

1. CORPORATE INFORMATION

The principal activity of the Company is investment holding. The Group was principally involved in the design, manufacture and sale of toys, motors and electrical household appliances. There were no significant changes in the principal activities of the Group during the year.

The Company is a subsidiary of Resplendent Global Limited, a company incorporated in the British Virgin Islands. The directors consider Padora Global Inc., a company also incorporated in the British Virgin Islands, to be the Company's ultimate holding company.

2. IMPACT OF A REVISED HONG KONG STATEMENT OF STANDARD ACCOUNTING PRACTICE ("SSAP")

SSAP 12 (Revised) "Income taxes" is effective for the first time for the current year's financial statements.

SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

The principal impact of the revision of this SSAP on these financial statements is described below:

Measurement and recognition:

- deferred tax assets and liabilities relating to the differences between capital allowances for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences are generally fully provided for, whereas previously the deferred tax was recognised for timing differences only to the extent that it was probable that the deferred tax asset or liability would crystallise in the foreseeable future;
- a deferred tax liability has been recognised on the revaluation of the Company's/Group's land and buildings; and
- a deferred tax asset has been recognised for tax losses arising in the current/prior periods to the extent that it is probable that there will be sufficient future taxable profits against which such losses can be utilised.

Disclosures:

- deferred tax assets and liabilities are presented separately on the balance sheet, whereas previously they were presented on a net basis; and
- the related note disclosures are now more extensive than previously required. These disclosures are presented in notes 9 and 23 to the financial statements and include a reconciliation between the accounting profit and the tax expense for the year.

Further details of these changes and the prior year adjustments arising from them are included in the accounting policy for deferred tax in notes 3 and 23 to the financial statements, respectively.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with SSAPs, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the remeasurement of certain fixed assets and short term investments as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 March 2004. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

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

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint venture companies

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

- (a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture company;
- (b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Joint venture companies (continued)

- (c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; and
- (d) a long term investment, if the Group holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

Associates

An associate is a company, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of the net assets under the equity method of accounting, less any impairment losses. Goodwill or negative goodwill arising from the acquisition of associates, which was not previously eliminated or recognised in the consolidated reserves, is included as part of the Group's interests in associates.

Goodwill

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

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of 5 years. In the case of associates, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

On disposal of subsidiaries or associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

Negative goodwill

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Negative goodwill (continued)

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

In the case of associates, any negative goodwill not yet recognised in the consolidated profit and loss account is included in the carrying amount thereof, rather than as a separately identified item on the consolidated balance sheet.

On disposal of subsidiaries or associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated profit and loss account and any relevant reserves as appropriate. Any attributable negative goodwill previously credited to the capital reserve at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets and depreciation

Fixed assets, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Medium term leasehold land in Hong Kong	Over the remaining lease terms
Medium term leasehold buildings in Hong Kong	4%
Medium term leasehold land and buildings outside Hong Kong	Over the remaining lease terms
Moulds, tools, and plant and machinery	10% to 20%
Furniture, equipment and motor vehicles	10% to 25%

Construction in progress represents the costs incurred in connection with the construction of fixed assets less any impairment losses. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and put into use.

Changes in the values of fixed assets resulting from revaluations are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. A subsequent revaluation increase is recognised as income to the extent that it reverses a revaluation deficit of the same asset previously charged to the profit and loss account.

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset. On disposal or retirement of a fixed asset that has previously been revalued, the attributable revaluation surplus not previously dealt with in retained profits is transferred directly to retained profits.

Research and development costs

All research costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less further costs expected to be incurred to completion and disposal.

Short term investments

Investments in listed equity securities are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the profit and loss account for the period in which they arise.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Income tax

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

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

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries and associates are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries and associates are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

Paid leave carried forward

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

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 service payments expected to be made. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their service to the Group to the balance sheet date.

Retirement benefits schemes

The Group continues to operate a defined contribution scheme (the "Scheme") for its employees, the assets of which are held separately from those of the Group in an independently administered fund. Contributions are made based on a percentage of the eligible employees' salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the Scheme. When an employee leaves the Scheme before his/her interest in the employer contributions vests fully, the ongoing contributions payable by the Group may be reduced by the relevant amount of forfeited contributions.

Apart from the Scheme, the Group also joined the Mandatory Provident Fund (the "MPF"). Contributions to the MPF are made based on rates applicable to the respective employees' relevant income from the Group and are charged to the profit and loss account as they become payable in accordance with government regulations. The Group's mandatory contributions are fully and immediately vested in favour of the employees.

Certain employees of the Group's subsidiaries in the People's Republic of China (the "PRC") are members of the state-sponsored retirement scheme (the "Retirement Scheme") operated by the government of the PRC. The subsidiaries are required to contribute certain percentages of their payroll costs to the Retirement Scheme. The contributions are charged to the profit and loss account as they become payable in accordance with the rules of the Retirement Scheme.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Share option scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;
- (c) rental income, on an accrual basis; and
- (d) dividend income, when the shareholders' right to receive payment has been established.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Related parties

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

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

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 other products segment consisted of manufacture and sale of toys and other products;
- (b) the motors segment consisted of manufacture and sale of motors; and
- (c) the electrical household appliances segment consisted of manufacture and sale of electrical household appliances.

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.

Notes to the Financial Statements

31 March 2004

4. SEGMENT INFORMATION (continued)

(a) Business segments

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

Group	Toys and other products		Motors		Electrical household appliances		Eliminations		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	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	388,600	569,408	179,446	169,016	56,619	55,785	-	-	624,665	794,209
Inter-segment sales	-	-	10,478	14,049	-	-	(10,478)	(14,049)	-	-
Other revenue and gain	3,581	3,063	2,050	1,384	171	13	-	-	5,802	4,460
Total	<u>392,181</u>	<u>572,471</u>	<u>191,974</u>	<u>184,449</u>	<u>56,790</u>	<u>55,798</u>	<u>(10,478)</u>	<u>(14,049)</u>	<u>630,467</u>	<u>798,669</u>
Segment results	<u>(12,729)</u>	<u>46,307</u>	<u>43,946</u>	<u>43,116</u>	<u>255</u>	<u>1,262</u>	<u>-</u>	<u>-</u>	<u>31,472</u>	<u>90,685</u>
Interest, dividend income and unallocated gains									2,361	4,485
Unallocated expenses									(7,473)	(10,483)
Profit from operating activities									26,360	84,687
Finance costs									(276)	(255)
Profit after finance costs									26,084	84,432
Share of profits less losses of associates									6,772	(2,028)
Profit before tax									32,856	82,404
Tax									(3,517)	(6,837)
Profit before minority interests									29,339	75,567
Minority interests									(4,507)	(4,124)
Net profit from ordinary activities attributable to shareholders									<u>24,832</u>	<u>71,443</u>

Notes to the Financial Statements

31 March 2004

4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group	Toys and other products		Motors		Electrical household appliances		Eliminations		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	384,679	396,812	144,202	113,264	75,616	41,908	(49,801)	(25,960)	554,696	526,024
Unallocated assets									102,264	125,243
Total assets									656,960	651,267
Segment liabilities	61,320	69,624	40,879	24,039	39,885	27,227	(49,801)	(25,960)	92,283	94,930
Unallocated liabilities									53,960	35,652
Total liabilities									146,243	130,582
Other segment information:										
Depreciation and amortisation	33,616	26,463	8,189	7,156	1,684	1,844	-	-	43,489	35,463
Amortisation of goodwill	-	-	2,326	2,326	-	-	-	-	2,326	2,326
Unallocated amounts									864	1,294
									46,679	39,083
Capital expenditure	66,192	74,216	25,998	12,072	2,174	1,308	-	-	94,364	87,596
Deficit/(surplus) on revaluation of leasehold land and buildings	(5,412)	2,730	1,097	-	-	-	-	-	(4,315)	2,730
Unallocated amounts									(78)	891
									(4,393)	3,621
Deficit on revaluation recognised directly in equity	10,342	2,126	279	4,044	832	3,038	-	-	11,453	9,208

Notes to the Financial Statements

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4. SEGMENT INFORMATION (continued)

(b) Geographical segments

The following tables present revenue and certain asset and expenditure information for the Group's geographical segments.

Group	United States											
	of America		Europe		Asia		Others		Eliminations		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:												
Sales to external customers	<u>202,558</u>	<u>361,822</u>	<u>146,534</u>	<u>159,990</u>	<u>208,992</u>	<u>215,197</u>	<u>66,581</u>	<u>57,200</u>	<u>-</u>	<u>-</u>	<u>624,665</u>	<u>794,209</u>
	Hong Kong		Elsewhere in PRC		Eliminations		Consolidated					
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Other segment information:												
Segment assets	<u>169,830</u>	<u>207,332</u>	<u>487,130</u>	<u>443,935</u>	<u>-</u>	<u>-</u>	<u>656,960</u>	<u>651,267</u>				
Capital expenditure	<u>2,879</u>	<u>2,680</u>	<u>91,485</u>	<u>84,916</u>	<u>-</u>	<u>-</u>	<u>94,364</u>	<u>87,596</u>				

5. TURNOVER

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts but excluding intra-Group transactions. Revenue from the following activities has been included in turnover:

	2004 HK\$'000	2003 HK\$'000
Manufacture and sale of:		
Toys and other products	<u>388,600</u>	<u>569,408</u>
Motors	<u>179,446</u>	<u>169,016</u>
Electrical household appliances	<u>56,619</u>	<u>55,785</u>
	<u>624,665</u>	<u>794,209</u>

6. PROFIT FROM OPERATING ACTIVITIES

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

	2004 HK\$'000	2003 HK\$'000
Auditors' remuneration	760	780
Depreciation	36,337	29,800
Amortisation of deferred development costs*	8,016	6,957
Amortisation of goodwill **	2,326	2,326
Negative goodwill recognised as income during the year***	(1,011)	(1,011)
Net unrealised holding losses on short term investments	–	534
Minimum lease payments under operating leases		
in respect of land and buildings	3,080	3,154
Loss/(gain) on disposal of fixed assets	(253)	411
Staff costs (including directors' remuneration – note 7):		
Wages and salaries	103,890	109,545
Pension contributions	1,519	1,157
	<u>105,409</u>	<u>110,702</u>
Deficit/(surplus) on revaluation of		
leasehold land and buildings****	(4,393)	3,621
Gain on disposal of short term investments	(816)	(161)
Exchange losses, net	1,289	2,927
Rental income	(2,939)	(1,486)
Interest income	<u>(396)</u>	<u>(1,476)</u>

At the balance sheet date, the Group did not have any material forfeited contributions to reduce its contributions to the pension scheme in future years.

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

** The amortisation of goodwill for both the current and the prior year is included in "Administrative expenses" on the face of the consolidated profit and loss account.

*** The movements in negative goodwill recognised in the profit and loss account for both the current and the prior year are included in "Administrative expenses" on the face of the consolidated profit and loss account.

**** The deficit/(surplus) on revaluation of leasehold land and buildings for both the current and the prior year is included in "Administrative expenses" on the face of the consolidated profit and loss account.

7. DIRECTORS' REMUNERATION AND HIGHEST PAID INDIVIDUALS

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

	Group	
	2004	2003
	HK\$'000	HK\$'000
Executive directors:		
Fees	–	–
Salaries, allowances and benefits in kind	4,991	7,065
Pension scheme contributions	233	210
	5,224	7,275
Non-executive directors:		
Fees	200	250
	5,424	7,525

The remuneration of directors fell within the following bands:

	Number of directors	
	2004	2003
Nil – HK\$1,000,000	5	6
HK\$1,000,001 – HK\$1,500,000	1	1
HK\$1,500,001 – HK\$2,000,000	1	2
	7	9

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2003: Nil).

The six highest paid individuals during the year included three (2003: four) directors, details of whose remuneration are set out above. Details of the emoluments of the remaining three (2003: two) non-director, highest paid employees are set out below:

	2004	2003
	HK\$'000	HK\$'000
Salaries, allowances and benefits in kind	4,229	2,235
Pension contributions	36	24
	4,265	2,259

7. DIRECTORS' REMUNERATION AND HIGHEST PAID INDIVIDUALS (continued)

The emoluments of each of the three (2003: two) non-director, highest paid employees fell within the following bands:

	Number of directors	
	2004	2003
HK\$1,000,001 – HK\$1,500,000	2	2
HK\$1,500,001 – HK\$2,000,000	1	–
	<u>3</u>	<u>2</u>

8. FINANCE COSTS

	Group	
	2004	2003
	HK\$'000	HK\$'000
Interest on bank loans and overdrafts wholly repayable within five years	<u>276</u>	<u>255</u>

9. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 16%) on the estimated assessable profits arising in Hong Kong during the year. The increased Hong Kong profits tax rate became effective from the year of assessment 2003/2004, and so is applicable to the assessable profits arising in Hong Kong for the whole of the year ended 31 March 2004. 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	
	2004	2003
	HK\$'000	HK\$'000
Group:		
Current – Hong Kong		
Charge for the year	2,837	5,490
Under/(over) provision in prior years	15	(939)
Current – Elsewhere	604	975
Deferred tax (note 23)	–	1,240
	<u>3,456</u>	<u>6,766</u>
Share of tax attributable to associates	<u>61</u>	<u>71</u>
Total tax charge for the year	<u>3,517</u>	<u>6,837</u>

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9. TAX (continued)

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the company and its subsidiaries and associates are domiciled to the tax expense at the effective tax rates, are as follows:

	2004 HK\$'000	2003 HK\$'000
Group:		
Profit before tax	<u>32,856</u>	<u>82,404</u>
Tax at the statutory tax rate	5,750	13,185
Higher/(lower) tax rate for specific provinces or local authority	624	(263)
Adjustments in respect of current tax of previous periods	15	(939)
Income not subject to tax	(8,345)	(11,850)
Expenses not deductible for tax	5,606	6,791
Tax losses utilised from previous periods	<u>(133)</u>	<u>(87)</u>
Tax charge at the Group's effective rate	<u>3,517</u>	<u>6,837</u>

10. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is HK\$9,542,000 (2003: HK\$30,123,000).

11. DIVIDENDS

	2004 HK\$'000	2003 HK\$'000
Interim – HK2 cents (2003: HK2.5 cents) per ordinary share	8,096	10,121
Proposed final – HK1 cent (2003: HK5 cents) per ordinary share	<u>4,048</u>	<u>20,241</u>
	<u>12,144</u>	<u>30,362</u>

The directors recommend the payment of a final dividend of HK1 cent per share in respect of the year ended 31 March 2004 to shareholders whose names appear on the register of members on 23 August 2004. The proposed final dividend for the year is based on the number of shares in issue as at the reporting date, and is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

12. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year of HK\$24,832,000 (2003: HK\$71,443,000) and the weighted average of 404,820,000 (2003: 398,692,877) ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year of HK\$24,832,000 (2003: HK\$71,443,000) and 406,219,438 (2003: 404,623,949) 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:

	2004	2003
Weighted average number of ordinary shares used in calculating basic earnings per share	404,820,000	398,692,877
Weighted average number of ordinary shares assumed to have been issued at no consideration on deemed exercise of all options outstanding during the year	1,399,438	5,931,072
Weighted average number of ordinary shares used in calculating diluted earnings per share	406,219,438	404,623,949

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13. FIXED ASSETS

Group

	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 beginning of year	153,220	10,673	223,024	60,679	447,596
Additions	750	16,996	45,493	22,261	85,500
Disposals	–	–	(294)	–	(294)
Deficit on revaluation	(13,333)	–	–	–	(13,333)
Transfers	6,693	(10,022)	–	3,329	–
At 31 March 2004	147,330	17,647	268,223	86,269	519,469
Accumulated depreciation:					
At beginning of year	–	–	106,026	38,512	144,538
Provided during the year	6,273	–	23,114	6,950	36,337
Disposals	–	–	(147)	–	(147)
Write-back on revaluation	(6,273)	–	–	–	(6,273)
At 31 March 2004	–	–	128,993	45,462	174,455
Net book value:					
At 31 March 2004	147,330	17,647	139,230	40,807	345,014
At 31 March 2003	153,220	10,673	116,998	22,167	303,058
An analysis of cost or valuation:					
At cost	–	17,647	268,223	86,269	372,139
At 2004 valuation	147,330	–	–	–	147,330
	147,330	17,647	268,223	86,269	519,469

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

	2004 HK\$'000	2003 HK\$'000
Hong Kong	25,680	20,380
Outside Hong Kong	121,650	132,840
Total valuation	147,330	153,220

13. FIXED ASSETS (continued)

As at 31 March 2004, the Group's leasehold land and buildings were revalued at an open market value, based on an existing use basis by RHL Appraisal Ltd., an independent firm of professionally qualified valuers, at HK\$147,330,000. A revaluation deficit of HK\$11,894,000 resulting from the above valuation has been charged to the asset revaluation reserve. Revaluation surplus of HK\$441,000 and HK\$4,393,000, resulting from the above valuations, have been credited to the asset revaluation reserve and credited to the profit and loss account, respectively. As a result of the above valuation, revaluation deficit of HK\$11,453,000 and revaluation surplus of HK\$4,393,000 were reflected in the asset revaluation reserve and in the profit and loss account, respectively. The effect of net revaluation deficit of HK\$7,060,000 was reflected in write down of valuation of fixed assets of HK\$13,333,000 and write-back of accumulated depreciation of HK\$6,273,000.

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\$127,161,000 (2003: HK\$126,438,000).

14. 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 HK\$'000
Cost:	
At beginning of year and at 31 March 2004	11,628
Accumulated amortisation:	
At beginning of year	2,326
Provided during the year	2,326
At 31 March 2004	4,652
Net book value:	
At 31 March 2004	6,976
At 31 March 2003	9,302

15. INTERESTS IN SUBSIDIARIES

	Company 2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	104,950	104,950
Due from subsidiaries	211,771	180,811
Due to a subsidiary	(55,253)	(25,243)
	261,468	260,518

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15. INTERESTS IN SUBSIDIARIES (continued)

The balances with the subsidiaries are unsecured, interest-free and not repayable within the next 12 months from the balance sheet date.

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

Name	Place of incorporation/ registration and operations	Paid-up share/ registered capital	Equity interest attributable to the Company	Principal activities
Directly held				
Kin Yat Industrial Holdings Limited	British Virgin Islands	Ordinary US\$3,000	100%	Investment holding
Indirectly held				
Kin Yat (HK) Holdings Limited	Hong Kong	Ordinary HK\$1,000 Non-voting deferred HK\$6,000,000	100%	Investment holding and property holding
Evertop (Oversea) Industrial Company Limited	British Virgin Islands/ PRC	Ordinary US\$100	100%	Manufacture of toys
Kin Yat Industrial Company Limited	Hong Kong	Ordinary HK\$3,200,000	100%	Trading of toys and moulds, and sourcing of materials
Unicon Investments Limited	Hong Kong	Ordinary HK\$10,000	100%	Property holding
Newway Electrical Industries Limited ("Newway") *	Hong Kong	Ordinary HK\$3,000,000	100%	Trading of electrical household appliances

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15. 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)				
Shenzhen Newway Electrical Industries Co., Ltd. ("Shenzhen Newway") *	PRC	HK\$10,000,000	100%	Property holding
Penta Blesses Enterprises Limited	Hong Kong	Ordinary HK\$1,000,000	100%	Investment holding, and manufacture and trading of toys and electrical household appliances
Kin Chak Science & Technology (Shenzhen) Co., Ltd.#	PRC	HK\$50,000,000	100%	Property holding
World Talent Enterprise Limited	Hong Kong	Ordinary HK\$1,000,000	100%	Trading of toys
Shixing Talent Woods Ltd. #	PRC	RMB2,500,000	100%	Manufacture and trading of toys
Shixing Newway Industry Co., Ltd. #	PRC	US\$4,000,000	100%	Property holding
Standard Motor Co., Ltd. ("Standard Motor")	Hong Kong	Ordinary HK\$40,000,000	90%	Manufacture and trading of motors
Shixing Standard Motor Co., Ltd. #	PRC	US\$4,000,000	90%	Property holding
Sigma Technology Holdings Limited ^	Hong Kong	HK\$2	100%	Investment holding

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15. 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 Sigma Technology Company Limited ("Shaoguan Sigma") ^	PRC	RMB15,000,000	91%	Development and distribution of materials
Turbo Tec Company Limited	Hong Kong	Ordinary HK\$10,000	100%	Trading of toys

They are registered as wholly foreign owned enterprises under the PRC law.

* Shenzhen Newway is registered as a Sino-foreign owned joint venture enterprise under the PRC law. Prior to 1 December 2003, subject to the payment of a fixed sum of HK\$34,965 per month to the joint venture party, Newway is entitled to all of the profits and bears all of the losses of Shenzhen Newway.

^ Shaoguan Sigma is registered as a Sino-foreign owned joint venture enterprise under the PRC law. Pursuant to the joint venture agreement, the profit/(loss) from Shaoguan Sigma within five years after the date of establishment of Shaoguan Sigma will not be distributed to the PRC investor until the PRC investor further acquire a 3% equity interest in Shaoguan Sigma.

16. INTERESTS IN ASSOCIATES

	Group	
	2004	2003
	HK\$'000	HK\$'000
Share of net assets/(deficits)	4,658	(1,563)
Negative goodwill on acquisition (Note)	(673)	(1,684)
	3,985	(3,247)
Loan to an associate	18,228	18,228
Due from associates	191	213
	22,404	15,194

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16. INTERESTS IN ASSOCIATES (continued)

Note:

The amounts of the negative goodwill recognised in the consolidated balance sheet, arising from the acquisition of associates, are as follows:

	Group <i>HK\$'000</i>
Cost:	
At beginning of year and at 31 March 2004	(3,033)
Recognition as income:	
At beginning of year	(1,349)
Recognised as income during the year	(1,011)
At 31 March 2004	(2,360)
Net book value:	
At 31 March 2004	(673)
At 31 March 2003	(1,684)

The loan to an associate, which was granted in proportion to the Group's shareholding in this associate, is unsecured, interest-free and has no fixed terms of repayment. The amounts due from associates are unsecured, interest-free and are repayable in accordance with normal trading terms.

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

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

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

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17. DEFERRED DEVELOPMENT COSTS

	Group	
	2004	2003
	HK\$'000	HK\$'000
Cost:		
At beginning of year	20,871	23,790
Additions	8,864	7,829
Retirements	(5,687)	(10,748)
At balance sheet date	24,048	20,871
Accumulated amortisation:		
At beginning of year	12,999	16,790
Provided during the year	8,016	6,957
Retirements	(5,687)	(10,748)
At balance sheet date	15,328	12,999
Net book value:		
At balance sheet date	8,720	7,872
At beginning of year	7,872	7,000

18. INVENTORIES

	Group	
	2004	2003
	HK\$'000	HK\$'000
Raw materials	101,045	87,671
Work in progress	17,232	14,486
Finished goods	19,037	40,400
	137,314	142,557

19. ACCOUNTS RECEIVABLE

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

	2004	2003
	HK\$'000	HK\$'000
0 – 30 days	33,472	29,548
31 – 60 days	12,749	11,829
61 – 90 days	2,742	5,854
Over 90 days	4,634	23,220
	53,597	70,451

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19. ACCOUNTS RECEIVABLE (continued)

Trading terms with customers are largely on credit, except for new customers where cash on sale or payment in advance is normally required. Invoices are normally payable within 60 days of issuance, except for certain well-established customers, for whom the credit terms are extended to 90 days.

20. SHORT TERM INVESTMENTS

	Group	
	2004	2003
	HK\$'000	HK\$'000
Hong Kong listed equity investments, at market value	—	1,550

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

	Group	
	2004	2003
	HK\$'000	HK\$'000
0 – 30 days	32,562	28,226
31 – 60 days	17,012	11,438
61 – 90 days	4,937	5,962
Over 90 days	10,088	20,537
Accounts and bills payable	64,599	66,163
Accrued liabilities and other payables	28,488	29,704
	93,087	95,867

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22. INTEREST-BEARING BANK BORROWINGS

	Group	
	2004	2003
	HK\$'000	HK\$'000
Unsecured		
Bank overdrafts	6,704	5,963
Bank loans	25,000	–
Total bank borrowings	31,704	5,963
Bank borrowings repayable:		
Within one year or on demand	18,371	5,963
In the second year	6,667	–
In the third to fifth years, inclusive	6,666	–
	31,704	5,963
Portion classified as current liabilities	(18,371)	(5,963)
Non-current portion	13,333	–

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

23. DEFERRED TAX

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

Deferred tax liabilities

Group

	Accelerated tax depreciation HK\$'000	Revaluation of properties HK\$'000	Total HK\$'000
At 1 April 2003			
As previously reported	14,270	–	14,270
Prior year adjustment:			
SSAP 12 – restatement of deferred tax	–	8,987	8,987
As restated	14,270	8,987	23,257
Deferred tax credited to equity during the year	–	(2,883)	(2,883)
Deferred tax debited to the profit and loss account during the year (note 9)	2,097	–	2,097
Gross deferred tax liabilities at 31 March 2004	16,367	6,104	22,471

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23. DEFERRED TAX (continued)

Deferred tax assets

Group

	Losses available for offset against future taxable profit HK\$'000
At 1 April 2003	(6,533)
Deferred tax credited to the profit and loss account during the year (note 9)	(2,097)
Gross deferred tax assets at 31 March 2004	(8,630)
Net deferred tax liabilities at 31 March 2004	13,841

The movements in deferred tax liabilities and assets during the year ended 31 March 2003 are as follows:

Deferred tax liabilities

Group

	Accelerated tax depreciation HK\$'000	Revaluation of properties HK\$'000	Total HK\$'000
At 1 April 2002			
As previously reported	6,864	–	6,864
Prior year adjustment:			
SSAP 12 – restatement of deferred tax	–	8,598	8,598
As restated	6,864	8,598	15,462
Deferred tax debited to the profit and loss account during the year (note 9)	7,406	–	7,406
Deferred tax debited to equity during the year	–	389	389
Gross deferred tax liabilities at 31 March 2003	14,270	8,987	23,257

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23. DEFERRED TAX (continued)

Deferred tax assets

Group

	Losses available for offset against future taxable profit HK\$'000
At 1 April 2002	(367)
Deferred tax credited to the profit and loss account (note 9)	(6,166)
Gross deferred tax assets at 31 March 2003	(6,533)
Net deferred tax liabilities at 31 March 2003	16,724

The Group has tax losses arising in Hong Kong of HK\$15,919,000 (2003: HK\$1,060,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

At 31 March 2004, there was no significant unrecognised deferred tax liability (2003: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, associates or joint ventures as the Group has no liability to additional tax should such amounts be remitted.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

SSAP 12 (Revised) was adopted during the year, as further explained in note 2 to the financial statements. This change in accounting policy has resulted in an increase in the Group's deferred tax liability as at 31 March 2004 and 2003 by HK\$6,104,000 and HK\$8,987,000, respectively and the assets revaluation reserve as at 1 April 2003 and 1 April 2002 have been decreased by HK\$8,987,000 and HK\$8,598,000, respectively.

24. SHARE CAPITAL

	Company 2004 HK\$'000	2003 HK\$'000
<i>Authorised:</i>		
1,000,000,000 ordinary shares of HK\$0.10 each	100,000	100,000
<i>Issued and fully paid:</i>		
404,820,000 (2003: 404,820,000) ordinary shares of HK\$0.10 each	40,482	40,482

25. SHARE OPTION SCHEME

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

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

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

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

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

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

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

25. SHARE OPTION SCHEME (continued)

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

		Number of share options					Exercise price per share HK\$	Price of Company's shares at grant date of options* HK\$
	Date of share options granted	At 1 April 2003	Granted during the year	Exercised during the year	At 31 March 2004	Exercise period		
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
Chan Tak Yin	14/11/2003	–	726,000	–	726,000	14/11/2006-13/11/2013	1.592	1.60
Chui Pak Shing	14/11/2003	–	422,000	–	422,000	14/11/2006-13/11/2013	1.592	1.60
Fan Sau Leung	14/11/2003	–	392,000	–	392,000	14/11/2006-13/11/2013	1.592	1.60
Wong Kin Chung	14/11/2003	–	312,000	–	312,000	14/11/2006-13/11/2013	1.592	1.60
Other employees								
In aggregate	14/11/2003	–	1,200,000	–	1,200,000	14/11/2006-13/11/2013	1.592	1.60
		–	5,052,000	–	5,052,000			
The Old Scheme								
Other employees								
In aggregate	6/11/1998	1,760,000	–	–	1,760,000	6/11/1998-5/11/2008	0.3032	0.44

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

At the balance sheet date, the Company had 5,052,000 and 1,760,000 share options outstanding under the New Scheme and the Old Scheme, respectively. The exercise in full of these share options would, under the present capital structure of the Company, result in the issue of 6,812,000 additional ordinary shares of the Company and additional share capital of HK\$681,200 and share premium of HK\$7,895,000 (before issue expenses).

26. 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 in 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 <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2002	88,330	104,750	20,211	213,291
Issue of shares	16,111	–	–	16,111
Net profit for the year	–	–	30,123	30,123
Interim dividend	–	–	(10,121)	(10,121)
Proposed final dividend	–	–	(20,241)	(20,241)
At 31 March 2003				
and at beginning of year	104,441	104,750	19,972	229,163
Net profit for the year	–	–	9,542	9,542
Interim dividend	–	–	(8,096)	(8,096)
Proposed final dividend	–	–	(4,048)	(4,048)
At 31 March 2004	104,441	104,750	17,370	226,561

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.

27. 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\$35,000,000 (2003: HK\$15,000,000) was given by the Group in respect of banking facilities granted to Full Summit and CMIT, two associates of the Group, in proportion to its shareholding.
- (b) As detailed in note 16, the Group granted a loan of HK\$18,228,000 (2003: HK\$18,228,000) to an associate in proportion to its shareholding in this associate. This loan is unsecured, interest-free and has no fixed terms of repayment.
- (c) During the year, the Group sold motors of HK\$5,095,000 (2003: HK\$2,198,000) to Gimelli Laboratories Company Limited, of which Chung Chi Ping, Roy, an independent non-executive director of the Company, is a director.

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

- (d) During the year, the Group purchased raw materials of HK\$3,594,000 (2003: HK\$6,114,000) from Success Mode, an associate of the Group.

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

- (e) During the year, the Group purchased paper cartons of HK\$3,563,000 from Lung Sing Paper Products Company Limited, of which Cheng Chor Kit, a director and major shareholder of the Company, has a 50% beneficial interest.

The director consider that these purchases of paper cartons were made according to prices and conditions similar to those offered by other non-related suppliers of the Group.

28. OPERATING LEASE ARRANGEMENTS

(a) As lessor

At 31 March 2004, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2004 HK\$'000	2003 HK\$'000
Within one year	1,292	104
In the second to fifth years, inclusive	5,035	–
After five years	5,050	–
	<u>11,377</u>	<u>104</u>

28. OPERATING LEASE ARRANGEMENTS (continued)

(b) As lessee

At 31 March 2004, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2004 HK\$'000	2003 HK\$'000
Within one year	263	910
In the second to fifth years, inclusive	742	825
After five years	110	120
	<u>1,115</u>	<u>1,855</u>

The Company did not have any operating lease arrangements at the balance sheet date (2003: Nil).

29. COMMITMENTS

(i) At the balance sheet date, the Group had contracted commitments in respect of its wholly-owned investments in the PRC amounting to HK\$4,717,000 (2003: HK\$6,758,000).

(ii) Capital commitments

At the balance sheet date, the Group had contracted for capital commitments in respect of acquisition of property, plant and equipment of HK\$5,749,000 (2003: HK\$4,016,000).

The Group did not have any significant authorised, but not contracted for, capital commitments as at the balance sheet date (2003: Nil).

The Company did not have any other significant commitments at the balance sheet date (2003: Nil).

30. CONTINGENT LIABILITIES

At the balance sheet date, the Company had provided guarantees of HK\$147,000,000 (2003: HK\$127,000,000) and HK\$35,000,000 (2003: HK\$15,000,000) in respect of banking facilities granted to certain subsidiaries and associates, of which HK\$31,704,000 (2003: HK\$5,963,000) and nil (2003: HK\$12,500,000) had been utilised as at the balance sheet date, respectively.

31. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of a revised SSAP during the current year, the accounting treatment and presentation of certain items in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

32. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 23 July 2004.