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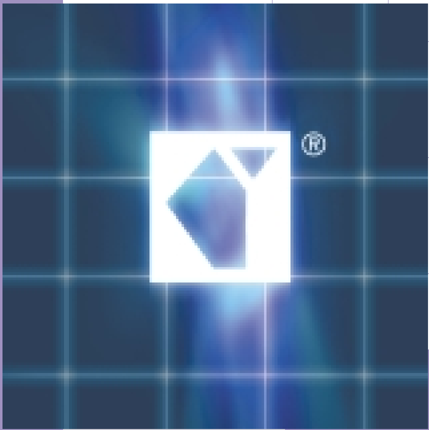

2005 INTERIM REPORT

KIN YAT HOLDINGS LIMITED

建溢集團有限公司

(Incorporated in Bermuda with limited liability)

The Board of Directors is pleased to announce the unaudited consolidated results for Kin Yat Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the six months ended 30 September 2005 together with the comparative figures for the corresponding period in 2004 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Unaudited Six months ended 30 September	
		2005	2004 (Restated)
	Notes	***HK$'000***	*HK$'000*
TURNOVER	*3*	**531,155**	406,591
Cost of sales		**(421,376)**	(347,581)
Gross profit		**109,779**	59,010
Other revenue		**6,392**	4,807
Selling and distribution expenses		**(10,377)**	(10,753)
Administrative expenses		**(31,150)**	(32,145)
PROFIT FROM OPERATIONS		**74,644**	20,919
Finance costs		**(702)**	(298)
Share of profits less losses of associates		**(5,855)**	(2,382)
PROFIT BEFORE TAX	*4*	**68,087**	18,239
Tax	*5*	**(6,595)**	(2,743)
PROFIT FOR THE PERIOD		**61,492**	15,496
ATTRIBUTABLE TO:			
Equity holders of the parent		**58,295**	12,625
Minority interests		**3,197**	2,871
		61,492	15,496
DIVIDENDS	*6*	**8,096**	2,024
EARNINGS PER SHARE	*7*		
Basic		**HK14.40 cents**	HK3.12 cents
Diluted		**HK14.37 cents**	HK3.11 cents

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	Unaudited 30 September 2005 HK$'000	Audited 31 March 2005 (Restated) HK$'000
NON-CURRENT ASSETS			
Fixed assets		**327,656**	334,553
Goodwill		**4,650**	4,650
Interests in associates		**102**	4,969
Deferred development costs		**7,615**	8,025
		340,023	352,197
CURRENT ASSETS			
Inventories		**150,708**	163,450
Accounts receivable	*8*	**141,246**	68,851
Prepayments, deposits and other receivables		**13,609**	49,788
Time deposits		**113,778**	13,025
Cash and bank balances		**33,912**	39,542
		453,253	334,656
CURRENT LIABILITIES			
Accounts and bills payable, accrued liabilities and other payables	*9*	**157,883**	91,290
Interest-bearing bank borrowings	*10*	**16,101**	22,767
Tax payable		**14,292**	8,668
Proposed interim dividend	*6*	**8,096**	–
		196,372	122,725
NET CURRENT ASSETS		**256,881**	211,931
TOTAL ASSETS LESS CURRENT LIABILITIES		**596,904**	564,128

	Notes	Unaudited 30 September 2005 HK$'000	Audited 31 March 2005 (Restated) HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**596,904**	564,128
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	*10*	**5,833**	15,833
Deferred tax liabilities		**13,312**	13,312
		19,145	29,145
NET ASSETS		**577,759**	534,983
CAPITAL AND RESERVES			
Equity attributable to equity holders of the parent			
Share capital	*11*	**40,482**	40,482
Reserves		**520,811**	470,612
Proposed final dividend		**–**	10,120
		561,293	521,214
Minority interests		**16,466**	13,769
TOTAL EQUITY		**577,759**	534,983

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2005 (Unaudited)

	Share capital HK$'000	Share premium account HK$'000	Asset revaluation reserve HK$'000	Capital reserve on consolidation HK$'000	Contributed surplus HK$'000	Retained profits HK$'000	Proposed final dividend HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
At 1 April 2005, as previously reported	40,482	104,441	26,273	1,599	6,150	332,149	10,120	521,214	13,769	534,983
Prior period adjustment *(note 1&2)*: HKFRS 3 & HKAS 36	–	–	–	(1,599)	–	1,599	–	–	–	–
As restated	40,482	104,441	26,273	–	6,150	333,748	10,120	521,214	13,769	534,983
2004/2005 final dividend declared	–	–	–	–	–	–	(10,120)	(10,120)	–	(10,120)
Net profit for the period	–	–	–	–	–	58,295	–	58,295	3,197	61,492
Interim dividend	–	–	–	–	–	(8,096)	–	(8,096)	(500)	(8,596)
At 30 September 2005	40,482	104,441	26,273	–	6,150	383,947	–	561,293	16,466	577,759

For the six months ended 30 September 2004 (Unaudited)

	Share capital HK$'000	Share premium account HK$'000	Asset revaluation reserve HK$'000	Capital reserve on consolidation HK$'000	Contributed surplus HK$'000	Retained profits HK$'000	Proposed final dividend HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
At 1 April 2004, as previously reported	40,482	104,441	28,409	1,599	6,150	313,169	4,048	498,298	12,419	510,717
Prior period adjustment *(note 1&2)*: HKFRS 3 & HKAS 36	–	–	–	(1,599)	–	1,599	–	–	–	–
As restated	40,482	104,441	28,409	–	6,150	314,768	4,048	498,298	12,419	510,717
2003/2004 final dividend declared	–	–	–	–	–	–	(4,048)	(4,048)	–	(4,048)
Net profit for the period	–	–	–	–	–	12,625	–	12,625	2,871	15,496
Interim dividend	–	–	–	–	–	(2,024)	–	(2,024)	(1,000)	(3,024)
At 30 September 2004	40,482	104,441	28,409	–	6,150	325,369	–	504,851	14,290	519,141

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Unaudited Six months ended 30 September **2005** *HK$'000*	 2004 *HK$'000*
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	**130,200**	(4,837)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	**(18,411)**	(29,776)
NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES	**(16,666)**	31,494
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**95,123**	(3,119)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**52,567**	55,883
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**147,690**	52,764
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**33,912**	31,076
Time deposits with original maturity of less than three months when acquired	**113,778**	23,016
Bank overdrafts, unsecured	**–**	(1,328)
	147,690	52,764

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"). Except for certain fixed assets, which are measured at revalued amounts, as appropriate, the condensed financial statements have been prepared under the historical cost basis. The accounting policies and basis of preparation adopted in the preparation of the interim financial statements are the same as those used in the audited financial statements for the year ended 31 March 2005, except in relation to the changes in accounting policies following the first-time adoption in the current period of the new and revised Hong Kong Financial Reporting Standards ("HKFRSs", which also include HKASs and Interpretations) which are effective for accounting periods commencing on or after 1 January 2005.

The application of HKFRSs has resulted in a change in the presentation of the income statement and balance sheet. In particular, the presentation of minority interests and share of tax of associates have been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented, and the impact is shown in note 2 herein:

(a) HKAS 17 – Leases

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

Upon the adoption of HKAS 17, the Group's leasehold interests in land and buildings is separated into leasehold land and leasehold 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 fixed assets to prepaid land lease payments, while leasehold buildings continue to be classified as part of property, plant and equipment. Prepaid 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 building elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

In the opinion of the directors, the leasehold land and buildings of the Group cannot be allocated reliably between the land and buildings elements, therefore, the entire lease payments are included in the cost of land and buildings and are amortised over the shorter or the lease terms and useful lives.

Save as disclosed above, this change in accounting policy has had no effect on the interim financial statements.

(b) HKFRS 2 – Share-based Payment

In prior periods, no recognition and measurement of share-based transactions in which employees (including directors) were granted share options over shares in the Company was 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 a binomial model. 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, 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 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.

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

The adoption of HKFRS 2 on the Group's share options granted to employees after 7 November 2002 but had not vested by 1 January 2005 has no material financial impact on the results of the Group for current nor prior accounting periods. Accordingly, no prior period adjustment is required.

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

In prior periods, goodwill/negative goodwill arising on acquisitions prior to 1 January 2001 was eliminated against consolidated capital reserve in the year of acquisition and was not recognised in the income statement until disposal or impairment of the acquired business.

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, except to the extent it related to expectations of future losses and expenses that were identified in the acquisition plan and that could be measured reliably, in which case, it was recognised as income in the consolidated income statement when the future losses and expenses were recognised.

Upon the adoption of HKFRS 3 and HKAS 36, goodwill arising on acquisitions is no longer amortised but subject to an annual impairment review (or more frequently if events or changes in circumstances indicate that the carrying value may be impaired). Any impairment loss recognised for goodwill is not reversed in a subsequent period.

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 the acquisition of subsidiaries and associates (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 January 2005 the carrying amounts of accumulated amortisation with a corresponding entry to the cost of goodwill and to derecognise the carrying amounts of negative goodwill (including that remaining in consolidated capital reserve) against retained earnings. Goodwill previously eliminated against consolidated capital reserve remains eliminated against consolidated capital reserve 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 effect of the above changes are summarised in note 2 to the condensed consolidated financial statements. In accordance with the transitional provisions of HKFRS 3, comparative amounts have not been restated.

2. SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

Following the adoption of the HKFRSs, the opening balances of the following accounts were adjusted retrospectively. The details of the prior period adjustments are summarized as follows:

(a) Effect on opening balance of total equity at 1 April 2005 and 1 April 2004

Effect of new policies Increase/(decrease)	**Capital reserve on consolidation (Unaudited)** *HK$'000*	**Retained profits (Unaudited)** *HK$'000*	**Total (Unaudited)** *HK$'000*
Prior period adjustment:			
HKFRS 3			
Capital reserve on consolidation	(1,599)	1,599	–

(b) Effect on profit for the period for the six months ended 30 September 2005 and 2004

Effect of new policies Increase/(decrease)	**For the six months Ended 30 September 2005 (Unaudited)** ***HK$'000***	2004 (Unaudited) *HK$'000*
Effect on profit for the period:		
HKFRS 3		
Discontinuation of amortisation of goodwill	**1,163**	–
Effect on basic earnings per share:	**HK0.29 cent**	–

3. 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 profit for the Group's business segments.

	Unaudited six months ended 30 September											
	Toys and related products		Motors		Electrical household appliances		Material development		Eliminations		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:												
Sales to external customers	**366,473**	238,195	**116,605**	114,237	**28,179**	37,997	**19,898**	16,162	**–**	–	**531,155**	406,591
Inter-segment sales	**–**	–	**3,663**	5,048	**–**	–	**–**	–	**(3,663)**	(5,048)	**–**	–
Other revenue and gain	**2,610**	1,776	**1,791**	1,728	**–**	–	**8**	113	**–**	–	**4,409**	3,617
Total	**369,083**	239,971	**122,059**	121,013	**28,179**	37,997	**19,906**	16,275	**(3,663)**	(5,048)	**535,564**	410,208
Segment results	**47,142**	(5,039)	**28,209**	26,854	**874**	(616)	**1,135**	1,986	**–**	–	**77,360**	23,185
Interest, dividend income and unallocated gains											**1,983**	1,190
Unallocated expenses											**(4,699)**	(3,456)
Profit from operations											**74,644**	20,919

(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	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:												
Sales to external customers	**221,504**	113,497	**123,439**	120,224	**145,399**	140,560	**40,813**	32,310	**–**	–	**531,155**	406,591

4. PROFIT BEFORE TAX

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

	Unaudited Six months ended 30 September 2005 HK$'000	2004 HK$'000
Depreciation	**21,818**	20,447
Amortisation of deferred development costs	**3,901**	3,516
Amortisation of goodwill	**–**	1,163
Interest income	**(799)**	(46)

5. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable overseas 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.

	Unaudited Six months ended 30 September 2005 HK$'000	2004 HK$'000
Current period provision:		
Hong Kong	**6,289**	2,444
Elsewhere	**306**	299
Total tax charge for the period	**6,595**	2,743

There was no significant unprovided deferred tax in respect of the period and as at the balance sheet date (2004: Nil).

6. DIVIDENDS

The directors have decided to pay an interim dividend of HK2 cents per share to the shareholders whose name appear on the register of members of the Company on 13 January 2006. The dividend will be paid on 19 January 2006.

	Unaudited Six months ended 30 September	
	2005	2004
	HK$'000	*HK$'000*
Interim – HK2 cents (2004: HK0.5 cent) per ordinary share	**8,096**	2,024

7. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity holders of the parent for the period of HK$58,295,000 (2004: HK$12,625,000) and the weighted average of 404,820,000 (2004: 404,820,000) ordinary shares in issue during the period.

The calculation of diluted earnings per share for the period is based on the profit attributable to equity holders of the parent for the period of HK$58,295,000 (2004: HK$12,625,000) and 405,800,975 (2004: 406,004,138) 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	
	2005	2004
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 period	**980,975**	1,184,138
Weighted average number of ordinary shares used in calculating diluted earnings per share	**405,800,975**	406,004,138

8. ACCOUNTS RECEIVABLE

Trading terms with customers are largely on credit, except for new customers where cash on sale or payment by letter of credit is normally required. Invoices are normally payable within 60 days of issuance, except for certain well-established customers, for whom the credit terms are extended to 90 days. The ageing of the Group's accounts receivable as at 30 September 2005 is analysed as follows:

	Unaudited 30 September 2005 *HK$'000*	Audited 31 March 2005 *HK$'000*
0 – 30 days	**84,253**	50,738
31 – 60 days	**30,309**	5,864
61 – 90 days	**15,107**	8,038
Over 90 days	**11,577**	4,211
Total	**141,246**	68,851

The substantial increase in the accounts receivable is owing to the seasonal factor where September (30 September 2004: HK$154,058,000) is the high season and March (31 March 2004: HK$53,597,000) is the low season. The Group considered such balances are normal and healthy.

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

The ageing of the Group's accounts and bills payable as at 30 September 2005 is analysed as follows:

	Unaudited 30 September 2005 *HK$'000*	Audited 31 March 2005 *HK$'000*
0 – 30 days	**51,763**	29,664
31 – 60 days	**47,269**	14,593
61 – 90 days	**23,973**	15,630
Over 90 days	**4,849**	5,097
Accounts and bills payable	**127,854**	64,984
Accrued liabilities and other payables	**30,029**	26,306
Total	**157,883**	91,290

10. INTEREST-BEARING BANK BORROWINGS

The Group's banking facilities as at 30 September 2005 are supported by corporate guarantees given by the Company and certain subsidiaries of the Company.

11. SHARE CAPITAL

	Unaudited Ordinary shares of HK$0.10 each	
	Number of shares	*HK$'000*
Authorised:		
At 1 April 2005 and 30 September 2005	1,000,000,000	100,000
Issued and fully paid:		
At 1 April 2005 and 30 September 2005	404,820,000	40,482

12. CONTINGENT LIABILITIES

At the balance sheet date, the Company had provided guarantees of HK$157,000,000 (31 March 2005: HK$186,000,000) and HK$41,000,000 (31 March 2005: HK$41,000,000) in respect of banking facilities granted to certain subsidiaries and associates, of which HK$21,934,000 (31 March 2005: HK$38,600,000) and HK$40,701,000 (31 March 2005: HK$36,697,000) had been utilised as at the balance sheet date, respectively.

13. COMPARATIVE AMOUNTS

Due to the adoption of new HKFRSs and HKASs for the current period, the accounting treatment and presentation of certain items on the financial statements have been revised to comply with the new requirements. Accordingly, certain figures have been adjusted to reserves in prior year. Also, certain comparative figures have been reclassified to conform with the current period's presentation.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Tuesday, 10 January 2006 to Friday, 13 January 2006 (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 2005, 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, Tengis Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong (which will be relocated to 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong with effect from 3 January 2006) for registration not later than 4:00 p.m. on Monday, 9 January 2006.

MANAGEMENT DISCUSSION AND ANALYSIS

The past six months continued to be a very difficult one for the toys industry, but amidst mounting competition, sustaining pricing pressure, higher material costs and shortages in power and labor, the Group was able to achieve robust performance as a result of strong orders for the toys division and dedicated efforts to realign production flow to enhance competitiveness. In respect of the motors division, performance was steady which was the result of our consistent efforts in producing quality products, maintaining price competitiveness and providing reliable customer services.

More efforts will be devoted into strengthening the fundamentals of the existing divisions to steer through prevailing market challenges.

REVIEW OF OPERATIONS

Toys

The toys market remained highly competitive and challenging during the period under review, however the toys division was pleased to achieve a momentous turnaround with HK$47,142,000 in segment results, compared with a HK$5,039,000 loss for the same period last year. Turnover rose significantly to HK$366,473,000 (2004: HK$238,195,000) which was largely attributable to orders relating to a blockbuster movie and the Group's relentless efforts to improve operation workflow and to optimize workforce for enhanced production efficiency and cost effectiveness.

The strong output growth in the first half has also led to increased economies of scale. This and the relocation of more production lines from Shenzhen to low cost based Shaoguan contributed to the improved bottom lines for the division.

In view of the high concentration of movie-related and other orders in the first half of the Group's financial year, it is foreseeable that the division may have to embrace a low season in the second half. In response, the Group will step up efforts in cost control and prudent resources deployment and utilization.

High fuel prices and their impact on the cost of raw materials such as plastics and metals are likely to remain a serious concern. Labor and electricity supply in China will continue to be tight but the Group is determined to minimize delivery delays and over-time costs through active workflow improvement efforts.

The year ahead will remain highly challenging. Increased marketing and sales development efforts will be put in to expand customer base in this niche segment, and to pursue broad-based growth in the industry. Encouraged by the higher cost efficiency already achieved, the Group will further step up the re-engineering process to tackle the labor and electricity shortage problems in China. The Group's relocation of production activities from Shenzhen to the lower-cost base in Shaoguan proved to be a successful strategic move to help alleviate the impact of the costs increase in the Pearl River Delta area.

Motors

The toys industry continues to provide core support for the motors division and it remains a significant income source for the Group. Given the cyclical nature of the toys industry, it is the Group's strategy to maintain a more balanced product portfolio to offset the division's exposure to market volatility.

The Group is pleased to report that past efforts in product diversification are beginning to show some positive results. In fact, the shift in product mix contributed to the division's stable turnover and segment results for the six-month period under review despite continued unfavorable market environment brought on by higher copper, steel and other material costs.

During the first half of fiscal 2005/06, the motors division reported a 5% increase in segment results to HK$28,209,000 from HK$26,854,000 a year earlier. Turnover increased slightly by 1% to HK$120,268,000 from HK$119,285,000 of the previous period.

In addition to the orders from our core toys customers, the Group has received positive comments from new customers in other industries which eventually will contribute to a more balanced customer portfolio. The management remains optimistic as to the prospect of a long term relationship with these new customers. As the Group's track record in non-toys related sectors is limited, it is conceivable that customers will have to test out our capabilities. We are confident that our performance will bring the Group increased and more significant orders, and the division will continue to maintain existing customer base, identify niche segments and products to ensure future development and growth.

Materials development

This segment is intended to provide a stable revenue stream to compliment the cyclical toys and motors divisions. Efforts in expanding customer portfolio have helped increase sales; however, as most of the production activities have been shifted to new factories, profitability was affected by higher depreciation and interest costs. At present, materials under development are primarily for use in cathode ray tube and liquid crystal display.

CDRs

The Group's 50%-owned CDR manufacturing arm had to share a loss of HK$6 million, largely attributable to increased production costs, suppressed selling prices and an influx of competitors in the market. The situation is unlikely to improve shortly and the Group is actively adjusting the strategy for this division.

Prospects

The securing of movie-related orders for the toys division has underlined the Group's strong turnaround performance for the six months under review, despite no improvement in the overall market environment. This indicates the importance of the Group in staying abreast of the growing popular demand for entertainment toys and products, and further strengthening and expanding its customer base.

The Group has been making strenuous efforts in improving its workflow and enhancing operating efficiency over the past few years and is encouraged to see that such efforts are beginning to pay off. This is highly reassuring and also further motivates everyone in the Group not to be complacent and to continue with the good work.

The operating environment for the Group will remain challenging for the remainder of the financial year. While certain environmental factors are beyond everyone's control, the Group must continue to improve from within and also strive to strengthen its product and market development capabilities to seize potentially lucrative diversification opportunities.

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$148 million (31 March 2005: HK$53 million). In addition, the Group currently maintains aggregate composite banking facilities of approximately HK$157 million (31 March 2005: HK$186 million) with various banks, of which HK$22 million (31 March 2005: HK$39 million) has been utilized as at 30 September 2005.

The Group continues to enjoy healthy financial position. As at 30 September 2005, the current ratio (current assets divided by current liabilities) was 2.3 times (31 March 2005: 2.7 times) and the gearing ratio (long term liabilities divided by shareholder funds) was 3.3% (31 March 2005: 5.4% as restated).

EMPLOYEES AND REMUNERATION POLICIES

As at 30 September 2005, the Group employed over 9,000 full time employees, of which approximately 50 were based in Hong Kong with the remainder in China.

The Group remunerates its employees largely in accordance with prevailing industry standards. In Hong Kong, the Group's employee benefits include staff retirement scheme, medical scheme and performance bonus. In China, the Group provides its employees staff welfare and allowances in accordance with prevailing 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.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 30 September 2005, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

(A) Shares

Name of director	Long position/ short position	Capacity	No. of shares	Percentage of the Company's issue share capital
Cheng Chor Kit	Long position	Founder of a trust	272,018,000 *(Note)*	67.19%
Wong Kin Chung	Long position	Beneficial owner	3,050,000	0.75%
Fung Wah Cheong, Vincent	Long position	Beneficial owner	3,146,000	0.78%

Note: These shares, amounting to around 67.19% 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 owner 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.

(B) Underlying Shares

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

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

SHARE OPTION SCHEME

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

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

	Date of share options granted	Number of share options: At 1 April 2005	Exercised during the period	Lapsed during the period	At 30 September 2005	Exercise period	Exercise price per share HK$	Price of Company's shares at grant date of options* HK$
The New Scheme								
Directors	14/11/2003	3,126,000	–	–	3,126,000	14/11/2006-13/11/2013	1.592	1.60
Other employees	14/11/2003	1,126,000	–	(212,000)	914,000	14/11/2006-13/11/2013	1.592	1.60
		4,252,000	–	(212,000)	4,040,000			
The Old Scheme								
Other employees	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 prices on the trading day immediately prior to the date of the grant of the options.*

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed under the section headed "Directors' interests and short positions in shares and underlying shares" and "Share option scheme", at no time during the period were rights to acquire benefits by means of the acquisition of shares in the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its holding companies, subsidiaries and fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

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

At 30 September 2005, the following interests of 5% or more of the issued share capital and share options of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Name	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital	Number of share options held
Cheng Chor Kit *(Note)*	Through a controlled corporation	272,018,000	67.19	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 period are separately disclosed in the section headed "Share option scheme" disclosed above.

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

DISCLOSURE PURSUANT TO RULE 13.22 OF THE LISTING RULES

At 30 September 2005, the Group had provided a guarantee of HK$41,000,000 (the "Guarantee") to bank for facilities granted to Full Summit Development Limited ("Full Summit") and Concord Modern International Technology Limited ("CMIT"), both are the associates of the Group. The total amount of the Guarantee of HK$41,000,000 exceed 8% of one or more of the percentage ratios as set out in Rule 14.04(9) of the Listing Rules, thus giving rise to a disclosure obligation under Rule 13.22 of the Listing Rules. Accordingly, a combine balance sheet of Full Summit Group and the Group's attributable interest therein are presented below:

	Combined balance sheet *HK$'000*
Non-current assets	100,215
Current assets	16,632
Current liabilities	(81,631)
Non-current liabilities	(37,800)
	(2,584)
Group's attributable interests	(1,292)

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

DISCLOSURE PURSUANT TO RULE 13.14 OF THE LISTING RULES

Reference is made to the Company's announcement dated 22 July 2005 and made pursuant to Rule 13.13 of the Listing Rules. The announcement disclosed that the total trade receivables from Hasbro SA, a customer of the Group, amounted to a total of HK$32,461,000 as at 30 June 2005 which individually exceeded 8 per cent of the Group's total market capitalisation.

Under Rule 13.14 of the Listing Rules, a disclosure obligation arises where the total advance to an entity increase from that previously disclosed under Rule 13.13 by 3 per cent or more with reference to the Company's total market capitalisation.

As at 30 September 2005, the Group had trade receivables (the "Trade Receivables") due from Hasbro SA of HK$48,554,000 which individually exceeded by more than 3 per cent of the Group's total market capitalisation from the percentage calculated at 30 June 2005. The Trade Receivable are for sales of toys and related products which are unsecured, interest-free and have a normal repayment term of about 21 days. Hasbro SA is independent third party not connected to directors, chief executives or substantial shareholders of the Group or their respective associates.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

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

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the directors, the Company has complied with the code provisions as set out in Appendix 14 of the Listing Rules, throughout the accounting period covered by the interim report, with deviations from certain code provisions as explained below.

Under the code provision A.2.1, the division of responsibilities between the chairman and CEO should be clearly established and set out in writing. The Company has adopted written terms of reference in relation to the division of responsibilities between the chairman and CEO on 28 September 2005.

Under the code provision A.4.2, every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. As at 30 September 2005, Mr. Chui Pak Shing has been a director of the Company for 3.5 years without being subject to retirement by rotation.

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.

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 which was established in compliance with Rule 3.21 of the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises all the three independent non-executive directors of the Company.

REMUNERATION COMMITTEE AND NOMINATION COMMITTEE

On 28 September 2005, a remuneration committee and a nomination committee were established by the Company. Each of the committees comprises five members, the majority of which being all the three independent non-executive directors of the Company. Each of the committees has adopted the terms of the reference in line with those set out in Appendix 14 of the Listing Rules.

On behalf of the Board
Cheng Chor Kit
Chairman

Hong Kong, 9 December 2005