision in 1999 amounted to HK\$1.5 million only. In addition, the increase in prices for plastic and paper material further reduced the Group's in profit margins.

LIQUIDITY AND FINANCIAL RESOURCES

Borrowings and banking facilities

As at 31st December 2000, the Group had outstanding short-term bank borrowings of approximately HK\$30.5 million (mainly represented by trust receipt loans of HK\$4.5 million and short term bank loan and overdraft of approximately HK\$26 million). The main purpose of the bank loans were to finance working capital of the Group.

As at 31st December 2000, the Group's bank deposits of HK\$8,267,000 were pledged to banks to secure banking facilities granted to a subsidiary; and the Group's leasehold land and buildings in PRC with an aggregate net book value of HK\$82,053,000 were pledged to banks to secure bank loans granted to a subsidiary.

The bank borrowings are mainly made in Hong Kong Dollars, United States Dollars and Renminbi. The Group did not enter into any hedging transactions. Foreign exchange exposure does not pose a significant risk to the Group given that the level of foreign currency exposure is small relative to its total asset base.

As at 31st December 2000, the gearing ratio of the Group, calculated as total debts divided by total assets, was 37.8%.

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Net current assets and working capital

As at 31st December 2000 the Group's total current assets and current liabilities were approximately HK\$106 million and HK\$117 million respectively. The Group serviced its debts primarily through cash generated from its operations. After considering the financial resources available to the Group including internally generated funds and the Group's effort to reduce inventory/turnover ratio, the Directors are of the opinion that the Group has sufficient resources and working capital to meet its foreseeable debt repayment requirements.

INVESTMENT

During the year 2000, the Group accrued additional cost for factory premises up to an amount of HK\$16.5 million.

NEW SHARES AND CONVERTIBLE NOTES ISSUED

In March 2000, arrangements were made for a private placement to independent private investors of 58 million new shares of the Company for net proceeds of approximately HK\$30 million. In mid 2000, a placing agreement and a subscription agreement were signed in relation to a placing of 180 million new shares at a price of HK\$0.20 per share and an issue of HK\$13,200,000 convertible notes ("Convertible Notes") for a maturity period of two years. The Convertible Notes are zero coupon notes carrying the right to convert into 60 million new shares at a conversion price of HK\$0.22 per share. The net proceeds from the placing of shares and issue of Convertible Notes totalling approximately HK\$48 million were used as general working capital for the operation of the Group. During the year 2000, HK\$6,600,000 Convertible Notes were converted into 30,000,000 shares.

STAFF COST, DIRECTOR BONUSES AND SHARE OPTION SCHEME

Staff cost for the year ended 31st December 2000 was HK\$18.8 million. The Group had a workforce of about 960 employees at the end of 2000, 8 of them stationed in Hong Kong and the remaining staff stationed in Shenzhen, PRC. Salaries are maintained at competitive levels while bonuses are granted on a discretionary basis.

In 2000, discretionary bonus was payable to Directors amounted to HK\$47,000.

The Group has adopted a share option scheme under which the Director of the Company may, at their discretion, granted options to the Executive Directors and full-time employees of the Group to subscribe for shares representing up to a maximum of 10% of the issued share capital of the Company from time to time.

PROSPECTS AND FUTURE PLAN

As mentioned in the above, the unsatisfactory results of year 2000 were mainly caused by significant provisions, increase in plastic and paper material prices and the fact that a majority of new OEM toy items developed are scheduled for sale only in 2001.

In the current financial year 2001, based on latest development the Group will have not less than 15 new light and sound OEM items, five new series of motorized ride-on and scooter OEM items and five new musical movement OEM toy items to be launched into the market. The types and number of new items to be launched in 2001 is considered to be significant compared to that of recent years.

In additions, armed with 10 years experiences in the manufacturing of musical movements using a Japanese technology, the Group endeavors to strengthen its musical movement manufacturing division in a bid to capture a higher turnover achievement.

The Group also installed a new material resources planning computer software system to strengthen the Group's cost and inventories control and reporting system to facilitate the management's endeavor to streamline the Group's operation efficiencies.