Management Discussion and Analysis

RESULTS

The Group's turnover for the financial year ended 31st December, 2001 amounted to approximately HK$431 million, representing a significant improvement of 35% over that reported in the previous financial year. The operating profit has increased by 1,209% during the year. However, the Group registered a loss attributable to shareholders in the financial year of 2001 of approximately HK$25 million.

BUSINESS REVIEW

Toys

In year 2001, the sales performance in toys business has improved significantly as compared with the previous year. There is a 101% increase in terms of turnover. This remarkable achievement was greatly contributed by two hot selling television series' items, namely "Who Wants to be a Millionaire" and "Weakest Link". This year, with the cooling down of fever in these two television programmes, the Group will focus on other toy items. Sales margin is expected to be low due to a very competitive market coupled with fluctuations in major material costs, such as plastic and paper.

Model Trains

US and Europe remain the major markets for the Group's model train products. In year 2001, there is a 13% growth in turnover for model train products. This substantial improvement was contributed by the two hot items, the "HO-3 Truck Shay" which was awarded "Model Train of the Year" in 2001 in U.S. and "Harry Potter" train sets, a licensed product released in connection with the Harry Potter movie. New "Harry Potter" train products will be launched in conjunction with the release of the new Harry Potter movie in 2002.

Graham Farish ("Farish"), a well-established model trains manufacturer and retailer in Britain, was acquired by the Group in year 2000. After the completion of restructuring of Farish, the Group started to launch the Farish series of products in late year 2001. The initial market response is encouraging and the Group is expecting positive contribution to profits from the Farish series of products in year 2002.

The Group's licensed model trains, the "Dong Feng-11" (東風-11) and "Qian Jin" (前進), continue to enjoy favorable market response in China. Apart from that, the Group has been actively pursuing another exclusive right from the China National Railway Locomotive & Rolling Stock Industry Corporation for the production of other Chinese train products.

Management Discussion and Analysis *(Continued)*

PROPERTY INVESTMENT

Rental income from the Group's investment properties amounted to approximately HK$27 million, a 7% drop as compared to last year. This was mainly due to a decrease of rental rates of the Group's industrial building in Kowloon Bay.

After several years decline in the local property market, further drops in rental rates are not expected. With expectation of economic recovery in the second half of 2002, the rental market is expected to be active again. It is anticipated that the Group's rental property will continue to generate steadily increasing revenue following the recovery of the property market.

Early in 1990's the Group acquired a piece of land in Chashan, Dongguan Province of China. Due to unfavorable investment climate at that time, the Group had shelved its development plan. With China's accession to WTO, the Group considered it an opportune time to dispose of the land and has successfully entered into contract for the sale of the land after the balance sheet date.

INVESTMENT HOLDING

Last year, the burst of the technology bubble and the 11th September event in the US has had an adverse impact on the Group's major US investment, the Resort at Squaw Creek. The Resort experienced high cancellation rates on room-night bookings. The situation continued for several months and has stabilised recently. However, the impact is considered to be temporary and the Resort's market valuation is not significantly affected.

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 31st December, 2001, the Group's current ratio was 0.85. The Group's total bank borrowings have slightly increased from approximately HK$299 million as reported last year to approximately HK$321 million as at year-end. The financial gearing of the Group, based on the total bank borrowings to the shareholder's equity was maintained at 65%, compared with last year's 59%.

Capital Structure

During the year ended 31st December, 2001, there was no significant change in the Company's share capital.

Management Discussion and Analysis *(Continued)*

Charges on Group Assets

As at 31st December, 2001, certain investment properties, leasehold land and buildings and other assets of the Group with a total net book value of approximately HK$686 million were pledged to banks to secure banking facilities granted to the Group.

Material Acquisitions and Disposals

There are no material acquisitions and disposals during the year ended 31st December, 2001.

Exchange Rate Exposure

Major assets, liabilities and transactions of the Group are denominated either in sterling, U.S. dollars, Renminbi or Hong Kong dollars. As the exchange rate of sterling, US dollars and Renminbi against Hong Kong dollars was relatively stable during the year, the Group was not exposed to material exchange risk.

Contingent Liabilities

As at 31st December, 2001, the Group did not have significant contingent liabilities.

EMPLOYEES AND REMUNERATION POLICIES

As at 31st December 2001, the Group employed approximately 6,300 full time management, administrative and production staff in USA, Europe, PRC and Hong Kong. The Group remunerates its employees based on their performance, experience and prevailing industry practice.

AUDIT COMMITTEE

The Audit Committee has met with the management and the external auditors to review the year-end financial statements and consider the significant accounting policies, and to discuss with the management about the Group's internal control system.

Management Discussion and Analysis *(Continued)*

PROSPECTS

The Group anticipates that the business environment for the coming year is quite uncertain. The local economy will be affected by external factors like the 11th September event and world economy downturn. The recent Middle East crisis has already led to fluctuation in oil prices and consequently cost of major raw materials like paper and plastic. In addition, the toys market is increasingly flattened and unpredictable with shorter order lead time. All these external factors may seriously affect the current gloomy market. The Group's strategy is to put more efforts to reduce production costs, and to continue the broadening of customer base as well as improving design capabilities for Original Design Manufacturing services. Besides, the Group is inclined to focus more on model train business in which the Group is the market leader in both the US and Europe. The Group also plans to expand activities in China. The preliminary venture into the China market has been encouraging. With China's success in accession to the WTO, the business environment in China will be more favorable.

The Group remains cautiously optimistic about the coming year's economic situation, and will closely monitor every influential factor and grasp every investment opportunity. The ultimate goal is to generate the best performance for the benefit of its shareholders.

Kenneth Ting Woo-shou
Managing Director

Hong Kong, 19th April, 2002.