



KIN YAT HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 638)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2008

The Board of Directors (the “Board”) is pleased to report the unaudited consolidated results for Kin Yat Holdings Limited (the “Company”) and its subsidiaries (collectively the “Group”) for the six months ended 30 September 2008 together with the comparative figures for the corresponding period in 2007 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Unaudited Six months ended 30 September	
	Notes	2008 HK\$'000	2007 HK\$'000
REVENUE	2	927,851	800,687
Cost of sales		<u>(784,961)</u>	<u>(684,382)</u>
Gross profit		142,890	116,305
Other income and gains	3	11,794	8,993
Selling and distribution expenses		(23,988)	(14,295)
Administrative expenses		(55,887)	(39,581)
Finance costs		(1,118)	(439)
Share of profits and losses of associates		<u>(1,681)</u>	<u>(754)</u>
PROFIT BEFORE TAX	4	72,010	70,229
Tax	5	<u>(8,737)</u>	<u>(6,111)</u>
PROFIT FOR THE PERIOD		<u>63,273</u>	<u>64,118</u>
Attributable to:			
Equity holders of the Company		62,189	60,865
Minority interests		<u>1,084</u>	<u>3,253</u>
		<u>63,273</u>	<u>64,118</u>
DIVIDEND	6	<u>18,397</u>	<u>18,397</u>
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	7		
Basic		<u>HK15.21 cents</u>	<u>HK14.91 cents</u>
Diluted		<u>HK15.20 cents</u>	<u>HK14.88 cents</u>

CONDENSED CONSOLIDATED BALANCE SHEET

		Unaudited 30 September 2008 <i>HK\$'000</i>	Audited 31 March 2008 <i>HK\$'000</i>
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment		502,033	482,164
Investment properties		35,227	35,227
Prepaid land lease payments		14,567	14,715
Goodwill		4,650	4,650
Interests in associates		(11,128)	(9,604)
Deferred development costs		15,132	7,730
Total non-current assets		560,481	534,882
CURRENT ASSETS			
Inventories		222,019	266,145
Accounts receivable	8	235,239	177,280
Prepayments, deposits and other receivables		63,992	21,934
Derivative financial assets		–	4,784
Deposits with non-bank financial institutions		–	8,546
Time deposits		54,694	30,720
Cash and bank balances		95,567	57,499
Total current assets		671,511	566,908
CURRENT LIABILITIES			
Accounts and bills payable, accrued liabilities and other payables	9	262,503	240,599
Interest-bearing bank borrowings		28,933	36,533
Tax payable		19,305	16,235
Proposed interim dividend		18,397	–
Total current liabilities		329,138	293,367
NET CURRENT ASSETS		342,373	273,541
TOTAL ASSETS LESS CURRENT LIABILITIES		902,854	808,423
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		80,678	–
Deferred tax liabilities		17,599	17,599
Total non-current liabilities		98,277	17,599
NET ASSETS		804,577	790,824
EQUITY			
Equity attributable to equity holders of the Company			
Share capital		40,882	40,882
Reserves		743,972	707,282
Proposed final dividend		–	22,485
Minority interests		784,854	770,649
		19,723	20,175
TOTAL EQUITY		804,577	790,824

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” and other relevant HKASs and Interpretations, Hong Kong Financial Reporting Standards (collectively, the “HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”). These interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 March 2008.

The accounting policies and methods of computation used in the preparation of these interim financial statements are consistent with those used in the annual financial statements for the year ended 31 March 2008 except that the Group adopted all the new standards, amendments to standards and interpretation (“new/revised HKFRSs”) which are effective for accounting periods commencing on 1 January 2008. The adoption of these new/revised HKFRSs did not have material financial impact to the results of the Group.

2. TURNOVER AND SEGMENT INFORMATION

Turnover represents the net invoiced value of goods sold, after allowance for returns and trade discounts but excluding intra-Group transactions.

(a) Business segments

The following table presents revenue and result for the Group’s business segments.

	Unaudited six months ended 30 September											
	Toys and related products		Motors		Electrical appliances		Resources development		Eliminations		Consolidated	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
	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	465,637	407,455	204,939	171,617	254,883	218,913	2,392	2,702	-	-	927,851	800,687
Inter-segment sales	-	-	1,583	3,991	-	-	-	-	(1,583)	(3,991)	-	-
Other income and gain	2,900	2,778	6,870	3,355	-	1	92	208	-	-	9,862	6,342
Total	<u>468,537</u>	<u>410,233</u>	<u>213,392</u>	<u>178,963</u>	<u>254,883</u>	<u>218,914</u>	<u>2,484</u>	<u>2,910</u>	<u>(1,583)</u>	<u>(3,991)</u>	<u>937,713</u>	<u>807,029</u>
Segment results	<u>43,518</u>	<u>29,075</u>	<u>14,914</u>	<u>34,810</u>	<u>27,038</u>	<u>17,200</u>	<u>(4,986)</u>	<u>(6,691)</u>	<u>-</u>	<u>-</u>	<u>80,484</u>	<u>74,394</u>
Interest and unallocated gains											1,933	2,651
Unallocated expenses											(7,608)	(5,623)
Finance costs											(1,118)	(439)
Share of profits and losses of associates											(1,681)	(754)
Profit before tax											<u>72,010</u>	<u>70,229</u>

(b) Geographical segments

The following table presents the Group's geographical segment revenue.

	Unaudited six months ended 30 September											
	United States of America		Europe		Asia		Others		Eliminations		Consolidated	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
	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	440,874	410,059	180,938	128,929	227,496	195,319	78,543	66,380	—	—	927,851	800,687

3. OTHER INCOME AND GAINS

An analysis of the Group's other income and gains is as follow:

	Unaudited	
	Six months ended	
	30 September	
	2008	2007
	HK\$'000	HK\$'000
Bank interest income	518	1,366
Gross rental income	3,267	3,240
Sales of scrap material	7,029	3,486
Refund of value added tax	1,783	-
Fair value loss on foreign exchange derivative financial instruments, net	(1,317)	-
Others	<u>514</u>	<u>901</u>
	<u>11,794</u>	<u>8,993</u>

4. PROFIT BEFORE TAX

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

	Unaudited	
	Six months ended	
	30 September	
	2008	2007
	HK\$'000	HK\$'000
Depreciation	27,444	22,039
Amortisation of prepaid land lease payments	159	164
Amortisation of deferred development costs	3,201	2,770
Fair value loss on foreign exchange derivative financial instruments, net	1,317	–
Bank interest income	(518)	(1,366)

5. TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profits arising in Hong Kong during the period. 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	
	Unaudited	
	Six months ended	
	30 September	
	2008	2007
	HK\$'000	HK\$'000
Current period provision:		
Hong Kong	8,462	5,892
Elsewhere	275	219
Total tax charge for the period	8,737	6,111

There was no significant unprovided deferred tax in respect of the period and as at the balance sheet date (2007: Nil).

6. DIVIDEND

The directors have declared an interim dividend of HK4.5 cents per share to shareholders whose name appear on the register of members of the Company on 9 January 2009. The dividend will be paid on 16 January 2009.

	Unaudited	
	Six months ended	
	30 September	
	2008	2007
	HK\$'000	HK\$'000
Interim – HK4.5 cents (2007: HK4.5 cents) per ordinary share	<u>18,397</u>	<u>18,397</u>

7. 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 period attributable to equity holders of the Company of HK\$62,189,000 (2007: HK\$60,865,000) and the weighted average number of 408,816,000 (2007: 408,134,230) ordinary shares in issue during the period.

The calculation of diluted earnings per share amounts is based on the profit for the period attributable to equity holders of the Company of HK\$62,189,000 (2007: HK\$60,865,000) and 408,923,048 (2007: 408,963,637) ordinary shares, being the weighted average number of shares outstanding during the period, adjusted for the effects of the dilutive potential ordinary shares outstanding during the period.

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

	Unaudited	
	Six months ended	
	30 September	
	2008	2007
Weighted average number of ordinary shares used in calculating basic earnings per share	408,816,000	408,134,230
Weighted average number of ordinary shares assumed to have been issued at no consideration on deemed exercise of all options outstanding during the period	<u>107,048</u>	<u>829,407</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>408,923,048</u>	<u>408,963,637</u>

8. ACCOUNTS RECEIVABLE

The Group's trading terms with its customers are mainly on credit, except for new customers, where cash on sale, payment in advance or payment by letter of credit 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 mainly relate to recognised and creditworthy customers, there is no significant credit risk. Accounts receivable are non-interest-bearing.

An aged analysis of the Group's accounts receivable as at the balance sheet date, based on the invoice date, is as follows:

	Unaudited	Audited
	30 September	31 March
	2008	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
0-30 days	129,553	127,935
31-60 days	72,195	18,286
61-90 days	21,968	14,741
Over 90 days	13,925	18,863
	237,641	179,825
<i>Less: Impairment allowance</i>	(2,402)	(2,545)
	235,239	177,280

The carrying amounts of accounts receivable approximate to their fair value.

The substantial increase in the accounts receivables is owing to the seasonal factor where September (30 September 2007: HK\$239,789,000) is the high season and March (31 March 2007: HK\$95,968,000) is the low season. The Group considered such balances are normal and healthy.

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

An ageing of the Group's accounts and bills payable as at the balance sheet date, based on invoice date, and the balance of accrued liabilities and other payables are as follow:

	Unaudited 30 September 2008 HK\$'000	Audited 31 March 2008 HK\$'000
0-30 days	74,117	85,806
31-60 days	67,443	52,446
61-90 days	44,528	35,703
Over 90 days	12,536	9,725
	<hr/>	<hr/>
Accounts and bills payable	198,624	183,680
Accrued liabilities	55,393	46,400
Other payables	8,486	10,519
	<hr/>	<hr/>
	262,503	240,599
	<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. The carrying amounts of accounts and bills payable and other payables approximate to their fair values.

10. POST BALANCE SHEET EVENT

On 22 November 2008, Smart Electric Motor Company Limited ("Smart Electric") (as purchaser and is an indirect wholly-owned subsidiary of the Company), Sun Motor Industrial Company Limited ("SMI") (as vendor and is an independent third party) and Hysan International Investment Limited ("Hysan") (as trustee of SMI and is an independent third party) entered into the conditional sale and purchase agreement pursuant to which (i) SMI and Hysan have conditionally agreed to sell and Smart Electric has conditionally agreed to purchase all assets including inventories, machineries, facility, equipment, tools, instruments, hardware and other materials currently owned and/or employed by SMI and located at its Dongguan plant and in its Hong Kong office, and (ii) SMI has conditionally agreed to procure the execution of the hire purchase novation agreements for the acquisition of the hire purchased assets by Smart Electric, for a total gross consideration of HK\$65,000,000 in cash. This transaction constituted a discloseable transaction. Details of the transaction were summarised in a press announcement dated 3 December 2008.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Tuesday, 6 January 2009 to Friday, 9 January 2009 (both days inclusive), during which period no transfer of shares of the Company will be registered. In order to qualify for entitlement to the interim dividend for the six months ended 30 September 2008, all transfers of shares of the Company accompanied by the relevant share certificates and the appropriate transfer forms must be lodged with the Company's Share Registrar in Hong Kong, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:00 p.m. on Monday, 5 January 2009.

MANAGEMENT DISCUSSION AND ANALYSIS

The Kin Yat Group has made considerable progress in its business and corporate development over the past few years. This has been based on a solid foundation of research-and-development-focused industrial disciplines, including a vertically integrated toy development, engineering and manufacturing business, an electrical appliances operation specializing in artificial-intelligence (AI) products, and an electric micro-motor production unit. The Group has also made timely investments in the production of display-related materials and, further upstream, in niche resources development. Such developments have not only provided a positive momentum driving the Group's profitable growth, but also built skills, capital and diversity in incomes and resources to form an even stronger base for the Group's sustainable future.

This diverse income-base spread is a result of a consistent focus and timely investments, as directed by the strong vision of the management, which have secured the core competencies of the Group. The long-standing commitment to advancing the business' capabilities and dimensions led to establishment of a second production base in Shaoguan, northern Guangdong, back in 1998, after the Group's successful initial public offering on the Stock Exchange of Hong Kong in 1997. This self-own custom-built northern production base complements the more sophisticated operating unit in Shenzhen, and underpins the Group's overall cost advantage. Celebrating its 10th anniversary this year, the Shaoguan production base has come a long way from its modest beginning to today's modernization and scale. In the past decade, the Shaoguan base has been expanded phase by phase in line with the Group's five-fold growth in turnover. The Group continues to pledge investments in capacity and capability enhancement to sustain momentum for future development.

Meanwhile, since its inception the Group has established a strong niche in research-and-development-driven production. This has allowed it to rise above the fierce competition in the lower-end segment and gain a firm foothold in the ‘blue ocean’ of the high-end arena. Research-and-development efforts have also underscored the Group’s diversification initiatives over the years.

As a result, the Group management’s vision is being consistently implemented and turned into bottom-line reality. Despite facing some economic headwinds as mounting job losses and an unfavorable market outlook have taken a toll on consumers’ wallets, the Group was able to achieve 16% period-on-period turnover growth of HK\$927,851,000 (2007: HK\$800,687,000) in the six months ended 30 September 2008, reflecting sales growth in the toys and AI-appliances segments. Profit attributable to equity holders advanced slightly by 2% to HK\$62,189,000 (2007: HK\$60,865,000) after a year of phenomenal earnings growth and in the midst of escalating production costs in mainland China.

In view of the global financial meltdown, it is unlikely that the Group can sustain sales growth of the magnitude of the previous year, since sales of its AI-appliances product line began to ease back this year into a healthy longer-term level of steady growth after the initial growth burst. While management remains justifiably confident in the Group’s business fundamentals, it remains alert to the challenges presented by soaring costs and tougher environmental and labor rules.

The Group continues to maintain a healthy business mix, with the core operations of toys, electrical appliances and motors each contributing 50% (2007: 51%), 27% (2007: 27%) and 22% (2007: 21%), respectively, of the Group’s turnover during the half year. Meanwhile, the Group will continue to pursue new business development initiatives to drive ongoing dynamic growth over the longer term.

Business Strategy

The Group’s three-pillar business structure continues to deliver steady income streams to ensure business vigour while providing funding for the Group to tap into new growth opportunities. The complementary nature of the businesses also helps level out seasonal fluctuations and any cyclical setback to individual operations to generate more stable, sustainable and high-quality earnings that produce long-lasting enhancements to shareholder value.

While not underestimating the seriousness of the current financial turmoil, we should not forget the need to sustain long-term growth and profitability. It is therefore important for us to look beyond the bleak short-term outlook and keep our eyes firmly fixed on medium- to long-term growth opportunities. Thanks to a strong financial position, the Group is able to invest in expanding its micro-motor operation with a view to widening its market foothold in the midst of an industry slowdown. We will give a fuller account of this acquisition in the review section that follows.

Our expansion initiatives are well supported by our strong financial position as a result of consistent prudent cash flow management efforts expended over the past years.

Although the unfolding financial crisis has led to the closure of some factories in the Pearl River Delta, it does present more well-founded companies such as Kin Yat with a window of opportunity in terms of servicing buyers who now encounter supply problems. The string of close-downs has also induced the Mainland government authorities to launch new tax-incentive measures and to slow down implementation of new phases of the labor contract law, which should ease the pressure on manufacturers in the short term. Feeling the impact of sluggish world trade, the state government has also introduced stimulus packages to help local exporters weather the financial turmoil. As regards costs, the downturn has led to a slowdown in escalating wages and other costs in the Pearl River Delta, which is to some extent beneficial to the Group's operations.

While cost controls and efficiency disciplines are continuously and stringently applied across the Group's operations, cost competitiveness is being matched with excellence in quality and expertise. To sustain its edge in high-value-added manufacturing, the Group continues to invest in research and development to take its technology-driven engineering capabilities to new levels. Furthermore, in the face of safety issues that have affected some Chinese-made products, the Group has been upgrading its existing facilities, establishing testing laboratories and installing effective quality-control mechanisms, to stay well ahead of increasingly stringent environmental and quality mandates on manufacturers. With consistent investments in this area, the Group is now positioned as one of the top-tier manufacturers capable of meeting the industry's highest levels of sophistication, quality and environmental requirements.

Quality control through such stringent manufacturing and testing procedures calls for a high level of investment, but also generates cost savings as it enables us to ‘get it right the first time’, thus reducing wastage, pollution and rejection rates. The use of custom-design automation represents an additional effort to enhance cost and quality control. Over the years, the Group has phased in automation to replace labor-intensive processes, thus reducing labor costs and assuring quality conformance.

The Group’s strategies have anchored us as a leading manufacturer in our core operating areas. And although the Group faces uncertain times, we remain confident that a strong financial base coupled with product excellence and a commitment to quality will put us in an even more sustainable competitive position as we look towards the inevitable market upturn.

Operational Review

Spurred by ever-present growth aspirations, the Group’s third production base in Shaoguan, Guangdong Province, Mainland China, went into service in the last quarter of 2007, providing additional capacity for toy and AI-appliance manufacturing. The Group currently operates three major fabrication centers, in Shenzhen and Shaoguan, producing toys, appliances, micro-motors and display-related materials, of varying technical and manpower requirements.

Toys

The toys division has benefited from an industry consolidation resulting from mounting difficulties in the operating environment in the face of ever more stringent requirements being imposed on manufacturers, while slackening global demand and volatile commodity prices have weighed on manufacturing activity. Geared up to target the top-end product lines, the operation’s strategy is to focus on premium movie-and-entertainment-related toys. The entertainment sector is also less seasonal in nature, thereby allowing the Group to achieve a more stable year-round order book, enabling it to fully maximize utilization of its manufacturing capabilities and manpower productivity.

The division’s strategic focus and research-and-development edge have helped drive its turnover further by 14% to HK\$465,637,000 (2007: HK\$407,455,000). Turnover growth was mainly contributed by the strong line-up of movie-and-entertainment toys ranges that tie in with scheduled launches of major action-hero and other films in 2009 and 2010. The current order book will occupy the Group’s production lines up to the second quarter of 2009.

New blockbuster releases are expected to continue to generate good toy production opportunities to sustain momentum for segment sales. The division is also actively developing new toy items for forthcoming movie productions.

To proactively counter market concerns over product quality in the toys industry, the Group is building on its key strategy to uphold premium quality complemented by advanced facilities and expertise. The Group has maintained an excellent record in quality management and confidently expects to identify appropriate development opportunities as this consolidation process reshapes the market situation.

The division will continue to drive cost savings through more efficient production processes, enhanced equipment and automation, and increased vertical integration. The acquisition of the packaging plant adjacent to the new Shaoguan premises has also enabled savings on transportation of bulky paper packaging materials for toys production.

During the period under review, the toys industry continued to be in the focus of safety and quality issues. As a reputable manufacturer with over 30 years of experience, Kin Yat has always given top priority to consumer health and customer satisfaction, and is an industry pioneer in incorporating stringent quality standards on materials sourcing, production and testing. This makes us a cut above the rest, and this, coupled with our strong fundamentals, underpins our confidence in the prospects for our toys division.

Electrical Appliances

The electrical-appliances division continues to be the Group performer, with turnover growing a further 16% period-on-period to HK\$254,883,000 (2007: HK\$218,913,000), after an 11-fold annual turnover increase for the year ended March 2008. The turnover increase mainly reflects sales orders for AI appliances, highlighted by the range of vacuum-cleaning robots developed with NASDAQ-listed iRobot Corporation (“iRobot”), which was introduced to the market in August 2007.

Market acceptance of the vacuum cleaning robot series remains positive, and the division has stepped up cooperation with iRobot in the development of other prospective AI electrical household appliances. Our investments in technology-driven engineering capabilities and production strength will continue to support our forays into new innovations in the area of household appliances.

Based on a robust order book and new product development now underway, we continue to hold a positive outlook for the division, which we expect to evolve into a steady and reliable income stream to support the Group's long-term sustainable growth.

Motors

Kin Yat branched out into micro-motor production in 1999 as part of its business diversification efforts. Positioned as a stabilizer to moderate the cyclical businesses of other operating units, the micro-motor operation has performed well and delivered a steady income stream over recent years. In the first six months of the reporting year, the division generated external sales of HK\$204,939,000 (2007: HK\$171,617,000), up 19% against the corresponding period of the previous year. The spike in production costs as a result of increases in copper and iron prices in the first half has had a negative impact on segment earnings.

During the reporting period, the Group made yet another landmark move to further develop this business unit. On November 22, 2008, the Group entered into a conditional sale and purchase agreement with Sun Motor Industrial Company Limited ("SMI") and its trustee for the acquisition of all productive assets of SMI located at its Dongguan plant for a consideration of HK\$65 million. Established in 1983, SMI and its related group of companies ("Sun Motor Group") designs and manufactures both standard and custom-designed electric motors. The productive assets of Sun Motor Group are complementary to those of the Group. The acquisition will provide inroads for the Group to tap into new customer bases which are complementary to our existing toys-focused clientele.

The consideration for this acquisition was determined based on arm's length negotiations in view of the financially distressed situation of SMI, and with reference to independent valuation reports. The acquisition is not expected to have a material impact on the Group's net assets.

With persistent effort, the Group has developed the motors division from a relatively small-scale operation into one of today's scope and sophistication. The acquisition presents an excellent and timely opportunity for us to further our capacities and capabilities in general, as well as our ability to produce more types of products at a reasonable price, to cope with the division's business growth and market development requirements. It will also enable us to benefit from enhanced economies of scale and to advance into new product areas such as a broader range of DC and AC motors.

With persistent efforts to expand the motor division's capacity and broaden its customer base from a toys-focused portfolio to a more diversified end-user base, the division's output now serves the requirements of a range of end-user sectors, including toys, automotive, household and personal care products, as well as office automation and audio-visual equipment.

The division's development will call for continued investments that will take time to yield returns for the Group, and therefore are expected to result in interim losses during the investment and initial expansion stage. However, we are optimistic about the long-term prospects of this business line. At the same time, we will remain alert to possible market changes and respond to them as the global financial crisis sweeps across many sectors.

Resources Development

The resources development division represents another strategic move by the Group towards diversification. The division is currently engaged in intensive research and development of display-related materials. Test results have been very positive.

Further upstream, the Group has pushed ahead with exploration works at the polymetallic ore mine in Lantian County, Xi'an city, Shaanxi Province. In response to recent developments in commodity markets, the Group will draw up, in good time, a framework for the further development of this new venture.

Investment in this division has been strictly controlled and costs related to development work have resulted in a segment loss of HK\$4,986,000 (2007: Loss of HK\$6,691,000) for the period under review. Nevertheless, management maintains a positive outlook for the ongoing development of this new business initiative.

Outlook

Confronted by a financial system crisis of unprecedented scale, scope and complexity, worsened by extreme commodity price fluctuations, the industrial sector has faced increasing difficulties and risks this year. These challenges continue to be exacerbated by the global credit crunch and weakening demand, as well as inflated operating costs in China due to the introduction of more stringent labor and environmental mandates by the Mainland government authorities.

Our resilience in the face of the current global slowdown validates the positive steps that we have taken consistently during recent years. However, no period is exactly the same, so we need to constantly examine and revise our strategy to render it appropriate for this moment in time. While we are encouraged by the success of our efforts, we recognize that the tasks ahead may be even more challenging.

In response to the rapidly shifting business environment and the challenges we face, our major plans and activities for the second half of the year will include: the furtherance of our research and development edge to deliver more innovative functionalities for our toy and appliance products; the continued expansion of the micro-motor business line to capture growth opportunities during an industry consolidation; the exploration of business opportunities in the Mainland domestic market as a new source of Renminbi income; and the strengthening of our core competences.

Turning to the economic outlook, it is expected that the financial crisis gripping most parts of the world will take some time to improve, meaning higher unemployment and softer consumer spending is likely in the months to come. But on a brighter note, the toy industry has been a stable performer during past economic storms, and governments around the world are rolling out fiscal stimulus plans to boost their economies. Looking to 2009, the steep decline in oil prices will aid toy and appliance manufacturers to a certain extent. The trend of rising labor rates is also expected to ease off to more tolerable levels for manufacturers.

The slate of stringent environmental and safety mandates imposed by US and EU clients is not expected to be relaxed, but the Group is well equipped and prepared to deliver the highest level of quality and sophistication for customers worldwide.

We will continue to tightly control costs through custom-designed production processes and increased automation. The introduction of our third manufacturing base in Shaoguan in the last quarter of 2007 has also provided timely relief in terms of controlling production costs, expanding capacity and upgrading our industrial capabilities to support future growth.

Order books for our core operations remain strong, but we will exercise great caution in taking forward our business development plans. We believe our three-pillar business structure will continue to provide a stable earnings base to help us steer through the current severe economic environment. Thanks to our sound fundamentals, we are confident of our resilience to weather the downturn and achieve growth as the economic situation begins to improve.

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 period. The Group adopts a prudent and conservative policy in its financial management. At the end of the financial period, the Group's aggregated time deposits and cash and bank balances amounted to HK\$150 million (31 March 2008: HK\$97 million). In addition, the Group currently maintains aggregate composite banking facilities of approximately HK\$254 million (31 March 2008: HK\$271 million) with various banks, of which HK\$110 million (31 March 2008: HK\$37 million) has been utilised as at 30 September 2008.

The Group continues to enjoy healthy financial position. As at 30 September 2008, the current ratio (current assets divided by current liabilities) was 2.0 times (31 March 2008: 1.9 times) and the gearing ratio (total interest-bearing bank borrowings divided by total equity) was 13.6% (31 March 2008: 4.6%).

EMPLOYEES AND REMUNERATION POLICIES

As at 30 September 2008, the Group employed over 12,000 full-time employees.

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.

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 period.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the directors, the Company has complied with the code provisions as set out in the Code of Corporate Governance Practices (the “CG Code”) contained in Appendix 14 to Listing Rules of the Stock Exchange throughout the six months ended 30 September 2008 except for the deviation from provision A.2.1 of the CG Code.

Under the code provision A.2.1, the role of chairman and chief executive officer (“CEO”) shall be separated and should not be performed by the same individual. The division of responsibilities between the chairman and CEO should be clearly established and set out in writing. The roles of the chairman and the CEO of the Company are not separated and performed by the same individual, Cheng Chor Kit. The balance of power and authority is ensured by the operations of the Board which comprises experienced and high caliber individuals who meet regularly to discuss issues affecting operations of the Company. The Board believes that this structure is conducive to strong and consistent leadership, enabling the Company to make and implement decisions promptly and efficiently.

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 interim report.

AUDIT COMMITTEE

The Company has an audit committee with terms of reference aligned 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 period, 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 the audited accounts for the year ended 31 March 2008 and the interim financial report for the six months ended 30 September 2008.

REMUNERATION COMMITTEE

The remuneration committee was established 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. Subject to the Group's profitability, the Group may also provide a discretionary bonus to its employees as an incentive for their contribution to the Group. The primary goal of the remuneration policy with regard to the remuneration packages of the Company's executive directors is to enable the Company to retain and motivate executive directors by linking their compensation with performance as measured against corporate objective achieved.

NOMINATION COMMITTEE

The Nomination Committee was established 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.

BOARD OF DIRECTORS

As at the date of this interim financial report, the Board consists of four executive directors, Mr. Cheng Chor Kit, Mr. Fung Wah Cheong, Mr. Wong Wai Ming and Mr. Wong Weng Loong and three independent non-executive directors, Mr. Chung Chi Ping, Roy, Mr. Wong Chi Wai, Albert and Ms. Sun Kwai Yu, Vivian.

On behalf of the Board

Cheng Chor Ki

Chairman

Hong Kong, 15 December 2008