Review of Operations

FINANCIAL OVERVIEW

The Group's turnover for 2001 was HK$70.4 million, or 78.7 per cent lower than in the previous year. Turnover was derived from Internet B2B operations, mainly customer relationship management consulting services and the sale of hardware and network infrastructure services in Singapore. The Group's turnover in 2000 was HK$330.6 million. The 2000 figure was almost wholly derived from the manufacturing and trading of toys and accessories and property investments and development operations that took place between 1 January 2000 and 3 May 2000. There was only a small contribution from Internet B2B activities. The Group did not include the toys and property subsidiaries in its consolidated results from 4 May 2000 to 31 December 2001 (see below).

Including the one-time profit write-back, the Group's profit attributable to shareholders amounted to HK$680.6 million. This compared with a loss of HK$1,037.2 million in 2000.

In 2001, the Internet B2B activities produced a loss from operation before tax and minority interests of HK$292.0 million, compared with a loss of HK$30.8 million for 2000. The previous year's loss reflected the results of the Group's toys and property operations between January and early May 2000, and start up costs associated with the Internet B2B operations. Following the change in its ownership structure and the refocusing of its business strategy, the Group consolidated its toys and property operations into the financial results from 31 December 2001, effective date of the cancellation of a management services agreement ("MSA") and a put option deed ("Put Option"). The principal effect was to include a one-time write-back of provision of HK$967.6 million relating to the Group's toys and property subsidiaries. In 2000, a provision of HK$1,018.1 million had been made in the balance sheet and profit and loss account against the disposal value of the Group's toys and property subsidiaries, primarily based on the exercise price of the Put Option existing at that time. This provision was required because the Group ceased to consolidate the results of these subsidiaries as a result of the existence of the MSA.

Taken separately, the Group's toys and property businesses performed well in 2001. Thanks to improvements in business performance and ongoing cost control measures, they produced a profit attributable to shareholders, before provision for impairment losses of fixed assets, of HK$31.0 million, compared to a loss in 2000.

After a thorough re-assessment of its financial performance and business prospects, the Group decided on a fundamental restructuring and refocusing of its business strategy. The principal businesses were to be the manufacturing and trading of toys and investment in property. The Group chose to exit from active involvement in the Internet B2B sector.

One consequence of this decision was the unwinding of some of the agreements put in place in 2000 when the Internet B2B market was more promising. On 19 December 2001, the Group entered into agreements for the cancellation of the Put Option and the MSA, both with effect from 31 December 2001. The agreements cancelled the Put Option by which the

Review of Operations (Continued)

Group had the right to sell its toys and property operations to Shamrock Green Limited for a consideration of HK$225.4 million. Shamrock is owned 50 per cent indirectly by Hutchison Whampoa Limited, the Group's controlling shareholder; and the remaining 50 per cent is owned by Reading Investments Limited and another company, both controlled by Dr. Luk Chung Lam, the co-chairman of the Group. The Group also terminated the MSA which gave Harbour Ring Group Limited, a company controlled by Dr. Luk Chung Lam, the exclusive right to manage and operate the Group's toys and property subsidiaries, including, without limitation, control of the dividend policies from 4 May 2000.

As a result of these cancellations, the right to manage and operate the Group's toys and property subsidiaries reverted to the Company with effect from 31 December 2001.

INTERNET B2B INVESTMENTS

During 2001, the Group embarked on a programme of rationalizing its positions in a number of Internet B2B investments made by the previous management. It entered a series of agreements to sell its interests back to the Internet B2B companies and/or their shareholders. The Group made prudent provisions totalling HK$84.8 million against its investments in these businesses. With the exception of an investment in Whizz-Work Holdings Limited, the remaining interests were written down to a nominal value on the Group's balance sheet.

Whizz-Work Holdings Limited ("Whizz-Work")

Whizz-Work provides network infrastructure services and is a hardware reseller in Singapore. The Group acquired 75 per cent of Whizz-Work's issued capital on 23 March 2001 for approximately HK$56.2 million. The consideration was satisfied by a HK$38.2 million cash payment, and the issue and allotment of approximately 59.5 million shares in the Company. The shares were valued at HK$0.302 each. On 31 January 2002, after the end of the 2001 financial year, the Group entered into a repurchase agreement with Whizz-Work. The Singapore-based company repurchased shares from the Group for a consideration of US$5.85 million, thereby reducing the Group's interest from 75 per cent to 15 per cent. Whizz-Work granted the Group a put option to sell to it, or failing which to one of its founders, a further 5 per cent interest for US$200,000 between 31 January 2006 and 30 January 2009.

MegaVillage.com Holdings Limited ("MegaVillage")

MegaVillage is a Hong Kong based Internet agent that sources light consumer products for multinational companies. Following a restructuring of the company in June 2001, MegaVillage repurchased certain MegaVillage shares held by the Group. The Group's shareholding in MegaVillage was reduced to 19.9 per cent from 52.95 per cent.

FreeBorders, Inc. ("FreeBorders")

FreeBorders provides solutions to integrate design, sourcing, and delivery applications for the international soft goods industry. The Group holds approximately 5 per cent of the issued share capital of FreeBorders in the form of Series B Preferred Stock. In April and July 2001, the Group subscribed to a total of US$2.5 million (approximately HK$19.5 million) of notes convertible into shares of FreeBorders preferred stock.

Review of Operations
(Continued)

Infomart Corporation ("Infomart") and Other Investments in Japan

The Group held a number of interests in Internet B2B technology businesses in Japan including a 45 per cent stake in Infomart, an Internet B2B business operator. On 31 October 2001, the Group sold 29 per cent of it's issued share capital to several existing shareholders of Infomart at a consideration of JPY203.85 million. The Group retains a 16 per cent equity interest in the Japanese Internet B2B company. Steps have been taken to wind up the Group's investment in ICG Japan KK which represents the Group's other Internet B2B investments in Japan.

Breakaway Solutions Asia Pacific Limited ("BSAP")

BSAP is a services provider offering Internet B2B consulting and solutions in Singapore. In June 2001, the Group purchased an additional 19.9 per cent interest in BSAP from its US parent, which was then in liquidation. This made BSAP a wholly-owned subsidiary. On 23 November 2001, BSAP paid the Group an aggregate cash consideration of US$5.3 million for the repurchase of 400,500,000 preference shares and 87,500,000 ordinary shares. These repurchased shares were cancelled. In a subsequent transaction, BASP issued new shares to subsidiaries of Computer & Technologies Solutions (BVI) Limited, which became the majority shareholder of BASP. The issue of new shares diluted the Group's remaining interest to 10 per cent of the enlarged issue share capital of BASP.

TOYS OPERATIONS

The Group is a leader in the Hong Kong toys industry. It operates as an original equipment manufacturer and an original design manufacturer, specializing in mass production of both promotional and conventional toys for major toy marketing companies.

SMT Mounting Line

Group subsidiaries manufacture and trade hard, soft and electronic toys from facilities in Dongguan, Panyu and Zhongshan, China. The Group has particular expertise in working with many forms of plastics.

Guangzhou Panyu Shawan Acefield Toys Co., Ltd.

In 2001, the Group's toys business expanded, mainly due to improvements in the hard and electronic toy business segments. Hard toys, such as action figurines, constituted approximately 50 per cent of total sales; electronic toys, such as interactive games, and soft toys, such as baby dolls, accounted for approximately 37 per cent and 9 per cent of sales respectively. Other sales, such as tooling and accessories, constituted approximately 4 per cent of total sales. The Group recorded better profit margins thanks to improved costs controls and diversification into product categories.

Review of Operations (Continued)

Harbour Ring Huang Pu Centre, Shanghai

PROPERTY OPERATIONS

The Group's property investments are mainly in Shanghai and Shaoxing, China. In Shanghai, the Group's two principal investments are Shanghai Harbour Ring Plaza and Shanghai Harbour Ring Huang Pu Centre in Huangpu district. The Group has also developed Canadian Garden, a complex of a 108 deluxe villas and facilities. In Shaoxing, the Group's principal property is the 22-storey Shaoxing Xian Heng Hotel in the centre of the city. In August 2001, the Group increased its effective interest in the four-star hotel to 67.5 per cent from 45 per cent. The hotel has 207 guest rooms.

In 2001, the property business recorded improvements. This increase was mainly due to higher rentals achieved on lease renewals at Harbour Ring Plaza and Harbour Ring Huang Pu Centre. Office occupancy still remained at a high level.

Canadian Garden, Shanghai

GROUP CAPITAL RESOURCES AND LIQUIDITY

The Group maintained very healthy financial position during 2001. Total cash and cash equivalents plus other liquid listed investments amounted to HK$1,407.6 million as at 31 December 2001 (2000 - HK$1,306.4 million). The Group was debt free at the end of both 2001 and 2000.

TREASURY POLICIES

As at 31 December 2001, the Group had no material exposure under foreign exchange contracts, interest or currency swaps or other financial derivatives.

CONTINGENT LIABILITIES AND CHARGES ON GROUP ASSETS

At 31 December 2001, the Group had pledged fixed assets to the value of HK$50.4 million for use in relation to general banking facilities. Approximately HK$10.1 million of fixed deposits were pledged to certain banks to grant mortgage loan facilities to purchasers of the Group's properties in China, of which HK$9.7 million was utilized. Contingent liabilities did not change significantly from the end of 2000.

EMPLOYEES

Excluding associated companies, the Group employed 17,425 people at the end of 2001. Approximately 14,875 of its employees were classified as factory and other workers; 2,550

Review of Operations
(Continued)

were staff and directors. At the end of 2000, the Group employed 37 people, who were engaged in Internet B2B activities; the toys and property operations employed 19,685 people.

Asian Toys Institute

In 2001, employee costs, including directors' emoluments, amounted to HK$96.3 million (2000 - HK$105.0 million). This figure reflected the costs of employing staff as recorded in the Group's consolidated accounts. The Group's manpower needs for its manufacturing operations are seasonal. However, the salary and benefit levels of Group's employees are kept at competitive levels and individual performance is rewarded within the general framework of Group's salary and bonus system. Remuneration packages are reviewed annually or by special increment. The Company's employee share option scheme expired in June 2001.

Training remains a significant aspect of the Group's human resource activities. The Group continued to support The Asian Toy Institute, a training school with centres in Dongguan and Zhongshan, China. The institute provides important skills training for new recruits who join the Group's manufacturing operations. The Group also runs a graduate engineering training scheme that is recognized by The Hong Kong Institution of Engineers and the Vocational Training Council of the Hong Kong Government. The scheme produces well-qualified professional engineers for the Group and the toy industry.

OUTLOOK

The Group's toys and property operations showed significant improvements in 2001 in spite of the slowdown in the US economy.

The Group's financial position is strong with cash and marketable investments in securities available for future expansion and development. This financial security combined with the strong toys and property businesses should provide a firm platform for building healthy and recurring cashflows.

LAI Kai Ming, Dominic
Deputy Chairman

Hong Kong, 19 March 2002