Review of Operations

FINANCIAL OVERVIEW

The Group's turnover for 2003 was HK$2,192.3 million showing a growth of 20.7% over 2002. Toy manufacturing is the primary core business of the Group and accounted for 82.4% of the Group's total turnover. The Group recorded an audited consolidated profit attributable to shareholders of HK$128.2 million for the year ended 31 December 2003 compared to HK$98.7 million for 2002, representing an increase of 29.9%.

The Group's three businesses reported good performances in 2003, led by the rapid development of the technology operation established in 2002, which contributed significantly to the growth in revenues and earnings.

Dongguan Crown-Ace Toys Co., Ltd.

TOY OPERATION

The Group's toy operation continued to contribute the bulk of the Group's revenues and profits. Turnover for the year from the operation rose 7.8% to HK$1,805.4 million, while earnings before interest expense and taxation ("EBIT") remained stable at HK$90.8 million.

This business remains largely an original equipment manufacturing supplier to some of the world's leading brand names and niche players in the toys markets in North America, Europe and Asia. Despite disruptions caused by the Iraq war and SARS in the first half of 2003, sales for the full year showed steady growth over 2002. The Group also benefited from its position as a supplier to key toy items that were popular during the year, including Ninja Turtles, Care Bears and Transformers. Margins were affected, however, by rising prices for plastics, a major raw material for toys.

The economies of scale and flexibility to provide tailored solutions for product development and manufacturing have enabled the Group not only to remain strong in the toys arena, but to pursue growth through diversification into leisure and household products, and during the year, tripled production of digital cameras .

The Group disposed of its 80.1% interest in Canyield Printing Company Limited, 100% interest in Champion Paper Group and 100% interest in Wang Ngai Metal Products Group at a profit as it furthered its strategy to focus management attention on the core businesses. The Group also continued to control costs and upgrade its technology to maintain competitiveness and enhance service levels. It invested in new technology to support customer needs, streamlined working processes and simplified product design. The laboratory in Mainland China achieved certification by a major customer in Hong Kong, enhancing its service to this company.

Review of Operations
(Continued)

TECHNOLOGY OPERATION

The Group's technology operation achieved strong results in its first full year of operation, as its strategy of developing specialised products made rapid progress, especially in the area of mobile telecommunications accessories. The turnover for the year was HK$342.5 million, while EBIT was HK$17.8 million, showing dynamic growth over 2002.

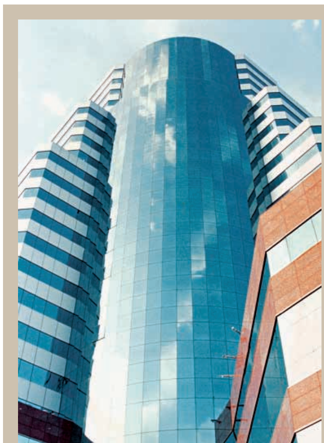
Dust-free Spraying

The operation was aided by association with the wider Hutchison group. In addition to becoming the preferred supplier for selected mobile accessories into Hutchison group's 3G mobile multimedia services worldwide, the operation was facilitated by introduction to the members and business partners of Hutchison group. Major customers during the year included Motorola, NEC and a number of mobile handset distributors in Europe, Asia and North America.

The line of mobile accessories now ranges from chargers and batteries to headsets, and covers not only 3G applications but those for earlier technology platforms. In addition, the Group has aggressively pursued opportunities in bluetooth, where its "BT Clip" bluetooth headset has been ranked by a leading Hong Kong magazine as the best buy in the market, ahead of those from leading international brand names in mobile handsets.

In order to expand the range of products further, the Group has invested in additional resources, adding engineering and R&D staff. Partnerships are being sought with companies worldwide which are seeking to develop their innovative concepts into commercially successful products. The Group now has such partnerships with companies in Japan, Israel and the United States.

During 2003 steps were taken to enhance productivity and expand the scope of the business through establishing a global sourcing and outsourcing arm that leverages its relationships with high technology companies and technology suppliers in Asia. This part of the operation is beginning to source components and manufacturing capabilities for mobile phone producers, and customers in other product areas.


Harbour Ring Huang Pu Centre, Shanghai

PROPERTY OPERATION

Shanghai continues to draw domestic and international investment capital and offices as it consolidates its position as Mainland China's leading commercial and financial centre at the heart of the Yangtze River Delta, following Mainland China's accession to World Trade Organisation. The Group's properties increased average occupancy rates for the year, averaging over 90%, which together with stable rental levels and lower costs resulted in higher net profit.

Review of Operations
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Following the rationalisation of the Group's portfolio at the end of 2002, the Group focused the business on its two properties in Shanghai, namely Harbour Ring Plaza and Harbour Ring Huang Pu Centre. Turnover for the year was HK$44.5 million, while EBIT was HK$39.8 million. Excluding the operation results of the Shaoxing property investment portfolio that was disposed of in December 2002, the operation reported improved turnover and EBIT for 2003 as compared with 2002.

CAPITAL RESOURCES AND LIQUIDITY

The Group maintained a healthy financial position during 2003. Total cash and cash equivalents plus other liquid listed investments amounted to HK$2,047.5 million as of 31 December 2003 (2002: HK$1,565.3 million). The Group was debt free at the end of both 2002 and 2003.

TREASURY POLICIES

As at 31 December 2003, the Group had no material exposure under foreign exchange contracts, interest or currency swaps or other financial derivatives.

CHARGES AND CONTINGENT LIABILITIES

There was no pledge of fixed assets as at 31 December 2003. As at 31 December 2002, the Group had pledged fixed assets to the value of HK$48.4 million in relation to general banking facilities. Mortgage loan facilities totalling HK$0.7 million (31 December 2002: HK$5.7 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$0.03 million (31 December 2002: HK$7.4 million).

HUMAN RESOURCES

The rapid growth of the Group has seen corresponding increases in staff levels and costs, while its increasing focus on technology products has led to more attention being placed on training.

Excluding associated companies, the Group employed 20,662 people at the end of 2003, 430 more than at the end of 2002. Total employee costs for the year, including directors' emoluments, amounted to HK$371.5 million compared to employee costs in 2002 of HK$350.5 million.

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.

The Group continued to assess the training needs of its staff and provide them with crucial skills training to ensure they contribute towards achieving common goals.

Review of Operations
(Continued)

IC Bonding

OUTLOOK

The Group foresees continued growth in 2004, buoyed by penetration into new product areas at its core businesses and the establishment of a new operation in licensing and sourcing.

The toy markets globally appear to offer the prospect of steady growth, though competitive pressures may affect the sales of individual brands. This aspect of the Group's operations is therefore expected to remain stable in 2004. The management intend to diversify further, however, in pursuit of higher growth.

Costs control will continue to be a major focus. During 2003, progress was made on the initial implementation of central purchasing for raw materials. For the longer term, cost saving initiatives include the possible relocation of part of the production facilities to location outside the Pearl River Delta Region.

The growth in the technology operation is expected to continue in 2004. The continuing roll out by Hutchison group of its 3G mobile multimedia services around the world should play to the Group's already strong position in mobile phone accessories, and product offerings will be further enriched.

Continuing strong growth in the China economy and Shanghai's further development should support occupancy and rental levels at the Group's two properties, maintaining a satisfactory source of stable income to the Group.

The Group's first major brand licensing agreement with Warner Brothers was recently secured, marking the inception of a new licensing and sourcing operation. This provides a template for an extensive business that will cover the entire value chain from sourcing to distribution and brand licensing. The Group is in discussion with other companies around the world regarding similar arrangements, which would provide further growth potential.

Ko Yuet Ming
Managing Director

Hong Kong, 16 March 2004