

MANAGEMENT DISCUSSION AND ANALYSIS

The turnover of the Group was increased by 6% to approximately HK\$120 million for the financial year 2002 when compared to approximately HK\$113 million in 2001 and the net loss of the Group for the year was reduced by 81.7% to approximately HK\$8.4 million from approximately HK\$46 million in last year. The substantial improvement in the final results of the Group for the year ended 31 December 2002 reflected the successful accomplishment of the reorganization and the net gain on disposal of toy manufacturing and distribution business of approximately HK\$14.2 million.

LIQUIDITY AND FINANCIAL RESOURCES

The financial position of the Group has become much solid after the disposal of the toy manufacturing and distribution business at cash consideration of HK\$25 million. The total bank borrowings of the Group had significantly decreased by 88% to approximately HK\$7.8 million from approximately HK\$65.3 million in last year as a result of the elimination of all borrowings associated with the disposal of toy manufacturing and distribution business. The gearing ratio of the Group, expressed as the percentage of the Group's total borrowing over the shareholders' fund of approximately HK\$58.2 million was decreased significantly from 98.4% to 13.4%.

The working capital of the Group was also improved significantly to net current assets of approximately HK\$46.3 million from net current liabilities of approximately HK\$26.8 million in last year. Current ratio was maintained at a healthy level of around 3.0 times. As at 31 December 2002, the Group's bank and cash balances amounted to approximately HK\$13.1 million.

The Group currently earns revenue and incurs expenses mainly in Hong Kong dollars and Singapore dollars. The Group's borrowings and bank and cash balances are also denominated in Hong Kong dollars and Singapore dollars. The Group will conduct periodic review of its exposure to foreign exchange risk.

CONTINGENT LIABILITIES

The Group had no significant contingent liabilities at the balance sheet date, except a corporate guarantee was given to a financial institution in respect of securities margin facilities granted to a subsidiary. Such facility was not utilized by the subsidiary as at 31 December 2002.

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PLEDGE OF ASSETS

As at 31 December 2002, bank deposits of approximately HK\$5.7 million and marketable securities of approximately HK\$7.6 million were pledged to secure banking facilities and securities margin facilities granted to the Group.

HUMAN RESOURCES

As at 31 December 2002, the Group had approximately 170 employees in Hong Kong and Singapore.

The Group's employees are remunerated in line with the prevailing market terms and individual performance, with the remuneration package and policies reviewed on a regular basis. In addition to salaries and sales commission, discretionary bonuses may be rewarded to employees after assessment of the performance of the Group and the individual employee. Share options may be granted to senior management as a recognition of their contribution and an incentive to motivate them.