Review of Operations

FINANCIAL OVERVIEW

The Group's turnover for 2002 was HK$1,815.9 million. The manufacturing of toys is the primary core business of the Group and the toy and other manufacturing operations accounted for 93.5 per cent of the turnover.

The Group recorded an audited consolidated profit attributable to shareholders of HK$105.1 million for the year ended 31 December 2002 compared to HK$680.6 million for 2001. The 2001 profits included a one-time write-back of a provision of HK$967.6 million relating to the Group's toy and property subsidiaries. Excluding this one-time write-back, 2002 results improved by HK$392.1 million over the previous year reflecting the strategy adopted in late 2001 to focus on its core expertise in manufacturing and property operations. Earnings per share for 2002 were HK1.87 cents (2001 - HK12.16 cents).

As a result of a fundamental restructuring and refocusing of its business strategy in 2001, the principal business of the Group reverted from B2B operation in 2001 to the manufacturing of the toys and property operations in 2002. Also in 2002, a new division, the technology division, was created to capture new markets.

TOY OPERATION

During the year, the Group's toy and other manufacturing operations generated an enhanced turnover amounting to HK$1,698.6 million and earnings before interest expenses and taxation of HK$77.2 million.

The manufacturing and trading of hard, soft and electronic toys are conducted by the Group's subsidiaries from facilities in Dongguan, Guangzhou and Zhongshan in southern China.

Zhongshan Coronet Toys Ltd.

The Group operates primarily as an original equipment manufacturer, specialising in manufacturing and supply-chain services for the mass production of both conventional and promotional toys for major toy marketing companies. The toy operation has particular expertise in working with various forms of plastics, roto casting, slush moulding and blow moulding. Moreover, the Group diversified into leisure and electronic products such as war game markers, digital cameras and video game controllers.

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The enhanced performance of the toy business in 2002 is attributed to several factors. These included solid ongoing relationship with major customers, establishment of relationship with new customers, upgrade of manufacturing facilities and capabilities, continued diversification of product types and improvement in cost controls. Additionally, improvement in the flexibility of dedicated production areas, expansion in the hard and electronic toy business segments and the increased provision of one-stop services for customers enabled the Group to achieve better profit margins.

TECHNOLOGY OPERATION

After a comprehensive assessment of its capabilities and market opportunities, the Group created the technology division in early 2002 to develop and expand the Group's product portfolio beyond toy market and to diversify production capability by manufacturing and supplying consumer electronics products such as mobile handset accessories, digital cameras for mobile phones, computer peripherals, MP3 players and FM radios. The Group also possesses particular expertise in bluetooth technology to support the design and manufacturing of mobile handset accessories.


Testing for Digital Camera

The technology division has made prudent investments to transform the plant and equipment in Guangzhou, recruit new staff with specialised skills and expertise in various aspects of design, production, marketing and creative services, and establish relationship with designers and design companies in order to reach higher levels of manufacturing requirements and standards.

As a new entrant to the market in the technology sector, the Group engaged in a major business development drive during 2002. Agreements in relation to the manufacturing and supply of mobile handset-related accessories were signed with Motorola and NEC during the year.

In addition, business contacts were made with other major corporations in Korea, Japan, the UK and the US, and product presentations were conducted. This has resulted in the formation of strategic relationships with several multinational corporations.

While the technology division is still in its infancy, the Group sees significant growth potentials in this area.

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PROPERTY OPERATION

Harbour Ring Huang Pu Centre, Shanghai

The property investment portfolio performed well in 2002 reported turnover of HK$106.4 million and earnings before interest expenses and taxation of HK$43.2 million. This was mainly due to the rising demand for office space in Shanghai partly resulted from China's accession to the World Trade Organisation.

The Group's property investments are currently all located in Shanghai following the disposal of its Shaoxing property investment portfolio in December 2002 at a profit. The sale of its 67.5 per cent interest in the Shaoxing Xian Heng Hotel reflected the Group's strategy to focus its energy on its core areas of expertise.

In Shanghai, the two principal investments are Shanghai Harbour Ring Plaza and Shanghai Harbour Ring Huang Pu Centre in Huangpu district. These property investments recorded improvements in terms of both occupancy rates and rental yield. At 31 December 2002, 83 per cent of the unsold space, which includes 43,435 m^2 of arcade and office space, was leased out. At the Canadian Garden residential complex, 39 units were sold and 14 villas remained on the market.

GROUP CAPITAL RESOURCES AND LIQUIDITY

The Group maintained a healthy financial position during 2002. Total cash and cash equivalents plus other liquid listed investments amounted to HK$1,565.3 million as of 31 December 2002 (2001 - HK$1,407.6 million). The Group was debt free at the end of both 2001 and 2002.

TREASURY POLICIES

As at 31 December 2002, the Group had no material exposure under foreign exchange contracts, interest or currency swaps or other financial derivatives.

CHARGES ON GROUP ASSETS AND CONTINGENT LIABILITIES

As at 31 December 2002, the Group had pledged fixed assets to the value of HK$48.4 million (31 December 2001 - HK$50.4 million) in relation to general banking facilities. Mortgage loan facilities totalling HK$5.7 million (31 December 2001 - HK$9.7 million) granted by certain banks to purchasers of the Group's properties in China were secured by the guarantee of a subsidiary company and a pledge of the Group's fixed deposits of approximately HK$7.4 million (31 December 2001 - HK$10.1 million). Contingent liabilities did not change significantly from the end of 2001.

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EMPLOYEES

Excluding associated companies, the Group employed 20,232 people at the end of 2002 (2001 - 17,425 people). In 2002, total consolidated employee costs, including directors' emoluments, amounted to HK$350.5 million compared to the employee costs in 2001 of HK$96.3 million which related mainly to the internet B2B operation undertaken at that time.

The salary and benefit levels of Group employees are kept at competitive levels and individual performance is rewarded within the general framework of the Group's salary and bonus system. Remuneration packages are reviewed annually during the year.

Training continues to play an integral role in the Group's human resource strategy. The Group will continue to monitor the training needs of its staff, and provide them with crucial skills training to ensure that the staff possesses the skills necessary to contribute towards achieving common goals.

OUTLOOK

Despite the global economic slowdown, the Group's operations performed well in 2002. While the Group is budgeting for further growth in 2003, with increasing contributions to be made by the new technology division, the current uncertainties in the global economic conditions and fluctuations of plastic raw material prices do represent challenges.

The Group's financial position continues to be strong with cash and cash equivalents of over HK$1.5 billion available for future expansion and development in all divisions.

Ko Yuet Ming
Managing Director

Hong Kong, 18 March 2003