



Herald Holdings Limited

Stock Code : 00114

INTERIM REPORT  
**2014/15**

## CORPORATE INFORMATION

### EXECUTIVE DIRECTORS

Robert Dorfman *Chairman*  
Tang King Hung *ACA, FCCA, ACIS, CPA*  
*Managing Director*  
Cheung Tsang Kay Stan *PhD,*  
*Hon LLD, Hon DBA, JP*

### INDEPENDENT NON-EXECUTIVE DIRECTORS

David Tai Chong Lie-A-Cheong *SBS, OM, JP*  
Yeh Man Chun *Kent*  
Ng Tze Kin David *CA(AUST.), FCPA*

### SECRETARY

Shum Kam Hung *ACIS, CPA*

### PRINCIPAL BANKERS

China Construction Bank (Asia)  
Corporation Limited  
The Hong Kong and Shanghai Banking  
Corporation Limited  
Fubon Bank (Hong Kong) Limited

### AUDITORS

KPMG  
*Certified Public Accountants*

### SOLICITORS

Stephenson Harwood

### PRINCIPAL OFFICE

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

### REGISTERED OFFICE

Clarendon House  
2 Church Street  
Hamilton HM11  
Bermuda

### PRINCIPAL REGISTRAR

MUFG Fund Services  
(Bermuda) Limited  
The Belvedere Building  
69 Pitts Bay Road  
Pembroke HM08  
Bermuda

### HONG KONG SHARE REGISTRAR

Tricor Tengis Limited  
Level 22 Hopewell Centre  
183 Queen's Road East  
Hong Kong

### COMPANY'S WEBSITE

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

## RESULTS

The Board of Directors (the “Board”) of Herald Holdings Limited (the “Company”) presents the unaudited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 September 2014, together with the comparative figures for the corresponding period in 2013, as follows:

### Consolidated Income Statement – Unaudited

For the six months ended 30 September 2014

		<b>Six months ended 30 September</b>	
	<i>Note</i>	<b>2014 HK\$'000</b>	2013 HK\$'000
<b>Turnover</b>	3	<b>702,955</b>	707,558
Cost of sales		<b>(536,137)</b>	(545,965)
<b>Gross profit</b>		<b>166,818</b>	161,593
Other revenue		<b>5,747</b>	8,376
Other net gain		<b>8,662</b>	4,701
Selling expenses		<b>(26,186)</b>	(23,602)
Administrative expenses		<b>(131,791)</b>	(122,376)
<b>Profit from operations</b>		<b>23,250</b>	28,692
Finance cost		<b>(158)</b>	(233)
Share of profit less loss of a joint venture		–	(225)
Share of profit less loss of an associate		–	(144)
<b>Profit before taxation</b>	4	<b>23,092</b>	28,090
Income tax	5	<b>(5,390)</b>	(5,373)
<b>Profit for the period</b>		<b>17,702</b>	22,717

**Consolidated Income Statement – Unaudited (Continued)***For the six months ended 30 September 2014*

		<b>Six months ended 30 September</b>	
		<b>2014</b>	2013
		<b>HK\$'000</b>	HK\$'000
<b>Attributable to:</b>	<i>Note</i>		
Equity shareholders of the Company		<b>18,877</b>	22,499
Non-controlling interests		<b>(1,175)</b>	218
<b>Profit for the period</b>		<b>17,702</b>	22,717
<b>Interim dividends</b>		<b>18,075</b>	18,075
<b>Interim dividends per share</b>		<b>3 cents</b>	3 cents
<b>Earnings per share</b>	6		
– Basic and diluted		<b>3.13 cents</b>	3.73 cents

**Consolidated Statement of Comprehensive Income – Unaudited***For the six months ended 30 September 2014*

	<b>Six months ended 30 September</b>	
	<b>2014</b>	2013
	<b>HK\$'000</b>	HK\$'000
<b>Profit for the period</b>	<b>17,702</b>	22,717
<b>Other comprehensive income for the period</b>		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong (no tax effect)	<b>2,990</b>	2,694
<b>Total comprehensive income for the period</b>	<b>20,692</b>	25,411
<b>Attributable to:</b>		
Equity shareholders of the Company	<b>21,791</b>	25,085
Non-controlling interests	<b>(1,099)</b>	326
<b>Total comprehensive income for the period</b>	<b>20,692</b>	25,411

**Consolidated Balance Sheet – Unaudited**

At 30 September 2014

	Note	<b>As at 30 September 2014 HK\$'000</b>	As at 31 March 2014 HK\$'000
<b>Non-current assets</b>			
Fixed assets	7		
– Property, plant and equipment		<b>271,721</b>	263,146
– Investment properties		<b>6,040</b>	6,040
– Interests in leasehold land held for own use under operating leases		<b>4,118</b>	4,180
		<b>281,879</b>	273,366
Intangible assets		<b>1,860</b>	1,860
Other financial assets		<b>16,770</b>	10,920
Deferred tax assets		<b>9,886</b>	9,217
		<b>310,395</b>	295,363
<b>Current assets</b>			
Trading securities		<b>177,894</b>	180,619
Inventories		<b>193,673</b>	209,113
Trade and other receivables	8	<b>255,091</b>	191,170
Pledged bank balances		<b>20,174</b>	18,017
Cash and cash equivalents		<b>173,773</b>	196,507
		<b>820,605</b>	795,426

**Consolidated Balance Sheet – Unaudited (Continued)**

At 30 September 2014

		<b>As at 30 September 2014 HK\$'000</b>	As at 31 March 2014 HK\$'000
	<i>Note</i>		
<b>Current liabilities</b>			
Trade and other payables	9	<b>222,602</b>	203,738
Bank Loan		<b>10,387</b>	12,136
Current tax payable		<b>11,346</b>	8,033
		<b>244,335</b>	223,907
<b>Net current assets</b>		<b>576,270</b>	571,519
<b>Total assets less current liabilities</b>		<b>886,665</b>	866,882
<b>Non-current liabilities</b>			
Deferred tax liabilities		<b>261</b>	261
Provision for long service payments		<b>3,394</b>	3,581
		<b>3,655</b>	3,842
<b>NET ASSETS</b>		<b>883,010</b>	863,040
<b>CAPITAL AND RESERVES</b>			
Share capital	10	<b>46,994</b>	46,994
Reserves		<b>818,293</b>	796,502
<b>Total equity attributable to equity shareholders of the Company</b>		<b>865,287</b>	843,496
<b>Non-controlling interests</b>		<b>17,723</b>	19,544
<b>TOTAL EQUITY</b>		<b>883,010</b>	863,040

**Condensed Consolidated Statement of Changes in Equity – Unaudited***For the six months ended 30 September 2014*

	Attributable to equity shareholders of the Company								Total equity HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	Exchange reserve HK\$'000	PRC		Total HK\$'000	Non- controlling interests HK\$'000	
					statutory reserve HK\$'000	Retained profits HK\$'000			
Balance at 1 April 2014	46,994	18,737	53,891	25,711	9,848	688,315	843,496	19,544	863,040
<b>Changes in equity for the six months ended 30 September 2014:</b>									
Profit for the period	-	-	-	-	-	18,877	18,877	(1,175)	17,702
Other comprehensive income	-	-	-	2,914	-	-	2,914	76	2,990
Total comprehensive income	-	-	-	2,914	-	18,877	21,791	(1,099)	20,692
Transfer between reserves	-	-	-	-	28	(28)	-	-	-
Dividend paid	-	-	-	-	-	-	-	(722)	(722)
<b>Balance at 30 September 2014</b>	<b>46,994</b>	<b>18,737</b>	<b>53,891</b>	<b>28,625</b>	<b>9,876</b>	<b>707,164</b>	<b>865,287</b>	<b>17,723</b>	<b>883,010</b>

**Condensed Consolidated Statement of Changes in Equity – Unaudited (Continued)***For the six months ended 30 September 2014*

	Attributable to equity shareholders of the Company								Non-controlling interests	Total equity
	Share capital	Share premium	Contributed surplus	Exchange reserve	PRC		Total	HK\$'000		
					statutory reserve	Retained profits				
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Balance at 1 April 2013	46,994	18,737	53,891	27,159	9,074	704,790	860,645	19,730	880,375	
<b>Changes in equity for the six months ended 30 September 2013:</b>										
Profit for the period	-	-	-	-	-	22,499	22,499	218	22,717	
Other comprehensive income	-	-	-	2,586	-	-	2,586	108	2,694	
Total comprehensive income	-	-	-	2,586	-	22,499	25,085	326	25,411	
Transfer between reserves	-	-	-	-	273	(273)	-	-	-	
Dividend paid	-	-	-	-	-	-	-	(1,168)	(1,168)	
Balance at 30 September 2013	46,994	18,737	53,891	29,745	9,347	727,016	885,730	18,888	904,618	

**Condensed Consolidated Cash Flow Statement – Unaudited***For the six months ended 30 September 2014*

	<b>Six months ended 30 September</b>	
	<b>2014</b>	2013
	<b>HK\$'000</b>	HK\$'000
Cash inflow from operations	<b>1,647</b>	9,396
Tax paid	<b>(2,757)</b>	(2,848)
Net cash (outflow)/inflow from operating activities	<b>(1,110)</b>	6,548
Net cash (outflow)/inflow from investing activities	<b>(18,877)</b>	21,989
Net cash outflow from financing activities	<b>(2,629)</b>	(3,102)
(Decrease)/increase in cash and cash equivalents	<b>(22,616)</b>	25,435
Cash and cash equivalents at 1 April	<b>196,507</b>	184,031
Effect of foreign exchange rates changes	<b>(118)</b>	2,198
Cash and cash equivalents at 30 September	<b>173,773</b>	211,664

**NOTES:**

**1. BASIS OF PREPARATION**

The interim financial results have been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), including compliance with Hong Kong Accounting Standard ("HKAS") 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). It was authorised for issue on 28 November 2014.

The interim financial results have been prepared in accordance with the same accounting policies adopted in the 2013/2014 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2014/2015 annual financial statements. Details of these changes in accounting policies are set out in note 2.

The preparation of the interim financial results in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The interim financial results are unaudited, but have been reviewed by the Company's audit committee.

The financial information relating to the financial year ended 31 March 2014 that is included in the interim financial results as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 March 2014 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 27 June 2014.

## 2. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) and one new Interpretation that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group’s financial statements:

- Amendments to HKAS 32, *Offsetting financial assets and financial liabilities*
- Amendments to HKAS 36, *Recoverable amount disclosures for non-financial assets*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

### **Amendments to HKAS 32, Offsetting financial assets and financial liabilities**

The amendments to HKAS 32 clarify the offsetting criteria in HKAS 32. The amendments do not have an impact on the Group’s interim financial results as they are consistent with the policies already adopted by the Group.

### **Amendments to HKAS 36, Recoverable amount disclosures for non-financial assets**

The amendments to HKAS 36 modify the disclosure requirements for impaired non-financial assets. Among them, the amendments expand the disclosures required for an impaired asset or cash-generating unit whose recoverable amount is based on fair value less costs of disposal. The adoption of the amendments does not have an impact on the Group’s interim financial results.

### 3. SEGMENT REPORTING

The Group manages its businesses by divisions, which are organised by business lines. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following six reportable segments. No operating segments have been aggregated to form the following reportable segments.

Toys	:	The manufacture, sale and distribution of toy products.
Computer products	:	The manufacture and sale of computer products.
Housewares	:	The manufacture, sale and distribution of housewares.
Timepieces	:	The manufacture, sale and distribution of clocks, watches, and electronic and gift products.
Investments	:	The investment in debt and equity securities, structured products and managed funds.
Others	:	The leasing of properties to generate rental income and to gain from the appreciation in the properties' values in the long term.

#### (a) Segment results, assets and liabilities

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the six months ended 30 September 2014 and 2013 is set out below.

	Six months ended 30 September 2014						
	Computer						Total
	Toys	products	Housewares	Timepieces	Investments	Others	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from external customers	321,895	117,761	81,687	181,612	-	-	702,955
Inter-segment revenue	-	-	-	-	-	-	-
Reportable segment revenue	321,895	117,761	81,687	181,612	-	-	702,955
Reportable segment profit/(loss)	12,685	8,871	2,379	(1,227)	6,795	220	29,723

		As at 30 September 2014						
		Computer					Total	
		Toys	products	Housewares	Timepieces	Investments	Others	Total
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Reportable segment	assets	370,301	184,043	120,218	169,997	198,068	50,271	1,092,898
Reportable segment	liabilities	125,642	29,229	38,678	46,329	–	10,481	250,359
		Six months ended 30 September 2013						
		Computer					Total	
		Toys	products	Housewares	Timepieces	Investments	Others	Total
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from external	customers	323,450	147,470	60,286	176,352	–	–	707,558
Inter-segment revenue		–	–	–	–	–	–	–
Reportable segment	revenue	323,450	147,470	60,286	176,352	–	–	707,558
Reportable segment	profit/(loss)	8,863	15,895	(705)	(658)	1,873	456	25,724
		As at 31 March 2014						
		Computer					Total	
		Toys	products	Housewares	Timepieces	Investments	Others	Total
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Reportable segment	assets	348,492	191,677	125,687	154,756	198,636	51,148	1,070,396
Reportable segment	liabilities	103,023	27,394	41,076	49,980	–	12,206	233,679

**(b) Reconciliations of reportable segment profit, assets and liabilities**

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2014</b>	2013
	<b>HK\$'000</b>	HK\$'000
<b>Profit</b>		
Reportable segment profit	<b>29,723</b>	25,724
Share of profit less loss of a joint venture	–	(225)
Share of profit less loss of an associate	–	(144)
Unallocated corporate income and expenses	<b>(6,631)</b>	2,735
	<b>23,092</b>	28,090
<b>Assets</b>		
	<b>At</b>	At
	<b>30 September</b>	31 March
	<b>2014</b>	2014
	<b>HK\$'000</b>	HK\$'000
Reportable segment assets	<b>1,092,898</b>	1,070,396
Elimination of inter-segment receivables	<b>(19,434)</b>	(19,383)
	<b>1,073,464</b>	1,051,013
Deferred tax assets	<b>9,886</b>	9,217
Unallocated corporate assets	<b>47,650</b>	30,559
	<b>1,131,000</b>	1,090,789

	<b>At 30 September 2014 HK\$'000</b>	At 31 March 2014 HK\$'000
<b>Liabilities</b>		
Reportable segment liabilities	<b>250,359</b>	233,679
Elimination of inter-segment payables	<b>(19,434)</b>	(19,383)
	<b>230,925</b>	214,296
Current tax payable	<b>11,346</b>	8,033
Deferred tax liabilities	<b>261</b>	261
Unallocated corporate liabilities	<b>5,458</b>	5,159
Consolidated total liabilities	<b>247,990</b>	227,749

**(c) Geographic information**

The following table sets out information about the geographical location of the Group's revenue from external customers. The geographical location of customers is based on the location at which the goods are delivered.

	<b>Six months ended 30 September</b>	
	<b>2014 HK\$'000</b>	2013 HK\$'000
<b>Revenue from external customers</b>		
Hong Kong (place of domicile)	<b>33,115</b>	32,745
North America	<b>355,147</b>	341,378
United Kingdom	<b>130,288</b>	125,963
Europe (excluding United Kingdom)	<b>84,289</b>	84,837
Asia (excluding Mainland China and Hong Kong)	<b>33,775</b>	68,818
Mainland China	<b>29,975</b>	10,563
Others	<b>36,366</b>	43,254
	<b>669,840</b>	674,813
	<b>702,955</b>	707,558

**4. PROFIT BEFORE TAXATION**

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

	<b>Six months ended 30 September</b>	
	<b>2014 HK\$'000</b>	2013 HK\$'000
<b>(a) Finance cost</b>		
Interest on bank loan wholly repayable within 5 years	<b>158</b>	233
<b>(b) Other items</b>		
Depreciation	<b>13,294</b>	14,117
Amortisation of land lease premium	<b>62</b>	157
Net gain on disposal of fixed assets	<b>(169)</b>	(21)
Net realised and unrealised (gains)/losses on trading securities	<b>(4,890)</b>	628
Staff costs	<b>222,107</b>	231,830
Interest income		
– trading securities	<b>(604)</b>	(555)
– deposits with banks	<b>(360)</b>	(265)
– other loans	<b>(45)</b>	(29)
Rental income	<b>(431)</b>	(413)
Dividend income	<b>(1,301)</b>	(1,942)
Reversal of impairment loss on receivables	<b>(4,914)</b>	–

**5. INCOME TAX**

	<b>Six months ended 30 September</b>	
	<b>2014</b>	2013
	<b>HK\$'000</b>	HK\$'000
Current tax – Hong Kong Profits Tax	<b>4,691</b>	2,643
Current tax – Outside Hong Kong	<b>1,368</b>	3,070
Deferred tax	<b>(669)</b>	(340)
	<b>5,390</b>	5,373

The provision for Hong Kong Profits Tax is calculated by applying the estimated annual effective tax rate of 16.5% (2013: 16.5%) to the six months ended 30 September 2014. Taxation for subsidiaries outside Hong Kong is similarly calculated using the estimated annual effective rates of taxation that are expected to be applicable in the relevant countries.

**6. EARNINGS PER SHARE**

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of HK\$18,877,000 (2013: HK\$22,499,000) and the weighted average number of shares of 602,491,000 (2013: 602,491,000) in issue during the period.

There were no dilutive potential shares in existence during the periods ended 30 September 2014 and 2013, and therefore diluted earnings per share is the same as the basic earnings per share for both the current and prior periods.

**7. FIXED ASSETS**

The movements of fixed assets of the Group during the period are:

	<b>Property, plant and equipment</b>	<b>Investment properties</b>	<b>Interests in leasehold land held for own use under operating leases</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Net book value as at				
1 April 2014	263,146	6,040	4,180	273,366
Additions	20,992	–	–	20,992
Disposals	(28)	–	–	(28)
Depreciation/amortisation	(13,294)	–	(62)	(13,356)
Exchange adjustments	905	–	–	905
<b>Net book value as at 30 September 2014</b>	<b>271,721</b>	<b>6,040</b>	<b>4,118</b>	<b>281,879</b>

**8. TRADE AND OTHER RECEIVABLES**

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

	<b>At 30 September 2014 HK\$'000</b>	At 31 March 2014 HK\$'000
<b>By date of invoice</b>		
Within 3 months	<b>190,138</b>	149,791
Over 3 months but within 6 months	<b>34,835</b>	7,704
Over 6 months	<b>115</b>	–
Trade debtors and bills receivable	<b>225,088</b>	157,495
Deposits, prepayments and other receivables	<b>30,003</b>	33,675
	<b>255,091</b>	191,170

The credit terms given to the customers vary and are generally based on the financial strengths of individual customers. Trade debtors and bills receivable are normally due within 90 days from the date of billing.

**9. TRADE AND OTHER PAYABLES**

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

	<b>At 30 September 2014 HK\$'000</b>	At 31 March 2014 HK\$'000
<b>By date of invoice</b>		
Within 1 month	<b>28,499</b>	47,491
Over 1 month but within 3 months	<b>20,362</b>	6,603
Over 3 months	<b>1,037</b>	1,327
	<hr/>	<hr/>
Trade creditors and bills payable	<b>49,898</b>	55,421
Accruals and other payables	<b>172,704</b>	148,317
	<hr/>	<hr/>
	<b>222,602</b>	203,738

All of the trade and other payables including receipts in advance from customers are expected to be settled or recognised as income within one year.

**10. SHARE CAPITAL**

	<b>Number of shares '000</b>	<b>Amount HK\$'000</b>
<b>Authorised:</b>		
Shares of US\$0.01 each	<b>1,000,000</b>	<b>78,000</b>
	<hr/>	<hr/>
<b>Issued and fully paid:</b>		
At 1 April 2014 and 30 September 2014	<b>602,491</b>	<b>46,994</b>
	<hr/>	<hr/>

**11. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS**

**(a) Financial instruments carried at fair value**

**Fair value hierarchy**

The following table presents the fair value of the Group's financial instruments measured at the balance sheet date on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuations: Fair value measured using significant unobservable inputs

**Recurring fair value Measurement**

Assets

Trading securities

- listed debt and equity securities
- unlisted managed funds, debt securities and structured products

	Fair value measurement as at 30 September 2014			Fair value measurement as at 31 March 2014		
	Fair value as at 30 September 2014	categorized into		Fair value as at 31 March 2014	categorized into	
	HK\$'000	Level 1 HK\$'000	Level 2 HK\$'000	HK\$'000	Level 1 HK\$'000	Level 2 HK\$'000
	61,391	61,391	-	51,114	51,114	-
	116,503	-	116,503	129,505	-	129,505
	177,894	61,391	116,503	180,619	51,114	129,505

**Fair value hierarchy**

During the six months ended 30 September 2014, there were no transfers between Level 1 and Level 2. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the balance sheet date of the financial period in which they occur.

**Estimation of fair values**

The fair values of listed equity securities and listed debt securities are based on quoted market prices at the balance sheet date without any deduction for transaction costs.

The fair values of unlisted managed funds and unlisted debt securities are based on price quoted by financial institutions.

The fair value of the structured products is estimated by discounted cash flow techniques or 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.

**(b) Fair values of financial instruments carried at other than fair value**

All financial instruments are carried at amounts not materially different from their fair values as at 30 September 2014 and 31 March 2014 except for amounts due from/to subsidiaries which are unsecured, interest-free and have no fixed terms of repayment. Given these terms, it is not meaningful to disclose their fair values.

**12. COMMITMENTS**

At 30 September 2014, the total future minimum lease payments of the Group under non-cancellable operating leases are payable as follows:

	At 30 September 2014		At 31 March 2014	
	Land and buildings HK\$'000	Others HK\$'000	Land and buildings HK\$'000	Others HK\$'000
Within 1 year	8,355	1,843	8,566	1,435
After 1 year but within 5 years	5,867	1,951	4,961	1,528
	<b>14,222</b>	<b>3,794</b>	13,527	2,963

**13. MATERIAL RELATED PARTY TRANSACTIONS**

**Key management personnel remuneration**

Remuneration for key management personnel, including amounts paid to the Company's directors, is as follows:

	Six months ended 30 September	
	2014 HK\$'000	2013 HK\$'000
Short-term employee benefits	8,562	13,128
Post-employment benefits	652	803
	<b>9,214</b>	13,931

**BUSINESS REVIEW**

The Group continued to trade in a difficult and uncertain business environment in the 6 months ended 30 September 2014. The turnover for the period amounted to HK\$703 million, slightly down from HK\$708 million last year. However, the profit attributable to the shareholders was HK\$18.9 million, representing a decline of 16% compared with HK\$22.5 million in the corresponding period. Further analysis of the operating results is set out in the following paragraphs.

Despite operating at a tight profit margin as a result of severe competition in the toy industry, the Toys Division recorded a satisfactory result for the period under review, as a result of cost savings achieved from improved operating efficiency. The turnover of HK\$322 million remained at a similar level as in the previous year and the operating profit was HK\$12.7 million, an increase of 43% from HK\$8.9 million a year ago.

The Computer Products Division continued to suffer a setback in its performance amid unfavourable trading conditions which further eroded the profit margin. The turnover amounted to HK\$118 million, down 20% from HK\$147 million in last year and the profit decreased to HK\$8.9 million from HK\$15.9 million in the previous year.

Following an increase in business volume in the 6 months to 30 September 2014, the Housewares Division recorded an improved result over the same period of the previous year. The turnover of HK\$82 million represented an increase of 35% as compared with HK\$60 million a year ago. The operating profit amounted to HK\$2.4 million while a loss of HK\$0.7 million was incurred in the previous year.

The Timepieces Division had similar operating results as last year. The turnover increased by 3% to HK\$182 million with a loss of HK\$1.2 million compared with HK\$0.7 million in the previous year.

During the period, the Group recorded net realized and unrealized gains of trading securities of HK\$4.9 million compared with losses of HK\$0.6 million a year ago. At 30 September 2014, the Group's trading securities decreased to HK\$178 million from HK\$181 million as at the beginning of the financial year.

## **LIQUIDITY, FINANCIAL RESOURCES AND FUNDING**

The Group continued to exercise prudence in managing its financial resources. As in the past, the Group maintains a sound liquidity position. At 30 September 2014, the Group's cash surplus amounted to HK\$194 million (at 31 March 2014: HK\$215 million).

At 30 September 2014, the Group's total current assets were HK\$821 million (at 31 March 2014: HK\$795 million). The trade and other receivables amounted to HK\$255 million (at 31 March 2014: HK\$191 million) and the current liabilities HK\$244 million (at 31 March 2014: HK\$224 million) which included a mortgage balance of HK\$10 million (at 31 March 2014: HK\$12 million) secured by one of the Group's properties with a carrying value of HK\$34 million (at 31 March 2014: HK\$35 million). Certain trading financial assets and bank deposits totalling HK\$177 million (at 31 March 2014: HK\$108 million) are pledged to the banks to secure banking facilities granted to the Group.

As at 30 September 2014, the Group's working capital ratio, an indicator of liquidity represented by a ratio between the current assets and the current liabilities, was 3.36 compared to 3.54 at 30 September 2013. The quick ratio, another ratio that gauges the short-term liquidity and measured by trade debtors and cash and cash equivalent over current liabilities, decreased to 1.63 from 1.7 at 30 September 2013.

## **PROSPECTS AND GENERAL OUTLOOK**

As the markets remain difficult, coupled with a relatively weak order position, it is anticipated that the turnover and profit margin will come under heavy pressure in the second half of the current financial year. The Toys and Housewares Divisions are expected to report a steady performance for the year ending 31 March 2015. The Computer Products Division will experience a challenging business environment but it is hoped that the division will return a profit for the remaining 6 months. However the Timepieces Division will struggle to be profitable under difficult trading conditions.

Nevertheless, the Management still believes that the Group will report an overall profit on its core business activities in the second half of the financial year.

## **CONTINGENT LIABILITIES**

As at 30 September 2014, the Group did not have any significant contingent liabilities.

## **FOREIGN EXCHANGE EXPOSURE**

The Group is exposed to foreign exchange risks primarily through sales and purchases that are denominated in a foreign currency, such as Renminbi, United States Dollars and Pound Sterling. From time to time, the Group takes out foreign exchange contracts to hedge against its foreign exchange exposure.

## **DIVIDEND**

The Directors have declared an interim dividend of HK3 cents per share (2013: HK3 cents). The total amount of dividend payment of HK\$18 million (2013: HK\$18 million) was based on the total number of shares in issue as at 27 November 2014, being the latest practicable date prior to the announcement of the interim results. The dividend will be paid on Thursday, 15 January 2015 to shareholders registered in the Register of Members on Wednesday, 31 December 2014.

## **CLOSURE OF REGISTER OF MEMBERS**

For determining the entitlement to the interim dividend, the Register of Members of the Company will be closed from Tuesday, 30 December 2014 to Wednesday, 31 December 2014, both days inclusive, during which period no transfer of shares will be effected. In order to be qualified for the interim dividend, shareholders should ensure that all transfers of shares, accompanied by the relevant share certificates, are lodged with the Company's share registrar in Hong Kong, Tricor Tengis Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Monday, 29 December 2014.

## **SHARE OPTION SCHEME**

The Company adopted a share option scheme on 16 September 2013. No share options have been granted since its adoption.

At no time during the six months ended 30 September 2014 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.

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

As at 30 September 2014, the interests and short positions of directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under 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 Issuers set out in Appendix 10 to the Listing Rules ("Model Code") were as follows:

### Interests in issued shares

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

Directors	Number of Shares			Total	Percentage of total issued shares
	Personal Interests	Interests of spouse	Other interests		
S T K Cheung	1,897,500	830,000	143,216,297 (Note (i), (ii), (iii) & (iv))	145,943,797	24.22%
R Dorfman	51,471,000	–	–	51,471,000	8.54%
K H Tang	500,000	–	2,000,000 (Note (iv))	2,500,000	0.41%

Notes:

- (i) Dr S T K Cheung is the beneficiary of a family trust which owned 85,538,356 shares.
- (ii) Dr S T K Cheung is the founder of a separate family trust which owned 37,455,308 shares. His spouse and family members are the beneficiaries of this family trust.
- (iii) Dr S T K Cheung was interested in 20,222,633 shares together with other family members.
- (iv) Mr K H Tang is a director of Seasons Treasure Holdings Limited ("STH") which owned 2,000,000 shares. Dr S T K Cheung and his spouse are also directors of STH which is beneficially owned by the family trust mentioned in note (ii).

All the interests stated above represent long positions.

Save as disclosed above, none of the directors or chief executives of the Company, any of their spouses or children under eighteen years of age had any interests or short positions in the shares, underlying shares or debentures of the Company or its 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.

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

Other than the interests disclosed in the section "Directors' and chief executives' 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 30 September 2014 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			Total	Percentage of total issued shares
		Personal interests	Interests of spouse	Other interests		
<b>Substantial Shareholders</b>						
Ng Yiu Chi Eleanor	(i)	830,000	107,658,489	37,455,308	145,943,797	24.22%
Goldfinch Cook Investments Ltd ("GCIL")	(ii)	85,538,356	–	–	85,538,356	14.20%
HSBC International Trustee Ltd ("HIT")	(ii)	–	–	122,993,664	122,993,664	20.41%
<b>Other Persons</b>						
Sheri Tillman Dorfman	(iii)	–	51,471,000	–	51,471,000	8.54%
Gershon Dorfman		37,740,799	–	–	37,740,799	6.26%
Lydia Dorfman	(iv)	–	37,740,799	–	37,740,799	6.26%
Moral Excel Holdings Ltd ("MEH")	(ii)	35,455,308	–	2,000,000	37,455,308	6.22%

Notes:

- (i) The entire interests in shares of 145,943,797 are duplicated by those disclosed under Dr S T K Cheung, the spouse of Ms Ng Yiu Chi Eleanor, in the section "Directors' and chief executives' interests and short positions in shares, underlying shares and debentures".
- (ii) GCIL is a company owned by a family trust which was interested in 85,538,356 shares held by GCIL, as noted in the section "Directors' and chief executives' interests and short positions in shares, underlying shares and debentures". MEH is another company owned by a separate family trust which was interested in 37,455,308 shares held by MEH and its subsidiary company. HIT, the trustee of these trusts, is deemed to be interested in the 122,993,664 shares owned by these trusts.
- (iii) These interests in shares are duplicated by those disclosed under Mr R Dorfman, the spouse of Mrs Sheri Tillman Dorfman, in the section "Directors' and chief executives' interests and short positions in shares, underlying shares and debentures".
- (iv) These interests in shares are duplicated by those beneficially owned by Mr Gershon Dorfman.

All the interests stated above represent long positions.

Save as disclosed above, no other interests required to be recorded in the register kept under section 336 of the SFO have been notified to the Company.

## EMPLOYEES

As at 30 September 2014, the number of employees of the Group was 240 (2013: 247) in Hong Kong, 4,329 (2013: 5,509) in the Mainland China and 77 (2013: 82) in Europe. Total staff costs for the period under review amounted to HK\$222,107,000 (2013: HK\$231,830,000). The Group ensures that its employees' remuneration packages are competitive. Employees are rewarded based on their performance and experience and the prevailing industry practice.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 September 2014.

## **AUDIT COMMITTEE**

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

## **REMUNERATION COMMITTEE**

The remuneration committee comprises two independent non-executive directors, namely Mr Ng Tze Kin David, being the chairman, and Mr Yeh Man Chun Kent and one executive director, namely Mr Tang King Hung. The terms of reference of the remuneration committee have been included on the Company's website.

## **NOMINATION COMMITTEE**

The nomination committee consists of two executive directors, namely Mr Robert Dorfman, being the chairman, and Dr Cheung Tsang Kay Stan and three independent non-executive directors, namely Mr David Tai Chong Lie-A-Cheong, Mr Yeh Man Chun Kent and Mr Ng Tze Kin David. The primary roles of the nomination committee are to determine the policy for the nomination of directors, to review the structure, size and composition of the Board and to make recommendations to the Board on the appointment or re-appointment of directors.

## **CORPORATE GOVERNANCE**

The Company has complied throughout the six months ended 30 September 2014 with the code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules 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.

## **MODEL CODE**

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. 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.

By Order of the Board

**Robert Dorfman**

*Chairman*

Hong Kong, 28 November 2014