MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

For the year ended 31st December 2001, the Group recorded a turnover of approximately HK$113 million, representing a decline of approximately 15.7% compared with the previous year. Such decline was mainly attributable to the decrease in sales of manufactured goods to US and Europe markets. Loss attributable to shareholders increased from approximately HK$44.9 million to approximately HK$45.9 million.

The increase in net loss was a result of the decrease in turnover and increase in the gross loss margin (calculated by gross loss/sales). Increase in gross loss margin was mainly due to the significant stock provision made and change in stock value estimation, totalling about HK$17 million.

The group has introduced various cost control measures during the year. Such measures have successfully reduced the administrative expenses from HK$32.5 million to HK$24.1 million. However, such improvement was offset by the increase in distribution cost by HK$9.4 million. Apart from the above, the net loss for the year ended 31st December 2001 included a deficit arising on revaluation of the Group's property of HK$2.5 million, and a provision of doubtful debts of HK$2.6 million.

LIQUIDITY AND FINANCIAL RESOURCES

Borrowings and banking facilities

As at 31st December 2001, the Group had outstanding short-term bank borrowings of approximately HK$20.0 million, compared with last year of HK$30.5 million. The main purpose of the bank borrowings was to finance working capital of the Group.

As at 31st December 2001, the Group's bank deposits was HK$10.7 million (2000: HK$8.3 million) of which of HK$2.6 million (2000: HK$8.3 million) were pledged to banks to secure banking facilities granted to a subsidiary, and the Group's leasehold land and buildings in PRC with an aggregate net book value of HK$81.6 million were pledged to banks to secure bank loans granted to a subsidiary.

The bank borrowings were mainly denominated in Hong Kong Dollars and Renminbi. The Group did not enter into any hedging transactions. Foreign exchange exposure did not pose a significant risk to the Group given that the level of foreign currency exposure is small relative to its total asset base.

As at 31st December 2001, the gearing ratio of the Group, calculated as total debts over total assets was approximately 36.1%.

MANAGEMENT DISCUSSION AND ANALYSIS

Net current liabilities and working capital

As at 31st December 2001, the Group's total current assets and current liabilities were approximately HK$85.2 million and HK$112.0 million respectively. The Group serviced its debts primarily through cash generated from its operations. After considering the financial resources available to the Group including internally generated funds and the Group's effort to reduce inventory held by the Group, the Directors are of the opinion that the Group has sufficient resources and working capital to meet its foreseeable debt repayment requirements.

Staff Cost, Director Bonuses and Share Option Scheme

Staff costs for the year ended 31st December 2001 were HK$20.2 million. The Group had a workforce of approximately 600 employees, all employees stationed in Shenzhen, PRC except for 8 employees stationed in Hong Kong. Salaries are maintained at competitive levels while bonuses are granted on a discretionary basis.

In 2001, there was no discretionary bonus payable to a Director.

The Group has adopted a share option scheme under which the Director of the Company may, at their discretion, granted options to the Executive Directors and full-time employees of the Group to subscribe for shares representing up to a maximum of 10% of the issued share capital of the Company from time to time.

Prospects and Future Plan

The Group has continued to sell its toys and relevant products to the United States, Europe and other Asia region. As the Group anticipates a strong growth in the PRC market after joining the World Trade Organization, the Group will direct more effort to develop the PRC's domestic market. The Group will increase its sales force to the PRC market through internal sales teams and through its consignment sales through the PRC agents. The consignment sales in the PRC is expected to avoid heavy expenses and reduce its overhead cost such as leasehold improvements costs, rental costs and promotion expenses etc.

During the year 2001, the implement of tight control over production cost and strict monitoring of the efficiency of the production processes were proved to be effective to improve the Group's performance, especially over the inventory turnover, before the provisions of impairment loss of property, stock and bad debts. The Group will continue to tighten its control over the cost and inventory level, and introduce new products so as to improve its financial result in the future.

By order of the Board

CHAN SHEUNG WAI
Chairman

Hong Kong, 22 April 2002