TOY MANUFACTURING, EXPORT AND RETAIL DISTRIBUTION

During the year under review, the Group's toy operations continued to be adversely affected by escalation in costs and decrease in buying by customers in Europe and the USA, the major and substantial markets for the Group's toy products.

Costs of plastics, thinner, paints, fuel oil (all by-products of crude oil) and packing materials remained at high level. Europe, the biggest market of our products, experienced depreciation in value of Euro and other European currencies against US dollars and hence Hong Kong dollars. The weak currencies dampened the purchasing power of the European customers and eroded our gross margin on sales. Customers in the USA also reduced their volume of purchases owing to uncertainties and slow-down in their home market.

Following two years of reporting substantial operating loss of toy operations, the banks did not want to provide further finance to the Group. Therefore, the Group would have inadequate working capital to operate during the forthcoming peak seasons starting June every year. Having carefully reviewed the present situation and the prospects of the Group's toy operations, the Board considered that it was not worthwhile to devote substantial resources and time to a deteriorating and unprofitable business.

In late May/early June 2000, the Group arranged for a manager to take over the management of the Group's toy manufacturing, retailing (in China) and export operations. This arrangement substantially reduced the Group's turnover, but at the same time resulted in decreased cash operating loss, as noted in our interim report to shareholders on 19 December 2000.

By December 2000, all the retail outlets in Hong Kong have been closed down following the Group's decision of phasing out the retail business in Hong Kong in late 1999.

The Group managed to sell, with the aid of the manager, virtually all the finished goods, and to transfer all the good and usable raw materials and work in progress for consumption by the manager and recover a substantial part of the total costs. The Group had collected most of the trade receivables and made use the proceeds to repay bank borrowings and trade creditors.

The appointment of a manager to manage our toy business had fulfilled our objective of reducing the Group's cash operating loss in the short term . However, with this arrangement, the Group would continue to report a large operating loss when depreciation and amortisation of fixed assets had to be provided for. Also, the Group need to devote some resources and time to monitor the performance of the manager and may be exposed to risks and contingent liabilities. Therefore, this arrangement will not be an entire satisfactory solution to the Group in the long term.

OPERATIONAL REVIEW

After further discussions, the Board has resolved to dispose of the Group's toy operations. This intended disposal may result in a large write-off to the Group, but stop the recurring substantial losses to be reported by the Group from year to year in future. The anticipated loss on intended disposal of this business has been fully provided for the year under review.

PROPERTY DEVELOPMENT/INVESTMENT

As in previous financial year, none of the shop units of both the Grand Garden and the Fantasy Garden was sold during the year under review. In December 2000, in order to improve the cash flow and the financial position, the Group had sold its wholly owned subsidiary which engaged in the development of both Gardens to an independent third party at a small loss.

In October 2000, the Group acquired a unit of Level 8 of the shopping mall of CTS Centre located above the Gongyuanqian Metro Station, Guangzhou for HK$31.5 million, 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 14 units of new shops located at Level 3 of the 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.

STRATEGIC INVESTMENTS

A. Techwayson Industrial Limited/Techwayson Holdings Limited

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 ("Techwayson") at a total cost of HK$90 million. Techwayson is a foreign wholly-owned enterprise and established in China in October 1997. It is located in the high-technology industrial park in Shenzhen and employs a team of 150 experienced professionals.

Its principal business activities are the design, development and production of automation and control system, under its own brand "Tailored Control System". Its system caters for a wide range of applications from light manufacturing to heavy industry covering a wide range of sectors from metallurgy, petro-chemistry, electric, railway to coalmining automation control sector.

Since acquisition, the investment in Techwayson, 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 ("Stock Exchange") under the name of Techwayson Holdings Limited ("THL") on 8 February 2001. After being listed, the Group's effective interest of 22.08% in Techwayson becomes 17.66% in THL (which indirectly owns 100% interest in Techwayson), and the status of this investment has been reclassified from an associated company to long-term investment securities. This reclassification 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.

Under the sale and purchase agreement of Techwayson, the vendors have guaranteed that, in substance, Techwayson's audited net profit after taxation for the 12 months ending 30 June 2001 to be not less than HK$51 million. For the 9 months ended 31 March 2001 Techwayson has already achieved an unaudited net profit of approximately HK$47.3 million.

B. Broadlink Technology Limited

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, though the net asset value of Broadlink amounted to about RMB1.5 million. 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 was formed as a foreign wholly-owned company in China in June 2000 to take over the research and development activities previously carried out by its shareholders. The headquarter of Broadlink is located in the high-technology industrial park in Shenzhen. It employs a team of about 60 experienced professionals.

Broadlink is primarily engaged in the research, development, production and distribution of hybrid fiber coax ("HFC") broadband network facilities, latest broadband technology products, cable modem and cable modem termination system for cable TV industry, its Cable Broadband Information System ("CBIS"), internet protocol solution facilities, HFC network system with simple network management protocol functionalities and related network system products to provide comprehensive solutions for the development of broadband network systems of cable operators in China.

OPERATIONAL REVIEW

Broadlink distributes its products and services under its brand-name of CBIS marketed primarily to cable TV operators. These include sub-systems of HFC network management, internet protocol network management, subscribers management and billing, planning and maintenance and central control.

According to the report made by AC Nielsen TV Rating Establishment Surveys in October 2000 for the region, penetration of cable TV in China has surpassed Taiwan and Hong Kong to become the leading cable TV market in the Greater China. Now, China has about 80 million cable TV subscribers and it is estimated that the number of users will reach 85 million by 2002. The directors believe that the investment in Broadlink which provides its technical know-how and services to the cable TV industry, will provide the Group a source of income in the near future, particularly with the anticipated growth of the cable TV industry in China.

The acquisition of Broadlink is entirely financed by the issuance of 178 million shares of the Company at HK$0.5 per share.