Herald Holdings Limited

Stock Code : 00114

Annual Report 2007

Contents

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
Lie-A-Cheong Tai-Chong, David JP
Yeh Man-Chun, Kent

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
Certified Public Accountants

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
26/F., Tesbury Centre
28 Queen's Road East
Hong Kong

COMPANY'S WEBSITE

http://www.heraldgroup.com.hk

Financial Highlights

	Year ended 31 March 2007 HK$'000	Year ended 31 March 2006 HK$'000
Turnover	**1,550,091**	1,325,686
Profit attributable to equity shareholders	**111,120**	86,290
Dividends paid and proposed	**45,744**	39,906
Earnings per share		
– Basic and diluted	**HK18.14 cents**	HK14.06 cents
Dividends paid and proposed, per share	**HK7.5 cents**	HK6.5 cents

	As at 31 March 2007 HK$'000	As at 31 March 2006 HK$'000
Net assets attributable to equity shareholders	**678,561**	602,309
Net assets attributable to equity shareholders per share	**HK$1.12**	HK$0.98
Total assets	**891,680**	763,485
Number of issued and fully paid shares	**607,590,763 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 2007.

RESULTS

The group achieved favourable results in the financial year under review. The turnover of the group for the year ended 31 March 2007 was HK$1,550 million which was HK$224 million or 17% above the turnover of HK$1,326 million in the previous year. This was a record annual turnover for the group. The net profit attributable to the equity shareholders of the company was HK$111.1 million, representing an impressive increase of 29% from the net profit of HK$86.3 million in the previous year.

The net profit for the year included a write-back of impairment losses on properties of HK$1.6 million (2006: HK$9.3 million) and revaluation gain on investment properties of HK$5.2 million (2006: HK$2.1 million).

REVIEW OF OPERATIONS

Toy and Gift Division

During the year under review, the turnover of the Toy and Gift Division increased by 28% or HK$182 million from HK$647 million to HK$829 million. The division performed very strongly in the second half of the fiscal year and recorded a 62% or HK$158 million increase in turnover as compared to the same half in 2006. For the whole year, the division had an operating profit of HK$35.7 million, up 24% from the profit of HK$28.9 million in fiscal year 2006. Despite a satisfactory improvement in the operating profit, the toy industry continued to be very tough. The gross profit margin for fiscal 2007 decreased by 2.6% as compared to fiscal 2006. As mentioned in the interim report, the increase in wages, the appreciation of Renminbi, and shortages of labour and electricity supply are the major factors that contributed to the decrease in the gross profit margin. To better serve our customers and to alleviate the pressure arising from insufficient production facilities during peak months, the division's factory in Dongguan acquired additional premises of 18,200 square meters in the fourth quarter of fiscal year 2007. This has increased the production capacity of the division by approximately 20%. By the end of fiscal year 2007, the newly installed assembly lines had commenced production.

Timepiece Division

The turnover of the Timepiece Division edged downward in the first half of fiscal 2007. As with the Toy and Gift Division, the division performed strongly in the second half. The turnover for the full year increased by 34% or HK$84 million to HK$333 million. Largely due to increased turnover, the division's operating profit substantially increased by 93% or HK$19.9 million to HK$41.2 million. The division has built the core of its business around the use of strong recognisable brands in the UK and other markets. The brands that have performed well include Ingersoll, Playboy, Bench, Skagen and Ted Baker.

Computer Head Division

The business of the Computer Head Division weakened in fiscal year 2007. Compared to last year, the division's turnover decreased slightly by 1% to HK$156 million. The decrease was mainly due to the decline in the sales of ferrite heads to a US customer which shrank by two-thirds from last year. Starting from the second quarter of fiscal year 2007, the division started to build for an important customer motor actuator assemblies, key assemblies for thin-film tape head drives. Sales from this product, together with the increase of sales of thin-film heads mostly made up the loss of sales of ferrite heads. For the full year, the operating profit of the division declined from HK$25.5 million to HK$14.4 million, largely due to price reductions and increases in administrative expenses.

REVIEW OF OPERATIONS *(Continued)*

Houseware Division

The adverse market conditions that the Houseware Division experienced in the previous year continued to deteriorate in the year under review. The upward trend of aluminium prices continued in fiscal year 2007. Price of stainless steel surged at a more drastic pace. In comparison with the prior year, stainless steel prices by the end of March 2007 almost doubled. Due to strong competition, the division could only adjust its selling prices to recover a portion of these increased material costs. As a result, many product lines of the division became non-profitable or have very low profit margins. For the year ended 31 March 2007, the sales of the division decreased by 12% or HK$30 million to HK$210 million from HK$240 million a year earlier. During the year under review, the division suffered an operating loss of HK$4.7 million compared to an operating profit of HK$12.4 million in the previous year.

Investment Income

During the year under review, the group had net realised and unrealised gains on trading securities of HK$8.6 million (2006: HK$1.2 million) and dividend and interest income on trading securities of HK$4.1 million (2006: HK$1.1 million). Compared to last year, the group's trading securities at 31 March 2007 increased from HK$60 million to HK$96 million.

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 2007, the group had total assets of HK$892 million (2006: HK$763 million) which were financed by current liabilities of HK$180 million (2006: HK$124 million), non-current liabilities of HK$3 million (2006: HK$4 million), minority interests of HK$30 million (2006: HK$33 million) and equity attributable to the company's equity shareholders of HK$679 million (2006: HK$602 million).

At 31 March 2007, the group's cash balances aggregated to HK$240 million which increased slightly from HK$239 million in last year's balance sheet. The group's current assets position as at 31 March 2007 was HK$700 million compared to HK$574 million as at 31 March 2006. The inventories increased to HK$181 million from HK$140 million and the trade and other receivables increased to HK$180 million from HK$132 million. The increases were mainly due to the increase of the group's sales activities. During the year, the group acquired certain listed equity securities, unlisted equity/currency linked notes and other equity contracts which are held for trading. The group's trading financial assets as at 31 March 2007 amounted to HK$96 million (2006: HK$60 million).

The group's current liabilities increased from HK$124 million to HK$180 million primarily due to increase in trade and other payables.

Like last year, the group had no bank borrowings at 31 March 2007. Furthermore, the group has no long-term borrowings. Trading financial assets and bank deposits of HK$116 million (2006: HK$37 million) are pledged to banks to secure banking facilities granted to a subsidiary of the company. As at 31 March 2007, the working capital ratio, an indicator of a company's liquidity represented by a ratio between the current assets over the current liabilities, was 3.9 compared to 4.64 last year. The quick ratio, another ratio that gauges the short-term liquidity of a company measured by trade receivables, and cash and cash equivalents over the current liabilities, decreases to 1.95 from 2.76.

Chairman's Statement

CONTINGENT LIABILITIES

As at 31 March 2007, the group did not have any significant contingent liabilities.

FOREIGN EXCHANGE EXPOSURE

During the year under review, approximately 29% 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 management is cautiously optimistic on the general outlook of the businesses of the group. While the overall order positions of the group for the first half of the new financial year remain strong, management has some concerns going forward. The reduction of the VAT rebate on goods exported from China will have some impact on margins that may not be fully recoverable from adjustments to pricing. In addition, the Pearl River Delta region in which some of our factories operate continues to experience both shortages of labour and shortages of electricity. The high cost of raw materials also remains a matter of some concern.

DIVIDENDS

At the forthcoming Annual General Meeting to be held on 18 September 2007, the Directors will recommend a final dividend of HK4.5 cents per share (2006: HK4 cents). Together with the interim dividend of HK3 cents (2006: HK2.5 cents), the dividend for the year of HK7.5 cents (2006: HK6.5 cents) would represent an annual return of 10.1% on the company's average share price of HK74 cents in the year ended 31 March 2007.

The total final dividend will amount to HK$27,342,000 and is calculated based on the total number of shares in issue as at 12 July 2007 being the latest practicable date prior to the announcement of the results. Dividend will be payable on 28 September 2007 to shareholders registered in the Register of Members on 18 September 2007.

REGISTER OF MEMBERS

The Register of Members will be closed from 13 September 2007 to 18 September 2007, both days inclusive, during which period no transfer of shares will be effected. Shareholders should ensure that all transfers accompanied by relevant share certificates are lodged with the company's Registrars, Tengis Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong for registration not later than 4:00 p.m. on 12 September 2007 in order that they may receive their dividend entitlement.

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, 13 July 2007

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 2007.

PRINCIPAL ACTIVITIES

The principal activity of the company is investment holding. The principal activities and other particulars of the principal subsidiaries are set out in note 35 on the financial statements.

The analysis of the principal activities and geographical locations of the operations of the company and its principal subsidiaries (the "group") during the financial year are set out in note 11 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	27%	
Five largest customers in aggregate	58%	
The largest supplier		6%
Five largest suppliers in aggregate		22%

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 in these major customers and suppliers.

FINANCIAL STATEMENTS

The profit of the group for the year ended 31 March 2007 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 22 to 77.

TRANSFER TO RESERVES

Profit attributable to equity shareholders of the company, before dividends, of HK$111,120,000 (2006: HK$86,290,000) has been transferred to reserves. Other movements in reserves are set out in note 27 on the financial statements.

An interim dividend of HK3 cents (2006: HK2.5 cents) per share was paid on 24 January 2007. The directors now recommend the payment of a final dividend of HK4.5 cents (2006: HK4 cents) per share in respect of the year ended 31 March 2007.

Report of the Directors

CHARITABLE DONATIONS

Charitable donations made by the group during the financial year amounted to HK$231,774 (2006: HK$1,126,715).

FIXED ASSETS

Details of movements in fixed assets during the financial year are set out in note 12 on the financial statements.

SHARE CAPITAL

Details of the movements in share capital of the company during the year are set out in note 27 on the financial statements.

The company repurchased and then cancelled 6,335,000 (2006: Nil) of its own shares during the year. The directors consider that the repurchase of shares will benefit shareholders by enhancing the earnings per share of the company.

Except as disclosed above, neither the company nor any of its subsidiaries has purchased, sold or redeemed any of the company's listed securities during the financial year.

DIRECTORS

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

Executive directors

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

Independent non-executive directors

K H Tang
D T C Lie-A-Cheong
K M C Yeh

In accordance with Bye-law 87 of the company's Bye-laws, G Bloch, S T K Cheung and M Y S Thong retire from the board by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

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.

Report of the Directors

DIRECTORS AND SENIOR MANAGEMENT

Directors

George BLOCH, aged 86, 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 I'Ordre de la Legion d'Honneur". He 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. In addition, he was made recently "Commendatore dell' Ordine della Stella della Solidarieta' Italiana" by the President of the Republic of Italy.

CHEUNG Tsang-Kay, Stan, PhD, Hon LLD, Hon DBA, JP, aged 63, has been the Managing Director of the company since 1992. 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 director of principal subsidiaries of the company.

CHANG Dong-Song, aged 86, is the father of Dr Cheung Tsang-Kay, Stan. Mr Chang has been an executive director of the company since 1992. Mr Chang is a co-founder of HMPL and has played a principal role in the development of the group's manufacturing activities since 1969. He is now a director of some of the group's companies. He has served in the past as a member of the Toys Advisory Council of the Hong Kong Trade Development Council. Mr Chang is now a member of The Chinese People's Political Consultative Conference, Jiangsu Changshu Committee.

Robert DORFMAN, aged 52, 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 director of certain of the group's companies.

THONG Yeung-Sum, Michael, FCCA, CPA, aged 57, 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 in 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 principal subsidiaries of the company. Mr Thong is a member of The Chinese People's Political Consultative Conference, Zhuhai Committee.

Report of the Directors

DIRECTORS AND SENIOR MANAGEMENT *(Continued)*

Directors *(Continued)*

TANG King-Hung, ACA, FCCA, ACIS, CPA, aged 56, 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 a partner of a firm of certified public accountants. Mr Tang is an independent non-executive director of World Houseware (Holdings) Limited, a company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

LIE-A-CHEONG Tai-Chong, David, JP, aged 47, 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 has been selected as a Member of the National Committee of the 8th, 9th and 10th Chinese People's Political Consultative Conference since 1993. Mr Lie-A-Cheong is currently the Honorary Consul of the Hashemite Kingdom of Jordan in the Hong Kong Special Administrative Region ("HKSAR"), a member of the Commission on Strategic Development of HKSAR, a Member of The Greater Pearl River Delta Business Council, a Board Member of The Hospital Authority, a Member of the China Overseas Friendship Association, a General Committee Member of the Hong Kong General Chamber of Commerce, Hong Kong Chair of Hong Kong Trade Development Council – Hong Kong/France Business Partnership. Mr Lie-A-Cheong is an independent non-executive director of Wheelock Properties Limited, a company whose securities are listed on the Stock Exchange.

YEH Man-Chun, Kent, aged 52, was appointed as an independent non-executive director of the company on 5 October 2005. Mr Yeh is the Senior Vice President of Robina Wood Limited, a company involved in the marketing, distribution and manufacturing of wood flooring products. Prior to joining the Robin Group, Mr Yeh was a partner and director of Prima (Shanghai) Co., Ltd, a Shanghai-based firm providing business advisory services. Mr Yeh is an independent non-executive director of Pacific Andes International Holdings Limited, a company listed on the Stock Exchange. Mr Yeh has also been the managing director of Tai Ping Carpets International Limited. Mr Yeh received a Bachelor of Science degree in Industrial Engineering from the University of California, Berkeley, U.S.A. and a Master of Business Administration degree from the Wharton School of the University of Pennsylvania, U.S.A.

Senior Management

Gershon DORFMAN, aged 51, 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 director of certain of the group's companies.

KWOK Nam-Po, aged 56, 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 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 2007, the beneficial interests of the directors of the company and their associates in the shares of the company, its subsidiaries and other associated corporations (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)

	Number of shares					Percentage of total
Directors	**Personal interests**	**Interests of spouse**	**Corporate interests**	**Other interests**	**Total**	**issued shares**
G Bloch	150,000	10,391,500	1,250,000 (Note (i))	–	11,791,500	1.94%
D S Chang	–	21,654,879	–	85,538,356 (Note (ii))	107,193,235	17.64%
S T K Cheung	1,507,500	950,000	–	120,993,664 (Notes (ii) & (iii))	123,451,164	20.32%
R Dorfman	46,470,000	–	–	–	46,470,000	7.65%
M Y S Thong	12,383,308	–	–	–	12,383,308	2.04%

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.

(ii) Dr S T K Cheung and D S Chang are the beneficiaries of a family trust which owned 85,538,356 shares.

(iii) Dr S T K Cheung is the beneficiary of a separate family trust which owned 35,455,308 shares.

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, any of its subsidiaries or other associated corporations, 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.

Report of the Directors

SHARE OPTION SCHEME

The company adopted a share option scheme on 18 September 2003 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 directors) 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 2007 was 61,522,576 shares which represented 10% of the issued share capital of the company as at the date of adoption of the share option scheme. 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.

No options have been granted by the company since the adoption of the 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.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' 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 2007 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)

	Note	Number of shares				Percentage of total issued shares
		Personal interests	**Interests of spouse**	**Other interests**	**Total**	
Substantial shareholders						
Chan Him Wee	(i)	21,654,879	–	85,538,356	107,193,235	17.64%
Ng Yiu Chi Eleanor	(ii)	950,000	122,501,164	–	123,451,164	20.32%
Goldfinch Investments Ltd ("GIL")	(iii)	69,728,356	–	–	69,728,356	11.48%
HSBC International Trustee Ltd ("HIT")	(iii)	–	–	120,993,664	120,993,664	19.91%
Other persons						
Sheri Tillman Dorfman	(iv)	–	46,470,000	–	46,470,000	7.65%
Gershon Dorfman		37,740,799	–	–	37,740,799	6.21%
Lydia Dorfman	(v)	–	37,740,799	–	37,740,799	6.21%
Moral Excel Holdings Ltd ("MEH")	(iii)	35,455,308	–	–	35,455,308	5.84%

Report of the Directors

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES *(Continued)*

Interests in issued shares *(Continued)*

Notes:

(i) The entire interests in shares of 107,193,235 are duplicated by those disclosed under Mr D S Chang, the spouse of Ms Chan Him Wee, in the section "Directors' interests and short positions in shares, underlying shares and debentures".

(ii) The entire interests in shares of 123,451,164 are duplicated by those disclosed under Dr S T K Cheung, the spouse of Ms Ng Yiu Chi Eleanor, in the section "Directors' interests and short positions in shares, underlying shares and debentures".

(iii) GIL is a company owned by a family trust which owned an aggregate of 85,538,356 shares 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 15,810,000 shares held by the trust itself. MEH is another company owned by a separate family trust which owned 35,455,308 shares. HIT, the trustee of these trusts, is deemed to be interested in the 120,993,664 shares held by these trusts.

(iv) These interests in shares are duplicated by those disclosed under Mr R Dorfman, the spouse of Mrs Sheri Tillman Dorfman, in the section "Directors' interests and short positions in shares, underlying shares and debentures".

(v) These interests in shares are duplicated by those beneficially owned by Mr Gershon Dorfman.

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.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the company and within the knowledge of the directors of the company as at the date of this annual report, the company has maintained the prescribed public float under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance to which the company or any of its subsidiaries was a party, and 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.

BANK LOANS AND OTHER BORROWINGS

At 31 March 2007, the group did not have any bank loans and other borrowings.

EMPLOYEES

As at 31 March 2007, the number of employees of the group was approximately 219 (2006: 210) in Hong Kong, 9,677 (2006: 7,172) in Mainland China and 100 (2006: 98) 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.

Report of the Directors

RETIREMENT SCHEMES

Particulars of employee retirement schemes of the group are set out in note 26 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.

CONNECTED TRANSACTION

On 26 March 2007, Herald Group Limited ("HGL"), a direct wholly-owned subsidiary of the company, entered into a loan agreement with Mr Richard Tibber ("Mr Tibber") pursuant to which HGL shall advance an unsecured loan of GBP500,000 to Mr Tibber which bears an interest of 1.25% per annum over the base rate of Bank of England. The loan is available in three drawings and repayable on the second anniversary of the date of the loan agreement. No drawdown was made by Mr Tibber at 31 March 2007.

Mr Tibber is a director of Zeon Limited, an indirect wholly-owned subsidiary of the company.

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 78 of the annual report.

CONFIRMATION OF INDEPENDENCE

The company has received from each of the independent non-executive directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive directors to be independent.

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, 13 July 2007

Corporate Governance Report

The company is committed to maintain a high standard of corporate governance practices with an emphasis on the principles of transparency, accountability and independence.

CORPORATE GOVERNANCE PRACTICES

The company has complied with the code provisions of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") throughout the year ended 31 March 2007 except that the independent non-executive directors are not appointed for a specific term, which deviates from the code provision A.4.1. However, the independent non-executive directors are subject to retirement from office by rotation under the requirements of the Bye-laws of the company. As such, the company considers that sufficient measures have been taken to ensure that the company's corporate governance practices are no less exacting than those in the CG Code.

DIRECTORS' SECURITIES TRANSACTIONS

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

Having made specific enquiry of the company's directors, all directors confirmed that they have complied with the required standards set out in the Model Code and the company's code of conduct regarding directors' securities transactions.

BOARD OF DIRECTORS

The Board of the company comprises:

Executive directors

Mr George Bloch *(Chairman)*
Dr Cheung Tsang-Kay, Stan *(Managing Director)*
Mr Chang Dong-Song
Mr Robert Dorfman
Mr Thong Yeung-Sum, Michael

Independent non-executive directors

Mr Tang King-Hung
Mr Lie-A-Cheong Tai-Chong, David
Mr Yeh Man-Chun, Kent

The Board is responsible for leadership and control of the company and oversees the group's businesses, strategic direction and performance. The management team was delegated the authority and responsibility by the Board for the day-to-day management of the group. In addition, the Board has delegated various responsibilities to the Board Committees. Further details of these Committees are set out in this report.

BOARD OF DIRECTORS *(Continued)*

The company has three independent non-executive directors representing more than one third of the Board. One of the three independent non-executive directors has the appropriate accounting and financial management expertise under Rule 3.10 of the Listing Rules. The company has received confirmation from each independent non-executive director of his independence and considers that each of them is independent under the guidelines set out in Rule 3.13 of the Listing Rules.

Several directors have family relationships with each other, the details of which are set out in the biographical details of Directors and Senior Management on pages 9 to 10. None of the directors has other material financial, business or relevant relationships with each other.

The Board meets regularly to review the financial and operating performance of the group. Five regular board meetings were held during the financial year. Individual attendance of each director at the regular board meetings, the Audit Committee meetings and the Remuneration Committee meetings during the financial year is set out below:

	Number of meetings attended/eligible to attend		
Executive directors	**Board**	**Audit Committee**	**Remuneration Committee**
Mr George Bloch	4/5	N/A	N/A
Dr Cheung Tsang-Kay, Stan	5/5	N/A	N/A
Mr Chang Dong-Song	4/5	N/A	N/A
Mr Robert Dorfman	5/5	N/A	N/A
Mr Thong Yeung-Sum, Michael	5/5	3/3	2/2
Independent non-executive directors			
Mr Tang King-Hung	4/5	3/3	2/2
Mr Lie-A-Cheong Tai-Chong, David	4/5	3/3	N/A
Mr Yeh Man-Chun, Kent	4/5	3/3	2/2

CHAIRMAN AND MANAGING DIRECTOR

The Board has appointed Mr George Bloch as the Chairman and Dr Cheung Tsang-Kay, Stan as the Managing Director of the company. The primary role of the Chairman is to provide leadership for the Board and to ensure that it works effectively in discharging its responsibilities. The Managing Director is responsible for the day-to-day management of the group's businesses.

Corporate Governance Report

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The company established a Remuneration Committee on 16 March 2005. The Remuneration Committee currently comprises two independent non-executive directors, namely Mr Tang King-Hung, being the Chairman, and Mr Yeh Man-Chun, Kent and one executive director, namely Mr Thong Yeung-Sum, Michael.

The major roles and functions of the Remuneration Committee are to make recommendations to the Board on the company's policy and structure for the remuneration of directors and senior management, to determine the specific remuneration packages of all executive directors and senior management, and to make recommendations to the Board of the remuneration of independent non-executive directors.

The company's remuneration policy of executive directors and senior management is (1) to provide an equitable and competitive remuneration package to the executive directors and senior management so as to attract and retain the best available human resources to serve the group and (2) to award the executive directors and senior management in recognition of good individual and group performance.

The Remuneration Committee held two meetings during the financial year, which were attended by all Committee members, to review and discuss the company's remuneration policy and the remuneration of directors and senior management.

NOMINATION OF DIRECTORS

When selecting potential candidates for directors, skills, experience, expertise, his devotion of time and conflicts of interests are key factors for consideration. No nomination Committee has been set up, and hence, the nomination and selection process are performed by the Board. The Board meets at least once a year in discussing whether the composition, size, structure of the Board is adequate. During the year, the Board held one meeting to discuss such matters, which was attended by five directors, namely Mr George Bloch, Dr Cheung Tsang-Kay, Stan, Mr Chang Dong-Song, Mr Robert Dorfman and Mr Thong Yeung-Sum, Michael.

AUDITORS' REMUNERATION

For the year under review, the company's auditors, KPMG, provided the following services to the group:

Nature of Services	**Fees** HK$'000
Audit services	2,621
Taxation services	357
Other services	23
	3,001

AUDIT COMMITTEE

The company has established an Audit Committee which currently comprises three independent non-executive directors. The Committee is chaired by Mr Tang King-Hung who is a certified public accountant with extensive experience in auditing, accounting and financial management. The other Committee members are Mr Lie-A-Cheong Tai-Chong, David and Mr Yeh Man-Chun, Kent.

AUDIT COMMITTEE *(Continued)*

The principal duties of the Audit Committee include the oversight of the group's financial reporting system and internal control procedures, and review of the group's financial information and the relationship with the external auditors of the company.

The Audit Committee held three meetings during the financial year, which were attended by all Committee members, to review the accounting principles and practices adopted by the group and to discuss auditing, internal control and financial reporting matters including a review of the interim results and annual results of the group.

DIRECTORS' AND AUDITOR'S RESPONSIBILITIES OF FINANCIAL STATEMENTS

The directors acknowledge their responsibility for preparing the group's financial statements which give a true and fair view and are in accordance with all applicable accounting and statutory requirements.

The statement of the auditors of the company regarding their responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 20 to 21.

INTERNAL CONTROLS

The Board has overall responsibility for maintaining an adequate system of internal controls of the group and for reviewing its effectiveness. The Board is committed to implementing an effective and sound internal control system to safeguard the interest of shareholders and the group's assets. The Board has employed an independent firm of professionals, Baker Tilly, to conduct a review of the system of internal controls of the group which covered all relevant financial, operational, compliance controls and risk management functions within an established framework.

The group's internal control system is designed in consideration of the nature of business as well as the organisation structure. The system is designed to manage rather than eliminate the risk of failure in operational systems and to provide reasonable, but not absolute, assurance against material misstatement or loss. The system is designed further to safeguard the group's assets, maintain appropriate accounting records and financial reporting, maintain efficiency of operations and ensure compliance with applicable laws and regulations.

A report by Baker Tilly was tabled before the members of the Audit Committee during the Audit Committee meeting of 6 July 2007. The principal purpose of the review report by Baker Tilly was to obtain sufficient knowledge of the control environment to understand the attitude of management and the governing body, awareness and actions concerning the factors of the control environment. Based on the findings and comments from Baker Tilly and the Audit Committee, the Board considered the internal control system effective and adequate and decided there were no significant areas of concern that might affect the company's shareholders.

The company will continue to engage external independent professionals to review the group's system of internal controls annually and further enhance the group's internal controls as appropriate.

There is currently no internal audit function within the group. The directors have reviewed the need for an internal audit function and are of the view that in light of the size, nature and complexity of the business of the group, it would be more cost effective to appoint external independent professionals to perform internal audit functions for the group as the need arises. Nevertheless, the directors will continue to review at least annually the need for an internal audit function.

Independent Auditor's Report

Independent auditor's report to the shareholders of
Herald Holdings Limited
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Herald Holdings Limited ("the company") set out on pages 22 to 77, which comprise the consolidated and company balance sheets as at 31 March 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

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

Independent Auditor's Report

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the company and of the group as at 31 March 2007 and of the group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

13 July 2007

Consolidated Income Statement

For the year ended 31 March 2007

	Note	2007 HK$'000	2006 HK$'000
Turnover	2 & 11	**1,550,091**	1,325,686
Cost of sales		**(1,204,819)**	(1,000,531)
Gross profit		**345,272**	325,155
Other revenue	3	**22,363**	13,468
Other net income	3	**16,313**	2,212
Selling expenses		**(59,301)**	(57,766)
Administrative expenses		**(209,003)**	(189,789)
Valuation gains on investment properties	12(d)	**5,150**	2,140
Write back of impairment losses on property, plant and equipment	12(e)	**1,630**	9,294
Write back of impairment losses on club membership	13	**160**	60
Profit from operations		**122,584**	104,774
Finance costs	4(a)	**(342)**	(145)
Share of profit of jointly controlled entity	15	**201**	494
Profit before taxation	4	**122,443**	105,123
Income tax	5(a)	**(13,775)**	(14,392)
Profit for the year		**108,668**	90,731
Attributable to:			
Equity shareholders of the company	8 & 27	**111,120**	86,290
Minority interests	27	**(2,452)**	4,441
Profit for the year	27	**108,668**	90,731
Dividends payable to equity shareholders of the company attributable to the year:	9		
Interim dividend declared during the year		**18,402**	15,348
Final dividend proposed after the balance sheet date		**27,342**	24,558
		45,744	39,906
Earnings per share	10		
Basic and diluted		**HK18.14 cents**	HK14.06 cents

The notes on pages 29 to 77 form part of these financial statements.

Consolidated Balance Sheet

At 31 March 2007

	Note	**2007**	2006
		HK$'000	HK$'000
Non-current assets			
Fixed assets	12		
– Property, plant and equipment		**153,418**	154,848
– Investment properties		**21,900**	16,750
– Interests in leasehold land held for own use under operating leases		**6,204**	6,468
		181,522	178,066
Club membership	13	**1,820**	1,660
Interest in jointly controlled entity	15	**1,998**	2,150
Other financial assets	16	**–**	2,000
Deferred tax assets	24(b)	**6,128**	5,249
		191,468	189,125
Current assets			
Other financial assets	16	**2,000**	–
Trading securities	17	**95,774**	59,917
Inventories	18	**180,629**	140,459
Trade and other receivables	19	**179,958**	131,657
Current tax recoverable	24(a)	**1,566**	2,932
Pledged bank balances	21	**37,122**	–
Cash and cash equivalents	22	**203,163**	239,395
		700,212	574,360
Current liabilities			
Trade and other payables	23	**171,959**	121,003
Current tax payable	24(a)	**7,637**	2,728
		179,596	123,731
Net current assets		**520,616**	450,629
Total assets less current liabilities		**712,084**	639,754

Consolidated Balance Sheet

At 31 March 2007

	Note	**2007** **HK$'000**	2006 HK$'000
Non-current liabilities			
Deferred tax liabilities	24(b)	**826**	1,642
Provision for long service payments	25	**2,600**	2,799
		3,426	4,441
NET ASSETS		**708,658**	635,313
CAPITAL AND RESERVES	27(a)		
Share capital		**47,392**	47,886
Reserves		**631,169**	554,423
Total equity attributable to equity shareholders of the company		**678,561**	602,309
Minority interests		**30,097**	33,004
TOTAL EQUITY		**708,658**	635,313

Approved and authorised for issue by the board of directors on 13 July 2007.

Robert Dorfman
Director

Thong Yeung-Sum, Michael
Director

The notes on pages 29 to 77 form part of these financial statements.

Balance Sheet

At 31 March 2007

	Note	**2007 HK$'000**	2006 HK$'000
Non-current assets			
Investments in subsidiaries	14	**327,365**	327,365
Current assets			
Trading securities	17	**–**	303
Trade and other receivables	19	**157**	143
Amounts due from subsidiaries	20	**14,240**	14,157
Current tax recoverable	24(a)	**–**	11
Cash and cash equivalents	22	**610**	620
		15,007	15,234
Current liabilities			
Amount due to a subsidiary	20	**1,153**	316
Trade and other payables	23	**1,266**	1,059
Current tax payable	24(a)	**13**	–
		2,432	1,375
Net current assets		**12,575**	13,859
NET ASSETS		**339,940**	341,224
CAPITAL AND RESERVES	27(b)		
Share capital		**47,392**	47,886
Reserves		**292,548**	293,338
TOTAL EQUITY		**339,940**	341,224

Approved and authorised for issue by the board of directors on 13 July 2007.

Robert Dorfman	**Thong Yeung-Sum, Michael**
Director	*Director*

The notes on pages 29 to 77 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 March 2007

	Note	**2007** **HK$'000**	2006 HK$'000
Total equity at 1 April			
Attributable to:			
– equity shareholders of the company		**602,309**	560,938
– minority interests		**33,004**	28,024
	27(a)	**635,313**	588,962
Net income/(expense) recognised directly in equity:			
Exchange differences on translation of the financial statements of subsidiaries outside Hong Kong	27(a)	**13,151**	(1,405)
Net profit/(loss) for the year:	27(a)		
Attributable to:			
– equity shareholders of the company		**111,120**	86,290
– minority interests		**(2,452)**	4,441
		108,668	90,731
Total recognised income and expense for the year		**121,819**	89,326
Attributable to:			
– equity shareholders of the company		**123,806**	84,346
– minority interests		**(1,987)**	4,980
		121,819	89,326
Dividends declared or approved during the year		**(42,960)**	(42,975)
Dividend paid to minority interests	27(a)	**(920)**	–
		(43,880)	(42,975)
Movements in equity arising from capital transactions:			
– shares repurchased and cancelled	27(a)	**(494)**	–
– premium paid on repurchase of shares	27(a)	**(4,100)**	–
Net decrease in shareholders' equity arising from capital transactions with shareholders		**(4,594)**	–
Total equity at 31 March	27(a)	**708,658**	635,313

The notes on pages 29 to 77 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 March 2007

	2007 **HK$'000**	2006 HK$'000
Operating activities		
Profit before taxation	**122,443**	105,123
Adjustments for:		
– Interest income	**(9,590)**	(5,070)
– Dividend income from listed securities	**(1,768)**	(397)
– Share of profit of jointly controlled entity	**(201)**	(494)
– Depreciation	**27,745**	26,796
– Amortisation of land lease premium	**303**	299
– Loss on disposal of fixed assets	**856**	41
– Valuation gains on investment properties	**(5,150)**	(2,140)
– Cash distribution from investment previously written off	**(3,841)**	–
– Write back of impairment losses on property, plant and equipment	**(1,630)**	(9,294)
– Write back of impairment losses on club membership	**(160)**	(60)
– Net realised and unrealised gains on trading securities	**(8,639)**	(1,180)
– Finance costs	**342**	145
– Foreign exchange loss	**11,553**	61
Operating profit before changes in working capital	**132,263**	113,830
(Decrease)/increase in amount due to jointly controlled entity	**(7)**	2
(Increase)/decrease in inventories	**(40,170)**	27,335
(Increase)/decrease in trade and other receivables	**(48,301)**	42,764
Increase/(decrease) in trade and other payables	**50,956**	(35,477)
Decrease in provision for long service payments	**(199)**	(273)
Cash generated from operations	**94,542**	148,181
Tax paid		
– Hong Kong Profits Tax paid	**(8,111)**	(18,294)
– Taxation outside Hong Kong paid	**(1,173)**	(3,731)
	(9,284)	(22,025)
Net cash generated from operating activities	**85,258**	126,156

Consolidated Cash Flow Statement

For the year ended 31 March 2007

	Note	2007 HK$'000	2006 HK$'000
Investing activities			
Payment for purchase of fixed assets		**(24,508)**	(21,230)
Payment for purchase of trading securities		**(141,828)**	(61,130)
Proceeds from disposal of fixed assets		**2,661**	3,228
Proceeds from sale of trading securities		**114,617**	9,426
Cash distribution from investment previously written off		**3,841**	–
Interest received		**9,590**	5,070
Dividends received from listed securities		**1,768**	397
Dividend received from jointly controlled entity		**428**	230
Increase in pledged bank balances		**(37,122)**	–
Net cash used in investing activities		**(70,553)**	(64,009)
Financing activities			
Interest paid		**(342)**	(145)
Payment for repurchase of shares		**(4,594)**	–
Dividends paid to equity shareholders of the company		**(42,960)**	(42,975)
Dividend paid to minority interests		**(920)**	–
Net cash used in financing activities		**(48,816)**	(43,120)
Net (decrease)/increase in cash and cash equivalents		**(34,111)**	19,027
Cash and cash equivalents at 1 April		**239,395**	223,564
Effect of foreign exchange rate changes		**(2,121)**	(3,196)
Cash and cash equivalents at 31 March	22	**203,163**	239,395

The notes on pages 29 to 77 form part of these financial statements.

Notes on the Financial Statements

For the year ended 31 March 2007

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 ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"). A summary of the significant accounting policies adopted by the group is set out below.

(b) *Basis of preparation of the financial statements*

The consolidated financial statements for the year ended 31 March 2007 comprise the company and its subsidiaries (together referred to as the "group") and the group's interest in jointly controlled entity.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets are stated at their fair value as explained in the accounting policies set out below:

– investment properties (see note 1(h));

– financial instruments classified as trading securities (see note 1(e)); and

– derivative financial instruments (see note 1(f)).

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 33.

Notes on the Financial Statements

For the year ended 31 March 2007

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Subsidiaries and minority interests

Subsidiaries are entities controlled by the group. Control exists when the group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. 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 represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the company, whether directly or indirectly through subsidiaries, and in respect of which the group has not agreed any additional terms with the holders of those interests which would result in the group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the company. Minority interests in the results of the group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable 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 additional investment to cover the losses. If the subsidiary subsequently reports profits, the group's interest is allocated all such profits 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 impairment losses (see note 1(m)).

(d) Jointly controlled entity

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. The consolidated income statement includes the group's share of the post-acquisition, post-tax results of the jointly controlled entity for the year.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) ***Jointly controlled entity*** *(Continued)*

When the group's share of losses exceeds its interest in the jointly controlled entity, the group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the group has incurred legal or constructive obligations or made payments on behalf of the jointly controlled entity. For this purpose, the group's interest in the jointly controlled entity is the carrying amount of the investment under the equity method together with the group's long-term interests that in substance form part of the group's net investment in the jointly controlled entity.

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

(e) ***Other investments in debt and equity securities***

The group's policies for investments in debt and equity securities, other than investments in subsidiaries and jointly controlled entity, are as follows:

Investments in debt and equity securities are initially stated at cost, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

– Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss.

– Investments in unlisted dated debt securities with fixed or determinable payments and not quoted in an active market are classified as loans and receivables (see note 1(l)).

Investments are recognised/derecognised on the date the group commits to purchase/sell the investments or they expire.

(f) ***Derivative financial instruments***

Derivative financial instruments are recognised initially at fair value. At each balance sheet date the fair value is remeasured. The gain or loss on remeasurement to fair value is charged immediately to profit or loss.

Notes on the Financial Statements

For the year ended 31 March 2007

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Property, plant and equipment

The following property, plant and equipment are stated in the balance sheet at cost or revalued amount less accumulated depreciation and impairment losses (see note 1(m)).

– freehold land and buildings;

– land held under operating leases and buildings thereon, where the fair values of the leasehold interest in the land and buildings cannot be measured separately at the inception of the lease and the building is not clearly held under an operating lease (see note 1(j));

– buildings held for own use which are situated on leasehold land, where the fair value of the building could be measured separately from the fair value of the leasehold land at the inception of the lease (see note 1(j)); and

– other items of plant and equipment.

In preparing these financial statements, advantage has been taken of the transitional provisions set out in paragraph 80(A) of HKAS 16, *Property, plant and equipment* issued by the HKICPA, with the effect that certain land and buildings held for own use have not been revalued to their fair value at the balance sheet date.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost or valuation of items of property, plant and equipment, less their estimated residual values, if any, using the straight-line method over their estimated useful lives as follows:

– Freehold land is not depreciated.

– Leasehold land and buildings are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of purchase.

– Other plant and equipment at the following rates:

Plant, machinery, furniture, fixtures and office equipment	9 – 20%
Moulds	20 – 50%
Motor vehicles	10 – 25%

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Investment property

Investment properties are land and buildings which are owned or held under a leasehold interest (see note 1(j)) to earn rental income and/or for capital appreciation.

Investment properties are stated in the balance sheet at fair value. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 1(t)(iv).

When the group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note 1(j)), and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note 1(j).

(i) Club membership

Club membership with indefinite life is stated in the balance sheet at cost less accumulated impairment loss (see note 1(m)). Any conclusion that the useful life is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for the club membership.

(j) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the group

Leases which do not transfer substantially all the risks and rewards of ownership to the group are classified as operating leases, with the following exceptions:

– property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (see note 1(h)); and

– land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the group or taken over from the previous lessee.

Notes on the Financial Statements

For the year ended 31 March 2007

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Leased assets (Continued)

(ii) Operating lease charges

Where the group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss 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 profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property (see note 1(h)).

(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 is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(l) Receivables

Receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 1(m)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see note 1(m)).

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Impairment of assets

(i) Impairment of receivables

Receivables are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

– For receivables carried at cost, the impairment loss is measured as the difference between the asset's carrying amount and the estimated future cash flows, discounted at the current market rate of return for a similar asset where the effect of discounting is material.

– For receivables carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

(ii) Impairment of other 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:

– property, plant and equipment;

– interests in leasehold land classified as being held under an operating lease; and

– investments in subsidiaries.

Notes on the Financial Statements

For the year ended 31 March 2007

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) ***Impairment of assets*** *(Continued)*

(ii) Impairment of other assets *(Continued)*

If any such indication exists, the asset's recoverable amount is estimated. In addition, for club membership that has indefinite useful life, the recoverable amount is estimated annually to determine whether or not there is any indication of impairment.

– 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).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– 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 an impairment loss 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 profit or loss in the year in which the reversals are recognised.

(n) ***Interest-bearing borrowings***

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Payables

Payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(p) 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.

(q) Employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(r) Income tax

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 profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

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.

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

For the year ended 31 March 2007

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) ***Income tax*** *(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 profits 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.

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 the company or 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 company or 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

For the year ended 31 March 2007

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the company or 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 expenditure 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.

(t) 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 profit or loss 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 is recognised as it accrues using the effective interest method.

(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.

(iv) Rental income from operating leases

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

(v) Royalties

Royalties are recognised when the related credit notes are issued to the group by the customers.

Notes on the Financial Statements

For the year ended 31 March 2007

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of operations outside Hong Kong are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity.

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

(v) Borrowing costs

Borrowing costs are expensed in profit or loss in the period in which they are incurred.

(w) Related parties

For the purposes of these financial statements, a party is considered to be related to the group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the group or exercise significant influence over the group in making financial and operating policy decisions, or has joint control over the group;

(ii) the group and the party are subject to common control;

(iii) the party is an associate of the group or a joint venture in which the group is a venturer;

(iv) the party is a member of key management personnel of the group or the group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the group or of any entity that is a related party of the group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(x) 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 entities 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, tax balances, and corporate and financing expenses.

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 in note 35 on the financial statements.

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

Notes on the Financial Statements

For the year ended 31 March 2007

3 OTHER REVENUE AND OTHER NET INCOME

	2007 HK$'000	2006 HK$'000
Other revenue		
Interest income		
– trading securities	**2,353**	706
– deposits with banks	**7,237**	4,364
Rental income	**3,536**	3,215
Dividend income from listed securities	**1,768**	397
Royalty income	**6,685**	3,773
Others	**784**	1,013
	22,363	13,468
Other net income		
Loss on disposal of fixed assets		
– property, plant and equipment	**(856)**	(211)
– investment properties	**–**	170
Net foreign exchange losses	**(1,128)**	(3,153)
Net realised and unrealised gains on trading securities	**8,639**	1,180
Write back of provision for liquidation cost of subsidiaries	**4,645**	–
Write back of impairment losses on trade receivables	**–**	3,745
Cash distribution from investment previously written off	**3,841**	–
Others	**1,172**	481
	16,313	2,212

4 PROFIT BEFORE TAXATION

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

	2007	2006
	HK$'000	HK$'000
(a) Finance costs:		
Interest on bank advances and other borrowings repayable within five years	**342**	145
(b) Staff costs #:		
Contributions to defined contribution plans	**17,268**	15,540
Write back of provision for long service payments	**(199)**	(222)
Retirement costs	**17,069**	15,318
Salaries, wages and other benefits	**263,752**	220,485
	280,821	235,803
(c) Other items:		
Amortisation of land lease premium #	**303**	299
Cost of inventories # (note 18(b))	**1,204,819**	1,000,531
Depreciation #		
– assets held for use under operating leases	**297**	310
– other assets	**27,448**	26,486
Auditors' remuneration		
– audit services	**2,866**	2,749
– tax services	**357**	315
– other services	**23**	25
Operating lease charges: minimum lease payments #		
– land and buildings	**7,661**	6,961
– other assets	**2,424**	265
Share of jointly controlled entity's taxation	**113**	198
Rentals receivable from investment properties less direct outgoings of HK$255,000 (2006: HK$157,000)	**(1,464)**	(1,479)

\# Cost of inventories includes HK$158,288,000 (2006: HK$135,907,000) relating to staff costs, depreciation and amortisation expenses and operating lease charges, which amount is 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

For the year ended 31 March 2007

5 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	2007	2006
	HK$'000	HK$'000
Current tax – Hong Kong Profits Tax		
Provision for the year	**12,844**	10,515
(Over)/under provision in respect of prior years	**(527)**	287
	12,317	10,802
Current tax – Outside Hong Kong		
Provision for the year	**3,886**	1,976
Over provision in respect of prior years	**(644)**	–
	3,242	1,976
Deferred tax		
Origination and reversal of temporary differences	**(1,784)**	1,614
	13,775	14,392

Provision for Hong Kong Profits Tax is calculated at 17.5% (2006: 17.5%) of the estimated assessable profits for the year. Taxation for subsidiaries outside Hong Kong is charged at the appropriate current rates of taxation ruling in the relevant tax jurisdictions.

On 16 March 2007, the National People's Congress passed the China Corporate Income Tax Law which will be effective from 1 January 2008. The new tax law has no significant impact on the group's deferred tax assets and deferred tax liabilities as at 31 March 2007.

5 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT *(Continued)*

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

	2007 HK$'000	2006 HK$'000
Profit before tax	**122,443**	105,123
Notional tax on profit before tax, calculated at the rates applicable to profits in the tax jurisdictions concerned	**22,743**	17,030
Tax effect of non-deductible expenses	**1,594**	1,970
Tax effect of non-taxable revenue	**(8,914)**	(2,974)
Tax effect of prior years' unrecognised tax losses utilised this year	**(1,094)**	(1,446)
Tax effect of prior years' unrecognised tax losses recognised this year	**(1,125)**	–
Tax effect of tax losses not recognised	**996**	595
(Over)/under provision in respect of prior years	**(1,171)**	287
Others	**746**	(1,070)
Actual tax expense	**13,775**	14,392

6 DIRECTORS' REMUNERATION

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

	2007				
	Directors' fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Retirement scheme contributions HK$'000	Total HK$'000
Executive directors					
G Bloch	–	3,603	1,109	333	5,045
S T K Cheung	–	3,379	1,040	312	4,731
D S Chang	–	195	–	–	195
R Dorfman	–	2,838	873	262	3,973
M Y S Thong	–	3,316	1,008	302	4,626
Independent non-executive directors					
K H Tang	180	–	–	–	180
D T C Lie-A-Cheong	180	–	–	–	180
K M C Yeh	180	–	–	–	180
	540	13,331	4,030	1,209	19,110

Notes on the Financial Statements

For the year ended 31 March 2007

6 DIRECTORS' REMUNERATION *(Continued)*

	2006				
	Directors' fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Retirement scheme contributions HK$'000	Total HK$'000
Executive directors					
G Bloch	–	3,604	831	333	4,768
S T K Cheung	–	3,379	780	312	4,471
D S Chang	–	982	–	96	1,078
R Dorfman	–	2,838	655	175	3,668
M Y S Thong	–	3,315	756	302	4,373
Independent non-executive directors					
K H Tang	174	–	–	–	174
D T C Lie-A-Cheong	142	–	–	–	142
K M C Yeh	88	–	–	–	88
D C Bray	60	–	–	–	60
P K Y Tsao	45	–	–	–	45
	509	14,118	3,022	1,218	18,867

7 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2006: three) are directors whose emoluments are disclosed in note 6. The aggregate of the emoluments in respect of the other two (2006: two) individuals are as follows:

	2007 HK$'000	2006 HK$'000
Salaries and other emoluments	**6,707**	6,672
Discretionary bonuses	**3,960**	2,937
Retirement scheme contributions	**549**	527
	11,216	10,136

The emoluments of the two (2006: two) individuals with the highest emoluments are within the following bands:

	Number of individuals	
	2007	2006
HK$4,500,001 – HK$5,000,000	**1**	1
HK$5,500,001 – HK$6,000,000	**–**	1
HK$6,000,001 – HK$6,500,000	**1**	–

8 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the company includes a profit of HK$46,270,000 (2006: HK$43,276,000) which has been dealt with in the financial statements of the company.

9 DIVIDENDS

(a) Dividends payable to equity shareholders of the company attributable to the year

	2007	2006
	HK$'000	HK$'000
Interim dividend declared and paid of HK3 cents (2006: HK2.5 cents) per share	**18,402**	15,348
Final dividend proposed after the balance sheet date of HK4.5 cents (2006: HK4 cents) per share	**27,342**	24,558
	45,744	39,906

The interim dividend has been charged to the contributed surplus (note 27).

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

(b) Dividend payable to equity shareholders of the company attributable to the previous financial year, approved and paid during the year

	2007	2006
	HK$'000	HK$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK4 cents (2006: HK4.5 cents) per share	**24,558**	27,627

The final dividend has been charged to the contributed surplus (note 27).

10 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the company of HK$111,120,000 (2006: HK$86,290,000) and the weighted average number of shares of 612,672,000 (2006: 613,926,000) in issue during the year.

There were no dilutive potential shares in existence during the years ended 31 March 2006 and 2007, therefore diluted earnings per share is the same as the basic earnings per share for both the current and prior years.

Notes on the Financial Statements

For the year ended 31 March 2007

11 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.
Investments	:	The investment in equity securities, structured products and managed funds.
Others	:	The leasing of properties to generate rental income and other distribution activities.

	2007							
	Toy and gift products HK$'000	Computer heads HK$'000	Housewares HK$'000	Timepieces HK$'000	Investments HK$'000	Others HK$'000	Inter-segment elimination HK$'000	Consolidated HK$'000
Revenue from external customers	829,212	156,112	210,460	333,033	–	21,274	–	1,550,091
Other revenue from external customers	2,800	46	5,192	1,099	4,121	1,867	–	15,125
Inter-segment revenue	–	–	–	–	–	2,979	(2,979)	–
Total	832,012	156,158	215,652	334,132	4,121	26,120	(2,979)	1,565,216
Segment result	35,711	14,377	(4,725)	41,239	12,760	10,331		109,693
Unallocated operating income and expenses								12,891
Profit from operations								122,584
Finance costs								(342)
Share of profit of jointly controlled entity	–	–	201	–	–	–		201
Income tax								(13,775)
Profit for the year								108,668
Depreciation and amortisation for the year	19,308	2,830	2,450	1,646	–	1,814		28,048
Write back of impairment losses on property, plant and equipment	–	–	836	–	–	794		1,630
Segment assets	340,309	92,410	127,197	104,566	95,774	46,226	(19,028)	787,454
Interest in jointly controlled entity	–	–	1,998	–	–	–		1,998
Unallocated assets								102,228
Total assets								891,680
Segment liabilities	96,324	26,413	40,995	24,042	–	1,827	(19,028)	170,573
Unallocated liabilities								12,449
Total liabilities								183,022
Capital expenditure incurred during the year	17,702	4,825	1,167	712	–	102		24,508

Notes on the Financial Statements

For the year ended 31 March 2007

11 SEGMENT REPORTING *(Continued)*

Business segments *(Continued)*

	2006							
	Toy and gift products HK$'000	Computer heads HK$'000	Housewares HK$'000	Timepieces HK$'000	Investments HK$'000	Others HK$'000	Inter-segment elimination HK$'000	Consolidated HK$'000
Revenue from external customers	647,063	158,439	239,772	249,330	–	31,082	–	1,325,686
Other revenue from external customers	2,115	–	3,822	315	1,103	646	–	8,001
Inter-segment revenue	–	–	–	–	–	2,979	(2,979)	–
Total	649,178	158,439	243,594	249,645	1,103	34,707	(2,979)	1,333,687
Segment result	28,889	25,471	12,417	21,365	2,283	10,310		100,735
Unallocated operating income and expenses								4,039
Profit from operations								104,774
Finance costs								(145)
Share of profit of jointly controlled entity	–	–	494	–	–	–		494
Income tax								(14,392)
Profit for the year								90,731
Depreciation and amortisation for the year	16,249	5,245	1,835	2,161	–	1,605		27,095
Write back of impairment losses on property, plant and equipment	3,480	–	988	–	–	4,826		9,294
Segment assets	327,362	123,172	128,041	73,060	59,917	44,369	(19,092)	736,829
Interest in jointly controlled entity	–	–	2,150	–	–	–		2,150
Unallocated assets								24,506
Total assets								763,485
Segment liabilities	64,756	18,646	37,411	17,080	–	2,366	(19,092)	121,167
Unallocated liabilities								7,005
Total liabilities								128,172
Capital expenditure incurred during the year	12,579	4,637	2,757	1,117	–	140		21,230

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For the year ended 31 March 2007

11 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.

	2007						
	Asia			**Europe**		**North America**	**Others**
	Hong Kong	**Mainland China**	**Others**	**United Kingdom**	**Others**		
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**	**HK$'000**	**HK$'000**	**HK$'000**
Revenue from external customers	**68,454**	**7,066**	**47,391**	**590,684**	**122,948**	**667,196**	**46,352**
Segment assets	**340,998**	**243,192**	**1,960**	**166,642**	**39,574**	**14,116**	**–**
Capital expenditure incurred during the year	**2,516**	**20,240**	**–**	**1,750**	**–**	**2**	**–**

	2006						
	Asia			Europe		North America	Others
	Hong Kong	Mainland China	Others	United Kingdom	Others		
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue from external customers	63,076	11,137	12,582	493,672	84,068	640,622	20,529
Segment assets	391,435	220,511	–	131,641	2,315	10,019	–
Capital expenditure incurred during the year	2,858	16,402	–	1,970	–	–	–

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12 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	Interests in leasehold land held for own use under operating leases HK$'000	Total fixed assets HK$'000
Cost or valuation:								
At 1 April 2005	199,097	276,696	21,549	18,648	515,990	16,290	9,637	541,917
Exchange adjustments	2,350	300	–	173	2,823	–	150	2,973
Additions	330	17,828	600	2,472	21,230	–	–	21,230
Disposals	(34)	(20,051)	(12,923)	(5,141)	(38,149)	(1,680)	–	(39,829)
Fair value adjustment	–	–	–	–	–	2,140	–	2,140
At 31 March 2006	201,743	274,773	9,226	16,152	501,894	16,750	9,787	528,431
Representing:								
Cost	190,281	274,773	9,226	16,152	490,432	–	9,787	500,219
Valuation – 1987	11,462	–	–	–	11,462	–	–	11,462
– 2006	–	–	–	–	–	16,750	–	16,750
	201,743	274,773	9,226	16,152	501,894	16,750	9,787	528,431
Accumulated amortisation, depreciation and impairment losses:								
At 1 April 2005	107,770	222,105	20,649	14,249	364,773	–	2,933	367,706
Exchange adjustments	992	228	–	111	1,331	–	87	1,418
Amortisation and depreciation charge for the year	6,280	18,337	650	1,529	26,796	–	299	27,095
Write back of impairment losses	(9,294)	–	–	–	(9,294)	–	–	(9,294)
Written back on disposal	(13)	(19,208)	(12,916)	(4,423)	(36,560)	–	–	(36,560)
At 31 March 2006	105,735	221,462	8,383	11,466	347,046	–	3,319	350,365
Net book value:								
At 31 March 2006	96,008	53,311	843	4,686	154,848	16,750	6,468	178,066

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For the year ended 31 March 2007

12 FIXED ASSETS *(Continued)*

(a) *The group* *(Continued)*

	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	Interests in leasehold land held for own use under operating leases HK$'000	Total fixed assets HK$'000
Cost or valuation:								
At 1 April 2006	201,743	274,773	9,226	16,152	501,894	16,750	9,787	528,431
Exchange adjustments	3,224	4,459	–	304	7,987	–	105	8,092
Additions	36	22,175	650	1,647	24,508	–	–	24,508
Disposals	(7,181)	(40,288)	(1,533)	(925)	(49,927)	–	–	(49,927)
Fair value adjustment	–	–	–	–	–	5,150	–	5,150
At 31 March 2007	**197,822**	**261,119**	**8,343**	**17,178**	**484,462**	**21,900**	**9,892**	**516,254**
Representing:								
Cost	186,360	261,119	8,343	17,178	473,000	–	9,892	482,892
Valuation – 1987	11,462	–	–	–	11,462	–	–	11,462
– 2007	–	–	–	–	–	21,900	–	21,900
	197,822	**261,119**	**8,343**	**17,178**	**484,462**	**21,900**	**9,892**	**516,254**
Accumulated amortisation, depreciation and impairment losses:								
At 1 April 2006	105,735	221,462	8,383	11,466	347,046	–	3,319	350,365
Exchange adjustments	1,059	2,999	–	235	4,293	–	66	4,359
Amortisation and depreciation charge for the year	6,946	19,050	419	1,330	27,745	–	303	28,048
Write back of impairment losses	(1,630)	–	–	–	(1,630)	–	–	(1,630)
Written back on disposal	(4,935)	(39,353)	(1,531)	(591)	(46,410)	–	–	(46,410)
At 31 March 2007	**107,175**	**204,158**	**7,271**	**12,440**	**331,044**	**–**	**3,688**	**334,732**
Net book value:								
At 31 March 2007	**90,647**	**56,961**	**1,072**	**4,738**	**153,418**	**21,900**	**6,204**	**181,522**

12 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		Interests in leasehold land held for own use under operating leases	
	2007	2006	**2007**	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
In Hong Kong						
– medium-term leases	**20,100**	15,750	**31,534**	34,585	**–**	–
Outside Hong Kong						
– freehold	**–**	–	**7,030**	6,249	**–**	–
– medium-term leases	**1,800**	1,000	**51,770**	54,845	**6,204**	6,468
– short-term leases	**–**	–	**313**	329	**–**	–
	21,900	16,750	**90,647**	96,008	**6,204**	6,468

(c) Certain land and buildings of the group were revalued as at 31 December 1987 by an independent firm of Surveyors, Jones Lang Wootton Limited who had among their staff Chartered Surveyors, on an open market value basis calculated on net rental income allowing for reversionary potential.

(d) All investment properties of the group were revalued as at 31 March 2007 on an open market value basis assuming sale with existing tenancies by using the investment approach by capitalising the net rental income receivable from the existing tenancies and the reversionary rental income potentials, or otherwise assuming sale with vacant possession by using sales comparison approach. The valuations were carried out by an independent firm of surveyors, LCH (Asia-Pacific) Surveyors Limited, who have among their staff Members of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued. Valuation gains of HK$5,150,000 (2006: HK$2,140,000) has been recognised in the consolidated income statement during the year.

(e) During the year, the directors carried out a review of the recoverable amount of the properties and considered that impairment losses recognised in prior years had decreased. Based on their review, provision for impairment losses of HK$1,630,000 (2006: HK$9,294,000) has been written back during the year. The estimates of recoverable amount were based on fair values less costs to sell, determined with reference to valuations performed by professional surveyors.

(f) Included in land and buildings held for own use at 31 March 2007, property carried at valuation less accumulated depreciation and impairment losses amounted to HK$4,995,000 (2006: HK$5,336,000). They would have been HK$1,693,000 (2006: HK$1,887,000) had they been carried at cost less accumulated depreciation and impairment losses.

12 FIXED ASSETS *(Continued)*

(g) 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.

All properties held under operating leases that would otherwise meet the definition of investment property are classified as investment property.

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

	2007	2006
	HK$'000	HK$'000
Within 1 year	**2,900**	2,079
After 1 year but within 5 years	**1,844**	3,039
	4,744	5,118

13 CLUB MEMBERSHIP

	The group	
	2007	2006
	HK$'000	HK$'000
Cost:		
At 1 April and 31 March	**2,120**	2,120
Accumulated impairment losses:		
At 1 April	**460**	520
Written back during the year	**(160)**	(60)
At 31 March	**300**	460
Net book value:		
At 31 March	**1,820**	1,660

During the year, the directors carried out a review of the carrying amount of the club membership. Based on their review which is with reference to recent observable market prices, impairment losses of HK$160,000 (2006: HK$60,000) have been written back during the year.

14 INVESTMENTS IN SUBSIDIARIES

	The company	
	2007	2006
	HK$'000	HK$'000
Unlisted shares, at cost, net of dividend received from subsidiary from pre-acquisition profits	**327,365**	327,365

Details of the company's principal subsidiaries at 31 March 2007 are set out in note 35 on the financial statements.

15 INTEREST IN JOINTLY CONTROLLED ENTITY

	The group	
	2007	2006
	HK$'000	HK$'000
Share of net assets	**2,074**	2,233
Amount due to jointly controlled entity	**(76)**	(83)
	1,998	2,150

Details of the group's interest in the 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

15 INTEREST IN JOINTLY CONTROLLED ENTITY *(Continued)*

Summary financial information on the jointly controlled entity is as follows:

	At the group's effective interest	
	2007	2006
	HK$'000	HK$'000
Non-current assets	**614**	689
Current assets	**1,766**	1,866
Current liabilities	**(306)**	(322)
Net assets	**2,074**	2,233
Income	**3,800**	3,792
Expenses	**(3,486)**	(3,100)
Profit before taxation	**314**	692
Income tax	**(113)**	(198)
Profit for the year	**201**	494

16 OTHER FINANCIAL ASSETS

	The group	
	2007	2006
	HK$'000	HK$'000
Loans and receivables		
Unlisted dated debt securities	**2,000**	2,000

At 31 March 2007, all of the other financial assets are to mature within one year (2006: after one year but within two years).

17 TRADING SECURITIES

	The group		The company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Listed equity securities				
– in Hong Kong	**30,212**	35,748	**–**	303
– outside Hong Kong	**5,296**	7,171	**–**	–
	35,508	42,919	**–**	303
Unlisted structured products	**52,452**	16,998	**–**	–
Unlisted managed funds	**7,814**	–	**–**	–
	95,774	59,917	**–**	303

(a) Structured products

The group acquired certain structured products for short-term investment purposes, which include equity-linked notes, currency-linked notes, accrual preferred selling scheme and share forward accumulator. These structured products are issued by financial institutions with high credit rating and with original maturity ranged from 2 weeks to 2 years. The return on these structured products is linked to the underlying equity prices or foreign exchange rates.

(b) At 31 March 2007, trading securities of HK$79,350,000 (2006: HK$36,828,000) are pledged to banks to secure the banking facilities granted to a subsidiary.

(c) Included in trading securities are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The group	
	2007	2006
	'000	'000
United States dollars	**USD 6,251**	USD 3,072
Australian dollars	**AUD 641**	AUD –
Sterling	**GBP 166**	GBP –

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18 INVENTORIES

(a) Inventories in the consolidated balance sheet comprise:

	The group	
	2007	2006
	HK$'000	HK$'000
Raw materials	**67,749**	50,422
Work in progress	**36,362**	30,482
Finished goods	**76,518**	59,555
	180,629	140,459

(b) The analysis of the amount of inventories recognised as an expense is as follows:

	The group	
	2007	2006
	HK$'000	HK$'000
Carrying amount of inventories sold	**1,205,524**	1,003,011
Reversal of write-down of inventories	**(705)**	(2,480)
	1,204,819	1,000,531

19 TRADE AND OTHER RECEIVABLES

	The group		The company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade debtors and bills receivable	**146,367**	101,751	**–**	–
Deposits, prepayments and other receivables	**33,591**	29,906	**157**	143
	179,958	131,657	**157**	143

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

19 TRADE AND OTHER RECEIVABLES *(Continued)*

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

	The group	
	2007	2006
	HK$'000	HK$'000
By date of invoice		
Within 1 month	**84,731**	66,721
Over 1 month but within 3 months	**51,484**	33,601
Over 3 months	**10,152**	1,429
	146,367	101,751

The group's credit policy is set out in note 28(a).

Included in trade and other receivables is the following amount denominated in a currency other than the functional currency of the entity to which it relates:

	The group	
	2007	2006
	'000	'000
United States dollars	**USD 7,254**	USD 6,456

20 AMOUNTS DUE FROM/TO SUBSIDIARIES

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

21 PLEDGED BANK BALANCES

The following bank balances of the group are pledged to banks to secure banking facilities granted to the group:

	The group	
	2007	2006
	HK$'000	HK$'000
Deposits with banks	**25,158**	–
Cash at bank	**11,964**	–
	37,122	–

21 PLEDGED BANK BALANCES *(Continued)*

Included in pledged bank balances is the following amount denominated in a currency other than the functional currency of the entity to which it relates:

	The group	
	2007	2006
	'000	'000
United States dollars	**USD3,598**	USD –

22 CASH AND CASH EQUIVALENTS

	The group		The company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Deposits with banks	**31,324**	27,414	**–**	–
Cash at bank and in hand	**171,839**	211,981	**610**	620
Cash and cash equivalents	**203,163**	239,395	**610**	620

Included in cash and cash equivalents are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The group	
	2007	2006
	'000	'000
Sterling	**GBP 978**	GBP 694
United States dollars	**USD16,458**	USD20,296

23 TRADE AND OTHER PAYABLES

	The group		The company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade creditors and bills payable	**66,559**	45,294	**–**	–
Accruals and other payables	**105,400**	75,709	**1,266**	1,059
	171,959	121,003	**1,266**	1,059

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

23 TRADE AND OTHER PAYABLES *(Continued)*

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

	The group	
	2007	2006
	HK$'000	HK$'000
By date of invoice		
Within 1 month	**41,922**	35,070
Over 1 month but within 3 months	**22,443**	9,535
Over 3 months	**2,194**	689
	66,559	45,294

Included in trade and other payables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The group	
	2007	2006
	'000	'000
Renminbi	**RMB10,764**	RMB7,621
United States dollars	**USD 4,368**	USD 2,576

24 INCOME TAX IN THE BALANCE SHEET

(a) Current taxation in the balance sheets represents:

	The group		The company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Provision for Hong Kong Profits Tax for the year	**12,844**	10,515	**69**	23
Provisional Profits Tax paid	**(9,964)**	(11,064)	**(56)**	(34)
	2,880	(549)	**13**	(11)
Balance of Profits Tax recoverable relating to prior years	**–**	(777)	**–**	–
Taxation outside Hong Kong	**3,191**	1,122	**–**	–
	6,071	(204)	**13**	(11)
Representing:				
Current tax recoverable	**(1,566)**	(2,932)	**–**	(11)
Current tax payable	**7,637**	2,728	**13**	–
	6,071	(204)	**13**	(11)

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24 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:

Deferred tax arising from:	**Depreciation allowances in excess of related depreciation**	**Tax losses**	**Provisions**	**Others**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 April 2005	1,721	(344)	(4,757)	(1,759)	(5,139)
Exchange adjustments	(82)	–	–	–	(82)
(Credited)/charged to profit or loss	(241)	(643)	630	1,868	1,614
At 31 March 2006	1,398	(987)	(4,127)	109	(3,607)
At 1 April 2006	1,398	(987)	(4,127)	109	(3,607)
Exchange adjustments	100	–	–	(11)	89
(Credited)/charged to profit or loss	693	(563)	(588)	(1,326)	(1,784)
At 31 March 2007	**2,191**	**(1,550)**	**(4,715)**	**(1,228)**	**(5,302)**

	2007	2006
	HK$'000	HK$'000
Net deferred tax assets recognised on the consolidated balance sheet	**(6,128)**	(5,249)
Net deferred tax liabilities recognised on the consolidated balance sheet	**826**	1,642
	(5,302)	(3,607)

(ii) The company

No deferred tax has been recognised as the company does not have any significant temporary differences at 31 March 2006 and 2007.

24 INCOME TAX IN THE BALANCE SHEET *(Continued)*

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 1(r), the group has not recognised deferred tax assets totalling HK$1,521,000 (2006: HK$1,596,000) in respect of tax losses of HK$7,312,000 (2006: HK$9,693,000) as it is not probable that future taxable profits against which losses can be utilised will be available in the relevant tax jurisdiction and entity.

Included in unrecognised tax losses is an amount of HK$3,842,000 (2006: HK$3,182,000) which can be carried forward for up to five years from the year in which the loss originated. The remaining balance of HK$3,470,000 (2006: HK$6,511,000) does not expire under current tax legislation.

25 PROVISION FOR LONG SERVICE PAYMENTS

	The group
	HK$'000
At 1 April 2006	2,799
Provision written back during the year	(199)
At 31 March 2007	**2,600**

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.

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26 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 on 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 2007, there was no forfeited contribution which is available to reduce the contributions payable in future years (2006: HK$Nil).

(ii) The employees in certain subsidiaries in the PRC participate in various 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. Contributions to these schemes vest immediately.

26 EMPLOYEE BENEFITS *(Continued)*

(b) Share option scheme

The company adopted a share option scheme on 18 September 2003. Under the terms of the scheme, the directors of the company may at their discretion 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.

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 of Hong Kong Limited ("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.

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27 CAPITAL AND RESERVES

(a) The group

	Share capital HK$'000	Share premium HK$'000	Contributed surplus HK$'000	Exchange reserve HK$'000	PRC statutory reserves HK$'000	Retained profits HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1 April 2005	47,886	25,720	207,037	1,307	5,280	273,708	560,938	28,024	588,962
Dividend approved in respect of the previous year (note 9(b))	–	–	(27,627)	–	–	–	(27,627)	–	(27,627)
Transfer between reserves	–	–	–	–	787	(787)	–	–	–
Exchange differences on translation of the financial statements of subsidiaries outside Hong Kong	–	–	–	(1,944)	–	–	(1,944)	539	(1,405)
Profit for the year	–	–	–	–	–	86,290	86,290	4,441	90,731
Dividend declared in respect of the current year (note 9(a))	–	–	(15,348)	–	–	–	(15,348)	–	(15,348)
At 31 March 2006	47,886	25,720	164,062	(637)	6,067	359,211	602,309	33,004	635,313
At 1 April 2006	47,886	25,720	164,062	(637)	6,067	359,211	602,309	33,004	635,313
Dividend approved in respect of the previous year (note 9(b))	–	–	(24,558)	–	–	–	(24,558)	–	(24,558)
Purchase of own shares:									
– par value paid	(494)	–	–	–	–	–	(494)	–	(494)
– premium paid	–	(4,100)	–	–	–	–	(4,100)	–	(4,100)
Transfer between reserves	–	–	–	–	909	(909)	–	–	–
Exchange differences on translation of the financial statements of subsidiaries outside Hong Kong	–	–	–	12,686	–	–	12,686	465	13,151
Profit/(loss) for the year	–	–	–	–	–	111,120	111,120	(2,452)	108,668
Dividend declared in respect of the current year (note 9(a))	–	–	(18,402)	–	–	–	(18,402)	(920)	(19,322)
At 31 March 2007	**47,392**	**21,620**	**121,102**	**12,049**	**6,976**	**469,422**	**678,561**	**30,097**	**708,658**

27 CAPITAL AND RESERVES *(Continued)*

(b) The company

	Share capital HK$'000	Share premium HK$'000	Contributed surplus HK$'000	Retained profits HK$'000	Total equity HK$'000
At 1 April 2005	47,886	25,720	153,350	113,967	340,923
Dividend approved in respect of the previous year (note 9(b))	–	–	(27,627)	–	(27,627)
Profit for the year	–	–	–	43,276	43,276
Dividend declared in respect of the current year (note 9(a))	–	–	(15,348)	–	(15,348)
At 31 March 2006	47,886	25,720	110,375	157,243	341,224
At 1 April 2006	47,886	25,720	110,375	157,243	341,224
Dividend approved in respect of the previous year (note 9(b))	–	–	(24,558)	–	(24,558)
Purchase of own shares					
– par value paid	(494)	–	–	–	(494)
– premium paid	–	(4,100)	–	–	(4,100)
Profit for the year	–	–	–	46,270	46,270
Dividend declared in respect of the current year (note 9(a))	–	–	(18,402)	–	(18,402)
At 31 March 2007	**47,392**	**21,620**	**67,415**	**203,513**	**339,940**

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For the year ended 31 March 2007

27 CAPITAL AND RESERVES *(Continued)*

(c) Share capital

(i) Authorised and issued share capital

	2007		2006	
	Number of shares '000	**Amount HK$'000**	Number of shares '000	Amount HK$'000
Authorised:				
Shares of US$0.01 each	**1,000,000**	**78,000**	1,000,000	78,000
Issued and fully paid:				
At 1 April	**613,926**	**47,886**	613,926	47,886
Shares repurchased	**(6,335)**	**(494)**	–	–
At 31 March	**607,591**	**47,392**	613,926	47,886

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the company. All ordinary shares rank equally with regard to the company's residual assets.

27 CAPITAL AND RESERVES *(Continued)*

(c) ***Share capital*** *(Continued)*

(ii) Purchase of own shares

During the year, the company repurchased a total of 6,335,000 of its own shares on the Stock Exchange at an aggregate consideration of HK$4,626,050 before expenses, all of which were then cancelled. The premium paid on repurchase was charged against share premium in accordance with the Bermuda Companies Act 1981. Details of the shares repurchased are as follows:

Date of repurchase	Number of shares repurchased	Highest and lowest price paid per share	Total paid
		HK$	HK$
3 January 2007	500,000	0.72	360,000
4 January 2007	555,000	0.73	405,150
5 January 2007	1,250,000	0.73	912,500
12 January 2007	1,510,000	0.72	1,087,200
15 January 2007	1,000,000	0.72	720,000
16 January 2007	500,000	0.72	360,000
5 March 2007	360,000	0.74	266,400
8 March 2007	130,000	0.78	101,400
9 March 2007	530,000	0.78	413,400
	6,335,000		4,626,050

(d) ***Nature and purpose of reserves***

(i) Share premium

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.

(ii) Contributed surplus

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.

Notes on the Financial Statements

For the year ended 31 March 2007

27 CAPITAL AND RESERVES *(Continued)*

(d) ***Nature and purpose of reserves*** *(Continued)*

(iii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside Hong Kong. The reserve is dealt with in accordance with the accounting policy set out in note 1(u).

(iv) PRC statutory reserves

PRC statutory reserves include general and other reserves 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.

(e) ***Distributability of reserves***

At 31 March 2007, the aggregate amount of reserves available for distribution to equity shareholders of the company was HK$270,928,000 (2006: HK$267,618,000). After the balance sheet date the directors proposed a final dividend of HK4.5 cents (2006: HK4 cents) per share, amounting to HK$27,342,000 (2006: HK$24,558,000). This dividend has not been recognised as a liability at the balance sheet date.

28 FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arise in the normal course of the group's business. These risks are limited by the group's financial management policies and practices described below.

(a) ***Credit risk***

The group's credit risk is primarily attributable to trade receivables, cash and bank deposits and trading securities. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade receivables, 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. Trade receivables are generally due within 60 days from the date of billing. Normally, the group does not obtain collateral from customers.

At the balance sheet date, the group has a certain concentration of credit risk as 22% (2006: 16%) and 69% (2006: 55%) of the total trade receivables were due from the group's largest customer and the five largest customers respectively.

Cash and bank deposits are placed with financial institutions with sound credit ratings. Trading securities are normally only in listed or liquid securities and with counterparties that have a credit rating equal to or better than the group. Given their high credit ratings, management does not expect any counterparty to fail to meet its obligations.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet. The group does not provide any financial guarantees which would expose the group to credit risk.

28 FINANCIAL INSTRUMENTS *(Continued)*

(b) Liquidity risk

The group's policy is to regularly monitor current and expected liquidity requirements, to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

(c) Interest rate risk

In respect of income-earning financial assets, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice or the maturity dates, if earlier.

	2007		2006			
	Effective interest rate	**Total – One year or less HK$'000**	Effective interest rate	Total HK$'000	One year or less HK$'000	1 – 2 years HK$'000
The group						
Repricing dates for assets which reprice before maturity						
Structured products	**13.87%**	**40,888**	12.53%	16,998	16,998	–
Pledged bank balances	**5.09%**	**11,964**	–	–	–	–
Cash and cash equivalents	**1.94%**	**171,839**	1.92%	211,981	211,981	–
Maturity dates for assets which do not reprice before maturity						
Other financial assets	**3.62%**	**2,000**	3.62%	2,000	–	2,000
Structured products	**9.15%**	**9,933**	–	–	–	–
Pledged bank balances	**4.71%**	**25,158**	–	–	–	–
Cash and cash equivalents	**5.08%**	**31,324**	4.48%	27,414	27,414	–
The company						
Repricing dates for assets which reprice before maturity						
Cash and cash equivalents	**0.63%**	**610**	1.05%	620	620	–

Notes on the Financial Statements

For the year ended 31 March 2007

28 FINANCIAL INSTRUMENTS *(Continued)*

(d) Foreign currency risk

The group is exposed to foreign currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily United States dollars and Sterling. Management monitors the group's exposure to foreign currency risk and will consider hedging significant foreign currency exposure should the need arise. At 31 March 2007, the net fair value of forward exchange contracts recognised as net derivative financial liabilities (included in "accruals and other payables") is HK$3,579,000 (2006: net derivative financial assets of HK$377,000 included in "deposits, prepayments and other receivables"). All of the forward exchange contracts have maturities of less than one year after the balance sheet date.

(e) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 March 2007 and 2006 except amounts due from subsidiaries which are unsecured, interest-free and have no fixed terms of repayment (see note 20). Given these terms, it is not meaningful to disclose their fair values.

(f) Estimation of fair values

The fair value of equity securities is based on quoted market prices at the balance sheet date without any deduction for transaction costs. Forward exchange contracts are marked to market by discounting the contractual forward price and deducting the current spot rate.

The fair value of the structured products is estimated by discounted cash flow techniques and using a pricing model. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate for a similar instrument at the balance sheet date. Where a pricing model is used, inputs are based on market related data at the balance sheet date.

The fair value of unlisted managed funds are estimated using the net asset value per share as reported by the managers of such funds.

29 COMMITMENTS

At 31 March 2007, the total future minimum lease payments of the group under non-cancellable operating leases are payable as follows:

	2007		2006	
	Land and buildings HK$'000	**Others HK$'000**	Land and buildings HK$'000	Others HK$'000
Within 1 year	**6,558**	**2,685**	5,158	1,722
After 1 year but within 5 years	**13,060**	**2,879**	10,551	1,206
After 5 years	**9,259**	**–**	10,654	–
	28,877	**5,564**	26,363	2,928

The group leases a number of properties under operating leases. The leases typically run for a period of one to fifteen years with no renewal options. All terms of the leases, including lease payments, applicable throughout the lease periods are fixed upon the signing of the lease agreements.

30 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.

31 MATERIAL RELATED PARTY TRANSACTIONS

Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the company's directors as disclosed in note 6 and certain of the highest paid employees as disclosed in note 7, is as follows:

	2007 HK$'000	2006 HK$'000
Short-term employee benefits	**26,642**	25,646
Post-employment benefits	**1,640**	1,650
	28,282	27,296

Total remuneration is included in "staff costs" (see note 4(b)).

32 NON-ADJUSTING POST BALANCE SHEET EVENT

Subsequent to the balance sheet date, the directors proposed a final dividend, further details are disclosed in note 9(a).

33 ACCOUNTING ESTIMATES AND JUDGEMENTS

Note 28 contains information about the assumptions and their risk factors relating to financial instruments. Apart from the above, the group believes the following critical accounting policies also involve significant judgements and estimates used in the preparation of the financial statements.

(a) Impairment of property, plant and equipment and interest in leasehold land

If circumstances indicate that the carrying amounts of property, plant and equipment and interest in leasehold land may not be recoverable, the assets may be considered "impaired" and are tested for impairment in accordance with HKAS 36, *Impairment of assets*. An impairment loss is recognised when the asset's recoverable amount has declined below its carrying amount. The recoverable amount is the greater of the net selling price and value in use. The asset's recoverable amount will also be estimated if circumstances indicate that an impairment loss previously recognised no longer exists or may have decreased. An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. In determining the recoverable amount, significant judgements are required and the group uses all readily available information, including estimates based on reasonable and supportable assumptions, projections of sale volume and operating costs or other market data, to arrive at an amount that is a reasonable approximation of recoverable amount. Any adverse changes in the assumptions used in determining the recoverable amount would cause the carrying amount of the asset to be significantly different from the recoverable amount.

(b) Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account the estimated residual values, if any. The group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the group's historical experience with similar assets and taking account of obsolescence and technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

(c) Write down of inventories

The group performs regular review of the carrying amounts of inventories with reference to aged inventories analysis, expected future consumption and management judgement. Based on this review, write down of inventories will be made when the carrying amounts of inventories decline below their estimated net realisable values. However, actual consumption may be different from estimation and profit or loss could be affected by differences in this estimation.

34 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 MARCH 2007

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 March 2007 and which have not been adopted in these financial statements.

The group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the group's results of operations and financial position.

In addition, the following developments may result in new or amended disclosures in the financial statements:

		Effective for accounting periods beginning on or after
HKFRS 7	Financial instruments: disclosures	1 January 2007
Amendment to HKAS 1	Presentation of financial statements: capital disclosures	1 January 2007

Notes on the Financial Statements

For the year ended 31 March 2007

35 DETAILS OF PRINCIPAL SUBSIDIARIES

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the group.

Name of company	Place/country of establishment	Place/country of operation	Particulars of issued and fully paid up capital/ registered capital	Percentage of ownership interest held by the company	Percentage of ownership interest held by the 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 @	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 @	PRC	PRC	Registered capital of HK$35,400,000	–	100	Manufacture of toys
Shenzhen Herald Metal and Plastic Company Limited #	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 #	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

Notes on the Financial Statements

For the year ended 31 March 2007

35 DETAILS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name of company	Place/country of establishment	Place/country of operation	Particulars of issued and fully paid up capital/ registered capital	Percentage of ownership interest held by the company	Percentage of ownership interest held by the subsidiaries	Principal activities
Herald Metal Products Company Limited #	PRC	PRC	Registered capital of US$1,650,000	–	51	Manufacture of housewares
Zhuhai Herald Houseware Limited #	PRC	PRC	Registered capital of HK$30,000,000	–	80	Manufacture of housewares
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 #	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

\# Equity joint ventures registered under the laws of the PRC as Sino-foreign Joint Venture Enterprises.

@ Wholly-Owned Foreign Investment Enterprises registered under the laws of the PRC.

Five-year Summary

	2007	2006	2005	2004	2003
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Results					
Turnover	**1,550,091**	1,325,686	1,442,998	1,103,819	925,954
Profit before taxation	**122,443**	105,123	115,652	75,451	42,448
Income tax	**(13,775)**	(14,392)	(16,480)	(11,682)	(3,081)
Profit for the year	**108,668**	90,731	99,172	63,769	39,367
Attributable to:					
– Equity shareholders of the company	**111,120**	86,290	96,117	61,940	35,156
– Minority interests	**(2,452)**	4,441	3,055	1,829	4,211
Profit for the year	**108,668**	90,731	99,172	63,769	39,367
Assets and liabilities					
Fixed assets	**181,522**	178,066	174,211	178,138	184,787
Club membership	**1,820**	1,660	1,600	2,120	2,120
Interest in jointly controlled entity	**1,998**	2,150	1,804	1,984	1,698
Other non-current financial assets	**–**	2,000	9,024	7,145	4,657
Deferred tax assets	**6,128**	5,249	6,118	4,484	7,916
Current assets	**700,212**	574,360	566,603	454,083	372,563
Current liabilities	**(179,596)**	(123,731)	(166,347)	(120,823)	(94,033)
Total assets less current liabilities	**712,084**	639,754	593,013	527,131	479,708
Non-current liabilities	**(3,426)**	(4,441)	(4,051)	(6,125)	(5,993)
Net assets	**708,658**	635,313	588,962	521,006	473,715
Capital and reserves					
Share capital	**47,392**	47,886	47,886	47,886	48,100
Reserves	**631,169**	554,423	513,052	445,588	399,220
Total equity attributable to equity shareholders of the company	**678,561**	602,309	560,938	493,474	447,320
Minority interests	**30,097**	33,004	28,024	27,532	26,395
Total equity	**708,658**	635,313	588,962	521,006	473,715