

BUSINESS REVIEW AND PROSPECTS

Results

For the six months ended 30 September 2002, turnover dropped by 21% from approximately HK\$29,008,000 to approximately HK\$22,947,000 as compared to the same period last year. However, upon the successful accomplishment of a series of debt restructuring exercises, the Group recorded net profits attributable to shareholders of approximately HK\$60,752,000 as compared to a loss of approximately HK\$25,079,000 during the same period in 2001. The profits for the period was mainly contributed by the debts waived by the Bank Group and a number of other creditors of the Group.

Business overview

The period under review was a new era to the Group. During the period, the Group has successfully effected the debt restructuring which involved issue of new shares to a new investor, issues of convertible notes, bank compromise, creditor settlements and Open Offer. Upon the completion of the debt restructuring, the Group has significantly improved its financial position and enlarged its capital base.

Resulting from the continuous threat of deflation, terrorism attack, labour strike in the harbour terminals of the United States and the possible occurrence of Iraq war, the global economy persisted to be sluggish during the period under review. Under such difficult circumstances, most industries, including toys industry, have to struggle for survival, especially during the downturn of the economy, by cutting down their profit margins or even by scaling down their production in order to reduce losses.

業務回顧及展望

業績

截至二零零二年九月三十日止六個月之營業額與去年同期相比由約29,008,000港元減少21%至約22,947,000港元。然而，自順利完成一系列之債務重組事項後，本集團已錄得股東應佔溢利淨額約60,752,000港元，在二零零一年同期則為虧損約25,079,000港元。截至本期間之溢利主要源自銀行集團及本集團若干其他債權人豁免其部份債務所致。

業務概況

本集團於回顧期間內已邁向一個新紀元。於期間內，本集團成功進行債務重組，包括向新投資者發行新股、發行可換股票據、訂立銀行債務安排及債權人債項清償協議，並公開發售新股。自完成債務重組後，本集團已大幅度改善其財務狀況及擴大其股本基礎。

受到持續通縮、恐怖襲擊，美國海岸貨櫃工潮及可能爆發之伊拉克戰事等因素影響，全球經濟於回顧期間內仍然萎靡不振。在此等嚴峻之環境下，包括玩具業在內之許多行業均在掙扎求存，特別是當經濟逆轉之時。此等行業須削減彼等之邊際利潤，更甚者可能需要收縮彼等之生產規模以減少損失。

BUSINESS REVIEW AND PROSPECTS (continued)**Business overview (continued)**

During the period under review, the average amount and quantity per order were decreased as most customers are cautious in placing their orders when the consumer market is uncertain and bleak. As a result, sales generated from most of the major geographical regions all recorded a decrease as compared to the same period last year. As for the product segments, turnover for those less traditional pre-school items dropped more than the other traditional items. However, it is encouraging to note that sales in toddler cars, being one of our core product items, maintained at more or less the same level as that in the corresponding period last year.

Upon the completion of the debt restructuring, ongoing support from customers and suppliers can be found. Recently, the Group has been approached by certain OEM customers who are sourcing toys products for chain-stores and the Group was engaged in several projects with the picking up of its manufacturing process as at the date of this report. In addition, the Group has liaised with various suppliers to re-establish long-term business relationships which were affected during the period prior to the debt restructuring.

The management has also set up an effective internal control system with an aim to streamline the operation process and to increase its production efficiency. On the other hand, the Group has recruited several experienced sales and marketing staff to assist in formulating its sales strategies. To tackle with the rapid change of shopping habits of the consumer market, a product design department has also been formed in Hong Kong office.

業務回顧及展望 (續)**業務概況 (續)**

於回顧期間內，本集團每宗訂單之平均金額及數量均告減少，而在消費市場前景不明朗及缺乏方向感之陰影下，大部份客戶在發出訂單時均表現得步步為營。因此，源自多個主要地區之銷售額較去年同期相比均告減少。就產品分類而言，非傳統學前玩具之營業額較其他傳統玩具下降幅度較大。然而，令人安慰的是本集團核心產品之一之學行車系列之銷售額則與去年同期之水平相若。

自完成債務重組後，本集團繼續獲得客戶及供應商之支持。最近，若干為連鎖店物色玩具產品之OEM客戶已與本集團接洽，而截至本報告日期為止，隨著本集團之製造業務重上軌道，本集團已就若干個項目投入生產運作。本集團亦與多家供應商聯繫，旨在重新建立在債務重組前之期間內曾受影響之長期業務關係。

管理層已建立一套行之有效之內部控制系統，以精簡營運程序，提升其生產效能。與此同時，本集團已招聘多名資深之銷售及市場推廣人員，以協助制定銷售策略。為掌握消費市場急速轉變之購物習慣，本集團亦於香港成立產品設計部門。

BUSINESS REVIEW AND PROSPECTS (continued)**Liquidity and financial position**

As at 30 September 2002, the Group's net current liabilities reduced significantly to approximately HK\$71,376,000 from HK\$238,481,000 as at 31 March 2002. Moreover, net assets value of the Group as at the balance date amounted to approximately HK\$12,348,000 as compared to the net deficiency in assets of approximately HK\$128,396,000 as at 31 March 2002. The improvement in the financial position resulted mainly from the entering of debt compromise agreements with both the Bank Group and other certain major creditors, as well as the issuance of new shares for new funding and the settlement of debts owing by the Group during the period. Moreover, the issues of convertible notes to creditors to replace short-term debts by long-term debts also helped the Group reducing its current liability level. A summary of the financial impacts of these restructuring exercises are included in the section heading "Debt Restructuring" below.

As at 30 September 2002, the Group had total interest-bearing borrowings of approximately HK\$69,099,000, among which approximately HK\$48,677,000 would be repayable within one year and HK\$20,422,000 would be repayable within the second to fifth years. As at 30 September 2002, the Group's gearing ratio was 5.6 times which was calculated based on the Group's total interest-bearing borrowings and shareholders' equity. No gearing ratio for the year ended 31 March 2002 was disclosed as the Group had a net deficiency in assets of approximately HK\$128,396,000 at that date.

業務回顧及展望 (續)**流動現金及財務狀況**

於二零零二年九月三十日，本集團之流動負債淨額已由二零零二年三月三十一日約238,481,000港元大幅減少至約71,376,000港元。此外，本集團於結算日之資產淨值約為12,348,000港元，於二零零二年三月三十一日之資產虧絀淨額則約為128,396,000港元。財務狀況得以改善，主要是由於本集團於期內已完成與銀行集團及其他若干主要債權人訂立之債務重組協議，並以發行新股方式籌集資金及償還債務所致。同時，本集團亦以向債權人發行可換股票據方式，以長期債項取代短期債項，這亦有助本集團減少其流動負債水平。此等重組活動之財務影響概要載於下文「債務重組」一節。

於二零零二年九月三十日，本集團之付息借款總額約69,099,000港元，當中約48,677,000港元須於一年內償還，而20,422,000港元須於第二年至第五年內償還。於二零零二年九月三十日，本集團之資本負債比率為5.6倍，此乃根據本集團之付息借款總額及股東權益計算。鑑於本集團截至二零零二年三月三十一日止年度之資產虧絀淨額約為128,396,000港元，故無在此披露於該日之資本負債比率。

BUSINESS REVIEW AND PROSPECTS (continued)**Liquidity and financial position (continued)**

As at 30 September 2002, bank borrowings amounting to approximately HK\$28,318,000 was secured by certain leasehold land and buildings in the PRC with an aggregate carrying value of approximately HK\$46,903,000 as at 30 September 2002.

As at 30 September 2002, the Group's cash and bank balances amounted to approximately HK\$5,294,000. At the balance sheet date, there were no significant capital commitments which would require a substantial use of the Group's present cash resources or external funding.

Foreign currency exposure

The Group conducts most of its business in currencies of US dollars, Hong Kong dollars and Renminbi. As these currencies remained relatively stable during the period, the Group has limited exposure to foreign exchange rates fluctuations. As at the balance sheet date, except that bank loans amounting to approximately HK\$28,318,000 were denominated in Renminbi, all the remaining bank borrowings and cash and bank balances were mainly denominated in Hong Kong dollar.

業務回顧及展望 (續)**流動現金及財務狀況 (續)**

於二零零二年九月三十日，本集團之銀行借款中約28,318,000港元已由位於中國之若干租賃土地及樓宇作抵押。於二零零二年九月三十日，該租賃土地及樓宇之賬面總值約為46,903,000港元。

於二零零二年九月三十日，本集團之現金及銀行結餘約為5,294,000港元。於結算日，並無任何重大之資本承擔而須大量動用本集團目前之現金資源或外來資金。

外匯風險

本集團之主要業務均以美元、港元及人民幣進行交易。於期間內此等貨幣均較為穩定，故本集團承受匯率兌換風險之機會不大。於二零零二年九月三十日，除銀行貸款額約28,318,000港元乃以人民幣計值外，所有餘下之銀行借款、現金及銀行結餘主要以港幣計值。

BUSINESS REVIEW AND PROSPECTS (continued)**Pending litigation**

As at the date of this report, writs of summonses have been issued by certain creditors aggregating to approximately HK\$2,439,000, together with claims for interest thereon in respect of purchases of goods and the provision of services, among which, claims of approximately HK\$1,476,000 are made against a subsidiary which has been dormant. In the opinion of the directors, adequate provisions have been made by the Group in respect of these claims in the Group's unaudited interim financial statements as at 30 September 2002.

Human resources

As at 30 September 2002, the Group employed a total number of 1,182 full-time employees, among which 1,165 staff were based in the PRC and 17 staff in Hong Kong. In addition to competitive remuneration package offered to the employees, share option of the Company may be granted by the Group to attract and retain talented employees. During the six month ended 30 September 2002, no option has yet been granted.

Prospects

For the past two years, the Group had been suffering from financial difficulties. Upon the completion of a series of debt restructuring and fund raising exercises, the Group has improved its financial position and has already been regaining support from its customers and suppliers. The management believes that the Group has pulled itself out of its most difficult time and is marching into a new era. Moreover, the installation of a comprehensive internal control system and the establishment of the new culture of the Company have equipped the Group to fully take up various challenges that it may meet from time to time. Upon redefining the Group's position in toys industry, a clear direction has been laid out by the management accordingly.

業務回顧及展望(續)**仍未了結訴訟**

於本報告日期，若干債權人就購貨及提供服務向本集團發出傳訊令狀，所涉及之款額約共2,439,000港元，另加就此應計之利息。在上述令狀之中，約1,476,000港元乃向本集團一間已暫停營業之附屬公司索償。董事認為，本集團已於截至二零零二年九月三十日之未經審核中期財務報表內就此等索償作出足夠撥備。

人力資源

於二零零二年九月三十日，本集團聘用之全職僱員總人數為1,182人，當中包括長駐於中國之職員1,165人及長駐於香港之職員17人。本集團除向僱員提供具優厚之薪酬福利外，亦可授出購股權以吸納及招攬優秀人才。截至二零零二年九月三十日止六個月期間內，本公司並無授出購股權。

展望

過去兩年內，本集團曾遇上財政困難。在完成一系列債務重組及集資活動後，本集團之財務狀況得已改善，並再次贏得客戶及供應商之支持。管理層相信本集團最困難的時刻已經渡過，現正逐步邁向新里程。此外，在實施全面之內部監控制度及建立公司新文化後，本集團已準備充足，有能力面對將來種種挑戰。趁本集團在玩具業重新定位之際，管理層已釐訂一個明確的業務路向。

BUSINESS REVIEW AND PROSPECTS (continued)**Prospects (continued)**

Although it is anticipated that it may take a certain period of time for the rebound of the global economy to take place, and therefore the Group's results may not be improved significantly in the short term, the management believes that the provision of high quality products on time at competitive prices will definitely enable the Group to re-establish its new brand name in the toys industry and the management shall continue to look for any potential strategic partners in order to widen its market share within the toys industry.

DEBT RESTRUCTURING

Upon completion of a series of debt restructuring exercises during the period under review, the financial effects are summarised as below:

- (a) on 16 May 2002, 3,000,000,000 shares of HK\$0.01 each at the subscription price of HK\$0.01 per share were issued for a total consideration of HK\$30,000,000 before related expenses, pursuant to a subscription agreement entered into between the Group and Vision Century;
- (b) total borrowings owed by the Group to the Bank Group of approximately HK\$103,104,000 was fully settled by (i) a cash payment of approximately HK\$20,039,000 and (ii) the issues of 5% convertible notes with an aggregate principal amount of HK\$6,500,000 to the Bank Group, which are repayable by three equal instalments over three years or convertible into the Company's ordinary share of HK\$0.01 each at an initial conversion price of HK\$0.01 each (subject to adjustment), pursuant to the compromise agreement entered into between the Group and the Bank Group on 1 February 2002. As a result, total debts waived by the Bank Group amounted to approximately HK\$76,565,000;

業務回顧及展望 (續)**展望 (續)**

縱使預期全球經濟仍然需要若干時間才能復甦，而本集團之業績亦難以在短期內錄得大幅度之改善，然而管理層深信，若能以具競爭性的價格，準時地提供高質素之產品予客戶，本集團定必能在玩具業再次建立新品牌。管理層將繼續物色任何合適之策略性夥伴，在玩具業拓展其市場佔有率。

債務重組

於回顧期間內，自完成一系列債務重組活動後，其財務影響茲概述如下：

- (a) 於二零零二年五月十六日，根據本集團與Vision Century訂立之認購協議，本公司按每股認購價0.01港元發行每股面值0.01港元之股份3,000,000,000股，未扣除有關費用前之總代價為30,000,000港元；
- (b) 根據本集團與銀行集團於二零零二年二月一日訂立之債務安排協議，本集團結欠銀行集團約103,104,000港元之借款總額透過下列方式已悉數支付：(i)支付現金約20,039,000港元；及(ii)向銀行集團發行總額達6,500,000港元之五厘息可換股票據，該五厘息可換股票據須於三年內分三期償還，或可按每股初步換股價0.01港元(可予調整)轉換為本公司每股面值0.01港元之普通股份。因此，銀行集團豁免之債項總額約為76,565,000港元。

DEBT RESTRUCTURING (continued)

- (c) on 3 June 2002, a total of 4,025,905,140 offer shares of HK\$0.01 each, were issued at an offer price of HK\$0.01 each, on the basis of three offer shares for every two shares held by the qualifying shareholders. Total proceeds before issuing expenses was approximately HK\$40,259,000;
- (d) a total of 1,066,440,000 share of HK\$0.01 each was issued to various creditors of the Group on 16 May 2002, 30 July 2002 and 30 September 2002 respectively, at issuing prices ranging from HK\$0.01 to HK\$0.015 per share as partial settlement of debts owing to them, pursuant to various debt compromise agreements entered into between the Group and various creditors of the Group dated 27 March 2002 and 25 September 2002 respectively. Debts waived by these creditors amounted to approximately HK\$20,000; and
- (e) on 30 July 2002, pursuant to a settlement agreement entered into between the Group and a substantial creditor of the Group on 27 March 2002, a 3% convertible note in principal amount of HK\$16,000,000 was issued to the creditor as partial settlement of debts owing by the Group. The 3% convertible note is repayable in two years or convertible into the Company's ordinary share of HK\$0.01 at an initial conversion price of HK\$0.01 each (subject to adjustment). Debt waived by the creditor amounted to approximately HK\$4,982,000.

To conclude, total debts waived by the Bank Group and other creditors after the above debt restructuring exercises (before the related restructuring expenses of approximately HK\$4,516,000) aggregated to approximately HK\$81,567,000. Moreover, total funds of approximately HK\$70,259,000 (before issuing expenses) were raised by issues of new shares of the Company.

債務重組 (續)

- (c) 於二零零二年六月三日，本公司按每股發售價0.01港元，並以合資格股東每持有兩股股份獲發三股發售股份之基準，發行合共4,025,905,140股每股面值0.01港元之發售股份。在扣除發行費用前之所得款項總額約為40,259,000港元；
- (d) 根據本集團與多位債權人分別於二零零二年三月二十七日及二零零二年九月二十五日訂立之多份債項償還協議，本集團分別透過於二零零二年五月十六日、二零零二年七月三十日及二零零二年九月三十日向有關之多位債權人按介乎每股0.01港元至0.015港元之發行價，合共發行1,066,440,000股每股面值0.01港元之股份，作為償還結欠彼等之部份債務。此等債權人豁免之債項總額約達20,000港元；及
- (e) 於二零零二年七月三十日，根據本集團與一主要債權人於二零零二年三月二十七日訂立之債項償還協議，本集團向該債權人發行金額達16,000,000港元之3厘息可換股票據，作為償還本集團所結欠之部份債務。該3厘息可換股票據須於兩年內償還或可按初步每股兌換價0.01港元(可予調整)轉換本公司每股面值0.01港元之普通股。該債權人豁免之債務總額約達4,982,000港元。

總括而言，銀行集團及其他債權人豁免之債務總額在上述債務重組活動後(在扣除有關重組費用約4,516,000港元前)合共約達81,567,000港元。此外，透過發行本公司新股份籌集之資金總額約為70,259,000港元(未計發行開支)。