HERALD HOLDINGS LIMITED

興利集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code : 00114)

FINANCIAL RESULTS FOR THE YEAR ENDED 31 MARCH 2006

The Board of Directors of Herald Holdings Limited (the "Company") presents the consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 March 2006, together with the comparative figures for the previous year, as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 March 2006

	Note	2006 *HK$'000*	2005 (restated) *HK$'000*
Turnover	*(3)*	**1,325,686**	1,442,998
Cost of sales		**(1,000,531)**	(1,080,829)
Gross profit		**325,155**	362,169
Other revenue		**13,468**	5,849
Other net income		**2,212**	2,565
Selling expenses		**(57,766)**	(59,968)
Administrative expenses		**(189,789)**	(195,521)
Valuation gains on investment properties		**2,140**	1,172
Write back of impairment losses on property, plant and equipment	*(4)*	**9,294**	–
Write back of/(provision for) impairment losses on club membership		**60**	(520)
Profit from operations	*(3)*	**104,774**	115,746
Finance costs		**(145)**	(275)
Share of profit of jointly controlled entity		**494**	181
Profit before taxation	*(5)*	**105,123**	115,652
Income tax	*(6)*	**(14,392)**	(16,480)
Profit for the year		**90,731**	99,172
Attributable to:			
Equity shareholders of the Company		**86,290**	96,117
Minority interests		**4,441**	3,055
Profit for the year		**90,731**	99,172
Dividends payable to equity shareholders of the Company attributable to the year	*(7)*	**39,906**	39,906
Earnings per share	*(8)*		
– Basic and diluted		**14.06 cents**	15.66 cents

CONSOLIDATED BALANCE SHEET
At 31 March 2006

	Note	2006 HK$'000	2005 (restated) HK$'000
Non-current assets			
Fixed assets			
– Investment properties		**16,750**	16,290
– Other property, plant and equipment		**154,848**	151,217
– Interests in leasehold land held for own use under operating leases		**6,468**	6,704
		178,066	174,211
Club membership		**1,660**	1,600
Interest in jointly controlled entity		**2,150**	1,804
Other financial assets		**2,000**	9,024
Deferred tax assets		**5,249**	6,118
		189,125	192,757
Current assets			
Trading securities		**59,917**	–
Inventories		**140,459**	167,794
Trade and other receivables	*(9)*	**131,657**	174,421
Current tax recoverable		**2,932**	824
Cash and cash equivalents		**239,395**	223,564
		574,360	566,603
Current liabilities			
Trade and other payables	*(10)*	**121,003**	156,480
Current tax payable		**2,728**	9,867
		123,731	166,347
Net current assets		**450,629**	400,256
Total assets less current liabilities		**639,754**	593,013
Non-current liabilities			
Deferred tax liabilities		**1,642**	979
Provision for long service payments		**2,799**	3,072
		4,441	4,051
NET ASSETS		**635,313**	588,962
CAPITAL AND RESERVES			
Share capital		**47,886**	47,886
Reserves		**554,423**	513,052
Total equity attributable to equity shareholders of the Company		**602,309**	560,938
Minority interests		**33,004**	28,024
TOTAL EQUITY		**635,313**	588,962

Notes:

1. Basis of preparation

The consolidated results set out in this announcement do not constitute the Group's annual financial statements for the year ended 31 March 2006 but are extracted from those financial statements.

The annual financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by 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. The financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

The measurement basis used in the preparation of the financial statements is the historical cost basis except that investment properties, financial instruments classified as trading securities and derivative financial instruments are stated at their fair value.

2. Changes in accounting policies

The HKICPA has issued a number of new and revised HKFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005.

The following sets out information on the significant changes in accounting policies for the current and prior accounting periods reflected in these financial results. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(a) Restatement of prior period balances

The following tables disclose the adjustments that have been made in accordance with the transitional provisions of the respective HKFRSs to each of the line items in the consolidated income statement and balance sheet and other significant related disclosure items as previously reported for the year ended 31 March 2005.

(i) Effect on the consolidated income statement for the year ended 31 March 2005

		Effect of new policy (increase/(decrease) in profit for the year)		
	2005 (as previously reported) *HK$'000*	HKAS 1 (note 2(c)) *HK$'000*	HKAS 17 (note 2(d)) *HK$'000*	2005 (as restated) *HK$'000*
Profit from operations	115,746	–	–	115,746
Finance costs	(275)	–	–	(275)
Share of profit of jointly controlled entity	279	(98)	–	181
Profit before taxation	115,750	(98)	–	115,652
Income tax	(16,578)	98	–	(16,480)
Profit after taxation	99,172	–	–	99,172
Minority interests	(3,055)	3,055	–	–
Profit for the year	96,117	3,055	–	99,172
Attributable to:				
Equity shareholders of the Company	96,117	–	–	96,117
Minority interests	–	3,055	–	3,055
Profit for the year	96,117	3,055	–	99,172
Other significant disclosure items:				
Depreciation – other assets	(27,121)	–	292	(26,829)
Amortisation of land lease premium	–	–	(292)	(292)

(ii) Effect on the consolidated balance sheet as at 31 March 2005

	2005 (as previously reported) *HK$'000*	Effect of new policy (increase/(decrease) in net assets): HKAS 1 (note 2(c)) *HK$'000*	HKAS 17 (note 2(d)) *HK$'000*	Reclassification *HK$'000*	2005 (as restated) *HK$'000*
Non-current assets					
Fixed assets					
– Investment properties	16,290	–	–	–	16,290
– Other property, plant and equipment	157,921	–	(6,704)	–	151,217
– Interests in leasehold land held for own use under operating leases	–	–	6,704	–	6,704
	174,211	–	–	–	174,211
Club membership	–	–	–	1,600	1,600
Interest in jointly controlled entity	1,804	–	–	–	1,804
Other financial assets	10,624	–	–	(1,600)	9,024
Deferred tax assets	6,118	–	–	–	6,118
	192,757	–	–	–	192,757
Current assets	566,603	–	–	–	566,603
Current liabilities	(166,347)	–	–	–	(166,347)
Net current assets	400,256	–	–	–	400,256
Total assets less current liabilities	593,013	–	–	–	593,013
Non-current liabilities	(4,051)	–	–	–	(4,051)
Minority interests	(28,024)	28,024	–	–	–
NET ASSETS	560,938	28,024	–	–	588,962
CAPITAL AND RESERVES					
Attributable to equity shareholders of the Company					
– Share capital	47,886	–	–	–	47,886
– Reserves	513,052	–	–	–	513,052
	560,938	–	–	–	560,938
Attributable to minority interests	–	28,024	–	–	28,024
TOTAL EQUITY	560,938	28,024	–	–	588,962

(b) Estimated effect of changes in accounting policies on the current period

The following tables provide estimates of the extent to which each of the line items in the consolidated income statement and balance sheet and other significant related disclosure items for the year ended 31 March 2006 is higher or lower than it would have been had the previous policies still been applied in the year, where it is practicable to make such estimates.

(i) Estimated effect on the consolidated income statement for the year ended 31 March 2006

	Estimated effect of new policy (increase/(decrease) in profit for the year)		
	HKAS 1 ***(note 2(c))*** ***HK$'000***	**HKAS 17** ***(note 2(d))*** ***HK$'000***	**Total** ***HK$'000***
Share of profit of jointly controlled entity	**(198)**	**–**	**(198)**
Profit before taxation	**(198)**	**–**	**(198)**
Income tax	**198**	**–**	**198**
Profit after taxation	**–**	**–**	**–**
Minority interests	**4,441**	**–**	**4,441**
Profit for the year	**4,441**	**–**	**4,441**
Attributable to:			
Equity shareholders of the Company	**–**	**–**	**–**
Minority interests	**4,441**	**–**	**4,441**
Profit for the year	**4,441**	**–**	**4,441**
Other significant disclosure items:			
Depreciation – other assets	**–**	**299**	**299**
Amortisation of land lease premium	**–**	**(299)**	**(299)**

(ii) Estimated effect on the consolidated balance sheet as at 31 March 2006

	Estimated effect of new policy (increase/(decrease) in net assets)		
	HKAS 1 ***(note 2(c))*** ***HK$'000***	**HKAS 17** ***(note 2(d))*** ***HK$'000***	**Total** ***HK$'000***
Non-current assets			
Fixed assets			
– Other property, plant and equipment	**–**	**(6,468)**	**(6,468)**
– Interests in leasehold land held for own use under operating leases	**–**	**6,468**	**6,468**
	–	**–**	**–**
Minority interests	**33,004**	**–**	**33,004**
NET ASSETS	**33,004**	**–**	**33,004**
CAPITAL AND RESERVES			
Attributable to minority interests	**33,004**	**–**	**33,004**
TOTAL EQUITY	**33,004**	**–**	**33,004**

(c) ***Changes in presentation (HKAS 1, Presentation of financial statements)***

(i) *Presentation of share of jointly controlled entity's taxation (HKAS 1, Presentation of financial statements)*

In prior years, the Group's share of taxation of jointly controlled entity accounted for using the equity method was included as part of the Group's income tax in the consolidated income statement. With effect from 1 April 2005, in accordance with the implementation guidance in HKAS 1, the Group has changed the presentation and includes the share of taxation of jointly controlled entity accounted for using the equity method in the share of profit or loss of the jointly controlled entity reported in the consolidated income statement before arriving at the Group's profit or loss before tax. These changes in presentation have been applied retrospectively with comparatives restated as shown in note 2(a).

(ii) *Minority interests (HKAS 1, Presentation of financial statements and HKAS 27, Consolidated and separate financial statements)*

In prior years, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and as a deduction from net assets. Minority interests in the results of the Group for the year were also separately presented in the consolidated income statement as a deduction before arriving at the profit attributable to shareholders (the equity shareholders of the Company).

With effect from 1 April 2005, in order to comply with HKAS 1 and HKAS 27, the Group has changed its accounting policy relating to presentation of minority interests. Under the new policy, minority interests are presented as part of equity, separately from interests attributable to the equity shareholders of the Company. These changes in presentation have been applied retrospectively with comparatives restated as shown in note 2(a).

(d) ***Leasehold land and buildings (HKAS 17, Leases)***

In prior years, all interests in leasehold land held for own use were presented together with the buildings situated on that land and stated at cost or revalued amount less accumulated depreciation and accumulated impairment losses.

With effect from 1 April 2005, in order to comply with HKAS 17, the Group has adopted a new policy for leasehold land and buildings held for own use. Under the new policy, the leasehold interest in the land held for own use is accounted for as being held under an operating lease where the fair value of the interest in any buildings situated on the leasehold land could be measured separately from the fair value of the leasehold interest in the land at the time the lease was first entered into by the Group or taken over from the previous lessee or at the date of construction of those buildings, if later.

Any buildings held for own use which are situated on such land leases continue to be presented as other property, plant and equipment.

The above new accounting policy has been adopted retrospectively. The adjustments for each financial statement line item affected for the years ended 31 March 2005 and 2006 are set out in notes 2(a) and 2(b).

(e) ***Financial instruments (HKAS 32, Financial instruments: Disclosure and presentation and HKAS 39, Financial instruments: Recognition and measurement)***

With effect from 1 April 2005, in order to comply with HKAS 32 and HKAS 39, the Group has changed its accounting policies relating to financial instruments. Further details of the changes are as follows.

In prior years, other investments in securities were stated at fair value with changes in fair value recognised in profit or loss, with the exception of dated debt securities being held to maturity which were stated at amortised cost less provision.

With effect from 1 April 2005, and in accordance with HKAS 39, unlisted dated debt securities with fixed or determinable payments and not quoted in an active market are classified as loans and receivables and stated at amortised cost less impairment losses. Other investments in securities held for trading are classified as financial assets at fair value through profit or loss and carried at fair value with changes in fair value recognised in profit or loss.

As a result of adopting HKAS 39, the Group has reclassified held-to-maturity securities with a carrying amount of HK$2,000,000 at 31 March 2005 as loans and receivables at 1 April 2005. There is no effect on the opening balance of the retained earnings or other reserves at 1 April 2005 as a result of the reclassification. Comparative amounts have not been restated as this is prohibited by the transitional arrangements in HKAS 39.

(f) ***Investment property (HKAS 40, Investment property and HK(SIC) Interpretation 21, Income taxes – Recovery of revalued non-depreciable assets)***

Changes in accounting policies relating to investment properties are as follows:

(i) *Timing of recognition of movements in fair value in profit or loss*

In prior years movements in the fair value of the Group's investment property were recognised directly in the investment property revaluation reserve except when, on a portfolio basis, the reserve was insufficient to cover a deficit on the portfolio, or when, a deficit previously recognised in profit or loss had reversed, or when an individual investment property was disposed of. In these limited circumstances movements in the fair value were recognised in profit or loss.

Upon adoption of HKAS 40 as from 1 April 2005, the Group has adopted a new policy for investment property. Under this new policy, all changes in the fair value of investment property are recognised directly in profit or loss in accordance with the fair value model in HKAS 40. There is no impact on the Group's results of operations and financial position arising from the adoption of the new policy.

(ii) *Measurement of deferred tax on movements in fair value*

In prior years the Group was required to apply the tax rate that would be applicable to the sale of investment property to determine whether any amounts of deferred tax should be recognised on the revaluation of investment property. Consequently, deferred tax was only provided to the extent that tax allowances already given would be clawed back if the property were disposed of at its carrying value, as there would be no additional tax payable on disposal.

As from 1 April 2005, in accordance with HK(SIC) Interpretation 21, the Group recognises deferred tax on movements in the value of an investment property using tax rates that are applicable to the property's use, if the Group has no intention to sell it and the property would have been depreciable had the Group not adopted the fair value model. There is no impact on the Group's results of operations and financial position arising from the adoption of the new policy.

(g) ***Definition of related parties (HKAS 24, Related party disclosures)***

As a result of the adoption of HKAS 24, the definition of related parties has been expanded to clarify that related parties include entities that are under the significant influence of a related party that is an individual (i.e. key management personnel, significant shareholders and/or their close family members) and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group. The clarification of the definition of related parties has not resulted in any material changes to the previously reported disclosures of related party transactions nor has it had any material effect on the disclosures made in the current period, as compared to those that would have been reported had Statement of Standard Accounting Practice 20, Related party disclosures, still been in effect.

3. **Segmental information**

The Group is principally engaged in the manufacture, sale and distribution of toy and gift products, computer heads, housewares and timepieces. Turnover represents the sales value of goods supplied to customers less returns. Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

Business segments

The Group comprises the following main business segments:

Toy and gift products	:	The manufacture, sale and distribution of toy and gift products.
Computer heads	:	The manufacture and sale of computer heads.
Housewares	:	The manufacture, sale and distribution of housewares.
Timepieces	:	The manufacture, sale and distribution of clocks, watches and electronic products.
Others	:	The leasing of properties to generate rental income and other distribution activities.

	2006						
	Toy and gift products *HK$'000*	**Computer heads** *HK$'000*	**Housewares** *HK$'000*	**Timepieces** *HK$'000*	**Others** *HK$'000*	**Inter-segment elimination** *HK$'000*	**Consolidated** *HK$'000*
Revenue from external customers	647,063	158,439	239,772	249,330	31,082	–	1,325,686
Other revenue from external customers	2,115	–	3,822	315	1,749	–	8,001
Inter-segment revenue	–	–	–	–	2,979	(2,979)	–
Total	649,178	158,439	243,594	249,645	35,810	(2,979)	1,333,687
Segment result	28,889	25,471	12,417	21,365	10,310		98,452
Unallocated operating income and expenses							6,322
Profit from operations							104,774
Finance costs							(145)
Share of profit of jointly controlled entity	–	–	494	–	–		494
Income tax							(14,392)
Profit for the year							90,731
Depreciation and amortisation for the year	16,249	5,245	1,835	2,161	1,605		27,095
Write back of impairment losses on property, plant and equipment	3,480	–	988	–	4,826		9,294
Segment assets	327,362	123,172	128,041	73,060	44,369	(19,092)	676,912
Interest in jointly controlled entity	–	–	2,150	–	–		2,150
Unallocated assets							84,423
Total assets							763,485
Segment liabilities	64,756	18,646	37,411	17,080	2,366	(19,092)	121,167
Unallocated liabilities							7,005
Total liabilities							128,172
Capital expenditure incurred during the year	12,579	4,637	2,757	1,117	140		21,230

	2005						
	Toy and gift products	Computer heads	Housewares (restated)	Timepieces	Others	Inter-segment elimination	Consolidated (restated)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue from external customers	645,162	154,908	242,185	370,219	30,524	–	1,442,998
Other revenue from external customers	2,034	98	470	184	1,328	–	4,114
Inter-segment revenue	–	–	–	–	3,129	(3,129)	–
Total	647,196	155,006	242,655	370,403	34,981	(3,129)	1,447,112
Segment result	27,703	16,304	12,409	50,434	8,903		115,753
Unallocated operating income and expenses							(7)
Profit from operations							115,746
Finance costs							(275)
Share of profit of jointly controlled entity	–	–	181	–	–		181
Income tax							(16,480)
Profit for the year							99,172
Depreciation and amortisation for the year	13,857	5,725	2,759	3,564	1,536		27,441
Write back of impairment losses on property, plant and equipment	–	–	–	–	–		–
Segment assets	346,843	104,749	134,529	101,074	36,835	(19,084)	704,946
Interest in jointly controlled entity	–	–	1,804	–	–		1,804
Unallocated assets							52,610
Total assets							759,360
Segment liabilities	76,667	22,036	44,271	30,452	2,632	(19,084)	156,974
Unallocated liabilities							13,424
Total liabilities							170,398
Capital expenditure incurred during the year	11,284	3,258	1,568	5,547	1,534		23,191

Geographical segments

The Group's business is managed on a worldwide basis, but participates mainly in three principal economic environments. North America is a major market for the toy and gift division, the computer head division and the houseware division. Europe is a major market for the timepiece division and the houseware division and to a lesser extent the toy and gift division and the computer head division. In Asia, the Group's manufacturing activities are carried out in the People's Republic of China (the "PRC").

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets and capital expenditure are based on the geographical location of the assets.

	2006						
	Asia			**Europe**		**North America**	**Others**
	Hong Kong	**The PRC**	**Others**	**United Kingdom**	**Others**		
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
Revenue from external customers	**63,076**	**11,137**	**12,582**	**493,672**	**84,068**	**640,622**	**20,529**
Segment assets	**355,686**	**220,306**	**–**	**119,256**	**–**	**756**	**–**
Capital expenditure incurred during the year	**2,858**	**16,402**	**–**	**1,970**	**–**	**–**	**–**

	2005						
	Asia			Europe		North America	Others
	Hong Kong	The PRC	Others	United Kingdom	Others		
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue from external customers	77,432	9,402	29,339	684,032	101,744	524,834	16,215
Segment assets	338,686	222,037	–	162,590	–	717	–
Capital expenditure incurred during the year	6,184	11,942	–	5,065	–	–	–

4. Write back of impairment losses on property, plant and equipment

During the year, the directors carried out a review of the recoverable amount of the land and buildings held for own use and considered that impairment losses recognised in prior years had decreased. Based on their review, provision for impairment losses of HK$9,294,000 (2005: HK$Nil) has been written back. The estimates of recoverable amount were made based on fair values less costs to sell, determined with reference to valuation performed by professional surveyors.

5. Profit before taxation

Profit before taxation is arrived at after charging/(crediting):

	2006	2005 (restated)
	HK$'000	*HK$'000*
Interest on borrowings	**145**	275
Depreciation		
– assets held for use under operating leases	**310**	320
– other assets	**26,486**	26,829
Amortisation of land lease premium	**299**	292
Loss on disposal of fixed assets	**41**	247
Net realised and unrealised (gains)/losses on trading securities (2005: other securities)	**(1,180)**	121
Interest income	**(5,070)**	(1,686)
Rental income	**(3,215)**	(3,021)
Dividend income from listed securities	**(397)**	(49)
Share of jointly controlled entity's taxation	**198**	98

6. Income tax

	2006	2005
		(restated)
	HK$'000	*HK$'000*
Hong Kong Profits Tax	**10,802**	10,664
Taxation outside Hong Kong	**1,976**	8,947
Deferred taxation	**1,614**	(3,131)
	14,392	16,480

Provision for Hong Kong Profits Tax is calculated at 17.5% (2005: 17.5%) of the estimated assessable profits for the year. Taxation for subsidiaries outside Hong Kong is charged at the appropriate current rates of taxation ruling in the relevant tax jurisdictions.

7. Dividends payable to equity shareholders of the Company attributable to the year

	2006	2005
	HK$'000	*HK$'000*
Interim dividend declared and paid – HK2.5 cents per share (2005: HK2 cents per share)	**15,348**	12,279
Final dividend proposed after the balance sheet date – HK4 cents per share (2005: HK4.5 cents per share)	**24,558**	27,627
	39,906	39,906

8. Earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of HK$86,290,000 (2005: HK$96,117,000) and on 613,926,000 (2005: 613,926,000) shares, being the weighted average number of shares in issue during the year.

There were no dilutive potential shares in existence during the years ended 31 March 2006 and 2005, therefore diluted earnings per share is same as the basic earnings per share for both the current and prior years.

9. Trade and other receivables

Included in trade and other receivables are trade debtors and bills receivable (net of impairment losses for bad and doubtful debts) with the following ageing analysis as of the balance sheet date:

	At 31 March	At 31 March
	2006	2005
	HK$'000	*HK$'000*
By date of invoice		
Within 1 month	**66,721**	116,347
Over 1 but within 3 months	**33,601**	23,995
Over 3 months	**1,429**	3,822
Trade debtors and bills receivable	**101,751**	144,164
Deposits, prepayments and other receivables	**29,906**	30,257
	131,657	174,421

All of the trade and other receivables are expected to be recovered within one year.

The credit terms given to the customers vary and are generally based on the financial strengths of individual customers. In order to effectively manage the credit risks associated with trade receivables, credit evaluations of customers are performed periodically.

10. **Trade and other payables**

Included in trade and other payables are trade creditors and bills payable with the following ageing analysis as of the balance sheet date:

	At 31 March 2006 *HK$'000*	At 31 March 2005 *HK$'000*
By date of invoice		
Within 1 month	**35,070**	45,987
Over 1 but within 3 months	**9,535**	12,227
Over 3 months	**689**	783
Trade creditors and bills payable	**45,294**	58,997
Accruals and other payables	**75,709**	97,483
	121,003	156,480

All of the trade and other payables are expected to be settled within one year.

11. **Comparative figures**

(i) Certain comparative figures have been adjusted or reclassified as a result of the changes in accounting policies as set out in note 2.

(ii) Club membership with carrying amount of HK$1,600,000 which was included in "Other financial assets" in the 2005 financial statements has been separately shown as a non-current asset on the face of the consolidated balance sheet to conform with the current year's presentation. The directors consider the revised presentation reflects more appropriately the nature of this asset.

REVIEW OF OPERATIONS

The Group achieved favourable results in the financial year under review amid a very challenging operating environment. The turnover of the Group for the year ended 31 March 2006 was HK$1,326 million which was HK$117 million or 8% below the turnover of HK$1,443 million in the previous year. During the year under review, the Timepiece Division experienced a very sharp decrease in turnover while the businesses of the other divisions were relatively stable. The net profit attributable to the equity shareholders of the Company in the year under review was HK$86.3 million, 10% down from the net profit of HK$96.1 million in the previous year. This year's net profit included a write-back of HK$9.3 million relating to impairment losses on property, plant and equipment which were charged to the profits in previous financial years. Excluding this write-back, the net profit of the Group was HK$77 million, representing a decrease of 20% compared to the year-ago net profit.

Toy and Gift Division

During the year under review, the Toy and Gift Division performed well amid very difficult market conditions. The division was able to maintain a relatively satisfactory result mainly due to the robust sales of the toys related to the "Star Wars" brands, particularly in the first half of the year. The turnover of the division increased modestly by 0.3% to HK$647 million from the turnover of HK$645 million a year earlier, while its operating profit increased by HK$1.2 million or 4.3% from HK$27.7 million to HK$28.9 million. The increase in operating profit was virtually due to provisions for impairment losses for bad and doubtful debts of HK$2.1 million and impairment losses of property, plant and equipment of HK$3.5 million written back to profit or loss in the reporting fiscal year. Excluding these write-backs, the division's operating profit decreased by HK$4.4 million. Like most of the toy factories in Guangdong, the division experienced very tough operating conditions. Firstly, the price pressure resulting from intense competition among toy factories has continued to erode the profit margins in the toy industry. Furthermore, labour shortages have become a much more serious problem for factories in the Pearl River Delta region. In March 2005, the minimum wage rate in the Dongguan area increased by as much as 27.6%. As labour is an important cost factor for the division, the steep wage increase had a negative impact on the results of the division.

Computer Head Division

The Computer Head Division also performed well in the fiscal year 2006. Compared to last year, the division's turnover increased moderately by 2% from HK$155 million to HK$158 million, while the operating profit increased by 56% from HK$16.3 million to HK$25.5 million. During the year under review, the division achieved better production efficiency due to higher volumes, resulting in improved product yields and substantially lower reject rates. In 2005, the division completed the development of computer tape heads for the Linear Tape-Open Generation 4 tape drives. With an uncompressed capacity of 800 gigabytes, these heads are now the most advanced products in the market for computer data tape storage. The division has started delivery of these heads in April 2006. The division has always been concerned with environmental protection. In January 2006 the division acquired certification of ISO14001 relating to its environmental management system reflecting the division's strong commitment to environmentally friendly policies and procedures.

Houseware Division

The sales of the Houseware Division edged downwards by 1% to HK$240 million from last year. The operating profit of HK$12.4 million for the year was relatively flat compared to the operating profit in the earlier fiscal year. In the year ended 31 March 2005, the division had a product claim for which the division made a provision of HK$8.6 million. The claim was settled in the year under review and an excess provision of HK$1.5 million was written back as profit in fiscal 2006. Excluding the impact of this provision/write back, the operating profit for this year decreased by HK$10.1 million on a year-on-year comparison. The increases of prices of aluminum and stainless steel were the major factors that attributed to the decrease.

Timepiece Division

As mentioned in the interim report, the sales of the Timepiece Division were dampened by the general weakness of the retail sales in the UK and the closures of business of some of the division's customers. Furthermore, the business from a TV and internet retail group, which rapidly increased the sales of the division in the previous year, receded significantly. For the year ended 31 March 2006, the sales of the division decreased by 33% or HK$121 million to HK$249 million from HK$370 million in the prior year. Mainly due to lower turnover, the operating profit for the year under review declined to HK$21.4 million, representing merely 42% of last year's profit.

FINANCIAL POSITION

The Group has maintained its sound financial position. At the end of the financial year, the Group had a strong balance sheet with a healthy liquidity position. As at 31 March 2006, the Group had total assets of HK$763 million (2005: HK$759 million) which were financed by current liabilities of HK$124 million (2005: HK$166 million), non-current liabilities of HK$4 million (2005: HK$4 million), minority interests of HK$33 million (2005: HK$28 million) and equity attributable to equity shareholders of HK$602 million (2005: HK$561 million).

At 31 March 2006, the Group's cash balances aggregated to HK$239 million representing an increase of HK$15 million over the HK$224 million in last year's balance sheet. The Group's current assets position as at 31 March 2006 was HK$574 million compared to HK$567 million as at 31 March 2005. The inventories decreased to HK$140 million from HK$168 million and the trade and other receivables decreased to HK$132 million from HK$174 million. The decreases were mainly due to the decline of the Group's sales activities. During the year, the Group acquired certain listed equity securities and unlisted equity linked notes which are held for trading. Together with other equity securities acquired in previous years and reclassified as trading securities during the year, the Group's trading securities as at 31 March 2006 amounted to HK$60 million (2005: HK$Nil).

The Group's current liabilities decreased from HK$166 million to HK$124 million primarily due to decrease in trade and other payables.

Like last year, the Group had no bank borrowings at 31 March 2006. Furthermore, the Group has no long-term borrowings. Trading securities of HK$37 million (2005: HK$Nil) are pledged to a bank to secure the banking facilities granted to a subsidiary of the Company. As at 31 March 2006, the working capital ratio, an indicator of a company's liquidity represented by a ratio between the current assets over the current liabilities, was 4.64 compared to 3.41 last year. The quick ratio, another ratio that gauges the short-term liquidity of a company measured by trade debtors and cash at bank and in hand over the current liabilities, slightly increases to 2.76 from 2.21.

CONTINGENT LIABILITIES

As at 31 March 2006 the Group did not have any significant contingent liabilities.

FOREIGN EXCHANGE EXPOSURE

During the year under review, approximately 30% of the Group's turnover was denominated in sterling. From time to time, the Group enters forward foreign exchange contracts to hedge its foreign exchange exposure.

PROSPECTS AND GENERAL OUTLOOK

The new fiscal year will continue to be very challenging for the Group. The problems of rising material costs and labour costs will continue to put pressure on the already tight profit margins of the Group's businesses. Though relatively still higher than 2005, the management is pleased to see that metal prices have eased since mid June 2006. As at 7 July 2006, the LME aluminum closing price has come down to USD2,521 per metric ton from its peak of USD3,275 at 11 May 2006. The Shenzhen government has already raised the minimum wage rate in the Special Economic Zone by 17.4% with effect from 1 July 2006. It is believed that other areas in Guangdong will very soon have similar increases in the second half of 2006. Furthermore, up to the end of June 2006, the value of Renminbi has further increased by 1.4% against the U.S. dollar following an appreciation of 2% in July 2005. It is generally believed that the currency will further strengthen in the coming year. As the Group's factories are all located in the PRC, an even stronger Renminbi will further lift the production costs of the Group's products.

Despite the above-mentioned adverse market conditions, there are signs that retail sales in both the UK and the USA, which accounted for 37% and 48% of the Group's sales respectively in the last fiscal year have both picked up in the first half of 2006. The management is confident that the Group will weather the market difficulties and strive to achieve a solid result in the new fiscal year.

DIVIDENDS

At the forthcoming Annual General Meeting to be held on 15 September 2006, the Directors will recommend a final dividend of HK4 cents per share (2005: HK4.5 cents). Together with the interim dividend of HK2.5 cents (2005: HK2 cents), the dividend for the year of HK6.5 cents (2005: HK6.5 cents) would represent an annual return of 8% on the Company's average share price of HK80 cents in the year ended 31 March 2006.

The total final dividend will amount to HK$24,558,000 and is calculated based on the total number of shares in issue as at 13 July 2006 being the latest practicable date prior to the announcement of the results. Dividend will be payable on 29 September 2006 to shareholders registered in the Register of Members on 15 September 2006.

REGISTER OF MEMBERS

The Register of Members will be closed on 14 and 15 September 2006. Shareholders should ensure that all transfers accompanied by relevant share certificates are lodged with the Company's Registrars, Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong for registration not later than 4:00 p.m. on 13 September 2006 in order that they may receive their dividend entitlement.

NOTICE OF ANNUAL GENERAL MEETING

The notice convening the Annual General Meeting of shareholders and the 2006 Annual Report will be despatched to shareholders of the Company shortly.

EMPLOYEES

At 31 March 2006, the number of employees of the Group was approximately 210 in Hong Kong, 7,172 in the People's Republic of China and 98 in Europe. The Group ensures that its employee's remuneration packages are competitive. Employees are rewarded based on their performance and experience and the prevailing industry practice. Total staff costs for the year amounted to HK$235,803,000 (2005: HK$230,393,000).

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

AUDIT COMMITTEE

The audit committee reports to the board of directors and currently comprises three independent non-executive directors, namely Mr. Tang King Hung, being the chairman, Mr. David Tai Chong Lie-A-Cheong and Mr. Yeh Man Chun Kent. The audit committee meets with Group's senior management and external auditors regularly to discuss audit matters. The audit committee also reviews the effectiveness of the internal control systems. The annual results of the Group have been reviewed by the audit committee of the Company.

REMUNERATION COMMITTEE

The Company established a remuneration committee on 16 March 2005. The remuneration committee comprises two independent non-executive directors, namely Mr. Tang King Hung, being the chairman, and Mr. Yeh Man Chun Kent and one executive director, namely Mr. Thong Yeung Sum Michael. The terms of reference of the remuneration committee have been included on the Company's website.

CORPORATE GOVERNANCE

The Company has complied with the code provisions of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Listing Rules throughout the year ended 31 March 2006 except that the independent non-executive directors are not appointed for a specific term, which deviates from the code provision A.4.1. However, the independent non-executive directors are subject to retirement from office by rotation under the requirements of the Bye-laws of the Company. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the CG Code.

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard of the Model Code for Securities Transactions by Directors of Listed Issuers (the 'Model Code") as set out in Appendix 10 to the Listing Rules. 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 Company's code of conduct regarding directors' securities transactions.

PUBLICATION OF DETAILED ANNUAL RESULTS ON THE STOCK EXCHANGE'S WEBSITE

All the information of the annual results of the Group for the year ended 31 March 2006 required by paragraph 45 of Appendix 16 to the Listing Rules will be published on the website of The Stock Exchange of Hong Kong Limited in due course.

By Order of the Board
George Bloch
Chairman

Hong Kong, 14 July 2006

As at the date of this announcement, the Board of Directors of the Company comprises Messrs. George Bloch, Cheung Tsang Kay, Stan, Chang Dong Song, Robert Dorfman and Thong Yeung Sum, Michael as executive directors and Messrs. Tang King Hung, David Tai Chong Lie-A-Cheong and Yeh Man Chun, Kent as independent non-executive directors.

* *For identification only*