NGAI LIK INDUSTRIAL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 332)

ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31 MARCH 2006

RESULTS

The Board of Directors (the "Directors") of Ngai Lik Industrial Holdings Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 March 2006, together with the comparative figures, as follows:

CONSOLIDATED INCOME STATEMENT

		Year ended 31 March	
		2006	2005
	Notes	***HK$'000***	*HK$'000*
			(Restated)
Turnover	3	**2,836,171**	3,417,581
Cost of sales		**(2,686,729)**	(3,201,862)
Gross profit		**149,442**	215,719
Other operating income, net		**5,261**	4,064
Selling and distribution expenses		**(33,151)**	(39,925)
Administrative expenses		**(111,410)**	(120,470)
Other income		**13,045**	8,975
Impairment loss of intangible assets		**(7,359)**	–
Increase in fair value of investment properties		**33,142**	–
Profit from operations		**48,970**	68,363
Finance costs		**(26,907)**	(4,868)
Share of results of associates		**2,179**	1,290
Profit before taxation	4	**24,242**	64,785
Taxation	5	**(11,104)**	(4,557)
Profit for the year		**13,138**	60,228
Attributable to:			
Equity holders of the Company		**13,138**	60,228
Minority interests		**–**	–
		13,138	60,228
Dividends	6	**11,895**	35,686
Earnings per share			
– Basic	7	**HK1.7 cents**	HK7.6 cents
– Diluted		**HK1.7 cents**	HK7.6 cents

CONSOLIDATED BALANCE SHEET

	As at 31 March	
	2006	2005
	HK$'000	*HK$'000*
		(Restated)
Non-current assets		
Investment properties	**186,358**	60,288
Property, plant and equipment	**1,060,487**	1,098,912
Land use rights – non-current portion	**65,323**	68,705
Interests in associates	**20,107**	18,468
Intangible assets	**27,667**	31,765
Deposits for acquisition of property, plant and equipment	**3,782**	12,388
Long-term bank deposit	**22,207**	23,370
Available-for-sale financial assets	**16,922**	–
Investments in securities	**–**	15,733
	1,402,853	1,329,629
Current assets		
Land use rights – current portion	**1,450**	1,491
Inventories	**445,467**	418,590
Trade and other receivables and prepayments	**166,436**	128,989
Taxation recoverable	**48,927**	38,682
Bank balances and cash	**198,550**	215,420
	860,830	803,172
Current liabilities		
Trade and other payables	**363,647**	413,208
Taxation payable	**75,989**	76,581
Unsecured bank borrowings – due within one year	**384,076**	170,440
Obligations under finance leases – due within one year	**31**	3,141
	823,743	663,370
Net current assets	**37,087**	139,802
Total assets less current liabilities	**1,439,940**	1,469,431
Non-current liabilities		
Unsecured bank borrowings – due after one year	**317,866**	370,520
Obligations under finance leases – due after one year	**–**	34
Deferred taxation	**48,110**	30,702
	365,976	401,256
Net assets	**1,073,964**	1,068,175
Capital and reserves		
Share capital	**79,302**	79,302
Reserves	**990,642**	984,853
Equity attributable to equity holders of the Company	**1,069,944**	1,064,155
Minority interests	**4,020**	4,020
Total equity	**1,073,964**	1,068,175

NOTES:

1. ADOPTION OF NEW HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has adopted a number of new Hong Kong Financial Reporting Standards ("HKFRS(s)"), Hong Kong Accounting Standards ("HKAS(s)") and Interpretations (hereinafter collectively referred to as the "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are relevant to its operations and effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests and share of taxation of associates have been changed. The changes in presentation have been adopted retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current and/or prior accounting years are prepared and presented:

Investment properties
In the current year, the Group has adopted HKAS 40 "Investment Property". The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in profit or loss for the year in which they arise. In previous years, investment properties under the Statement of Standard Accounting Practice ("SSAP") 13 "Accounting of investment properties" were measured at open market values, with revaluation surplus or deficit credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the consolidated income statement. Where a decrease had previously been charged to the consolidated income statement and a revaluation surplus subsequently arose, that increase was credited to the consolidated income statement to the extent of the decrease previously charged. The Group has adopted the relevant transitional provisions in HKAS 40 and elected to adopt HKAS 40 from 1 April 2005 onwards. This change has resulted in an increase in fair value of investment properties of HK$33,142,000 (2005: nil) credited to the consolidated income statement.

Deferred taxes related to investment properties
In previous years, deferred taxation consequences in respect of revalued investment properties were assessed on the basis of the tax consequence that would follow from recovery of the carrying amount of the properties through sale in accordance with the predecessor interpretation (SSAP-Interpretation). In the current year, the Group has adopted HK(SIC) Interpretation 21 "Income Taxes – Recovery of Revalued Non-Depreciable Assets" which removes the presumption that the carrying amount of investment properties is to be recovered through sale. Therefore, the deferred taxation consequences of the investment properties are now assessed on the basis that reflect the tax consequences that would follow from the manner in which the Group expects to recover the property at each balance sheet date. In the absence of any specific transitional provisions in HK(SIC) Interpretation 21, this change in accounting policy has been adopted retrospectively. This change in interpretation has resulted in an increase in taxation charge of HK$10,913,000 (2005: nil) to the consolidated income statement.

Owner-occupied leasehold interest in land
In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current year, the Group has adopted HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to land use rights, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively. As at 31 March 2005, the Group reclassified its leasehold interests in land with carrying value of HK$70,196,000 to land use rights. Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment.

Financial instruments
In the current year, the Group has adopted HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The application of HKAS 32 has had no material impact on how financial instruments of the Group are presented for current or prior accounting periods. The principal effects resulting from the implementation of HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities
The Group has adopted the relevant transitional provisions in HKAS 39 with respect to the classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

Investments in equity securities
By 31 March 2005, the Group classified and measured its investment in equity securities in accordance with the benchmark treatment of SSAP 24 "Accounting for investments in securities". Under SSAP 24, investments in equity securities are classified as "investment securities", "other investments" or "held-to-maturity investments" as appropriate. "Investment securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealised gains or losses included in net profit or loss for the year. Held-to-maturity investments are carried at amortised cost less impairment losses (if any).

From 1 April 2005 onwards, the Group has classified and measured its investments in equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method after initial recognition.

On 1 April 2005, the Group reclassified its investment in equity securities, which were previously classified as "other investments" under SSAP 24, with carrying value of HK$15,733,000 to "available-for-sale financial assets". Profit for the year has decreased by HK$3,770,000 due to the recognition of the gain in fair value of the available-for-sale financial assets in equity.

Financial assets and financial liabilities other than equity securities
From 1 April 2005 onwards, the Group has classified and measured its financial assets and financial liabilities other than equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "other financial liabilities". Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognised in net profit or loss for the year directly. Other financial liabilities are carried at amortised cost using the effective interest method after initial recognition.

Prior to the application of HKAS 39, long-term bank deposit was stated at the nominal amount. HKAS 39 requires all financial assets and financial liabilities to be measured at fair value on initial recognition. Such long-term bank deposit is measured at amortised cost determined using the effective interest method at subsequent balance sheet dates. The Group has applied the relevant transitional provisions in HKAS 39. As a result of this change in the accounting policy, the carrying amount of the long-term bank deposit as at 1 April 2005 has decreased by HK$2,113,000 in order to state the deposit at amortised cost in accordance with HKAS 39. The Group's retained earnings as at 1 April 2005 has decreased by HK$2,113,000. Profit for the year has increased by HK$950,000 due to the recognition of imputed interest income.

Derecognition
HKAS 39 provides more rigorous criteria for the derecognition of financial assets than the criteria applied in previous periods. Under HKAS 39, a financial asset is derecognised, when and only when, either the contractual rights to the asset's cash flows expire, or the asset is transferred and the transfer qualifies for derecognition in accordance with HKAS 39. The decision as to whether a transfer qualifies for derecognition is made by applying a combination of risks and rewards and control tests. The Group has adopted the relevant transitional provisions and adopted the revised accounting policy prospectively to transfers of financial assets from 1 April 2005 onwards. As a result, the Group's bill receivables discounted with full recourse of HK$25,044,000 which were derecognised as at 31 March 2005 have not been restated. As at 31 March 2006, the Group's bill receivables discounted with full recourse have not been derecognised. Instead, the related borrowings of approximately HK$35,365,000 have been recognised on the balance sheet date. The relevant finance costs incurred in order to obtain such borrowings are included in the carrying amount of the borrowings on initial recognition and amortised over the terms of the borrowings using the effective interest method. This change in accounting policy has had no material effect on results for the current year.

Share-based payments
HKFRS 2 "Share-based Payment" requires the recognition of equity-settled share-based payments at fair value at the date of grant and the recognition of liabilities for cash-settled share-based payments at the current fair value at each balance sheet date.

The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of share options granted to directors and employees, determined at the date of grant of the share options, over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of share options until they were exercised. The Group has adopted HKFRS 2 to share options granted on or after 1 April 2005. In relation to share options granted before 1 April 2005, the Group chooses not to apply HKFRS 2 with respect to share options existing at 1 April 2005.

In accordance with the transitional provisions of HKFRS 2, HKFRS 2 has been adopted retrospectively to all grants of equity instruments after 7 November 2002 that were unvested as of 1 April 2005, and to account for share-based transactions existing at 1 April 2005. The application of HKFRS 2 has had no material effect on the consolidated financial statements since all share options existing at 1 April 2005 were granted by the Company after 7 November 2002 and vested before 1 April 2005.

2. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in the accounting policies described in note 1 on the results for the current and prior year are as follows:

	2006	2005
	HK$'000	*HK$'000*
Increase in fair value of investment properties	**33,142**	–
Increase in imputed interest income on long-term bank deposit, included in other income	**950**	–
Decrease in unrealised gain arising on changes in fair value of investments in securities, included in other operating income	**(3,770)**	–
Increase in deferred taxation charge relating to increase in fair value of investment properties, included in taxation	**(10,913)**	–
Increase in profit for the year	**19,409**	–

The cumulative effects of the adoption of the new HKFRSs as at 31 March 2005 and 1 April 2005 on the balance sheet items are summarised below:

	As at 31.3.2005 (Originally stated)	Retrospective adjustments HKAS 17	HKAS 27	As at 31.3.2005 (Restated)	Opening adjustments HKAS 39	As at 1.4.2005 (Restated)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Property, plant and equipment	1,169,108	(70,196)	–	1,098,912	–	1,098,912
Land use rights	–	70,196	–	70,196	–	70,196
Long-term bank deposit	23,370	–	–	23,370	(2,113)	21,257
Available-for-sale financial assets	–	–	–	–	15,733	15,733
Investments in securities	15,733	–	–	15,733	(15,733)	–
Other assets and liabilities	(140,036)	–	–	(140,036)	–	(140,036)
Total effects on assets and liabilities	1,068,175	–	–	1,068,175	(2,113)	1,066,062
Share capital	79,302	–	–	79,302	–	79,302
Share premium	82,844	–	–	82,844	–	82,844
Exchange reserve	1,108	–	–	1,108	–	1,108
Accumulated profits	900,901	–	–	900,901	(2,113)	898,788
Minority interests	–	–	4,020	4,020	–	4,020
Total effects on equity	1,064,155	–	4,020	1,068,175	(2,113)	1,066,062
Minority interests	4,020	–	(4,020)	–	–	–
	1,068,175	–	–	1,068,175	(2,113)	1,066,062

There are no financial effects of the adoption of the new HKFRSs to the Group's equity at 1 April 2004.

The Group has not early adopted the following new standards, amendments and interpretations that have been issued but are not yet effective. The Directors of the Company anticipate that the adoption of these standards, amendments and interpretations will have no material impact on the result and financial position of the Group.

HKAS 1 (Amendment)	Capital disclosure[1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures[2]
HKAS 21 (Amendment)	Net investment in a foreign operation[2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions[2]
HKAS 39 (Amendment)	The fair value option[2]
HKAS 39 and HKFRS 4 (Amendments)	Financial guarantee contracts[2]
HKFRS 6	Exploration for and evaluation of mineral resources[2]
HKFRS 7	Financial instruments: Disclosures[1]
HKFRS – INT 4	Determining whether an arrangement contains a lease[2]
HKFRS – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2]
HK(IFRIC) – INT 6	Liabilities arising from participating in a specific market – waste electrical and electronic equipment[3]
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]
HK(IFRIC) – INT 8	Scope of HKFRS 2[5]
HK(IFRIC) – INT 9	Reassessment of embedded derivatives[6]

1 Effective for annual periods beginning on or after 1 January 2007.
2 Effective for annual periods beginning on or after 1 January 2006.
3 Effective for annual periods beginning on or after 1 December 2005.
4 Effective for annual periods beginning on or after 1 March 2006.
5 Effective for annual periods beginning on or after 1 May 2006.
6 Effective for annual periods beginning on or after 1 June 2006.

3. BUSINESS AND GEOGRAPHICAL SEGMENTS

(a) Business segments

For management purposes, the Group is currently organised into two operating divisions – electronics manufacturing services business ("EMS business") and property investment.

These divisions are the basis on which the Group reports its primary segment information.

The EMS business is engaged in design, manufacture and sales of electronic and electrical products while property investment is engaged in property rental.

Segment information about these businesses is presented below:

Year 2006

(i) Consolidated income statement

	EMS business	Property investment	Eliminations	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	2,836,171	–	–	2,836,171
Rental income	–	8,598	(1,424)	7,174
Result				
Segment result	3,609	36,699		40,308
Interest income				4,729
Other rental income				1,142
Finance costs				(26,907)
Share of results of associates				2,179
Unallocated income				2,791
Profit before taxation				24,242
Taxation				(11,104)
Profit for the year				13,138

(ii) Consolidated balance sheet

	EMS business	Property investment	Consolidated
	HK$'000	*HK$'000*	*HK$'000*
Assets			
Segment assets	1,785,288	188,604	1,973,892
Interests in associates	–	–	20,107
Unallocated assets	–	–	269,684
			2,263,683
Liabilities			
Segment liabilities	361,948	1,730	363,678
Unallocated liabilities	–	–	826,041
			1,189,719

(iii) Other information

	EMS business	Property investment	Consolidated
	HK$'000	*HK$'000*	*HK$'000*
Capital expenditure	147,849	34	147,883
Depreciation and amortisation	103,568	–	103,568
Impairment loss recognised in respect of intangible assets	7,359	–	7,359
Increase in fair value of investment properties	–	33,142	33,142

Year 2005

(i) Consolidated income statement

	EMS business	Property investment	Eliminations	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	3,417,581	–	–	3,417,581
Rental income	–	7,421	(1,239)	6,182
Result				
Segment result	64,606	2,717		67,323
Interest income				2,179
Other rental income				614
Finance costs				(4,868)
Share of results of associates				1,290
Unallocated expenses				(1,753)
Profit before taxation				64,785
Taxation				(4,557)
Profit for the year				60,228

(ii) Consolidated balance sheet

	EMS business	Property investment	Consolidated
	HK$'000	*HK$'000*	*HK$'000*
Assets			
Segment assets	1,775,587	61,274	1,836,861
Interests in associates	–	–	18,468
Unallocated assets	–	–	277,472
			2,132,801
Liabilities			
Segment liabilities	415,767	616	416,383
Unallocated liabilities	–	–	648,243
			1,064,626

(iii) Other information

	EMS business	Property investment	Consolidated
	HK$'000	*HK$'000*	*HK$'000*
Capital expenditure	348,279	–	348,279
Depreciation and amortisation	88,661	–	88,661
Reversal of revaluation deficit of investment properties previously recognised	–	2,750	2,750

(b) Geographical segments

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods manufactured or services rendered:

	Turnover	
	2006	2005
	HK$'000	*HK$'000*
America	**2,012,109**	2,360,801
Europe	**529,586**	621,430
Asia	**166,363**	212,123
Others	**128,113**	223,227
	2,836,171	3,417,581

All the Group's assets and capital expenditure incurred during the year are located in the Greater China, which is considered as one geographical location in an economic environment with similar risks and return. Consequently, no geographical segment asset analysis is presented.

4. PROFIT BEFORE TAXATION

	2006	2005
	HK$'000	*HK$'000*
		(Restated)
Profit before taxation has been arrived at after charging (crediting):		
Amortisation of intangible assets	**19,639**	15,454
Amortisation of land use rights	**1,467**	1,491
Depreciation and amortisation of property, plant and equipment	**82,462**	71,716
(Gain) loss on disposal of property, plant and equipment	**(57)**	3,114
(Gain) on disposal of an investment property	**–**	(2,103)
(Gain) on disposal of land use rights	**(2,044)**	–
Interest income	**(4,729)**	(2,179)
Reversal of revaluation deficit of investment properties previously recognised	**–**	(2,750)
Unrealised gain arising on changes in fair value of investments in securities	**–**	(2,924)

5. TAXATION

	2006	2005
	HK$'000	*HK$'000*
The charge comprises:		
Current taxation		
Hong Kong		
– Provided for the year	**–**	(4,729)
– Over/(under) provision in prior years	**394**	(728)
	394	(5,457)
Deferred taxation (charge) credit	**(11,498)**	900
	(11,104)	(4,557)

Hong Kong Profits Tax is calculated at 17.5% (2005: 17.5%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

6. DIVIDENDS

	2006	2005
	HK$'000	*HK$'000*
Interim, paid, of HK1.5 cents (2005: HK3.5 cents) per share	**11,895**	27,756
Final, proposed, of zero cent (2005: HK1.0 cent) per share	**–**	7,930
	11,895	35,686

7. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	2006	2005
	HK$'000	*HK$'000*
Profit for the year attributable to equity holders of the Company and earnings for the purposes of basic and diluted earnings per share	**13,138**	60,228
Number of ordinary shares for the purposes of basic earnings per share	**793,016,684**	793,016,684
Effect of dilutive potential ordinary shares – Share options	**–**	2,863,097
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**793,016,684**	795,879,781

There are no dilutive effect on the share options because the exercise price of the Company's share options was higher than the average market price of the Company's shares for 2006.

DIVIDENDS

An interim dividend of HK$11,895,000, representing a payout ratio of about 90% of the current year profit, has been paid. Having considered the future cash flow requirements for the business development, the Board of Directors adopts a prudent approach and does not recommend the payment of a final dividend for year ended 31 March 2006 (2005: HK1.0 cent per share).

CLOSURE OF REGISTER OF MEMBERS FOR ANNUAL GENERAL MEETING

The Register of Members will be closed from 11 September 2006 to 15 September 2006, both days inclusive, to ascertain the shareholders' rights for the purpose of attending and voting at the forthcoming Annual General Meeting which will be held on 15 September 2006 at 3:00 p.m. During which period, no transfer of shares will be effected.

BUSINESS REVIEW

2005 was a challenging year for all manufacturers. Conventional audio manufacturers, in particular, faced a difficult operating environment. On the cost side, the increasing price of oil and plastic materials and labor shortage in Southern China further raised the overall production cost. On the demand side, the conventional audio market encountered fierce competition with decline in global demand for these products.

In view of the challenges, the Group had decided to adopt the following measures to overcome the unfavorable operating environment:

1. Change in product mix. To shift from producing conventional audio products to digital products with much higher value;
2. Strategic reduction in low margin products and exit from loss-making electronics and electrical products ; and
3. Consolidation of Dongguan operations to Qingyuan Industrial Estate.

For the financial year ("FY") ended 31 March 2006, the Group's turnover was HK$2,836 million, decreased by 17.0% as compared to last year. Net profit amounted to HK$13 million, representing a decrease of 78.2% from HK$60 million last year.

The road of product mix transition was beset with thorns and brambles to the Group.

The sales of home audio products dropped by 24.2%, but still accounted for 82.1% of total sales. The sales of digital products increased by 49.4%, accounted for about 13.5% of total sales. The sales of digital products were particularly impressive in the second half of FY 2006, during which the sales amount increased to HK$210 million, representing 16.5% of total sales in the second half of FY 2006.

During the year under review, America remained as the Group's major market, followed by Europe. HK$2,012 million and HK$530 million of the Group's products were sold to America and Europe, accounting for 70.9% and 18.7% of the Group's total turnover respectively. In prior year, approximately HK$2,361 million and HK$621 million of the Group's products were sold to America and Europe respectively.

The Group's gross margin had been adversely affected by the general increase in raw material prices since the financial year ended 31 March 2005.

Vertical integration operations (in particular the plastic injection operations) no longer provided decent profit contribution to the Group under the range of conventional audio products with high plastic contents. Coupled with the operations of production facilities in Dongguan and Qingyuan, the decline in sales resulting from the transition in the change of product mix, further aggravated the situation. The increase in overheads further reduced the gross margin from 6.3% in prior year to 5.3%. Gross profit was HK$149 million, decreased by HK$66 million, as compared to the previous financial year. The low margin electronics and electrical business incurred a loss of about 29 million for the year, including the impairment loss of HK$7,359,000 recognised in respect of development expenditure.

In line with the strategy of consolidating and integrating Dongguan operations to Qingyuan Industrial Estate, more factory buildings located in Dongguan have been left vacant and subsequently rented out. As such, the fixed costs in Dongguan can be reduced, together with a provision of steady increase in rental income to the Group. The costs of these factory buildings have been reclassified from property, plant and equipment to investment properties accordingly. The net-of-tax increase in fair value of investment properties of HK$22,229,000 was credited to current year's income statement. Excluding the above increase in fair value of investment properties and the loss mainly arising from the electrical business, the net profit for the year of the EMS business was about HK$19.9 million.

As at 31 March 2006, there were 38 production lines in Dongguan and 24 production lines in Qingyuan. As mentioned in the FY 2005 annual report, the Group has implemented stringent control over its capital expenditure on property, plant and equipment, which decreased from 328 million to 125 million this year. The Group has also upgraded certain factory dormorities in Dongguan so as to provide a better environment to its workers.

PROSPECTS

Undaunted by the setbacks of the Group, Ngai Lik's management continues to work together, move ahead and strive for changes. We will take necessary steps to recover the growth momentum for sales performance and overall profitability. Of foremost importance, we will adjust the product mix in a proactive manner. The sales of conventional CD audio products will continue to decline by double-digit percentage whereas the sales of digital products will post a substantial increase in FY2007. The sales turnover of digital products is expected to contribute to approximately 20% to 30% of the Group's total sales in FY 2007.

The Group will continue to review its products mix on an on-going basis. The Group has actively promoted its digital products with higher value to its customers. These include flash based MP3 and WMA players with different display formats, such as 7 segments, semi dot matrix, dot matrix and dual colours OLED. To cater for customer demand, various optional features are offered, including card slot, radio reception and voice recording. At present, 19 models are available and 4 new models are in the pipeline. Furthermore, the Group continues to expand its product range in portable DVD players in 6.2", 7", 8.5", 9", 10" and 11" TFT display screen sizes. Additional features including DIVX, television signal reception and USB interface are also provided. Notebook and slot-in types are currently available and 10 new models are in the pipeline. Moreover, new models of digital products will be launched, including DVD boomboxes with 6.2" and 7" TFT LCD display, and 15" and 19" TFT LCD televisions with DVD players and PC inputs.

We will further strengthen the Group's product development capability by deploying additional resources and establishing a new product development team in Shenzhen. It is expected the development cost will increase in the coming financial year but will benefit the Group in the long term. Secondly, operations of Dongguan plants will be further consolidated to Qingyuan Industrial Estate in order to reduce overheads.

Thirdly, the Group will set up new business units, mainly for the diversification of OEM business and product expansion for mobile electronics products. The OEM and mobile electronics products businesses are expected to provide stable income contribution to the Group. In addition, the Group will also focus on further diversifying the existing product range and enhancing the utilization rate of production capacity during slow season.

Last but not least, the Group will manage the balance sheet in a prudent yet proactive manner. The Group has obtained additional short term trade facilities of about HK$250 million, from The Hongkong and Shanghai Banking Corporation Limited and Hang Seng Bank Limited, for the purpose of financing the event sales orders for high value digital products in the coming Christmas season.

Presently, the net gearing ratio is about 50%. With the development of new business and new products, we plan to dispose of certain non-operating assets to strengthen the free cash flow of the Group. Moreover, the Group will closely review the overall financing arrangement and to make necessary re-financing arrangement of the existing syndicated loan, with the view of maximizing the benefits to the Group.

It is anticipated the market condition will remain difficult for the coming financial year and therefore, the Group will continue to implement stringent cost control measures, consolidate its operations and reduce the capital expenditure to enhance the cash flow.

The Group will also continue to explore business opportunities with new clients through the diversification of new product range and strive for achieving a prudent but proactive product transition for the Group.

By leveraging on the solid foundation, the well-established leading position in the industry and the long-term relationship with its customers, the Group is confident of overcoming the challenges ahead.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Turnover

During the year, the Group's turnover decreased to HK$2,836 million, down by 17.0% as compared to last year. The drop was partly attributable to the competitive environment and partly to the planned reduction in the sales of products with high plastic consumption.

During the year, sales of home audio products accounted for approximately 82.1% of the Group's turnover, a decrease of 24.2% over last year, and remained as its core business. Sales from digital and DVD players contributed to approximately 13.5% of the Group's turnover, an increase of 49.4% over last year.

Gross Margin

The Group continued to change its product mix and reduced the sales of CD audio products which used plastics, laminates and metals as the key raw materials. During the year, the gross profit margin decreased to 5.3%.

Expenses

The Group's administrative expenses decreased by 7.5% as compared to the previous year and totalled to HK$111 million. The percentage of administrative expenses to total sales rose to 3.9% (2005: 3.5%). With a lower sales revenue base for the period, the Group's selling and distribution expenses decreased to approximately HK$33 million. The Group's finance costs surged to HK$27 million as a result of the significantly higher average interest rate and the increase in bank borrowings.

During the year, the Group has suffered from an impairment loss of HK$7,359,000 recognised in respect of development expenditure and was mainly arisen from the cessation of manufacturing of loss-making electronics and electrical products.

Property Investment

The Group has changed the use of certain plants in Dongguan to rental purposes following the consolidation of operations into Qingyuan Industrial Estate. Accordingly, the carrying value of investment properties increased from HK$60,288,000 to HK$186,358,000. The net-of-tax increase in fair value of investment properties, which was credited to current year's income statement, amounted to HK$22,229,000.

Working Capital Management and Dividend Policy

As at 31 March 2006, the Group maintained long-term bank deposit, bank balances and cash of approximately HK$221 million (31 March 2005: HK$239 million). The Group's average inventory turnover was about 56 days (31 March 2005: 51 days). The Group's average trade receivables turnover was increased to 16 days (31 March 2005: 10 days).

Financing and Capital Structure

For the year ended 31 March 2006, the Group's total debts stood at approximately HK$702 million (31 March 2005: HK$544 million), of which 318 million (31 March 2005: HK$371 million) were not repayable within one year. The borrowings mainly included outstanding balances of syndicated loan facilities of HK$255 million and certain term loan facilities from several banks in the total of HK$216 million. The increase in borrowings was mainly due to new borrowings for the purposes of CAPEX and daily operation.

The Group also issued letters of credit to procure the supplies of critical components and certain raw materials. The trust receipt loans amounted to approximately HK$43 million (31 March 2005: HK$40 million). The Group's borrowings are primarily denominated in Hong Kong Dollars or US Dollars and the Group has no significant exposure to foreign exchange fluctuations.

Capital Expenditure on Property, Plant and Equipment

Total capital expenditure for the year was HK$125 million (31 March 2005: HK$328 million), out of which HK$29 million was spent on the construction of production plants, HK$40 million for the acquisition of plant and machinery and HK$33 million for moulds investment.

Liquidity and Financial Resources

The net current assets of the Group as at 31 March 2006 stood at a level of approximately HK$37 million (31 March 2005: HK$140 million) and the current ratio was 1.05 (31 March 2005: 1.21). Shareholders' funds were maintained at approximately HK$1,070 million (31 March 2005: HK$1,064 million).

Treasury Policy

The majority of the Group's sales and purchases are denominated in Hong Kong Dollars or US Dollars. As Hong Kong Dollars and US Dollars are pegged, the Group has minimum exposure to foreign exchange fluctuation and, currently, the Group has not entered into any financial instrument for hedging purposes. However, the Group will closely monitor the overall currency and interest rate exposures. When considered appropriate, the Group will hedge against currency exposure as well as interest rate exposure.

EMPLOYEE INFORMATION

As at 31 March 2006, the Group had approximately 32,000 employees (2005: approximately 35,200). The remuneration packages are generally structured with reference to market conditions and the qualifications of the employees. The salaries and wages of the Group's employees are normally reviewed on an annual basis based on performance appraisals and other relevant factors. Bonuses are normally paid to the management, based on individual merits as well as the results from the respective companies with which the staff works for. Benefit plans for its Hong Kong staff include a provident fund scheme and medical and life insurance. The Company also maintains a Share Option Scheme, under which options may be granted to employees to subscribe for shares in the Company. This Share Option Scheme is designed to give employees an incentive to perform.

CORPORATE GOVERNANCE

Throughout the year, the Company has complied with the all the code provisions set out in the Code on Corporate Governance Practices ("CG Code") in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange except for the deviations as mentioned in the section "Corporate Governance" contained in the 2006 Interim Report. The Group's compliance with the provision of the CG Code together with reasons for any deviations will be set out in the corporate governance report to be contained in the Company's 2006 Annual Report, which will be dispatched to the Shareholders in late July 2006.

AUDIT COMMITTEE

In compliance with the requirements of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"), an Audit Committee comprising three independent non-executive directors was formed. Reporting to the Board of Directors of the Company, the Audit Committee is dedicated to review and supervise the Group's financial reporting process and internal controls. The financial results for the year ended 31 March 2006 has been reviewed by the Audit Committee.

COMPLIANCE WITH CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' securities transactions (the "Code"). Having made specific enquiry of all directors of the Company, the directors of the Company have complied with the required standard set out in the Code throughout the year ended 31 March 2006.

DEALING IN COMPANY'S LISTED SECURITIES

During the year, there were no purchases, sale or redemption by the Company or any of its subsidiaries, of the Company's listed securities.

PUBLICATION OF FURTHER INFORMATION ON THE STOCK EXCHANGE'S WEBSITE

All the financial and other related information of the Company required by paragraphs 45(1) to 45(3) of Appendix 16 of the Listing Rules will be published on Stock Exchange's website in due course.

By order of the Board
Lam Man Chan
Chairman

Hong Kong, 17 July 2006

As at the date of this announcement, the executive directors of the Company are Dr. Lam Man Chan, Mr. Hui King Chun, Ms. Ting Lai Ling, Ms. Ting Lai Wah and Mr. Yeung Cheuk Kwong and the independent non-executive directors of the Company are Mr. Ng Chi Yeung, Simon, Mr. Tam Yuk Sang, Sammy and Mr. Ho Lok Cheong.

Please also refer to the published version of this announcement in The Standard.