



Managing Directors' Review of Operations

MARKETS

The sluggishness in the global economies, burdened by the uncertainties surrounding wars in the Middle East, the Group had to face price and delivery pressure from customers.

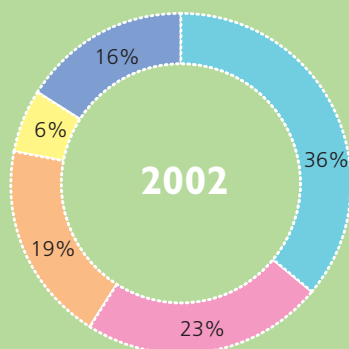
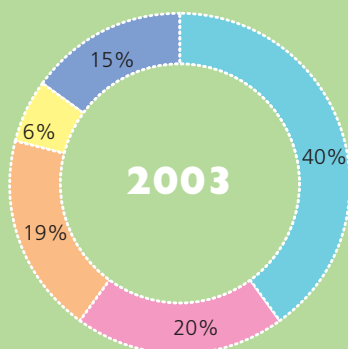
North America remained as the Group's major export market with a slight increase in sales from 36% to 40%. Apart from being KG's major market, most OEM toys were shipped to the U.S. The Group expanded its presence in the U.S. through KG's channels such as specialty toy, gifts, sports stores and amusement parks, rather than competing against its OEM customers which currently sell mainly to the mass market.

Sales to Europe and Japan, mainly in U.S. dollar, remained steady at 20% (2002:23%) and 19% (2002:19%) of the Group's turnover respectively. These markets did not benefit from the weakness of U.S. currency due to economic uncertainties.

The impact of SARS on the Mainland China retail sales and the Group's reduction of promotion and advertising activities during the SARS period reduced contribution towards the turnover to 4%. Lower than expected sales for licensed products also contributed toward the slack in Mainland sales.

RADIO CONTROL TOYS

The R/C and wireless toys segment again remained the major source of revenue for the Group. The Group's "sea", "land" and "air" range of R/C products showed clear evidence of our development and engineering capabilities in this sector. This had been further enhanced by attracting additional orders from a leading Japanese entertainment company and a top-tier U.S. toy company.



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KG's successes with its two new brands being KG Racers "Automites" and "My First R/C" also made a healthy contribution toward establishing the Group's position in this segment of the market.

ELECTRONIC AND PLASTIC TOYS

This segment is the most competitive sector of the Group. Our products under stringent quality control continued to gain the confidence of our major OEM customers. Orders of pre-school electronic and plastic toys for two leading customers from the U.S. and Japan, made significant contribution. This segment accounted for 35% of total turnover, representing a slight increase from the previous year.

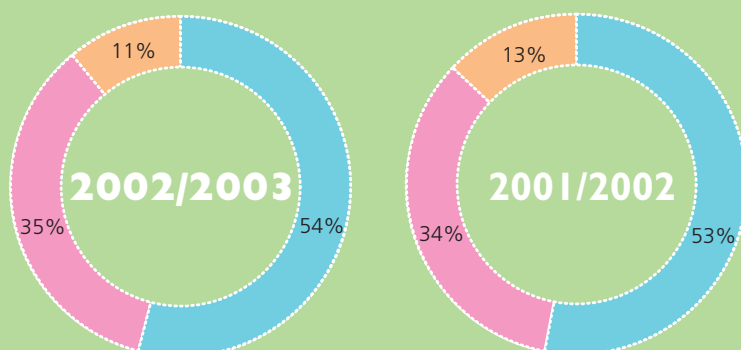
Bendos also contributed to this segment. The products are now being sold in more than 2,000 outlets in the U.S. specialty toy, gift, sports stores and amusement parks, which helped the Group make further inroad into these specialised markets.

CONSUMER ELECTRONICS AND INTERACTIVE PRODUCTS

The Group had limited success in this area during the year. This segment accounted for 11% of the Group's revenues, compared with 13% in the previous year. Baby monitors continued to contribute strongly to this segment. Digital cameras and interactive accessories had not performed as compared to the previous years. Apart from further developing baby monitors, we will take a more prudent approach to the interactive accessories market in view of the tough competition currently faced by the manufacturers in this segment.

MAJOR CUSTOMERS

Relationships with major OEM customers were further strengthened during these tough economic times. The Group focused on delivering quality products at competitive prices, thus generating stable income from our staunch supporters, in particular Little Tikes, Mattel, Taiyo and Tomy, just to name a few. Sales to the five major customers accounted for 76% of total turnover, compared to 72% in the previous year.



Turnover by Product

- Radio control toys
- Electronic and plastic toys
- Consumer electronics and interactive products





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Indonesia

Our South East Asian factory benefited most from the KG acquisition. With a major portion of KG's orders being produced at the Indonesian factory, previously under-utilized resources of the Group were better used. The production facilities in the Dongguan plant were better allocated to satisfy our OEM customers' needs during the peak seasons. The Indonesian plant contributed partly towards for the Group's overall result for this fiscal year.

United States

Our KG operation based in Manchester, New Hampshire was restructured to focus on marketing, product design and sales. Those functions relating to product development and ordering products from China were reorganized and shifted over to Asia, shared amongst the Group's Hong Kong, Dongguan and Indonesian operations. Their concentration in developing marketing strategies, innovative design, new brands and servicing our U.S. customers has helped to contribute to the Group's current year's success.

EMPLOYEE SCHEMES

As at 31 March 2003, the Group had approximately 5,200 employees with 70; 4,800; 320 and 10 employees based in Hong Kong headquarter, 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 staffs are remunerated based on industry practices.

The Group operates 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 19 to 22.

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. Thank you.

Leung Chung Ming
Managing Director

22 July 2003

