Management Discussion and Analysis

RESULTS

The Group's turnover for the financial year ended 31st December, 2000 amounted to approximately HK$320 million, representing a drop of 7.7% over that reported in the previous financial year. Despite this, the Group managed to report a net profit attributable to shareholders in the financial year of 2000 of approximately HK$5 million.

BUSINESS REVIEW

Toys

In 2000, the Group has experienced a difficult time in its toys business and the turnover of this division has dropped slightly. The main reason attributable to the decrease in turnover is that one of the major customers of the Group has not fulfilled its bulk order placement as expected in the year because the products of such customer did not receive a satisfactory market response. In addition, fluctuation in major material costs, including plastic and paper, also dampened the Group's profitability.

In minimizing the risk of a heavy reliance on a narrow base of customers, the Group has been actively pursuing new potential customers in order to broaden customer base. Besides, for further sharpening its competitive edge, the Group will continue to invest in technology and to improve design capabilities for its Original Design Manufacturing services.

Model Trains

The major markets of the Group's model train products are the US and Europe. The total turnover of model train products has accounted for about 58% of the Group's turnover and has dropped by approximately 5% as comparing with last year as some of the products to be delivered at the end of 2000 were shifted to early of 2001 due to prolonged product development.

In July 2000, the Group has acquired a well established model trains manufacturer and retailer named Graham Farish ("Farish") in Britain. Restructuring of Farish has been completed in late 2000, and the Farish series of products will be successively launched in 2001. As Farish has a leading market share in the N-scale model train market in the United Kingdom, the Board is in the opinion that sales generated by Farish will contribute to the Group's turnover significantly in the coming financial years.

Besides, the Group is enjoying an encouraging favorable market response from the successful launch of two series of model trains in the PRC. They are "Dong Feng-11" (東風-11) and "Qian Jin" (前進). Since the Group has obtained an exclusive licence from the China National Railway Locomotive & Rolling Stock Industry Corporation in the production of a series of PRC model trains, the Board will continue to explore new market opportunities of this series of licensed model trains both in the PRC and in the overseas market.

Management Discussion and Analysis *(Continued)*

Property Investment

The rental income recorded a turnover of approximately HK$30 million, representing a year-to-year drop of about 18%.

Hong Kong rental rates remained under pressure because of the fragile market sentiment in the financial year under review resulting in a decrease of rental income of the Group's industrial building in Kowloon Bay. The expiry of a major tenancy in 1999 has further dipped the rental income. However, the Group has already secured a number of new tenancies in the second half of the year of 2000 to pick up all those premises vacated by the previous major tenant. The Board expects rental income to be improved in the next financial year as the occupancy rate has resumed to a satisfactory level.

Investment Holding

The Resort at Squaw Creek, the Group's major investment in the U.S., has recorded a satisfactory performance during the year. It is a luxury resort with over four hundred guest rooms situated in the heart of the Squaw Valley, California. The Conde Nast Traveler Magazine has ranked the Resort among the top 50 best resorts in North America. In 2000, the cash return from the Resort has increased noticeably, 34% as compared with the previous accounting year-end. The investment was revalued in the 2000 accounts, leading to a significant revaluation gain being booked in the profit and loss account.

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 31st December, 2000, the Group's current ratio was 0.94. The Group's total bank borrowings have slightly reduced from approximately HK$306 million as reported last year to approximately HK$299 million as at year-end. The financial gearing of the Group, based on the total bank borrowings to the shareholder's equity was maintained at 59%.

Capital Structure

During the year ended 31st December, 2000, there was no significant change in the Company's share capital.

Charges on Group Assets

As at 31st December, 2000, certain investment properties, leasehold land and buildings and other assets of the Group with a total net book value of approximately HK$560 million were pledged to banks to secure banking facilities granted to the Group.

Management Discussion and Analysis *(Continued)*

Material Acquisitions And Disposals

As noted above, in order to further expand the Group's market penetration in Europe, the Group acquired Graham Farish Limited, a long-established model trains manufacturer and retailer in Britain, at approximately HK$8.7 million in July 2000. This acquisition was mainly financed by bank borrowing.

Exchange Rate Exposure

As a result of the devaluation of sterling and euro against US dollars in the year under review, our UK subsidiary suffered an exchange loss of approximately HK$900,000. In year 2001, the Group will look into the possibility of taking foreign exchange hedging to minimize the risk of foreign exchange rate exposure. Other than that, all other assets, liabilities and transactions of the Group are denominated either in U.S. dollars, Renminbi or Hong Kong dollars. As the exchange rate of US dollars and Renminbi against Hong Kong dollars was relatively stable during the year, the Group was not exposed to material exchange risk.

Contingent Liabilities

As at 31st December, 2000, the Group did not have significant contingent liabilities.

EMPLOYEES AND REMUNERATION POLICIES

As at 31st December, 2000, the Group employed approximately 4,600 full time management, administrative and production staff in USA, Europe, PRC and Hong Kong. The Group remunerates its employees based on their performance, experience and prevailing industry practice. The Group is dedicated to provide staff training and development covering different areas including management techniques and technical skills to all levels of staff and will continue this practice in the forthcoming periods.

PROSPECTS

Diversifying and broadening the Group's customer base has always been the main marketing objective of the Group. The Board is of the opinion that the Group is well positioned to diversify its product range, improve production efficiency, increase market exposure and expand customer base. With the PRC's imminent accession to the World Trade Organization, the Group foresees increasing investment opportunities and a more opening and favorable business environment in China. Stepping into the 21st century, the Group will make use of its expertise to tap any new investment opportunities.

Management Discussion and Analysis *(Continued)*

The Group has already successfully obtained an US licence in the production of “Harry Potter” branded model train products. The Group expects that “Harry Potter”, one of the best-selling novels in the world, will be a new character hitting the toy scene and will become the hottest licensed movie character upon the release of the film in late 2001. The Board is optimistic that this may generate substantial revenue in the coming years.

Looking ahead, more efforts will be put to reduce production costs and more resources will be allocated to the development of new products. Barring any unforeseen circumstances, the Board is cautiously optimistic toward the business prospects of the Group.

Kenneth Ting Woo Shou
Managing Director

Hong Kong, 17th April, 2001.