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# CORPORATE INFORMATION

## EXECUTIVE DIRECTORS

George Bloch *Chairman*  
Cheung Tsang-Kay, Stan PhD,  
Hon LLD, Hon DBA, JP  
*Managing Director*  
Chang Dong-Song  
Robert Dorfman  
Thong Yeung-Sum, Michael FCCA, CPA

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Tang King-Hung ACA, FCCA, ACIS, CPA  
David Tai-Chong Lie-A-Cheong

## SECRETARY

Thong Yeung-Sum, Michael FCCA, CPA

## PRINCIPAL BANKERS

Bank of America, N.A.  
The Hongkong and Shanghai Banking Corporation  
Limited  
Fubon Bank (Hong Kong) Limited

## AUDITORS

KPMG

## SOLICITORS

Stephenson Harwood & Lo  
Richards Butler  
Susan Liang & Co.

## PRINCIPAL OFFICE

3110, 31/F  
Tower Two, Lippo Centre  
89 Queensway  
Hong Kong

## REGISTERED OFFICE

Clarendon House, 2 Church Street  
Hamilton HM 11  
Bermuda

## PRINCIPAL REGISTRARS

Butterfield Fund Services (Bermuda) Limited  
Rosebank Centre  
14 Bermudiana Road  
Pembroke  
Bermuda

## HONG KONG SHARE REGISTRARS

Tengis Limited  
G/F., Bank of East Asia Harbour View Center  
56 Gloucester Road  
Wanchai  
Hong Kong

## COMPANY'S WEBSITE

<http://www.heraldgroup.com.hk>

## FINANCIAL HIGHLIGHTS

	Year ended 31 March 2005 HK\$'000	Year ended 31 March 2004 HK\$'000
Turnover	1,442,998	1,103,819
Profit attributable to shareholders	96,117	61,940
Dividends paid and proposed	39,906	27,646
Earnings per share		
– Basic	HK15.66 cents	HK10.07 cents
Dividends paid and proposed, per share	HK6.5 cents	HK4.5 cents
	As at 31 March 2005 HK\$'000	As at 31 March 2004 HK\$'000
Net assets	560,938	493,474
Net assets per share	HK91.37 cents	HK80.38 cents
Total assets	759,360	647,954
Number of issued and fully paid shares	613,925,763 shares	613,925,763 shares

## CHAIRMAN'S STATEMENT

I am pleased to present my review of the results and operations of the Herald Group (the "Group") for the year ended 31 March 2005.

### RESULTS

The Group achieved favourable results in the financial year under review. The turnover of the Group for the year ended 31 March 2005 was HK\$1,443 million which was 30.7% above the turnover of HK\$1,104 million in the previous year. This was a record annual turnover since the Group's listing on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in 1988. The net profit of the Group also grew impressively by 55.3% to HK\$96.1 million from HK\$61.9 million in the prior year.

### REVIEW OF OPERATIONS

#### *Timepiece Division*

Consecutively for the second year, the Timepiece Division recorded substantial growth in both turnover and profitability. During the year under review and particularly in the first half of the year, the division developed a wide range of very successful product lines in timepieces with a TV and internet retail group in the UK. This, together with the success of brands such as Playboy, Elle and Ted Baker to other customers, resulted in the division being the largest contributor to the Group's profits. For the year ended 31 March 2005, the total turnover of the division increased by HK\$86 million or 30% to HK\$370 million from HK\$284 million in the previous year and its profit from operations increased by HK\$21.9 million or 76.8% from HK\$28.5 million to HK\$50.4 million.

#### *Toy and Gift Division*

In general, toy manufacturers suffered the negative impact of high plastic raw materials, and a shortage of labour and electricity in their factories in China. We are pleased that our Toy and Gift Division successfully overcame these problems and managed to achieve a better result as compared to last year. The business of the division was less satisfactory in the first half of the year but clearly improved in the second half. The turnover in the second half was particularly bolstered by the sales of products related to a very popular movie, "Star Wars Episode III: Revenge of the Sith". As a result, the division's factories in Dongguan were fully engaged in the last quarter of the financial year which customarily is a slow season for the toy industry. The division had a profit from operations of HK\$27.7 million as compared to HK\$10.2 million in the prior year.

#### *Computer Head Division*

The business of the Computer Head Division progresses well. During the year under review, thin-film computer tape heads remained the principal product of the division. These heads which included Linear Tape-Open ("LTO") heads are used in LTO tape drives and libraries. In August 2004, the division started shipping computer heads for LTO Generation 3 tape drives. With an uncompressed capacity of 400 gigabytes, these drives are the most advanced products in the market for computer data storage. The division also had very strong growth in the ferrite head business. Zhuhai Herald Datametics Ltd., the division's joint-venture in Zhuhai, PRC which produces the ferrite heads thus had better result than last year. Other than computer tape heads, the division also manufactures and sells card heads, fiber optic components, miniature magnets and ferrite components. The division had a profit from operations of HK\$16.3 million, compared to last year's profit from operations of HK\$13.5 million.



## **CHAIRMAN'S STATEMENT** *(CONTINUED)*

### ***Houseware Division***

For the year ended 31 March 2005, the turnover of the Houseware Division grew by 35.2% as compared to last year, primarily due to the increase of sales to a major retailer in the USA. Compared to last financial year, the division had respectively 19% and 69% growth in the sales of aluminium cookware and stainless steel cookware. Due to the strong growth of the stainless steel business, the percentage of its sales to the division's total sales increased respectively from 25% to 33% and from 33% to 40% in the last two years. Notwithstanding the strong increase of sales, the division's profit from operations decreased by 14.5% to HK\$12.4 million. This is partly due to the increase of prices of aluminium and stainless steel and partly due to losses arising from a product claim in March 2005.

### **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 2005, the Group had total assets of HK\$759 million (2004: HK\$648 million) which were financed by current liabilities of HK\$166 million (2004: HK\$121 million), non-current liabilities of HK\$4 million (2004: HK\$6 million), minority interests of HK\$28 million (2004: HK\$28 million) and shareholders' equity of HK\$561 million (2004: HK\$493 million).

At 31 March 2005, the Group's cash balances aggregated to HK\$223 million representing an increase of HK\$51 million over the HK\$172 million in last year's balance sheet. The Group's current assets position as at 31 March 2005 was HK\$567 million compared to HK\$454 million as at 31 March 2004. The inventories increased to HK\$168 million from HK\$143 million and the trade and other receivables increased to HK\$174 million from HK\$139 million. The increases were in line with the growth of the Group's sales activities.

The Group's current liabilities increased from HK\$121 million to HK\$166 million primarily due to increase in trade and other payables.

Like last year, the Group had no bank borrowings at 31 March 2005. None of the Group's assets are charged to secure the Group's banking facilities. Furthermore, the Group has no long-term borrowings. As at 31 March 2005, the working capital ratio, an indicator of a company's liquidity represented by a ratio between the current assets over the current liabilities, was 3.41 compared to 3.75 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 decreases to 2.21 from 2.23.

### **CONTINGENT LIABILITIES**

As at 31 March 2005 the Group did not have any significant contingent liabilities.

## **CHAIRMAN'S STATEMENT** *(CONTINUED)*

### **FOREIGN EXCHANGE EXPOSURE**

During the year under review, approximately 39% 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 Group recorded growth of sales in the first quarter of the fiscal year 2006 compared to the sales in the same period last year. The overall sales order position at the end of June 2005 was stronger compared to the position at the same time in the previous year. The business of the Toy and Gift Division continues to be strong while the businesses of the computer heads and houseware remain quite stable. However, the management has concerns over the business of the Timepiece Division. There are signs showing that the retail trading conditions in the UK have become very tough. UK retailers in general have a very cautious view on the business outlook for 2005. Several well-known retailers, including Littlewood's Index stores and Alders, have either cut down the number of their stores or ceased operations. Some of these retailers were important customers of the division. The management feels that there are economic uncertainties which could affect the Group's results. Due to increasing trade deficits, the United States and the EU countries have continuously been putting pressure on China to revalue its currency. If the renminbi appreciates, the Group will have to bear higher production costs as all our production facilities are located in China. Furthermore, the sterling has been very strong in 2004. At the end of June 2005, the sterling against the US dollar had fallen by approximately 6.4% against the level at the end of 2004. As the UK is the major market for the Group's timepiece products and cookware products, our margins will be negatively impacted in a weak sterling environment. Despite the above-mentioned adverse economic factors, the management remains optimistic about the business developments and the financial performance of the Group in the coming year.

### **DIVIDENDS**

At the forthcoming Annual General Meeting to be held on 16 September 2005, the Directors will recommend a final dividend of HK4.5 cents (2004: HK3 cents) per share. Together with the interim dividend of HK2 cents (2004: HK1.5 cents) per share, the total dividend for the year of HK6.5 cents (2004: HK4.5 cents) per share would represent an annual return of 11% on the Company's average share price of HK61 cents for the year ended 31 March 2005.

The total final dividend will amount to HK\$27,627,000 and is calculated based on the total number of shares in issue as at 14 July 2005 being the latest practicable date prior to the announcement of the results. Dividend will be payable on 30 September 2005 to shareholders registered in the Register of Members on 16 September 2005.

## **CHAIRMAN'S STATEMENT** *(CONTINUED)*

### **APPRECIATION**

On behalf of the Board of Directors and shareholders, I should like to extend my sincere thanks to all the Group's employees for their efforts and hard work. Their commitment to the Group, along with the support of customers and suppliers, has been crucial to the success of the Group.

**George Bloch**

*Chairman*

Hong Kong, 15 July 2005



# REPORT OF THE DIRECTORS

The directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 March 2005.

## PRINCIPAL ACTIVITIES

The principal activity of the company is investment holding. The principal activities and other particulars of the principal subsidiaries are set out on pages 61 to 62.

The analysis of the principal activities and geographical locations of the operations of the company and its principal subsidiaries during the financial year are set out in note 10 on the financial statements.

## MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	Percentage of the group's total	
	Sales	Purchases
The largest customer	21%	
Five largest customers in aggregate	52%	
The largest supplier		6%
Five largest suppliers in aggregate		19%

At no time during the year, have the directors, their associates or any shareholder of the company (which to the knowledge of the directors owns more than 5% of the company's share capital) had any interest (as defined in the Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited (the "Main Board Listing Rules")) in these major customers and suppliers.

## FINANCIAL STATEMENTS

The profit of the group for the year ended 31 March 2005 and the state of the company's and the group's affairs as at that date are set out in the financial statements on pages 19 to 60.

An interim dividend of HK2 cents (2004: HK1.5 cents) per share was paid on 21 January 2005. The directors now recommend the payment of a final dividend of HK4.5 cents (2004: HK3 cents) per share in respect of the year ended 31 March 2005.

## RESERVES

Details of movements in reserves of the company and the group during the year are set out in note 24 on the financial statements.

## **REPORT OF THE DIRECTORS** *(CONTINUED)*

### **FIXED ASSETS**

Details of movements in fixed assets during the year are set out in note 11 on the financial statements.

### **BANK LOANS AND OTHER BORROWINGS**

At 31 March 2005, the group did not have any bank loans and other borrowings.

### **CHARITABLE DONATIONS**

Charitable donations made by the group during the year amounted to HK\$64,140 (2004: HK\$60,000).

### **SHARE CAPITAL**

Details of movements in share capital during the year are set out in note 23 on the financial statements.

### **DIRECTORS**

The directors during the financial year and up to the date of this report were:

#### ***Executive directors***

G Bloch  
D S Chang  
S T K Cheung  
R Dorfman  
M Y S Thong

#### ***Independent non-executive directors***

K H Tang	(appointed on 28 September 2004)
D T C Lie-A-Cheong	(appointed on 16 June 2005)
D C Bray	(deceased on 8 July 2005)
P K Y Tsao	(deceased on 5 June 2005)

In accordance with Bye-law 87 of the company's Bye-laws, M Y S Thong retires from the board by rotation at the forthcoming annual general meeting and, being eligible, offers himself for re-election.

In addition, according to Bye-law 86(2) of the company's Bye-laws, K H Tang, who was appointed as an addition to the existing board, and D T C Lie-A-Cheong, who was appointed to fill a casual vacancy, hold office until the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

The company has received from each independent non-executive director an annual confirmation of his independence pursuant to Rule 3.13 of Chapter 3 of the Main Board Listing Rules and the company considers such directors to be independent.

## REPORT OF THE DIRECTORS *(CONTINUED)*

### DIRECTORS AND SENIOR MANAGEMENT

#### *Directors*

**George BLOCH**, aged 84, has been the Chairman of the company since its incorporation in 1992. He is a graduate of the College of Technology in Northampton, England. He went to Shanghai in 1939 and worked for a large engineering firm. He established his business in Japan in 1949 and moved to Hong Kong in 1955. In 1969, Mr Bloch, together with Mr Chang Dong-Song founded Herald Metal and Plastic Works Limited (“HMPL”), the initial company of the group. Mr Bloch is a Past District Governor of Lions International in Hong Kong and is Vice-Chairman of the Liver Foundation and was for several years Chairman of the Eye Bank. He is a leading collector of both Western and Chinese art and his collection has been exhibited internationally. He has been honoured by the French Government and made a “Chevalier de l’Ordre des Arts et des Lettres” and a “Chevalier dans l’Ordre de la Legion d’Honneur”. He also received the “Chevalier de la Couronne” from the Belgian Government and has a major decoration from the Government of Austria in recognition of his contribution to the arts.

**CHEUNG Tsang-Kay, Stan**, PhD, Hon LLD, Hon DBA, JP, aged 61, has been the Managing Director of the company since its incorporation. Dr Cheung’s community services in the past included Urban Council member, Broadcasting Authority member, The Hong Kong Polytechnic University Council member and Vice-Chairman of Occupational Safety & Health Council, etc. He is currently a member of The Chinese People’s Political Consultative Conference, Shanghai Municipal Committee. Also, he is the Honorary Trustee and Adjunct Professor at Shanghai Jiao Tung University, Trustee of Fudan University and Director of Soong Ching Ling Foundation of Shanghai. Dr Cheung joined the group in 1975 and is a director of the principal companies of the group.

**CHANG Dong-Song**, aged 84, the father of Dr Cheung, has been an executive director of the company since 1992. Mr Chang was a co-founder of HMPL and since 1969 has played a principal role in the development of the group’s manufacturing activities. He is now a director of some of the group’s companies. He was a member of the Toys Advisory Council of the Hong Kong Trade Development Council. Mr Chang is also a member of The Chinese People’s Political Consultative Conference, Jiangsu Changshu Committee.

**Robert DORFMAN**, aged 50, is the step-son of Mr Bloch. He joined the group in 1983 and has been an executive director of the company since 1992. Mr Dorfman is a past Chairman of The Americas Area Committee of The Hong Kong General Chamber of Commerce and is Chairman of the Vision 2047 Foundation. Mr Dorfman is a past Chairman of the Young Presidents’ Organisation’s Asia-Pacific Regional Board and served as a Director on its International Board. Mr Dorfman is a director of some of the group’s companies.

**THONG Yeung-Sum, Michael**, FCCA, CPA, aged 55, obtained a degree in Social Science at the University of Hong Kong. He is a member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. Before joining the group in 1976, he worked for three years with the Hong Kong office of a leading international accounting firm. Mr Thong has been an executive director of the company since 1992 and now serves as the finance director and company secretary of the principal companies of the group.

# REPORT OF THE DIRECTORS (CONTINUED)

## DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

### *Directors (CONTINUED)*

**Denis Campbell BRAY**, CMG, CVO, JP, served as an independent non-executive director of the company since 1992. Mr Bray joined the Hong Kong Government in 1950. In 1971, he was appointed District Commissioner, New Territories. He also served as Hong Kong Commissioner in London from 1977 to 1980 and as Secretary of Home Affairs and an ex-officio member of the Executive and Legislative Councils. From 1985 to 1992, Mr Bray was Executive Director of The Community Chest of Hong Kong. Mr Bray passed away on 8 July 2005 at the age of 79. He provided wise counsel to the Herald Board for which we will always be grateful. He will be sadly missed.

**TSAO Kwang-Yung, Peter**, CBE, CPM, served as an independent non-executive director of the company since 1992. Mr Tsao joined the Hong Kong Government in 1955. He served in key positions within the Department of Trade and Industry and led the Hong Kong delegation in numerous rounds of trade negotiations with the EU and the United States. In 1983, Mr Tsao became Director of Information Services and was involved in the negotiations with China over the future of Hong Kong. He later served as Secretary for Administrative Services and Information and retired in 1992 from the post of Secretary of Home Affairs. Mr Tsao served as a non-executive director in several other listed companies in Hong Kong. Mr Tsao passed away on 5 June 2005 at the age of 71. He enjoyed high esteem in the business community and was a wise and experienced counsellor to many. He will be sadly missed.

**TANG King-Hung**, ACA, FCCA, ACIS, CPA, aged 54, was appointed as an independent non-executive director of the company on 28 September 2004. Mr Tang is a member of the Hong Kong Institute of Certified Public Accountants, the Institute of Chartered Accountants in England and Wales and the Institute of Chartered Secretaries and Administrators. He has over 30 years of experience in auditing, accounting and financial management. Mr Tang is now a consultant to a firm of certified public accountants.

**LIE-A-CHEONG Tai-Chong, David**, aged 45, was appointed as an independent non-executive director of the company on 16 June 2005. Mr Lie-A-Cheong is the executive chairman of Newpower International (Holdings) Co., Ltd. and China Concept Consulting Ltd. He is also the Honorary Consul of the Hashemite Kingdom of Jordan in Hong Kong, the chairman of the China Committee of The Hong Kong General Chamber of Commerce, the North Asia Area chair of The Young Presidents' Organisation, a member of the Hong Kong Committee for Pacific Economic Cooperation and a member of The National Committee of the 8th, 9th and 10th Chinese People's Political Consultative Conference since 1993. He also holds a number of other public offices. Mr Lie-A-Cheong is an independent non-executive director of Wheelock Properties Limited, a company whose shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

### *Senior Management*

**Gershon DORFMAN**, aged 49, step-son of Mr Bloch, received his primary and secondary education in Hong Kong, Japan and Switzerland. He then obtained a degree in Business Administration from the University of Washington. Before joining the group in 1983 he spent six years with a leading local watch manufacturing company. He is the Managing Director of Herald Datanetics Limited and a director of some of the group's companies.

# REPORT OF THE DIRECTORS (CONTINUED)

## DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

### Senior Management (CONTINUED)

**KWOK Nam-Po**, aged 54, obtained a diploma in Management Studies from The Hong Kong Polytechnic University. He joined the group in 1974. He has more than 30 years' experience in toy industry and is now the Managing Director of HMPL and Dongguan Herald Metal and Plastic Company Limited. He is currently a vice president and treasurer of The Toys Manufacturer's Association of Hong Kong Limited as well as a committee member of The Hong Kong Toy Council. Mr Kwok is also a member of The Chinese People's Political Consultative Conference, Dongguan City Committee.

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 March 2005, the beneficial interests of the directors of the company and their associates in the shares of the company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the company pursuant to section 352 of the SFO, or as otherwise notified to the company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"), were as follows:

### Interests in issued shares

(Shares of US\$0.01 each of the company)

Directors	Capacity	Number of shares				Total	Percentage of total issued shares
		Personal interests	Family interests	Corporate interests	Other interests		
G Bloch	Beneficial owner, interest of spouse and interests of controlled corporations	150,000	8,091,500	1,250,000 (Note (i))	–	9,491,500	1.55%
D S Chang	Beneficial owner, interest of spouse and founder of a trust	10,040,000	21,654,879	–	75,498,356 (Note (iii))	107,193,235	17.46%
S T K Cheung	Beneficial owner, interest of spouse, interest of controlled corporation and beneficiary of a trust	36,252,808	950,000	50,000 (Note (ii))	75,498,356 (Note (iii))	112,751,164	18.36%
R Dorfman	Beneficial owner	46,470,000	–	–	–	46,470,000	7.57%
M Y S Thong	Beneficial owner	11,383,308	–	–	–	11,383,308	1.85%



## REPORT OF THE DIRECTORS (CONTINUED)

### DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (CONTINUED)

#### *Interests in issued shares (CONTINUED)*

Notes:

- (i) Mr G Bloch and his associates are beneficial shareholders of 100% and 58% of the issued capital of Anglo Tex Limited and Herald International Limited respectively, which owned 1,000,000 shares and 250,000 shares respectively in the company at 31 March 2005.
- (ii) Each of Dr S T K Cheung and his spouse, Ms Ng Yiu Chi Eleanor, is a beneficial shareholder of 50% of the issued capital of Money Plus Enterprises Limited which owned 50,000 shares in the company at 31 March 2005.
- (iii) Dr S T K Cheung is the beneficiary of a family trust which owned 75,498,356 shares in the company at 31 March 2005. Mr D S Chang, being the founder of the trust, is also deemed to be interested in these shares.

As at 31 March 2005, no short positions were recorded in the register required to be kept under section 352 of the SFO.

Apart from the foregoing, none of the directors of the company or any of their spouses or children under eighteen years of age has interests or short positions in the shares, underlying shares or debentures of the company and any of its subsidiaries, as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the company pursuant to the Model Code.

### SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

Other than the interests disclosed in the section "Directors' interests and short positions in shares, underlying shares and debentures" in respect of directors, the following shareholders were interested in 5% or more of the issued share capital of the company as at 31 March 2005 according to the register of interests required to be kept by the company under section 336 of the SFO.

#### *Interests in issued shares*

*(Shares of US\$0.01 each of the company)*

Shareholders	Note	Capacity	Number of shares held	Percentage of total issued shares
Chan Him Wee	(i)	Beneficial owner and interest of spouse	107,193,235	17.46%
Ng Yiu Chi Eleanor	(ii)	Beneficial owner, interest of spouse and interest of controlled corporation	112,751,164	18.36%



## REPORT OF THE DIRECTORS *(CONTINUED)*

### SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES *(CONTINUED)*

#### **Interests in issued shares** *(CONTINUED)*

*(Shares of US\$0.01 each of the company)*

Shareholders	Note	Capacity	Number of shares held	Percentage of total issued shares
Sheri Tilman Dorfman	(iii)	Interest of spouse	46,470,000	7.57%
Goldfinch Investments Ltd ("GIL")	(iv)	Beneficial owner	69,728,356	11.36%
HSBC International Trustee Ltd ("HIT")	(iv)	Trustee	75,698,356	12.33%
Gershon Dorfman	(v)	Beneficial owner	37,605,799	6.13%
Lydia Dorfman	(v)	Interest of spouse	37,605,799	6.13%

Notes:

- (i) Ms Chan Him Wee, the spouse of Mr D S Chang, is deemed to be interested in 85,538,356 shares through interests of her spouse. Her entire interests in the shares of 107,193,235 are duplicated by those disclosed under Mr D S Chang in the section "Directors' interests and short positions in shares, underlying shares and debentures".
- (ii) Ms Ng Yiu Chi Eleanor, the spouse of Dr S T K Cheung, is deemed to be interested in 111,751,164 shares through interests of her spouse and 50,000 shares through interests in 50% of the issued capital of Money Plus Enterprise Limited. Her entire interests in the shares of 112,751,164 are duplicated by those disclosed under Dr S T K Cheung in the section "Directors' interests and short positions in shares, underlying shares and debentures".
- (iii) Mrs Sheri Tilman Dorfman, the spouse of Mr R Dorfman, is deemed to be interested in these shares through interests of her spouse. These interests are duplicated by those disclosed under Mr R Dorfman in the section "Directors' interests and short positions in shares, underlying shares and debentures".
- (iv) GIL is a company owned by a family trust which owned an aggregate of 75,498,356 shares in the company as at 31 March 2005 as noted in the section "Directors' interests and short positions in shares, underlying shares and debentures", comprising 69,728,356 shares held by GIL and 5,770,000 shares held by the trust itself. HIT, the trustee of the trust, is deemed to be interested in the 75,498,356 shares held by the trust. In addition, HIT had a further interest of 200,000 shares in the company as at 31 March 2005.
- (v) Mrs Lydia Dorfman is the spouse of Mr Gershon Dorfman and is deemed to be interested in these shares through interests of her spouse.

As at 31 March 2005, no short positions were recorded in the register required to be kept under section 336 of the SFO.

Apart from the foregoing, no other interests required to be recorded in the register kept under section 336 of the SFO have been notified to the company.

## **REPORT OF THE DIRECTORS** *(CONTINUED)*

### **DIRECTORS' INTERESTS IN CONTRACTS**

No contract of significance to which the company or any of its subsidiaries was a party, in which a director of the company had a material interest, subsisted at the end of the year or at any time during the year.

### **DIRECTORS' SERVICE CONTRACTS**

No director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

Independent non-executive directors are not appointed for a specific term but are subject to retirement from office by rotation in accordance with the Bye-laws of the company. Their remuneration is determined by the board of directors annually.

### **SHARE OPTION SCHEME**

At the special general meeting of the company held on 18 September 2003, the shareholders of the company approved the adoption of a share option scheme for the primary purpose of motivating the eligible participants under the scheme to utilise their performance and efficiency for the benefit of the group.

According to the scheme, the directors of the company are authorised, at their discretion, to invite any employee (including executive or independent non-executive director) of the company and its subsidiaries, consultant, customer, supplier, agent, partner or adviser of or contractor to the group or any entity in which any member of the group holds any interest, and any discretionary trust or company whose discretionary objects or owners include the aforementioned parties to take up options to subscribe for shares of the company. Upon acceptance of an option, each eligible participant under the scheme is required to pay the company HK\$1 within 21 days from the date of offer.

The share option scheme became effective on 18 September 2003 and remains in force for 10 years from that date. The exercise price of the options is at least the highest of (a) the closing price of the shares as stated in the daily quotations sheet of the Stock Exchange on the date of grant, which must be a business day; (b) the average of the closing price of the shares as stated in the daily quotations sheets of the Stock Exchange for the five business days immediately preceding the date of grant; and (c) the nominal value of the shares. Unless otherwise determined by the directors of the company, there is no requirement of a minimum period for which an option must be held before it can be exercised. An option is exercisable at any time during such period to be notified by the directors of the company to each grantee, but in any event not later than 10 years from the date of grant of the option. Each option gives the holder the right to subscribe for one share of US\$0.01 each in the company.

The total number of shares available for issue under the share option scheme as at 31 March 2005 was 61,522,576 shares which represented 10% of the issued share capital of the company as at 31 March 2005. In respect of the maximum entitlement of each participant under the scheme, the number of securities issued and to be issued upon exercise of the options granted to each participant in any 12-month period is limited to 1% of the company's shares in issue.

## **REPORT OF THE DIRECTORS** *(CONTINUED)*

### **SHARE OPTION SCHEME** *(CONTINUED)*

No options have been granted by the company since the adoption of the new share option scheme.

Apart from the foregoing, at no time during the year was the company or any of its subsidiaries a party to any arrangement to enable the directors of the company or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in or debentures of the company or any other body corporate.

### **COMPLIANCE WITH THE CODE OF BEST PRACTICE**

The company has complied throughout the year with the Code of Best Practice as set out in Appendix 14 to the Main Board Listing Rules except that the independent non-executive directors are not appointed for a specific term but are subject to retirement from office by rotation and re-election at the annual general meeting of the company in accordance with the Bye-laws of the company.

### **AUDIT COMMITTEE AND INDEPENDENT NON-EXECUTIVE DIRECTORS**

The audit committee reports to the board of directors and meets with the group's senior management and external auditors regularly to review the effectiveness of the internal control systems and the interim and annual reports of the group.

Mr Denis Campbell Bray, an independent non-executive director and audit committee member, passed away on 8 July 2005. As at the date of this report, the company has only two independent non-executive directors and two audit committee members which fall short of the requirements under Rules 3.10 and 3.12 of the Main Board Listing Rules. The directors expect that the appointment of a new independent non-executive director and audit committee member will be finalised in the next two to three months.

### **EMPLOYEES**

As at 31 March 2005, the number of employees of the group was approximately 204 (2004: 195) in Hong Kong, 7,376 (2004: 4,944) in the People's Republic of China and 117 (2004: 108) in Europe. The group ensures that its employees' remuneration packages are competitive. Employees are rewarded based on their performance and experience and the prevailing industry practice.

### **RETIREMENT SCHEMES**

Particulars of employee retirement schemes of the group are set out in note 22 on the financial statements.

### **PRE-EMPTIVE RIGHTS**

There is no provision for pre-emptive rights under the company's Bye-laws or the Bermuda Companies Act 1981.

## **REPORT OF THE DIRECTORS** *(CONTINUED)*

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

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

### **FIVE YEAR SUMMARY**

A summary of the results and of the assets and liabilities of the group for the last five financial years is set out on page 63.

### **AUDITORS**

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the company is to be proposed at the forthcoming annual general meeting.

By order of the board

**THONG Yeung-Sum, Michael**

*Director*

Hong Kong, 15 July 2005

# REPORT OF THE AUDITORS



## **Auditors' report to the shareholders of**

### **Herald Holdings Limited**

*(Incorporated in Bermuda with limited liability)*

We have audited the financial statements on pages 19 to 60 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

## **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

The company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## **BASIS OF OPINION**

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's and the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

## **OPINION**

In our opinion, the financial statements give a true and fair view of the state of affairs of the company and of the group as at 31 March 2005 and of the group's profit and cash flows for the year then ended and have been properly prepared in accordance with accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

## **KPMG**

*Certified Public Accountants*

Hong Kong, 15 July 2005

# CONSOLIDATED INCOME STATEMENT

for the year ended 31 March 2005

	Note	2005 HK\$'000	2004 HK\$'000
<b>Turnover</b>	2 & 10	<b>1,442,998</b>	1,103,819
Cost of sales		<b>(1,080,829)</b>	(825,018)
		<b>362,169</b>	278,801
Other revenue	3	<b>5,849</b>	4,661
Other net income	3	<b>2,565</b>	4,786
Selling expenses		<b>(59,968)</b>	(47,266)
Administrative expenses		<b>(195,521)</b>	(164,744)
Surplus on revaluation of investment properties	11(c)	<b>1,172</b>	517
Impairment loss on fixed assets	11(d)	–	(1,853)
Provision for diminution in value of investment securities	14	<b>(520)</b>	–
Profit from operations		<b>115,746</b>	74,902
Finance costs	4(a)	<b>(275)</b>	(151)
Share of profit of jointly controlled entity		<b>279</b>	835
<b>Profit from ordinary activities before taxation</b>	4	<b>115,750</b>	75,586
Income tax	5(a)	<b>(16,578)</b>	(11,817)
<b>Profit from ordinary activities after taxation</b>		<b>99,172</b>	63,769
Minority interests		<b>(3,055)</b>	(1,829)
<b>Profit attributable to shareholders</b>	7 & 24	<b>96,117</b>	61,940
<b>Dividends attributable to the year:</b>	8		
Interim dividend declared during the year		<b>12,279</b>	9,228
Final dividend proposed after the balance sheet date		<b>27,627</b>	18,418
		<b>39,906</b>	27,646
<b>Earnings per share:</b>	9		
Basic		<b>HK15.66 cents</b>	HK10.07 cents

The notes on pages 26 to 60 form part of these financial statements.



# CONSOLIDATED BALANCE SHEET

at 31 March 2005

	Note	2005 HK\$'000	2004 HK\$'000
<b>Non-current assets</b>			
Fixed assets	11		
– Investment properties		16,290	15,718
– Other property, plant and equipment		157,921	162,420
		<b>174,211</b>	178,138
Interest in jointly controlled entity	13	1,804	1,984
Other non-current financial assets	14	10,624	9,265
Deferred tax assets	20(b)	6,118	4,484
		<b>192,757</b>	193,871
<b>Current assets</b>			
Inventories	15	167,794	142,505
Trade and other receivables	16	174,421	139,248
Current tax recoverable	20(a)	824	–
Cash and cash equivalents	18	223,564	172,330
		<b>566,603</b>	454,083
<b>Current liabilities</b>			
Trade and other payables	19	156,480	118,067
Current tax payable	20(a)	9,867	2,756
		<b>166,347</b>	120,823
<b>Net current assets</b>		<b>400,256</b>	333,260
<b>Total assets less current liabilities</b>		<b>593,013</b>	527,131
<b>Non-current liabilities</b>			
Deferred tax liabilities	20(b)	979	2,450
Provision for long service payments	21	3,072	3,675
		<b>4,051</b>	6,125
<b>Minority interests</b>		<b>28,024</b>	27,532
<b>NET ASSETS</b>		<b>560,938</b>	493,474

# CONSOLIDATED BALANCE SHEET (CONTINUED)

at 31 March 2005

	Note	2005 HK\$'000	2004 HK\$'000
<b>CAPITAL AND RESERVES</b>			
<b>Share capital</b>	23	47,886	47,886
<b>Reserves</b>	24	<u>513,052</u>	<u>445,588</u>
		<u><b>560,938</b></u>	<u><b>493,474</b></u>

Approved and authorised for issue by the board of directors on 15 July 2005.

**CHANG Dong-Song**

*Director*

**THONG Yeung-Sum, Michael**

*Director*

The notes on pages 26 to 60 form part of these financial statements.

# BALANCE SHEET

at 31 March 2005

	Note	2005 HK\$'000	2004 HK\$'000
<b>Non-current assets</b>			
Investments in subsidiaries	12	327,365	327,365
<b>Current assets</b>			
Trade and other receivables	16	131	134
Amounts due from subsidiaries	17	14,197	14,157
Current tax recoverable	20(a)	–	9
Cash at bank and in hand		303	272
		14,631	14,572
<b>Current liabilities</b>			
Amount due to subsidiary	17	92	3,486
Trade and other payables	19	953	926
Current tax payable	20(a)	28	–
		1,073	4,412
<b>Net current assets</b>		13,558	10,160
<b>NET ASSETS</b>		340,923	337,525
<b>CAPITAL AND RESERVES</b>			
<b>Share capital</b>	23	47,886	47,886
<b>Reserves</b>	24	293,037	289,639
		340,923	337,525

Approved and authorised for issue by the board of directors on 15 July 2005.

**CHANG Dong-Song**  
Director

**THONG Yeung-Sum, Michael**  
Director

The notes on pages 26 to 60 form part of these financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2005

	Note	2005 HK\$'000	2004 HK\$'000
Shareholders' equity at 1 April			
– As previously reported		493,474	439,529
– Prior period adjustment arising from change in accounting policy for deferred tax during the year ended 31 March 2004		–	7,791
As restated		493,474	447,320
Exchange differences on translation of the financial statements of subsidiaries outside Hong Kong	24	2,044	6,812
<b>Net gains not recognised in the income statement</b>		2,044	6,812
Net profit for the year	24	96,117	61,940
Dividends declared or approved during the year	8	(30,697)	(21,533)
Movements in share capital:			
– Shares repurchased and cancelled	23	–	(214)
– Premium paid on repurchase of shares	24	–	(851)
Decrease in shareholders' equity arising from capital transactions with shareholders		–	(1,065)
Shareholders' equity at 31 March		560,938	493,474

The notes on pages 26 to 60 form part of these financial statements.

# CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 March 2005

	2005 HK\$'000	2004 HK\$'000
<b>Operating activities</b>		
Profit from ordinary activities before taxation	115,750	75,586
Adjustments for:		
– Interest income	(1,686)	(956)
– Dividend income from listed investments	(49)	(31)
– Share of profit of jointly controlled entity	(279)	(835)
– Depreciation	27,441	26,581
– Loss on disposal of fixed assets	247	33
– Impairment loss on fixed assets	–	1,853
– Surplus on revaluation of investment properties	(1,172)	(517)
– Provision for diminution in value of investment securities	520	–
– Net realised and unrealised losses/(gains) on other securities	121	(2,488)
– Finance costs	275	151
– Foreign exchange loss	910	3,706
<b>Operating profit before changes in working capital</b>	<b>142,078</b>	<b>103,083</b>
(Decrease)/increase in amount due to jointly controlled entity	(15)	38
Increase in inventories	(25,289)	(24,946)
Increase in trade and other receivables	(35,173)	(44,348)
Increase in trade and other payables	38,413	28,804
Decrease in provision for long service payments	(603)	(689)
Movement in minority interests	–	3,708
<b>Cash generated from operations</b>	<b>119,411</b>	<b>65,650</b>
Tax paid		
– Hong Kong Profits Tax paid	(5,085)	(2,589)
– Overseas tax paid	(8,239)	(5,928)
	<b>(13,324)</b>	<b>(8,517)</b>
<b>Net cash from operating activities</b>	<b>106,087</b>	<b>57,133</b>

# CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

for the year ended 31 March 2005

	Note	2005 HK\$'000	2004 HK\$'000
<b>Investing activities</b>			
Payment for purchase of fixed assets		(23,191)	(20,613)
Payment for purchase of other non-current financial assets		(2,000)	–
Proceeds from disposal of fixed assets		976	942
Interest received		1,686	956
Dividend received from listed investments		49	31
Dividend received from jointly controlled entity		376	376
		<hr/>	<hr/>
<b>Net cash used in investing activities</b>		<b>(22,104)</b>	<b>(18,308)</b>
		<hr/>	<hr/>
<b>Financing activities</b>			
Interest paid		(275)	(151)
Dividends paid		(30,697)	(21,533)
Dividends paid to minority interests		(2,563)	(4,400)
Payment for repurchase of shares	23	–	(1,065)
		<hr/>	<hr/>
<b>Net cash used in financing activities</b>		<b>(33,535)</b>	<b>(27,149)</b>
		<hr/>	<hr/>
<b>Net increase in cash and cash equivalents</b>		<b>50,448</b>	<b>11,676</b>
<b>Cash and cash equivalents at 1 April</b>		<b>172,330</b>	<b>159,186</b>
<b>Effects of foreign exchange rates changes</b>		<b>786</b>	<b>1,468</b>
		<hr/>	<hr/>
<b>Cash and cash equivalents at 31 March</b>	18	<b>223,564</b>	<b>172,330</b>
		<hr/>	<hr/>

The notes on pages 26 to 60 form part of these financial statements.



# NOTES ON THE FINANCIAL STATEMENTS

for the year ended 31 March 2005

## 1 SIGNIFICANT ACCOUNTING POLICIES

### **(a) Statement of compliance**

The company was incorporated in Bermuda on 17 August 1992 as an exempt company under the Bermuda Companies Act 1981.

Although not required to do so under the Bye-laws of the company, these financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (which includes all applicable Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). A summary of the significant accounting policies adopted by the group is set out below.

### **(b) Recently issued accounting standards**

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“new HKFRSs”) which are effective for accounting periods beginning on or after 1 January 2005.

The group has not early adopted these new HKFRSs in the financial statements for the year ended 31 March 2005. The group has carried out an assessment of the impact of these new HKFRSs and concluded that the adoption of these new HKFRSs would not have a significant impact on its results of operations and financial position.

### **(c) Basis of preparation of the financial statements**

The measurement basis used in the preparation of the financial statements is historical cost modified by the revaluation of investment properties and the marking to market of certain investments in securities, as explained in the accounting policies set out in 1(f) and 1(j) respectively.

### **(d) Subsidiaries**

A subsidiary is an enterprise controlled by the company. Control exists when the company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise, so as to obtain benefits from its activities.

An investment in a subsidiary is consolidated into the consolidated financial statements, unless the subsidiary is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the group, in which case, it is stated in the consolidated balance sheet at fair value with changes in fair value recognised in the consolidated income statement as they arise.

# NOTES ON THE FINANCIAL STATEMENTS *(CONTINUED)*

*for the year ended 31 March 2005*

## **1 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)***

### ***(d) Subsidiaries (CONTINUED)***

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet separately from liabilities and the shareholders' equity. Minority interests in the results of the group for the year are also separately presented in the consolidated income statement.

Where losses attributable to the minority exceed the minority interest in the net assets of a subsidiary, the excess, and any further losses attributable to the minority, are charged against the group's interest except to the extent that the minority has a binding obligation to, and is able to, make good the losses. All subsequent profits of the subsidiary are allocated to the group until the minority's share of losses previously absorbed by the group has been recovered.

In the company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 1(i)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the company, in which case, it is stated at fair value with changes in fair value recognised in the income statement as they arise.

### ***(e) Jointly controlled entities***

A jointly controlled entity is an entity which operates under a contractual arrangement between the group and other parties, where the contractual arrangement establishes that the group and one or more of the other parties share joint control over the economic activity of the entity.

An investment in jointly controlled entity is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post-acquisition change in the group's share of the jointly controlled entity's net assets, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investor or venturer, in which case it is stated at fair value with changes in fair value recognised in the consolidated income statement as they arise. The consolidated income statement reflects the group's share of the post-acquisition results of the jointly controlled entities for the year.

Unrealised profits and losses resulting from transactions between the group and jointly controlled entities are eliminated to the extent of the group's interest in the jointly controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the consolidated income statement.

# NOTES ON THE FINANCIAL STATEMENTS *(CONTINUED)*

*for the year ended 31 March 2005*

## **1 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)***

### ***(f) Fixed assets***

- (i) Fixed assets are carried in the balance sheet on the following bases:
  - investment properties with an unexpired lease term of more than 20 years are stated in the balance sheet at their open market value which is assessed annually by external qualified valuers;
  - land and buildings held for own use are stated in the balance sheet at cost or valuation less accumulated depreciation (see note 1(h)) and impairment losses (see note 1(i)). In preparing these financial statements, advantage has been taken of the transitional provisions set out in paragraph 80(a) of Statement of Standard Accounting Practice 17 “Property, plant and equipment” issued by the HKICPA, with the effect that land and buildings held for own use have not been revalued to fair value at the balance sheet date; and
  - plant, machinery and other fixed assets are stated in the balance sheet at cost less accumulated depreciation (see note 1(h)) and impairment losses (see note 1(i)).
- (ii) Changes arising on the revaluation of investment properties are generally dealt with in reserves. The only exceptions are as follows:
  - when a deficit arises on revaluation, it will be charged to the income statement, if and to the extent that it exceeds the amount held in the reserve in respect of the portfolio of investment properties immediately prior to the revaluation; and
  - when a surplus arises on revaluation, it will be credited to the income statement, if and to the extent that a deficit on revaluation in respect of the portfolio of investment properties had previously been charged to the income statement.
- (iii) Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the enterprise. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.
- (iv) Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the income statement on the date of retirement or disposal. On disposal of an investment property, the related portion of surpluses or deficits previously taken to the investment properties revaluation reserve is also transferred to the income statement for the year.

# NOTES ON THE FINANCIAL STATEMENTS *(CONTINUED)*

*for the year ended 31 March 2005*

## **1 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)***

### ***(g) Leased assets***

Leases of assets under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases.

#### **(i) Assets held for use in operating leases**

Where the group leases out assets under operating leases, the assets are included in the balance sheet according to their nature and, where applicable, are depreciated in accordance with the group's depreciation policies, as set out in note 1(h). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(i). Revenue arising from operating leases is recognised in accordance with the group's revenue recognition policies, as set out in note 1(o)(iv).

#### **(ii) Operating lease charges**

Where the group has the use of assets under operating leases, payments made under the leases are charged to the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made.

### ***(h) Depreciation***

- (i)** No depreciation is provided on investment properties with an unexpired lease term of over 20 years or on freehold land.
- (ii)** Depreciation is calculated to write off the cost or valuation of other fixed assets on a straight-line basis over their estimated useful lives at the following annual rates:

Leasehold land	Over the remaining terms of the leases
Buildings	4 – 5%
Plant, machinery, furniture, fixtures and office equipment	9 – 20%
Moulds	20 – 50%
Motor vehicles	10 – 25%

# NOTES ON THE FINANCIAL STATEMENTS *(CONTINUED)*

*for the year ended 31 March 2005*

## **1 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)***

### ***(i) Impairment of assets***

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- fixed assets (other than investment properties carried at revalued amounts); and
- investments in subsidiaries.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised in the income statement whenever the carrying amount of such an asset exceeds its recoverable amount.

#### **(i) Calculation of recoverable amount**

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

#### **(ii) Reversals of impairment losses**

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

### ***(j) Other investments in securities***

The group's policies for investments in securities other than investments in subsidiaries and jointly controlled entities are as follows:

- (i) Dated debt securities that the group has the ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated in the balance sheet at amortised cost less any provisions for diminution in value. Provisions are made when carrying amounts are not expected to be fully recovered and are recognised as an expense in the income statement, such provisions being determined for each investment individually.

# NOTES ON THE FINANCIAL STATEMENTS *(CONTINUED)*

*for the year ended 31 March 2005*

## **1 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)***

### ***(j) Other investments in securities *(CONTINUED)****

- (ii) Investments held on a continuing basis for an identified long-term purpose are classified as investment securities. Investment securities are stated in the balance sheet at cost less any provisions for diminution in value. Provisions are made when the fair values have declined below the carrying amounts, unless there is evidence that the decline is temporary, and are recognised as an expense in the income statement, such provisions being determined for each investment individually.
- (iii) Provisions against the carrying value of held-to-maturity securities and investment securities are written back when the circumstances and events that led to the write-down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.
- (iv) All other securities are stated in the balance sheet at fair value. Changes in fair values are recognised in the income statement as they arise.
- (v) Profits or losses on disposal of investments in securities are determined as the difference between the estimated net disposal proceeds and the carrying amount of the investments and are accounted for in the income statement as they arise.

### ***(k) Inventories***

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.



# NOTES ON THE FINANCIAL STATEMENTS *(CONTINUED)*

*for the year ended 31 March 2005*

## **1 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)***

### ***(l) Cash and cash equivalents***

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

### ***(m) Income tax***

- (i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.
- (ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.
- (iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

# NOTES ON THE FINANCIAL STATEMENTS *(CONTINUED)*

*for the year ended 31 March 2005*

## **1** **SIGNIFICANT ACCOUNTING POLICIES** *(CONTINUED)*

### **(m) Income tax** *(CONTINUED)*

#### **(iii)** *(CONTINUED)*

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination) and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

(iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if, the group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

# NOTES ON THE FINANCIAL STATEMENTS *(CONTINUED)*

*for the year ended 31 March 2005*

## **1 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)***

### ***(n) Provisions and contingent liabilities***

Provisions are recognised for liabilities of uncertain timing or amount when the group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

### ***(o) Revenue recognition***

Provided it is probable that the economic benefits will flow to the group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

#### ***(i) Sale of goods***

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added or other sales taxes and is after deduction of any trade discounts.

#### ***(ii) Interest income***

Interest income from bank deposits is accrued on a time-apportioned basis by reference to the principal outstanding and the rate applicable.

#### ***(iii) Dividends***

- Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.
- Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

# NOTES ON THE FINANCIAL STATEMENTS *(CONTINUED)*

*for the year ended 31 March 2005*

## **1 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)***

### ***(o) Revenue recognition *(CONTINUED)****

- (iv) Rental income from operating leases

Rental income receivable under operating leases is recognised in the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives granted are recognised in the income statement as an integral part of the aggregate net lease payments receivable.

### ***(p) Employee benefits***

- (i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present value.
- (ii) The regular cost of providing benefits in respect of the group's defined contribution retirement schemes, and contributions to the mandatory provident funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are charged to the income statement at the rates as specified in the respective scheme when incurred, except to the extent that they are included in the cost of inventories not yet recognised as an expense.
- (iii) When employees of the group are granted options to acquire shares of the company at a nominal consideration, no employee benefit cost or obligation is recognised at the date of grant. When the options are exercised, equity is increased by the amount of the proceeds received.

### ***(q) Translation of foreign currencies***

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the income statement.

The results of enterprises outside Hong Kong are translated into Hong Kong dollars at the average exchange rates for the year; balance sheet items are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with as a movement in reserves.

On disposal of an enterprise outside Hong Kong, the cumulative amount of the exchange differences which relate to that enterprise is included in the calculation of the profit and loss on disposal.

# NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

*for the year ended 31 March 2005*

## **1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### ***(r) Borrowing costs***

Borrowing costs are expensed in the income statement in the period in which they are incurred.

### ***(s) Related parties***

For the purposes of these financial statements, parties are considered to be related to the group if the group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

### ***(t) Segment reporting***

A segment is a distinguishable component of the group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the group's internal financial reporting, the group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and fixed assets. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise corporate and financial assets, and corporate and financing expenses.

# NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2005

## 2 TURNOVER

The principal activity of the company is investment holding. The principal activities of the group are the manufacture, sale and distribution of toy and gift products, computer heads, housewares, clocks, watches and electronic products. The principal activities of the major subsidiaries are set out on pages 61 to 62.

Turnover represents the sales value of goods supplied to customers less returns.

## 3 OTHER REVENUE AND OTHER NET INCOME

	2005 HK\$'000	2004 HK\$'000
<b><i>Other revenue</i></b>		
Interest income	1,686	956
Rental income	3,021	2,718
Dividend income from listed investments	49	31
Others	1,093	956
	<u>5,849</u>	<u>4,661</u>
<b><i>Other net income</i></b>		
Loss on disposal of fixed assets		
– other property, plant and equipment	(167)	(33)
– investment properties	(80)	–
Net exchange gain	158	589
Net realised and unrealised (losses)/gains on other securities	(121)	2,488
Write back of provision for bad debts	1,480	789
Cash distribution from investment previously written off	–	116
Others	1,295	837
	<u>2,565</u>	<u>4,786</u>

# NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2005

## 4 PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

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

	2005 HK\$'000	2004 HK\$'000
<b>(a) Finance costs:</b>		
Interest on bank advances and other borrowings repayable within five years	<u>275</u>	<u>151</u>
<b>(b) Staff costs<sup>#</sup>:</b>		
Contributions to defined contribution plans	15,114	12,688
Decrease in provision for long service payments	<u>(349)</u>	<u>(675)</u>
Retirement costs	14,765	12,013
Salaries, wages and other benefits	<u>215,628</u>	<u>165,348</u>
	<u>230,393</u>	<u>177,361</u>
<b>(c) Other items:</b>		
Cost of inventories <sup>#</sup>	1,080,829	825,018
Depreciation <sup>#</sup>		
– assets held for use under operating leases	320	147
– other assets	27,121	26,434
Auditors' remuneration	2,622	2,270
Operating lease charges <sup>#</sup>		
– land and buildings	6,800	5,389
– other assets	1,875	2,347
Rentals receivable from investment properties less direct outgoings of HK\$131,000 (2004: HK\$93,000)	<u>(1,424)</u>	<u>(1,649)</u>

<sup>#</sup> Cost of inventories included HK\$123,991,000 (2004: HK\$94,828,000) relating to staff costs, depreciation expenses and operating lease charges, which amounts are also included in the respective total amounts disclosed separately above or in note 4(b) for each of these types of expenses.



# NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2005

## 5 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) *Taxation in the consolidated income statement represents:*

	2005 HK\$'000	2004 HK\$'000
<b>Current tax – Provision for Hong Kong Profits Tax</b>		
Tax for the year	10,471	1,520
Under/(over) provision in respect of prior years	193	(1,070)
	<u>10,664</u>	<u>450</u>
<b>Current tax – Outside Hong Kong</b>		
Tax for the year	<u>8,947</u>	<u>6,971</u>
<b>Deferred tax</b>		
Origination and reversal of temporary differences	<u>(3,131)</u>	<u>4,261</u>
<b>Share of jointly controlled entity's taxation</b>	<u>98</u>	<u>135</u>
	<u>16,578</u>	<u>11,817</u>

Provision for Hong Kong Profits Tax is calculated at 17.5% (2004: 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 countries.

# NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2005

## 5 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT (CONTINUED)

### (b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2005 HK\$'000	2004 HK\$'000
Profit before tax	<u>115,750</u>	<u>75,586</u>
Notional tax on profit before tax, calculated		
at the rates applicable to profits in the countries concerned	22,451	15,833
Tax effect of non-deductible expenses	1,319	1,183
Tax effect of non-taxable revenue	(2,339)	(3,450)
Tax effect of prior years' tax losses utilised this year	(3,946)	(1,632)
Tax effect of unused tax losses not recognised	–	73
Under/(over) provision in respect of prior years	193	(1,070)
Others	<u>(1,100)</u>	<u>880</u>
Actual tax expense	<u>16,578</u>	<u>11,817</u>

## 6 DIRECTORS' AND EMPLOYEES' EMOLUMENTS

### (a) Directors' remuneration

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	2005 HK\$'000	2004 HK\$'000
<i>Executive directors</i>		
Salaries and other emoluments	16,739	16,744
Discretionary bonuses	3,853	1,284
Retirement scheme contributions	<u>1,411</u>	<u>1,411</u>
	22,003	19,439
<i>Independent non-executive directors</i>		
Fees	<u>421</u>	<u>360</u>
	<u>22,424</u>	<u>19,799</u>

# NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2005

## 6 DIRECTORS' AND EMPLOYEES' EMOLUMENTS (CONTINUED)

### (a) Directors' remuneration (CONTINUED)

The remuneration of the directors is within the following bands:

		Number of directors	
		2005	2004
Nil	– HK\$1,000,000	3	2
HK\$3,000,001	– HK\$3,500,000	–	1
HK\$3,500,001	– HK\$4,000,000	1	2
HK\$4,000,001	– HK\$4,500,000	2	2
HK\$4,500,001	– HK\$5,000,000	2	–
		<u>2</u>	<u>–</u>

### (b) Individuals with highest emoluments

During the year ended 31 March 2005, the five highest paid individuals included four (2004: four) directors of the company whose emoluments are disclosed in note 6(a). The aggregate of the emoluments in respect of the five highest paid individuals (including the directors) is as follows:

	2005	2004
	HK\$'000	HK\$'000
Salaries and other emoluments	17,978	16,821
Discretionary bonuses	7,699	3,302
Retirement scheme contributions	1,510	1,529
	<u>27,187</u>	<u>21,652</u>

The emoluments of the five individuals with the highest emoluments are within the following bands:

		Number of individuals	
		2005	2004
HK\$3,500,001	– HK\$4,000,000	–	2
HK\$4,000,001	– HK\$4,500,000	2	2
HK\$4,500,001	– HK\$5,000,000	2	–
HK\$5,000,001	– HK\$5,500,000	–	1
HK\$8,500,001	– HK\$9,000,000	1	–
		<u>1</u>	<u>–</u>

# NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

*for the year ended 31 March 2005*

## 7 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders includes a profit of HK\$34,095,000 (2004: HK\$26,970,000) which has been dealt with in the financial statements of the company.

Reconciliation of the above amount to the company's profit for the year:

	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Amount of consolidated profit attributable to shareholders dealt with in the company's financial statements	<b>34,095</b>	26,970
Dividends from subsidiaries attributable to the profits of previous years approved during the year	<u>—</u>	<u>33,000</u>
Company's profit for the year (note 24(b))	<u><b>34,095</b></u>	<u>59,970</u>

## 8 DIVIDENDS

### *(a) Dividends attributable to the year*

	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Interim dividend declared and paid of HK2 cents (2004: HK1.5 cents) per share	<b>12,279</b>	9,228
Final dividend proposed after the balance sheet date of HK4.5 cents (2004: HK3 cents) per share	<u><b>27,627</b></u>	<u>18,418</u>
	<u><b>39,906</b></u>	<u>27,646</u>

The interim dividend has been charged to the contributed surplus (note 24).

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

## NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2005

### 8 DIVIDENDS (CONTINUED)

#### (b) Dividend attributable to the previous financial year, approved and paid during the year

	2005 HK\$'000	2004 HK\$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK3 cents (2004: HK2 cents) per share	<u>18,418</u>	<u>12,305</u>

The final dividend has been charged to the contributed surplus (note 24).

### 9 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to shareholders of HK\$96,117,000 (2004: HK\$61,940,000) and the weighted average number of shares of 613,926,000 (2004: 615,045,000) in issue during the year.

There were no dilutive potential shares in existence during the years ended 31 March 2004 and 2005, therefore diluted earnings per share is not presented.

### 10 SEGMENT REPORTING

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.

# NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2005

## 10 SEGMENT REPORTING (CONTINUED)

### Business segments (CONTINUED)

	2005						
	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	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	<u>647,196</u>	<u>155,006</u>	<u>242,655</u>	<u>370,403</u>	<u>34,981</u>	<u>(3,129)</u>	<u>1,447,112</u>
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	–	–	279	–	–		279
Income tax							(16,578)
Minority interests							(3,055)
Profit attributable to shareholders							<u>96,117</u>
Depreciation for the year	13,857	5,725	2,759	3,564	1,536		27,441
Impairment loss for the year	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>		<u>–</u>
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							<u>52,610</u>
Total assets							<u>759,360</u>
Segment liabilities	76,667	22,036	44,271	30,452	2,632	(19,084)	156,974
Unallocated liabilities							<u>13,424</u>
Total liabilities							<u>170,398</u>
Capital expenditure incurred during the year	11,284	3,258	1,568	5,547	1,534		<u>23,191</u>

# NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2005

## 10 SEGMENT REPORTING (CONTINUED)

### Business segments (CONTINUED)

	2004						
	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	497,565	141,459	179,094	284,219	1,482	–	1,103,819
Other revenue from external customers	950	137	672	318	1,597	–	3,674
Inter-segment revenue	–	–	–	–	3,215	(3,215)	–
Total	<u>498,515</u>	<u>141,596</u>	<u>179,766</u>	<u>284,537</u>	<u>6,294</u>	<u>(3,215)</u>	<u>1,107,493</u>
Segment result	10,184	13,536	14,524	28,472	4,083		70,799
Unallocated operating income and expenses							<u>4,103</u>
Profit from operations							74,902
Finance costs							(151)
Share of profit of jointly controlled entity	–	–	835	–	–		835
Income tax							(11,817)
Minority interests							<u>(1,829)</u>
Profit attributable to shareholders							<u>61,940</u>
Depreciation for the year	12,377	7,099	3,087	2,947	1,071		26,581
Impairment loss for the year	<u>600</u>	<u>–</u>	<u>–</u>	<u>427</u>	<u>826</u>		<u>1,853</u>
Segment assets	286,620	93,114	120,708	112,683	29,329	(19,000)	623,454
Interest in jointly controlled entity	–	–	1,984	–	–		1,984
Unallocated assets							<u>22,516</u>
Total assets							<u>647,954</u>
Segment liabilities	55,301	9,152	32,195	41,000	340	(19,000)	118,988
Unallocated liabilities							<u>7,960</u>
Total liabilities							<u>126,948</u>
Capital expenditure incurred during the year	12,783	304	1,107	6,343	76		<u>20,613</u>



# NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2005

## 10 SEGMENT REPORTING (CONTINUED)

### 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.

	2005						
	Asia			Europe		North America	Others
				United Kingdom	Others		
	Hong Kong HK\$'000	The PRC HK\$'000	Others HK\$'000	Kingdom HK\$'000	Others 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	–	–	–
	2004						
	Asia			Europe		North America	Others
				United Kingdom	Others		
	Hong Kong HK\$'000	The PRC HK\$'000	Others HK\$'000	Kingdom HK\$'000	Others HK\$'000	HK\$'000	HK\$'000
Revenue from							
external customers	38,013	8,846	16,479	473,741	68,481	486,847	11,412
Segment assets	276,950	208,239	–	156,807	–	458	–
Capital expenditure							
incurred during							
the year	3,112	12,217	–	5,279	–	5	–

# NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2005

## 11 FIXED ASSETS

### (a) The group

	Land and buildings held for own use HK\$'000	Plant, machinery, furniture, fixtures and office equipment HK\$'000	Moulds HK\$'000	Motor vehicles HK\$'000	Sub-total HK\$'000	Investment properties HK\$'000	Total HK\$'000
<b>Cost or valuation:</b>							
At 1 April 2004	206,080	259,848	21,816	17,044	504,788	15,718	520,506
Exchange adjustments	225	381	–	54	660	–	660
Additions	2,673	18,104	429	1,985	23,191	–	23,191
Disposals	(244)	(1,637)	(696)	(435)	(3,012)	(600)	(3,612)
Surplus on revaluation	–	–	–	–	–	1,172	1,172
<b>At 31 March 2005</b>	<b>208,734</b>	<b>276,696</b>	<b>21,549</b>	<b>18,648</b>	<b>525,627</b>	<b>16,290</b>	<b>541,917</b>
<b>Representing:</b>							
Cost	197,272	276,696	21,549	18,648	514,165	–	514,165
Valuation – 1987	11,462	–	–	–	11,462	–	11,462
– 2005	–	–	–	–	–	16,290	16,290
	<u>208,734</u>	<u>276,696</u>	<u>21,549</u>	<u>18,648</u>	<u>525,627</u>	<u>16,290</u>	<u>541,917</u>
<b>Accumulated depreciation and impairment losses:</b>							
At 1 April 2004	104,443	204,231	20,486	13,208	342,368	–	342,368
Exchange adjustments	39	229	–	18	286	–	286
Depreciation charge for the year	6,250	18,926	850	1,415	27,441	–	27,441
Written back on disposal	(29)	(1,281)	(687)	(392)	(2,389)	–	(2,389)
<b>At 31 March 2005</b>	<b>110,703</b>	<b>222,105</b>	<b>20,649</b>	<b>14,249</b>	<b>367,706</b>	<b>–</b>	<b>367,706</b>
<b>Net book value:</b>							
<b>At 31 March 2005</b>	<b>98,031</b>	<b>54,591</b>	<b>900</b>	<b>4,399</b>	<b>157,921</b>	<b>16,290</b>	<b>174,211</b>
At 31 March 2004	101,637	55,617	1,330	3,836	162,420	15,718	178,138

# NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2005

## 11 FIXED ASSETS (CONTINUED)

(b) The analysis of the net book value of properties of the group is as follows:

	Investment properties		Land and buildings held for own use	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Freehold outside Hong Kong	–	–	6,895	6,796
Medium-term leases				
– in Hong Kong	15,340	14,518	27,028	27,486
– outside Hong Kong	950	1,200	63,764	66,995
Short-term leases outside				
Hong Kong	–	–	344	360
	<u>16,290</u>	<u>15,718</u>	<u>98,031</u>	<u>101,637</u>

(c) Investment properties of the group located in Hong Kong and the PRC were revalued at 31 March 2005 by an independent firm of surveyors, LCH (Asia-Pacific) Surveyors Limited who have among their staff Fellows of the Hong Kong Institute of Surveyors, on an investment approach by taking into account current rent passing receivable from the existing tenancy agreements and the reversionary potential of the property interests.

Revaluation surplus of HK\$1,172,000 (2004: HK\$517,000) has been recognised in the consolidated income statement.

(d) During the year ended 31 March 2004, the directors carried out an assessment of the recoverable amount of the group's fixed assets. Based on their assessment, the carrying amount of the fixed assets was written down by HK\$1,853,000. The estimated recoverable amount was based on the value in use of the fixed assets, determined using a discount rate of 5%.

(e) The group leases out certain fixed assets under operating leases. The leases typically run for an initial period of one to two years, with an option to renew the lease after that date at which time all terms are renegotiated. None of the leases includes contingent rentals.

The gross carrying amounts of investment properties of the group held for use in operating leases were HK\$16,290,000 (2004: HK\$15,718,000). The gross carrying amounts of other fixed assets of the group held for use in operating leases were HK\$7,749,000 (2004: HK\$3,959,000) and the related accumulated depreciation and impairment losses were HK\$5,873,000 (2004: HK\$3,021,000).

# NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2005

## 11 FIXED ASSETS (CONTINUED)

(f) The group's total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	2005 HK\$'000	2004 HK\$'000
Within 1 year	1,919	1,518
After 1 year but within 5 years	3,062	919
	<u>4,981</u>	<u>2,437</u>

## 12 INVESTMENTS IN SUBSIDIARIES

	The company	
	2005 HK\$'000	2004 HK\$'000
Unlisted shares, at cost, net of dividend received from subsidiary from pre-acquisition profits	<u>327,365</u>	<u>327,365</u>

Details of the company's principal subsidiaries at 31 March 2005 are set out on pages 61 to 62.

All of these are controlled subsidiaries as defined under note 1(d) and have been consolidated into the group financial statements.

## 13 INTEREST IN JOINTLY CONTROLLED ENTITY

	The group	
	2005 HK\$'000	2004 HK\$'000
Share of net assets	1,885	2,080
Amount due to jointly controlled entity	<u>(81)</u>	<u>(96)</u>
	<u>1,804</u>	<u>1,984</u>

# NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2005

## 13 INTEREST IN JOINTLY CONTROLLED ENTITY (CONTINUED)

Details of the group's interest in jointly controlled entity are as follows:

Name of joint venture	Form of business structure	Place of establishment and operation	Particulars of registered capital	Percentage of equity held by the subsidiary	Principal activity
Ningbo Herald Metal Products Company Limited	Incorporated	PRC	Registered capital of US\$280,000	40%	Manufacture of housewares

## 14 OTHER NON-CURRENT FINANCIAL ASSETS

	The group	
	2005	2004
	HK\$'000	HK\$'000
<b><i>Held-to-maturity debt securities</i></b>		
Unlisted debt securities	2,000	—
<b><i>Investment securities</i></b>		
Unlisted debt securities	2,120	2,120
Less: Provision for diminution in value	(520)	—
	1,600	2,120
<b><i>Other securities</i></b>		
Listed equity securities, at fair value		
– in Hong Kong	92	103
– outside Hong Kong	6,932	7,042
	7,024	7,145
	10,624	9,265

During the year, the directors carried out a review of the carrying amount of the investments in securities. Based on their review, the directors consider that the fair value of certain investment securities has declined below the carrying amount and a provision for diminution in value of HK\$520,000 has been made and recognised in the income statement.

# NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2005

## 15 INVENTORIES

	The group	
	2005	2004
	HK\$'000	HK\$'000
Raw materials	58,332	42,496
Work in progress	38,519	33,111
Finished goods	70,943	66,898
	<u>167,794</u>	<u>142,505</u>

The above inventories are stated net of general provisions of HK\$34,093,000 (2004: HK\$35,782,000), made in order to state these inventories at the lower of their cost and estimated net realisable value.

## 16 TRADE AND OTHER RECEIVABLES

	The group		The company	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade debtors and bills receivable	144,164	97,335	—	—
Deposits, prepayments and other receivables	30,257	41,913	131	134
	<u>174,421</u>	<u>139,248</u>	<u>131</u>	<u>134</u>

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

Included in trade and other receivables are trade debtors and bills receivable (net of specific provisions for bad and doubtful debts) with the following ageing analysis:

	The group	
	2005	2004
	HK\$'000	HK\$'000
<b>By date of invoice</b>		
Within 1 month	116,347	69,862
After 1 month but within 3 months	23,995	24,722
Over 3 months	3,822	2,751
	<u>144,164</u>	<u>97,335</u>

# NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2005

## 16 TRADE AND OTHER RECEIVABLES (CONTINUED)

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.

## 17 AMOUNTS DUE FROM/TO SUBSIDIARIES

Amounts due from/to subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

## 18 CASH AND CASH EQUIVALENTS

	<b>The group</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Deposits with banks	<b>54,768</b>	16,340
Cash at bank and in hand	<b>168,796</b>	155,990
	<b>223,564</b>	172,330

## 19 TRADE AND OTHER PAYABLES

	<b>The group</b>		<b>The company</b>	
	<b>2005</b>	2004	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
Trade creditors and bills payable	<b>58,997</b>	57,807	—	—
Accruals and other payables	<b>97,483</b>	60,260	<b>953</b>	926
	<b>156,480</b>	118,067	<b>953</b>	926

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



# NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2005

## 19 TRADE AND OTHER PAYABLES (CONTINUED)

Included in trade and other payables are trade creditors and bills payable with the following ageing analysis:

	<b>The group</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
<i>By date of invoice</i>		
Within 1 month	<b>45,987</b>	42,579
After 1 month but within 3 months	<b>12,227</b>	14,254
Over 3 months	<b>783</b>	974
	<b>58,997</b>	57,807

## 20 INCOME TAX IN THE BALANCE SHEET

(a) *Current taxation in the balance sheets represents:*

	<b>The group</b>		<b>The company</b>	
	<b>2005</b>	2004	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
Provision for Hong Kong				
Profits Tax for the year	<b>10,471</b>	1,520	<b>33</b>	1
Provisional Profits Tax paid	<b>(4,305)</b>	(933)	<b>(5)</b>	(10)
	<b>6,166</b>	587	<b>28</b>	(9)
Taxation outside Hong Kong	<b>2,877</b>	2,169	<b>–</b>	–
	<b>9,043</b>	2,756	<b>28</b>	(9)
Representing:				
Current tax recoverable	<b>(824)</b>	–	<b>–</b>	(9)
Current tax payable	<b>9,867</b>	2,756	<b>28</b>	–
	<b>9,043</b>	2,756	<b>28</b>	(9)

# NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2005

## 20 INCOME TAX IN THE BALANCE SHEET (CONTINUED)

### (b) *Deferred tax assets and liabilities recognised*

- (i) The group

The components of deferred tax (assets)/liabilities of the group recognised in the consolidated balance sheet and the movements during the year are as follows:

<i>Deferred tax arising from:</i>	<b>Depreciation allowances in excess of related depreciation</b> HK\$'000	<b>Tax losses</b> HK\$'000	<b>Provisions</b> HK\$'000	<b>Others</b> HK\$'000	<b>Total</b> HK\$'000
At 1 April 2003	2,354	(5,200)	(2,324)	(1,117)	(6,287)
Exchange adjustments	(8)	–	–	–	(8)
Charged/(credited) to the consolidated income statement	274	4,994	(344)	(663)	4,261
At 31 March 2004	<u>2,620</u>	<u>(206)</u>	<u>(2,668)</u>	<u>(1,780)</u>	<u>(2,034)</u>
At 1 April 2004	2,620	(206)	(2,668)	(1,780)	(2,034)
Exchange adjustments	26	–	–	–	26
(Credited)/charged to the consolidated income statement	(925)	(138)	(2,089)	21	(3,131)
At 31 March 2005	<u>1,721</u>	<u>(344)</u>	<u>(4,757)</u>	<u>(1,759)</u>	<u>(5,139)</u>
				<b>2005</b> <b>HK\$'000</b>	2004 HK\$'000
Net deferred tax assets recognised on the consolidated balance sheet				<b>(6,118)</b>	(4,484)
Net deferred tax liabilities recognised on the consolidated balance sheet				<u>979</u>	<u>2,450</u>
				<u><b>(5,139)</b></u>	<u>(2,034)</u>

## NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2005

### 20 INCOME TAX IN THE BALANCE SHEET (CONTINUED)

#### (b) *Deferred tax assets and liabilities recognised* (CONTINUED)

- (ii) The company

No provision for deferred tax assets/liabilities has been made as the company does not have any significant temporary differences at 31 March 2004 and 2005.

#### (c) *Deferred tax assets not recognised*

The group has not recognised deferred tax assets totalling HK\$2,447,000 (2004: HK\$5,284,000) in respect of tax losses of HK\$12,420,000 (2004: tax losses of HK\$30,425,000 and other temporary differences of HK\$1,753,000).

Included in unrecognised tax losses, an amount of HK\$4,214,000 (2004: HK\$2,067,000) will expire in five years while the remaining balance of HK\$8,206,000 (2004: HK\$28,358,000) do not expire under current tax legislation.

### 21 PROVISION FOR LONG SERVICE PAYMENTS

	<b>The group</b> HK\$'000
At 1 April 2004	3,675
Payments made during the year	(254)
Provision written back during the year	(349)
	<hr/>
<b>At 31 March 2005</b>	<b>3,072</b> <hr/> <hr/>

According to Part VB of the Hong Kong Employment Ordinance (the "Ordinance"), the group is liable to make long service payments to employees who are employed under the jurisdiction of the Ordinance and have completed the required number of years of service on termination of their employment, where the termination of employment meets the required circumstances as specified in the Ordinance.

A provision has been made by the group based on the best estimate of the long service payments that are required to be made to these employees in respect of their service to date, less any amounts that would be expected to be met out of the group's contributions to its defined contribution retirement schemes and mandatory provident funds.

## NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

*for the year ended 31 March 2005*

### 22 EMPLOYEE BENEFITS

#### **(a) Employee retirement benefits**

- (i) The principal subsidiaries of the company in Hong Kong have defined contribution retirement schemes for their qualifying employees. The assets of the schemes are held separately under provident funds managed by independent fund managers or insurance companies. Pursuant to the rules of the schemes, employers are required to make contributions to the schemes calculated at 5% to 10% of the employees' basic salaries on a monthly basis. The employees are entitled to 100% of the employers' contributions and the accrued income after completion of 10 years' service, and at an increasing scale rate between 50% and 90% after completion of five to nine years' service.

The subsidiaries in Hong Kong also participate in Mandatory Provident Fund Schemes (the "MPF schemes") under the Hong Kong Mandatory Provident Fund Schemes Ordinance commencing 1 December 2000 for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by the defined contribution retirement schemes. The MPF schemes are defined contribution retirement schemes administered by independent trustees. Under the MPF schemes, employers and employees are each required to make contributions to the schemes at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK\$20,000. Contributions to the MPF schemes vest immediately.

Where there are employees who leave the schemes, other than the MPF schemes, prior to vesting fully in the contributions, in accordance with the rules of the schemes, the forfeited employers' contributions shall be used to reduce the future contributions of the employers. At 31 March 2005, there was no forfeited contribution which is available to reduce the contributions payable in future years (2004: Nil).

- (ii) The employees in certain subsidiaries in the PRC participate in state-sponsored retirement benefit schemes organised by the PRC government. The subsidiaries are required to contribute, based on a certain percentage of the employees' basic salaries, to the retirement benefit schemes to fund the benefits. The only obligation of the subsidiaries with respect to the retirement benefit schemes is to make the required contributions under these schemes.

#### **(b) Equity compensation benefits**

At the special general meeting of the company held on 18 September 2003, the shareholders of the company approved the adoption of a share option scheme. Under the terms of the scheme, the directors of the company may at their discretion to grant options to employees (including executive or independent non-executive directors) of the company or its subsidiaries and other eligible participants to subscribe for the shares of US\$0.01 each in the company. Upon acceptance of an option, each eligible participant under the scheme is required to pay the company HK\$1 within 21 days from the date of offer. The share option scheme remains valid for a period of 10 years commencing 18 September 2003.

# NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2005

## 22 EMPLOYEE BENEFITS (CONTINUED)

### (b) *Equity compensation benefits* (CONTINUED)

Unless otherwise determined by the directors, there is no requirement of a minimum period for which an option must be held before it can be exercised. An option is exercisable at any time during such period to be notified by the directors to each grantee, but in any event not later than 10 years from the date of grant of the option.

The exercise price of the options is at least the highest of (a) the closing price of the shares as stated in the daily quotations sheet of the Stock Exchange on the date of grant, which must be a business day; (b) the average of the closing price of the shares as stated in the daily quotations sheets of the Stock Exchange for the five business days immediately preceding the date of grant; and (c) the nominal value of the shares. Each option gives the holder the right to subscribe for one share.

No options have been granted by the company under the share option scheme since its adoption.

## 23 SHARE CAPITAL

	2005		2004	
	Number of shares '000	Amount HK\$'000	Number of shares '000	Amount HK\$'000
<b>Authorised:</b>				
Shares of US\$0.01 each	<u>1,000,000</u>	<u>78,000</u>	<u>1,000,000</u>	<u>78,000</u>
<b>Issued and fully paid:</b>				
At 1 April	613,926	47,886	616,671	48,100
Shares repurchased and cancelled	<u>—</u>	<u>—</u>	<u>(2,745)</u>	<u>(214)</u>
At 31 March	<u>613,926</u>	<u>47,886</u>	<u>613,926</u>	<u>47,886</u>

During the year ended 31 March 2004, the company repurchased a total of 2,745,000 of its shares on the Stock Exchange, all of which were then cancelled. The premium of HK\$851,000 paid on the repurchase was charged against the share premium account (note 24) in accordance with the Bermuda Companies Act 1981.

# NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2005

## 24 RESERVES

### (a) The group

	Share premium HK\$'000	Contributed surplus HK\$'000	Exchange fluctuation reserve HK\$'000	PRC statutory reserves HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 April 2003	26,571	259,267	(7,549)	–	120,931	399,220
Dividend approved in respect of the previous year (note 8(b))	–	(12,305)	–	–	–	(12,305)
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	–	–	6,812	–	–	6,812
Premium paid on repurchase of shares (note 23)	(851)	–	–	–	–	(851)
Profit for the year	–	–	–	–	61,940	61,940
Dividend declared in respect of the current year (note 8(a))	–	(9,228)	–	–	–	(9,228)
At 31 March 2004	<u>25,720</u>	<u>237,734</u>	<u>(737)</u>	<u>–</u>	<u>182,871</u>	<u>445,588</u>
At 1 April 2004	25,720	237,734	(737)	–	182,871	445,588
Dividend approved in respect of the previous year (note 8(b))	–	(18,418)	–	–	–	(18,418)
Transfer between reserves	–	–	–	5,280	(5,280)	–
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	–	–	2,044	–	–	2,044
Profit for the year	–	–	–	–	96,117	96,117
Dividend declared in respect of the current year (note 8(a))	–	(12,279)	–	–	–	(12,279)
At 31 March 2005	<u>25,720</u>	<u>207,037</u>	<u>1,307</u>	<u>5,280</u>	<u>273,708</u>	<u>513,052</u>

Notes:

- (i) Under the Bye-laws of the company, share premium is not distributable but may be applied in paying up unissued shares of the company to be issued to the shareholders of the company as fully paid bonus shares or in providing for the premiums payable on repurchase of shares.

# NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2005

## 24 RESERVES (CONTINUED)

### (a) The group (CONTINUED)

- (ii) Contributed surplus represents the excess value of the consolidated net tangible assets represented by the shares of the former holding of the group, Herald (Hong Kong) Limited, acquired by the company over the nominal value of the shares issued by the company in exchange pursuant to a Scheme of Arrangement in 1992, less dividends. Under the Bermuda Companies Act 1981, the contributed surplus is available for distribution to shareholders.
- (iii) Exchange fluctuation reserve has been set up and will be dealt with in accordance with the accounting policy adopted for translation of the financial statements of subsidiaries outside Hong Kong (note 1(q)).
- (iv) PRC statutory reserves include general reserve and enterprise expansion fund which are made in accordance with the articles of association of the group's PRC subsidiaries. These reserves are non-distributable but, as appropriate, can be used to make good losses and to convert into paid-up capital.
- (v) Included in the figure for the group's retained profits is an amount of HK\$2,881,000 (2004: HK\$2,700,000), being the retained profits attributable to the jointly controlled entity.

### (b) The company

	Share premium HK\$'000	Contributed surplus HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 April 2003	26,571	205,580	19,902	252,053
Dividend approved in respect of the previous year (note 8(b))	—	(12,305)	—	(12,305)
Premium paid on repurchase of shares (note 23)	(851)	—	—	(851)
Profit for the year	—	—	59,970	59,970
Dividend declared in respect of the current year (note 8(a))	—	(9,228)	—	(9,228)
At 31 March 2004	<u>25,720</u>	<u>184,047</u>	<u>79,872</u>	<u>289,639</u>
At 1 April 2004	25,720	184,047	79,872	289,639
Dividend approved in respect of the previous year (note 8(b))	—	(18,418)	—	(18,418)
Profit for the year	—	—	34,095	34,095
Dividend declared in respect of the current year (note 8(a))	—	(12,279)	—	(12,279)
At 31 March 2005	<u>25,720</u>	<u>153,350</u>	<u>113,967</u>	<u>293,037</u>

At 31 March 2005, the aggregate amount of reserves available for distribution to shareholders of the company was HK\$267,317,000 (2004: HK\$263,919,000). Subsequent to the balance sheet date, the directors proposed a final dividend of HK4.5 cents (2004: HK3 cents) per share. The dividend has not been recognised as a liability at the balance sheet date.



# NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2005

## 25 CONTINGENT LIABILITIES

The company has given undertakings to certain wholly-owned subsidiaries to provide them with such financial assistance as is necessary to enable them to continue as a going concern.

## 26 COMMITMENTS

- (a) At 31 March 2005, the total future minimum lease payments of the group under non-cancellable operating leases are payable as follows:

	2005		2004	
	Land and buildings	Others	Land and buildings	Others
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within 1 year	6,203	1,821	6,860	1,422
After 1 year but within 5 years	13,687	1,806	14,364	1,950
After 5 years	14,248	—	17,146	—
	<u>34,138</u>	<u>3,627</u>	<u>38,370</u>	<u>3,372</u>

The group leases a number of properties under operating leases. The leases typically run for a period of one to eleven years, with an option to renew the leases when all terms are renegotiated. None of the leases includes contingent rentals.

- (b) At 31 March 2005, the group had commitment in respect of forward foreign exchange contracts entered into for hedging purposes of HK\$51,952,000 (2004: HK\$91,735,000).

## 27 POST BALANCE SHEET EVENT

Subsequent to the balance sheet date, the directors proposed a final dividend, further details are disclosed in note 8.

## DETAILS OF PRINCIPAL SUBSIDIARIES

Name of company	Place/country of establishment	Place/country of operation	Particulars of issued and fully paid up share capital/ registered capital	Percentage of ownership interest held by the company subsidiaries		Principal activities
Herald Group Limited	The British Virgin Islands ("BVI")	Hong Kong	1 share of US\$1 each	100	–	Investment holding
Herald (Hong Kong) Limited	Hong Kong	Hong Kong	10,000 ordinary shares of HK\$0.15 each	–	100	Investment holding
Herald China Investments Limited	Hong Kong	Hong Kong	1,000,000 ordinary shares of HK\$1 each	–	100	Investment holding
Herald Investments (China) Company Limited <sup>@</sup>	PRC	PRC	Registered capital of US\$11,500,000	–	100	Investment holding
Herald Metal and Plastic Works Limited	Hong Kong	Hong Kong	100 ordinary shares of HK\$10 each	–	100	Manufacture of toys
			1,953,000 deferred shares of HK\$10 each	–	100	
Dongguan Herald Metal and Plastic Company Limited <sup>@</sup>	PRC	PRC	Registered capital of HK\$35,400,000	–	100	Manufacture of toys
Shenzhen Herald Metal and Plastic Company Limited <sup>#</sup>	PRC	PRC	Registered capital of HK\$23,500,000	–	60	Manufacture of toys
Herald Datanetics Limited	Hong Kong	Hong Kong	1,128,000 ordinary shares of HK\$10 each	–	100	Manufacture of computer heads
Zhuhai Herald Datanetics Limited <sup>#</sup>	PRC	PRC	Registered capital of HK\$38,000,000	–	75	Manufacture of computer heads
Herald Engineering Services Inc.	United States of America	United States of America	75,000 shares of US\$0.4 each	–	100	Engineering service
Herald Houseware Limited	Hong Kong	Hong Kong	5,000,000 ordinary shares of HK\$1 each	–	100	Trading of housewares
Herald Metal Products Company Limited <sup>#</sup>	PRC	PRC	Registered capital of US\$1,650,000	–	51	Manufacture of housewares
Zhuhai Herald Houseware Limited <sup>#</sup>	PRC	PRC	Registered capital of HK\$30,000,000	–	80	Manufacture of housewares

## DETAILS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

Name of company	Place/country of establishment	Place/country of operation	Particulars of issued and fully paid up share capital/ registered capital	Percentage of ownership		Principal activities
				interest held by the company	subsidiaries	
Pilot Housewares (U.K.) Limited	United Kingdom	United Kingdom	800,000 ordinary shares of GBP1 each	–	100	Sales and distribution of housewares
Zeon Limited	United Kingdom	United Kingdom	433,750 ordinary shares of GBP1 each	–	100	Sales and distribution of clocks, watches and electronic products
			1,250,000 12.5% cumulative redeemable preference shares of GBP1 each	–	100	
			165,417 preferred shares of GBP1 each	–	100	
Zeon Far East Limited	Hong Kong	Hong Kong	2 ordinary shares of HK\$1 each	–	100	Trading of clocks and watches
Herald Electronics Limited	Hong Kong	Hong Kong	1,000,000 ordinary shares of HK\$1 each	–	100	Trading of clocks and watches
Shanghai Herald Electronics Company Limited <sup>#</sup>	PRC	PRC	Registered capital of RMB3,200,000	–	75	Manufacture of clocks and watches
Jonell Limited	Hong Kong	Hong Kong	2 ordinary shares of HK\$10 each	–	100	Property investment
Premium Account Limited	BVI	PRC	2 shares of US\$1 each	–	100	Property investment

<sup>#</sup> Equity joint ventures registered under the laws of the PRC as Sino-foreign Joint Venture Enterprises.

<sup>@</sup> Wholly-Owned Foreign Investment Enterprises registered under the laws of the PRC.

## FIVE YEAR SUMMARY

	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000
<b>Results</b>					
Turnover	<u>1,442,998</u>	<u>1,103,819</u>	<u>925,954</u>	<u>867,062</u>	<u>953,884</u>
Profit/(loss) from ordinary activities before taxation	<b>115,750</b>	75,586	42,558	(27,905)	15,863
Income tax	<b>(16,578)</b>	(11,817)	(3,191)	(2,635)	(2,257)
Minority interests	<u><b>(3,055)</b></u>	<u>(1,829)</u>	<u>(4,211)</u>	<u>(1,876)</u>	<u>(4,933)</u>
Profit/(loss) attributable to shareholders	<u><b>96,117</b></u>	<u>61,940</u>	<u>35,156</u>	<u>(32,416)</u>	<u>8,673</u>
<b>Assets and liabilities</b>					
Fixed assets	<b>174,211</b>	178,138	184,787	184,516	237,232
Interest in jointly controlled entity	<b>1,804</b>	1,984	1,698	1,759	1,548
Other non-current financial assets	<b>10,624</b>	9,265	6,777	6,046	5,358
Deferred tax assets	<b>6,118</b>	4,484	7,916	–	–
Current assets	<b>566,603</b>	454,083	372,563	364,971	357,328
Current liabilities	<u><b>(166,347)</b></u>	<u>(120,823)</u>	<u>(94,033)</u>	<u>(113,331)</u>	<u>(111,469)</u>
Total assets less current liabilities	<b>593,013</b>	527,131	479,708	443,961	489,997
Non-current liabilities	<b>(4,051)</b>	(6,125)	(5,993)	(6,184)	(3,582)
Minority interests	<u><b>(28,024)</b></u>	<u>(27,532)</u>	<u>(26,395)</u>	<u>(17,853)</u>	<u>(28,172)</u>
<b>NET ASSETS</b>	<u><b>560,938</b></u>	<u>493,474</u>	<u>447,320</u>	<u>419,924</u>	<u>458,243</u>
<b>CAPITAL AND RESERVES</b>					
Share capital	<b>47,886</b>	47,886	48,100	48,673	48,766
Reserves	<u><b>513,052</b></u>	<u>445,588</u>	<u>399,220</u>	<u>371,251</u>	<u>409,477</u>
	<u><b>560,938</b></u>	<u>493,474</u>	<u>447,320</u>	<u>419,924</u>	<u>458,243</u>

Notes:

- (1) Hong Kong Statement of Standard Accounting Practice No. 12 (revised) "Income taxes" was first effective for accounting periods beginning on or after 1 January 2003. In order to comply with this revised statement, the group adopted a new accounting policy for deferred tax in 2004. Figures for the year 2003 have been adjusted. However, it is not practicable to restate earlier years for comparison purposes.
- (2) In order to comply with Hong Kong Statement of Standard Accounting Practice No. 34 "Employee benefits", the group adopted a new accounting policy for short-term employee benefits in 2003. Figures for the year 2002 have been adjusted. However, it is not practicable to restate earlier years for comparison purposes.

## NOTICE OF ANNUAL GENERAL MEETING

**NOTICE IS HEREBY** given that the Annual General Meeting of Shareholders of the Company will be held at the Chater Room I, Function Room Level (B1), The Ritz-Carlton Hotel Hong Kong, 3 Connaught Road Central, Hong Kong on Friday, 16 September 2005 at 3:45 p.m. for the following purposes:

1. To adopt the Audited Financial Statements and the Reports of the Directors and Auditors for the year ended 31 March 2005.
2. To re-elect Directors.
3. To appoint Auditors and to authorise the Board of Directors to fix their remuneration.
4. To declare a final dividend.

By Order of the Board  
**Thong Yeung Sum, Michael**  
*Secretary*

Hong Kong, 15 July 2005

Notes:

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote instead of him at the meeting. A proxy need not be a member of the Company.
2. To be valid, the form of proxy must be deposited at the principal office of the Company in Hong Kong at 3110, 31/F., Tower Two, Lippo Centre, 89 Queensway, Hong Kong together with any power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority, not less than 48 hours before the time for holding of the meeting or any adjournment thereof.