

C Y FOUNDATION GROUP LIMITED

(Incorporated in Bermuda with limited liability)

(Stock code #1182)

FINAL RESULTS FOR THE YEAR ENDED 31 MARCH 2007

CONSOLIDATED INCOME STATEMENT

The audited consolidated results of C Y Foundation Group Limited (“Company”) and its subsidiaries (“Group”) for the year ended 31 March 2007 together with the comparative figures for the last corresponding year are as follows:

| | Note | 2007 HK\$'000 | 2006 HK\$'000 (Restated) |
|---|------|---------------------|--------------------------------|
| CONTINUING OPERATIONS | | | |
| TURNOVER | 3 | 77,634 | 86,887 |
| Cost of sales | | (42,962) | (41,814) |
| Gross profit | | 34,672 | 45,073 |
| Other revenue | 4 | 1,658 | 637 |
| Selling and distribution costs | | (33,944) | (38,780) |
| Administrative expenses | | (25,668) | (21,358) |
| Other operating expenses | 5 | – | (84) |
| Written back for loan receivables | | – | 211 |
| Impairment loss of goodwill arising on acquisition of subsidiaries | | – | (6,433) |
| LOSS FROM OPERATIONS | 6 | (23,282) | (20,734) |
| Finance costs | 7 | (869) | (1,924) |
| Gain on disposal of subsidiaries | | – | 2,327 |
| LOSS BEFORE INCOME TAX | | (24,151) | (20,331) |
| Income tax | 8 | – | – |
| LOSS FROM CONTINUING OPERATIONS | | (24,151) | (20,331) |
| DISCONTINUED OPERATION | | | |
| Loss from discontinued operation | 9 | (16,324) | (2,456) |
| LOSS FOR THE YEAR | | (40,475) | (22,787) |
| LOSS PER SHARE | | | |
| Basic | 10 | | |
| – Continuing operations | | (4.16) cents | (48.23) cents |
| – Discontinued operation | | (2.81) cents | (5.83) cents |
| | | (6.97) cents | (54.06) cents |
| Diluted | | N/A | N/A |

CONSOLIDATED BALANCE SHEET

| | As at 31 March | |
|--|-----------------|-----------------|
| | 2007 | 2006 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Non-current assets | | |
| Property, plant and equipment | 730 | 2,534 |
| Interests in an associate | – | – |
| Available-for-sale financial assets | – | 2,807 |
| | 730 | 5,341 |
| Current assets | | |
| Inventories | 17,206 | 38,073 |
| Trade and other receivables | 15,231 | 13,535 |
| Held-for-trading investments | – | 44 |
| Pledged bank deposits | 497 | 1,736 |
| Bank fiduciary deposit | 328,276 | – |
| Cash and cash equivalents | 460,573 | 14,621 |
| | 821,783 | 68,009 |
| Current liabilities | | |
| Trade and other payables | 745,830 | 19,029 |
| Short term loan, secured | 25,380 | 9,443 |
| | 771,210 | 28,472 |
| Net current assets | 50,573 | 39,537 |
| Total assets less current liabilities | 51,303 | 44,878 |
| Non-current liabilities | | |
| Convertible note | 3,016 | – |
| Provision for long service payments | 959 | 959 |
| | 3,975 | 959 |
| NET ASSETS | 47,328 | 43,919 |
| Capital and reserves | | |
| Share capital | 3,087 | 1,748 |
| Reserves | 44,241 | 42,171 |
| TOTAL EQUITY | 47,328 | 43,919 |

Notes:

1. THE BASIS OF PREPARATION

The consolidated financial statements have been prepared under the historical cost convention, except for financial instruments which are measured at fair values.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”).

In the current year, the Group has applied, for the first time, a number of new HKFRSs, Hong Kong Accounting Standards (“HKASs”) and Interpretations (hereinafter collectively referred to as “new HKFRSs”) issued by the HKICPA that are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting years have been prepared and presented. Accordingly, no prior year adjustment has been required.

2. POTENTIAL IMPACT OF NEW STANDARDS NOT YET APPLIED

The Group has not early applied the following new standards, amendment or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendment or interpretations will have no material impact on the results and financial position of the Group.

| | |
|--------------------|--|
| HKAS 1 (Amendment) | Capital disclosures ¹ |
| HKFRS 7 | Financial Instruments: Disclosures ¹ |
| HKFRS 8 | Operating Segments ² |
| HK(IFRIC)-Int 8 | Scope of HKFRS 2 ³ |
| HK(IFRIC)-Int 9 | Reassessment of Embedded Derivatives ⁴ |
| HK(IFRIC)-Int 10 | Interim Financial Reporting and Impairment ⁵ |
| HK(IFRIC)-Int 11 | HKFRS 2 – Group and Treasury Share Transactions ⁶ |
| HK(IFRIC)-Int 12 | Service Concession Arrangements ⁷ |

| | | |
|--------------|--|-----------------|
| ¹ | Effective for annual periods beginning on or after | 1 January 2007 |
| ² | Effective for annual periods beginning on or after | 1 January 2009 |
| ³ | Effective for annual periods beginning on or after | 1 May 2006 |
| ⁴ | Effective for annual periods beginning on or after | 1 June 2006 |
| ⁵ | Effective for annual periods beginning on or after | 1 November 2006 |
| ⁶ | Effective for annual periods beginning on or after | 1 March 2007 |
| ⁷ | Effective for annual periods beginning on or after | 1 January 2008 |

3. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

The Group comprised the following main business segments:

- (a) apparel trading
- (b) strategic investments and others
- (c) securities trading

Further details of the discontinued operation under the securities trading segment are set out in note 9.

There were no significant inter-segment sales and transfers during the current and prior years.

An analysis of the Group's turnover, contribution to loss from operations for the years ended 31 March 2007 and 2006 and certain assets, liabilities and expenditure information regarding business segments are as follows:

| | Continuing operations | | Discontinued operation | | Consolidated <i>HK\$'000</i> |
|---|------------------------------------|---|------------------------------|---------------------------------------|---------------------------------|
| | Apparel trading <i>HK\$'000</i> | Strategic investments and others <i>HK\$'000</i> | Sub-total <i>HK\$'000</i> | Securities trading <i>HK\$'000</i> | |
| For the year ended 31 March 2007 | | | | | |
| Turnover | <u>77,634</u> | <u>-</u> | <u>77,634</u> | <u>55</u> | <u>77,689</u> |
| Segment results | <u>(11,628)</u> | <u>-</u> | <u>(11,628)</u> | <u>(3,036)</u> | <u>(14,664)</u> |
| Interest income | | | 786 | | 786 |
| Group overheads | | | <u>(12,440)</u> | | <u>(12,440)</u> |
| Loss from operations | | | <u>(23,282)</u> | | <u>(26,318)</u> |
| Finance costs | | | <u>(869)</u> | | <u>(869)</u> |
| Loss on disposal of available-for-sale financial assets | - | - | <u>-</u> | <u>(13,288)</u> | <u>(13,288)</u> |
| Loss before income tax | | | <u>(24,151)</u> | | <u>(40,475)</u> |
| Income tax | | | <u>-</u> | | <u>-</u> |
| Loss from continuing operations | | | <u>(24,151)</u> | | |
| Loss for the year | | | | | <u>(40,475)</u> |

| | Continuing operations | | Discontinued operation | |
|-----------------------------------|------------------------------------|---|---------------------------------------|---------------------------------|
| | Apparel trading <i>HK\$'000</i> | Strategic investments and others <i>HK\$'000</i> | Securities trading <i>HK\$'000</i> | Consolidated <i>HK\$'000</i> |
| As at 31 March 2007 | | | | |
| ASSETS | | | | |
| Segment assets | 57,523 | 321 | – | 57,844 |
| Unallocated corporate assets | | | | 764,669 |
| Consolidated total assets | | | | <u>822,513</u> |
| LIABILITIES | | | | |
| Segment liabilities | 16,894 | – | – | 16,894 |
| Unallocated corporate liabilities | | | | 758,291 |
| Consolidated total liabilities | | | | <u>775,185</u> |
| OTHER INFORMATION | | | | |
| Capital expenditure | 780 | 5 | 17 | 802 |
| Depreciation | <u>1,972</u> | <u>–</u> | <u>35</u> | <u>2,007</u> |

| | Continuing operations | | Discontinued operation | | Consolidated <i>HK\$'000</i> |
|--|------------------------------------|---|------------------------------|---------------------------------------|---------------------------------|
| | Apparel trading <i>HK\$'000</i> | Strategic investments and others <i>HK\$'000</i> | Sub-total <i>HK\$'000</i> | Securities trading <i>HK\$'000</i> | |
| For the year ended | | | | | |
| 31 March 2006 (Restated) | | | | | |
| Turnover | <u>86,887</u> | <u>–</u> | <u>86,887</u> | <u>5,004</u> | <u>91,891</u> |
| Segment results | <u>(11,735)</u> | <u>–</u> | <u>(11,735)</u> | <u>(2,524)</u> | <u>(14,259)</u> |
| Interest income | | | 38 | | 38 |
| Group overheads | | | (2,815) | | (2,815) |
| Written back for loan receivables | – | 211 | 211 | – | 211 |
| Impairment loss of goodwill arising on acquisition of subsidiaries | (6,433) | – | <u>(6,433)</u> | – | <u>(6,433)</u> |
| Loss from operations | | | (20,734) | | (23,258) |
| Finance costs | | | (1,924) | (5) | (1,929) |
| Gain on disposal of subsidiaries | – | 2,327 | <u>2,327</u> | 73 | <u>2,400</u> |
| Loss before income tax | | | (20,331) | | (22,787) |
| Income tax | | | <u>–</u> | | <u>–</u> |
| Loss from continuing operations | | | <u>(20,331)</u> | | |
| Loss for the year | | | | | <u>(22,787)</u> |

| | Continuing operations | | Discontinued operation | Consolidated HK\$'000 |
|--|-----------------------------|--|--------------------------------|--------------------------|
| | Apparel trading HK\$'000 | Strategic investments and others HK\$'000 | Securities trading HK\$'000 | |
| As at 31 March 2006 (Restated) | | | | |
| ASSETS | | | | |
| Segment assets | 68,820 | – | 4,401 | 73,221 |
| Interests in an associate | – | – | – | – |
| Unallocated corporate assets | | | | 129 |
| Consolidated total assets | | | | <u>73,350</u> |
| LIABILITIES | | | | |
| Segment liabilities | 15,596 | – | 2 | 15,598 |
| Unallocated corporate liabilities | | | | 13,833 |
| Consolidated total liabilities | | | | <u>29,431</u> |
| OTHER INFORMATION | | | | |
| Capital expenditure | 2,751 | – | 96 | 2,847 |
| Impairment loss of goodwill arising on acquisition of subsidiaries | 6,433 | – | – | 6,433 |
| Depreciation | 1,679 | – | 17 | 1,696 |
| Gain on disposal of subsidiaries | – | 2,327 | 73 | 2,400 |

Geographical segments

The Group's operations are principally located in the PRC and Hong Kong.

An analysis of the Group's turnover and contribution to loss from operations by geographical market, irrespective of the origin of the goods/services is as follows:

Turnover by geographical market

| | 2007 | | | 2006 | | |
|-----------|-----------------------------------|------------------------------------|--------------------------|-----------------------------------|------------------------------------|--------------------------|
| | Continuing operations HK\$'000 | Discontinued operation HK\$'000 | Consolidated HK\$'000 | Continuing operations HK\$'000 | Discontinued operation HK\$'000 | Consolidated HK\$'000 |
| | | | | (Restated) | (Restated) | (Restated) |
| The PRC | 23,574 | – | 23,574 | 27,819 | – | 27,819 |
| Hong Kong | 54,060 | 55 | 54,115 | 59,068 | 5,004 | 64,072 |
| | <u>77,634</u> | <u>55</u> | <u>77,689</u> | <u>86,887</u> | <u>5,004</u> | <u>91,891</u> |

Contribution to loss from operations

| | 2007 | | | 2006 | | |
|--|--|---|---------------------------------|--|---|---------------------------------|
| | Continuing operations <i>HK\$'000</i> | Discontinued operation <i>HK\$'000</i> | Consolidated <i>HK\$'000</i> | Continuing operations <i>HK\$'000</i> | Discontinued operation <i>HK\$'000</i> | Consolidated <i>HK\$'000</i> |
| | | | | (Restated) | (Restated) | (Restated) |
| The PRC | 9,477 | - | 9,477 | 2,638 | - | 2,638 |
| Hong Kong | (21,105) | (3,036) | (24,141) | (14,373) | (2,524) | (16,897) |
| | <u>(11,628)</u> | <u>(3,036)</u> | <u>(14,664)</u> | <u>(11,735)</u> | <u>(2,524)</u> | <u>(14,259)</u> |
| Interest income | | | 786 | | | 38 |
| Group overheads | | | (12,440) | | | (2,815) |
| Written back for loan receivables | | | - | | | 211 |
| Impairment loss of goodwill arising on acquisition of subsidiaries | | | - | | | (6,433) |
| Loss from operations | | | <u>(26,318)</u> | | | <u>(23,258)</u> |

An analysis of the carrying amount of segment assets and additions to property, plant and equipment, by geographical areas is as follows:

Carrying amount of segment assets

| | 2007 | | | 2006 | | |
|-----------|--|---|---------------------------------|--|---|---------------------------------|
| | Continuing operations <i>HK\$'000</i> | Discontinued operation <i>HK\$'000</i> | Consolidated <i>HK\$'000</i> | Continuing operations <i>HK\$'000</i> | Discontinued operation <i>HK\$'000</i> | Consolidated <i>HK\$'000</i> |
| | | | | (Restated) | (Restated) | (Restated) |
| The PRC | 24,649 | - | 24,649 | 9,932 | - | 9,932 |
| Hong Kong | 797,864 | - | 797,864 | 59,017 | 4,401 | 63,418 |
| | <u>822,513</u> | <u>-</u> | <u>822,513</u> | <u>68,949</u> | <u>4,401</u> | <u>73,350</u> |

Additions to property, plant and equipment

| | 2007 | | | 2006 | | |
|-----------|--|---|---------------------------------|--|---|---------------------------------|
| | Continuing operations <i>HK\$'000</i> | Discontinued operation <i>HK\$'000</i> | Consolidated <i>HK\$'000</i> | Continuing operations <i>HK\$'000</i> | Discontinued operation <i>HK\$'000</i> | Consolidated <i>HK\$'000</i> |
| | | | | (Restated) | (Restated) | (Restated) |
| The PRC | 774 | - | 774 | 1,180 | - | 1,180 |
| Hong Kong | 11 | 17 | 28 | 1,571 | 96 | 1,667 |
| | <u>785</u> | <u>17</u> | <u>802</u> | <u>2,751</u> | <u>96</u> | <u>2,847</u> |

4. OTHER REVENUE

| | 2007 | 2006 |
|---|------------------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | | (Restated) |
| Continuing operations | | |
| Interest income | 786 | 38 |
| Royalty income | – | 205 |
| Sundry income | 368 | 394 |
| Exchange gain | 242 | – |
| Reversal of impairment loss for bad and doubtful debts, net | 262 | – |
| | 1,658 | 637 |
| Discontinued operation | | |
| Dividend from held-for-trading investments | – | 16 |
| Unrealised gain on held-for-trading investments | – | 13 |
| | – | 29 |
| | 1,658 | 666 |

5. OTHER OPERATING EXPENSES

| | 2007 | 2006 |
|---|------------------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Continuing operations | | |
| Impairment loss for bad and doubtful debts, net | – | 84 |

6. LOSS FROM OPERATIONS

Loss from operations has been arrived at after charging/(crediting):

| | 2007 | 2006 |
|--|-----------------|----------------|
| | HK\$'000 | HK\$'000 |
| | | (Restated) |
| Continuing operations | | |
| Cost of sales | | |
| Apparel trading | 39,995 | 41,814 |
| Write down of inventories to net realisable value | 2,967 | – |
| | 42,962 | 41,814 |
| Auditors' remuneration | | |
| Audit fee | | |
| Current year | 503 | 450 |
| (Over)/Under provision for prior years | (5) | 6 |
| | 498 | 456 |
| Non-audit fee | 20 | – |
| | 518 | 456 |
| Depreciation | 1,972 | 1,679 |
| Loss on disposal of property, plant and equipment | 474 | 47 |
| Operating lease rentals in respect of land and buildings | 6,666 | 6,618 |
| Royalty expenses | 3,272 | 3,377 |
| Staff salaries and other benefits | 13,792 | 17,432 |
| Staff retirement benefits scheme contributions, net of forfeited contributions of HK\$Nil (2006: HK\$Nil) | 786 | 1,603 |
| Total staff costs including directors' emoluments | 14,578 | 19,035 |
| Write back of provision for slow-moving inventories | – | (5,195) |
| | – | (5,195) |
| Discontinued operation | | |
| Cost of sales | | |
| Securities trading | 59 | 4,844 |
| Depreciation | 35 | 17 |
| Operating lease rentals in respect of land and buildings | 773 | 448 |
| Staff salaries and other benefits | 734 | 737 |
| | – | – |

7. FINANCE COSTS

| | 2007 <i>HK\$'000</i> | 2006 <i>HK\$'000</i> (Restated) |
|--|--------------------------------|---------------------------------------|
| Continuing operations | | |
| Interests on short term loan wholly repayable within 5 years | 859 | 1,924 |
| Imputed interest on convertible note | 8 | – |
| Other finance charges | 2 | – |
| | 869 | 1,924 |
| Discontinued operation | | |
| Interests on short term loan wholly repayable within 5 years | – | 5 |
| | 869 | 1,929 |

8. INCOME TAX

No provision for Hong Kong Profits Tax has been made in the financial statements as the Company and its subsidiaries had no assessable profits for the current and prior years.

Pursuant to a notice dated 7 March 2005 issued by Shanghai Local Tax Bureau Xu Hui Branch, 上海歐裝貿易有限公司 (“上海歐裝”), a subsidiary of the Group, is exempted from PRC enterprise income tax (“EIT”) for the period from 1 May 2004 to 31 December 2006. No provision has been made for 上海歐裝 for the three months ended 31 March 2007 as 上海歐裝 sustained a loss for taxation purpose during the period.

No provision for EIT has been made for other subsidiaries operating in the PRC as they did not generate any assessable profits during the year.

The income tax for the year can be reconciled to the loss before income tax per the consolidated income statement as follows:

| | 2007 <i>HK\$'000</i> | 2006 <i>HK\$'000</i> |
|--|--------------------------------|-------------------------|
| Loss from continuing and discontinued operations before income tax | (40,475) | (22,787) |
| Tax credit at domestic income tax rate of 17.5% (2006: 17.5%) | (7,083) | (3,988) |
| Tax effect of estimated tax losses not recognised | 2,905 | 3,308 |
| Tax effect of income not taxable for tax purpose | (28) | (9,640) |
| Tax effect of expenses not deductible for tax purpose | 4,206 | 10,320 |
| Income tax | – | – |

9. DISCONTINUED OPERATION

On 21 March 2007, the Group disposed of the entire equity interest in a subsidiary, Gold Venture Corporation Limited (“Gold Venture”), and the amount due from Gold Venture to the Group at a total consideration of approximately HK\$321,000. Gold Venture was principally engaged in securities trading.

The loss from the discontinued operation is analysed as follows:

| | From 1 April 2006 to 21 March 2007 HK\$'000 | For the year ended 31 March 2006 HK\$'000 |
|-------------------------------------|--|--|
| Gain on disposal | – | – |
| Loss from operation of Gold Venture | <u>(16,324)</u> | <u>(2,456)</u> |
| | <u>(16,324)</u> | <u>(2,456)</u> |

The results of Gold Venture for the period from 1 April 2006 to 21 March 2007 are as follows:

| | From 1 April 2006 to 21 March 2007 HK\$'000 | For the year ended 31 March 2006 HK\$'000 |
|---|--|--|
| Turnover | 55 | 5,004 |
| Cost of sales | <u>(59)</u> | <u>(4,844)</u> |
| Gross (loss)/profit | (4) | 160 |
| Other revenue | – | 29 |
| Administrative expenses | <u>(3,032)</u> | <u>(2,713)</u> |
| Loss from operation | (3,036) | (2,524) |
| Finance costs | – | (5) |
| Gain on disposal of a subsidiary | – | 73 |
| Loss on disposal of available-for-sale financial assets | <u>(13,288)</u> | <u>–</u> |
| Loss before income tax | (16,324) | (2,456) |
| Income tax | <u>–</u> | <u>–</u> |
| Loss for the period/year | <u>(16,324)</u> | <u>(2,456)</u> |

During the year, Gold Venture paid the Group’s net operating cash flows by HK\$3,443,000 (2006: contributed HK\$14,961,000) and contributed HK\$2,348,000 (2006: paid HK\$15,733,000) in respect of investing activities.

No tax charge arose on the disposal of Gold Venture.

10. LOSS PER SHARE

(a) Basic loss per share

The calculation of the basic loss per share is based on the following data:

Weighted average number of ordinary shares

| | 2007 '000 | 2006 '000 |
|--|-----------------------------|---|
| | <u> </u> | <u> </u> (Restated) |
| Issued ordinary shares at 1 April | 1,748,433 | 437,108 |
| Effect of issue of shares by open offer | – | 405,972 |
| Effect of share consolidation | (1,661,011) | (800,926) |
| Effect of issue of new shares | 493,150 | – |
| | <u> </u> | <u> </u> |
| Weighted average number of ordinary shares at 31 March | <u>580,572</u> | <u>42,154</u> |

(i) From continuing and discontinued operations

The calculation of basic loss per share is based on the loss of HK\$40,475,000 (2006: HK\$22,787,000) and the weighted average number of 580,572,000 ordinary shares (2006: 42,154,000 ordinary shares (restated)) in issue during the year.

(ii) From continuing operations

The calculation of basic loss per share is based on the loss of HK\$24,151,000 (2006: HK\$20,331,000 (restated)) and the weighted average number of 580,572,000 ordinary shares (2006: 42,154,000 ordinary shares (restated)) in issue during the year.

(iii) From discontinued operation

The calculation of basic loss per share is based on the loss of HK\$16,324,000 (2006: HK\$2,456,000 (restated)) and the weighted average number of 580,572,000 ordinary shares (2006: 42,154,000 ordinary shares (restated)) in issue during the year.

(b) Diluted loss per share

Diluted loss per share for the year ended 31 March 2007 has not been disclosed as the potential ordinary shares outstanding during the year had an anti-dilutive effect on the basic loss for the year. Diluted loss per share was not presented for the year ended 31 March 2006 as there were no dilutive potential shares in issue during the prior year.

11. DIVIDEND

The Board recommended that no final dividend be paid for the year (2006: Nil).

12. CONTINGENT LIABILITIES

- (a) In 2003, Total Resources Limited (“Total Resources”) claimed against the Company in a High Court action for HK\$1,064,000 being damages for repudiation of a service agreement relating to the provision of company secretary.

A settlement was made between the parties on 4 July 2006, pursuant to which the Company has paid a sum of HK\$930,000 in full and final settlement of the claim of Total Resources.

- (b) In August 2005, Orient Rise Limited (“Orient Rise”) initiated a legal action against French Trade Marketing Limited and Euro Fashion Trading Company Limited, two wholly-owned subsidiaries of the Group for a breach of the terms of sublicense causing loss and damages to Orient Rise.

Up to the date of this report, based on the legal advice obtained, the directors believed that there is no ground for Orient Rise to make the claim and therefore, no provision has been made in the financial statements.

REVIEW AND OUTLOOK

During the financial year under review, there was a change in both the controlling shareholder and the management of the Group. The new management has shifted the Group’s core business to the operation of online games and electronic tournaments in China. The new core business has yet to contribute revenues or profits since the change occurred late in the financial year.

Subsequent to the financial year end, the Company changed its name from Foundation Group Limited to C Y Foundation Group Limited to reflect the strong partnership with Communist Youth League of China (CYL).

The financials covered by the Annual Report represent mainly the business performance of the prior core business and does not reflect the latest online gaming and electronic tournament business performance under the direction of the new management.

Business Review – Old Businesses

The continuing operations including apparel trading and retailing business segment recorded a turnover of HK\$77.63 million and a net loss of HK\$24.15 million. The downturn in financial results is mainly attributed to increased competition and high operating costs.

The Group ceased operations of the securities trading business before the financial year-end. This business recorded a turnover of HK\$55,000 and a net loss of HK\$16.32 million. The portfolio of the securities trading was liquidated before the balance sheet date.

Further to the cessation of the securities business, the Group is also gradually phasing out the apparel trading business and focusing all its resources developing its online games and electronic tournaments.

New Course – Online Gaming

Subsequent to the change in the controlling shareholder, the new management has raised more than HK\$715 million in net proceeds for its new core business of online gaming space in the PRC. Through its PRC subsidiaries and its strategic partner, CYL, the Group is committed to providing “green” Internet cafes in China and its national electronic tournament platform to develop the online tournament gaming market.

The Group’ core business is to organise and manage nationwide peer-to-peer (P2P) online game tournaments. Players from all over China will participate in online tournaments that will feature casual games such as mahjong, doudizhu, Texas Hold’em poker, tuolaji, and animated entertainment games. The winners of the tournaments will be eligible for a wide range of prizes. The Group will operate and manage the online tournaments via a proprietary tournament platform that will include membership, prize distribution and payment systems and allow for the integration of third party software brands. The Group will install and operate online tournament platform in internet cafes and community centres across China.

Currently, there are an estimated 120,000 licensed internet cafes across China serving 27 million visitors a day. The online gaming market currently has over 36 million players and an estimated 26% Compound Annual Growth Rate. The Group maintains a first mover advantage in the online tournament market and aims to develop nationwide brand recognition for its online tournament platform by the end of year 2008.

The Group will further support the online game business with its owner/operated flagship entertainment centre. The entertainment centers will have a mixed range of entertainment including digital cinemas and P2P gaming area. The Group plans to operate these centres in the cities of Shanghai, Shenzhen, Chengdu and Beijing.

Prospects

The Group is highly positive on the growth potential of the new business based on the market size of China’s online gaming market and its fast growth rate. The Group plans to work closely with CYL to utilise its vast resources such as its 75 million membership base and relationships with over 20,000 internet cafes across China to maximize the market position of its online tournament platform.

Recently the Group announced a strategic acquisition of T-Matrix Culture Company Limited to increase the roll out speed of its online tournament platform. T-Matrix has over 1,000 Internet cafe franchisees and allied Internet cafe partners in over 9 provinces across China. The Group will begin operating online tournaments throughout the T-Matrix network beginning in early August 2007. T-Matrix is one of only 7 active license owners authorised by the PRC’s Ministry of Culture to franchise internet cafes nationwide in China. Internet cafes in this T-Matrix group will be able to link to the Group’s online tournament platform and hold nationwide tournaments. As the Group grows, it will look for additional strategic investment opportunities suitable for the continuous expansion of the Group’s core business.

The Group is committed to building one of the largest online gaming communities with superior software products from its strategic partners and by bridging the gap between the online and offline worlds. Players will be able to engage in fun online tournaments with great software and will meet new friends offline at the internet cafes. Players will initially sign up for the excitement of winning a prize and will keep coming back for the online/offline social experience.

The Group will report its new page of business development in its next financial report.

FINANCIAL REVIEW

For the year ended 31 March 2007, the Group recorded a turnover of HK\$77.69 million as compared to HK\$91.89 million for the previous year. The decrease was due to the competitive conditions of the apparel trading business as well as the Group's new focus on online gaming. The Group also reported a net loss attributable to shareholders of HK\$40.48 million as compared to loss of HK\$22.79 million in the previous year. The deterioration was mainly attributable to the loss from the discontinued operation – securities trading. The increase in the operating costs of the apparel business as well as the corporate overheads incurred in the last quarter during the fund raising activities also contributed to the increased loss.

At the balance sheet date, the shareholders' equity of the Company was HK\$47.33 million as compared to HK\$43.92 million at the end of the previous year. The net increase was mainly due to the new funds raised during the last quarter of the year less the loss of the year. Before the balance sheet date, deposits of about HK\$715 million ("Subscription Money"), being new funds to be capitalised by issue of further 600,000,000 new shares was received by the Company. At the balance sheet date, the Group maintained a substantially improved liquidity with total cash and cash equivalents plus fiduciary deposit of aggregate of HK\$788.85 million as compared to HK\$14.62 million of the previous year.

The gearing ratio of interest bearing borrowing (net of the zero coupon rate convertible note) against the total equity at the balance sheet date was at 53.6% versus 21.5% of the previous year. All borrowings were made at comparable to the market interest rate. The Group's exposure to exchange risk was not significant. Subsequent to the year end and after the completion of the capitalisation of the Subscription Money upon the issue of the new shares, the gearing ratio of the Group was improved significantly.

Short term loan was secured by the Group's equity interest in a subsidiary and a charge on loan due by this subsidiary. An aggregate bank balance of HK\$0.50 million was pledged to secure banking facilities granted to the Group.

During the year, the Group had held listed securities for investment purpose which contributed investment loss of HK\$13.29 million for the financial year (gain of HK\$0.16 million for the previous year). The portfolio of the investment had been fully liquidated before the period end. During the year, save for the disposal of the securities trading arm, the Group had not made material acquisition or disposal of subsidiaries or associated companies.

The Group has not committed nor has any plan to commit for any material investment or capital assets.

EMPLOYEE INFORMATION

At the end of the financial year under review, the Group employed 135 permanent employees, including 65 employees in Hong Kong and 70 in the PRC. The Group continued to review the remuneration packages of employees with reference to the level and composition of pay, general market condition and individual performance. Staff benefits include contribution to Mandatory Provident Fund Scheme and discretionary bonus, share option scheme, medical allowance and hospitalisation scheme and housing allowance..

CORPORATE GOVERNANCE

Throughout the financial year under review, the Code on Corporate Governance Practices (“CG Code”) of the Listing Rules had been duly complied with except for the deviations summarised as follows:

| CG Code | Deviation |
|---|---|
| A.2.1 Segregated roles of chairman and CEO | <ul style="list-style-type: none">• Before 9 May 2007, the Group did not maintain a CEO in the Board and the Chairman assumed the general duties of a CEO.• On 9 May 2007, a CEO was appointed to the Board. |
| A.4.1 Non-executive directors should be appointed for a specific term, subject to re-election | <ul style="list-style-type: none">• Throughout the financial year under review and until 9 May 2007, all Independent Non-executive Directors (“INED(s)”) were not appointed for a specific term but were subject to retirement by rotation at the annual general meeting in accordance with the Company’s Bye-laws.• With effect from 9 May 2007, all INEDs and Non-executive Directors shall retire but be eligible for re-election at every annual general meeting of the Company. |
| B.1.1 A remuneration committee should be set up with majority members to be INEDs | <ul style="list-style-type: none">• During the period from 9 May 2007 until 31 May 2007, the Remuneration Committee was not composed of a majority of INEDs due to the resignation of all former INEDs from the Board and/or the Remuneration Committee.• On 1 June 2007, 2 new INEDs were appointed as the new members of the Remuneration Committee fulfilling the requirement. |

REVIEW OF RESULTS

The above consolidated financial statements have been reviewed by the Audit Committee of the Company.

SCOPE OF WORK OF AUDITORS

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 March 2007 have been agreed by the Group's auditors, CCIF CPA Limited, to the amounts set out in the Group's audited consolidated financial statements for the year ended 31 March 2007. The work performed by CCIF CPA Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by CCIF CPA Limited on the preliminary announcement.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

During the financial year under review, neither our Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

On behalf of the Board
Cheng Chee Tock Theodore
Chairman

Hong Kong, 24 July 2007

As at the date hereof, the executive directors of the Company are Mr Cheng Chee Tock Theodore (Chairman), Dato Poh Po Lian, and Mr Woelm Sam (chief executive officer); non-executive directors are Mr Wu Chuang John and Mr Cao Dongxin; and the independent non-executive directors are Mr Sze Tsai Ping Michael, Dr Chow Steven, and Mr Wang Shan Chuan.