Operation review

The Group's financial year-end has been changed from 31st December to 31st March, therefore, the period under review becomes fifteen months from 1st January 2000 to 31st March 2001 accordingly. During this fifteen-month period, the Group's sales turnover was about HK$675 million (Year ended 31st December 1999: HK$571 million). Due to the discontinuing telecommunications business, the write-off of obsolete inventory, the operating loss derived from the manufacturing division and the write off of goodwill arising from the disposal of the educational portal subsequent to the balance sheet date, after taking into account of the net assets value of the education portal and its sales consideration, the Group has recorded an operating loss of about HK$605 million (Year ended 31st December 1999: HK$56 million), and the net loss of about HK$628 million (Year ended 31st December 1999: HK$75 million). The Group has decided to take instant and conservative remedial measures and believes that the above-mentioned loss is extraordinary in nature and will not occur again in the coming financial year.

The Group's manufacturing business has been operating under extreme financial difficulties during the past few years. Since the change of the controlling shareholder of the Group to Sino-i.com Limited in September 2000, the new management of the Group has immediately taken series of actions for rectifying the Group's past operational problems. In February 2001, KPMG was appointed by the new management to conduct an independent business review on the entire manufacturing operation of the Group. As a result, a series of operation re-engineering actions and plans were initiated and implemented accordingly. Such re-engineering actions and plans are proven to be effective by the subsequent outcome .

Electronic Learning Aids (ELA)

During the period under review, sales turnover of the ELA division was about HK$280 million (Year ended 31st December 1999: HK$325 million), but this division incurred an operating loss of about HK$179 million (Year ended 31st December 1999: HK$53 million) which was mainly due to about HK$76 million provision made for obsolete inventories accumulated during the last few years.

In order to lessen the relative huge funding requirement for supporting the manufacturing operations, the new management has decided to outsource part of the production lines of ELA division, especially the infant and pre-school category. Such move not only enables us to reduce manufacturing overheads without having to sacrifice sales turnover, but also to limit our exposure on defective returns. Moreover, risks of late delivery penalty to vendors can also be eliminated. In addition, such outsourcing mode of operation will secure our profit margins.

The weak Euro dollar has led to a more difficult trade environment in Europe, our major market, which accounts for about 45% of our sales turnover. Apart from the pricing pressure, we also have to deal with the lack of trade volume and the diversity of market in Europe. The Group will spend more effort in cultivating the America market in order to achieve the advantages of economy of scale for our products. The shift of market focus will help us to balance our past reliance on the European market.

According to the recent statistics conducted by the Toy Manufacturers of America, Inc. , the demand for infant and pre-school toys is growing at a healthy pace, and this growing pace is expected to continue . To capture the growing trend of infant and pre-school toys category, we will concentrate on the development of ELA products and on the diversification of this category by creating and adding more learning features which have been well received by the market. A major sales contract was secured in early 2001 from Little Tikes, one of the largest players in the toy industry. The contract allows the Group to manufacture electronic learning toys using the player's brand name, and also confers the right to use the player's world-wide sales channels. Resulting from securing of the major sale contract, the Group's future is seen to be promising, and we expect the licensed line of products of ELA will generate substantial revenue for our core product line in the next few years.

ORIGINAL EQUIPMENT MANUFACTURER ("OEM")

This division of business continues to provide a stable income source for the Group. The sales turnover of this division was about HK$239 million (Year ended 31st December 1999: HK$138 million), which contributes an operating profit of about HK$8 million (Year ended 31st December 1999: HK$18 million) during the period under review. Since the gross profit margin has always been stable in this industry and the new management is working to improve the margin further, despite a general economic slow-down in the US and European market, the new management sees no sign of any material adverse impact on OEM's performance as of the date of this report, and will continue to focus on expanding this division.

TELECOMMUNICATION PRODUCTS

The market of cordless telephone has been very competitive for years. Turnover for the period was about HK$155 million (Year ended 31st December 1999: HK$107 million), and an operating loss of about HK$86 million (Year ended 31st December 1999: HK$21 million) was recorded. After the change of the management late last year, the new management decided to discontinue this division entirely. As a result of this decision, all of the remaining inventories and tooling were written off.

EDU-EDU.COM.CN

The Group acquired an 80% interest of an education portal in September 2000. However, in view of the Group's financial difficulty and the need to enhance the tangible assets, the management has decided to further restructure the business focus of the Group. As a result, this newly acquired business was sold back to the controlling shareholder in exchange of the injection of a portfolio of properties in the PRC.

PROPERTY DEVELOPMENT

The Group has acquired a portfolio of properties in the PRC that are ready for development subsequent to the year end. The injection of this business almost assure that the Group will have operation profit in the next few years. As a result of this injection, the Group has become one of the largest developers in the Guangdong Province which is the fastest growing region in the PRC.

FINANCIAL REVIEW

	At 31st March 2001	At 31st December 1999
Current ratio	**0.29**	0.68
Total Bank Debts (HK$ million)	**157**	171

The decrease in the current ratio is mainly due to the write down of obsolete inventory during the period. As a result, current asset reduced to HK$103 million from HK$227 million.

Gearing ratios are not applicable due to the negative net asset values of the Group for both periods under review.

Repayments of bank borrowings were made during the period under review, which lead to a decrease in total bank debt from HK$171 million to HK$157 million.

As at 31st March 2001, the net book value of fixed assets about HK$111.8 million and fixed deposit about HK$5.4 million were pledged as securities for banking facilities.

The Group's contingent liabilities at 31st March 2001 were HK$2.1 million in relation to the discounted bills of exchange.

As majority of the Group's transactions are quoted in the US or Hong Kong currencies, the Group's exposure to exchange fluctuation is relatively low.

The Group has conducted major restructuring exercises in the past year. The aim of this restructuring is to rescue the Group from going into total liquidation since the Company has been operating under tremendous financial difficulties over the past years. Such exercises include significant shift in business focus and the elimination of unprofitable divisions, the issuance of new shares to enhance the capitalization of the Group, acquisition of business that could contribute profit to the Group in the next few years, and aggressive reduction of overheads. Most of these were completed subsequent to the year end.

The following are the list of major actions the Group has taken in its restructuring.

1. Issuance of about 22.9 billion of new shares at HK$0.10 each in the share capital of the Company to increase its capitalization, representing an increase of HK$2.29 billion in the share capital of the Company;

2. Acquisition of properties assets with a total value of approximately HK$2.8 billion for strengthening its asset base which enables the Company to participate in the rapidly growing property market in the PRC;

3. Settlement of all trade liabilities as at 31st March 2001 with unsecured creditors of a major subsidiary, namely Team Concepts Manufacturing Limited by means of a Scheme of Arrangement (the "Scheme"). The Scheme has been approved by the unsecured creditors in the meeting convened in early July 2001. When the Scheme is sanctioned by the High Court of Hong Kong, the Company will issue its new shares and convertible notes to the unsecured creditors, and the trade liabilities as at 31st March 2001 with the unsecured creditors will eventually be settled; and

4. The principal banker of the Group has in principal agreed a debt restructuring arrangement with the Group, subject to the completion of final documentations. Such debt restructuring arrangement will defer the repayment of all outstanding bank loans by 5 years with 30 months interest free, and will further relief the Group's financial burden substantially which in turn allows the Group to operate its manufacturing business in a much improved financial position.

EMPLOYEES

As at 31st March 2001, the Group employed approximately 1,030 employees, of which 70 were based in Hong Kong and 960 were based in the PRC. The salaries and allowance of employees for the period ended 31st March 2001 was about HK$104 million (Year ended 31st December 1999 : about HK$83 million).