KIN YAT HOLDINGS LIMITED

建溢集團有限公司

(Incorporated in Bermuda with limited liability)

2004 ANNUAL REPORT

Contents

Corporate Information

DIRECTORS:

Executive:

Mr. CHENG Chor Kit (Chairman)
Mr. CHAN Tak Yin
Mr. CHUI Pak Shing
Mr. FAN Sau Leung
Mr. WONG Kin Chung

Independent Non-Executive:

Mr. CHUNG Chi Ping, Roy
Ms. LAM Shuet Ching, Gloria

COMPANY SECRETARY:

Mr. CHAN Ho Man, Daniel, FCCA, AHKSA

SOLICITORS:

Sidley Austin Brown & Wood
Gallant Y.T. Ho & Co.

AUDITORS:

Ernst & Young

PRINCIPAL BANKERS:

The Hongkong and Shanghai banking Corporation Limited
UFJ Bank Limited
CITIC Ka Wah Bank Limited
Citibank, N.A.
Standard Chartered Bank

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS:

7th Floor
Galaxy Factory Building
25-27 Luk Hop Street
San Po Kong
Kowloon
Hong Kong

REGISTERED OFFICE:

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

BERMUDA PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE:

Butterfield Corporate Services Limited
Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE:

Tengis Limited
Ground Floor
Bank of East Asia
Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

The Board of Directors is pleased to report the results for Kin Yat Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 March 2004.

GROUP RESULTS

The past financial year continued to be a very difficult one for the toys industry. In addition to unforeseen environmental factors such as the Iraq situation and the outbreak of the Severe Acute Respiratory Syndrome ("SARS") in Hong Kong and China that affected customer confidence and business development activities, the Group's business was also under strains of fierce price competition, price increases in raw materials, and shortages of labour and electricity which made efficient operation of our manufacturing facilities in China a sustained challenge.

The Group recorded a net profit of HK$24,832,000 from ordinary activities attributable to shareholders, compared with an attributable profit of HK$71,443,000 in the previous year. Turnover fell 21% to approximately HK$624,665,000 for the year ended 31 March 2004, from HK$794,209,000 the previous year.

The toys and motors divisions contributed 62% and 29% respectively in turnover to the Group during the year in review. Performance of the CDR operation was encouraging.

In view of very difficult market environment, the Group will continue to capitalize on its product research and development capabilities for a market breakthrough and also to improve production efficiency.

MANAGEMENT DISCUSSION AND ANALYSIS

Toys

The year in review was a very difficult time for the toys industry as unexpected events plagued consumer sentiments worldwide. Buyers and retailers were therefore very conservative when it came to placing orders. The Iraq situation towards the end of 2003 and in the beginning of 2004, traditionally the peak order placement period, further suppressed the already subdued market sentiment and put a dampener on subsequent manufacturing activities.

The Iraq situation in the second half of the financial year, coupled with the SARS outbreak in Hong Kong and certain parts of China from March to June in 2003 that deterred many overseas buyers from fulfilling their procurement trips to this part of the world, had led to a drop in the Group's turnover for the year.

Meanwhile, our customers continued to minimize their risk exposure through active product diversification – more model variety and lower volume for each model – and this diminished our benefits derived from economy of scale, further eroding our profit margin.

The Group also faced significant price reduction pressure during the year under review. Retailers continued to target merchandising effort on low to mid-priced items and transfer part of margin squeeze on the manufacturers. There was also cut throat price competition among manufacturers, especially from Mainland Chinese manufacturers with much cheaper cost structure.

Another adverse factor came from the soaring oil prices during the year, resulting in significant surges in the costs of plastics and other petrochemicals, all key materials for toys making. Faced with intensifying competition, the Group had to absorb price hikes in materials such as plastics, especially in the second half of the financial year. Overheads also mounted in pace with tightened labour laws in China and customer demands in code of conduct.

Given the poor market situation and unanticipated negative environmental factors, some of the Group's clients decided to strategically drop or defer projects that had been developed and were ready for implementation in the second half of the financial year to contain their investments. Such client moves had caused some loss of sales for the Group.

The toys division reported a segment loss of HK$12,729,000 on a 32% decrease in turnover to HK$388,600,000 compared with the previous year.

Looking ahead, the 2004-05 financial year continues to be a very tough one for all manufacturers, in view of the sustained increases in materials cost and shortage of electricity and labor in China. Although the Group is able to generate its own electricity supply to support the operation of its manufacturing activities in Shenzhen, the cost is nevertheless much higher than it would be from public utilities. Toys manufacturing is a very labour-intensive industry and a shortage presents a greater challenge to the Group to produce and deliver products on time.

Despite the very difficult market environment, the Group firmly believes in its unique competitive strength in adding values to products with innovative and specialized technologies. The Group pledges its commitment to research and development, the recognized foundation of continued success in product and business development. One such initiative was the development of materials, both for toys production and a wide scope of application, in order to extend the Group's vertical integration competence and add value to its products.

Motors

The Group's motors division continued to focus its business activities in the toys sector during the year under review as efforts by the Group to expand into other sectors were stalled by the SARS outbreak in the beginning of 2003. Plans to visit potential overseas customers were cancelled as a result.

Given the poor market conditions in the toys sector, the motors division managed to achieve a slight increase in turnover to HK$189,924,000, compared with HK$183,065,000 the previous year. Segment profit was HK$43,946,000 with profit margin maintaining stable as a result of a constant enhancement of the product mix through inclusion of more high value-adding items, to offset unfavourable industry factors.

In addition, the availability of stock raw materials had buffered the division's profit margin from substantial price increases in copper and steel towards the end of 2003, and the fourth financial quarter (January-March 2004) was traditionally a slow production period. Nevertheless, the impact of higher material costs will be reflected in the performance of the first quarter of 2004-05 financial year.

Fierce market competition does not allow the division to transfer all or at least a significant portion of the price increases to the customers. Should the prices remain high for the entire financial year, the profit margin of this division will be further squeezed.

Similar to the toys division, shortages in labour and electricity are potential threats to the motor division. Meanwhile, efforts to identify niche products and expand the range of motor-powered devices for future momentum growth will continue.

CDRs

The performance of the Group's 50%-owned CDR manufacturing arm was within target as its six production lines were in 24-hour-a-day commercial operation during the entire financial year. The low-cost production base enhanced the division's competitive power, however, unstable supply of electricity in China was a constant threat to the business. In fact, the performance of the division could have been even better if not for this factor.

As new competitors entered the marketplace with more up-to-date production lines and higher output, competition began to mount in China and this led to the emergence of a price war in the second quarter. This cut throat situation is expected to last for quite some time until the weaker competitors are phased out. Therefore, the immediate prospect of this division is going to be challenging, but given its manufacturing prowess and technical expertise, the outlook for a longer term is optimistic.

In June 2004, six additional production lines were installed, increasing the production capacity to approximately 11 million pieces per month. The enhanced economy of scale has further reduced the production cost for each CDR disc, thus strengthening the division's competitiveness.

PROSPECTS

The 2004-05 financial year is going to be very challenging for all manufacturers – certain environmental factors affecting consumer confidence are likely to persist for some time and shortages of labour and electricity in China are not something that can be resolved in the very near future. Volatility in oil price is a constant threat to price increases in raw materials such as plastics. Metal prices such as copper and steel have been on the rise as well.

While the operating environment is not favourable, the Group's competitive strengths in manufacturing prowess and technological innovation should enable the Group to face up to the many challenges. The management will also take the opportunity to spruce up the Company's operating mechanism and business infrastructure with a more refined strategic direction to build market share and improve profit-making capabilities.

On the topline, the Group will dedicate increased marketing resources to regenerate sales momentum on the toys and motors business fronts. The CDR operations will be expanded to attain cost advantages from economies of scale. To defend its bottomline amidst industry challenges, management will also continue to advance its cost structure and operating efficiency. By upholding our core strengths, we are confident of our Group's long-term resilience.

LIQUIDITY AND FINANCIAL POSITION

The Group primarily used its internally generated cash flow and banking facilities to finance its operations and business development during the year. The Group adopts a prudent and conservative policy in its financial management. At the end of the financial year, the Group's aggregated time deposits and cash and bank balances amounted to HK$63 million (2003: HK$85 million). In addition, the Group currently maintains aggregate composite banking facilities of approximately HK$147 million (2003: HK$128 million) with various banks, of which HK$32 million (2003: HK$6 million) has been utilized as at 31 March 2004.

The Group continues to enjoy healthy financial position. As at 31 March 2004, the current ratio (current assets divided by current liabilities) was 2.3 times (2003: 2.8 times) and the gearing ratio (long term liabilities divided by shareholder funds) was 5.5% (2003: 3.3%).

EMPLOYEES AND REMUNERATION POLICIES

As at 31 March 2004, the Group employed over 9,000 full time employees, of which approximately 60 were based in Hong Kong with the remainder in China.

The Group remunerates its employees largely in accordance with prevailing industry standards. In Hong Kong, the Group's employee benefits include staff retirement scheme, medical scheme and performance bonus. In China, the Group provides its employees staff welfare and allowances in accordance with prevailing labour law. The Group has also put in place a share option scheme to motivate and reward performing staff. At the discretion of the Board of Directors, the Group's employees will be granted options, the amount of which is determined by performance and rank of individual employees.

APPRECIATION

We take this opportunity to thank our staff, shareholders, customers and all business partners, who have been a major part of our business and corporate advancements.

Cheng Chor Kit
Chairman

Hong Kong
23 July 2004

The directors present their report and the audited financial statements of the Company and of the Group for the year ended 31 March 2004.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries during the year consisted of the design, manufacture and sale of toys, motors and electrical household appliances. There were no significant changes in the principal activities of the Group during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 March 2004 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 17 to 56.

An interim dividend of HK2 cents per ordinary share was paid to shareholders on 15 January 2004. The directors recommend the payment of a final dividend of HK1 cent per ordinary share in respect of the year, to shareholders on the register of members on 23 August 2004. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the capital and reserves section of the balance sheet.

SUMMARY FINANCIAL INFORMATION

The following is a summary of the consolidated results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the published audited financial statements of the Group.

	Year ended 31 March				
RESULTS	**2004**	2003	2002	2001	2000
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
TURNOVER	**624,665**	794,209	785,804	811,561	529,957
PROFIT AFTER FINANCE COSTS	**26,084**	84,432	119,850	103,663	95,719
Share of profits less losses of associates	**6,772**	(2,028)	(1,336)	(3,000)	(509)
PROFIT BEFORE TAX	**32,856**	82,404	118,514	100,663	95,210
Tax	**(3,517)**	(6,837)	(9,309)	(6,904)	(8,829)
PROFIT BEFORE MINORITY INTERESTS	**29,339**	75,567	109,205	93,759	86,381
Minority interests	**(4,507)**	(4,124)	(11,171)	(9,067)	(122)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	**24,832**	71,443	98,034	84,692	86,259

SUMMARY FINANCIAL INFORMATION (continued)

ASSETS, LIABILITIES AND MINORITY INTERESTS	31 March 2004 HK$'000	2003 HK$'000 (Restated)	2002 HK$'000 (Restated)	2001 HK$'000 (Restated)	2000 HK$'000 (Restated)
NON-CURRENT ASSETS	**383,114**	335,426	290,354	284,843	212,449
CURRENT ASSETS	**273,846**	315,841	311,523	286,415	270,739
TOTAL ASSETS	**656,960**	651,267	601,877	571,258	483,188
CURRENT LIABILITIES	**(119,069)**	(113,858)	(90,957)	(123,855)	(105,046)
NON-CURRENT LIABILITIES	**(27,174)**	(16,724)	(15,595)	(19,598)	(11,908)
TOTAL LIABILITIES	**(146,243)**	(130,582)	(106,552)	(143,453)	(116,954)
MINORITY INTERESTS	**(12,419)**	(10,340)	(28,855)	(17,928)	(7,626)
NET ASSETS	**498,298**	510,345	466,470	409,877	358,608

FIXED ASSETS

Details of movements in the fixed assets of the Group are set out in note 13 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

There were no movements in either the Company's authorised or issued share capital during the year. Details of the share capital and movements in share options of the Company during the year, together with the reasons therefor, are set out in notes 24 and 25 to the financial statements, respectively.

RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 26 to the financial statements and in the consolidated statement of changes in equity, respectively.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the bye-laws of the Company or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

DISTRIBUTABLE RESERVES

As at 31 March 2004, the Company's reserves available for cash distribution and/or distribution in specie, comprising the contributed surplus and retained profits, amounted to HK$126,168,000, of which HK$4,048,000 has been proposed as a final dividend for the year. Under the Companies Act 1981 of Bermuda, the Company's contributed surplus of HK$104,750,000 may be distributed under certain circumstances. In addition, the Company's share premium account with a balance of HK$104,441,000 may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

During the year under review, sales to the Group's five largest customers accounted for 48% of the total sales for the year and sales to the largest customer included therein amounted to 24%.

The purchases attributable to the Group's five largest suppliers accounted for less than 30% of the total purchases of the Group for the year.

As far as the directors are aware, neither the directors, their associates (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")), nor those shareholders which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital, had any beneficial interest in the Group's major customers and suppliers.

DIRECTORS

The directors of the Company during the year were:

Executive directors

Cheng Chor Kit
Chan Tak Yin
Chui Pak Shing
Fan Sau Leung
Wong Kin Chung

Independent non-executive directors

Chung Chi Ping, Roy
Lam Shuet Ching, Gloria

In accordance with clause 87(1) of the Company's bye-laws, Chung Chi Ping, Roy will retire by rotation and, being eligible, will offer himself for re-election at the forthcoming annual general meeting.

DIRECTORS' SERVICE CONTRACTS

Cheng Chor Kit and Wong Kin Chung entered into service contracts with the Company for terms of three years commencing from 1 April 1997, which have been renewed automatically each year for successive terms of one year subject to termination by either party giving not less than six months' notice in writing to the other party. Chan Tak Yin, Chui Pak Shing and Fan Sau Leung have entered into service contracts with the Company for terms of three years commencing from 15 December 2001, 22 April 2002 and 17 October 2002, respectively, renewable automatically every three years for successive terms of three years subject to termination by either party giving not less than six months' notice in writing to the other party.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 March 2004, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

(A) Shares

Name of director	Long position/ short position	Capacity	No. of shares	Percentage of the Company's issued share capital
Cheng Chor Kit	Long position	Founder of a trust	265,676,000 *(Note)*	65.63%
Wong Kin Chung	Long position	Beneficial owner	3,050,000	0.75%

Note: These shares, amounting to around 65.63% of the total issued share capital of the Company, are held by Resplendent Global Limited ("Resplendent"), a company incorporated in the British Virgin Islands. Padora Global Inc. ("Padora") and Shannon Global Limited ("Shannon") are the beneficial owners of approximately 91.5% and 8.5%, respectively, of the issued share capital of Resplendent. Padora is a company incorporated in the British Virgin Islands and is wholly-owned by Polo Asset Holdings Limited, which is ultimately owned by the trustees of a discretionary trust established by Cheng Chor Kit for his family. Shannon is a company incorporated in the British Virgin Islands which is owned by Cheng Chor Chiu, Cheng Chor Yip and Cheng Chor Kei, three brothers of Cheng Chor Kit, in the ratios of approximately 57.75%, 21.125% and 21.125%, respectively.

Pursuant to two share transfer agreements dated 25 July 2002 and 2 June 2003 entered into between Shannon, Padora, Cheng Chor Chiu, Cheng Chor Yip, Cheng Chor Kei and Cheng Chor Kit, Shannon agreed to transfer a total of 40.5% of its then total interests in Resplendent to Padora in different phases and the transfers of the total 40.5% interests will complete not later than 2 December 2004. Up to 31 March 2004, Shannon has transferred a total of 32% of its interests in Resplendent to Padora.

Subsequent to the balance sheet date, on 2 June 2004, the transfer of a further 4.3% interest in Resplendent from Shannon to Padora was completed pursuant to the aforesaid agreement dated 2 June 2003. Accordingly, the interests of Padora and Shannon in Resplendent have increased to 95.8% and reduced to 4.2%, respectively.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (continued)

(B) Underlying Shares

Name of director	Long position/ short position	Capacity	No. of share option granted	No. of underlying shares in respect of share option held and approximately percentage of shareholding	Date of shares option granted	Exercise period	Exercise price per share
Cheng Chor Kit	Long position	Beneficial owner	2,000,000	2,000,000 (0.49%)	14/11/2003	14/11/2006-13/11/2013	HK$1.592
Chan Tak Yin	Long position	Beneficial owner	726,000	726,000 (0.18%)	14/11/2003	14/11/2006-13/11/2013	HK$1.592
Chui Pak Shing	Long position	Beneficial owner	422,000	422,000 (0.10%)	14/11/2003	14/11/2006-13/11/2013	HK$1.592
Fan Sau Leung	Long position	Beneficial owner	392,000	392,000 (0.097%)	14/11/2003	14/11/2006-13/11/2013	HK$1.592
Wong Kin Chung	Long position	Beneficial owner	312,000	312,000 (0.078%)	14/11/2003	14/11/2006-13/11/2013	HK$1.592

The directors' interests in the Company's share options are also disclosed in note 25 to the financial statements.

Save as disclosed above, none of the directors and chief executive had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed in the share option scheme disclosures in note 25 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its holding companies, subsidiaries and fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

Concerning the share options granted during the year to the directors, substantial shareholders, employees, suppliers and others, as detailed in note 25, the directors do not consider it appropriate to disclose a theoretical value of the options granted, because in the absence of a readily available market value for share options on the ordinary shares of the Company, the directors were unable to arrive at an accurate assessment of the value of the share options.

DIRECTORS' INTERESTS IN CONTRACTS

No director had a beneficial interest, either directly or indirectly, in any contract of significance to the business of the Company to which the Company or any of its holding companies, subsidiaries and fellow subsidiaries was a party at the balance sheet date or at any time during the year.

BIOGRAPHICAL DETAILS IN RESPECT OF DIRECTORS AND SENIOR MANAGEMENT STAFF

Executive directors

Cheng Chor Kit, aged 52, is the Chairman of the Company. He is the founder of the Group and is responsible for the Group's overall operations and strategic planning. He is a member of the Guangdong Provincial Committee of the Chinese People's Political Consultative Congress (中國人民政治協商會議廣東省委員會), a member of the Shaoguan, Guangdong Provincial Committee of the Chinese People's Political Consultative Congress (中國人民政治協商會議廣東省韶關委員會委員), and a member of the Standing Committee of Shixing, Shaoguan, The People's Republic of China (the "PRC") (中華人民共和國韶關市始興縣政協常委). He has over 30 years' experience in the toy industry.

Chan Tak Yin, aged 43, is an executive director of the Company. He graduated from the University of Hong Kong with a B.A. degree in 1984 and has extensive investment and corporate management experience. Prior to his joining the Group in December 2001, he worked for several renowned financial institutions namely Sun Hung Kai Co., Standard Chartered Bank, Barclays Bank and BNP Paribas. He is now the managing director of the Company and has the overall management responsibility.

Chui Pak Shing, ASCPA, AHKSA, CPA, aged 36, is the finance director of the Company. He joined the Group in 1997 and is responsible for overseeing all of the finance and accounting matters of the Group. He is a member of the Australian Society of Certified Practising Accountants, an associate member of the Hong Kong Society of Accountants and holds a master's degree in business administration from the United Kingdom.

Fan Sau Leung, Tony, MSc (IM), BBA, IENG, aged 54, is an executive director of the Company. He joined the Group in 1998 and is responsible for organising and managing the Group's engineering and marketing activities. He is an Incorporated Engineer of I.E.E. and holds BBA and MSc degrees in marketing. He has more than 29 years of experience in the design engineering field and marketing management.

Wong Kin Chung, aged 58, is an executive director of the Company. He joined the Group in 1982 and is responsible for the overall operations in Shenzhen, the PRC. He has more than 20 years of experience in the toy industry.

BIOGRAPHICAL DETAILS IN RESPECT OF DIRECTORS AND SENIOR MANAGEMENT STAFF (continued)

Independent non-executive directors

Chung Chi Ping, Roy, MSc, aged 52, is the co-founder and managing director of Techtronic Industries Company Limited. He is responsible for the corporate and business management of the Group. He holds a Master of Science degree in Engineering Business Management from the University of Warwick. He won the 1997 HK Young Industrialists Award, and is currently the Deputy Council Chairman of Hong Kong Polytechnic University, the Deputy Chairman of the Federation of Hong Kong Industries, a Member of the Advisory Board for Lingnan University's Faculty of Business, Director of the HK Safety Institute Ltd & the HK Standards & Testing Centre Ltd, Director of HK Applied Science and Technology Research Institute Co. Ltd (ASTRI), the Vice-Chairman of the Governing Board of the Dongguan City Association of Enterprises with Foreign Investment.

Lam Shuet Ching, Gloria, aged 40, is a solicitor practising in Hong Kong and is a partner of Sidley Austin, Brown & Wood, a law firm in Hong Kong.

Senior management staff

Yuen Wai Kwong, aged 52, is the head of operations of the toy division of the Company. He graduated from Hong Kong Polytechnic in 1975 and has more than 28 years' experience in the toy industry. Before he joined the Group in April 2003, he had worked as a senior executive in several major local and multinational toy manufacturing and marketing companies.

Wang Shiu Kee, Joseph, aged 45, is the general manager of the Company's operations in the Shaoguan area and is responsible for the Company's overall production in Shaoguan, the PRC. He holds a bachelor's degree in commerce from St. Mary's University, Canada and has more than 20 years of experience in the trading and manufacturing industries. He joined the Group in 1991.

Wan Kwok Sun, aged 54, is the head of the engineering department in the Shaoguan area and is responsible for the project development of the Company's toy division in Shaoguan, the PRC. He joined the Group in 1987 and has more than 30 years' experience in mechanical engineering, mould design and injection moulding operations.

Chan Ho Man, Daniel, FCCA, AHKSA, aged 49, is the company secretary of the Company. He joined the Group in 1996 and is responsible for overseeing all of the company secretarial matters of the Group. He is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Society of Accountants.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 March 2004, the following interests of 5% or more of the issued share capital and share options of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Name	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital	Number of share options held
Cheng Chor Kit *(Note)*	Through a controlled corporation	265,676,000	65.63	2,000,000

Note: These shares were held through Resplendent.

This shareholding is duplicated in the section headed "Directors' interests and short positions in shares and underlying shares" disclosed above.

The details of the share options outstanding during the year are separately disclosed in note 25 to the financial statements.

Save as disclosed above, no person, other than Cheng Chor Kit, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

DISCLOSURE PURSUANT TO RULE 13.22 OF THE LISTING RULES

At 31 March 2004, the Group had advanced a total of HK$18,228,000 (the "Loan") to Full Summit Development Limited ("Full Summit"), an associate of the Group, and provided a guarantee (the "Guarantee") of HK$35,000,000 to a bank for facilities granted to Full Summit and Concord Modern International Technology Limited ("CMIT"), both are the associates of the Group. The total amount of the Loan and Guarantee of HK$53,228,000 exceeds 8% of one or more of the percentage ratios as set out in Rule 14.04(9) of the Listing Rules, thus giving rise to a disclosure obligation under Rule 13.22 of the Listing Rules. Accordingly, a combined balance sheet of Full Summit and CMIT with major financial assistance from the Group and the Group's attributable interest in these associates are presented below:

	Combined balance sheet *HK$'000*
Non-current assets	34,430
Current assets	14,064
Current liabilities	(5,651)
Non-current liabilities	(36,445)
	6,398
Group's attributable interests	3,199

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

CONNECTED TRANSACTIONS

Details of the connected transactions of the Group are set out in note 27 to the financial statements.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

In the opinion of the directors, the Company complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Listing Rules throughout the year covered by the annual report, except that the independent non-executive directors are not appointed for specific terms as required by paragraph 7 of the Code, but subject to retirement by rotation and re-election at the annual general meeting in accordance with the bye-laws of the Company.

The total directors' fees paid to the independent non-executive directors of the Company for the year ended 31 March 2004 amounted to HK$200,000.

AUDIT COMMITTEE

The Company established an audit committee (the "Committee") in 1999 in compliance with the requirements of the Code as set out in Appendix 14 of the Listing Rules. The Committee was established with written terms of reference, for the purpose of reviewing and providing supervision over the financial reporting process and internal controls of the Group. The Committee comprises the two independent non-executive directors. The work of the Committee has covered the full financial year ended 31 March 2004.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD
Cheng Chor Kit
Chairman

Hong Kong
23 July 2004

安永會計師事務所

To the members
Kin Yat Holdings Limited
(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 17 to 56 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2004 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

Hong Kong
23 July 2004

Consolidated Profit and Loss Account

Year ended 31 March 2004

	Notes	2004 HK$'000	2003 HK$'000
TURNOVER	5	**624,665**	794,209
Cost of sales		**(529,644)**	(630,537)
Gross profit		**95,021**	163,672
Other revenue		**8,163**	8,945
Selling and distribution expenses		**(22,794)**	(29,503)
Administrative expenses		**(54,030)**	(58,427)
PROFIT FROM OPERATING ACTIVITIES	6	**26,360**	84,687
Finance costs	8	**(276)**	(255)
PROFIT AFTER FINANCE COSTS		**26,084**	84,432
Share of profits less losses of associates		**6,772**	(2,028)
PROFIT BEFORE TAX		**32,856**	82,404
Tax	9	**(3,517)**	(6,837)
PROFIT BEFORE MINORITY INTERESTS		**29,339**	75,567
Minority interests		**(4,507)**	(4,124)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	10	**24,832**	71,443
DIVIDENDS	11		
Interim		**8,096**	10,121
Proposed final		**4,048**	20,241
		12,144	30,362
EARNINGS PER SHARE	12		
Basic		**HK6.13 cents**	HK17.92 cents
Diluted		**HK6.11 cents**	HK17.66 cents

Consolidated Balance Sheet

31 March 2004

	Notes	2004 HK$'000	2003 HK$'000 (Restated)
NON-CURRENT ASSETS			
Fixed assets	13	**345,014**	303,058
Goodwill	14	**6,976**	9,302
Interests in associates	16	**22,404**	15,194
Deferred development costs	17	**8,720**	7,872
		383,114	335,426
CURRENT ASSETS			
Inventories	18	**137,314**	142,557
Accounts receivable	19	**53,597**	70,451
Prepayments, deposits and other receivables		**20,348**	15,870
Short term investments	20	**–**	1,550
Time deposits		**25,152**	59,307
Cash and bank balances		**37,435**	26,106
		273,846	315,841
CURRENT LIABILITIES			
Accounts and bills payable, accrued liabilities and other payables	21	**93,087**	95,867
Interest-bearing bank borrowings	22	**18,371**	5,963
Tax payable		**7,611**	12,028
		119,069	113,858
NET CURRENT ASSETS		**154,777**	201,983
TOTAL ASSETS LESS CURRENT LIABILITIES		**537,891**	537,409
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	22	**13,333**	–
Deferred tax liabilities	23	**13,841**	16,724
		27,174	16,724
MINORITY INTERESTS		**12,419**	10,340
		498,298	510,345
CAPITAL AND RESERVES			
Share capital	24	**40,482**	40,482
Reserves	26(a)	**453,768**	449,622
Proposed final dividend	11	**4,048**	20,241
		498,298	510,345

Cheng Chor Kit
Director

Chan Tak Yin
Director

Consolidated Statement of Changes in Equity

Year ended 31 March 2004

		Reserves							
	Share capital HK$'000	Share premium account HK$'000	Asset revaluation reserve HK$'000	Capital reserve on consolidation HK$'000	Contributed surplus HK$'000	Retained profits HK$'000	Total reserves HK$'000	Proposed final dividend HK$'000	Total HK$'000
At 1 April 2002									
As previously reported	37,912	88,330	53,879	1,599	6,150	259,400	409,358	27,798	475,068
Prior year adjustment:									
SSAP 12 – restatement of deferred tax	–	–	(8,598)	–	–	–	(8,598)	–	(8,598)
As restated	37,912	88,330	45,281	1,599	6,150	259,400	400,760	27,798	466,470
Revaluation deficit, net	–	–	(9,208)	–	–	–	(9,208)	–	(9,208)
Revaluation deficit shared by minority shareholders of a subsidiary	–	–	404	–	–	–	404	–	404
Net gains and losses not recognised in the profit and loss account	–	–	(8,804)	–	–	–	(8,804)	–	(8,804)
Final dividend declared	–	–	–	–	–	–	–	(27,798)	(27,798)
Issue of shares	2,570	16,111	–	–	–	–	16,111	–	18,681
Deferred tax debited to revaluation reserve	–	–	(389)	–	–	–	(389)	–	(389)
Acquisition of additional interest in a subsidiary	–	–	863	–	–	–	863	–	863
Net profit for the year	–	–	–	–	–	71,443	71,443	–	71,443
Interim dividend	–	–	–	–	–	(10,121)	(10,121)	–	(10,121)
Proposed final dividend	–	–	–	–	–	(20,241)	(20,241)	20,241	-
At 31 March 2003	40,482	104,441	36,951	1,599	6,150	300,481	449,622	20,241	510,345
At 1 April 2003									
As previously reported	40,482	104,441	45,938	1,599	6,150	300,481	458,609	20,241	519,332
Prior year adjustment:									
SSAP 12 – restatement of deferred tax	–	–	(8,987)	–	–	–	(8,987)	–	(8,987)
As restated	40,482	104,441	36,951	1,599	6,150	300,481	449,622	20,241	510,345
Revaluation deficit, net *(note 13)*	–	–	(11,453)	–	–	–	(11,453)	–	(11,453)
Revaluation deficit shared by minority shareholders of a subsidiary	–	–	28	–	–	–	28	–	28
Net gains and losses not recognised in the profit and loss account	–	–	(11,425)	–	–	–	(11,425)	–	(11,425)
Final dividend declared	–	–	–	–	–	–	–	(20,241)	(20,241)
Deferred tax credited to revaluation reserve	–	–	2,883	–	–	–	2,883	–	2,883
Net profit for the year	–	–	–	–	–	24,832	24,832	–	24,832
Interim dividend	–	–	–	–	–	(8,096)	(8,096)	–	(8,096)
Proposed final dividend	–	–	–	–	–	(4,048)	(4,048)	4,048	–
At 31 March 2004	**40,482**	**104,441**	**28,409**	**1,599**	**6,150**	**313,169**	**453,768**	**4,048**	**498,298**
Represented by:									
Company and subsidiaries	40,482	104,441	28,409	1,599	6,150	313,344	453,943	4,048	498,473
Associates	–	–	–	–	–	(175)	(175)	–	(175)
At 31 March 2004	**40,482**	**104,441**	**28,409**	**1,599**	**6,150**	**313,169**	**453,768**	**4,048**	**498,298**
Company and subsidiaries	40,482	104,441	36,951	1,599	6,150	307,367	456,508	20,241	517,231
Associates	–	–	–	–	–	(6,886)	(6,886)	–	(6,886)
At 31 March 2003	40,482	104,441	36,951	1,599	6,150	300,481	449,622	20,241	510,345

	Notes	2004 HK$'000	2003 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**32,856**	82,404
Adjustments for:			
Finance costs	8	**276**	255
Share of profits less losses of associates		**(6,772)**	2,028
Interest income	6	**(396)**	(1,476)
Depreciation	6	**36,337**	29,800
Loss/(gain) on disposal of fixed assets	6	**(253)**	411
Amortisation of deferred development costs	6	**8,016**	6,957
Goodwill amortisation	6	**2,326**	2,326
Negative goodwill recognised as income	6	**(1,011)**	(1,011)
Deficit/(surplus) on revaluation of leasehold land and buildings	6	**(4,393)**	3,621
Net unrealised holding losses on short term investments	6	**–**	534
Gain on disposal of short term investments	6	**(816)**	(161)
Operating profit before working capital changes		**66,170**	125,688
Decrease/(increase) in inventories		**5,243**	(49,891)
Decrease/(increase) in accounts receivable		**16,854**	(17,960)
Increase in prepayments, deposits and other receivables		**(4,478)**	(2,665)
Decrease/(increase) in amounts due from associates		**22**	(59)
Increase/(decrease) in accounts and bills payable, accrued liabilities and other payables		**(2,780)**	20,128
Cash generated from operations		**81,031**	75,241
Interest received		**396**	1,476
Interest paid		**(276)**	(255)
Hong Kong profits tax paid		**(7,269)**	(7,816)
Overseas income taxes paid		**(604)**	(700)
Dividend received from an associate		**490**	–
Dividends paid		**(28,337)**	(37,919)
Dividends paid to minority shareholders		**(2,400)**	(3,000)
Net cash inflow from operating activities		**43,031**	27,027

	Notes	2004 HK$'000	2003 HK$'000
Net cash inflow from operating activities		**43,031**	27,027
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease in time deposits with original maturity of over three months		**–**	8,198
Purchases of fixed assets	13	**(85,500)**	(79,767)
Additions to deferred development costs	17	**(8,864)**	(7,829)
Proceeds from disposal of short term investments		**2,366**	3,009
Proceeds from disposal of fixed assets		**400**	800
Acquisition of additional interests in certain subsidiaries		**–**	(30,000)
Net cash outflow from investing activities		**(91,598)**	(105,589)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of new shares		**–**	18,681
New bank loan		**35,000**	–
Repayment of bank loan		**(10,000)**	(700)
Net cash inflow from financing activities		**25,000**	17,981
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(23,567)**	(60,581)
Cash and cash equivalents at beginning of year		**79,450**	140,031
CASH AND CASH EQUIVALENTS AT END OF YEAR		**55,883**	79,450
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**37,435**	26,106
Time deposits with original maturity of less than three months when acquired		**25,152**	59,307
Bank overdrafts, unsecured	22	**(6,704)**	(5,963)
		55,883	79,450

	Notes	2004 HK$'000	2003 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	*15*	**261,468**	260,518
CURRENT ASSETS			
Bank balances		**53**	59
Prepayment		**13**	–
Dividend receivable		**10,000**	30,000
Tax recoverable		**117**	105
		10,183	30,164
CURRENT LIABILITIES			
Other payables		**560**	796
NET CURRENT ASSETS		**9,623**	29,368
		271,091	289,886
CAPITAL AND RESERVES			
Share capital	*24*	**40,482**	40,482
Reserves	*26(b)*	**226,561**	229,163
Proposed final dividend	*11*	**4,048**	20,241
		271,091	289,886

Cheng Chor Kit
Director

Chan Tak Yin
Director

1. CORPORATE INFORMATION

The principal activity of the Company is investment holding. The Group was principally involved in the design, manufacture and sale of toys, motors and electrical household appliances. There were no significant changes in the principal activities of the Group during the year.

The Company is a subsidiary of Resplendent Global Limited, a company incorporated in the British Virgin Islands. The directors consider Padora Global Inc., a company also incorporated in the British Virgin Islands, to be the Company's ultimate holding company.

2. IMPACT OF A REVISED HONG KONG STATEMENT OF STANDARD ACCOUNTING PRACTICE ("SSAP")

SSAP 12 (Revised) "Income taxes" is effective for the first time for the current year's financial statements.

SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

The principal impact of the revision of this SSAP on these financial statements is described below:

Measurement and recognition:

- deferred tax assets and liabilities relating to the differences between capital allowances for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences are generally fully provided for, whereas previously the deferred tax was recognised for timing differences only to the extent that it was probable that the deferred tax asset or liability would crystallise in the foreseeable future;

- a deferred tax liability has been recognised on the revaluation of the Company's/Group's land and buildings; and

- a deferred tax asset has been recognised for tax losses arising in the current/prior periods to the extent that it is probable that there will be sufficient future taxable profits against which such losses can be utilised.

Disclosures:

- deferred tax assets and liabilities are presented separately on the balance sheet, whereas previously they were presented on a net basis; and

- the related note disclosures are now more extensive than previously required. These disclosures are presented in notes 9 and 23 to the financial statements and include a reconciliation between the accounting profit and the tax expense for the year.

Further details of these changes and the prior year adjustments arising from them are included in the accounting policy for deferred tax in notes 3 and 23 to the financial statements, respectively.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with SSAPs, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the remeasurement of certain fixed assets and short term investments as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 March 2004. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint venture companies

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture company;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Joint venture companies (continued)

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; and

(d) a long term investment, if the Group holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

Associates

An associate is a company, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of the net assets under the equity method of accounting, less any impairment losses. Goodwill or negative goodwill arising from the acquisition of associates, which was not previously eliminated or recognised in the consolidated reserves, is included as part of the Group's interests in associates.

Goodwill

Goodwill arising on acquisition of subsidiaries and associates represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of 5 years. In the case of associates, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

On disposal of subsidiaries or associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

Negative goodwill

Negative goodwill arising on the acquisition of subsidiaries and associates represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Negative goodwill (continued)

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

In the case of associates, any negative goodwill not yet recognised in the consolidated profit and loss account is included in the carrying amount thereof, rather than as a separately identified item on the consolidated balance sheet.

On disposal of subsidiaries or associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated profit and loss account and any relevant reserves as appropriate. Any attributable negative goodwill previously credited to the capital reserve at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets and depreciation

Fixed assets, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Medium term leasehold land in Hong Kong	Over the remaining lease terms
Medium term leasehold buildings in Hong Kong	4%
Medium term leasehold land and buildings outside Hong Kong	Over the remaining lease terms
Moulds, tools, and plant and machinery	10% to 20%
Furniture, equipment and motor vehicles	10% to 25%

Construction in progress represents the costs incurred in connection with the construction of fixed assets less any impairment losses. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and put into use.

Changes in the values of fixed assets resulting from revaluations are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. A subsequent revaluation increase is recognised as income to the extent that it reverses a revaluation deficit of the same asset previously charged to the profit and loss account.

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset. On disposal or retirement of a fixed asset that has previously been revalued, the attributable revaluation surplus not previously dealt with in retained profits is transferred directly to retained profits.

Research and development costs

All research costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five years, commencing from the date when the products are put into commercial production.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less further costs expected to be incurred to completion and disposal.

Short term investments

Investments in listed equity securities are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the profit and loss account for the period in which they arise.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and associates, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries and associates are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries and associates are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Hong Kong Employment Ordinance.

A provision is recognised in respect of probable future long service payments expected to be made. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their service to the Group to the balance sheet date.

Retirement benefits schemes

The Group continues to operate a defined contribution scheme (the "Scheme") for its employees, the assets of which are held separately from those of the Group in an independently administered fund. Contributions are made based on a percentage of the eligible employees' salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the Scheme. When an employee leaves the Scheme before his/her interest in the employer contributions vests fully, the ongoing contributions payable by the Group may be reduced by the relevant amount of forfeited contributions.

Apart from the Scheme, the Group also joined the Mandatory Provident Fund (the "MPF"). Contributions to the MPF are made based on rates applicable to the respective employees' relevant income from the Group and are charged to the profit and loss account as they become payable in accordance with government regulations. The Group's mandatory contributions are fully and immediately vested in favour of the employees.

Certain employees of the Group's subsidiaries in the People's Republic of China (the "PRC") are members of the state-sponsored retirement scheme (the "Retirement Scheme") operated by the government of the PRC. The subsidiaries are required to contribute certain percentages of their payroll costs to the Retirement Scheme. The contributions are charged to the profit and loss account as they become payable in accordance with the rules of the Retirement Scheme.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Share option scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;

(c) rental income, on an accrual basis; and

(d) dividend income, when the shareholders' right to receive payment has been established.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and bank balances and time deposits represent assets which are not restricted as to use.

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

(a) the toys and other products segment consisted of manufacture and sale of toys and other products;

(b) the motors segment consisted of manufacture and sale of motors; and

(c) the electrical household appliances segment consisted of manufacture and sale of electrical household appliances.

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Inter-segment sales and transfers are transacted with reference to the selling prices used for sales made to the third parties at the then prevailing market prices.

4. SEGMENT INFORMATION (continued)

(a) Business segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments.

Group	Toys and other products		Motors		Electrical household appliances		Eliminations		Consolidated	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:										
Sales to external customers	**388,600**	569,408	**179,446**	169,016	**56,619**	55,785	**–**	–	**624,665**	794,209
Inter-segment sales	**–**	–	**10,478**	14,049	**–**	–	**(10,478)**	(14,049)	**–**	–
Other revenue and gain	**3,581**	3,063	**2,050**	1,384	**171**	13	**–**	–	**5,802**	4,460
Total	**392,181**	572,471	**191,974**	184,449	**56,790**	55,798	**(10,478)**	(14,049)	**630,467**	798,669
Segment results	**(12,729)**	46,307	**43,946**	43,116	**255**	1,262	**–**	–	**31,472**	90,685
Interest, dividend income and unallocated gains									**2,361**	4,485
Unallocated expenses									**(7,473)**	(10,483)
Profit from operating activities									**26,360**	84,687
Finance costs									**(276)**	(255)
Profit after finance costs									**26,084**	84,432
Share of profits less losses of associates									**6,772**	(2,028)
Profit before tax									**32,856**	82,404
Tax									**(3,517)**	(6,837)
Profit before minority interests									**29,339**	75,567
Minority interests									**(4,507)**	(4,124)
Net profit from ordinary activities attributable to shareholders									**24,832**	71,443

4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group	Toys and other products 2004 HK$'000	Toys and other products 2003 HK$'000	Motors 2004 HK$'000	Motors 2003 HK$'000	Electrical household appliances 2004 HK$'000	Electrical household appliances 2003 HK$'000	Eliminations 2004 HK$'000	Eliminations 2003 HK$'000	Consolidated 2004 HK$'000	Consolidated 2003 HK$'000
Segment assets	**384,679**	396,812	**144,202**	113,264	**75,616**	41,908	**(49,801)**	(25,960)	**554,696**	526,024
Unallocated assets									**102,264**	125,243
Total assets									**656,960**	651,267
Segment liabilities	**61,320**	69,624	**40,879**	24,039	**39,885**	27,227	**(49,801)**	(25,960)	**92,283**	94,930
Unallocated liabilities									**53,960**	35,652
Total liabilities									**146,243**	130,582
Other segment information:										
Depreciation and amortisation	**33,616**	26,463	**8,189**	7,156	**1,684**	1,844	**–**	–	**43,489**	35,463
Amortisation of goodwill	**–**	–	**2,326**	2,326	**–**	–	**–**	–	**2,326**	2,326
Unallocated amounts									**864**	1,294
									46,679	39,083
Capital expenditure	**66,192**	74,216	**25,998**	12,072	**2,174**	1,308	**–**	–	**94,364**	87,596
Deficit/(surplus) on revaluation of leasehold land and buildings	**(5,412)**	2,730	**1,097**	–	**–**	–	**–**	–	**(4,315)**	2,730
Unallocated amounts									**(78)**	891
									(4,393)	3,621
Deficit on revaluation recognised directly in equity	**10,342**	2,126	**279**	4,044	**832**	3,038	**–**	–	**11,453**	9,208

4. SEGMENT INFORMATION (continued)

(b) Geographical segments

The following tables present revenue and certain asset and expenditure information for the Group's geographical segments.

Group	United States of America		Europe		Asia		Others		Eliminations		Consolidated	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:												
Sales to external customers	**202,558**	361,822	**146,534**	159,990	**208,992**	215,197	**66,581**	57,200	**–**	–	**624,665**	794,209

	Hong Kong		Elsewhere in PRC		Eliminations		Consolidated	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Other segment information:								
Segment assets	**169,830**	207,332	**487,130**	443,935	**–**	–	**656,960**	651,267
Capital expenditure	**2,879**	2,680	**91,485**	84,916	**–**	–	**94,364**	87,596

5. TURNOVER

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts but excluding intra-Group transactions. Revenue from the following activities has been included in turnover:

	2004	2003
	HK$'000	*HK$'000*
Manufacture and sale of:		
Toys and other products	**388,600**	569,408
Motors	**179,446**	169,016
Electrical household appliances	**56,619**	55,785
	624,665	794,209

6. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

	2004	2003
	HK$'000	*HK$'000*
Auditors' remuneration	**760**	780
Depreciation	**36,337**	29,800
Amortisation of deferred development costs*	**8,016**	6,957
Amortisation of goodwill **	**2,326**	2,326
Negative goodwill recognised as income during the year***	**(1,011)**	(1,011)
Net unrealised holding losses on short term investments	**–**	534
Minimum lease payments under operating leases in respect of land and buildings	**3,080**	3,154
Loss/(gain) on disposal of fixed assets	**(253)**	411
Staff costs (including directors' remuneration – note 7):		
Wages and salaries	**103,890**	109,545
Pension contributions	**1,519**	1,157
	105,409	110,702
Deficit/(surplus) on revaluation of leasehold land and buildings****	**(4,393)**	3,621
Gain on disposal of short term investments	**(816)**	(161)
Exchange losses, net	**1,289**	2,927
Rental income	**(2,939)**	(1,486)
Interest income	**(396)**	(1,476)

At the balance sheet date, the Group did not have any material forfeited contributions to reduce its contributions to the pension scheme in future years.

* The amortisation of deferred development costs for both the current and the prior year is included in "Cost of sales" on the face of the consolidated profit and loss account.

** The amortisation of goodwill for both the current and the prior year is included in "Administrative expenses" on the face of the consolidated profit and loss account.

*** The movements in negative goodwill recognised in the profit and loss account for both the current and the prior year are included in "Administrative expenses" on the face of the consolidated profit and loss account.

**** The deficit/(surplus) on revaluation of leasehold land and buildings for both the current and the prior year is included in "Administrative expenses" on the face of the consolidated profit and loss account.

7. DIRECTORS' REMUNERATION AND HIGHEST PAID INDIVIDUALS

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2004	2003
	HK$'000	*HK$'000*
Executive directors:		
Fees	**–**	–
Salaries, allowances and benefits in kind	**4,991**	7,065
Pension scheme contributions	**233**	210
	5,224	7,275
Non-executive directors:		
Fees	**200**	250
	5,424	7,525

The remuneration of directors fell within the following bands:

	Number of directors	
	2004	2003
Nil – HK$1,000,000	**5**	6
HK$1,000,001 – HK$1,500,000	**1**	1
HK$1,500,001 – HK$2,000,000	**1**	2
	7	9

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2003: Nil).

The six highest paid individuals during the year included three (2003: four) directors, details of whose remuneration are set out above. Details of the emoluments of the remaining three (2003: two) non-director, highest paid employees are set out below:

	2004	2003
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	**4,229**	2,235
Pension contributions	**36**	24
	4,265	2,259

7. DIRECTORS' REMUNERATION AND HIGHEST PAID INDIVIDUALS (continued)

The emoluments of each of the three (2003: two) non-director, highest paid employees fell within the following bands:

	Number of directors	
	2004	2003
HK$1,000,001 – HK$1,500,000	**2**	2
HK$1,500,001 – HK$2,000,000	**1**	–
	3	2

8. FINANCE COSTS

	Group	
	2004	2003
	HK$'000	*HK$'000*
Interest on bank loans and overdrafts wholly repayable within five years	**276**	255

9. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 16%) on the estimated assessable profits arising in Hong Kong during the year. The increased Hong Kong profits tax rate became effective from the year of assessment 2003/2004, and so is applicable to the assessable profits arising in Hong Kong for the whole of the year ended 31 March 2004. Taxes on profits assessable elsewhere have been calculated at the applicable rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2004	2003
	HK$'000	*HK$'000*
Group:		
Current – Hong Kong		
Charge for the year	**2,837**	5,490
Under/(over) provision in prior years	**15**	(939)
Current – Elsewhere	**604**	975
Deferred tax *(note 23)*	**–**	1,240
	3,456	6,766
Share of tax attributable to associates	**61**	71
Total tax charge for the year	**3,517**	6,837

9. TAX (continued)

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the company and its subsidiaries and associates are domiciled to the tax expense at the effective tax rates, are as follows:

	2004	2003
	HK$'000	*HK$'000*
Group:		
Profit before tax	**32,856**	82,404
Tax at the statutory tax rate	**5,750**	13,185
Higher/(lower) tax rate for specific provinces or local authority	**624**	(263)
Adjustments in respect of current tax of previous periods	**15**	(939)
Income not subject to tax	**(8,345)**	(11,850)
Expenses not deductible for tax	**5,606**	6,791
Tax losses utilised from previous periods	**(133)**	(87)
Tax charge at the Group's effective rate	**3,517**	6,837

10. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is HK$9,542,000 (2003: HK$30,123,000).

11. DIVIDENDS

	2004	2003
	HK$'000	*HK$'000*
Interim – HK2 cents (2003: HK2.5 cents) per ordinary share	**8,096**	10,121
Proposed final – HK1 cent (2003: HK5 cents) per ordinary share	**4,048**	20,241
	12,144	30,362

The directors recommend the payment of a final dividend of HK1 cent per share in respect of the year ended 31 March 2004 to shareholders whose names appear on the register of members on 23 August 2004. The proposed final dividend for the year is based on the number of shares in issue as at the reporting date, and is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

12. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year of HK$24,832,000 (2003: HK$71,443,000) and the weighted average of 404,820,000 (2003: 398,692,877) ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year of HK$24,832,000 (2003: HK$71,443,000) and 406,219,438 (2003: 404,623,949) ordinary shares, being the weighted average number of shares outstanding during the year, adjusted for the effects of the dilutive potential ordinary shares outstanding during the year.

A reconciliation of the weighted average number of shares used in calculating basic and diluted earnings per share is as follows:

	2004	2003
Weighted average number of ordinary shares used in calculating basic earnings per share	**404,820,000**	398,692,877
Weighted average number of ordinary shares assumed to have been issued at no consideration on deemed exercise of all options outstanding during the year	**1,399,438**	5,931,072
Weighted average number of ordinary shares used in calculating diluted earnings per share	**406,219,438**	404,623,949

13. FIXED ASSETS

Group

	Medium term leasehold land and buildings HK$'000	Construction in progress HK$'000	Moulds, tools, and plant and machinery HK$'000	Furniture, equipment and motor vehicles HK$'000	Total HK$'000
Cost or valuation:					
At beginning of year	153,220	10,673	223,024	60,679	447,596
Additions	750	16,996	45,493	22,261	85,500
Disposals	–	–	(294)	–	(294)
Deficit on revaluation	(13,333)	–	–	–	(13,333)
Transfers	6,693	(10,022)	–	3,329	–
At 31 March 2004	**147,330**	**17,647**	**268,223**	**86,269**	**519,469**
Accumulated depreciation:					
At beginning of year	–	–	106,026	38,512	144,538
Provided during the year	6,273	–	23,114	6,950	36,337
Disposals	–	–	(147)	–	(147)
Write-back on revaluation	(6,273)	–	–	–	(6,273)
At 31 March 2004	**–**	**–**	**128,993**	**45,462**	**174,455**
Net book value:					
At 31 March 2004	**147,330**	**17,647**	**139,230**	**40,807**	**345,014**
At 31 March 2003	153,220	10,673	116,998	22,167	303,058
An analysis of cost or valuation:					
At cost	–	17,647	268,223	86,269	372,139
At 2004 valuation	147,330	–	–	–	147,330
	147,330	17,647	268,223	86,269	519,469

An analysis of the valuation of the leasehold land and buildings of the Group at the balance sheet date is as follows:

	2004 ***HK$'000***	2003 *HK$'000*
Hong Kong	**25,680**	20,380
Outside Hong Kong	**121,650**	132,840
Total valuation	**147,330**	153,220

13. FIXED ASSETS (continued)

As at 31 March 2004, the Group's leasehold land and buildings were revalued at an open market value, based on an existing use basis by RHL Appraisal Ltd., an independent firm of professionally qualified valuers, at HK$147,330,000. A revaluation deficit of HK$11,894,000 resulting from the above valuation has been charged to the asset revaluation reserve. Revaluation surplus of HK$441,000 and HK$4,393,000, resulting from the above valuations, have been credited to the asset revaluation reserve and credited to the profit and loss account, respectively. As a result of the above valuation, revaluation deficit of HK$11,453,000 and revaluation surplus of HK$4,393,000 were reflected in the asset revaluation reserve and in the profit and loss account, respectively. The effect of net revaluation deficit of HK$7,060,000 was reflected in write down of valuation of fixed assets of HK$13,333,000 and write-back of accumulated depreciation of HK$6,273,000.

Had the Group's leasehold land and buildings stated at valuation been carried at cost less accumulated depreciation, they would have been included in the financial statements at approximately HK$127,161,000 (2003: HK$126,438,000).

14. GOODWILL

The amount of goodwill capitalised as an asset in the consolidated balance sheet, arising from the acquisition of an additional interest in a subsidiary in the prior year, is as follows:

	Group
	HK$'000
Cost:	
At beginning of year and at 31 March 2004	**11,628**
Accumulated amortisation:	
At beginning of year	2,326
Provided during the year	2,326
At 31 March 2004	**4,652**
Net book value:	
At 31 March 2004	**6,976**
At 31 March 2003	9,302

15. INTERESTS IN SUBSIDIARIES

	Company	
	2004	2003
	HK$'000	*HK$'000*
Unlisted shares, at cost	**104,950**	104,950
Due from subsidiaries	**211,771**	180,811
Due to a subsidiary	**(55,253)**	(25,243)
	261,468	260,518

15. INTERESTS IN SUBSIDIARIES (continued)

The balances with the subsidiaries are unsecured, interest-free and not repayable within the next 12 months from the balance sheet date.

The table below lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Name	Place of incorporation/ registration and operations	Paid-up share/ registered capital	Equity interest attributable to the Company	Principal activities
Directly held				
Kin Yat Industrial Holdings Limited	British Virgin Islands	Ordinary US$3,000	100%	Investment holding
Indirectly held				
Kin Yat (HK) Holdings Limited	Hong Kong	Ordinary HK$1,000 Non-voting deferred HK$6,000,000	100%	Investment holding and property holding
Evertop (Oversea) Industrial Company Limited	British Virgin Islands/ PRC	Ordinary US$100	100%	Manufacture of toys
Kin Yat Industrial Company Limited	Hong Kong	Ordinary HK$3,200,000	100%	Trading of toys and moulds, and sourcing of materials
Unicon Investments Limited	Hong Kong	Ordinary HK$10,000	100%	Property holding
Newway Electrical Industries Limited ("Newway") *	Hong Kong	Ordinary HK$3,000,000	100%	Trading of electrical household appliances

15. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Paid-up share/ registered capital	Equity interest attributable to the Company	Principal activities
Indirectly held (continued)				
Shenzhen Newway Electrical Industries Co., Ltd. ("Shenzhen Newway") *	PRC	HK$10,000,000	100%	Property holding
Penta Blesses Enterprises Limited	Hong Kong	Ordinary HK$1,000,000	100%	Investment holding, and manufacture and trading of toys and electrical household appliances
Kin Chak Science & Technology (Shenzhen) Co., Ltd.#	PRC	HK$50,000,000	100%	Property holding
World Talent Enterprise Limited	Hong Kong	Ordinary HK$1,000,000	100%	Trading of toys
Shixing Talent Woods Ltd. #	PRC	RMB2,500,000	100%	Manufacture and trading of toys
Shixing Newway Industry Co., Ltd. #	PRC	US$4,000,000	100%	Property holding
Standard Motor Co., Ltd. ("Standard Motor")	Hong Kong	Ordinary HK$40,000,000	90%	Manufacture and trading of motors
Shixing Standard Motor Co., Ltd. #	PRC	US$4,000,000	90%	Property holding
Sigma Technology Holdings Limited ^	Hong Kong	HK$2	100%	Investment holding

15. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Paid-up share/ registered capital	Equity interest attributable to the Company	Principal activities
Indirectly held (continued)				
Shaoguan Sigma Technology Company Limited ("Shaoguan Sigma") ^	PRC	RMB15,000,000	91%	Development and distribution of materials
Turbo Tec Company Limited	Hong Kong	Ordinary HK$10,000	100%	Trading of toys

\# They are registered as wholly foreign owned enterprises under the PRC law.

* Shenzhen Newway is registered as a Sino-foreign owned joint venture enterprise under the PRC law. Prior to 1 December 2003, subject to the payment of a fixed sum of HK$34,965 per month to the joint venture party, Newway is entitled to all of the profits and bears all of the losses of Shenzhen Newway.

^ Shaoguan Sigma is registered as a Sino-foreign owned joint venture enterprise under the PRC law. Pursuant to the joint venture agreement, the profit/(loss) from Shaoguan Sigma within five years after the date of establishment of Shaoguan Sigma will not be distributed to the PRC investor until the PRC investor further acquire a 3% equity interest in Shaoguan Sigma.

16. INTERESTS IN ASSOCIATES

	Group	
	2004	2003
	HK$'000	*HK$'000*
Share of net assets/(deficits)	**4,658**	(1,563)
Negative goodwill on acquisition *(Note)*	**(673)**	(1,684)
	3,985	(3,247)
Loan to an associate	**18,228**	18,228
Due from associates	**191**	213
	22,404	15,194

16. INTERESTS IN ASSOCIATES (continued)

Note:

The amounts of the negative goodwill recognised in the consolidated balance sheet, arising from the acquisition of associates, are as follows:

	Group *HK$'000*
Cost:	
At beginning of year and at 31 March 2004	**(3,033)**
Recognition as income:	
At beginning of year	(1,349)
Recognised as income during the year	(1,011)
At 31 March 2004	**(2,360)**
Net book value:	
At 31 March 2004	**(673)**
At 31 March 2003	(1,684)

The loan to an associate, which was granted in proportion to the Group's shareholding in this associate, is unsecured, interest-free and has no fixed terms of repayment. The amounts due from associates are unsecured, interest-free and are repayable in accordance with normal trading terms.

The table below lists the associates of the Group which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

Particulars of the Group's principal associates are as follows:

Name	Business structure	Place of incorporation/ registration and operations	Paid-up share/ registered capital	Percentage of equity attributable to the Group	Principal activities
Success Mode Industries Limited ("Success Mode")	Corporate	Hong Kong/ PRC	Ordinary HK$1,000,000	49%	Manufacture and trading of metallic parts
Full Summit Development Limited ("Full Summit")	Corporate	Hong Kong	HK$10,000	50%	Investment holding
Concord Modern International Technology Limited ("CMIT")	Corporate	Hong Kong	Ordinary HK$10,000	50%	Distribution of recordable compact discs
Shixing Concord Modern Technology Limited	Corporate	PRC	RMB50,000,000	50%	Manufacture and distribution of recordable compact discs

17. DEFERRED DEVELOPMENT COSTS

	Group	
	2004	2003
	HK$'000	*HK$'000*
Cost:		
At beginning of year	**20,871**	23,790
Additions	**8,864**	7,829
Retirements	**(5,687)**	(10,748)
At balance sheet date	**24,048**	20,871
Accumulated amortisation:		
At beginning of year	**12,999**	16,790
Provided during the year	**8,016**	6,957
Retirements	**(5,687)**	(10,748)
At balance sheet date	**15,328**	12,999
Net book value:		
At balance sheet date	**8,720**	7,872
At beginning of year	**7,872**	7,000

18. INVENTORIES

	Group	
	2004	2003
	HK$'000	*HK$'000*
Raw materials	**101,045**	87,671
Work in progress	**17,232**	14,486
Finished goods	**19,037**	40,400
	137,314	142,557

19. ACCOUNTS RECEIVABLE

The ageing of the Group's accounts receivable is analysed as follows:

	2004	2003
	HK$'000	*HK$'000*
0 – 30 days	**33,472**	29,548
31 – 60 days	**12,749**	11,829
61 – 90 days	**2,742**	5,854
Over 90 days	**4,634**	23,220
	53,597	70,451

19. ACCOUNTS RECEIVABLE (continued)

Trading terms with customers are largely on credit, except for new customers where cash on sale or payment in advance is normally required. Invoices are normally payable within 60 days of issuance, except for certain well-established customers, for whom the credit terms are extended to 90 days.

20. SHORT TERM INVESTMENTS

	Group	
	2004	2003
	HK$'000	*HK$'000*
Hong Kong listed equity investments, at market value	**–**	1,550

21. ACCOUNTS AND BILLS PAYABLE, ACCRUED LIABILITIES AND OTHER PAYABLES

	Group	
	2004	2003
	HK$'000	*HK$'000*
0 – 30 days	**32,562**	28,226
31 – 60 days	**17,012**	11,438
61 – 90 days	**4,937**	5,962
Over 90 days	**10,088**	20,537
Accounts and bills payable	**64,599**	66,163
Accrued liabilities and other payables	**28,488**	29,704
	93,087	95,867

22. INTEREST-BEARING BANK BORROWINGS

	Group	
	2004	2003
	HK$'000	*HK$'000*
Unsecured		
Bank overdrafts	**6,704**	5,963
Bank loans	**25,000**	–
Total bank borrowings	**31,704**	5,963
Bank borrowings repayable:		
Within one year or on demand	**18,371**	5,963
In the second year	**6,667**	–
In the third to fifth years, inclusive	**6,666**	–
	31,704	5,963
Portion classified as current liabilities	**(18,371)**	(5,963)
Non-current portion	**13,333**	–

The Group's banking facilities are supported by corporate guarantees given by the Company and certain subsidiaries of the Company.

23. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

Deferred tax liabilities

Group

	Accelerated tax depreciation	**Revaluation of properties**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1 April 2003			
As previously reported	14,270	–	14,270
Prior year adjustment:			
SSAP 12 – restatement of deferred tax	–	8,987	8,987
As restated	14,270	8,987	23,257
Deferred tax credited to equity during the year	–	(2,883)	(2,883)
Deferred tax debited to the profit and loss account during the year *(note 9)*	2,097	–	2,097
Gross deferred tax liabilities at 31 March 2004	**16,367**	**6,104**	**22,471**

23. DEFERRED TAX (continued)

Deferred tax assets

Group

	Losses available for offset against future taxable profit *HK$'000*
At 1 April 2003	(6,533)
Deferred tax credited to the profit and loss account during the year *(note 9)*	(2,097)
Gross deferred tax assets at 31 March 2004	**(8,630)**
Net deferred tax liabilities at 31 March 2004	**13,841**

The movements in deferred tax liabilities and assets during the year ended 31 March 2003 are as follows:

Deferred tax liabilities

Group

	Accelerated tax depreciation *HK$'000*	Revaluation of properties *HK$'000*	Total *HK$'000*
At 1 April 2002			
As previously reported	6,864	–	6,864
Prior year adjustment:			
SSAP 12 – restatement of deferred tax	–	8,598	8,598
As restated	6,864	8,598	15,462
Deferred tax debited to the profit and loss account during the year *(note 9)*	7,406	–	7,406
Deferred tax debited to equity during the year	–	389	389
Gross deferred tax liabilities at 31 March 2003	14,270	8,987	23,257

23. DEFERRED TAX (continued)

Deferred tax assets

Group

	Losses available for offset against future taxable profit *HK$'000*
At 1 April 2002	(367)
Deferred tax credited to the profit and loss account *(note 9)*	(6,166)
Gross deferred tax assets at 31 March 2003	(6,533)
Net deferred tax liabilities at 31 March 2003	16,724

The Group has tax losses arising in Hong Kong of HK$15,919,000 (2003: HK$1,060,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

At 31 March 2004, there was no significant unrecognised deferred tax liability (2003: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, associates or joint ventures as the Group has no liability to additional tax should such amounts be remitted.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

SSAP 12 (Revised) was adopted during the year, as further explained in note 2 to the financial statements. This change in accounting policy has resulted in an increase in the Group's deferred tax liability as at 31 March 2004 and 2003 by HK$6,104,000 and HK$8,987,000, respectively and the assets revaluation reserve as at 1 April 2003 and 1 April 2002 have been decreased by HK$8,987,000 and HK$8,598,000, respectively.

24. SHARE CAPITAL

	Company	
	2004	2003
	HK$'000	*HK$'000*
Authorised:		
1,000,000,000 ordinary shares of HK$0.10 each	**100,000**	100,000
Issued and fully paid:		
404,820,000 (2003: 404,820,000) ordinary shares of HK$0.10 each	**40,482**	40,482

25. SHARE OPTION SCHEME

On 20 August 2002, the share option scheme of the Company adopted on 8 April 1997 ceased to operate and a new share option scheme (the "New Scheme") was adopted on the same date to comply with the new requirements of Chapter 17 of the Listing Rules regarding share option schemes of a company. The options granted under the old scheme will remain in force and effect for the periods set out below (the "Old Scheme").

The Company operates the New Scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the New Scheme include the Company's directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, any person or entity that provides research, development or other technological support to the Group, the Company's shareholders and any minority shareholder in the Company's subsidiaries. The New Scheme became effective on 20 August 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the New Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of the offer of the share options.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) The Stock Exchange of Hong Kong Limited (the "Stock Exchange") closing price of the Company's shares on the date of the offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of the Company's shares.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

25. SHARE OPTION SCHEME (continued)

The following share options were outstanding under the New Scheme and the Old Scheme during the year:

	Date of share options granted	Number of share options: At 1 April 2003	Granted during the year	Exercised during the year	At 31 March 2004	Exercise period	Exercise price per share HK$	Price of Company's shares at grant date of options* HK$
The New Scheme								
Directors								
Cheng Chor Kit	14/11/2003	–	2,000,000	–	2,000,000	14/11/2006-13/11/2013	1.592	1.60
Chan Tak Yin	14/11/2003	–	726,000	–	726,000	14/11/2006-13/11/2013	1.592	1.60
Chui Pak Shing	14/11/2003	–	422,000	–	422,000	14/11/2006-13/11/2013	1.592	1.60
Fan Sau Leung	14/11/2003	–	392,000	–	392,000	14/11/2006-13/11/2013	1.592	1.60
Wong Kin Chung	14/11/2003	–	312,000	–	312,000	14/11/2006-13/11/2013	1.592	1.60
Other employees								
In aggregate	14/11/2003	–	1,200,000	–	1,200,000	14/11/2006-13/11/2013	1.592	1.60
		–	5,052,000	–	5,052,000			
The Old Scheme								
Other employees								
In aggregate	6/11/1998	1,760,000	–	–	1,760,000	6/11/1998-5/11/2008	0.3032	0.44

* The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options.

At the balance sheet date, the Company had 5,052,000 and 1,760,000 share options outstanding under the New Scheme and the Old Scheme, respectively. The exercise in full of these share options would, under the present capital structure of the Company, result in the issue of 6,812,000 additional ordinary shares of the Company and additional share capital of HK$681,200 and share premium of HK$7,895,000 (before issue expenses).

26. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity in the financial statements.

The contributed surplus of the Group represents the difference between the nominal value of the shares of the aggregate share capital of the subsidiaries acquired pursuant to the Group reorganisation on 7 April 1998, over the nominal value of the Company's shares issued in exchange therefor.

(b) Company

	Share premium account	Contributed surplus	Retained profits	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 2002	88,330	104,750	20,211	213,291
Issue of shares	16,111	–	–	16,111
Net profit for the year	–	–	30,123	30,123
Interim dividend	–	–	(10,121)	(10,121)
Proposed final dividend	–	–	(20,241)	(20,241)
At 31 March 2003 and at beginning of year	104,441	104,750	19,972	229,163
Net profit for the year	–	–	9,542	9,542
Interim dividend	–	–	(8,096)	(8,096)
Proposed final dividend	–	–	(4,048)	(4,048)
At 31 March 2004	**104,441**	**104,750**	**17,370**	**226,561**

The contributed surplus of the Company represents the excess of the then combined net assets of the subsidiaries acquired pursuant to the same reorganisation, over the nominal value of the Company's shares issued in exchange therefor.

Under the Companies Act 1981 of Bermuda, the Company's contributed surplus is available for cash distribution and/or distribution in specie under certain circumstances prescribed by Section 54 thereof.

27. RELATED PARTY AND CONNECTED TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material transactions with related and connected parties during the year:

(a) At the balance sheet date, a corporate guarantee of HK$35,000,000 (2003: HK$15,000,000) was given by the Group in respect of banking facilities granted to Full Summit and CMIT, two associates of the Group, in proportion to its shareholding.

(b) As detailed in note 16, the Group granted a loan of HK$18,228,000 (2003: HK$18,228,000) to an associate in proportion to its shareholding in this associate. This loan is unsecured, interest-free and has no fixed terms of repayment.

(c) During the year, the Group sold motors of HK$5,095,000 (2003: HK$2,198,000) to Gimelli Laboratories Company Limited, of which Chung Chi Ping, Roy, an independent non-executive director of the Company, is a director.

The directors consider that these sales of motors were made according to prices and conditions similar to those offered to other non-related customers of the Group.

(d) During the year, the Group purchased raw materials of HK$3,594,000 (2003: HK$6,114,000) from Success Mode, an associate of the Group.

The directors consider that the purchases of raw materials from Success Mode were made according to prices and conditions similar to those offered by non-related suppliers of the Group.

(e) During the year, the Group purchased paper cartons of HK$3,563,000 from Lung Sing Paper Products Company Limited, of which Cheng Chor Kit, a director and major shareholder of the Company, has a 50% beneficial interest.

The director consider that these purchases of paper cartons were made according to prices and conditions similar to those offered by other non-related suppliers of the Group.

28. OPERATING LEASE ARRANGEMENTS

(a) As lessor

At 31 March 2004, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2004	2003
	HK$'000	*HK$'000*
Within one year	**1,292**	104
In the second to fifth years, inclusive	**5,035**	–
After five years	**5,050**	–
	11,377	104

28. OPERATING LEASE ARRANGEMENTS (continued)

(b) As lessee

At 31 March 2004, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2004 HK$'000	2003 HK$'000
Within one year	**263**	910
In the second to fifth years, inclusive	**742**	825
After five years	**110**	120
	1,115	1,855

The Company did not have any operating lease arrangements at the balance sheet date (2003: Nil).

29. COMMITMENTS

(i) At the balance sheet date, the Group had contracted commitments in respect of its wholly-owned investments in the PRC amounting to HK$4,717,000 (2003: HK$6,758,000).

(ii) **Capital commitments**

At the balance sheet date, the Group had contracted for capital commitments in respect of acquisition of property, plant and equipment of HK$5,749,000 (2003: HK$4,016,000).

The Group did not have any significant authorised, but not contracted for, capital commitments as at the balance sheet date (2003: Nil).

The Company did not have any other significant commitments at the balance sheet date (2003: Nil).

30. CONTINGENT LIABILITIES

At the balance sheet date, the Company had provided guarantees of HK$147,000,000 (2003: HK$127,000,000) and HK$35,000,000 (2003: HK$15,000,000) in respect of banking facilities granted to certain subsidiaries and associates, of which HK$31,704,000 (2003: HK$5,963,000) and nil (2003: HK$12,500,000) had been utilised as at the balance sheet date, respectively.

31. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of a revised SSAP during the current year, the accounting treatment and presentation of certain items in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

32. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 23 July 2004.