FINANCIAL REVIEW

The 2006/07 Annual Report must be read in conjunction with notes commencing on page 44 which governed the presentation of the financial statements, for both the current and corresponding periods.

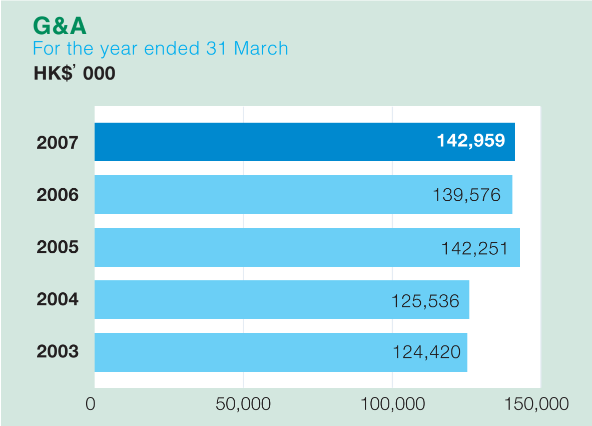
The Group's restrictive aged facilities, relocation to new factory and delayed shipment by a couple of major customers resulted in lower sales by 6% to HK$705 million for the year ended 31 March 2007.

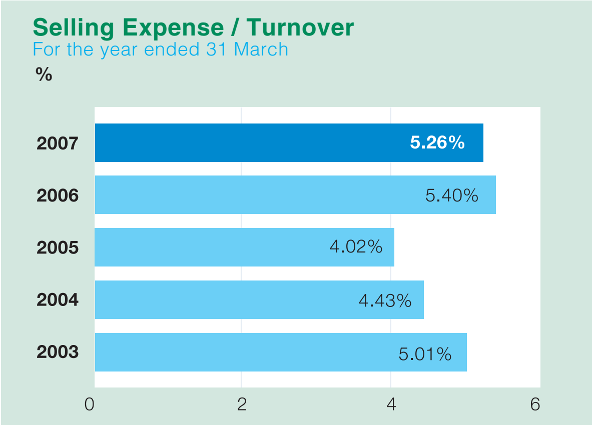
The increased in material costs, wages of production workers and appreciation of the Chinese Yuan against the US currency, which is one of the Group's main source of revenue currency keep a tight lid on the cost of goods sold.

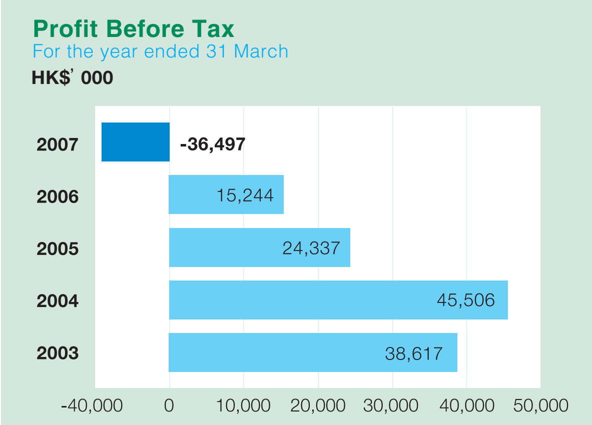
Increased ODM revenue and improvement from Kid Galaxy OBM sales contributed to stabilizing the Group's gross margin despite tough pricing competition in the OEM segment, resulting in gross profit decreased marginally from HK$216 million in 2005/06 to HK$208 million in 2006/07, but gross margin steady at 30% (2006: 29%). The Group had to rely on higher ODM/OBM sales to maintain high gross margin.

Selling and distribution expenses for the year ended 31 March 2007 amounted to HK$37 million. The decrease of 9% in selling expenditures compared to previous year HK$41 million was mainly attributable to reduce marketing expenses and lower licensing fees due to discontinued certain sports related licenses. High fuel costs kept transportation and distribution expenses relatively high.

General and administrative expenses ("G&A") for the year ended 31 March 2007 remained constant at around HK$143 million, or 20% of turnover (2006: 19%). Other expenses forming the G&A are staff costs, depreciation of fixed asset and net treatment of foreign exchange. The Group also made a provision of HK$48 million for the lawsuit damages during the year. Overall, the Group suffered an operating loss of HK$9 million compared to operating profit of HK$39 million in the previous year.

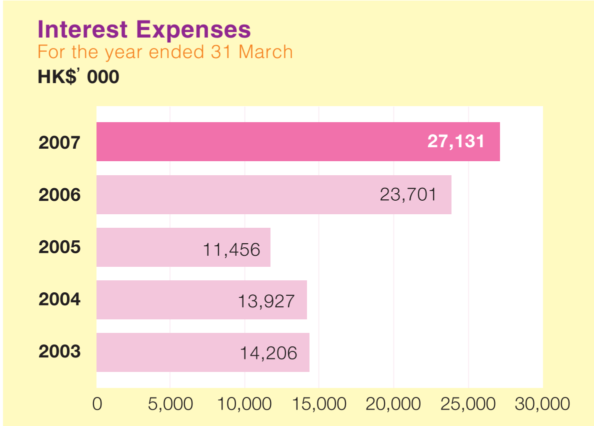


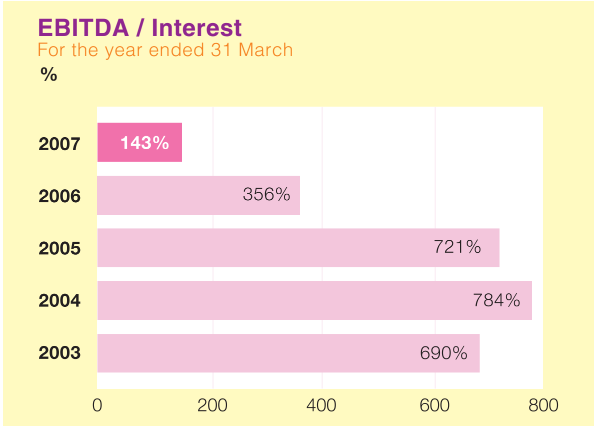


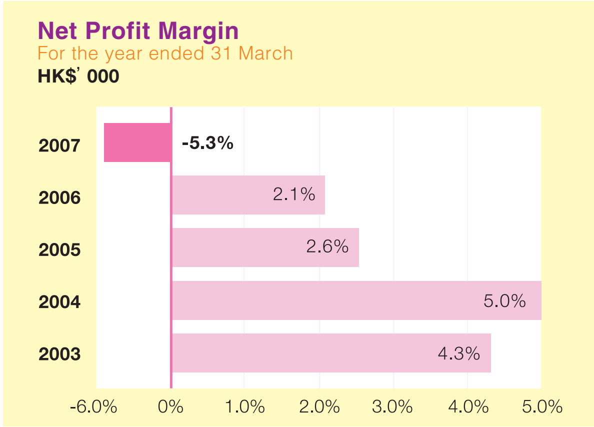


Interest rates remained high throughout the year under review. Finance cost increased 15% from HK$24 million in 2005/06 to HK$27 million in 2006/07; further denting the Group's operating loss level. The Directors however believe the interest expenses in 2006/07 should have peaked now that we have commenced repayment of certain long term loans and disposed of non-core assets.

All in all, the Group recorded its first loss since listed on the Hong Kong Stock Exchange in September 1997 to the amount of HK$37 million.







The Directors feel that it would not be prudent to recommend any cash dividend in view of the negative result for the year ended 31 March 2007.

At the meeting held on 23 July 2007, in return for the support of our shareholders and investors for years, the Board proposed to issue bonus shares to all shareholders of the Company on the basis of two bonus shares, credited as fully paid, for every one existing share held, by way of capitalization of sum standing to the credit of the Company's share premium account subject to shareholders' approval in the next annual general meeting.

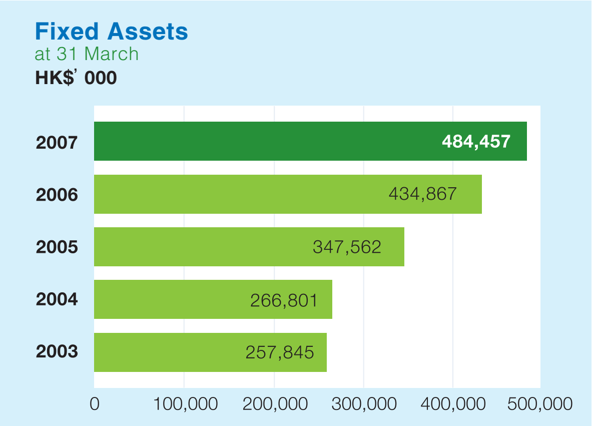
GROUP RESOURCES AS LIQUIDITY

Equity attributable to equity holders of the Company as at 31 March 2007 were HK$461 million, recording 5% increase over previous year's HK$438 million. The net assets increased due to HK$47 million raised from a one for every two shares held rights issue completed in January 2007. The issue of 241,866,666 new shares took the Group's total shares issued to 725,599,999 as at 31 March 2007. The net assets per share decreased by 26% from HK87 cents (restated for right issue) to HK64 cents due to the loss of HK$37 million incurred during the year.

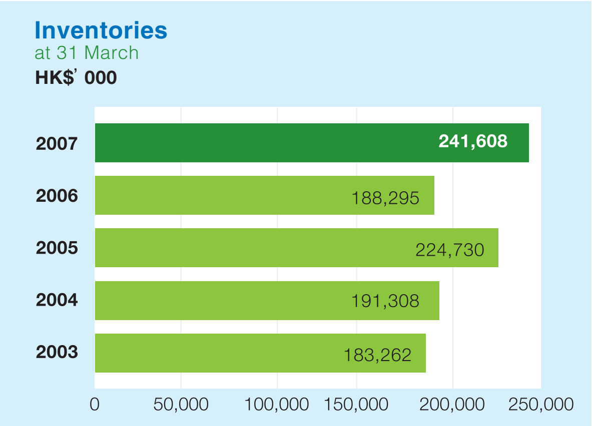
Property, plant and equipment, leasehold land and land use rights increased by HK$50 million to HK$484 million as at 31 March 2007. Capital expenditures of renovating the new Changping Factory plus new moulds for the Group's ODM and OBM business were the main additions to the property, plant and equipment within non-current assets, increasing from HK$387 million as at 31 March 2006 to HK$437 million as at 31 March 2007.

Goodwill associated with Kid Galaxy's acquisition and club memberships make up HK$22 million of intangible assets. Available-for-sale financial asset of HK$28 million was disposed of along with the divestment of a wholly owned subsidiary namely Fericle Holdings Ltd ("Fericle") in March 2007. Fericle's sole asset consists of investment in life insurance policies of the Group's key executives. Details of the disposal was set out in the announcement of the Company dated 16 March 2007.

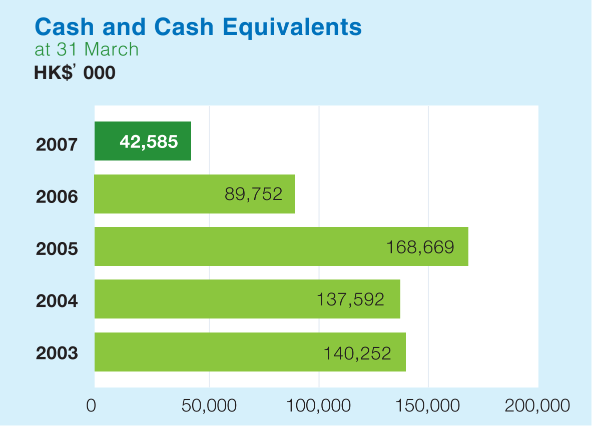
Management's effort to control inventories following previous year's success took a setback as the Group's major customers delayed shipment of their products due mainly to alteration to product specifications and sales plans. These delays directly impacted on the Group inventories, causing it to increase from HK$188 million as at 31 March 2006 to HK$242 million as at 31 March 2007. Most of these products were shipped in the first quarter of the 2007/08 financial year. As a result of this delay, stock turnover were higher at 111 days compared to 100 days in the previous year.



Trade receivables recorded a 15% decrease as at 31 March 2007 to HK$159 million, compared to HK$187 million at the previous year end date. Debtor turnover remained steady at 90 days in 2006/07. Management would constantly evaluate its customers, known financial position and assess credit risks. Thus few clienteles are covered by expert credit insurance to a certain level.



Other receivables, deposits and prepayments showed a reduction from HK$67 million at year end date in 2006 to HK$35 million as at 31 March 2007. Thus consists mainly of deposits and prepayments for new equipment and materials for coming financial year production needs.



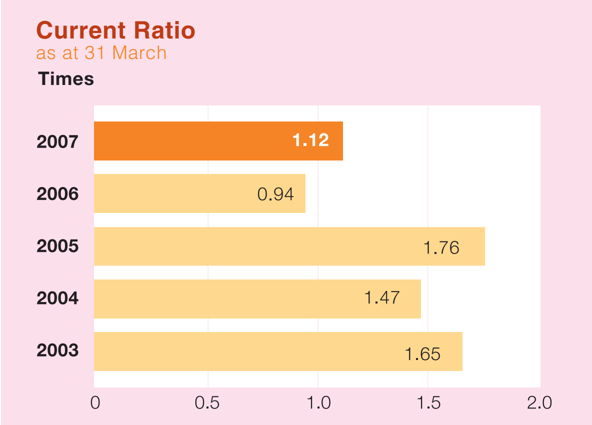
Cash and cash equivalents as at 31 March 2007 were HK$43 million, about half of the HK$90 million shown as at 31 March 2006. Apart from utilizing funds to lower borrowings and operational needs, HK$48 million shown as restricted cash has been applied as the cash bond for appealing the jury's verdict against the Group in Florida, US. The Appeal Bond is placed with the Circuit Court interest bearing account pending the outcome of the appeal process. The Directors anticipate having the Appellate Court's decision before the end of 2007/08 financial year.

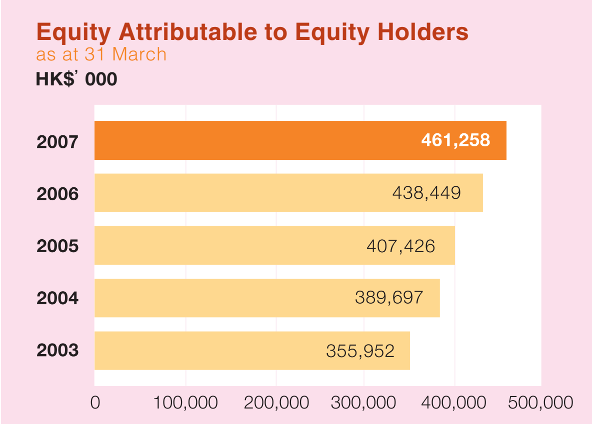
Overall, total current assets were steady at HK$528 million compared to HK$535 million in the previous year end date. Current ratio shown an improvement from 94% in previous year to 112% as at 31 March 2007.

Trade payables and other payables and accrued charges both recorded an increase from previous year. Trade payables were HK$51 million and other payables and accrued charges were HK$61 million as at 31 March 2007 compared to HK$47 million and HK$45 million as at 31 March 2006 respectively. In addition, a provision of HK$48 million was made for the Lawsuit. Creditor turnover days of 46 days were similar to that in the previous year.

Borrowings under current liabilities showed a major decrease from HK$472 million as at 31 March 2006 to HK$303 million at 31 March 2007. This decrease was mainly due to reclassification of bank loans to long term and repayment of portion of the long term loans during the financial year.

Trust receipts loan shown an increase from HK$57 million as at 31 March 2006 to HK$94 million at 31 March 2007 mainly utilized to finance the increased inventories. Long term bank loans were HK$94 million as at 31 March 2007. Bank loan of HK$27 million utilized to finance investment for sales were reduced along with the disposal of Fericle.





The gearing ratio, calculated as the total borrowings less cash and cash equivalents and divided by shareholders' equity, was lowered at 77% as at 31 March 2007 compared to 87% as at 31 March 2006.

On 13 June 2007, the first quarter of the financial year 2007/08, the Group placed 96 million shares to independent external investors and raised HK$55 million. The proceeds collected were applied to further reduce borrowings and for working capital.

Bearing unforeseen circumstances, and the Group's commitment to seek alternative financing, dispose of non-core assets and further reduce borrowings, the Board is confident that the Group has sufficient financial resources to meet forthcoming operational needs.