



KIN YAT HOLDINGS LIMITED
建溢集團有限公司
(Incorporated in Bermuda with limited liability)



2006 Annual Report

CONTENTS

	Pages
CORPORATE INFORMATION	2
CHAIRMAN'S STATEMENT	3 – 5
REPORT OF THE DIRECTORS	6 – 14
CORPORATE GOVERNANCE REPORT	15 – 19
REPORT OF THE AUDITORS	20
AUDITED FINANCIAL STATEMENTS	
Consolidated:	
Income statement	21
Balance sheet	22
Statement of changes in equity	23
Cash flow statement	24 – 25
Company:	
Balance sheet	26
Notes to financial statements	27 – 84

CORPORATE INFORMATION

DIRECTORS:

Executive:

Mr. CHENG Chor Kit (*Chairman*)
Mr. FUNG Wah Cheong
Mr. YUEN Wai Kwong
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
Bank of Tokyo-Mitsubishi UFJ
Standard Chartered Bank
Hang Seng 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
26th Floor
Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

CHAIRMAN'S STATEMENT

The Board of Directors is pleased to report the results of Kin Yat Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 March 2006.

GROUP RESULTS

The reporting year continued to be full of challenges but the difficult situation inspired us to work even harder to get results. Active business development, coupled with management efforts to enhance production efficiency, has helped mitigate the unfavorable market dynamics and operating difficulties.

Amid the adverse operating environment, the Group was able to achieve satisfactory growth in the toys division and steady performance in the motors division. This positive outcome would not have been possible without the dedicated effort of staff at all levels in the Group.

Turnover increased 6% to approximately HK\$778,293,000 (2005: HK\$737,015,000) for the year ended 31 March 2006, while profit attributable to equity holders of the Company was HK\$59,901,000 (2005 as restated: HK\$29,746,000). The core toys and motors divisions contributed 63% and 23% respectively in turnover to the Group during the year in review.

MANAGEMENT DISCUSSION AND ANALYSIS

Toys

The Group is pleased to report that the toys division has achieved a strong growth in segment results on a slightly improved turnover despite the continued challenging and competitive market conditions during the year in review.

Bulk orders for items deriving from a blockbuster movie helped bolster the division's revenue, but it was the Group's relentless efforts to restructure the workforce and streamline the operation flow to enhance efficiency that had paid off.

As it is the industry's tradition for orders to concentrate in the first half of the year, the Group has prepared itself in advance for a slower second half with stringent cost control and resources utilisation measures.

Despite the encouraging performance, the toys division is looking at challenging years ahead with demanding environmental factors such as high materials cost and labour shortage in the Mainland. As always, the Group is on a high alert to minimise delivery delays and unnecessary additional costs through workflow improvement efforts.

It is evident that entertainment products are the market focus of the toys industry. The Group will continue to develop new products relating to movies or animated television series to capitalise on the latest trends and to ensure our future growth. Other new product development ideas include special-featured plush and infant toys in the soft toys category.

As always, diversification is the key to minimise risk exposure and market volatility in this cyclical business. The Group will pursue this strategy not only in its product mix, but also customer and market portfolios.

CHAIRMAN'S STATEMENT

Motors

The toys industry continues to provide core support for the motors division and it remains a significant income source for the Group. Amid the backdrop of a very competitive market environment and beleaguered by rising copper, steel and other material costs as well as labor and electricity shortages in China, the motors division enjoyed a light but highly encouraging increase in both turnover and segment results.

Obviously, the Group's ongoing efforts to achieve a more balanced product portfolio and to focus on products of higher margins have helped mitigate the impact from the rising cost brought on by the rocketing metal material prices. This contributed significantly to the improved performance of the Group, and as metal prices remain on high levels, the Group will continue to strengthen its pursuit for a more favourable product balance.

The Group is also excited about the trial orders received from customers other than those in the toys industry. Though small in volume, these orders represent the beginning of potentially a major income stream and the Group is looking forward to realizing this division's long-term potential to bring more benefits to shareholders.

Materials development

This more stable business segment is highly complementary to the cyclical toys and motors divisions and represents a crucial element for vertical integration. The broader customer base achieved by the division has bolstered sales but at the same time the Group is very conscious of the need to keep its profit margin modest to enhance product appeal and attract customers. Also, as the production activities were relocated to the new plant last year, profitability was squeezed by higher depreciation and interest costs.

To further strengthen the revenue generating capability of this division, the Group will continue to develop and expand its product range to cater to wider market demands.

CDRs

The Group's 50%-owned CDR manufacturing arm managed to control its losses. While the market prices of CD-R and DVD-R have stabilised, the depressed market status is unlikely to turn around shortly and the Group is actively reviewing the strategy for this division.

PROSPECTS

Looking ahead, we are cautiously optimistic as to the prospects of the Group in the 2006/07 financial year. Our persistent efforts in business and product diversification are beginning to generate positive outcome. With a more versatile customer base and product range, and coupled with anticipated firm orders from satisfactory customers on trial orders, we are confident that the Group will be able to achieve encouraging growth in turnover and present a positive prospect and returns to our shareholders. However, the orders in the 2006/07 financial year are expected to concentrate more in the second half.

As evident from the Group's encouraging performance in the year under review, continuous product development and diversification to keep abreast of the market trends and to broaden customer base is fundamental to our continuous success. This will remain the main thrust of the Group's future growth and expansion strategy.

CHAIRMAN'S STATEMENT

PROSPECTS (continued)

Internally, the Group's efforts to enhance operating efficiency have made a visible impact on the bottom-line and this further adds momentum to our quest for improvement and achievement.

In view of the Group's strong liquidity position, its management plans to actively identify new investment opportunities after setting aside sufficient capital to fund existing operations and development plans, in a bid to maximise the return for the Group.

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\$138 million (2005: HK\$53 million). In addition, the Group currently maintains aggregate composite banking facilities of approximately HK\$147 million (2005: HK\$186 million) with various banks, of which HK\$9 million (2005: HK\$39 million) has been utilised as at 31 March 2006.

The Group continues to enjoy healthy financial position. As at 31 March 2006, the current ratio (current assets divided by current liabilities) was 3.6 times (2005: 2.7 times) and the gearing ratio (long term liabilities divided by total equity) was 2.2% (2005 as restated: 4.8%).

EMPLOYEES AND REMUNERATION POLICIES

As at 31 March 2006, 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 labour law. The Group has also put in place a share option scheme to motivate and reward performing staff. At the discretion of the Board of Directors, the Group's employees will be granted options, the amount of which is determined by performance and rank of individual employees.

APPRECIATION

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

Cheng Chor Kit
Chairman

Hong Kong
24 July 2006

The directors present their report and the audited financial statements of the Company and of the Group for the year ended 31 March 2006.

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 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 2006 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 21 to 84.

An interim dividend of HK2 cents per ordinary share was paid to shareholders on 19 January 2006. The directors recommend the payment of a final dividend of HK4 cents per ordinary share in respect of the year, to shareholders on the register of members on 23 August 2006. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section of the balance sheet.

SUMMARY FINANCIAL INFORMATION

The following is a summary of the consolidated results, assets and liabilities of the Group for the last five financial years, as extracted from the published audited financial statements of the Group. The amounts for the years ended 31 March 2002, 2003, 2004 and 2005 in the five year financial summary have been adjusted in the effects of the retrospective changes in accounting policies as detailed in note 2.2 to the financial statements. This summary does not form part of the audited financial statements.

RESULTS	Year ended 31 March				
	2006 HK\$'000	2005 HK\$'000 (Restated)	2004 HK\$'000 (Restated)	2003 HK\$'000 (Restated)	2002 HK\$'000 (Restated)
TURNOVER	778,293	737,015	624,665	794,209	785,804
PROFIT FROM OPERATIONS	85,327	55,081	26,874	83,851	122,590
Finance costs	(1,116)	(838)	(276)	(255)	(1,365)
Share of profits and losses of associates	(15,764)	(17,254)	6,711	(2,099)	(1,336)
PROFIT BEFORE TAX	68,447	36,989	33,309	81,497	119,889
Tax	(4,017)	(4,187)	(3,456)	(6,766)	(9,309)
PROFIT FOR THE YEAR	64,430	32,802	29,853	74,731	110,580
ATTRIBUTABLE TO:					
Equity holders of the Company	59,901	29,746	25,346	70,607	99,409
Minority interests	4,529	3,056	4,507	4,124	11,171
	64,430	32,802	29,853	74,731	110,580

SUMMARY FINANCIAL INFORMATION (continued)

ASSETS AND LIABILITIES	2006 HK\$'000	As at 31 March			
		2005 HK\$'000 (Restated)	2004 HK\$'000 (Restated)	2003 HK\$'000 (Restated)	2002 HK\$'000 (Restated)
NON-CURRENT ASSETS	338,061	339,182	366,854	306,122	251,519
CURRENT ASSETS	357,577	334,883	274,062	316,057	311,692
TOTAL ASSETS	695,638	674,065	640,916	622,179	563,211
CURRENT LIABILITIES	(98,016)	(122,725)	(119,069)	(113,858)	(90,957)
NON-CURRENT LIABILITIES	(12,672)	(25,151)	(22,524)	(10,320)	(8,696)
TOTAL LIABILITIES	(110,688)	(147,876)	(141,593)	(124,178)	(99,653)
NET ASSETS	584,950	526,189	499,323	498,001	463,558

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment and the investment properties of the Group are set out in notes 13 and 14 to the financial statements, respectively.

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 25 and 26 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 27 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 2006, the Company's reserves available for cash distribution and/or distribution in specie, comprising the contributed surplus and retained profits, amounted to HK\$122,116,000, of which HK\$16,192,800 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 67% of the total sales for the year and sales to the largest customer included therein amounted to 52%.

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	
Fung Wah Cheong	(appointed on 26 August 2005)
Chui Pak Shing*	
Yuen Wai Kwong	
Wong Kin Chung	
Fan Sau Leung	(resigned on 17 October 2005)

Independent non-executive directors

Chung Chi Ping, Roy
Wong Chi Wai, Albert
Sun Kwai Yu, Vivian

* Subsequent to the balance sheet date, on 12 April 2006, Chui Pak Shing resigned as a director of the Company.

In accordance with the Company's Bye-laws, Fung Wah Cheong, Wong Kin Chung and Chung Chi Ping, Roy 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 an annual 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 entered into a service contract with the Company commencing from 1 August 2005 without a fixed term but subject to termination by either party giving not less than six month's notice in writing to the other party. Wong Kin Chung entered into a service contract with the Company for terms of three years commencing from 1 April 1997, which has 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, Yuen Wai Kwong and Fung Wah Cheong entered into service contracts with the Company for terms of three years commencing from 22 April 2002, 17 December 2004 and 26 August 2005, 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. Subsequent to the balance sheet date, on 12 April 2006, Chui Pak Shing terminated the service contract with the Company.

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

As at 31 March 2006, the interests of the directors and chief executive of the Company in the shares and underlying shares 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 Issuers, were as follows:

(A) Shares

Name of director	Long position/ short position	Capacity	No. of shares held	Percentage of the Company's issued share capital
Cheng Chor Kit	Long position	Founder of a trust	275,018,000 (Note)	67.94%
Fung Wah Cheong	Long position	Beneficial owner	3,146,000	0.78%
Wong Kin Chung	Long position	Beneficial owner	3,050,000	0.75%

Note: These shares, amounting to around 67.94% 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 options granted	No. of underlying shares in respect of share options		Date of share options granted	Exercise period	Exercise price per share
				held and approximately percentage of shareholding				
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
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 26 to the financial statements.

Save as disclosed above, none of the directors and chief executive had registered an interest in the shares, underlying shares 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 Issues.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed in the share option schemes disclosures in note 26 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 SCHEMES

Details of the Company's share option schemes are disclosed in note 26 to the financial statements.

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 54, 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 also the member of the Company's remuneration committee and nomination committee. 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委員), 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.

Fung Wah Cheong, aged 50, is the Deputy Chairman of the Company and is responsible for the corporate and business management of the Group. He is also the member of the Company's remuneration committee and nomination committee. He holds a MSc degree on engineering business management and has over 20 years experience in toy industry. Before he joined the Group in April 2005, he had worked as an engineering director in a sizeable toys manufacturing and distribution company.

Yuen Wai Kwong, aged 54, 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.

Wong Kin Chung, aged 60, 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.

Chui Pak Shing, CPA (Aust.), AHKICPA, aged 38, is the Chief Executive Officer 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 the 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.

BIOGRAPHICAL DETAILS IN RESPECT OF DIRECTORS (continued)**Independent non-executive directors**

Chung Chi Ping, Roy, JP, MSc, aged 54, has been an independent non-executive director of the Company since January 1997. He is also the Chairman of the Company's remuneration committee and the member of the Company's audit committee and nomination committee. He 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 was appointed as Justice of Peace by the Hong Kong SAR Government effective on 1 July 2005. Mr. Chung won the 1997 HK Young Industrialists Award, and is currently Deputy Council Chairman of Hong Kong Polytechnic University, Vice-Chairman of the Federation of Hong Kong Industries, President of Hong Kong Young Industrialist Council Limited, a non-official member of Committee on Economic Development and Economic Cooperation with the Mainland – Commission on Strategic Development, a member of Home Affairs Bureau – Sports Commission, Council Member of Vocational Training Council, Chairman of Electronics/Electrical Appliances Industry Advisory Committee of HK Trade Development Council, Vice-Chairman of Employers' Federation of Hong Kong, Elected Council Member and Executive Committee Member of Hong Kong Management Association, a member of the Advisory Board for Lingnan University's Faculty of Business, Director of the HK Safety Institute Ltd & the HK Standards & Testing Centre Ltd, Director of HK Applied Science and Technology Research Institute Co. Ltd (ASTRI) and the Vice-Chairman of the Governing Board of the 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 40, has been an independent non-executive director of the Company since September 2004. He is also the Chairman of the Company's nomination committee and the member of the Company's audit committee and remuneration committee. He 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 18 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 44, has been an independent non-executive director of the Company since September 2004. She is also the Chairman of the Company's audit committee and the member of the Company's remuneration committee and nomination committee. She 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

As at 31 March 2006, 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 (Note)	Through a controlled corporation	275,018,000	67.94%	2,000,000

Note: These shares were held through Resplendent.

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

The details of the share options outstanding during the year are separately disclosed in note 26 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.

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 28 to the financial statements.

CORPORATE GOVERNANCE PRACTICES

Information on the Company's corporate governance practices is set out in the "Corporate Governance Report" on pages 15 to 19.

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.

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

24 July 2006

In the opinion of the directors, the Company has complied with the code provision set out in the Code of Corporate Governance Practices (the “CG Code”) contained in Appendix 14 to the Rules Governing the Listing of Securities (the “Listing Rules”) of the Stock Exchange of Hong Kong Limited throughout the year ended 31 March 2006 except for the deviations from certain code provision of the CG Code which are as follows:–

Under the code provision A.2.1, the roles of Chairman and Chief Executive Officer shall be separate and should not be performed by the same individual. The division of responsibilities between the Chairman and Chief Executive Officer should be clearly established and set out in writing. The Company has only adopted written terms of reference in relation to the division of responsibilities between the Chairman and Chief Executive Officer on 28 September 2005. Furthermore, the Company has only separated the roles of Chairman and Chief Executive Officer on 28 September 2005 by retaining Cheng Chor Kit as the Chairman and appointing Chui Pak Shing as the Chief Executive Officer.

The non-executive directors of the Company were previously not appointed for specific terms as required by the code provision A.4.1. For the purposes of complying with the CG Code, the non-executive directors of the Company have been appointed for specific terms on 28 September 2005.

Under the code provision B.1.1, a listed issuer should establish a remuneration committee with specific written terms of reference which deal clearly with its authority and duties. The Company has only set up the remuneration committee on 28 September 2005.

The Group is committed to maintain a high standard of corporate governance in order to provide transparency and protection of shareholders’ interest.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard set out in Appendix 10 of the Listing Rules (the “Model Code”). Having made specific enquiry of the Company’s directors, all directors confirmed that they have complied with the required standard set out in the Model Code and the code of conduct regarding securities transactions by directors adopted by the Company throughout the accounting period covered by the annual report.

BOARD OF DIRECTORS

As at 31 March 2006, the board of directors (the “Board”) comprised eight directors, including five executive directors and three independent non-executive directors. The biographical details of all directors of the Company are set out in the Report of the Directors under the “Biographical details in respect of Directors” section on pages 11 and 12.

The Board accepts that it is ultimately accountable and responsible for the performance and affairs of the Company. Although the Board bears overall responsibility for the Company, the management of the Company (including the executive directors) is the custodian and administrator of the day-to-day performance of the Company.

The Board has effectively overseen and monitored the activities of the Company and the decisions were made in the best interests of the Company. The Board meetings are held at least four times a year at approximately quarterly interval. During the year, there were four full board meetings and all members of the Board had attended these meetings.

Apart from the above regular board meetings of the year, the Board will meet on other occasions when a board-level decision on a particular matter is required. The directors receive details of agenda items for decision and minutes of committee meetings in advance of each board meeting. The Board has reserved for its decision or consideration matters covering corporate strategy, annual and interim results, directors’ appointment, succession planning, risk management, major acquisitions, disposals and capital transactions, and other significant operational and financial matters. Major corporate matters that are specifically delegated by the Board to the management include the preparation of annual and interim accounts for board approval before public reporting, execution of business strategies and initiatives adopted by the Board, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory requirements and rules and regulations.

The directors confirm that the Company has received from each of its independent non-executive directors an annual 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.

The directors also confirmed that there was no connection amongst the directors that should be disclosed relating to finance, business, relation or other significant events or relevant matters.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The CG Code require that the roles of the Chairman and Chief Executive Officer be separated and not performed by the same individual.

During the year under review, the Chairman of the Company was Cheng Chor Kit and the Chief Executive Officer of the Company was Chui Pak Shing.

NON-EXECUTIVE DIRECTORS' TERM OF OFFICE

The non-executive directors of the Company have been appointed for specific terms on 28 September 2005.

Chung Chi Ping, Roy, Wong Chi Wai, Albert and Sun Kwai Yu, Vivian entered into service contracts with the Company for terms of one year commencing from 28 September 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 given not less than three month's notice in writing to the other party.

REMUNERATION OF DIRECTORS

The Company has set up the remuneration committee with a particular responsibility to review the Company's remuneration policy for directors and members of the senior management. The remuneration committee currently comprises Chung Chi Ping, Roy (Chairman of the committee), Wong Chi Wai, Albert and Sun Kwai Yu, Vivian, the non-executive directors of the Company, and Cheng Chor Kit and Fung Wah Cheong, the two executive directors of the Company.

The directors' fees are subject to shareholders' approval at general meetings. Emoluments are determined by the remuneration committee with reference to the employee's duties, responsibilities and performance and the results of the Group.

The remuneration committee held one meeting during the year. During the meeting, the remuneration committee reviewed the fees payable to the directors for the 2005/06 financial year. All members of the remuneration committee had attended the meeting.

Information relating to the remuneration of each director for the year is set out in note 8 to the financial statements.

NOMINATION COMMITTEE

The Nomination Committee was set up on 28 September 2005 with specific terms of reference. The nomination committee currently comprises Wong Chi Wai, Albert (Chairman of the committee), Chung Chi Ping, Roy and Sun Kwai Yu, Vivian, the non-executive directors of the Company, and Cheng Chor Kit and Fung Wah Cheong, the two executive directors of the Company. The nomination committee meets at least once each year.

The nomination committee is responsible for recommending to the Board all new appointments of directors.

The nomination committee considers the past performance and qualification of the candidates for directors, general market conditions and the Company's Bye-laws in selecting and recommending candidates for directorship during the year under review.

During the year, the nomination committee held one full committee meeting and all members of the committee had attended the meeting.

NOMINATION COMMITTEE (continued)

During the meeting, the nomination committee considered and resolved that all the existing directors shall be recommended to be retained by the Company. Further, in accordance with the Company's Bye-laws and as resolved by the nomination committee, Fung Wah Cheong, Wong Kin Chung and Chung Chi Ping, Roy will retire, and being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company.

AUDITORS' REMUNERATION

During the year, the fees payable to Ernst & Young, the Company's external auditors, for audit services and taxation service totalled to HK\$918,000 (2005: HK\$818,000) and HK\$160,000 (2005: HK\$162,000), respectively.

AUDIT COMMITTEE

The Company has an audit committee with terms of reference revised to align with the provisions of the CG Code as set out in Appendix 14 of the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls.

As at the date of this report, the audit committee comprised Sun Kwai Yu, Vivian (Chairman of the committee), Chung Chi Ping, Roy and Wong Chi Wai, Albert, the three independent non-executive directors, and the Chairman of the audit committee has the required appropriate professional financial qualifications and experience.

During the year, the audit committee reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters, including the review of audited accounts for the year ended 31 March 2005 and the interim financial report for the six months ended 30 September 2005.

The audit committee held two full committee meetings during the year and all members of the committee had attended the meetings.

FINANCIAL REPORTING

The directors acknowledge their responsibility to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group.

As at 31 March 2006, the directors are not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern. Accordingly, the directors have prepared the financial statements of the Company on a going concern basis.

The responsibilities of the external auditors with respect to financial reporting are set out in the Report of the Auditors on page 20.

INTERNAL CONTROLS

The Board has the overall responsibilities of maintaining a sound and effective internal control system for the Group. The Group's system of internal control includes a defined management structure with limits of authority. The system is designed to help the Group achieve business objectives, safeguard assets against unauthorised use, ensure the maintenance of proper accounting records for the provision of reliable financial information, and ensure the compliance with relevant legislation and regulations. The system is designed to manage risks of failure in operational systems and foster achievement of corporate objectives.



安永會計師事務所

To the members

Kin Yat Holdings Limited

(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 21 to 84 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 Hong Kong Standards on Auditing 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 2006 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

24 July 2006

INCOME STATEMENT

YEAR ENDED 31 MARCH 2006

	Notes	2006 HK\$'000	2005 HK\$'000 (Restated)
TURNOVER	5	778,293	737,015
Cost of sales		<u>(628,507)</u>	<u>(624,360)</u>
Gross profit		149,786	112,655
Other income and gains		13,446	27,292
Selling and distribution expenses		(20,608)	(24,580)
Administrative expenses		(57,297)	(60,286)
PROFIT FROM OPERATIONS		85,327	55,081
Finance costs	6	(1,116)	(838)
Share of profits and losses of associates		(15,764)	(17,254)
PROFIT BEFORE TAX	7	68,447	36,989
Tax	9	(4,017)	(4,187)
PROFIT FOR THE YEAR		64,430	32,802
ATTRIBUTABLE TO:			
Equity holders of the Company	10	59,901	29,746
Minority interests		4,529	3,056
		64,430	32,802
DIVIDENDS	11		
Interim		8,096	2,024
Proposed final		16,193	10,120
		24,289	12,144
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	12		
Basic		HK14.80 cents	HK7.35 cents
Diluted		HK14.76 cents	HK7.33 cents

BALANCE SHEET

31 MARCH 2006

	Notes	2006 HK\$'000	2005 HK\$'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	13	298,472	310,163
Investment properties	14	25,800	–
Prepaid land lease payments	15	13,017	11,375
Goodwill	16	4,650	4,650
Interests in associates	18	(10,501)	4,969
Deferred development costs	19	6,623	8,025
Total non-current assets		<u>338,061</u>	<u>339,182</u>
CURRENT ASSETS			
Inventories	20	149,939	163,450
Accounts receivable	21	53,430	68,851
Prepayments, deposits and other receivables		15,893	50,015
Time deposits		86,889	13,025
Cash and bank balances		51,426	39,542
Total current assets		<u>357,577</u>	<u>334,883</u>
CURRENT LIABILITIES			
Accounts and bills payable, accrued liabilities and other payables	22	80,225	91,290
Interest-bearing bank borrowings	23	9,434	22,767
Tax payable		8,357	8,668
Total current liabilities		<u>98,016</u>	<u>122,725</u>
NET CURRENT ASSETS		<u>259,561</u>	<u>212,158</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>597,622</u>	<u>551,340</u>
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	23	–	15,833
Deferred tax liabilities	24	12,672	9,318
Total non-current liabilities		<u>12,672</u>	<u>25,151</u>
NET ASSETS		<u>584,950</u>	<u>526,189</u>
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	25	40,482	40,482
Reserves	27(a)	510,819	461,660
Proposed final dividend	11	16,193	10,120
		<u>567,494</u>	<u>512,262</u>
Minority interests		<u>17,456</u>	<u>13,927</u>
TOTAL EQUITY		<u>584,950</u>	<u>526,189</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 MARCH 2006

	Attributable to equity holders of the Company										
	Share capital HK\$'000	Share premium account HK\$'000	Share option reserve HK\$'000	Asset revaluation reserve HK\$'000	Reserves Capital reserve on consolidation HK\$'000	Contributed surplus HK\$'000	Retained profits HK\$'000	Total reserves HK\$'000	Proposed final dividend HK\$'000	Minority interests HK\$'000	Total equity HK\$'000
At 1 April 2004											
As previously reported	40,482	104,441	-	28,409	1,599	6,150	313,169	453,768	4,048	12,419	510,717
Prior year adjustments due to changes in accounting policies (note 2.4(b))	-	-	-	(22,576)	-	-	11,633	(10,943)	-	62	(10,881)
As restated	40,482	104,441	-	5,833	1,599	6,150	324,802	442,825	4,048	12,481	499,836
Revaluation deficit, net	-	-	-	(1,439)	-	-	-	(1,439)	-	-	(1,439)
Revaluation reserve released on disposal	-	-	-	(358)	-	-	358	-	-	-	-
Total income and expenses not recognised in the income statement (as restated)	-	-	-	(1,797)	-	-	358	(1,439)	-	-	(1,439)
Profit for the year (as restated)	-	-	-	-	-	-	29,746	29,746	-	3,056	32,802
Total income and expenses for the year	-	-	-	(1,797)	-	-	30,104	28,307	-	3,056	31,363
Capital contribution by minority shareholders	-	-	-	-	-	-	-	-	-	390	390
Dividend paid to minority shareholders	-	-	-	-	-	-	-	-	-	(2,000)	(2,000)
Final dividend declared	-	-	-	-	-	-	-	-	(4,048)	-	(4,048)
Deferred tax credited to revaluation reserve	-	-	-	872	-	-	-	872	-	-	872
Equity-settled share option expenses	-	-	1,800	-	-	-	-	1,800	-	-	1,800
Interim dividend paid	-	-	-	-	-	-	(2,024)	(2,024)	-	-	(2,024)
Proposed final dividend	-	-	-	-	-	-	(10,120)	(10,120)	10,120	-	-
At 31 March 2005	40,482	104,441	1,800	4,908	1,599	6,150	342,762	461,660	10,120	13,927	526,189
At 1 April 2005											
As previously reported	40,482	104,441	-	26,273	1,599	6,150	332,149	470,612	10,120	13,769	534,983
Opening adjustment due to changes in accounting policies (note 2.4(b))	-	-	-	-	(1,599)	-	1,599	-	-	-	-
Prior year adjustments due to changes in accounting policies (note 2.4(b))	-	-	1,800	(21,365)	-	-	10,613	(8,952)	-	158	(8,794)
As restated	40,482	104,441	1,800	4,908	-	6,150	344,361	461,660	10,120	13,927	526,189
Revaluation surplus, net (note 13)	-	-	-	4,984	-	-	-	4,984	-	-	4,984
Revaluation surplus, net (note 14)	-	-	-	9,717	-	-	-	9,717	-	-	9,717
Total income and expenses not recognised in the income statement	-	-	-	14,701	-	-	-	14,701	-	-	14,701
Profit for the year	-	-	-	-	-	-	59,901	59,901	-	4,529	64,430
Total income and expenses for the year	-	-	-	14,701	-	-	59,901	74,602	-	4,529	79,131
Dividend paid to minority shareholders	-	-	-	-	-	-	-	-	-	(1,000)	(1,000)
Final dividend declared	-	-	-	-	-	-	-	-	(10,120)	-	(10,120)
Deferred tax debited to revaluation reserve (note 24)	-	-	-	(2,154)	-	-	-	(2,154)	-	-	(2,154)
Equity-settled share option expenses	-	-	1,000	-	-	-	-	1,000	-	-	1,000
Interim dividend paid	-	-	-	-	-	-	(8,096)	(8,096)	-	-	(8,096)
Proposed final dividend	-	-	-	-	-	-	(16,193)	(16,193)	16,193	-	-
At 31 March 2006	40,482	104,441	2,800	17,455	-	6,150	379,973	510,819	16,193	17,456	584,950

CASH FLOW STATEMENT

YEAR ENDED 31 MARCH 2006

	<i>Notes</i>	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i> (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		68,447	36,989
Adjustments for:			
Finance costs	6	1,116	838
Share of profits and losses of associates		15,764	17,254
Interest income	7	(3,212)	(145)
Depreciation	7	42,257	41,482
Amortisation of prepaid land lease payments	7	248	227
Loss/(gain) on disposal of items of property, plant and equipment	7	13	(16,452)
Amortisation of deferred development costs	7	7,716	9,314
Equity-settled share option expenses	7	1,000	1,800
Goodwill amortisation	7	–	2,326
Negative goodwill recognised as income	7	–	(673)
Surplus on revaluation of leasehold land and buildings, net	7	(3,494)	(543)
Operating profit before working capital changes		129,855	92,417
Decrease/(increase) in inventories		13,511	(26,136)
Decrease/(increase) in accounts receivable		15,421	(15,254)
Decrease in prepayments, deposits and other receivables		34,143	4,561
Decrease/(increase) in amounts due from associates		(258)	196
Increase/(decrease) in amounts due to associates		(36)	658
Decrease in accounts and bills payable, accrued liabilities and other payables		(11,065)	(1,797)
Cash generated from operations		181,571	54,645
Interest received		3,212	145
Interest paid		(1,116)	(838)
Hong Kong profits tax paid		(2,636)	(1,574)
Overseas income taxes paid		(492)	(556)
Dividends paid		(18,216)	(6,072)
Dividends paid to minority shareholders		(1,000)	(2,000)
Net cash inflow from operating activities		161,323	43,750

CASH FLOW STATEMENT

YEAR ENDED 31 MARCH 2006

	<i>Notes</i>	2006 HK\$'000	2005 HK\$'000 (Restated)
Net cash inflow from operating activities		<u>161,323</u>	<u>43,750</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	13	(37,283)	(55,373)
Additions to prepaid land lease payments	15	(2,874)	(554)
Additions to deferred development costs	19	(6,314)	(8,619)
Proceeds from disposal of items of property, plant and equipment		62	3,490
Capital contribution by minority interests		–	390
Net cash outflow from investing activities		<u>(46,409)</u>	<u>(60,666)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loan		–	62,264
Repayment of bank loan		(29,166)	(48,664)
Net cash inflow/(outflow) from financing activities		<u>(29,166)</u>	<u>13,600</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		85,748	(3,316)
Cash and cash equivalents at beginning of year		<u>52,567</u>	<u>55,883</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u><u>138,315</u></u>	<u><u>52,567</u></u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		51,426	39,542
Time deposits with original maturity of less than three months when acquired		86,889	13,025
		<u><u>138,315</u></u>	<u><u>52,567</u></u>

BALANCE SHEET

31 MARCH 2006

	Notes	2006 HK\$'000	2005 HK\$'000 (Restated)
NON-CURRENT ASSETS			
Interests in subsidiaries	17	<u>256,628</u>	<u>265,317</u>
CURRENT ASSETS			
Bank balances		86	30
Prepayment		3	5
Dividends receivable		14,000	10,000
Tax recoverable		<u>–</u>	<u>56</u>
Total current assets		<u>14,089</u>	<u>10,091</u>
CURRENT LIABILITIES			
Other payables		<u>878</u>	<u>704</u>
NET CURRENT ASSETS			
		<u>13,211</u>	<u>9,387</u>
NET ASSETS			
		<u>269,839</u>	<u>274,704</u>
EQUITY			
Share capital	25	40,482	40,482
Reserves	27(b)	213,164	224,102
Proposed final dividend	11	<u>16,193</u>	<u>10,120</u>
TOTAL EQUITY			
		<u>269,839</u>	<u>274,704</u>

Cheng Chor Kit
Director

Fung Wah Cheong
Director

1. CORPORATE INFORMATION

Kin Yat Holdings Limited is a limited liability company incorporated in Bermuda. The registered office of the Company is located at 7th Floor, Galaxy Factory Building, 25-27 Luk Hop Street, San Po Kong, Kowloon, Hong Kong.

The principal activity of the Company is investment holding. The Group was principally involved in the design, manufacture and sale of toys, motors, electrical 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 ultimate holding company of the Group.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), 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 leasehold land and buildings and investment properties, which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK\$") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 March 2006. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. 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.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The following new and revised HKFRSs affect the Group and are adopted for the first time for the current year's financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKAS 40	Investment Property
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HK(SIC)-Int 21	Income Taxes – Recovery of Revalued Non-depreciable Assets
HK-Int 4	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases

The adoption of HKASs 2, 7, 8, 10, 12, 14, 16, 18, 19, 21, 23, 27, 28, 31, 32, 33, 37, 38, 39, 39 Amendment, 40, HK(SIC)-Int 21 and HK-Int 4 has had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

HKAS 1 has affected the presentation of minority interests on the face of the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity and other disclosures. In addition, in prior periods, the Group's share of tax attributable to associates was presented as a component of the Group's total tax charge/(credit) in the consolidated income statement. Upon the adoption of HKAS 1, the Group's share of the post-acquisition results of associates is presented net of the Group's share of tax attributable to associates.

HKAS 24 has expanded the definition of related parties and affected the Group's related party disclosures.

The impact of adopting the other HKFRSs is summarised as follows:

(a) HKAS 17 – Leases

In prior years, leasehold land and buildings held for own use were stated at valuation less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17, the Group's leasehold interest in land and buildings is separated into leasehold land and buildings. The Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and is reclassified from property, plant and equipment to prepaid land lease payments, while buildings continue to be classified as part of property, plant and equipment. Prepaid land premiums for land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment. The directors consider that no reliable source of such allocation of lease payments could be obtained for the leasehold land and buildings situated in Hong Kong and accordingly, the land and buildings elements in Hong Kong have not been separated.

As the leasehold land situated in the People's Republic of China (the "PRC") was revalued at open market value in prior years and was depreciated on the market value, the Group has restated the comparative amounts to reflect the reclassification retrospectively for the earliest periods presented in the financial statements. The effects of the above changes are summarised in note 2.4 to the financial statements.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

(b) HKFRS 2 – Share-based Payment

In prior years, no recognition and measurement of share-based payment transactions in which employees (including directors) were granted share options over shares in the Company were required until such options were exercised by employees, at which time the share capital and share premium were credited with the proceeds received.

Upon the adoption of HKFRS 2, when employees (including directors) render services as consideration for equity instruments (“equity-settled transactions”), the cost of the equity-settled transactions with employees is measured by reference to the fair value at the date at which the instruments are granted. The fair value is determined by directors using the binomial model.

The main impact of HKFRS 2 on the Group is the recognition of the cost of these transactions and a corresponding entry to equity for employee share options. The revised accounting policy for share-based payment transactions is described in more detail in note 2.5 “Summary of significant accounting policies” below.

The Group has adopted the transitional provisions of HKFRS 2 under which the new measurement policies have not been applied to (i) options granted to employees on or before 7 November 2002; and (ii) options granted to employees after 7 November 2002 but which had vested before 1 April 2005.

As the Group has the employee share options, which were granted during the period after 7 November 2002 but had not yet vested as at 1 April 2005, upon the adoption of HKFRS 2, the comparative amounts for the year ended 31 March 2005 have been restated retrospectively to reflect the cost of options which were granted during the period.

The effects of adopting HKFRS 2 are summarised in note 2.4 to the financial statements.

(c) HKFRS 3 – Business Combinations and HKAS 36 – Impairment of Assets

In prior years, goodwill and negative goodwill arising on acquisitions prior to 1 January 2001 were eliminated against the consolidated retained profits and credited to the consolidated capital reserve, respectively, in the year of acquisition and were not recognised in the income statement until disposal or impairment of the acquired businesses.

Goodwill arising on acquisitions on or after 1 January 2001 was capitalised and amortised on the straight-line basis over its estimated useful life and was subject to impairment testing when there was any indication of impairment. Negative goodwill was carried in the balance sheet and was recognised in the consolidated income statement on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

(c) HKFRS 3 – Business Combinations and HKAS 36 – Impairment of Assets (continued)

The adoption of HKFRS 3 and HKAS 36 has resulted in the Group ceasing annual goodwill amortisation and commencing testing for impairment at the cash-generating unit level annually (or more frequently if events or changes in circumstances indicate that the carrying value may be impaired).

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries (previously referred to as negative goodwill), after reassessment, is recognised immediately in the income statement.

The transitional provisions of HKFRS 3 have required the Group to eliminate at 1 April 2005 the carrying amounts of accumulated amortisation with a corresponding adjustment to the cost of goodwill and to derecognise at 1 April 2005 the carrying amounts of negative goodwill (including that remaining in the consolidated capital reserve) against retained profits. Goodwill previously eliminated against the retained profits remains eliminated against the retained profits and is not recognised in the income statement when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

The effects of the above changes are summarised in note 2.4 to the financial statements. In accordance with the transitional provisions of HKFRS 3, comparative amounts have not been restated.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1 April 2006:

HKAS 1 Amendment	Capital Disclosures
HKAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKFRS 7	Financial Instruments: Disclosures

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 April 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 requires disclosures relating to financial instruments and incorporates many of the disclosure requirements of HKAS 32 relating. This HKFRS shall be applied for annual periods beginning on or after 1 April 2007.

In accordance with the amendments to HKAS 39 regarding financial guarantee contracts, financial guarantee contracts are initially recognised at fair value and are subsequently measured at the higher of (i) the amount determined in accordance with HKAS 37 and (ii) the amount initially recognised, less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18. The adoption of the amendments to HKAS 39 regarding financial guarantee contracts is expected to result in the recognition of a financial liability in the Company's balance sheet in respect of corporate guarantees given by the Company in connection with banking facilities granted to its subsidiaries in the year of initial application.

Except as stated above, the Group expects that the adoption of the other pronouncements listed above will not have any significant impact on the Group's financial statements in the period of initial application.

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

(a) Effect on the consolidated balance sheet

At 1 April 2005	<u>Effect of adopting HKAS 17#</u>
Effect of new policy (Increase/(decrease))	Prepaid land lease payments <i>HK\$'000</i>
Assets	
Property, plant and equipment	(24,390)
Prepaid land lease payments	11,602
	<u>(12,788)</u>
Liabilities/equity	
Deferred tax liabilities	(3,994)
Reserves	(8,952)
Minority interests	158
	<u>(12,788)</u>

Adjustments/presentation taken effect retrospectively

At 31 March 2006	<u>Effect of adopting</u>		
Effect of new policies (Increase/(decrease))	HKAS 17	HKFRS 3	Total
	Prepaid land lease payments	Discontinuation of amortisation of goodwill	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Assets			
Property, plant and equipment	(24,390)	–	(24,390)
Prepaid land lease payments	11,602	–	11,602
Goodwill	–	2,326	2,326
			<u>(10,462)</u>
Liabilities/equity			
Deferred tax liabilities	(3,994)	–	(3,994)
Reserves	(8,952)	2,326	(6,626)
Minority interests	158	–	158
			<u>(10,462)</u>

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

(continued)

(b) Effect on the balances of equity at 1 April 2004 and 1 April 2005

Effect of new policies (Increase/(decrease))	Effect of adopting			Total HK\$'000
	HKAS 17 Prepaid land lease payments HK\$'000	HKFRS 2 Employee share option scheme HK\$'000	HKFRS 3 Recognised negative goodwill as income HK\$'000	
At 1 April 2004				
Asset revaluation reserve	(22,576)	–	–	(22,576)
Retained profits	11,633	–	–	11,633
Minority interests	62	–	–	62
				<u>(10,881)</u>
At 1 April 2005				
Asset revaluation reserve	(21,365)	–	–	(21,365)
Capital reserve on consolidation	–	–	(1,599)	(1,599)
Share option reserve	–	1,800	–	1,800
Retained profits	12,413	(1,800)	1,599	12,212
Minority interests	158	–	–	158
				<u>(8,794)</u>

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

(continued)

(c) Effect on the consolidated income statement for the years ended 31 March 2006 and 2005

	Effect of adopting				Total HK\$'000
	HKAS 1	HKAS 17	HKFRS 2	HKFRS 3	
	Presentation of financial statements HK\$'000	Prepaid land lease payments HK\$'000	Employee share option scheme HK\$'000	Discontinuation of amortisation of goodwill HK\$'000	
Effect of new policies (Increase)/(decrease) in profit					
Year ended 31 March 2006					
Decrease in cost of sales	-	470	-	-	470
(Increase)/decrease in administrative expenses	-	-	(1,000)	2,326	1,326
Total increase/(decrease) in profit	<u>-</u>	<u>470</u>	<u>(1,000)</u>	<u>2,326</u>	<u>1,796</u>
Increase/(decrease) in basic earnings per share	HK cent	0.12	(0.25)	0.57	0.44
Increase/(decrease) in diluted earnings per share	HK cent	0.12	(0.25)	0.57	0.44
Year ended 31 March 2005					
Decrease in cost of sales	-	869	-	-	869
(Increase)/decrease in administrative expenses	-	7	(1,800)	-	(1,793)
Decrease in share of profits and losses of associates	(518)	-	-	-	(518)
Decrease in tax	518	-	-	-	518
Total increase/(decrease) in profit	<u>-</u>	<u>876</u>	<u>(1,800)</u>	<u>-</u>	<u>(924)</u>
Increase/(decrease) in basic earnings per share	HK cent	0.22	(0.44)	-	(0.22)
Increase/(decrease) in diluted earnings per share	HK cent	0.22	(0.44)	-	(0.22)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity 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 income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture 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'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 is treated as:

- (a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;
- (b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;
- (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's registered capital and is in a position to exercise significant influence over the joint venture; and
- (d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Associates

An associate is an entity, 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 income statement 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 arising from the acquisition of associates, which was not previously eliminated in the consolidated reserves, is included as part of the Group's interests in associates.

Goodwill

Goodwill arising on acquisition of subsidiaries and associates represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill on acquisitions for which the agreement date is on or after 1 January 2005

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses. In the case of associates, goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

Goodwill previously eliminated against the consolidated reserves

Prior to the adoption of SSAP 30 "Business Combinations" in 2001, goodwill arising on acquisition was eliminated against the consolidated retained profits in the year of acquisition. On the adoption of HKFRS 3, such goodwill remains eliminated against the consolidated retained profits and is not recognised in the income statement when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

Excess over the cost of business combinations ("Negative Goodwill") (applicable to business combinations for which the agreement date is on or after 1 January 2005)

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries and associates, after reassessment, is recognised immediately in the income statement.

The excess for associates is included in the Group's share of the associates' profit or loss in the period in which the investments are acquired.

Impairment of assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets, investment properties and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that 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 such impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Property, plant and equipment and depreciation**

Property, plant and equipment, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment 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 items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement 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 an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment 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 income statement. Any subsequent revaluation surplus is credited to the income statement to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Medium term leasehold land and buildings in Hong Kong	Over the shorter of remaining lease terms and 4%
Medium term 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%

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

Investment properties are interests in land and buildings held (including the leasehold interest under an operating lease for property which would otherwise meet the definition of an investment property) to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date.

Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

If the property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment and depreciation" up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with the policy stated under "Property, plant and equipment and depreciation" above.

Intangible assets (other than goodwill)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill) (continued)

Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. 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.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

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 income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases net of any incentives received from the lessor are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (applicable to the year ended 31 March 2006)

Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss and loans and receivables, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, i.e., the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Impairment of financial assets (applicable to the year ended 31 March 2006)

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets (applicable to the year ended 31 March 2006)

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Derecognition of financial liabilities (applicable to the year ended 31 March 2006)

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax

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

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases 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 in a transaction that is not a business combination 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, 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 credits 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 credits 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 that is not a business combination 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.

2.5 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 reassessed at each balance sheet date and 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.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries and associates are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowings costs

Borrowing costs are generally expensed as incurred.

Employee benefits

Share-based payment transactions

The Company operates share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by directors using a binomial model, further details of which are given in note 26 to the financial statements. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Share-based payment transactions (continued)

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

The Group has adopted the transitional provisions of HKFRS 2 in respect of equity-settled awards and has applied HKFRS 2 only to equity-settled awards granted after 7 November 2002 that had not vested on 1 April 2005 and to those granted on or after 1 April 2005.

Paid leave carried forward

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

Employment Ordinance long service payments

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

A provision is recognised in respect of probable future long 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 schemes

The Group continues to operate a defined contribution scheme (the "Scheme") for its employees, the assets of which are held separately from those of the Group in an independently administered fund. Contributions are made based on a percentage of the eligible employees' salaries and are charged to the income statement 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 has 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 income statement as they become payable in accordance with government regulations. The Group's mandatory contributions are fully and immediately vested in favour of the employees.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Retirement benefits schemes (continued)

Certain employees of the Group's subsidiaries in 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 income statement as they become payable in accordance with the rules of the Retirement Scheme.

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 an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset;
- (c) from the sale of property, when the legally binding sales contract is signed;
- (d) rental income, on a time proportion basis over lease terms; and
- (e) dividend income, when the shareholder's 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 equity 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Related parties**

A party is considered to be related to the Group if:

- (a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;
- (b) the party is an associate;
- (c) the party is a jointly-controlled entity;
- (d) the party is a member of the key management personnel of the Group or its holding companies;
- (e) the party is a close member of the family of any individual referred to in (a) or (d); or
- (f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

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.

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Operating lease commitments – Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Estimation uncertainty

Provision for obsolete inventories

The management of the Group reviews an aged analysis at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production and sales. The management estimates the net realisable value for such finished goods and work in progress based primarily on the latest invoice prices and current market conditions.

Impairment allowances for bad and doubtful debts

Impairment allowances for bad and doubtful debts are made based on assessment of the recoverability of trade receivables and other receivables. The identification of doubtful debts requires management judgement and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying value of the receivables and doubtful debt expenses/write-back in the period in which such estimate has been changed.

Estimation of fair value of leasehold land and buildings and investment properties

As described in notes 13 and 14, the leasehold land and buildings and the investment properties were revalued at the balance sheet date on market value existing state basis by independent professional valuers, respectively. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the judgement, the Group considers information from current prices in an active market for similar properties and uses assumptions that are mainly based on market conditions existing at each balance sheet date.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. As at 31 March 2006, the carrying amount of goodwill was HK\$4,650,000. Details of the recoverable amount calculation are disclosed in note 16.

Income tax

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

Deferred tax assets are recognised for unused tax losses carried forward to the extent that it is probable (that is, more likely than not) that future taxable profits will be available against which the unused tax losses can be utilised, based on all available evidence. Recognition primarily involves judgement regarding the future performance of the particular legal entity or tax group in which the deferred tax asset has been recognised. A variety of other factors are also evaluated in considering whether there is convincing evidence that it is probable that some portion or all of the deferred tax assets will ultimately be realised, such as the existence of taxable temporary differences, tax planning strategies and the periods in which estimated tax losses can be utilised. The carrying amount of deferred tax assets and related financial models and budgets are reviewed at each balance sheet date and to the extent that there is insufficient convincing evidence that sufficient taxable profits will be available within the utilisation periods to allow utilisation of the carryforward tax losses, the asset balance will be reduced and charged to the income statement.

4. SEGMENT INFORMATION

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

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

- (a) the toys and 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 appliances segment consisted of manufacture and sale of electrical 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.

4. 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 for the years ended 31 March 2006 and 2005.

Group	Toys and related products		Motors		Electrical appliances		Material development		Eliminations		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	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	491,464	467,039	179,701	170,802	57,976	71,997	49,152	27,177	-	-	778,293	737,015
Inter-segment sales	-	-	5,192	6,730	-	-	-	-	(5,192)	(6,730)	-	-
Other income and gains	4,818	4,963	2,834	2,721	-	71	125	213	-	-	7,777	7,968
Total	<u>496,282</u>	<u>472,002</u>	<u>187,727</u>	<u>180,253</u>	<u>57,976</u>	<u>72,068</u>	<u>49,277</u>	<u>27,390</u>	<u>(5,192)</u>	<u>(6,730)</u>	<u>786,070</u>	<u>744,983</u>
Segment results	<u>44,471</u>	<u>5,217</u>	<u>40,872</u>	<u>37,207</u>	<u>(907)</u>	<u>690</u>	<u>2,270</u>	<u>2,720</u>	<u>-</u>	<u>-</u>	<u>86,706</u>	<u>45,834</u>
Interest and unallocated gains											5,669	19,324
Unallocated expenses											(7,048)	(10,077)
Profit from operations											85,327	55,081
Finance costs											(1,116)	(838)
Share of profits and losses of associates											(15,764)	(17,254)
Profit before tax											68,447	36,989
Tax											(4,017)	(4,187)
Profit for the year											<u>64,430</u>	<u>32,802</u>

31 MARCH 2006

4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group	Toys and related products		Motors		Electrical appliances		Material development		Eliminations		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	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 assets	342,757	378,472	148,163	168,674	44,689	48,391	35,636	30,598	(36,929)	(55,652)	534,316	570,483
Unallocated assets											161,322	103,582
Total assets											695,638	674,065
Segment liabilities	50,754	79,300	28,882	25,644	15,747	18,556	20,724	22,278	(36,929)	(55,652)	79,178	90,126
Unallocated liabilities											31,510	57,750
Total liabilities											110,688	147,876
Other segment information:												
Depreciation and amortisation	35,888	37,578	11,126	10,370	1,593	1,629	1,506	662	-	-	50,113	50,239
Amortisation of goodwill	-	-	-	2,326	-	-	-	-	-	-	-	2,326
Unallocated amounts											108	784
											50,221	53,349
Capital expenditure	32,983	37,383	8,455	19,527	966	1,323	4,067	6,313	-	-	46,471	64,546
Deficit/(surplus) on revaluation of leasehold land and buildings	-	-	(1,524)	(484)	-	-	139	111	-	-	(1,385)	(373)
Unallocated amounts											(2,109)	(170)
											(3,494)	(543)
Deficit/(surplus) on revaluation recognised directly in equity	(4,984)	1,439	-	-	-	-	-	-	-	-	(4,984)	1,439
Unallocated amounts											(9,717)	-
											(14,701)	1,439

6. FINANCE COSTS

	Group	
	2006	2005
	HK\$'000	HK\$'000
Interest on bank loans wholly repayable within five years	<u>1,116</u>	<u>838</u>

7. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	2006	2005
	HK\$'000	HK\$'000 (Restated)
Auditors' remuneration	918	818
Depreciation	42,257	41,482
Amortisation of prepaid land lease payments	248	227
Amortisation of deferred development costs *	7,716	9,314
Amortisation of goodwill **	–	2,326
Negative goodwill recognised as income during the year ***	–	(673)
Minimum lease payments under operating leases in respect of land and buildings	1,916	2,036
Loss/(gain) on disposal of items of property, plant and equipment, net ****	13	(16,452)
Employee benefits expense (including directors' remuneration – note 8):		
Wages and salaries	109,212	107,872
Equity-settled share option expenses	1,000	1,800
Pension scheme contributions	1,208	1,458
	<u>111,420</u>	<u>111,130</u>
Surplus on revaluation of leasehold land and buildings, net *****	(3,494)	(543)
Foreign exchange differences, net	(304)	1,453
Bank interest income	(3,212)	(145)
Gross and net rental income	<u>(5,015)</u>	<u>(3,405)</u>

7. PROFIT BEFORE TAX (continued)

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 is included in "Cost of sales" on the face of the consolidated income statement.
- ** The amortisation of goodwill for the prior year is included in "Administrative expenses" on the face of the consolidated income statement.
- *** The negative goodwill recognised in the income statement for the prior year is included in "Administrative expenses" on the face of the consolidated income statement.
- **** The loss/(gain) on disposal of items of property, plant and equipment is included in "Other income and gains" on the face of the consolidated income statement.
- ***** The surplus on revaluation of leasehold land and buildings, net, is included in "Administrative expenses" on the face of the consolidated income statement.

8. DIRECTORS' REMUNERATION AND HIGHEST PAID EMPLOYEES

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 Companies Ordinance, is as follows:

	Group	
	2006	2005
	HK\$'000	HK\$'000
		(Restated)
Fees	300	263
Other emoluments:		
Salaries, allowances and benefits in kind	6,940	4,663
Equity-settled share option benefits	717	1,384
Pension scheme contributions	275	237
	7,932	6,284
	8,232	6,547

On 14 November 2003, certain directors were granted share options with exercise period from 14 November 2006 to 13 November 2013, in respect of their services to the Group, under the share option schemes of the Company, further details of which are set out in note 26. The fair value of such options, which has been amortised to the income statement, was determined as at the date of the grant and was included in the above directors' remuneration disclosures.

8. DIRECTORS' REMUNERATION AND HIGHEST PAID EMPLOYEES (continued)**(a) Independent non-executive directors**

The fees paid to independent non-executive directors during the year were as follows:

	2006 HK\$'000	2005 <i>HK\$'000</i>
Chung Chi Ping, Roy	100	100
Wong Chi Wai, Albert	100	50
Sun Kwai Yu, Vivian	100	50
Lam Shuet Ching, Gloria	–	63
	<u>300</u>	<u>263</u>

There were no other emoluments payable to the independent non-executive directors during the year (2005: Nil).

(b) Executive directors

	2006				2005
	Salaries, allowances and benefits in kind HK\$'000	Equity-settled share option benefits HK\$'000	Pension scheme contributions HK\$'000	Total remuneration HK\$'000	Total remuneration HK\$'000 (Restated)
Cheng Chor Kit	2,488	561	114	3,163	1,954
Chui Pak Shing	1,484	59	75	1,618	1,136
Fung Wah Cheong	1,017	–	7	1,024	–
Yuen Wai Kwong	1,040	–	12	1,052	243
Wong Kin Chung	520	88	36	644	666
Fan Sau Leung	391	9	31	431	975
Chan Tak Yin	–	–	–	–	1,310
	<u>6,940</u>	<u>717</u>	<u>275</u>	<u>7,932</u>	<u>6,284</u>

8. DIRECTORS' REMUNERATION AND HIGHEST PAID EMPLOYEES (continued)

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2005: Nil).

The six highest paid individuals during the year included four (2005: three) directors, details of whose remuneration are set out above. Details of the emoluments of the remaining two (2005: three) non-director, highest paid employees are set out below:

	2006	2005
	HK\$'000	HK\$'000
Salaries, allowances and benefits in kind	2,683	3,799
Pension scheme contributions	24	33
	<u>2,707</u>	<u>3,832</u>

The emoluments of each of the two (2005: three) non-director, highest paid employees fell within the following bands:

	Number of employees	
	2006	2005
HK\$1,000,001 – HK\$1,500,000	<u>2</u>	<u>3</u>

No share options were granted to the above non-directors, highest paid employees in respect of his services to the Group.

9. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 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	
	2006	2005
	HK\$'000	HK\$'000
		(Restated)
Group:		
Current – Hong Kong		
Charge for the year	3,853	2,641
Over provision in prior years	(1,539)	(17)
Current – Elsewhere	503	563
Deferred tax (<i>note 24</i>)	1,200	1,000
	<u>4,017</u>	<u>4,187</u>
Total tax charge for the year	<u>4,017</u>	<u>4,187</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 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:

	2006	2005
	HK\$'000	HK\$'000
		(Restated)
Group:		
Profit before tax	<u>68,447</u>	<u>36,989</u>
Tax at the statutory tax rate	11,979	8,272
Higher/(lower) tax rate for specific provinces or local authority	(271)	903
Adjustments in respect of current tax of previous periods	(1,539)	(17)
Income not subject to tax	(5,969)	(5,528)
Expenses not deductible for tax	6,043	738
Tax losses utilised from previous periods	(6,761)	(181)
Tax losses not recognised	535	–
	<u>4,017</u>	<u>4,187</u>
Tax charge at the Group's effective rate	<u>4,017</u>	<u>4,187</u>

The share of tax attributable to associates amounting to nil (2005: HK\$518,000) is included in "Share of profits and losses of associates" on the face of the consolidated income statement.

10. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company for the year ended 31 March 2006 dealt with in the financial statements of the Company was HK\$12,351,000 (2005 as restated: HK\$7,885,000) (note 27(b)).

11. DIVIDENDS

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Interim – HK2 cents (2005: HK0.5 cent) per ordinary share	8,096	2,024
Proposed final – HK4 cents (2005: HK2.5 cents) per ordinary share	16,193	10,120
	<u>24,289</u>	<u>12,144</u>

The directors recommend the payment of a final dividend of HK4 cents per share in respect of the year ended 31 March 2006 to shareholders whose names appear on the register of members on 23 August 2006. The proposed final dividend for the year is based on the number of shares in issue as at the reporting date, and is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

12. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share amounts is based on the profit for the year attributable to equity holders of the Company of HK\$59,901,000 (2005 as restated: HK\$29,746,000) and the weighted average number of 404,820,000 (2005: 404,820,000) ordinary shares in issue during the year.

The calculation of diluted earnings per share amounts is based on the profit for the year attributable to equity holders of the Company of HK\$59,901,000 (2005 as restated: HK\$29,746,000) and 405,880,919 (2005: 405,927,239) 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:

	2006	2005
Weighted average number of ordinary shares used in calculating basic earnings per share	404,820,000	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	1,060,919	1,107,239
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>405,880,919</u>	<u>405,927,239</u>

31 MARCH 2006

13. PROPERTY, PLANT AND EQUIPMENT

Group

31 March 2006

	Medium term leasehold land and buildings HK\$'000	Construction in progress HK\$'000	Moulds, tools, and plant and machinery HK\$'000	Furniture, equipment and motor vehicles HK\$'000	Total HK\$'000
Cost or valuation:					
At 1 April 2005					
As previously reported	130,000	11,853	305,358	91,777	538,988
Reclassification to prepaid land lease payments upon adoption of HKAS 17 (note 15)	(11,602)	-	-	-	(11,602)
Reversal of revaluation attributable to the prepaid land lease payments	(12,788)	-	-	-	(12,788)
As restated	105,610	11,853	305,358	91,777	514,598
Additions	272	10,594	22,428	3,989	37,283
Disposals	-	-	(70)	(509)	(579)
Surplus on revaluation	4,307	-	-	-	4,307
Transfers	6,981	(7,096)	569	(454)	-
Transfer to investment properties (note 14)	(15,120)	-	-	-	(15,120)
At 31 March 2006	102,050	15,351	328,285	94,803	540,489
Accumulated depreciation:					
At 1 April 2005					
Provided during the year	4,171	-	29,488	8,598	42,257
Disposals	-	-	-	(504)	(504)
Write-back on revaluation	(4,171)	-	-	-	(4,171)
At 31 March 2006	-	-	182,493	59,524	242,017
Net book value:					
At 31 March 2006					
	102,050	15,351	145,792	35,279	298,472
An analysis of cost or valuation:					
At cost					
At 2006 valuation	102,050	-	-	-	102,050
	102,050	15,351	328,285	94,803	540,489

31 MARCH 2006

13. PROPERTY, PLANT AND EQUIPMENT (continued)

Group

31 March 2005

	Medium term leasehold land and buildings HK\$'000	Construction in progress HK\$'000	Moulds, tools, and plant and machinery HK\$'000	Furniture, equipment and motor vehicles HK\$'000	Total HK\$'000 (Restated)
Cost or valuation:					
At 1 April 2004					
As previously reported	147,330	17,647	268,223	86,269	519,469
Reclassification to prepaid land lease payments upon adoption of HKAS 17 (note 15)	(11,275)	–	–	–	(11,275)
Reversal of revaluation attributable to the prepaid land lease payments	(15,532)	–	–	–	(15,532)
As restated	120,523	17,647	268,223	86,269	492,662
Additions	3,309	6,452	40,217	5,395	55,373
Disposals	(21,000)	–	(4,345)	(2,598)	(27,943)
Deficit on revaluation	(5,494)	–	–	–	(5,494)
Transfers	8,272	(12,246)	1,263	2,711	–
At 31 March 2005	105,610	11,853	305,358	91,777	514,598
Accumulated depreciation:					
At 1 April 2004	–	–	128,993	45,462	174,455
Provided during the year	5,175	–	28,078	8,229	41,482
Disposals	(577)	–	(4,066)	(2,261)	(6,904)
Write-back on revaluation	(4,598)	–	–	–	(4,598)
At 31 March 2005	–	–	153,005	51,430	204,435
Net book value:					
At 31 March 2005	105,610	11,853	152,353	40,347	310,163
At 31 March 2004 (Restated)	120,523	17,647	139,230	40,807	318,207
An analysis of cost or valuation:					
At cost	–	11,853	305,358	91,777	408,988
At 2005 valuation	105,610	–	–	–	105,610
	105,610	11,853	305,358	91,777	514,598

13. PROPERTY, PLANT AND EQUIPMENT (continued)

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

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i> (Restated)
Hong Kong	11,000	6,920
Outside Hong Kong	91,050	98,690
	<u>102,050</u>	<u>105,610</u>
Total valuation	<u>102,050</u>	<u>105,610</u>

As at 31 March 2006, the Group's leasehold land and buildings were revalued at an open market value, based on an existing state basis by RHL Appraisal Ltd., an independent firm of professionally qualified valuers, at HK\$102,050,000. A revaluation deficit of HK\$139,000 resulting from the above valuation has charged to the income statement. Revaluation surpluses of HK\$4,984,000 and HK\$3,633,000, resulting from the above valuation, were credited to the asset revaluation reserve and the income statement, respectively. As a consequence, the net revaluation surpluses of HK\$4,984,000 and HK\$3,494,000 were reflected in the asset revaluation reserve and in the income statement, respectively. The effect of the total revaluation surplus of HK\$8,478,000 was reflected as increment of valuation of property, plant and equipment of HK\$4,307,000 and write-back of accumulated depreciation of HK\$4,171,000.

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\$99,715,000 (2005 as restated: HK\$95,778,000).

14. INVESTMENT PROPERTIES

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Carrying amount at the beginning of the year	–	–
Transfer from owner-occupied properties (<i>note 13</i>)	15,120	–
Transfer from prepaid land lease payment (<i>note 15</i>)	963	–
Revaluation surplus arising at the date of change in use and credited to the asset revaluation reserve	9,717	–
	<u>25,800</u>	<u>–</u>
Carrying amount at 31 March	<u>25,800</u>	<u>–</u>

The Group's investment properties were revalued on the date of change in use and on 31 March 2006 by RHL Appraisal Ltd., an independent professionally qualified valuers, at HK\$25,800,000 on an open market, existing state basis. The investment properties are leased to third parties under operating leases, further summary details of which are included in note 29(a) to the financial statements.

14. INVESTMENT PROPERTIES (continued)

The Group's investment properties are under the medium term leases and are situated in Xi Tou Village, Songgang Town, Bao An District, Shenzhen, the PRC, as workshops, warehouses and residential units.

15. PREPAID LAND LEASE PAYMENTS

	Group	
	2006	2005
	HK\$'000	HK\$'000
		(Restated)
Cost:		
At the beginning of the year		
As previously reported	–	–
Effect of adopting HKAS 17 (note 13)	13,637	13,083
	<hr/>	<hr/>
As restated	13,637	13,083
Additions	2,874	554
Transfer to investment properties (note 14)	(1,256)	–
	<hr/>	<hr/>
At 31 March	15,255	13,637
	<hr/>	<hr/>
Amortisation:		
At the beginning of the year		
As previously reported	–	–
Effect of adopting HKAS 17 (note 13)	2,035	1,808
	<hr/>	<hr/>
As restated	2,035	1,808
Recognised during the year	248	227
Transfer to investment properties (note 14)	(293)	–
	<hr/>	<hr/>
At 31 March	1,990	2,035
	<hr/>	<hr/>
Carrying amount at 31 March	13,265	11,602
Current portion included in prepayments, deposits and other receivables	(248)	(227)
	<hr/>	<hr/>
Non-current portion	13,017	11,375
	<hr/> <hr/>	<hr/> <hr/>

The leasehold land is held under medium term lease and is situated in the PRC.

16. GOODWILL

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

	Group	
	2006	2005
	HK\$'000	HK\$'000
Carrying amount at the beginning of the year	4,650	6,976
Provided during the year	—	(2,326)
	<hr/>	<hr/>
Carrying amount at 31 March	4,650	4,650
	<hr/> <hr/>	<hr/> <hr/>

Goodwill acquired in a business combination is allocated, at acquisition, to the cash-generating units that are expected to benefit from that business combination. Before recognition of impairment losses, the carrying amount of HK\$4,650,000 was wholly allocated to the cash-generating unit of the manufacture and sale of motors of a subsidiary (the "Unit").

Upon the application of HKFRS 3, the Group tests goodwill annually for impairment, or more frequently if there are indications that the goodwill might be impaired.

During the year ended 31 March 2006, the management of Group determined that there is no impairment of the Unit to which the goodwill has been allocated.

The recoverable amount of goodwill is determined based on a value in use calculation using cash flow projections based on financial budgets covering a one-year period. The financial budgets are prepared reflecting actual and prior year performance and development expectations. The key assumptions for the value in use calculation include a zero growth rate and a discount rate of 6.0%.

17. INTERESTS IN SUBSIDIARIES

	Company	
	2006	2005
	HK\$'000	<i>HK\$'000</i>
Unlisted shares, at cost	104,950	104,950
Due from subsidiaries	209,334	222,384
Due to a subsidiary	(57,656)	(62,017)
	256,628	265,317

The balances with the subsidiaries are unsecured, interest-free and are not repayable within the next twelve months from the balance sheet date. The carrying amounts of these balances due from/to subsidiaries approximate to their fair value.

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

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

17. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Paid-up share/ registered capital	Equity interest attributable to the Company	Principal activities
Indirectly held (continued)				
Unicon Investments Limited	Hong Kong	Ordinary HK\$10,000	100%	Property holding
Newway Electrical Industries Limited	Hong Kong	Ordinary HK\$3,000,000	100%	Trading of electrical 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 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.	Hong Kong	Ordinary HK\$40,000,000	90%	Manufacture and trading of motors

17. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Paid-up share/ registered capital	Equity interest attributable to the Company	Principal activities
Indirectly held (continued)				
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 Konso Technology Company Limited ("Shaoguan Konso") **	PRC	HK\$30,000,000	100%	Manufacture and trading of toys and electrical appliances
Shaoguan Sigma Technology Company Limited #	PRC	RMB20,000,000	91%	Development and distribution of materials
U-Kids International (HK) Limited	Hong Kong	Ordinary HK\$1,000,000	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.

** During the year, Shaoguan Konso is incorporated and registered as a wholly foreign owned enterprise under the PRC law with a registered capital of HK\$100,000,000.

18. INTERESTS IN ASSOCIATES

	Group	
	2006	2005
	HK\$'000	HK\$'000
Share of net deficits	<u>(10,137)</u>	<u>(12,596)</u>
Loan to an associate	–	18,223
Due from associates	258	–
Due to associates	<u>(622)</u>	<u>(658)</u>
	<u>(10,501)</u>	<u>4,969</u>

In the prior year, the loan to an associate, which was granted in proportion to the Group's shareholding in this associate, was unsecured, interest-free and had no fixed terms of repayment. During the year, such loan was capitalised, pursuant to the agreement between the shareholders of that associate. Accordingly, the Group's equity interest therein remains unchanged. The amounts due from/(to) associates are unsecured, interest-free and are repayable in accordance with normal trading terms. The carrying amounts of these loans approximate to their fair values.

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

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

Name	Place of incorporation/ registration and operations	Nominal value of paid-up share/ registered capital	Equity interest attributable to the Group	Principal activities
Success Mode Industries Limited ("Success Mode")	Hong Kong/PRC	Ordinary HK\$1,000,000	49%	Manufacture and trading of metallic parts
Full Summit Development Limited ("Full Summit")	Hong Kong	HK\$36,455,000	50%	Investment holding
Concord Modern International Technology Limited ("CMIT")	Hong Kong	Ordinary HK\$10,000	50%	Distribution of recordable compact disc
Shixing Concord Modern Technology Limited	PRC	RMB50,000,000	50%	Manufacture and distribution of recordable compact disc

FINANCIAL STATEMENTS

31 MARCH 2006

18. INTERESTS IN ASSOCIATES (continued)

The following table illustrates the summarised financial information of the Group's associates extracted from their management accounts:

	2006 HK\$'000	2005 HK\$'000
Assets	103,022	113,629
Liabilities	(123,897)	(139,380)
Revenues	(71,520)	(49,364)
Losses	31,569	34,207

19. DEFERRED DEVELOPMENT COSTS

	Group	
	2006 HK\$'000	2005 HK\$'000
Cost:		
At beginning of year	25,915	24,048
Additions	6,314	8,619
Retirements	(8,431)	(6,752)
At 31 March	23,798	25,915
Accumulated amortisation:		
At beginning of year	17,890	15,328
Provided during the year	7,716	9,314
Retirements	(8,431)	(6,752)
At 31 March	17,175	17,890
Net book value:		
At 31 March	6,623	8,025

20. INVENTORIES

	Group	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	111,914	117,471
Work in progress	19,685	25,384
Finished goods	18,340	20,595
	<u>149,939</u>	<u>163,450</u>

21. ACCOUNTS RECEIVABLE

The Group's trading terms with its customers are mainly on credit, except for new customers, where cash on sale or payment in advance is normally required. The credit period is generally for a period of one month, extending up to two months for certain well-established customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's accounts receivable relate to a large number of diversified customers, there is no significant concentration of credit risk. Accounts receivable are non-interest-bearing.

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

	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 30 days	36,208	50,738
31 – 60 days	7,382	5,864
61 – 90 days	4,407	8,038
Over 90 days	5,433	4,211
	<u>53,430</u>	<u>68,851</u>

31 MARCH 2006

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

	Group	
	2006	2005
	HK\$'000	HK\$'000
0 – 30 days	31,374	29,664
31 – 60 days	14,458	14,593
61 – 90 days	4,422	15,630
Over 90 days	3,500	5,097
	<hr/>	<hr/>
Accounts and bills payable	53,754	64,984
Accrued liabilities and other payables	26,471	26,306
	<hr/>	<hr/>
	80,225	91,290
	<hr/> <hr/>	<hr/> <hr/>

The accounts and bills payable and other payables are non-interest-bearing and are normally settled within credit terms of two months, extending up to three months.

23. INTEREST-BEARING BANK BORROWINGS

	Group	
	2006	2005
	HK\$'000	HK\$'000
Bank loans, unsecured	9,434	38,600
	<hr/>	<hr/>
Bank borrowings repayable:		
Within one year or on demand	9,434	22,767
In the second year	–	13,333
In the third to fifth years, inclusive	–	2,500
	<hr/>	<hr/>
	9,434	38,600
Portion classified as current liabilities	(9,434)	(22,767)
	<hr/>	<hr/>
Non-current portion	–	15,833
	<hr/> <hr/>	<hr/> <hr/>

Notes:

- (a) As at 31 March 2006, the Group's bank borrowing amounted to HK\$9,434,000, which is repayable within one year, bears interest at HIBOR+2% per annum and is denominated in RMB.

In the prior year, the Group's bank loans were unsecured, bore interest at rates ranging from HIBOR+0.9% to HIBOR+1.02% per annum and were repayable by twelve quarterly equal instalments.

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

The carrying amounts of the Group's bank borrowings approximate to fair values.

24. 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 leasehold land and buildings <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2005			
As previously reported	17,367	4,575	21,942
Prior year adjustments upon adoption of HKAS 17	–	(3,994)	(3,994)
As restated	17,367	581	17,948
Deferred tax debited to equity during the year	–	2,154	2,154
Deferred tax debited to the income statement during the year (<i>note 9</i>)	1,200	–	1,200
Gross deferred tax liabilities at 31 March 2006	<u>18,567</u>	<u>2,735</u>	<u>21,302</u>

Deferred tax assets**Group**

	Losses available for offset against future taxable profit <i>HK\$'000</i>
At 1 April 2005 and gross deferred tax assets at 31 March 2006	<u>(8,630)</u>
Net deferred tax liabilities at 31 March 2006	<u>12,672</u>

24. DEFERRED TAX (continued)

The movements in deferred tax liabilities and assets during the year ended 31 March 2005 are as follows:

Deferred tax liabilities**Group**

	Accelerated tax depreciation <i>HK\$'000</i>	Revaluation of leasehold land and buildings <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2004			
As previously reported	16,367	6,104	22,471
Prior year adjustments upon adoption of HKAS 17	–	(4,651)	(4,651)
As restated	16,367	1,453	17,820
Deferred tax credited to equity during the year	–	(872)	(872)
Deferred tax debited to the income statement during the year (<i>note 9</i>)	1,000	–	1,000
Gross deferred tax liabilities at 31 March 2005	<u>17,367</u>	<u>581</u>	<u>17,948</u>

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	<u>(8,630)</u>
Net deferred tax liabilities at 31 March 2005	<u>9,318</u>

The Group has tax losses arising in Hong Kong of HK\$13,701,000 (2005: HK\$16,495,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

At 31 March 2006, there was no significant unrecognised deferred tax liability (2005: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries or associates 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.

25. SHARE CAPITAL

	Company	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Authorised:		
1,000,000,000 ordinary shares of HK\$0.10 each	<u>100,000</u>	<u>100,000</u>
Issued and fully paid:		
404,820,000 (2005: 404,820,000) ordinary shares of HK\$0.10 each	<u>40,482</u>	<u>40,482</u>

26. SHARE OPTION SCHEMES

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

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

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

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

26. SHARE OPTION SCHEMES (continued)

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.

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 2005	Exercised during the year	Lapsed during the year	At 31 March 2006			
The New Scheme								
Directors								
Cheng Chor Kit	14/11/2003	2,000,000	-	-	2,000,000	14/11/2006-13/11/2013	1.592	1.60
Chui Pak Shing	14/11/2003	422,000	-	-	422,000	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
Fan Sau Leung	14/11/2003	392,000	-	(392,000)	-	14/11/2006-13/11/2013	1.592	1.60
Other employees								
In aggregate	14/11/2003	1,126,000	-	(322,000)	804,000	14/11/2006-13/11/2013	1.592	1.60
		<u>4,252,000</u>	<u>-</u>	<u>(714,000)</u>	<u>3,538,000</u>			
The Old Scheme								
Other employees								
In aggregate	6/11/1998	1,760,000	-	-	1,760,000	6/11/1998-5/11/2008	0.3032	0.44

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

26. SHARE OPTION SCHEMES (continued)

During the year, no share options were granted by the Company. The fair value of the share options granted on 14 November 2003 was approximately HK\$3,400,000, and would be recognised to the income statement over the period from 14 November 2003 to 13 November 2006. As at 31 March 2006, the equity-settled share option expenses of HK\$600,000 has not been recognised in the income statement.

The fair value was estimated as at the date of grant using binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the year ended 31 March 2006:

	Share options granted on 14 November 2003 with an exercise period starting from 14 November 2006
Dividend yield (%)	4.7%
Volatility (%)	65.8%
Risk-free interest rate (%)	4.5%
Expected life of option (year)	10

The expected life of the options is based on the historical data over the past three years and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

At the balance sheet date, the Company had 3,538,000 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 5,298,000 additional ordinary shares of the Company and additional share capital of HK\$529,800 and share premium of approximately HK\$5,636,000 (before issue expenses).

27. 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.

31 MARCH 2006

27. RESERVES (continued)

(b) Company

	Share premium account HK\$'000	Contributed surplus HK\$'000	Share option reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 April 2004	104,441	104,750	–	17,370	226,561
Profit for the year (as restated)	–	–	–	7,885	7,885
Equity-settled share option expenses	–	–	1,800	–	1,800
Interim dividend	–	–	–	(2,024)	(2,024)
Proposed final dividend	–	–	–	(10,120)	(10,120)
	<u>104,441</u>	<u>104,750</u>	<u>1,800</u>	<u>13,111</u>	<u>224,102</u>
At 31 March 2005 (as restated)	<u>104,441</u>	<u>104,750</u>	<u>1,800</u>	<u>13,111</u>	<u>224,102</u>
At 1 April 2005					
As previously reported	104,441	104,750	–	14,911	224,102
Effect on adopting of HKFRS 2	–	–	1,800	(1,800)	–
	<u>104,441</u>	<u>104,750</u>	<u>1,800</u>	<u>13,111</u>	<u>224,102</u>
As restated	104,441	104,750	1,800	13,111	224,102
Profit for the year	–	–	–	12,351	12,351
Equity-settled share option expenses	–	–	1,000	–	1,000
Interim dividend	–	–	–	(8,096)	(8,096)
Proposed final dividend	–	–	–	(16,193)	(16,193)
	<u>104,441</u>	<u>104,750</u>	<u>2,800</u>	<u>1,173</u>	<u>213,164</u>
At 31 March 2006	<u>104,441</u>	<u>104,750</u>	<u>2,800</u>	<u>1,173</u>	<u>213,164</u>

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.

28. 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 (2005: HK\$41,000,000) 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 therein.
- (b) As detailed in note 18, the Group granted a loan of HK\$18,223,000 to an associate in proportion to its shareholding in this associate in the prior year. The loan was unsecured, interest-free and had no fixed terms of repayment.
- (c) During the year, the Group sold motors of HK\$1,390,000 (2005: HK\$1,558,000) to Gimelli Laboratories Company Limited, of which Chung Chi Ping, Roy, an independent non-executive director of the Company, is also 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\$776,000 (2005: HK\$1,004,000) from Success Mode, an associate of the Group.

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

- (e) During the year, the Group purchased paper cartons of HK\$3,899,000 (2005: HK\$5,632,000) from Lung Sing Paper Products Company Limited, in 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.

28. RELATED PARTY AND CONNECTED TRANSACTIONS (continued)

(f) Compensation of key management personnel of the Group:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Salaries, allowances and benefits in kind	6,940	4,663
Equity-settled share option benefits	717	1,384
Pension scheme contributions	275	237
	<hr/>	<hr/>
Total compensation paid to key management personnel	7,932	6,284
	<hr/> <hr/>	<hr/> <hr/>

Further details of directors' emoluments are included in note 8 to the financial statements.

29. OPERATING LEASE ARRANGEMENTS(a) *As lessor*

At 31 March 2006, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Within one year	1,293	1,337
In the second to fifth years, inclusive	4,695	6,089
After five years	2,892	2,922
	<hr/>	<hr/>
	8,880	10,348
	<hr/> <hr/>	<hr/> <hr/>

The Group leases its investment properties (note 14 to the financial statements) under operating lease arrangements, with leases negotiated for terms ranging from five to ten years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

(b) *As lessee*

At 31 March 2006, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Within one year	774	582
In the second to fifth years, inclusive	1,323	712
After five years	–	444
	<hr/>	<hr/>
	2,097	1,738
	<hr/> <hr/>	<hr/> <hr/>

29. OPERATING LEASE ARRANGEMENTS (continued)

(b) As lessee (continued)

The Group leases certain of its office properties and warehouses under operating lease arrangements. Leases for properties are negotiated for terms ranging from two to eight years.

The Company did not have any operating lease arrangements at the balance sheet date (2005: Nil).

30. COMMITMENTS

- (i) At the balance sheet date, the Group had contracted capital commitments in respect of wholly-owned enterprises in the PRC amounting to HK\$152,472,000 (2005: HK\$23,400,000).
- (ii) At the balance sheet date, the Group had contracted for capital commitments in respect of acquisition of property, plant and equipment of HK\$8,445,000 (2005: HK\$8,130,000).

The Group did not have any significant authorised, but not contracted for, capital commitments as at the balance sheet date (2005: Nil).

The Company did not have any other significant commitments at the balance sheet date (2005: Nil).

31. CONTINGENT LIABILITIES

At the balance sheet date, the Company had provided guarantees of HK\$152,285,000 (2005: HK\$185,585,000) and HK\$41,000,000 (2005: HK\$41,000,000) in respect of banking facilities granted to certain of its subsidiaries and associates, of which HK\$9,434,000 (2005: HK\$38,601,000) and HK\$35,559,000 (2005: HK\$36,697,000) had been utilised as at the balance sheet date, respectively.

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, comprise bank loans and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as accounts receivable and accounts payable, which arise directly from its operations.

It is, and has been, throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, foreign currency risk, credit risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk

The Group's current banking facilities maintained with commercial banks are mainly at floating rates. The Group currently does not have an interest rate hedging policy. However, the management monitors the Group's interest exposure and will consider hedging significant interest rate exposure should the need arises.

Foreign currency risk

The Group's monetary assets, liabilities and transactions are principally denominated in Hong Kong dollars, Renminbi or United States dollars. Given that the Hong Kong dollar is pegged to the United States dollar and fluctuations between Renminbi and the United States dollar are under the control of the government of the PRC, the Group does not have a foreign currency hedging policy. However, the management monitors the Group's foreign exchange exposure and will consider hedging significant foreign currency exposure when the need arises.

Credit risk

The Group trades only with recognised and creditworthy customers. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and on an individual basis. Each of the customers has been given a trading limit and any excess to the limit must be approved by the general manager of the operation unit. Under the tight control of credit terms and detailed assessment to the creditworthiness of individual customers, the Group's exposure to bad debts is maintained as minimal.

There is no other credit risk of the Group under other financial assets such as cash and cash equivalents.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and other banking facilities.

33. COMPARATIVE AMOUNTS

As further explained in notes 2.2 and 2.4 to the financial statements, due to the adoption of new and revised HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

34. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 24 July 2006.