KIN YAT HOLDINGS LIMITED
建溢集團有限公司

(Incorporated in Bermuda with limited liability)
(Stock Code: 638)

Annual Report 2007

anniversary

CONTENTS

CORPORATE INFORMATION

DIRECTORS:

Executive:

Mr. CHENG Chor Kit *(Chairman)*
Mr. FUNG Wah Cheong
Mr. WONG Wai Ming
Mr. WONG Weng Loong
Mr. Yuen Wai Kwong

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
Gallant Y.T. Ho & Co.

AUDITORS:

Ernst & Young

PRINCIPAL BANKERS:

The Hongkong and Shanghai banking
Corporation Limited
Hang Seng Bank
Bank of Tokyo-Mitsubishi UFJ

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

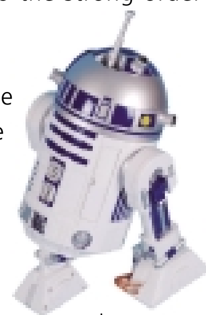
CHAIRMAN'S STATEMENT

The Board of Directors is pleased to report the annual results of Kin Yat Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 March 2007.

GROUP RESULTS

This year not only marks the 10th anniversary of the establishment of Hong Kong Special Administrative Region, but also the 10th anniversary of the Group's listing on the main board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). On this propitious occasion, I am pleased to announce our record-breaking annual group sales since the Group's listing in 1997 and satisfactory growth in both turnover and net profit for 2006/07.

Turnover for the year under review rose 18% to a record level of approximately HK$920,944,000 (2006: HK$778,293,000). Profit attributable to equity holders of the Group also grew 12% to HK$67,183,000 (2006: HK$59,901,000). The growth in both turnover and net profit was mainly due to the strong order intake during the period under review.



This is good news indeed, and it is only with the dedicated efforts of everyone in the Group that we have been able to achieve this result. However, we should never be complacent, and with the record turnover achieved, our next goal is to improve profitability and hopefully set another new record.

ENHANCED BUSINESS STRATEGY

Our 2006/07 performance represented the effectiveness of the Group's proactive three-pronged strategy to broaden revenue base and mix on the basis of core business lines. As previously reported in our interim report, we will continue to strengthen our new product research and development capabilities with the primary focus on movie and entertainment related toys, and artificial intelligent robots for household tasks which are fast gaining popularity.

Secondly, as a buffer to the more cyclical/order-based business nature of our toys and appliances division, we will step up our efforts to expand the end-user markets for the more stable motor division and to grow our materials development business.

Last but not least, while it is important to broaden revenue streams and customer base, it is equally crucial to improve productivity, control cost and enhance bottom line. We will continue to scrutinize our workflow procedures, implement automation and develop vertical integration in appropriate areas to bolster efficiency and profitability.

CHAIRMAN'S STATEMENT

Toys

We are very encouraged by the performance of the toys division which has been able to achieve satisfactory growth in segment turnover. The division recorded a 26% increase in turnover to HK$616,809,000 (2006: HK$491,464,000) for the year under review, and this accounted for 67% of the Group's total turnover. However, high material prices and increasing minimum wages have eroded our profit margin. In line with our strategy, we will seek to improve profitability through active product development and work process refinement.

On the product front, the division has received repeat orders for *Star Wars* products as well as new orders for toy products from two blockbuster movies, namely *Spider-Man 3* and *Transformer*. In fact, confirmed orders received for *Transformer* toys exceeded expectation with orders on hand up to September 2007. The Group is confident of securing more orders for production up to the last quarter of 2007 and even the first quarter of 2008.

Confirmed orders have also been received for *Hulk* products which will enter the production line in the second half of the 2007/08 financial year to coincide with the latest *Hulk* movie scheduled for release in mid-2008. In addition, new *Spider-man* and *Star Wars* products in relation to their TV series are actively under development.

Meanwhile, a major customer has obtained a five-year license from a well-known U.S. entertainment group to develop product series on its globally renowned super hero universe characters. With a repertoire of over 5,000 characters, it is one of the world's most prominent character-based entertainment companies. It is a leader in utilizing its character franchises in licensing, entertainment, publishing and toys endeavours. We can expect continued orders from this exciting product initiative arising from movies and other media platforms while this company leverages its character franchises in a growing array of opportunities around the world.

These confirmed orders and exciting product development prospects have placed the Group on solid platform for turnover performance. However, whether these orders will transform into higher profitability for the Group is hinged on our capability to raise productivity and improve cost effectiveness. As our new industrial plants in Shaoguan has commenced production, we will continue to relocate more of our toys production facilities from Shenzhen to Shaoguan where the production cost is significantly lower.

We will further strengthen our existing central procurement framework to maximize economies of scale, and to step up our efforts to seek alternative vendors that can offer better prices.

Streamlining production process and work flow is an ongoing cost control and productivity enhancement initiative. Apart from pursuing automation with the installation of more sophisticated machinery, we also place great emphasis on improving workforce quality to maximize synergy.

Motors

The motors division also reported satisfactory growth in segment turnover and profit despite continuous challenging market environment. Rising copper and steel prices and minimum wage rates drove up cost overheads but the division was able to mitigate the impact with a successful shift in product mix to those of higher margin. The division contributed external sales of HK$226,747,000 (2006: HK$179,701,000) for the reporting year, up 26%.

Part of the increased turnover was attributable to orders placed by new customers from non-toys sectors upon satisfactory completion of product testings and trials. These non-toys customers are largely engaged in industries relating to automotives, household and personal care products, office automation and AV equipment.

We are confident of the division's long term development and believe that more new orders will be confirmed for the coming financial years.

Electrical Appliances

Tremendous growth is expected in this division which cooperates with iRobot Corporation ("iRobot"), a NASDAQ-listed company, to manufacture artificial intelligent vacuuming robots on a ODM (original design manufacturing) basis. The Group is pleased to be able to work with iRobot as a partner by contributing not only the manufacturing services but also the technology expertise.

iRobot

These highly sophisticated, practical and easy to use high-value adding electrical appliances have entered production lines and is on schedule for planned market launch in late 2007. More orders are expected for the remaining time of 2007, 2008 and coming few years.

Turnover of the Group derived from these products should contribute a tremendous increase in group turnover in the coming years. The division also looks forward to co-operating further with iRobot and other name brand owners to capture the tremendous market potential.

Materials Development

In respect of the other business activities, the Group continues to strengthen the new product development process for its materials development division, and at the same time step up marketing and sales activities.

This segment, which was developed by the Group as a strategic vehicle to moderate the cyclical fluctuations of the core toys business, is currently in transition as a more sophisticated business platform is taking shape. During the past few years, the Group was in active development pursuits for more high technology products, such as Indium Tin Oxide ("ITO") powder and target. ITO powder is used in the production of cathode ray tube ("CRT") displays for television ("TV") sets and computers, transparent electricity conductive glue, radiation protection and antistatic coating. ITO target, made from ITO powder, is used to produce thin transparent electricity conductive film for LCD TV sets and computer monitors. The range of LCD products includes TN, STN and TFT.

CHAIRMAN'S STATEMENT

Materials Development (continued)

The Group is very excited about the tremendous market demand and extensive applications of ITO products. To fully capitalize on the opportunities, there are plans to expand its present ITO product research and development capabilities which are currently applied in mobile phone colour displays. To advance its product development competence, the division has collaborated with Guangzhou Research Institute of Non-ferrous Metals which will serve as a technical support unit to equip the division with the capability to produce ITO products for TFT-LCD used in TV and monitors.

As a result of investments in research and development and promotional trial sales to attract new customers, the division recorded a loss of HK$3.8 million (2006: Segmental profit of HK$2.3 million) in the year under review. However, the Group is confident of the potential of the new advanced products which are expected to contribute significantly to the segment's future turnover and profitability.

Outlook

2006/07 was a fruitful year for the Group as we began to see the result of our strategic planning and implementation of development strategies over the years. During the year under review, we saw benefits from economies of scale which partially mitigated the increasing labour and material costs. This also reminds us that there is a constant need for everybody to look ahead, stay alert to market trends and keep our growth drive in full force, especially when our industry remains highly competitive and our operating environment is very challenging.

All four core operations project positive prospects in their respective ongoing developments. The toys segment will continue to thrive on the back of strong orders of entertainment toys. The motors division is steadily penetrating into non-toys sectors for more robust growth momentum. With the new revenue stream derived from the artificial intelligent vacuuming robots, the electrical appliances segment will become another growth driver for the Group. And finally, the materials development division also looks forward to a quicker pace of growth as the market is set for a replacement demand boom for new LCD TV in view of the migration to high-definition standards.

Going forward, we will, on the one hand, continue to work very hard to tackle increasing costs such as rising material cost and minimum wages in the Pearl River Delta, and, on the other hand, to diversify the Group's core operations. As regards cost control, stringent cost management comes in the combined form of more efficient production procedures and work flow, increased automation, enhanced workforce productivity and further vertical integration in appropriate areas.

As for diversification, the management is geared to develop new revenue streams as well as new products for the existing core operations.

We are very aware of the cyclical nature of core operations and the vulnerability of our operating and market environment. This makes our dedication to pursue greater competitiveness and more stable revenue and profit base an ongoing commitment.

With a strong financial position, we are in a good position to put our forward-looking vision in action by pursuing new investment opportunities in businesses other than our core operations to tap new potential and to stabilize the Group's financial performance.

Since the Group was engaged in the production of ITO products, it has explored opportunities in investing in upstream materials of Indium in order to secure an efficient supply. Such initiative has led to a pursuit for investments in the PRC's natural resources sector, including but not limited to zinc and lead mines, the output of which is used for Indium refinement. By leveraging on the Group's available resources and relationship with PRC government bodies built over the past four years, the Company is now well placed to pursue investment opportunities in the natural resources sector via such feasible means as mergers and acquisitions. Through these long term investments, the Group seeks to constantly enhance shareholders' value.

CHAIRMAN'S STATEMENT

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$151 million (2006: HK$138 million). In addition, the Group currently maintains aggregate composite banking facilities of approximately HK$156 million (2006: HK$147 million) with various banks, of which HK$23 million (2006: HK$9 million) has been utilised as at 31 March 2007.

The Group continues to enjoy healthy financial position. As at 31 March 2007, the current ratio (current assets divided by current liabilities) was 2.5 times (2006: 3.6 times) and the gearing ratio (long term liabilities divided by total equity) was 2.4% (2006: 2.2%).

EMPLOYEES AND REMUNERATION POLICIES

As at 31 March 2007, the Group employed over 12,000 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
20 July 2007

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of the Company and of the Group for the year ended 31 March 2007.

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 2007 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 25 to 84.

An interim dividend of HK2 cents per ordinary share was paid to shareholders on 19 January 2007. The directors recommend the payment of a final dividend of HK5 cents per ordinary share in respect of the year, to shareholders on the register of members on 23 August 2007. 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. This summary does not form part of the audited financial statements.

	Year ended 31 March				
RESULTS	**2007**	2006	2005	2004	2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE	**920,944**	778,293	737,015	624,665	794,209
PROFIT FROM OPERATIONS	**81,888**	85,327	55,081	26,874	83,851
Finance costs	**(782)**	(1,116)	(838)	(276)	(255)
Share of profits and losses of associates	**(3,505)**	(15,764)	(17,254)	6,711	(2,099)
PROFIT BEFORE TAX	**77,601**	68,447	36,989	33,309	81,497
Tax	**(6,908)**	(4,017)	(4,187)	(3,456)	(6,766)
PROFIT FOR THE YEAR	**70,693**	64,430	32,802	29,853	74,731
ATTRIBUTABLE TO:					
Equity holders of the Company	**67,183**	59,901	29,746	25,346	70,607
Minority interests	**3,510**	4,529	3,056	4,507	4,124
	70,693	64,430	32,802	29,853	74,731

SUMMARY FINANCIAL INFORMATION (continued)

ASSETS AND LIABILITIES	As at 31 March				
	2007	2006	2005	2004	2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
NON-CURRENT ASSETS	**394,569**	338,061	339,182	366,854	306,122
CURRENT ASSETS	**457,927**	357,577	334,883	274,062	316,057
TOTAL ASSETS	**852,496**	695,638	674,065	640,916	622,179
CURRENT LIABILITIES	**(186,600)**	(98,016)	(122,725)	(119,069)	(113,858)
NON-CURRENT LIABILITIES	**(15,901)**	(12,672)	(25,151)	(22,524)	(10,320)
TOTAL LIABILITIES	**(202,501)**	(110,688)	(147,876)	(141,593)	(124,178)
NET ASSETS	**649,995**	584,950	526,189	499,323	498,001

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

Details of movements in the share capital and 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 2007, the Company's reserves available for cash distribution and/or distribution in specie, comprising the contributed surplus and retained profits, amounted to HK$165,011,000, of which HK$20,396,000 has been proposed as a final dividend for the year. Under the Companies Act 1981 of Bermuda, the Company's contributed surplus of HK$104,750,000 may be distributed under certain circumstances. In addition, the Company's share premium account with a balance of HK$105,619,000 may be distributed in the form of fully paid bonus shares.

REPORT OF THE DIRECTORS

MAJOR CUSTOMERS AND SUPPLIERS

During the year under review, sales to the Group's five largest customers accounted for 71% of the total sales for the year and sales to the largest customer included therein amounted to 55%.

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	
Wong Wai Ming	(appointed on 1 January 2007)
Wong Weng Loong	(appointed on 4 October 2006)
Yuen Wai Kwong	
Chui Pak Shing	(resigned on 12 April 2006)
Wong Kin Chung	(resigned on 31 March 2007)

Independent non-executive directors

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

In accordance with the Company's bye-laws, Wong Wai Ming, Wong Weng Loong and Wong Chi Wai, Albert 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 months' notice in writing to the other party. Yuen Wai Kwong, Fung Wah Cheong, Wong Weng Loong and Wong Wai Ming entered into service contracts with the Company for terms of three years commencing from 17 December 2004, 26 August 2005, 4 October 2006 and 1 January 2007, 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.

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 2007, 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	Number of ordinary shares held	Approximate percentage of the Company's issued share capital
Cheng Chor Kit	Long position	Founder of a trust	280,164,000 *(Note)*	68.77%
Fung Wah Cheong	Long position	Beneficial owner	4,266,000	1.05%
Wong Weng Loong	Long Position	Beneficial owner	8,000	0.002%

Note: These shares, amounting to approximately 68.77% 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.

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

(B) Underlying shares

Name of director	Long position/ short position	Capacity	Number of share options granted	No. of underlying shares in respect of share options held and approximate percentage of shareholding	Date of share options 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
		Beneficial owner	1,300,000	1,300,000 (0.32%)	4/10/2006	4/10/2009 – 3/10/2016	HK$1.03
		Interest hold by spouse	1,200,000	1,200,000 (0.29%)	4/10/2006	4/10/2009 – 3/10/2016	HK$1.03
Fung Wah Cheong	Long position	Beneficial owner	1,600,000	1,600,000 (0.39%)	4/10/2006	1/8/2007 – 3/10/2016	HK$1.03
Wong Wai Ming	Long position	Beneficial owner	40,000	40,000 (0.01%)	14/11/2003	14/11/2006 – 13/11/2013	HK$1.592
		Beneficial owner	296,000	296,000 (0.07%)	4/10/2006	4/10/2009 – 3/10/2016	HK$1.03
Wong Weng Loong	Long position	Beneficial owner	50,000	50,000 (0.01%)	14/11/2003	14/11/2006 – 13/11/2013	HK$1.592
		Beneficial owner	150,000	150,000 (0.04%)	4/10/2006	4/10/2009 – 3/10/2016	HK$1.03
Yuen Wai Kwong	Long position	Beneficial owner	240,000	240,000 (0.06%)	4/10/2006	4/10/2009 – 3/10/2016	HK$1.03

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 or short position in the shares, underlying shares and 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 Issuers.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed in the share option scheme 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 55, 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 a 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）and 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市委員會常務委員）. He has over 30 years' experience in the toy industry.

Fung Wah Cheong, aged 51, is the Deputy Chairman of the Company and is responsible for the corporate and business management of the Group. He is also a member of the Company's remuneration committee and nomination committee. He holds a Master of Science degree in Engineering Business Management and has over 20 years of 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.

Wong Wai Ming, *FCPA, FCCA*, aged 34, is the Finance Director of the Company. He joined the Group in 2001 and is responsible for overseeing all of the finance and accounting matters of the Group. He holds a bachelor degree in business administration from the Chinese University of Hong Kong. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. Prior to joining the Group, he has over 7 years of experience in auditing and accounting in the international accounting firms.

Wong Weng Loong, aged 37, is an executive director of the Company. He joined the Group in 1996 and is responsible for the overall production in Shenzhen, the PRC and the overall operations in Shixing, Shaoguan, the PRC. He holds a master and a doctor degree in business administration from Wisconsin International University and has more than 15 years' experience in manufacturing industries.

Yuen Wai Kwong, aged 55, is an executive director of the Company. He is responsible for the marketing and engineering function of the toy division. He graduated from the Hong Kong Polytechnic University in 1975 and has more than 29 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.

REPORT OF THE DIRECTORS

BIOGRAPHICAL DETAILS IN RESPECT OF DIRECTORS (continued)

Independent non-executive directors

Dr. Chung Chi Ping, Roy, *JP*, aged 55, 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 a member of the Company's audit committee and nomination committee. He is the co-founder and Vice Chairman of Techtronic Industries Company Limited. He holds a Master of Science degree in Engineering Business Management from the University of Warwick, United Kingdom. Dr. Chung was awarded an Honorary Doctorate Degree by the University of Newcastle in New South Wales, Australia in 2006. He was also appointed as Justice of Peace by the Hong Kong SAR Government effective on 1 July 2005 and won the Hong Kong Young Industrialists Award in 1997. Dr. Chung is an active member of many government commissions. He is currently a non-official member of the Committee on Economic Development and Economic Cooperation with the Mainland – Commission on Strategic Development and a member of the Home Affairs Bureau – Sports Commission. He also serves as the Vice Chairman of the Federation of Hong Kong Industries and the Chairman of Electronics/Electrical Appliances Industry Advisory Committee of the Hong Kong Trade Development Council. He is also the Deputy Council Chairman of the Hong Kong Polytechnic University (2002-2007) and Council Member of Vocational Training Council. Dr. Chung is also an independent non-executive director of Daka Designs Limited.

Wong Chi Wai, Albert, aged 41, 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 a 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 was also admitted as a barrister of the High Court of Hong Kong in 1998. He has over 19 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 45, 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 a 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 19 years 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 2007, 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	Approximate percentage of the Company's issued share capital	Number of share options held
Cheng Chor Kit *(Note 1)*	Through a controlled corporation	280,164,000	68.77%	4,500,000 *(Note 2)*

Note 1: These shares were held through Resplendent.

Note 2: Among these share options, 1,200,000 share options were held by the spouse of Cheng Chor Kit.

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 29 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 17 to 22.

REPORT OF THE DIRECTORS

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
20 July 2007

CORPORATE GOVERNANCE REPORT

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 the Rules Governing the Listing of Securities (the "Listing Rules") of the Stock Exchange of Hong Kong Limited throughout the year ended 31 March 2007 except for the deviation from provision A.2.1 of the CG Code as described in the section "Chairman and Chief Executive Officer" in this Corporate Governance Report.

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 2007, 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.

The composition of the Board, by category, is set out below:

Executive directors

Cheng Chor Kit *(Chairman)*
Fung Wah Cheong
Wong Wai Ming
Wong Weng Loong
Yuen Wai Kwong

Independent non-executive directors

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

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.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS (continued)

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 five full Board meetings. Meeting attendance records of the full Board meetings are set out on page 22.

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 confirm that there is 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

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.

After the resignation of Chui Pak Shing, the CEO, from the Company on 12 April 2006, the roles of the chairman and the CEO of the Company are then 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 meets regularly to discuss issue affecting operations of the Company. The Board believes that this structure is conductive to strong and consistent leadership, enabling the Company to make and implement decisions promptly and efficiently.

NON-EXECUTIVE DIRECTORS' TERM OF OFFICE

The non-executive directors of the Company have been appointed for specific terms which are 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 three months' notice in writing to the other party.

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 objectives achieved.

The remuneration committee held three meeting during the year. During the meetings, the remuneration committee reviewed the remuneration packages of all directors. Meeting attendance records of the remuneration committee are set out on page 22.

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 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.

During the year, the nomination committee held two meetings. During the meetings, the nomination committee discussed the nomination of two executive directors and reviewed the structure, size and composition including the skills, knowledge and experience of the Board and concluded that the current Board comprised a sufficient number of directors with the sound knowledge and experience for the operation and development of the Group. Meeting attendance records of the nomination committee are set out on page 22.

CORPORATE GOVERNANCE REPORT

AUDITORS' REMUNERATION

During the year, the fees payable to Ernst & Young, the Company's external auditors, for audit services and taxation services totalled to HK$1,268,000 (2006: HK$918,000) and HK$179,000 (2006: HK$160,000), 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 2006 and the interim financial report for the six months ended 30 September 2006.

The audit committee held three meetings during the year. Meeting attendance records of the audit committee are set out on page 22.

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 2007, the directors were 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 pages 23 to 24.

CORPORATE GOVERNANCE REPORT

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.

During the year, the Group had appointed an independent firm of certified public accountants to conduct a review on the effectiveness of the major cycles of the Group's system of internal control. Such review covered all material controls, including financial, operational and compliance controls and risk management functions and it did not reveal any significant defects.

The aforesaid is an ongoing process for identifying, evaluating and managing of significant business, financial, compliance and operational risks specific to the Group. Relevant recommendations made by the independent firm of certified public accountants who performed the review at least annually would be implemented, if appropriate, as soon as possible, by the Group to further enhance its internal control policies, procedures and practices.

COMMUNICATION WITH SHAREHOLDERS

The Board makes its endeavour to maintain an ongoing and transparent communication with all shareholders and, in particular, use general meetings to communicate with shareholders and encourage their participation. The Company also uses various other means of communication with its shareholders, such as publication of annual and interim reports, press announcement, circulars and the Company's website: *http://www.kinyat.com*. Details of poll vote procedures, which comply with the Listing Rules and the Bye-laws of the Company, have been included in the Company's circulars sent to shareholders of the Company and in the proceedings of the Company's general meetings.

DIRECTORS'/COMMITTEE MEMBERS' ATTENDANCE IN 2006/2007

	Meetings attended/Eligible to attend			
Name of director	**Full Board**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**
Executive directors				
Cheng Chor Kit *(Chairman)*	5/5	N/A	3/3	2/2
Fung Wah Cheong	5/5	N/A	3/3	2/2
Wong Wai Ming *(Note 1)*	1/1	N/A	N/A	N/A
Wong Weng Loong *(Note 2)*	2/2	N/A	N/A	N/A
Yuen Wai Kwong	5/5	N/A	N/A	N/A
Independent non-executive directors				
Chung Chi Ping, Roy (Chairman of the remuneration committee)	5/5	3/3	3/3	2/2
Wong Chi Wai, Albert (Chairman of the nomination committee)	4/5	2/3	2/3	1/2
Sun Kwai Yu, Vivian (Chairman of the audit committee)	5/5	3/3	3/3	2/2

Notes:

1. Wong Wai Ming was appointed as executive director of the Company on 1 January 2007.

2. Wong Weng Loong was appointed as executive director of the Company on 4 October 2006.

INDEPENDENT AUDITORS' REPORT

ERNST & YOUNG
安 永 會 計 師 事 務 所

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

We have audited the financial statements of Kin Yat Holdings Limited set out on pages 25 to 84, which comprise the consolidated and company balance sheets as at 31 March 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made 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.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITORS' REPORT

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 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
18th Floor, Two International Finance Centre
8 Finance Street, Central
Hong Kong

20 July 2007

CONSOLIDATED INCOME STATEMENT

Year ended 31 March 2007

	Notes	2007 HK$'000	2006 HK$'000
REVENUE	5	**920,944**	778,293
Cost of sales		**(761,918)**	(628,507)
Gross profit		**159,026**	149,786
Other income and gains	5	**15,732**	13,446
Selling and distribution expenses		**(23,466)**	(20,608)
Administrative expenses		**(69,404)**	(57,297)
Finance costs	6	**(782)**	(1,116)
Share of profits and losses of associates		**(3,505)**	(15,764)
PROFIT BEFORE TAX	7	**77,601**	68,447
Tax	9	**(6,908)**	(4,017)
PROFIT FOR THE YEAR		**70,693**	64,430
Attributable to:			
Equity holders of the Company	10	**67,183**	59,901
Minority interests		**3,510**	4,529
		70,693	64,430
DIVIDENDS	11		
Interim		**8,148**	8,096
Proposed final		**20,396**	16,193
		28,544	24,289
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	12		
Basic		**HK16.57 cents**	HK14.80 cents
Diluted		**HK16.53 cents**	HK14.76 cents

CONSOLIDATED BALANCE SHEET

31 March 2007

	Notes	**2007**	2006
		HK$'000	*HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment	*13*	**354,998**	298,472
Investment properties	*14*	**27,500**	25,800
Prepaid land lease payments	*15*	**13,938**	13,017
Goodwill	*16*	**4,650**	4,650
Interests in associates	*18*	**(13,205)**	(10,501)
Deferred development costs	*19*	**6,688**	6,623
Total non-current assets		**394,569**	338,061
CURRENT ASSETS			
Inventories	*20*	**186,304**	149,939
Accounts receivable	*21*	**95,968**	53,430
Prepayments, deposits and other receivables		**24,983**	15,893
Time deposits		**101,786**	86,889
Cash and bank balances		**48,886**	51,426
Total current assets		**457,927**	357,577
CURRENT LIABILITIES			
Accounts and bills payable, accrued liabilities and other payables	*22*	**155,850**	80,225
Interest-bearing bank borrowings	*23*	**22,842**	9,434
Tax payable		**7,908**	8,357
Total current liabilities		**186,600**	98,016
NET CURRENT ASSETS		**271,327**	259,561
TOTAL ASSETS LESS CURRENT LIABILITIES		**665,896**	597,622
NON-CURRENT LIABILITIES			
Deferred tax liabilities	*24*	**15,901**	12,672
NET ASSETS		**649,995**	584,950
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	*25*	**40,740**	40,482
Reserves	*27(a)*	**570,093**	510,819
Proposed final dividend	*11*	**20,396**	16,193
		631,229	567,494
Minority interests		**18,766**	17,456
TOTAL EQUITY		**649,995**	584,950

Cheng Chor Kit
Director

Fung Wah Cheong
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 March 2007

	Attributable to equity holders of the Company										
		Reserves									
	Share capital	**Share premium account**	**Share option reserve**	**Asset revaluation reserve**	**Exchange fluctuation reserve**	**Contributed surplus**	**Retained profits**	**Total reserves**	**Proposed final dividend**	**Minority interests**	**Total equity**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 April 2005	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 for the year recognised directly in equity	–	–	–	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 *(note 27(b))*	–	–	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
At 1 April 2006	40,482	104,441	2,800	17,455	–	6,150	379,973	510,819	16,193	17,456	584,950
Revaluation surplus, net *(note 13)*	–	–	–	3,560	–	–	–	3,560	–	–	3,560
Exchange realignment	–	–	–	–	14,661	–	–	14,661	–	–	14,661
Total income and expenses for the year recognised directly in equity	–	–	–	3,560	14,661	–	–	18,221	–	–	18,221
Profit for the year	–	–	–	–	–	–	67,183	67,183	–	3,510	70,693
Total income and expenses for the year	–	–	–	3,560	14,661	–	67,183	85,404	–	3,510	88,914
Dividend paid to minority shareholders	–	–	–	–	–	–	–	–	–	(2,200)	(2,200)
Final dividend declared	–	–	–	–	–	–	–	–	(16,193)	–	(16,193)
Deferred tax debited to revaluation reserve *(note 24)*	–	–	–	(360)	–	–	–	(360)	–	–	(360)
Equity-settled share option expenses *(note 27(b))*	–	–	1,596	–	–	–	–	1,596	–	–	1,596
Issue of shares *(note 25)*	258	1,178	–	–	–	–	–	1,178	–	–	1,436
Interim dividend paid	–	–	–	–	–	–	(8,148)	(8,148)	–	–	(8,148)
Proposed final dividend	–	–	–	–	–	–	(20,396)	(20,396)	20,396	–	–
At 31 March 2007	**40,740**	**105,619**	**4,396**	**20,655**	**14,661**	**6,150**	**418,612**	**570,093**	**20,396**	**18,766**	**649,995**

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 March 2007

	Notes	2007 HK$'000	2006 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**77,601**	68,447
Adjustments for:			
Finance costs	6	**782**	1,116
Share of profits and losses of associates		**3,505**	15,764
Bank interest income	7	**(3,456)**	(3,212)
Depreciation	7	**40,955**	42,257
Recognition of prepaid land lease payments	7	**254**	248
Loss/(gain) on disposal of items of property, plant and equipment	7	**(130)**	13
Amortisation of deferred development costs	7	**6,809**	7,716
Equity-settled share option expenses	7	**1,596**	1,000
Surplus on revaluation of leasehold land and buildings and investment properties, net	7	**(2,097)**	(3,494)
		125,819	129,855
Decrease/(increase) in inventories		**(32,823)**	13,511
Decrease/(increase) in accounts receivable		**(41,176)**	15,421
Decrease/(increase) in prepayments, deposits and other receivables		**(5,946)**	34,143
Increase in amounts due from associates		**(224)**	(258)
Decrease in amounts due to associates		**(577)**	(36)
Increase/(decrease) in accounts and bills payable, accrued liabilities and other payables		**69,661**	(11,065)
Cash generated from operations		**114,734**	181,571
Interest received		**3,456**	3,212
Interest paid		**(782)**	(1,116)
Hong Kong profits tax paid		**(3,872)**	(2,636)
Overseas income taxes paid		**(616)**	(492)
Dividends paid		**(24,341)**	(18,216)
Dividends paid to minority shareholders		**(2,200)**	(1,000)
Net cash inflow from operating activities		**86,379**	161,323

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 March 2007

	Notes	2007 HK$'000	2006 HK$'000
Net cash inflow from operating activities		**86,379**	161,323
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	*13*	**(64,750)**	(37,283)
Additions to prepaid land lease payments	*15*	**–**	(2,874)
Additions to deferred development costs	*19*	**(6,874)**	(6,314)
Proceeds from disposal of items of property, plant and equipment		**343**	62
Acquisition of subsidiaries and a shareholder's loan	*28*	**(19,460)**	–
Net cash outflow from investing activities		**(90,741)**	(46,409)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of new shares		**1,436**	–
New bank loans		**13,408**	–
Repayment of bank loans		**–**	(29,166)
Net cash inflow/(outflow) from financing activities		**14,844**	(29,166)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**10,482**	85,748
Cash and cash equivalents at beginning of year		**138,315**	52,567
Effect of foreign exchange rate changes, net		**1,875**	–
CASH AND CASH EQUIVALENTS AT END OF YEAR		**150,672**	138,315
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**48,886**	51,426
Non-pledged time deposits with original maturity of less than three months when acquired		**101,786**	86,889
		150,672	138,315

BALANCE SHEET

31 March 2007

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	*17*	**246,447**	256,628
CURRENT ASSETS			
Bank balances		**315**	86
Prepayment		**–**	3
Dividends receivable		**70,000**	14,000
Total current assets		**70,315**	14,089
CURRENT LIABILITIES			
Other payables		**996**	878
NET CURRENT ASSETS		**69,319**	13,211
NET ASSETS		**315,766**	269,839
EQUITY			
Share capital	*25*	**40,740**	40,482
Reserves	*27(b)*	**254,630**	213,164
Proposed final dividend	*11*	**20,396**	16,193
TOTAL EQUITY		**315,766**	269,839

Cheng Chor Kit
Director

Fung Wah Cheong
Director

NOTES TO FINANCIAL STATEMENTS

31 March 2007

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 Company.

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 2007. 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.

The acquisition of a subsidiary during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries.

NOTES TO FINANCIAL STATEMENTS

31 March 2007

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The HKICPA has issued a number of new and revised HKFRSs that are effective for the Group's accounting period commencing on 1 April 2006. The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements:

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 and HKFRS 4 Amendments	Financial Guarantee Contracts
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 *Financial Reporting in Hyperinflationary Economies*

The principal changes in accounting policies are as follows:

(a) HKAS 21 The Effects of Changes in Foreign Exchange Rates

Upon the adoption of HKAS 21 Amendment regarding a net investment in a foreign operation, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in the exchange fluctuation reserve in the consolidated financial statements irrespective of the currency in which the monetary item is denominated. This change has had no material impact on these financial statements as at 31 March 2007 or 31 March 2006.

(b) HKAS 39 Financial Instruments: Recognition and Measurement

(i) Amendment for cash flow hedge accounting of forecast intragroup transactions

This amendment has revised HKAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as a hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the consolidated income statement. As the Group currently has no such transactions, the amendment has had no effect on these financial statements.

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

(b) HKAS 39 Financial Instruments: Recognition and Measurement (continued)

(ii) Amendment for the fair value option

This amendment has changed the definition of a financial instrument classified as fair value through profit or loss and has restricted the use of the option to designate any financial asset or any financial liability to be measured at fair value through the income statement. The Group had not previously used this option, and hence the amendment has had no effect on the financial statements.

(iii) Amendment for financial guarantee contracts

In prior years, financial guarantees provided by the Company to various banks in connection with the bank loans and other banking facilities granted to its subsidiaries and associates were disclosed as contingent liabilities. Upon the adoption of this amendment, the scope of HKAS 39 has been revised to require financial guarantee contracts issued that are not considered insurance contracts, to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*. The adoption of this amendment has had no material impact on these financial statements.

The adoption of HK(IFRIC)-Int 4 and HK(IFRIC)-Int 7 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.

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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.

HKAS 1 Amendment	Capital Disclosures[1]
HKFRS 7	Financial Instruments: Disclosures[1]
HKFRS 8	Operating Segments[2]
HK(IFRIC)-Int 8	Scope of HKFRS 2[1]
HK(IFRIC)-Int 9	Reassessment of Embedded Derivates[1]
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment[1]
HK(IFRIC)-Int 11	HKFRS 2 - Group and Treasury Share Transactions[3]
HK(IFRIC)-Int 12	Service Concession Arrangements[3]

1 Effective for accounting period beginning on 1 April 2007
2 Effective for accounting period beginning on 1 April 2009
3 Effective for accounting period beginning on 1 April 2008

HKAS 1 Amendment will affect the disclosures about qualitative information about the Group's objectives, 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 that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risk arising from those financial instruments.

HKFRS 8 requires the disclosure of information about the operating segments of the Group, the products and services provided by the segments, the geographical areas in which the Group operates, and revenues from the Group's major customers. This standard will supersede HKAS14 *Segment Reporting*.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of HKAS 1 Amendment, HKFRS 7 and HKFRS 8 may result in new or amended disclosures, these new and revised HKFRSs should not have any significant impact on the Group's results of operations and financial position.

2.4 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.

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2.4 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.

The results of associates are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in associates are treated as non-current assets and are stated at cost less any impairment losses.

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 arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

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.

Excess over the cost of business combinations

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 (previously referred to as negative goodwill), is recognised immediately in the income statement.

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

Impairment of non-financial assets other than goodwill

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 in those expense categories consistent with the function of the impaired asset, 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.

2.4 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.

2.4 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) held 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.

2.4 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets

Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets, 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 considers whether a contract contains an embedded derivative when the Group first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

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, that is, the date that the Group commits to purchase or sell 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 subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. 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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

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.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets

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.

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities including trade and other payables and interest-bearing loans and borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Derecognition of financial liabilities

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.

2.4 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.

2.4 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowings costs

Borrowing costs are 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 and an external valuer 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Share-based payment transactions *(continued)*

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.

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 by 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

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.

Certain employees of the Group's subsidiaries in the People's of Republic China (the "PRC") are members of the state-sponsored retirement scheme (the "Retirement Scheme") operated by the government of the PRC. The subsidiaries are required to contribute certain percentages of their payroll costs to the Retirement Scheme. The contributions are charged to the 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

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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

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year, are disclosed below:

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 to the financial statements, 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 2007, the carrying amount of goodwill was HK$4,650,000 (2006: HK$4,650,000). Details of the recoverable amount calculation are disclosed in note 16.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are contained in note 24 to the financial statements.

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 sale 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.

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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 2007 and 2006.

Group	Toys and related products		Motors		Electrical appliances		Material development		Eliminations		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
	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	**616,809**	491,464	**226,747**	179,701	**50,418**	57,976	**26,970**	49,152	**–**	–	**920,944**	778,293
Inter-segment sales	**–**	–	**4,411**	5,192	**–**	–	**–**	–	**(4,411)**	(5,192)	**–**	–
Other income and gains	**4,482**	4,818	**5,170**	2,834	**–**	–	**19**	125	**–**	–	**9,671**	7,777
Total	**621,291**	496,282	**236,328**	187,727	**50,418**	57,976	**26,989**	49,277	**(4,411)**	(5,192)	**930,615**	786,070
Segment results	**44,055**	44,471	**44,364**	40,872	**867**	(907)	**(3,767)**	2,270	**–**	–	**85,519**	86,706
Interest and unallocated gains											**6,061**	5,669
Unallocated expenses											**(9,692)**	(7,048)
Finance costs											**(782)**	(1,116)
Share of profits and losses of associates											**(3,505)**	(15,764)
Profit before tax											**77,601**	68,447
Tax											**(6,908)**	(4,017)
Profit for the year											**70,693**	64,430
Segment assets	**462,011**	342,757	**181,259**	148,163	**49,838**	44,689	**30,845**	35,636	**(52,196)**	(36,929)	**671,757**	534,316
Unallocated assets											**180,739**	161,322
Total assets											**852,496**	695,638
Segment liabilities	**129,248**	50,754	**33,803**	28,882	**14,323**	15,747	**29,410**	20,724	**(52,196)**	(36,929)	**154,588**	79,178
Unallocated liabilities											**47,913**	31,510
Total liabilities											**202,501**	110,688
Other segment information:												
Depreciation and amortisation	**35,132**	35,888	**9,691**	11,126	**1,623**	1,593	**1,404**	1,506	**–**	–	**47,850**	50,113
Unallocated amounts											**168**	108
											48,018	50,221
Capital expenditure	**57,520**	32,983	**11,492**	8,455	**2,348**	966	**264**	4,067	**–**	–	**71,624**	46,471
Deficit/(surplus) on revaluation of leasehold land and buildings	**–**	–	**(239)**	(1,524)	**–**	–	**(250)**	139	**–**	–	**(489)**	(1,385)
Unallocated amounts											**(1,608)**	(2,109)
											(2,097)	(3,494)
Surplus on revaluation recognised directly in equity	**(2,982)**	(4,984)	**–**	–	**–**	–	**(150)**	–	**–**	–	**(3,132)**	(4,984)
Unallocated amounts											**(428)**	(9,717)
											(3,560)	(14,701)

4. SEGMENT INFORMATION (continued)

(b) Geographical segments

The following tables present revenue and certain asset and expenditure information for the Group's geographical segments for the years ended 31 March 2007 and 2006.

Group	United States of America		Europe		Asia		Others		Eliminations		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
	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	**314,790**	284,523	**272,914**	187,470	**266,494**	246,664	**66,746**	59,636	**–**	–	**920,944**	778,293

	Hong Kong		Elsewhere in the PRC		Eliminations		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Other segment information:								
Segment assets	**244,491**	189,365	**608,005**	506,273	**–**	–	**852,496**	695,638
Capital expenditure	**320**	3,229	**71,304**	43,242	**–**	–	**71,624**	46,471

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts but excluding intra-group transactions. An analysis of revenue, other income and gains is as follows:

	2007	2006
	HK$'000	*HK$'000*
Revenue		
Manufacture and sale of:		
Toys and related products	**616,809**	491,464
Motors	**226,747**	179,701
Electrical appliances	**50,418**	57,976
Material	**26,970**	49,152
	920,944	778,293
Other income and gains		
Bank interest income	**3,456**	3,212
Gross rental income	**5,255**	5,652
Sale of scrap material	**5,929**	3,827
Gain/(loss) on disposal of items of property, plant and equipment, net	**130**	(13)
Others	**962**	768
	15,732	13,446

6. FINANCE COSTS

	Group	
	2007	2006
	HK$'000	*HK$'000*
Interest on bank loans wholly repayable within five years	**782**	1,116

7. PROFIT BEFORE TAX

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

	2007	2006
	HK$'000	*HK$'000*
Auditors' remuneration	**1,268**	918
Depreciation	**40,955**	42,257
Recognition of prepaid land lease payments	**254**	248
Amortisation of deferred development costs*	**6,809**	7,716
Minimum lease payments under operating leases in respect of land and buildings	**2,468**	1,916
Loss/(gain) on disposal of items of property, plant and equipment, net	**(130)**	13
Employee benefits expense (including directors' remuneration – note 8):		
Wages and salaries	**134,200**	109,212
Equity-settled share option expenses	**1,596**	1,000
Pension scheme contributions	**1,187**	1,208
	136,983	111,420
Surplus on revaluation of leasehold land and buildings and investment properties, net**	**(2,097)**	(3,494)
Foreign exchange differences, net	**(313)**	(304)
Bank interest income	**(3,456)**	(3,212)
Net rental income	**(4,804)**	(5,015)

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 surplus on revaluation of leasehold land and buildings and investment properties, 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 Hong Kong Companies Ordinance, is as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Fees	**300**	300
Other emoluments:		
Salaries, allowances and benefits in kind	**7,264**	6,940
Equity-settled share option benefits	**1,253**	717
Pension scheme contributions	**228**	275
	8,745	7,932
	9,045	8,232

On 14 November 2003 and 4 October 2006, certain directors were granted share options, 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 recognised to the income statement over the vesting period, was determined as at the date of the grant and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

(a) Independent non-executive directors

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

	2007	2006
	HK$'000	*HK$'000*
Chung Chi Ping, Roy	**100**	100
Wong Chi Wai, Albert	**100**	100
Sun Kwai Yu, Vivian	**100**	100
	300	300

There were no other emoluments payable to the independent non-executive directors during the year (2006: Nil).

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

(b) Executive directors

	2007			
	Salaries, allowances and benefits in kind	**Equity-settled share option benefits**	**Pension scheme contributions**	**Total remuneration**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Cheng Chor Kit	**2,769**	**515**	**135**	**3,419**
Fung Wah Cheong	**1,878**	**614**	**12**	**2,504**
Wong Wai Ming	**464**	**26**	**3**	**493**
Wong Weng Loong	**435**	**19**	**19**	**473**
Yuen Wai Kwong	**1,019**	**16**	**12**	**1,047**
Wong Kin Chung	**539**	**63**	**36**	**638**
Chui Pak Shing	**160**	**–**	**11**	**171**
	7,264	**1,253**	**228**	**8,745**

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

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2006: Nil).

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

The five highest paid individuals during the year included three (2006: three) directors, details of whose remuneration are set out above. Details of the emoluments of the remaining two (2006: two) non-director, highest paid employees are set out below:

	2007	2006
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	**2,662**	2,683
Equity-settled share option benefits	**21**	–
Pension scheme contributions	**24**	24
	2,707	2,707

During the year, share options were granted to a non-director, highest paid employee in respect of his services to the Group, further details of which are included in the disclosures in note 26 to the financial statements. The fair value of such options, which has been recognised to the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director, highest paid employees' remuneration disclosures.

The emoluments of each of the two (2006: two) non-director, highest paid employees fell within the following bands:

	Number of employees	
	2007	2006
HK$500,001 – HK$1,000,000	**1**	–
HK$1,000,001 – HK$1,500,000	**–**	2
HK$1,500,001 – HK$2,000,000	**1**	–

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9. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 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	
	2007	2006
	HK$'000	*HK$'000*
Group:		
Current – Hong Kong		
Charge for the year	**6,749**	3,853
Over provision in prior years	**(3,286)**	(1,539)
Current – Elsewhere	**576**	503
Deferred tax (note 24)	**2,869**	1,200
Total tax charge for the year	**6,908**	4,017

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:

	2007	2006
	HK$'000	*HK$'000*
Group:		
Profit before tax	**77,601**	68,447
Tax at the statutory tax rate	**13,580**	11,979
Higher/(lower) tax rate for specific provinces or local authority	**1,767**	(271)
Adjustments in respect of current tax of previous periods	**(3,286)**	(1,539)
Income not subject to tax	**(9,985)**	(5,969)
Expenses not deductible for tax	**9,199**	6,043
Tax losses utilised from previous periods	**(4,675)**	(6,761)
Tax losses not recognised	**308**	535
Tax charge at the Group's effective rate	**6,908**	4,017

No share of tax attributable to associates (2006: Nil) 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 consolidated profit attributable to equity holders of the Company for the year ended 31 March 2007 includes a profit of HK$67,236,000 (2006: HK$12,351,000) which has been dealt with in the financial statements of the Company (note 27(b)).

11. DIVIDENDS

	2007	2006
	HK$'000	*HK$'000*
Interim – HK2 cents (2006: HK2 cents) per ordinary share	**8,148**	8,096
Proposed final – HK5 cents (2006: HK4 cents) per ordinary share	**20,396**	16,193
	28,544	24,289

The directors recommend the payment of a final dividend of HK5 cents per share in respect of the year ended 31 March 2007 to shareholders whose names appear on the register of members on 23 August 2007. 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. The approved final dividend will be paid on 7 September 2007.

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$67,183,000 (2006: HK$59,901,000) and the weighted average number of 405,427,890 (2006: 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$67,183,000 (2006: HK$59,901,000) and 406,423,827 (2006: 405,880,919) 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:

	2007	2006
Weighted average number of ordinary shares used in calculating basic earnings per share	**405,427,890**	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	**995,937**	1,060,919
Weighted average number of ordinary shares used in calculating diluted earnings per share	**406,423,827**	405,880,919

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13. PROPERTY, PLANT AND EQUIPMENT

Group

31 March 2007

	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 2006	102,050	15,351	328,285	94,803	540,489
Additions	2,139	24,384	30,420	7,807	64,750
Acquisition of Lun Sing Group *(note 28)*	12,366	284	3,872	193	16,715
Disposals	–	–	(1,254)	(34)	(1,288)
Surplus on revaluation	823	–	–	–	823
Transfers	174	(181)	–	7	–
Exchange realignment	3,642	614	11,927	2,666	18,849
At 31 March 2007	121,194	40,452	373,250	105,442	640,338
Accumulated depreciation:					
At 1 April 2006	–	–	182,493	59,524	242,017
Provided during the year	4,166	–	28,998	7,791	40,955
Disposals	–	–	(1,042)	(33)	(1,075)
Write-back on revaluation	(4,166)	–	–	–	(4,166)
Transfers	–	–	–	–	–
Exchange realignment	–	–	6,152	1,457	7,609
At 31 March 2007	–	–	216,601	68,739	285,340
Net book value:					
At 31 March 2007	121,194	40,452	156,649	36,703	354,998
An analysis of cost or valuation:					
At cost	–	40,452	373,250	105,442	519,144
At 2007 valuation	121,194	–	–	–	121,194
	121,194	40,452	373,250	105,442	640,338

13. PROPERTY, PLANT AND EQUIPMENT (continued)

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	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	–	–	153,005	51,430	204,435
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	–	15,351	328,285	94,803	438,439
At 2006 valuation	102,050	–	–	–	102,050
	102,050	15,351	328,285	94,803	540,489

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:

	2007	2006
	HK$'000	*HK$'000*
Hong Kong	**13,240**	11,000
Outside Hong Kong	**107,954**	91,050
Total valuation	**121,194**	102,050

As at 31 March 2007, the Group's leasehold land and buildings were revalued at an open market value, based on an existing state basis by Greater China Appraisal Ltd., an independent firm of professionally qualified valuers, at HK$121,194,000. Revaluation surpluses of HK$3,560,000 and HK$1,429,000, resulting from the above valuation, were credited to the asset revaluation reserve and the income statement, respectively. As a consequence, the revaluation surpluses of HK$3,560,000 and HK$1,429,000 were reflected in the asset revaluation reserve and in the income statement, respectively. The effect of the total revaluation surplus of HK$4,989,000 was reflected as increment of valuation of property, plant and equipment of HK$823,000 and write-back of accumulated depreciation of HK$4,166,000.

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$107,498,000 (2006: HK$99,715,000).

14. INVESTMENT PROPERTIES

	2007	2006
	HK$'000	*HK$'000*
Carrying amount at the beginning of the year	**25,800**	–
Transfer from owner-occupied properties *(note 13)*	**–**	15,120
Transfer from prepaid land lease payments *(note 15)*	**–**	963
Revaluation surplus arising at the date of change in use and credited to the asset revaluation reserve	**–**	9,717
Net profit from a fair value adjustment	**668**	–
Exchange realignment	**1,032**	–
Carrying amount at 31 March	**27,500**	25,800

14. INVESTMENT PROPERTIES (continued)

The Group's investment properties were revalued on 31 March 2007 by Greater China Appraisal Ltd., independent professionally qualified valuers, at HK$27,500,000 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 30(a) to the financial statements.

The Group's investment properties are held under 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	
	2007	2006
	HK$'000	*HK$'000*
Cost:		
At the beginning of the year	**15,255**	13,637
Additions	**–**	2,874
Acquisition of Lun Sing Group *(note 28)*	**661**	–
Transfer to investment properties *(note 14)*	**–**	(1,256)
Exchange realignment	**609**	–
At 31 March	**16,525**	15,255
Amortisation:		
At the beginning of the year	**1,990**	2,035
Recognised during the year	**254**	248
Transfer to investment properties *(note 14)*	**–**	(293)
Exchange realignment	**80**	–
At 31 March	**2,324**	1,990
Carrying amount at 31 March	**14,201**	13,265
Current portion included in prepayments, deposits and other receivables	**(263)**	(248)
Non-current portion	**13,938**	13,017

The leasehold land is held under a medium term lease and 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	
	2007	2006
	HK$'000	*HK$'000*
Carrying amount at the beginning of the year and 31 March	**4,650**	4,650

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 2007, 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	
	2007	2006
	HK$'000	*HK$'000*
Unlisted shares, at cost	**104,950**	104,950
Due from subsidiaries	**153,898**	209,334
Due to a subsidiary	**(12,401)**	(57,656)
	246,447	256,628

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 values.

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.

17. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows:

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				
Evertop (Oversea) Industrial Company Limited	British Virgin Islands/PRC	Ordinary US$100	100%	Manufacture of toys
Kin Chak Science & Technology (Shenzhen) Co., Ltd. #	PRC	HK$50,000,000	100%	Property holding
Kin Yat (HK) Holdings Limited	Hong Kong	Ordinary HK$1,000 Non-voting deferred HK$6,000,000	100%	Investment holding and property holding
Kin Yat Industrial Company Limited	Hong Kong	Ordinary HK$3,200,000	100%	Trading of toys and moulds, and sourcing of materials
Lun Sing Paper Products Company Limited ("Lun Sing") ***	Hong Kong	Ordinary HK$10,000	100%	Investment holdings
Newway Electrical Industries Limited	Hong Kong	Ordinary HK$3,000,000	100%	Trading of electrical household appliances
Penta Blesses Enterprises Limited	Hong Kong	Ordinary HK$1,000,000	100%	Investment holding, and manufacture and trading of toys and electrical appliances

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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)				
Shaoguan Konso Technology Company Limited ("Shaoguan Konso") #	PRC	HK$55,000,000	100%	Manufacture and trading of toys and electrical appliances
Shaoguan Lun Sing Paper Products Company Limited ("Shaoguan Lun Sing") # ***	PRC	HK$31,600,000	100%	Manufacture and trading of paper carton products
Shaoguan Sigma Technology Company Limited ("Shaoguan Sigma") # ****	PRC	RMB20,000,000	91%	Development and distribution of material
Shenzhen Kin Yat Toys Company Limited ("Shenzhen Toys") **	PRC	US$4,274,820	100%	Manufacture and trading of toys
Shenzhen Newway Electrical Industries Co., Ltd. ("Shenzhen Newway") *	PRC	HK$10,000,000	100%	Property holding
Shixing Newway Industry Co., Ltd. #	PRC	US$4,000,000	100%	Property holding
Shixing Standard Motor Co., Ltd. #	PRC	US$7,045,200	90%	Property holding
Shixing Talent Woods Ltd. #	PRC	RMB6,500,000	100%	Manufacture and trading of toys
Shixing Turbo Toys Company Limited ("Turbo Toys") **	PRC	US$1,608,119	100%	Manufacture and trading of toys and electrical appliances
Sigma Technology Holding Limited	Hong Kong	Ordinary HK$2	100%	Investment holding

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)				
Standard Motor Co., Ltd.	Hong Kong	Ordinary HK$40,000,000	90%	Manufacture and trading of motors
U-Kids International (HK) Limited	Hong Kong	Ordinary HK$1,000,000	100%	Trading of toys
Unicon Investments Limited	Hong Kong	Ordinary HK$10,000	100%	Property holding
World Talent Enterprise 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.

** Shenzhen Toys and Turbo Toys are incorporated and registered as wholly foreign owned enterprise under the PRC law with a registered capital of US$5,000,000 each.

*** During the year, the Group acquired the entire equity interest of Lun Sing from Cheng Chor Kit, a director of the Company, Yang Mu Zhong and Bright Summit Investment Limited, the then controlling shareholders of Lun Sing and the independent third parties of the Group. Details of the acquisition are disclosed in note 28.

**** During the year, the minority shareholder abandoned the ownership of a 9% equity interest in Shaoguan Sigma and agreed to transfer the 9% equity interest to the Group without any consideration. As at the balance sheet date, the legal transfer has not been completed. However, it does not have any significant impact on the results of the Group.

18. INTERESTS IN ASSOCIATES

	Group 2007 HK$'000	2006 HK$'000
Share of net deficits	**(13,642)**	(10,137)
Due from associates	**482**	258
Due to associate	**(45)**	(622)
	(13,205)	(10,501)

The amounts due from/(to) associates are unsecured, interest-free and are repayable in accordance with normal trading terms. The carrying amounts of these balances 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	Ordinary 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

18. INTERESTS IN ASSOCIATES (continued)

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

	2007	2006
	HK$'000	HK$'000
Assets	93,320	103,022
Liabilities	(121,209)	(123,897)
Revenues	(92,698)	(71,520)
Losses	7,013	31,569

19. DEFERRED DEVELOPMENT COSTS

	Group	
	2007	2006
	HK$'000	HK$'000
Cost:		
At beginning of year	23,798	25,915
Additions	6,874	6,314
Retirements	(8,864)	(8,431)
At 31 March	21,808	23,798
Accumulated amortisation:		
At beginning of year	17,175	17,890
Provided during the year	6,809	7,716
Retirements	(8,864)	(8,431)
At 31 March	15,120	17,175
Net book value:		
At 31 March	6,688	6,623

20. INVENTORIES

	Group	
	2007	2006
	HK$'000	HK$'000
Raw materials	115,520	111,914
Work in progress	41,043	19,685
Finished goods	29,741	18,340
	186,304	149,939

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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:

	2007	2006
	HK$'000	*HK$'000*
0 – 30 days	**64,192**	36,208
31 – 60 days	**11,331**	7,382
61 – 90 days	**11,472**	4,407
Over 90 days	**8,973**	5,433
	95,968	53,430

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

	Group	
	2007	2006
	HK$'000	*HK$'000*
0 – 30 days	**44,145**	31,374
31 – 60 days	**32,295**	14,458
61 – 90 days	**32,746**	4,422
Over 90 days	**9,951**	3,500
Accounts and bills payable	**119,137**	53,754
Accrued liabilities and other payables	**36,713**	26,471
	155,850	80,225

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	
	2007	2006
	HK$'000	*HK$'000*
Bank loans, unsecured	**22,842**	9,434
Bank borrowings repayable:		
Within one year or on demand	**22,842**	9,434
In the second year	**–**	–
In the third to fifth years, inclusive	**–**	–
	22,842	9,434
Portion classified as current liabilities	**(22,842)**	(9,434)
Non-current portion	**–**	–

Notes:

(a) As at 31 March 2007, the Group's bank borrowings amounted to HK$22,842,000, which are repayable within one year. Among such bank borrowings, HK$9,434,000 bears interest at HIBOR+2% per annum and is denominated in RMB; HK$10,000,000 bears interest at HIBOR+1% and is denominated in HK$; and HK$3,408,000 bears interest at the daily HK$ best lending rate and is denominated in HK$.

In the prior year, the Group's bank loan was unsecured, bore interest at HIBOR+2% per annum and was repayable within one year.

(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 their fair values.

24. DEFERRED TAX

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

Deferred tax liabilities

Group

	Depreciation allowance in excess of related depreciation *HK$'000*	Revaluation of leasehold land and buildings *HK$'000*	Total *HK$'000*
At 1 April 2006	18,567	2,735	21,302
Deferred tax debited to equity during the year	–	360	360
Deferred tax credited to the income statement during the year *(note 9)*	(385)	–	(385)
Gross deferred tax liabilities at 31 March 2007	18,182	3,095	21,277

Deferred tax assets

Group

	Losses available for offset against future taxable profit *HK$'000*
At 1 April 2006	(8,630)
Deferred tax debited to the income statement during the year *(note 9)*	3,254
Gross deferred tax assets at 31 March 2007	(5,376)
Net deferred tax liabilities at 31 March 2007	15,901

24. DEFERRED TAX (continued)

The movements in deferred tax liabilities and assets during the year ended 31 March 2006 are as follows:

Deferred tax liabilities

Group

	Depreciation allowance in excess of related depreciation *HK$'000*	Revaluation of leasehold land and buildings *HK$'000*	Total *HK$'000*
At 1 April 2005	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 *(note 9)*	1,200	–	1,200
Gross deferred tax liabilities at 31 March 2006	18,567	2,735	21,302

Deferred tax assets

Group

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

The Group has tax losses arising in Hong Kong of HK$15,901,000 (2006: HK$13,701,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose.

At 31 March 2007, there was no significant unrecognised deferred tax liability (2006: 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 2007 HK$'000	Company 2006 HK$'000
Authorised:		
1,000,000,000 ordinary shares of HK$0.10 each	**100,000**	100,000
Issued and fully paid:		
407,400,000 (2006: 404,820,000) ordinary shares of HK$0.10 each	**40,740**	40,482

A summary of the movements in the Company's issued ordinary share capital during the year is as follows:

	Number of shares in issue	Issued share capital HK$'000	Share premium account HK$'000	Total HK$'000
At 1 April 2005, 31 March 2006 and 1 April 2006	404,820,000	40,482	104,441	144,923
Share options exercised *(note)*	2,580,000	258	1,178	1,436
At 31 March 2007	407,400,000	40,740	105,619	146,359

Note:

During the year, the subscription rights attaching to 1,680,000 and 900,000 share options were exercised at the subscription prices of HK$0.3032 and HK$1.03 per share, respectively (note 26), resulting in the issue of 2,580,000 shares of HK$0.10 each for a total cash consideration, before expenses, of HK$1,436,000.

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 (the "Old Scheme") will remain in force and effect for the periods set out below.

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 New Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

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

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

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

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

26. SHARE OPTION SCHEMES (continued)

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

	Date of share options granted	Number of share options: At 1 April 2006	Granted during the year	Exercised during the year	Lapsed during the year	At 31 March 2007	Exercise period	Exercise price per share HK$	Price of Company's shares at grant date of options*** HK$
The New Scheme									
Directors									
Cheng Chor Kit	14/11/2003	2,000,000	–	–	–	2,000,000	14/11/2006-13/11/2013	1.592	1.60
	4/10/2006	–	2,500,000	–	–	2,500,000*	4/10/2009-3/10/2016	1.03	1.03
Fung Wah Cheong	4/10/2006	–	900,000	(900,000)	–	–	4/10/2006-3/10/2016	1.03	1.03
	4/10/2006	–	1,600,000	–	–	1,600,000	1/8/2007-3/10/2016	1.03	1.03
Wong Wai Ming	14/11/2003	40,000	–	–	–	40,000	14/11/2006-13/11/2013	1.592	1.60
	4/10/2006	–	296,000	–	–	296,000	4/10/2009-3/10/2016	1.03	1.03
Wong Weng Loong	14/11/2003	50,000	–	–	–	50,000	14/11/2006-13/11/2013	1.592	1.60
	4/10/2006	–	150,000	–	–	150,000	4/10/2009-3/10/2016	1.03	1.03
Yuen Wai Kwong	4/10/2006	–	240,000	–	–	240,000	4/10/2009-3/10/2016	1.03	1.03
Wong Kin Chung	14/11/2003	312,000	–	–		312,000**	14/11/2006-13/11/2013	1.592	1.60
	4/10/2006	–	120,000	–	–	120,000**	4/10/2009-3/10/2016	1.03	1.03
Chui Pak Shing	14/11/2003	422,000	–	–	(422,000)	–	14/11/2006-13/11/2013	1.592	1.60
Other employees									
In aggregate	14/11/2003	714,000	–	–	(54,000)	660,000	14/11/2006-13/11/2013	1.592	1.60
	4/10/2006	–	2,540,000	–	–	2,540,000	4/10/2009-3/10/2016	1.03	1.03
		3,538,000	8,346,000	(900,000)	(476,000)	10,508,000			
The Old Scheme									
Other employees									
In aggregate	6/11/1998	1,760,000	–	(1,680,000)	(80,000)	–	6/11/1998-5/11/2008	0.3032	0.44

* Among the 2,500,000 share options held by Cheng Chor Kit, 1,200,000 share options are held by his spouse.

** Wong Kin Chung resigned as an executive director of the Company on 31 March 2007.

*** 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)

The fair value of the share options granted during the year was approximately HK$3,298,000, of which the Group recognised a equity-settled share option expense of HK$996,000 during the year ended 31 March 2007. As at 31 March 2007, the equity-settled share option expense of HK$2,302,000 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 2007:

	Share options granted on 4 October 2006
Dividend yield (%)	5.9%
Volatility (%)	50.0%
Risk-free interest rate (%)	4.0%
Expected life of option (year)	10

The fair value of the share options granted on 14 November 2003 was approximately HK$3,400,000, of which the Group recognised a equity-settled share option expense of HK$600,000 during the year ended 31 March 2007.

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
Dividend yield (%)	4.7%
Volatility (%)	65.8%
Risk-free interest rate (%)	4.5%
Expected life of option (year)	10

26. SHARE OPTION SCHEMES (continued)

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.

The 2,580,000 share options exercised during the year resulted in the issue of 2,580,000 ordinary shares of the Company and new share capital of HK$258,000 and share premium of HK$1,178,000 (before issue expenses), as further detailed in note 25 to the financial statements.

At the balance sheet date, the Company had 10,508,000 share options outstanding under the New Scheme. The exercise in full of these share options would, under the present capital structure of the Company, result in the issue of 10,508,000 additional ordinary shares of the Company and additional share capital of HK$1,050,800 and share premium of approximately HK$11,493,000 (before issue expenses).

Subsequent to the balance sheet date and at the date of approval of these financial statements, the Company had 9,768,000 share options outstanding under the New Scheme, which represented approximately 2.4% of the Company's shares in issue as at that date.

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.

(b) Company

	Share premium account	Contributed surplus	Share option reserve	Retained profits	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 25)				
At 1 April 2005	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)
At 31 March 2006 and 1 April 2006	104,441	104,750	2,800	1,173	213,164
Profit for the year	–	–	–	67,236	67,236
Equity-settled share option expenses	–	–	1,596	–	1,596
Issue of shares	1,178	–	–	–	1,178
Interim dividend	–	–	–	(8,148)	(8,148)
Proposed final dividend	–	–	–	(20,396)	(20,396)
At 31 March 2007	105,619	104,750	4,396	39,865	254,630

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. BUSINESS COMBINATION

On 9 November 2006, the Group acquired a 100% interest in Lun Sing and its subsidiary (collectively referred to "Lun Sing Group") from Cheng Chor Kit, a director and major shareholder of the Company, and two independent third parties. Lun Sing Group is engaged in the manufacture and trading of carton paper board and paper products. Further details of the transaction are included in note 29(e) to the financial statements. The purchase consideration for the acquisition was HK$1,398,000. In addition, the Group also acquired the shareholder's loan of HK$19,231,000 from the then shareholder, Cheng Chor Kit, at the same amount.

The fair values of the identifiable assets and liabilities of Lun Sing as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Notes	**Fair value recognised on acquisition** *HK$'000*	**Carrying amount** *HK$'000*
Property, plant and equipment	*13*	16,715	16,715
Prepaid land lease payment	*15*	661	661
Cash and bank balances		1,169	1,169
Inventories		3,542	2,509
Accounts receivables		1,362	1,362
Prepayments, deposits and other receivables		3,144	3,166
Accounts and bills payable, accrued liabilities and other payables		(5,964)	(4,953)
Shareholder's loan		(19,231)	(19,231)
		1,398	1,398
Satisfied by cash		1,398	

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of Lun Sing Group and the shareholder's loan is as follows:

	HK$'000
Cash consideration	(20,629)
Cash and bank balances acquired	1,169
Net outflow of cash and cash equivalents in respect of the acquisition of Lun Sing Group and the shareholder's loan	(19,460)

Since its acquisition, Lun Sing Group contributed HK$633,000 to the Group's revenue and HK$6,000 to the consolidated profit for the year ended 31 March 2007.

Had the combination taken place at the beginning of the year, the revenue from continuing operations of the Group and the profit of the Group for the year would have been HK$923,467,000 and HK$71,658,000, respectively.

29. 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 (2006: 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) During the year, the Group sold motors of HK$2,075,000 (2006: HK$1,390,000) 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.

(c) During the year, the Group purchased raw materials of HK$903,000 (2006: HK$776,000) 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.

(d) During the year, before the Group acquired 100% interests in Lun Sing Group (the "Acquisition"), the Group purchased paper cartons of HK$6,126,000 (2006: HK$3,899,000) from Lun Sing Group, in which, before the Acquisition, Cheng Chor Kit, a director and major shareholder of the Company, has a 70% 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.

(e) On 9 November 2006, Kin Yat (HK) Holdings Limited ("Kin Yat (HK)"), an indirect wholly-owned subsidiary of the Company, entered into an agreement with Cheng Chor Kit and two independent third parties whereby Kin Yat (HK) agreed to acquire 100% interests in Lun Sing Group at a consideration of HK$20,629,000.

29. RELATED PARTY AND CONNECTED TRANSACTIONS (continued)

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

	2007 HK$'000	2006 HK$'000
Salaries, allowances and benefits in kind	**7,264**	6,940
Equity-settled share option benefits	**1,253**	717
Pension scheme contributions	**228**	275
Total compensation paid to key management personnel	**8,745**	7,932

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

Certain transactions included in notes (b), (d) and (e) above with related company and a director constitute connected transactions as defined in the Listing Rules.

30. OPERATING LEASE ARRANGEMENTS

(a) As lessor

At 31 March 2007, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2007 HK$'000	2006 HK$'000
Within one year	**1,342**	1,293
In the second to fifth years, inclusive	**3,541**	4,695
After five years	**3,007**	2,892
	7,890	8,880

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 2007, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2007 HK$'000	2006 HK$'000
Within one year	**488**	774
In the second to fifth years, inclusive	**278**	1,323
After five years	**–**	–
	766	2,097

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 seven years.

The Company did not have any operating lease arrangements at the balance sheet date (2006: Nil).

31. COMMITMENTS

(i) At the balance sheet date, the Group had contracted for capital commitments in respect of wholly-owned enterprises in the PRC amounting to HK$125,047,000 (2006: HK$152,472,000).

(ii) At the balance sheet date, the Group had contracted for capital commitments in respect of acquisition of property, plant and equipment of HK$23,912,000 (2006: HK$8,445,000).

The Group did not have any significant authorised, but not contracted for, capital commitments as at the balance sheet date (2006: Nil).

The Company did not have any other significant commitments at the balance sheet date (2006: Nil).

32. CONTINGENT LIABILITIES

At the balance sheet date, the Company had provided guarantees of HK$165,185,000 (2006: HK$152,285,000) and HK$41,000,000 (2006: HK$41,000,000) in respect of banking facilities granted to certain of its subsidiaries and associates, of which HK$22,842,000 (2006: HK$9,434,000) and HK$32,342,000 (2006: HK$35,559,000) had been utilised as at the balance sheet date, respectively.

33. 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.

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 currency exposure and will consider hedging significant foreign currency exposure when the need arises.

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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.

34. POST BALANCE SHEET EVENTS

(a) On 23 May 2007, 516,000 share options granted to certain directors and staff of the Company were exercised at HK$1.592 per share. The 516,000 share options exercised resulted in the issue of 516,000 ordinary shares of the Company and new share capital of HK$51,600 and share premium of HK$769,900 (before issue expenses).

(b) In May 2007, 224,000 share options granted to certain staff of the Company was lapsed due to the resignation of those staff.

35. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 20 July 2007.