



MANAGING DIRECTOR'S REVIEW OF OPERATIONS

Markets

The financial year under review was marred with global economic slowdown and the after effects of the September terrorist attacks in New York. These uncertainties further hampered an already weakened North American economy that led to severe price reduction pressure at the retail level. However, the Group managed to maintain positive business growth and improved profitability despite the unfavorable trading climate.

The U.S. remained the Group's largest export market with an increase in sales from 34% to 36%. Premium priced radio control and electronic toys tend to find the U.S. as the main market. Exports to Europe and Japan remained stable, accounting for 23% and 19% of the Group's turnover respectively. The Group recorded an increase in sales to Japan due to the manufacture of radio controlled toys coinciding with the 2002 World Cup. Progress was made in all business areas, both operationally and financially, in the face of the challenging economic climate. Kid Galaxy's sales, also contributed to the U.S. Sales.

Our licensed products helped to drive our China sales resulting in maintaining steady revenue and accounting for 6% of the Group's total turnover for the year. The success of the licensed products "Hikarian" and "Mado King Granzort" made a stable contribution to sales in China due to our creative marketing and promotion strategies as well as our extensive distribution network with over 400 retail outlets throughout the country.

Radio control toys

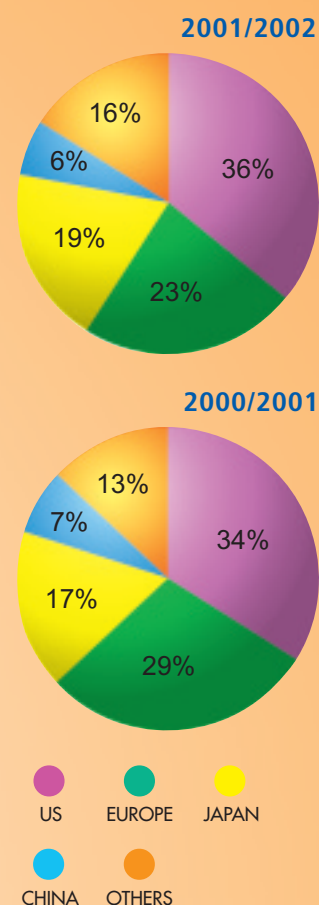
The radio control and wireless toys category continued to be a major contributor to the Group's turnover. Related sales amounted to HK\$350 million against HK\$330 million in the previous year, representing 53% of the total turnover compared to 51% in the last financial year. New product ranges, such as radio control bicycles, boats, cars and planes, were developed and well received in the market.

An extra boost came from US-based OEM customers who increased their spending on advertising and promoting radio control and wireless toys in the U.S. market. Apart from a new series of premium priced hobby-grade transmitters, the Group's engineering capabilities were further proven with the award-winning radio control skateboarder which took the top honors in the reputable U.S. Family Fun Magazine's annual "Toy of the Year" competition.



Mr. Leung Chung Ming
Managing Director of the Group

TURNOVER BY GEOGRAPHIC AREA

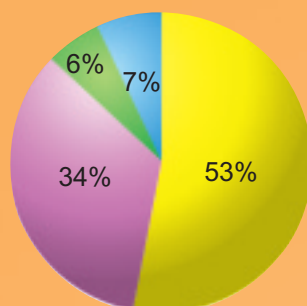




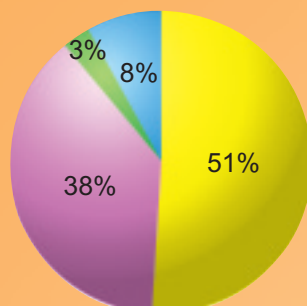
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TURNOVER BY PRODUCT

2001/2002



2000/2001



- Radio control toys
- Electronic and plastic toys
- Consumer and electronic products
- Interactive products



Electronic and plastic toys

The sale of electronic and plastic toys recorded a steady growth during the year under review. This category accounted for 34% of the Group's turnover. The licensed Japanese toy "Hikarian" maintained a persistent sales record, selling over 2 million units since its launch while the newly launched licensed product "Mado King Granzort" has sold nearly a million toy figures coinciding with its cartoon TV broadcasts in China's major cities. These toys showed ongoing strength with sales increases at retail level in the Mainland.

The recently acquired U.S. brand Bendos started to contribute to this category during the same period. Successfully utilizing the established sales channels with over 2,500 retail points throughout the U.S., we are delighted to have started reaping the benefits of this strategic acquisition.

Consumer and electronic products

A major contribution to this category came from the ODM baby monitors specially manufactured for the European market. Sales of these products recorded steady performance amounting to HK\$39 million and representing 6% of the Group's total turnover.

Interactive products

ODM digital cameras continued to be a significant contributor to this category for the year under review. New models with creative design were developed and supported by the Group's enhanced technologies. After its successful launch in Europe and Japan, the products were also introduced to the U.S. market.

The alliance with a U.S. smart card based on-line game company to launch StatCard products in Asia Pacific marked a breakthrough in the Group's development of interactive products. Capitalizing on our solid manufacturing foundations and ODM strengths, we aim to produce more sophisticated and value adding products and gaming accessories, creating a new source of income for the Group.

Major customers

The Group continued to maintain very close relationships with a number of large toy companies to generate stable income. Sales to the Group's five largest customers accounted for 72% of its total turnover, similar



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to that of the previous year. Meanwhile, Taiyo Kogyo Co. Ltd. remained the Group's major customer representing 22% of total turnover compared with 34% in the previous year.

Indonesia

Taking advantage of the artistic talent of our Indonesian workers, local operations started manufacturing Bendos products in early 2002. Following the acquisition of the Kid Galaxy business, the Group plans to have increasing percentage of Bendos produced in the Indonesian plant. For the year under review, the Indonesian operation accounted for 2% of the Group's total turnover.



Employee Schemes

As at 31 March 2002, the Group had 5,180 employees with 67, 4,858, 240 and 15 employees based in Hong Kong, the Dongguan factories, the Indonesian factory and the U.S. office respectively. The number of people employed by the Group varies from time to time, depending on production needs, and are remunerated based on industry practices.

The Group also operates on different remuneration schemes for different employees. Apart from pension funds and year-end bonuses, in-house training programmes are offered. Details of share option schemes granted to Group employees are set out on pages 18 to 20.



Appreciation

On behalf of our colleagues around the world, I would like to take this opportunity to extend my sincere thanks to our customers, licensors and other business partners for their continuing and loyal support. I also wish to express my appreciation to our management and our staff for their diligence and dedication.

Leung Chung Ming
Managing Director

22 July 2002

