The substantial losses made by the Group during the past two financial years deteriorated the financial and liquidity position of the Group. During the year under review, the Group's toy operations continued to face difficult market conditions and escalating costs. Europe and USA, the major markets of the Group's toy products, suffered from weakness in Euro and experienced reduced consumers' spending respectively. Costs of plastics, packing materials and fuel oil still remained at high level. As there is no sign of improvement, and in view of the Group's lack of working capital, the Board has resolved to phase out the toy operations. To contain the Group's operating loss at an affordable level, in May/June 2000, the Group managed to arrange for an independent third party to take over the management of the toy operations. As a result, the Group's cash operating loss was much reduced and with further financial support from the major shareholder, Open Mission Assets Limited, the Group was able to reduce the total bank borrowings by more than HK$46 million over the year under review, and has repaid, in full, all the banking borrowings in the second half of June 2001.

Having reviewed the Group's toy business, the Board has concluded that it is not worthwhile to pursue a deteriorating and heavy loss-making operation. The appointment of a "Manager" to look after the toy business has greatly reduced the cash operating loss of the Group. However, the Group's operating loss (which includes substantial amounts of depreciation and amortization) as reflected in the financial statements was still very large. Also, the Group needs to devote resources and time to monitor the Manager and may expose to risks and contingent liabilities. Hence, this arrangement may resolve the problem in the short term, but is not an entirely satisfactory solution in the long term. As a result, the Board has decided to dispose of the subsidiary companies engaged in toy manufacturing and export business. The intended disposal will result in a large write-off but will stop the recurring substantial loss to be incurred in future. Full provision for the loss on the intended disposal of the toy business has been made in the financial statements for the year under review, which largely accounted for another substantial loss reported in this year.

In June 2000, the Group, financed through placement of shares and issuance of consideration shares, completed the acquisition of an effective 22.08% interest in Techwayson Industrial Limited at a cost of HK$90 million. Techwayson's principal business activities are the design, development and production of automation and control system. This investment, through equity accounting, contributed a pre-tax profit of approximately HK$9.6 million to the Group prior to its being reorganized and listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited on 8 February 2001. After being listed, the Group's effective interest in this investment has been decreased from 22.08% to 17.66%, and the status of this investment has been reclassified from an associated company to long-term investment securities. This resulted in a book loss of approximately HK$12.7 million in the accounts for the year. Although the Group's interest in this investment after being listed has been diluted, it is more valuable to have a listed than an unquoted investment in terms of marketability and liquidity. For the 9 months ended 31 March 2001, Techwayson has already achieved an unaudited net profit of approximately HK$47.3 million.

LETTER TO SHAREHOLDERS

In October 2000, the Group acquired a portion of the Level 8 of the shopping mall of CTS Centre located above the Gongyuanqian Metro Station, Guangzhou for HK$31.5 million. The acquisition was financed by a private placing of 87 million shares of the Company at HK$0.4 per share in September 2000. In early July 2001, the Group further acquired 4 units of new shops located at Level 3 of CTS Centre at a total consideration of HK$98 million, to be financed by the issuance and allotment of 98 million shares at HK$1.0 per share. The Group intends to let out all the acquired units to business tenants to receive rental income.

In March 2001, the Group acquired an effective 23% interest in Broadlink Technology Limited ("Broadlink"), a foreign wholly-owned enterprise established in Shenzhen, China for HK$89 million. The entire business of Broadlink was revalued on a market value basis at HK$548 million on 2 January 2001 by Sallmanns (Far East) Limited, an independent professional valuer. At the time of acquisition, Broadlink had secured contracts totalling approximately RMB520 million, of which the major customers are various cable TV operators from several provinces in China.

Broadlink distributes its products and services under its brand-name of CBIS marketed primarily to cable TV operators. These include sub-systems of hybrid fiber coax network management, internet protocol network management, subscribers management and billing, planning and maintenance, and central control. With about 80 million viewers, China has the largest cable TV subscriber base in the world. It is estimated that the number of subscribers will reach about 100 million by 2006. The Board believes that the Group's investment in Broadlink will provide a source of income in the near future. The acquisition of Broadlink is entirely financed by the issuance of 178 million shares of the Company at HK$0.5 per share.

Subject to the completion of the intended disposal of toy operations and with further financial support from Open Mission, all the difficulties and problems associated with the toy operations will be behind us. The Group can concentrate its resources and time on new investments and business opportunities. Through a series of placing of the Company's shares and the issuance of the Company's shares as part of the consideration for the acquisition of new investments, the financial position of the Group has been greatly improved. Barring un-foreseeable circumstances, the Group's huge operating loss as reported in the past three financial years will not be repeated in the forthcoming financial year.

On behalf of the Board, I would like to thank all our customers, suppliers, bankers, business partners and staff for their kind consideration and support.

LIU Xue Lin

Chairman