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# 2005 ANNUAL REPORT

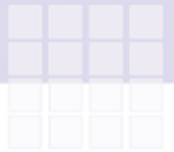


**KIN YAT HOLDINGS LIMITED**

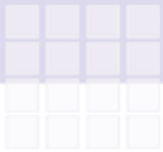
**建溢集團有限公司**

(Incorporated in Bermuda with limited liability)

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## CORPORATE INFORMATION

### **DIRECTORS:**

#### **Executive:**

Mr. CHENG Chor Kit (*Chairman*)  
Mr. CHUI Pak Shing  
Mr. YUEN Wai Kwong  
Mr. FAN Sau Leung  
Mr. WONG Kin Chung

#### **Independent Non-Executive:**

Mr. CHUNG Chi Ping, Roy  
Mr. WONG Chi Wai, Albert  
Ms. SUN Kwai Yu, Vivian

### **COMPANY SECRETARY:**

Mr. CHAN Ho Man, Daniel, *FCCA, AHKICPA*

### **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:**

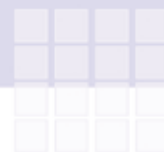
Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

### **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 2005.

### GROUP RESULTS

While the toys manufacturing industry remained stagnant in the year under review, the Group recorded an increase in both turnover and profit, partly because of bulk orders for movie-related items in the toys operation, and partly because of our successful value engineering process in improving our production efficiency and streamlining the work flow.

Nevertheless, the overall operating environment was difficult with rocketing oil prices that had been pushing costs of major raw materials such as plastics and metals to new heights. Cost control is an even more important factor than ever.

Shortages and unstable supply of labor and electricity in China continued to be major threats to sustaining our low-cost production base in normal operation. Disruptions or contingency measures such as overtime work are putting a tighter strain on our bottom lines.

The Group recorded an attributable net profit of HK\$30,766,000, including an extraordinary gain of HK\$16 million made from a property disposal, compared with an attributable profit of HK\$24,832,000 in the previous year. Turnover increased 18% to approximately HK\$737,015,000 for the year to 31 March 2005, from HK\$624,665,000 of the previous year.

The toys and motors divisions contributed 63% and 23% respectively in turnover to the Group during the year in review. Performance of the materials operation was also encouraging.

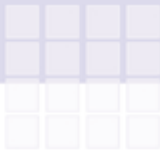
The market environment demands that the Group will have to enhance production efficiency and cost effectiveness pro-actively. Measures have been taken to restructure workforce and operation work flow with positive results and such initiatives will continue.

### MANAGEMENT DISCUSSION AND ANALYSIS

#### Toys

Surging oil prices have made an impact on the cost of plastics and metals, making the toys manufacturing sector more difficult. As an industry practice, most of the customer contracts are confirmed at the beginning of each year, and there is not much room for price fluctuations during the year. Bound by contractual agreements, the Group had no choice but to absorb most of the higher materials costs in 2004, therefore eroding profit margin. The situation improved in the first quarter of 2005 when new price quotations became effective.

Shortages of electricity and labor in China remain key issues for all manufacturers. For the Group, some delivery delays and over-time costs had been caused as a result, although the impact had to some extent been cushioned by its maintenance of a lower-cost production base in Shaoguan.



## CHAIRMAN'S STATEMENT

The toys division reported a turnaround into a segment profit of HK\$4,871,000 on a 23% increase in turnover to HK\$467,039,000 compared with the previous year. The much improved second half performance helped offset the losses made in the first half. The turnover increase was largely driven by orders for toys relating to a blockbuster movie and the Group's pro-active efforts to restructure its workforce and operation flow to improve productivity.

Looking ahead, the Group expects bulk orders of movie-related items and the benefits of a substantial restructuring plan implemented in the second half to enhance production efficiency and cost effectiveness will be more apparent in the current year.

While surging fuel price and material costs show no sign of subsiding, shortages of labor and electricity seem to sustain, and the market continues to be stagnant and competitive, the Group remains cautiously optimistic in respect of the prospect of the coming year. In response, the Group is in pursuit of value engineering throughout our new product design and development process to keep material and direct labor cost down, The Group also speeded up its relocation of production activities from Shenzhen to the lower-cost base in Shaoguan. As at the year end, more than half of the division's output was from the Shaoguan premises. This ongoing relocation process will continue to help the Group alleviate the impact of the costs increase in the Pearl River Delta area.

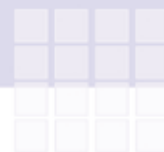
### Motors

The Group's motors division continued to focus its business activities in the toys sector for the time being, until efforts to build up business in other sectors had yielded more positive results. As the company bears no track record in this sector, it is conceivable that customers are more cautious and vigilant in sample testing and factory inspection. This verification process is taking much longer than expected.

The stagnant performance of the toys sector and mounting price reduction pressure during the year had led to decreases in both turnover and segment profit. Turnover was slightly down 7% to HK\$177,532,000 compared with the previous year. Segment profit was HK\$36,145,000, down 18%. The substantial increases in materials costs for copper and steel had weathered the Group's profit margin, as fierce market competition made corresponding price increases impossible.

On service performance and industry recognition front, the Group was granted the 2004 Hong Kong Awards for Industry: Productivity Certificate of Merit in November 2004, and ISO/TS16949 quality certification.

Efforts to expand the range of motor-powered devices for future momentum growth will continue, and there will be a stronger focus into the automobile industry. Once we have made the entry breakthrough, this should be a very fast growth area.



## Material development

The Group made a strategic investment to launch a new business segment for material development to moderate the cyclical fluctuations of the toys business. We are pleased to report an encouraging results performance, with segmental profit of more than HK\$2 million.

Most of the materials developed are primarily for use in Cathode Ray Tube and Liquid Crystal Display. While still in the development stage, the Group will devote more efforts to making this segment of substantial potential a major income stream.

## CDRs

The Group's 50%-owned CDR manufacturing arm had to share a loss of approximately HK\$16.7 million. Loss in CDR business was attributable to increased production costs while selling prices were reduced due to severe competition.

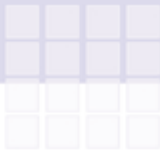
Following active expansion last year with all of its 12 production lines in full commercial operation, the Group's present task is to increase turnover and profitability.

## PROSPECTS

As high fuel prices and China's labor and power shortages persist, the current financial year is going to be very challenging for all manufacturers. Our immediate task is to improve our operating mechanism, cost structure, economy of scale and production efficiency. In the face of a difficult operating environment, our Group will redouble efforts to re-engineer our product development and manufacturing process. The pace of our shift of production activities from Shenzhen to Shaoguan, a long-term initiative our Group started a few years ago to maintain our cost competitiveness, will also be accelerated to mitigate the impact of the labor and electricity shortages in the southern part of Guangdong Province. By maintaining a dual-location production base, our Group enjoys a balance between achieving cost effectiveness and upholding capabilities for high-tech products.

Management will also closely monitor the impact of and act upon China's decision to drop the RMB's peg to the US dollar. The immediate impact on mainland-based manufacturers would be a rise in the prices of Chinese made goods in US dollars and the increase in costs for RMB-denominated expenses, but in the longer term, the key question would be whether the revaluation would effectively slow China's fast-growing economy. For now, the impact is still relatively minor.

Our primary mission is to uphold our core strengths in manufacturing capabilities, technical expertise, research and development acumen and marketing astuteness to sustain 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\$53 million (2004: HK\$63 million). In addition, the Group currently maintains aggregate composite banking facilities of approximately HK\$186 million (2004: HK\$147 million) with various banks, of which HK\$39 million (2004: HK\$32 million) has been utilized as at 31 March 2005.

The Group continues to enjoy healthy financial position. As at 31 March 2005, the current ratio (current assets divided by current liabilities) was 2.7 times (2004: 2.3 times) and the gearing ratio (long term liabilities divided by shareholders funds) was 5.6% (2004: 5.5%).

### EMPLOYEES AND REMUNERATION POLICIES

As at 31 March 2005, the Group employed over 9,000 full time employees, of which approximately 50 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 labor 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.

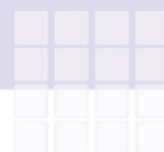
### APPRECIATION

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  
22 July 2005

## REPORT OF THE DIRECTORS



The directors present their report and the audited financial statements of the Company and of the Group for the year ended 31 March 2005.

### 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, electrical household appliances and material primarily for use in cathode ray tube and liquid crystal display. 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 2005 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 58.

An interim dividend of HK0.5 cent per ordinary share was paid to shareholders on 20 January 2005. The directors recommend the payment of a final dividend of HK2.5 cents per ordinary share in respect of the year, to shareholders on the register of members on 23 August 2005. 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.

RESULTS	Year ended 31 March				
	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000
<b>TURNOVER</b>	<b>737,015</b>	624,665	794,209	785,804	811,561
<b>PROFIT AFTER FINANCE COSTS</b>	<b>55,167</b>	26,084	84,432	119,850	103,663
Share of profits less losses of associates	(16,736)	6,772	(2,028)	(1,336)	(3,000)
<b>PROFIT BEFORE TAX</b>	<b>38,431</b>	32,856	82,404	118,514	100,663
Tax	(4,705)	(3,517)	(6,837)	(9,309)	(6,904)
<b>PROFIT BEFORE MINORITY INTERESTS</b>	<b>33,726</b>	29,339	75,567	109,205	93,759
Minority interests	(2,960)	(4,507)	(4,124)	(11,171)	(9,067)
<b>NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS</b>	<b>30,766</b>	24,832	71,443	98,034	84,692



## SUMMARY FINANCIAL INFORMATION (continued)

ASSETS, LIABILITIES AND MINORITY INTERESTS	31 March				
	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000
NON-CURRENT ASSETS	352,197	383,114	335,426	290,354	284,843
CURRENT ASSETS	334,656	273,846	315,841	311,523	286,415
<b>TOTAL ASSETS</b>	<b>686,853</b>	<b>656,960</b>	<b>651,267</b>	<b>601,877</b>	<b>571,258</b>
CURRENT LIABILITIES	(122,725)	(119,069)	(113,858)	(90,957)	(123,855)
NON-CURRENT LIABILITIES	(29,145)	(27,174)	(16,724)	(15,595)	(19,598)
<b>TOTAL LIABILITIES</b>	<b>(151,870)</b>	<b>(146,243)</b>	<b>(130,582)</b>	<b>(106,552)</b>	<b>(143,453)</b>
MINORITY INTERESTS	(13,769)	(12,419)	(10,340)	(28,855)	(17,928)
<b>NET ASSETS</b>	<b>521,214</b>	<b>498,298</b>	<b>510,345</b>	<b>466,470</b>	<b>409,877</b>

**FIXED ASSETS**

Details of movements in the fixed assets of the Group are set out in note 12 to the financial statements.

**SHARE CAPITAL AND SHARE OPTIONS**

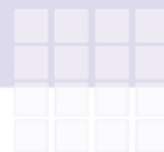
There were no movements in either the Company's authorised or issued share capital during the year. Details of the share capital and movements in the share options of the Company during the year, together with the reasons therefor, are set out in notes 22 and 23 to the financial statements, respectively.

**RESERVES**

Details of movements in the reserves of the Company and of the Group during the year are set out in note 24 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 2005, the Company's reserves available for cash distribution and/or distribution in specie, comprising the contributed surplus and retained profits, amounted to HK\$129,781,000, of which HK\$10,120,000 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 58% of the total sales for the year and sales to the largest customer included therein amounted to 33%.

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	
Chui Pak Shing	
Fan Sau Leung	
Wong Kin Chung	
Yuen Wai Kwong	(appointed on 17 December 2004)
Chan Tak Yin	(resigned on 3 January 2005)

### Independent non-executive directors

Chung Chi Ping, Roy	
Wong Chi Wai, Albert	(appointed on 13 September 2004)
Sun Kwai Yu, Vivian	(appointed on 13 September 2004)
Lam Shuet Ching, Gloria	(resigned on 13 September 2004)

In accordance with the Company's bye-laws, Cheng Chor Kit, Yuen Wai Kwong, Wong Chi Wai, Albert and Sun Kwai Yu, Vivian will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The directors confirm that the Company has received from each of its independent non-executive directors a confirmation of his/her independence pursuant to rule 3.13 of the Listing Rules and the Company considers the independent non-executive directors to be independent.

## 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. Chui Pak Shing, Fan Sau Leung and Yuen Wai Kwong entered into service contracts with the Company for terms of three years commencing from 22 April 2002, 17 October 2002 and 17 December 2004, respectively, subject to retirement by rotation and re-election at the annual general meeting in accordance with the Bye-laws unless terminated by either party giving not less than six months' notice in writing to the other party, the termination of which should not be later than the end of the three years. On 29 April 2005, Chui Pak Shing renewed his service contract with the Company for terms of three years commencing from 29 April 2005 subject to retirement by rotation and re-election at the annual general meeting in accordance with the Bye-laws unless terminated by either party giving not less than six months' notice in writing to the other party, the termination of which should not be later than the end of the three years.

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.

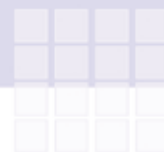
## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 March 2005, 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	266,018,000 (Note)	65.71%
Wong Kin Chung	Long position	Beneficial owner	3,050,000	0.75%

*Note:* These shares, amounting to around 65.71% 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") is the beneficial owners of all 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.



## 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 share 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
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 disclosed in note 23 to the financial statements.

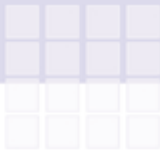
Save as disclosed above, none of the directors and chief executive had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified 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 23 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 directors 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 23, 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

#### Executive directors

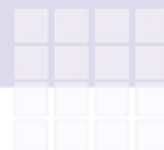
Cheng Chor Kit, aged 53, is the Chairman of the Company. He is the founder of the Group and is responsible for the Group's overall operation and strategic planning. He is a member of the Guangdong Provincial Committee of the Chinese People's Political Consultative Congress (中國人民政治協商會議廣東省委員會), a member 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.

Chui Pak Shing, CPA (Aust.), AHKICPA, aged 37, is an executive director of the Company. He joined the Group in 1997 and is responsible for the corporate and day-to-day management. He is a member of CPA Australia, an associate member of the Hong Kong Institute of Certified Public Accountants and holds a master's degree in business administration from the United Kingdom.

Yuen Wai Kwong, aged 53, is an executive director of the Company. He is responsible for the marketing and engineering function of the toy division. 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 senior executive in several major local and multinational toy manufacturing and marketing companies.

Fan Sau Leung, Tony, MSc (IM), BBA, IENG, aged 55, 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 30 years of experience in the design engineering field and marketing management.

Wong Kin Chung, aged 59, 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 (continued)

### Independent non-executive directors

Chung Chi Ping, Roy, MSc, aged 53, is the co-founder and managing director of Techtronic Industries Company Limited. 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 Deputy Council Chairman of Hong Kong Polytechnic University, Deputy Chairman of Federation of Hong Kong Industries, an Elected Council Member & Executive Committee Member of Hong Kong Management Association, a Member of the Advisory Board for Lingnan University's Faculty of Business, a Council Member of Vocational Training Council, 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) and the Vice-Chairman of Governing Board of Dongguan City Association of Enterprises with Foreign Investment. He is also an independent non-executive director of Daka Designs Limited.

Wong Chi Wai, Albert, aged 39, is a certified public accountant (practising) in Hong Kong and an associate member of The Institute of Chartered Accountants in England and Wales. He has also been admitted as a barrister of the High Court of Hong Kong since 1998. He has over 16 years of experience in the accountancy profession and he currently is the owner of a certified public accountants firm, a senior consultant of another certified public accountants firm and an adviser of a law firm. He is also an independent non-executive director and audit committee member of Bonjour Holdings Limited and Arts Optical International Holdings Limited.

Sun Kwai Yu, Vivian, aged 43, is a fellow member of the Hong Kong Institute of Certified Public Accountants and CPA Australia. She has 18 year's experience working in a renowned international accounting firm and she is currently the founder and chief consultant of a consultancy firm.

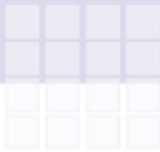
## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 March 2005, 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 of interest and nature	Number of ordinary shares held	Percentage of the Company's issued share capital	Number of share options held
Cheng Chor Kit ( <i>Note</i> )	Through a controlled corporation	266,018,000	65.71	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.

**SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES** (continued)

The details of the share options outstanding during the year are separately disclosed in note 23 to the financial statements.

Saved 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**

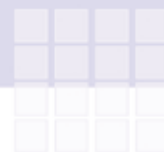
At 31 March 2005, the Group had advanced a total of HK\$18,223,000 (the "Loan") to Full Summit Development Limited ("Full Summit"), an associate of the Group, and provided a guarantee (the "Guarantee") of HK\$41,000,000 to a bank for facilities granted to Full Summit and its subsidiary, Concord Modern International Technology Limited, collectively referred to as Full Summit Group. The total amount of the Loan and Guarantee of HK\$59,223,000 exceeds 8 percent 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 Group and the Group's attributable interest therein are presented below:

	<b>Combined balance sheet</b> <i>HK\$'000</i>
Non-current assets	98,133
Current assets	17,638
Current liabilities	(63,162)
Non-current liabilities	(79,645)
	<u>(27,036)</u>
Group's attributable interests	<u>(13,518)</u>

The Group is obliged to bear the deficit of Full Summit Group, as the Group granted corporate guarantees to Full Summit Group in proportion to the Group's shareholdings in Full Summit Group.

**DISCLOSURE PURSUANT TO RULE 13.13 OF THE LISTING RULES**

The Group had trade receivables (the "Trade Receivables") due from a customer, Hasbro SA of HK\$27,555,000 as at 31 March 2005 and HK\$32,461,000 as at 30 June 2005 which individually exceeds 8 percent of the market capitalisation of the Group. The Trade Receivables are for sales of toys and related products which are unsecured, interest-free and have a normal repayment term of about 21 days. Hasbro SA is independent third party not connected to directors, chief executives or substantial shareholders of the Group or their respective associates.



## 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 26 to the financial statements.

## COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE PRACTICES

In the opinion of the directors, the Company complied with the code of corporate governance practices (the "Code") as set out in the Listing Rules which is applicable to be disclosed in this annual report, except that the independent non-executive directors are not appointed for a specific terms but subject to retirement by rotation and re-election at the annual general meeting in accordance with the by-laws of the Company.

The total directors' fees paid to the independent non-executive directors of the Company for the year ended 31 March 2005 amounted to HK\$263,000.

## PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, the Company has maintained a sufficient public float pursuant to the Listing Rules during the year under review and up to the latest practicable date prior to the issue of this annual report.

## AUDIT COMMITTEE

The Company established an audit committee (the "Committee") in 1999 in compliance with the requirements 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 control of the Group. The Committee comprises three independent non-executive directors. The work of the Committee has covered the full financial year ended 31 March 2005.

## 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  
22 July 2005





To the members

**Kin Yat Holdings Limited**

*(Incorporated in Bermuda with limited liability)*

We have audited the financial statements on pages 17 to 58 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 Institute of Certified Public 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 2005 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.

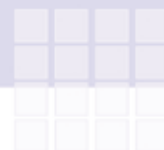
**Ernst & Young**

*Certified Public Accountants*

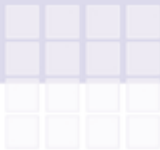
Hong Kong

22 July 2005

CONSOLIDATED PROFIT AND LOSS ACCOUNT  
YEAR ENDED 31 MARCH 2005



	Notes	2005 HK\$'000	2004 HK\$'000
<b>TURNOVER</b>	4	<b>737,015</b>	624,665
Cost of sales		<u>(625,229)</u>	<u>(529,644)</u>
Gross profit		<b>111,786</b>	95,021
Other revenue		<b>27,292</b>	8,163
Selling and distribution expenses		<b>(24,580)</b>	(22,794)
Administrative expenses		<u><b>(58,493)</b></u>	<u>(54,030)</u>
<b>PROFIT FROM OPERATING ACTIVITIES</b>	5	<b>56,005</b>	26,360
Finance costs	7	<u><b>(838)</b></u>	<u>(276)</u>
<b>PROFIT AFTER FINANCE COSTS</b>		<b>55,167</b>	26,084
Share of profits less losses of associates		<u><b>(16,736)</b></u>	<u>6,772</u>
<b>PROFIT BEFORE TAX</b>		<b>38,431</b>	32,856
Tax	8	<u><b>(4,705)</b></u>	<u>(3,517)</u>
<b>PROFIT BEFORE MINORITY INTERESTS</b>		<b>33,726</b>	29,339
Minority interests		<u><b>(2,960)</b></u>	<u>(4,507)</u>
<b>NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS</b>	9	<u><b>30,766</b></u>	<u>24,832</u>
<b>DIVIDENDS</b>	10		
Interim		<b>2,024</b>	8,096
Proposed final		<b>10,120</b>	4,048
		<u><b>12,144</b></u>	<u>12,144</u>
<b>EARNINGS PER SHARE</b>	11		
Basic		<u><b>HK7.60 cents</b></u>	<u>HK6.13 cents</u>
Diluted		<u><b>HK7.58 cents</b></u>	<u>HK6.11 cents</u>



# CONSOLIDATED BALANCE SHEET

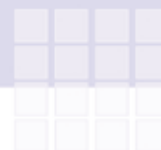
31 MARCH 2005

	Notes	2005 HK\$'000	2004 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Fixed assets	12	334,553	345,014
Goodwill	13	4,650	6,976
Interests in associates	15	4,969	22,404
Deferred development costs	16	8,025	8,720
		<u>352,197</u>	<u>383,114</u>
<b>CURRENT ASSETS</b>			
Inventories	17	163,450	137,314
Accounts receivable	18	68,851	53,597
Prepayments, deposits and other receivables		49,788	20,348
Time deposits		13,025	25,152
Cash and bank balances		39,542	37,435
		<u>334,656</u>	<u>273,846</u>
<b>CURRENT LIABILITIES</b>			
Accounts and bills payable, accrued liabilities and other payables	19	91,290	93,087
Interest-bearing bank borrowings	20	22,767	18,371
Tax payable		8,668	7,611
		<u>122,725</u>	<u>119,069</u>
<b>NET CURRENT ASSETS</b>			
		<u>211,931</u>	<u>154,777</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			
		564,128	537,891
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank borrowings	20	15,833	13,333
Deferred tax liabilities	21	13,312	13,841
		<u>29,145</u>	<u>27,174</u>
<b>MINORITY INTERESTS</b>			
		<u>13,769</u>	<u>12,419</u>
		<u>521,214</u>	<u>498,298</u>
<b>CAPITAL AND RESERVES</b>			
Share capital	22	40,482	40,482
Reserves	24(a)	470,612	453,768
Proposed final dividend	10	10,120	4,048
		<u>521,214</u>	<u>498,298</u>

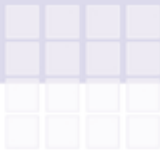
Cheng Chor Kit  
Director

Chui Pak Shing  
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
YEAR ENDED 31 MARCH 2005



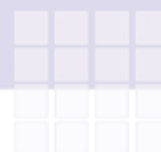
	Reserves							Proposed final dividend HK\$'000	Total HK\$'000
	Share capital HK\$'000	Share premium account HK\$'000	Asset revaluation reserve HK\$'000	Capital reserve on consolidation HK\$'000	Contributed surplus HK\$'000	Retained profits HK\$'000	Total reserves HK\$'000		
At 1 April 2003	40,482	104,441	36,951	1,599	6,150	300,481	449,622	20,241	510,345
Revaluation deficit, net	-	-	(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 paid	-	-	-	-	-	(8,096)	(8,096)	-	(8,096)
Proposed final dividend	-	-	-	-	-	(4,048)	(4,048)	4,048	-
At 31 March 2004 and 1 April 2004	40,482	104,441	28,409	1,599	6,150	313,169	453,768	4,048	498,298
Revaluation deficit, net (note 12)	-	-	(3,307)	-	-	-	(3,307)	-	(3,307)
Revaluation reserve released on disposal	-	-	(358)	-	-	358	-	-	-
Net gains and losses not recognised in the profit and loss account	-	-	(3,665)	-	-	358	(3,307)	-	(3,307)
Final dividend declared	-	-	-	-	-	-	-	(4,048)	(4,048)
Deferred tax credited to revaluation reserve	-	-	1,529	-	-	-	1,529	-	1,529
Net profit for the year	-	-	-	-	-	30,766	30,766	-	30,766
Interim dividend paid	-	-	-	-	-	(2,024)	(2,024)	-	(2,024)
Proposed final dividend	-	-	-	-	-	(10,120)	(10,120)	10,120	-
<b>At 31 March 2005</b>	<b>40,482</b>	<b>104,441</b>	<b>26,273</b>	<b>1,599</b>	<b>6,150</b>	<b>332,149</b>	<b>470,612</b>	<b>10,120</b>	<b>521,214</b>
Represented by									
Company and subsidiaries	40,482	104,441	26,273	1,599	6,150	349,578	488,041	10,120	538,643
Associates	-	-	-	-	-	(17,429)	(17,429)	-	(17,429)
<b>At 31 March 2005</b>	<b>40,482</b>	<b>104,441</b>	<b>26,273</b>	<b>1,599</b>	<b>6,150</b>	<b>332,149</b>	<b>470,612</b>	<b>10,120</b>	<b>521,214</b>
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



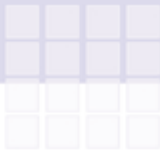
CONSOLIDATED CASH FLOW STATEMENT  
YEAR ENDED 31 MARCH 2005

	<i>Notes</i>	<b>2005</b> <i>HK\$'000</i>	2004 <i>HK\$'000</i>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		<b>38,431</b>	32,856
Adjustments for:			
Finance costs	7	<b>838</b>	276
Share of profits less losses of associates		<b>16,736</b>	(6,772)
Interest income	5	<b>(145)</b>	(396)
Depreciation	5	<b>42,578</b>	36,337
Gain on disposal of fixed assets	5	<b>(16,452)</b>	(253)
Amortisation of deferred development costs	5	<b>9,314</b>	8,016
Goodwill amortisation	5	<b>2,326</b>	2,326
Negative goodwill recognised as income	5	<b>(673)</b>	(1,011)
Surplus on revaluation of leasehold land and buildings	5	<b>(536)</b>	(4,393)
Gain on disposal of short term investments	5	<b>–</b>	(816)
		<hr/>	<hr/>
Operating profit before working capital changes		<b>92,417</b>	66,170
Decrease/(increase) in inventories		<b>(26,136)</b>	5,243
Decrease/(increase) in accounts receivable		<b>(15,254)</b>	16,854
Decrease/(increase) in prepayments, deposits and other receivables	25	<b>4,561</b>	(4,478)
Decrease in amounts due from associates		<b>196</b>	22
Increase in amounts due to associates		<b>658</b>	–
Decrease in accounts and bills payable, accrued liabilities and other payables		<b>(1,797)</b>	(2,780)
		<hr/>	<hr/>
Cash generated from operations		<b>54,645</b>	81,031
Interest received		<b>145</b>	396
Interest paid		<b>(838)</b>	(276)
Hong Kong profits tax paid		<b>(1,574)</b>	(7,269)
Overseas income taxes paid		<b>(556)</b>	(604)
Dividend received from an associate		<b>–</b>	490
Dividends paid		<b>(6,072)</b>	(28,337)
Dividends paid to minority shareholders		<b>(2,000)</b>	(2,400)
		<hr/>	<hr/>
Net cash inflow from operating activities		<b>43,750</b>	43,031

CONSOLIDATED CASH FLOW STATEMENT (continued)  
YEAR ENDED 31 MARCH 2005



	<i>Notes</i>	<b>2005</b> <b>HK\$'000</b>	2004 <i>HK\$'000</i>
Net cash inflow from operating activities		<u>43,750</u>	<u>43,031</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of fixed assets	12	(55,927)	(85,500)
Additions to deferred development costs	16	(8,619)	(8,864)
Proceeds from disposal of short term investments		–	2,366
Proceeds from disposal of fixed assets	25	3,490	400
Capital contribution by minority interests		<u>390</u>	<u>–</u>
Net cash outflow from investing activities		<u>(60,666)</u>	<u>(91,598)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
New bank loan		62,264	35,000
Repayment of bank loan		<u>(48,664)</u>	<u>(10,000)</u>
Net cash inflow from financing activities		<u>13,600</u>	<u>25,000</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(3,316)</b>	<b>(23,567)</b>
Cash and cash equivalents at beginning of year		<u>55,883</u>	<u>79,450</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<u><u>52,567</u></u>	<u><u>55,883</u></u>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances		39,542	37,435
Time deposits with original maturity of less than three months when acquired		13,025	25,152
Bank overdrafts, unsecured	20	<u>–</u>	<u>(6,704)</u>
		<u><u>52,567</u></u>	<u><u>55,883</u></u>



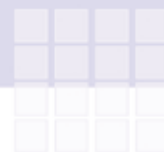
# BALANCE SHEET

31 MARCH 2005

	Notes	2005 HK\$'000	2004 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Interests in subsidiaries	14	<u>265,317</u>	<u>261,468</u>
<b>CURRENT ASSETS</b>			
Bank balances		30	53
Prepayment		5	13
Dividend receivable		10,000	10,000
Tax recoverable		<u>56</u>	<u>117</u>
		<u>10,091</u>	<u>10,183</u>
<b>CURRENT LIABILITIES</b>			
Other payables		<u>704</u>	<u>560</u>
<b>NET CURRENT ASSETS</b>			
		<u>9,387</u>	<u>9,623</u>
		<u>274,704</u>	<u>271,091</u>
<b>CAPITAL AND RESERVES</b>			
Share capital	22	40,482	40,482
Reserves	24(b)	224,102	226,561
Proposed final dividend	10	<u>10,120</u>	<u>4,048</u>
		<u>274,704</u>	<u>271,091</u>

**Cheng Chor Kit**  
Director

**Chui Pak Shing**  
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, electrical household appliances and material primarily for use in cathode ray tube and liquid crystal display. 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, 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 2005. 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.

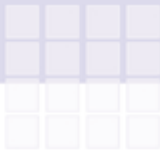
Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

### 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.





## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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.

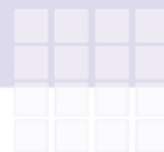
A joint venture company is treated as:

- (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;
- (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.



## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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

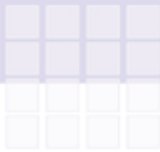
Negative goodwill arising on acquisition of subsidiaries and associates represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

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.



## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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.

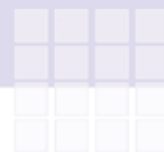
### Fixed assets and depreciation

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.



## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Fixed assets and depreciation (continued)

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.

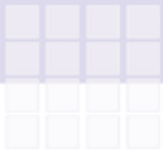
Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five years, commencing from the date when the products are put into commercial production.

### 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.



## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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.

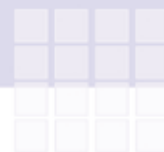
Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes.

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.

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.



## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Income tax (continued)

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.

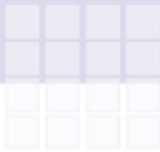
On consolidation, the financial statements of overseas subsidiaries and associates are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries and associates are translated into Hong Kong dollars at the weighted average exchange rates for 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.

### 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.



## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### *Employee benefits (continued)*

#### ***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 services 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 scheme***

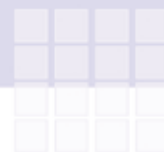
The Group continues to operate a defined contribution scheme (the "Scheme") for its employees, the assets of which are held separately from those of the Group in an independently administered fund. Contributions are made based on a percentage of the eligible employees' salaries and are charged to the 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.

#### ***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.



## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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) from the sale of property, when the legally binding sales contract is signed;
- (d) rental income, on an accrual basis; and
- (e) 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 bye-laws 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

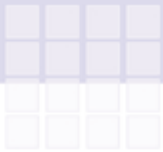
Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or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

### 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.





### 3. SEGMENT INFORMATION

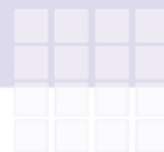
Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

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 related products segment consisted of manufacture and sale of toys and related products;
- (b) the motors segment consisted of manufacture and sale of motors;
- (c) the electrical household appliances segment consisted of manufacture and sale of electrical household appliances; and
- (d) the material development segment consisted of manufacture and sales of material primarily for use in cathode ray tube and liquid crystal display.

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.



### 3. SEGMENT INFORMATION (continued)

#### (a) Business segments

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

Group	Toys and related products		Motors		Electrical household appliances		Material development		Eliminations		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Note)											
Segment revenue:												
Sales to external customers	467,039	379,196	170,802	179,446	71,997	56,619	27,177	9,404	-	-	737,015	624,665
Inter-segment sales	-	-	6,730	10,478	-	-	-	-	(6,730)	(10,478)	-	-
Other revenue and gain	4,963	3,509	2,721	2,050	71	171	213	72	-	-	7,968	5,802
Total	<u>472,002</u>	<u>382,705</u>	<u>180,253</u>	<u>191,974</u>	<u>72,068</u>	<u>56,790</u>	<u>27,390</u>	<u>9,476</u>	<u>(6,730)</u>	<u>(10,478)</u>	<u>744,983</u>	<u>630,467</u>
Segment results	<u>4,871</u>	<u>(14,547)</u>	<u>36,145</u>	<u>43,946</u>	<u>690</u>	<u>255</u>	<u>2,807</u>	<u>1,818</u>	<u>-</u>	<u>-</u>	<u>44,513</u>	<u>31,472</u>
Interest, dividend income and unallocated gains											19,324	2,361
Unallocated expenses											(7,832)	(7,473)
Profit from operating activities											56,005	26,360
Finance costs											(838)	(276)
Profit after finance costs											55,167	26,084
Share of profits less losses of associates											(16,736)	6,772
Profit before tax											38,431	32,856
Tax											(4,705)	(3,517)
Profit before minority interests											33,726	29,339
Minority interests											(2,960)	(4,507)
Net profit from ordinary activities attributable to shareholders											<u>30,766</u>	<u>24,832</u>

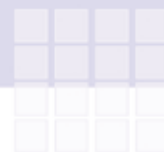
3. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group	Toys and related products		Motors		Electrical household appliances		Material development		Eliminations		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Note)											
Segment assets	382,146	379,135	166,984	144,202	52,685	75,616	31,685	20,875	(55,652)	(65,132)	577,848	554,696
Unallocated assets											109,005	102,264
Total assets											686,853	656,960
Segment liabilities	79,300	57,490	25,644	40,879	18,556	39,885	22,278	19,161	(55,652)	(65,132)	90,126	92,283
Unallocated liabilities											61,744	53,960
Total liabilities											151,870	146,243
Other segment information:												
Depreciation and amortisation	37,926	33,429	10,405	8,189	1,629	1,684	686	187	-	-	50,646	43,489
Amortisation of goodwill	-	-	2,326	2,326	-	-	-	-	-	-	2,326	2,326
Unallocated amounts											1,246	864
											54,218	46,679
Capital expenditure	37,383	58,376	19,527	25,998	1,323	2,174	6,313	7,816	-	-	64,546	94,364
Deficit/(surplus) on revaluation of leasehold land and buildings	-	(5,412)	542	1,097	-	-	-	-	-	-	542	(4,315)
Unallocated amounts											(1,078)	(78)
											(536)	(4,393)
Deficit/(surplus) on revaluation recognised directly in equity	(4,075)	10,342	-	279	(232)	832	1,000	-	-	-	(3,307)	11,453

Note:

Due to the increasing significance of the material development segment to the Group, separate disclosure of this business segment has been made in the current year. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.



### 3. 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										Consolidated	
	of America		Europe		Asia		Others		Eliminations		2005	2004
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	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	<u>257,300</u>	<u>202,558</u>	<u>206,061</u>	<u>146,534</u>	<u>216,835</u>	<u>208,992</u>	<u>56,819</u>	<u>66,581</u>	<u>-</u>	<u>-</u>	<u>737,015</u>	<u>624,665</u>
Other segment information:												
Segment assets	<u>179,296</u>	<u>169,830</u>	<u>507,557</u>	<u>487,130</u>	<u>-</u>	<u>-</u>	<u>686,853</u>	<u>656,960</u>				
Capital expenditure	<u>1,407</u>	<u>2,879</u>	<u>63,139</u>	<u>91,485</u>	<u>-</u>	<u>-</u>	<u>64,546</u>	<u>94,364</u>				

	Hong Kong		Elsewhere in PRC		Eliminations		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	<u>179,296</u>	<u>169,830</u>	<u>507,557</u>	<u>487,130</u>	<u>-</u>	<u>-</u>	<u>686,853</u>	<u>656,960</u>
Capital expenditure	<u>1,407</u>	<u>2,879</u>	<u>63,139</u>	<u>91,485</u>	<u>-</u>	<u>-</u>	<u>64,546</u>	<u>94,364</u>

### 4. 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:

	2005	2004
	HK\$'000	HK\$'000
Manufacture and sale of:		
Toys and related products	<u>467,039</u>	<u>379,196</u>
Motors	<u>170,802</u>	<u>179,446</u>
Electrical household appliances	<u>71,997</u>	<u>56,619</u>
Materials	<u>27,177</u>	<u>9,404</u>
	<u>737,015</u>	<u>624,665</u>

## 5. PROFIT FROM OPERATING ACTIVITIES

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

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Auditors' remuneration	818	760
Depreciation	42,578	36,337
Amortisation of deferred development costs*	9,314	8,016
Amortisation of goodwill**	2,326	2,326
Negative goodwill recognised as income during the year***	(673)	(1,011)
Minimum lease payments under operating leases in respect of land and buildings	2,036	3,080
Gain on disposal of fixed assets, net****	(16,452)	(253)
Staff costs (including directors' remuneration – note 6):		
Wages and salaries	107,872	103,890
Pension contributions	1,458	1,519
	<u>109,330</u>	<u>105,409</u>
Surplus on revaluation of leasehold land and buildings, net****	(536)	(4,393)
Gain on disposal of short term investments	–	(816)
Exchange losses, net	1,453	1,289
Rental income	(3,405)	(2,939)
Interest income	<u>(145)</u>	<u>(396)</u>

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.

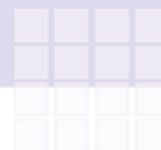
\* The amortisation of deferred development costs for both the current and the prior year is included in "Cost of sales" on the face of the consolidated profit and loss account.

\*\* 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 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.

\*\*\*\*\* Gain on disposal of fixed assets, net, for both the current and the prior year is included in "Other revenue" on the face of the consolidated profit and loss account.



## 6. DIRECTORS' REMUNERATION AND HIGHEST PAID INDIVIDUALS

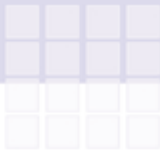
Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	<b>Group</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	<i>HK\$'000</i>
Executive directors:		
Fees	–	–
Salaries, allowances and benefits in kind	<b>4,663</b>	4,991
Pension contributions	<b>237</b>	233
	<u><b>4,900</b></u>	<u>5,224</u>
Non-executive directors:		
Fees	<b>263</b>	200
	<u><b>5,163</b></u>	<u>5,424</u>

The remuneration of directors fell within the following bands:

	<b>Number of directors</b>	
	<b>2005</b>	2004
Nil – HK\$1,000,000	<b>8</b>	5
HK\$1,000,001 – HK\$1,500,000	<b>2</b>	1
HK\$1,500,001 – HK\$2,000,000	–	1
	<u><b>10</b></u>	<u>7</u>

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2004: Nil).



## 6. DIRECTORS' REMUNERATION AND HIGHEST PAID INDIVIDUALS (continued)

The six highest paid individuals during the year included three (2004: three) directors, details of whose remuneration are set out above. Details of the emoluments of the remaining three (2004: three) non-director, highest paid employees are set out below:

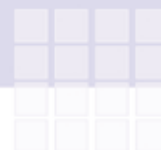
	Group	
	2005	2004
	HK\$'000	HK\$'000
Salaries, allowances and benefits in kind	3,799	4,229
Pension contributions	33	36
	<u>3,832</u>	<u>4,265</u>

The emoluments of each of the three (2004: three) non-director, highest paid employees fell within the following bands:

	Number of employees	
	2005	2004
HK\$1,000,001 – HK\$1,500,000	3	2
HK\$1,500,001 – HK\$2,000,000	–	1
	<u>3</u>	<u>3</u>

## 7. FINANCE COSTS

	Group	
	2005	2004
	HK\$'000	HK\$'000
Interest on bank loans and overdrafts wholly repayable within five years	<u>838</u>	<u>276</u>



8. TAX

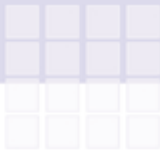
Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the applicable rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2005 HK\$'000	2004 HK\$'000
Group:		
Current – Hong Kong		
Charge for the year	2,641	2,837
Under/(over) provision in prior years	(17)	15
Current – Elsewhere	563	604
Deferred tax ( <i>note 21</i> )	1,000	–
	<u>4,187</u>	<u>3,456</u>
Share of tax attributable to associates	<u>518</u>	<u>61</u>
Total tax charge for the year	<u><u>4,705</u></u>	<u><u>3,517</u></u>

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, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

	2005 HK\$'000	2004 HK\$'000
Group:		
Profit before tax	<u><u>38,431</u></u>	<u><u>32,856</u></u>
Tax at the statutory tax rate	8,790	5,750
Higher tax rate for specific provinces or local authority	903	624
Adjustments in respect of current tax of previous periods	(17)	15
Income not subject to tax	(5,528)	(8,345)
Expenses not deductible for tax	738	5,606
Tax losses utilised from previous period	(181)	(133)
Tax charge at the Group's effective rate	<u><u>4,705</u></u>	<u><u>3,517</u></u>





## 9. 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\$9,685,000 (2004: HK\$9,542,000).

## 10. DIVIDENDS

	<b>2005</b> <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Interim – HK0.5 cent (2004: HK2 cents) per ordinary share	<b>2,024</b>	8,096
Proposed final – HK2.5 cents (2004: HK1 cent) per ordinary share	<b>10,120</b>	4,048
	<b>12,144</b>	12,144

The directors recommend the payment of a final dividend of HK2.5 cents per share in respect of the year ended 31 March 2005 to shareholders whose names appear on the register of members on 23 August 2005. 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.

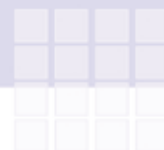
## 11. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year of HK\$30,766,000 (2004: HK\$24,832,000) and the weighted average of 404,820,000 (2004: 404,820,000) 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\$30,766,000 (2004: HK\$24,832,000) and 405,927,239 (2004: 406,219,438) 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:

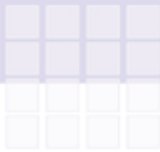
	<b>2005</b>	2004
Weighted average number of ordinary shares used in calculating basic earnings per share	<b>404,820,000</b>	404,820,000
Weighted average number of ordinary shares assumed to have been issued at no consideration on deemed exercise of all options outstanding during the year	<b>1,107,239</b>	1,399,438
Weighted average number of ordinary shares used in calculating diluted earnings per share	<b>405,927,239</b>	406,219,438



## 12. FIXED ASSETS

### Group

	Medium term leasehold land and buildings <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Moulds, tools, and plant and machinery <i>HK\$'000</i>	Furniture, equipment and motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost or valuation:					
At beginning of year	147,330	17,647	268,223	86,269	519,469
Additions	3,863	6,452	40,217	5,395	55,927
Disposals	(21,000)	–	(4,345)	(2,598)	(27,943)
Deficit on revaluation	(8,465)	–	–	–	(8,465)
Transfers	8,272	(12,246)	1,263	2,711	–
<b>At 31 March 2005</b>	<b>130,000</b>	<b>11,853</b>	<b>305,358</b>	<b>91,777</b>	<b>538,988</b>
Accumulated depreciation:					
At beginning of year	–	–	128,993	45,462	174,455
Provided during the year	6,271	–	28,078	8,229	42,578
Disposals	(577)	–	(4,066)	(2,261)	(6,904)
Write-back on revaluation	(5,694)	–	–	–	(5,694)
<b>At 31 March 2005</b>	<b>–</b>	<b>–</b>	<b>153,005</b>	<b>51,430</b>	<b>204,435</b>
Net book value:					
<b>At 31 March 2005</b>	<b>130,000</b>	<b>11,853</b>	<b>152,353</b>	<b>40,347</b>	<b>334,553</b>
At 31 March 2004	147,330	17,647	139,230	40,807	345,014
An analysis of cost or valuation:					
At cost	–	11,853	305,358	91,777	408,988
At 2005 valuation	130,000	–	–	–	130,000
	<b>130,000</b>	<b>11,853</b>	<b>305,358</b>	<b>91,777</b>	<b>538,988</b>



## 12. FIXED ASSETS (continued)

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

	<b>2005</b> <b>HK\$'000</b>	2004 <i>HK\$'000</i>
Hong Kong	<b>6,920</b>	25,680
Outside Hong Kong	<b>123,080</b>	121,650
	<hr/>	<hr/>
Total valuation	<b>130,000</b>	147,330
	<hr/> <hr/>	<hr/> <hr/>

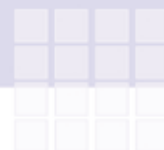
As at 31 March 2005, the Group's leasehold land and buildings were revalued at an open market value, based on an existing use basis by RHL Appraisal Ltd., an independent firm of professionally qualified valuers, at HK\$130,000,000. Revaluation deficits of HK\$5,631,000 and HK\$542,000 resulting from the above valuation have been debited to the asset revaluation reserve and charged to the profit and loss account, respectively. Revaluation surplus of HK\$2,324,000 and HK\$1,078,000, resulting from the above valuation, 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\$3,307,000 and revaluation surplus of HK\$536,000 were reflected in the asset revaluation reserve and in the profit and loss account, respectively. The effect of net revaluation deficit of HK\$2,771,000 was reflected in write down of valuation of fixed assets of HK\$8,465,000 and write-back of accumulated depreciation of HK\$5,694,000.

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\$112,444,000 (2004: HK\$127,161,000).

## 13. 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:

	<b>Group</b> <i>HK\$'000</i>
Cost:	
At beginning of year and at 31 March 2005	11,628
	<hr/>
Accumulated amortisation:	
At beginning of year	4,652
Provided during the year	2,326
	<hr/>
<b>At 31 March 2005</b>	<b>6,978</b>
	<hr/>
Net book value:	
<b>At 31 March 2005</b>	<b>4,650</b>
	<hr/> <hr/>
At 31 March 2004	6,976
	<hr/> <hr/>



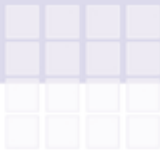
## 14. INTERESTS IN SUBSIDIARIES

	<b>Company</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Unlisted shares, at cost	<b>104,950</b>	104,950
Due from subsidiaries	<b>222,384</b>	211,771
Due to a subsidiary	<b>(62,017)</b>	(55,253)
	<b><u>265,317</u></b>	<u>261,468</u>

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

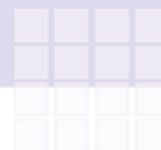
The table below lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars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

<b>Name</b>	<b>Place of incorporation/ registration and operations</b>	<b>Paid-up share/ registered capital</b>	<b>Equity interest attributable to the Company</b>	<b>Principal activities</b>
<b>Directly held</b>				
Kin Yat Industrial Holdings Limited	British Virgin Islands	Ordinary US\$3,000	100%	Investment holding
<b>Indirectly held</b>				
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



14. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Paid-up share/ registered capital	Equity interest attributable to the Company	Principal activities
<b>Indirectly held (continued)</b>				
Newway Electrical Industries Limited ("Newway")	Hong Kong	Ordinary HK\$3,000,000	100%	Trading of electrical household appliances
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



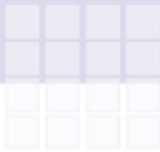
14. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Paid-up share/ registered capital	Equity interest attributable to the Company	Principal activities
<b>Indirectly held (continued)</b>				
Shixing Standard Motor Co., Ltd.#	PRC	US\$5,000,000	90%	Property holding
Sigma Technology Holding Limited ^	Hong Kong	HK\$2	100%	Investment holding
Shaoguan Sigma Technology Company Limited ("Shaoguan Sigma")^	PRC	RMB20,000,000	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.

^ 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.



## 15. INTERESTS IN ASSOCIATES

	Group	
	2005	2004
	HK\$'000	HK\$'000
Share of net assets/(deficits)	(12,596)	4,658
Negative goodwill on acquisition ( <i>Note</i> )	–	(673)
	<u>(12,596)</u>	<u>3,985</u>
Loan to an associate	18,223	18,228
Due from associates	–	191
Due to associates	(658)	–
	<u>4,969</u>	<u>22,404</u>

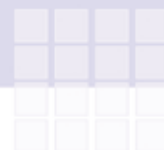
*Note:*

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 2005	<u>(3,033)</u>
Recognition as income:	
At beginning of year	(2,360)
Recognised as income during the year	<u>(673)</u>
<b>At 31 March 2005</b>	<u><b>(3,033)</b></u>
Net book value:	
<b>At 31 March 2005</b>	<u><u>–</u></u>
At 31 March 2004	<u><u>(673)</u></u>

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/(to) 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.



## 15. INTERESTS IN ASSOCIATES (continued)

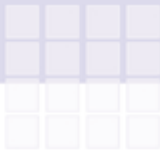
Particulars of the Group's principal associates are as follows:

Name	Business structure	Place of incorporation/ registration and operations	Paid-up share/ registered capital	Equity interest 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 disc
Shixing Concord Modern Technology Limited	Corporate	PRC	RMB50,000,000	50%	Manufacture and distribution of recordable compact disc

## 16. DEFERRED DEVELOPMENT COSTS

	Group	
	2005 HK\$'000	2004 HK\$'000
Cost:		
At beginning of year	24,048	20,871
Additions	8,619	8,864
Retirements	(6,752)	(5,687)
At balance sheet date	<u>25,915</u>	<u>24,048</u>
Accumulated amortisation:		
At beginning of year	15,328	12,999
Provided during the year	9,314	8,016
Retirements	(6,752)	(5,687)
At balance sheet date	<u>17,890</u>	<u>15,328</u>
Net book value:		
At balance sheet date	<u>8,025</u>	<u>8,720</u>
At beginning of year	<u>8,720</u>	<u>7,872</u>





## 17. INVENTORIES

	<b>Group</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Raw materials	117,471	101,045
Work in progress	25,384	17,232
Finished goods	20,595	19,037
	<u>163,450</u>	<u>137,314</u>

## 18. ACCOUNTS RECEIVABLE

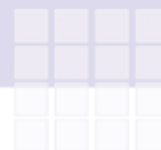
The ageing of the Group's accounts receivable is analysed as follows:

	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
0 – 30 days	50,738	33,472
31 – 60 days	5,864	12,749
61 – 90 days	8,038	2,742
Over 90 days	4,211	4,634
	<u>68,851</u>	<u>53,597</u>

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.

## 19. ACCOUNTS AND BILLS PAYABLE, ACCRUED LIABILITIES AND OTHER PAYABLES

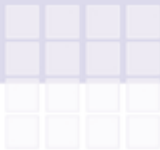
	<b>Group</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
0 – 30 days	29,664	32,562
31 – 60 days	14,593	17,012
61 – 90 days	15,630	4,937
Over 90 days	5,097	10,088
Accounts and bills payable	<u>64,984</u>	<u>64,599</u>
Accrued liabilities and other payables	<u>26,306</u>	<u>28,488</u>
	<u>91,290</u>	<u>93,087</u>



## 20. INTEREST-BEARING BANK BORROWINGS

	<b>Group</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Unsecured:		
Bank overdrafts	–	6,704
Bank loans	<b>38,600</b>	25,000
	<hr/>	<hr/>
Total bank borrowings	<b>38,600</b>	31,704
	<hr/> <hr/>	<hr/> <hr/>
Bank borrowings repayable:		
Within one year or on demand	<b>22,767</b>	18,371
In the second year	<b>13,333</b>	6,667
In the third to fifth years, inclusive	<b>2,500</b>	6,666
	<hr/>	<hr/>
	<b>38,600</b>	31,704
	<hr/> <hr/>	<hr/> <hr/>
Portion classified as current liabilities	<b>(22,767)</b>	(18,371)
	<hr/> <hr/>	<hr/> <hr/>
Non-current portion	<b>15,833</b>	13,333
	<hr/> <hr/>	<hr/> <hr/>

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



## 21. DEFERRED TAX

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

### Deferred tax liabilities

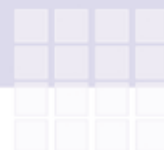
#### Group

	Accelerated tax depreciation <i>HK\$'000</i>	Revaluation of properties <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2004	16,367	6,104	22,471
Deferred tax credited to equity during the year	–	(1,529)	(1,529)
Deferred tax debited to the profit and loss account during the year ( <i>note 8</i> )	1,000	–	1,000
<b>Gross deferred tax liabilities at 31 March 2005</b>	<b>17,367</b>	<b>4,575</b>	<b>21,942</b>

### Deferred tax assets

#### Group

	Losses available for offset against future taxable profit <i>HK\$'000</i>
At 1 April 2004 and gross deferred tax assets at 31 March 2005	(8,630)
<b>Net deferred tax liabilities at 31 March 2005</b>	<b>13,312</b>



## 21. DEFERRED TAX (continued)

The movements in deferred tax liabilities and assets during the year ended 31 March 2004 are as follows:

### Deferred tax liabilities

#### Group

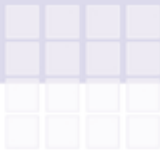
	<b>Accelerated tax depreciation</b> <i>HK\$'000</i>	<b>Revaluation of properties</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
At 1 April 2003	14,270	8,987	23,257
Deferred tax credited to equity during the year	–	(2,883)	(2,883)
Deferred tax debited to the profit and loss account during the year ( <i>note 8</i> )	2,097	–	2,097
Gross deferred tax liabilities at 31 March 2004	<u>16,367</u>	<u>6,104</u>	<u>22,471</u>

### Deferred tax assets

#### Group

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

The Group has tax losses arising in Hong Kong of HK\$16,495,000 (2004: HK\$15,919,000) 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.



## 21. DEFERRED TAX (continued)

At 31 March 2005, there was no significant unrecognised deferred tax liability (2004: 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.

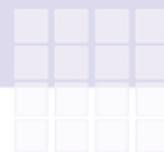
## 22. SHARE CAPITAL

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
<i>Authorised:</i>		
1,000,000,000 ordinary shares of HK\$0.10 each	<u>100,000</u>	<u>100,000</u>
<i>Issued and fully paid:</i>		
404,820,000 (2004: 404,820,000) ordinary shares of HK\$0.10 each	<u>40,482</u>	<u>40,482</u>

## 23. 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.



### 23. SHARE OPTION SCHEME (continued)

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.

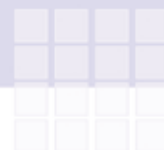
23. SHARE OPTION SCHEME (continued)

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				Exercise period	Exercise price per share HK\$	Price of Company's shares at grant date of options* HK\$
		At 1 April 2004	Exercised during the year	Lapsed during the year	At 31 March 2005			
<b>The New Scheme</b>								
Directors								
Cheng Chor Kit	14/11/2003	2,000,000	-	-	2,000,000	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
Chan Tak Yin	14/11/2003	726,000	-	(726,000)	-	14/11/2006-13/11/2013	1.592	1.60
Other employees								
In aggregate	14/11/2003	1,200,000	-	(74,000)	1,126,000	14/11/2006-13/11/2013	1.592	1.60
		<u>5,052,000</u>	<u>-</u>	<u>(800,000)</u>	<u>4,252,000</u>			
<b>The Old Scheme</b>								
Other employees								
In aggregate	6/11/1998	<u>1,760,000</u>	<u>-</u>	<u>-</u>	<u>1,760,000</u>	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 4,252,000 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 6,012,000 additional ordinary shares of the Company and additional share capital of HK\$601,200 and share premium of HK\$6,702,000 (before issue expenses).



## 24. 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 of 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.

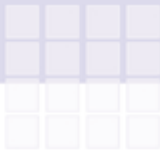
### (b) Company

	<b>Share premium account</b> <i>HK\$'000</i>	<b>Contributed surplus</b> <i>HK\$'000</i>	<b>Retained profits</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
At 1 April 2003	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)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2004				
and at beginning of year	104,441	104,750	17,370	226,561
Net profit for the year	–	–	9,685	9,685
Interim dividend	–	–	(2,024)	(2,024)
Proposed final dividend	–	–	(10,120)	(10,120)
	<hr/>	<hr/>	<hr/>	<hr/>
<b>At 31 March 2005</b>	<b><u>104,441</u></b>	<b><u>104,750</u></b>	<b><u>14,911</u></b>	<b><u>224,102</u></b>

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.





## 25. MAJOR NON-CASH TRANSACTION

On 16 March 2005, the Group entered into a sales and purchase agreement with an independent third party to dispose certain of its leasehold land and buildings at a consideration of HK\$37,779,000. An amount of HK\$3,778,000, has been received and the remaining balance of HK\$34,001,000 remained unsettled and classified as other receivable as at 31 March 2005. Such amount was subsequently settled in June 2005.

## 26. 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\$41,000,000 (2004: HK\$35,000,000) 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 15, the Group granted a loan of HK\$18,223,000 (2004: 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\$1,558,000 (2004: HK\$5,095,000) to Gimelli Laboratories Company Limited, of which Chung Chi Ping, Roy, an independent non-executive director of the Company, is a director.

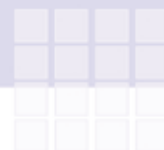
The directors consider that these sales of motors were made according to prices and conditions similar to those offered to other non-related customers of the Group.

- (d) During the year, the Group purchased raw materials of HK\$1,004,000 (2004: HK\$3,594,000) 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\$5,632,000 (2004: 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 directors 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.



## 27. OPERATING LEASE ARRANGEMENTS

### (a) As lessor

At 31 March 2005, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	<b>2005</b> <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Within one year	<b>1,337</b>	1,292
In the second to fifth years, inclusive	<b>6,089</b>	5,035
After five years	<b>2,922</b>	5,050
	<u><b>10,348</b></u>	<u>11,377</u>

### (b) As lessee

At 31 March 2005, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	<b>2005</b> <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Within one year	<b>582</b>	263
In the second to fifth years, inclusive	<b>712</b>	742
After five years	<b>444</b>	110
	<u><b>1,738</b></u>	<u>1,115</u>

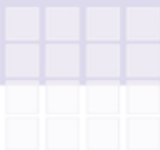
The Company did not have any operating lease arrangements at the balance sheet date (2004: Nil).

## 28. COMMITMENTS

- (i) At the balance sheet date, the Group had contracted capital commitments in respect of its wholly-owned investments in the PRC amounting to HK\$23,400,000 (2004: HK\$4,717,000).
- (ii) At the balance sheet date, the Group had contracted for capital commitments in respect of acquisition of property, plant and equipment of HK\$8,130,000 (2004: HK\$5,749,000).

The Group did not have any significant authorised, but not contracted for, capital commitments as at the balance sheet date (2004: Nil).

The Company did not have any other significant commitments at the balance sheet date (2004: Nil).



## 29. CONTINGENT LIABILITIES

At the balance sheet date, the Company had provided guarantees of HK\$185,585,000 (2004: HK\$147,000,000) and HK\$41,000,000 (2004: HK\$35,000,000) in respect of banking facilities granted to certain of its subsidiaries and associates, of which HK\$38,601,000 (2004: HK\$31,704,000) and HK\$36,697,000 (2004: nil) had been utilised as at the balance sheet date, respectively.

## 30. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 22 July 2005.