RESULTS AND BUSINESS ANALYSIS

The Board is happy to report that, despite an extremely tough business environment in the global toys industry as well as the overall downturn in the economy, the Group was able to post a considerably improved performance for the last six months. This was attributable to the Group's management's immediate measures to further tighten control over costs and operational expenditure, and its timely decision to further expand its revenue base through business diversification.

During the first half of the year, the Group recorded a turnover of approximately HK$487,835,000, which was about 4% higher than for the same period last year. Net profit attributable to shareholders grew about 32% to approximately HK$63,655,000.

Toys Operations

The poor global economy and weak market sentiment were quite unprecedented. Toys manufacturers were under severe price-cutting pressure from clients who themselves have been striving to stay competitive in the face of weak consumer demand. The Group's turnover from the toys operations fell marginally by about 3% to approximately HK$336,123,000 as a result of necessary price reductions.

However, lower prices for and a more stable supply of major raw materials, such as electronic components and plastics, have helped reduce production costs somewhat. This, together with the efforts management have made together with the customers in rescheduling production to off-peak periods, has helped lift the gross profit margin from about 20% for the previous year to about 22% for the period under review. Profit after finance costs from this division increased about 39% to approximately HK$46,831,000 during the period.

The initiative to diversify the Group's customer portfolio made further progress over the last six months. Active business development efforts, coupled with the development of new product models, brought the Group new orders and revenue streams.

Motors Operations

The motors division continued to perform well in the face of market difficulties. Turnover of this operation rose about 37% to approximately HK$113,774,000 for the first half of the year and profit after finance costs was approximately HK$26,276,000.

The robust performance of the motors division was in line with the projections made in our previous annual reports. Growth was mainly attributable to the sustained growth in orders from the toys operation, as well as the Group's determined expansion into the personal-care products sector. During the period, orders from the toys sector continued to contribute a major part of the division's revenue, but revenue from the personal-care products sector also grew rapidly.

To cope with the anticipated growth in demand from different product sectors, the Group continued with its expansion plan for Phase Three of its production facilities in Shaoguan, China. This phased capacity expansion is designed to keep the Group ahead of the growth in demand, thus helping it maintain its niche in the underserved motors market.

CDR Operations

The Group's diversification into CDR operations was realized through an interest in Concord, a Hong Kong-based optical products producer. Approval from the Chinese authorities was granted in November 2001, giving the company the green light to expand and relocate its facilities to China in 2002. The loss for the first half of this year was significantly reduced compared to the loss sustained during 2000/01, thanks to market stabilization after last year's price war.

Business Outlook

Adverse market conditions are forecast to be with us for some time, and full recovery is not expected very soon. Management will continue to be prudent in proceeding further on various business fronts, but investments that are justified by demand and return potential will continue to be made.

America, the Group's major market, has already entered a cyclical economic recession even before 11 September, but the global toys market deteriorated further after the attacks in the country. It is difficult to make detailed forecasts for the coming year, but an immediate impact was seen on certain toys lines incorporating elements of violence or attack. Orders for some of the Group's spring product lines were affected because of this. Overall, we continue to have a conservative optimistic outlook for the toys division for the second half of the year.

The motors division, however, is expected to post steady results in the second half, which will help to stabilize the overall performance of the Group. With its expanded facilities, the division will be in a better position to seek new business orders from other product sectors. The personal-care product line will be developed further, but the toys product line may not perform as well as during the first half as the impact of the downturn in the toys market begins to take its toll. Management will closely monitor the performance of different markets and adopt quick-response measures in adapting to demand fluctuations. The division anticipates noticeable growth in turnover for the whole year.

In view of the granting of facilities relocation approval, as well as the stabilization of the market, management expects Concord to become profitable in the next financial year following planned facilities expansion and relocation. During the second half of this year, higher levels of one-off losses may well be sustained due to the relocation of facilities.

It is without doubt that China's accession to the World Trade Organization is an indicator of a new era of business growth and long-term profitability for many industries. The Group has established a sound business portfolio and production base in readiness for the new opportunities ahead. Short to mid-term downturns are inevitable, but the Group will act with the utmost prudence as it moves steadily ahead.

Liquidity and Financial Position

The Group has relied on its internally generated cash flow and banking facilities to finance its operations and business development during the period. The Group has always adopted a prudent and conservative policy in its financial management. At the end of the financial period, the Group has fixed deposits and cash balances aggregated to approximately HK$101 million (31 March 2001: HK$87 million). In addition, the Group currently has aggregate composite banking facilities of approximately HK$109 million (31 March 2001: HK$125 million) with various banks, of which approximately HK$16 million (31 March 2001: HK$33 million) has been utilized as at 30 September 2001.

The financial position of the Group continued to be healthy. As at 30 September 2001, the current ratio (current assets divided by current liabilities) was about 2.1 times (31 March 2001: 2.3 times) and the gearing ratio (long term liabilities divided by shareholder funds) was about 2.9% (31 March 2001: 2.4%).

Employees and Remuneration Policies

As at 30 September 2001, the Group had employed approximately 9,100 full time employees, of which approximately 50 were based in Hong Kong and approximately 9,050 were based in China.

The Group remunerates its employees largely based on prevailing industry standards. In Hong Kong, the Group provides staff benefits including medical scheme and performance bonus. In China, the Group provides staff welfare and allowances to its employees in accordance with prevailing labour law.

The Group has adopted a share option scheme whereby employees of the Group may be granted options at the Board of Directors' discretion. The number of share options granted is determined by the ranking and performance of the individual employee.