



Herald Holdings Limited

Stock Code: 00114

2016/17  
Interim Report

## CORPORATE INFORMATION

### EXECUTIVE DIRECTORS

Robert Dorfman *Chairman*  
Shum Kam Hung 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

Thong Yeung Sum Michael 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 2016, together with the comparative figures for the corresponding period in 2015, as follows:

### Consolidated Statement of Profit or Loss – Unaudited

For the six months ended 30 September 2016

		Six months ended 30 September	
	Note	2016 HK\$'000	2015 HK\$'000
<b>Revenue</b>	3	<b>649,893</b>	813,987
Cost of sales		<b>(494,506)</b>	(632,659)
<b>Gross profit</b>		<b>155,387</b>	181,328
Other revenue		<b>5,871</b>	5,554
Other net loss		<b>(2,326)</b>	(9,236)
Selling expenses		<b>(20,552)</b>	(19,367)
Administrative expenses		<b>(123,515)</b>	(131,850)
Gain on disposal of non-current assets classified as held for sale	4(c)	<b>250,515</b>	–
<b>Profit from operations</b>		<b>265,380</b>	26,429
Finance cost	4(a)	<b>(115)</b>	(109)
<b>Profit before taxation</b>	4	<b>265,265</b>	26,320
Income tax	5	<b>(87,736)</b>	(9,666)
<b>Profit for the period</b>		<b>177,529</b>	16,654

**Consolidated Statement of Profit or Loss – Unaudited (Continued)***For the six months ended 30 September 2016*

		<b>Six months ended 30 September</b>	
		<b>2016</b>	2015
		<b>HK\$'000</b>	HK\$'000
	<i>Note</i>		
<b>Attributable to:</b>			
Equity shareholders of the Company		<b>106,909</b>	17,958
Non-controlling interests		<b>70,620</b>	(1,304)
<b>Profit for the period</b>		<b>177,529</b>	16,654
<b>Earnings per share</b>			
Basic	7	<b>17.74 cents</b>	2.98 cents
Diluted		<b>17.73 cents</b>	2.98 cents

Details of dividends payable to equity shareholders of the Company are set out in note 6.

**Consolidated Statement of Profit or Loss and Other Comprehensive Income – Unaudited***For the six months ended 30 September 2016*

	<b>Six months ended 30 September</b>	
	<b>2016</b>	2015
	<b>HK\$'000</b>	HK\$'000
<b>Profit for the period</b>	<b>177,529</b>	16,654
<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>(9,435)</b>	(5,548)
<b>Total comprehensive income for the period</b>	<b>168,094</b>	11,106
<b>Attributable to:</b>		
Equity shareholders of the Company	<b>97,650</b>	12,573
Non-controlling interests	<b>70,444</b>	(1,467)
<b>Total comprehensive income for the period</b>	<b>168,094</b>	11,106

**Consolidated Statement of Financial Position – Unaudited**

At 30 September 2016

	Note	<b>As at 30 September 2016 HK\$'000</b>	As at 31 March 2016 HK\$'000
<b>Non-current assets</b>			
Investment properties	8	<b>12,283</b>	12,777
Other property, plant and equipment	8	<b>305,265</b>	268,715
Interests in leasehold land held for own use under operating leases	8	<b>3,871</b>	3,933
		<b>321,419</b>	285,425
Intangible assets		<b>2,022</b>	2,033
Interest in an associate		–	–
Interest in joint ventures		–	–
Other financial assets		<b>9,840</b>	11,340
Deferred tax assets		<b>20,577</b>	21,402
		<b>353,858</b>	320,200
<b>Current assets</b>			
Trading securities		<b>147,254</b>	142,704
Inventories		<b>177,821</b>	200,963
Trade and other receivables	9	<b>224,645</b>	219,145
Pledged bank balances		<b>4,291</b>	3,806
Cash and cash equivalents		<b>351,856</b>	176,042
Current tax recoverable		–	31
		<b>905,867</b>	742,691
Non-current assets classified as held for sale	4(c)	–	2,210
		<b>905,867</b>	744,901

**Consolidated Statement of Financial Position – Unaudited (Continued)**

At 30 September 2016

		<b>As at 30 September 2016</b>	As at 31 March 2016
	<i>Note</i>	<b>HK\$'000</b>	HK\$'000
<b>Current liabilities</b>			
Trade and other payables	10	<b>218,957</b>	215,344
Bank loans		<b>15,345</b>	4,989
Current tax payable		<b>22,391</b>	16,900
Dividends payable to equity shareholders of the Company		<b>30,125</b>	–
		<b>286,818</b>	237,233
<b>Net current assets</b>			
		<b>619,049</b>	507,668
<b>Total assets less current liabilities</b>			
		<b>972,907</b>	827,868
<b>Non-current liabilities</b>			
Deferred tax liabilities		<b>8,020</b>	238
Provision for long service payments		<b>3,224</b>	3,279
		<b>11,244</b>	3,517
<b>NET ASSETS</b>			
		<b>961,663</b>	824,351
<b>CAPITAL AND RESERVES</b>			
Share capital	11	<b>46,994</b>	46,994
Reserves		<b>827,336</b>	759,811
<b>Total equity attributable to equity shareholders of the Company</b>			
		<b>874,330</b>	806,805
<b>Non-controlling interests</b>			
		<b>87,333</b>	17,546
<b>TOTAL EQUITY</b>			
		<b>961,663</b>	824,351

## Consolidated Statement of Changes in Equity – Unaudited

For the six months ended 30 September 2016

	Attributable to equity shareholders of the Company										
	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	Capital reserve HK\$'000	Property revaluation reserve HK\$'000	Exchange reserve HK\$'000	PRC statutory reserve HK\$'000	Retained profit HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
Balance at 1 April 2016	46,984	18,737	53,891	1,220	1,662	15,242	12,658	656,401	806,805	17,546	824,351
Changes in equity for the six months ended 30 September 2016:	-	-	-	-	-	-	-	106,909	106,909	70,620	177,529
Profit for the period	-	-	-	-	-	-	-	-	-	(176)	(9,435)
Other comprehensive income	-	-	-	-	-	(9,259)	-	-	(9,259)	-	-
Total comprehensive income	-	-	-	-	-	(9,259)	-	106,909	97,650	70,444	168,094
Dividends approved in respect of the previous year	-	-	-	-	-	-	-	(30,125)	(30,125)	-	(30,125)
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	(657)	(657)
Balance at 30 September 2016	46,984	18,737	53,891	1,220	1,662	5,983	12,658	733,185	874,330	87,333	961,663

**Consolidated Statement of Changes in Equity – Unaudited (Continued)**

For the six months ended 30 September 2016

	Attributable to equity shareholders of the Company										
	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	Capital reserve HK\$'000	Property revaluation reserve HK\$'000	Exchange reserve HK\$'000	PRC statutory reserve HK\$'000	Retained profit HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
Balance at 1 April 2015	46,994	18,737	53,891	1,220	-	25,179	10,201	662,009	818,231	18,916	837,147
<b>Changes in equity for the six months ended 30 September 2015:</b>											
Profit for the period	-	-	-	-	-	-	-	17,958	17,958	(1,304)	16,654
Other comprehensive income	-	-	-	-	-	(5,385)	-	-	(5,385)	(163)	(5,548)
Total comprehensive income	-	-	-	-	-	(5,385)	-	17,958	12,573	(1,467)	11,106
Transfer between reserves	-	-	-	-	-	-	276	(276)	-	-	-
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	(319)	(319)
Balance at 30 September 2015	46,994	18,737	53,891	1,220	-	19,794	10,477	679,691	830,804	17,130	847,934

**Condensed Consolidated Cash Flow Statement – Unaudited***For the six months ended 30 September 2016*

	<b>Six months ended 30 September</b>	
	<b>2016</b>	2015
	<b>HK\$'000</b>	HK\$'000
<b>Operating activities</b>		
Cash generated from/(used in) operations	<b>37,272</b>	(7,648)
Tax paid	<b>(73,497)</b>	(1,345)
Net cash used in operating activities	<b>(36,225)</b>	(8,993)
<b>Investing activities</b>		
Payment for the purchase of property, plant and equipment	<b>(55,323)</b>	(32,062)
Payment for the purchase of trading securities	<b>(7,207)</b>	(4,077)
Proceeds from the sale of trading securities	<b>9,498</b>	19,927
Proceeds from disposal of non-current assets classified as held for sale	<b>252,725</b>	–
Other cash flows arising from investing activities	<b>2,936</b>	2,863
Net cash generated from/(used in) investing activities	<b>202,629</b>	(13,349)
<b>Financing activities</b>		
Proceeds from new bank loan	<b>12,400</b>	–
Repayment of bank loans	<b>(2,044)</b>	(1,799)
Other cash flows arising from financing activities	<b>(772)</b>	(428)
Net cash generated from/(used in) financing activities	<b>9,584</b>	(2,227)
Increase/(decrease) in cash and cash equivalents	<b>175,988</b>	(24,569)
Cash and cash equivalents at 1 April	<b>176,042</b>	172,171
Effect of foreign exchange rates changes	<b>(174)</b>	(109)
Cash and cash equivalents at 30 September	<b>351,856</b>	147,493

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

### 1. BASIS OF PREPARATION

The interim financial report has 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 29 November 2016.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2015/2016 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2016/2017 annual financial statements. Details of these changes in accounting policies are set out in note 2.

The preparation of the interim financial report 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 report are unaudited, but have been reviewed by the Company’s audit committee.

The financial information relating to the financial year ended 31 March 2016 that is included in the interim financial report as comparative 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 2016 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 29 June 2016.

## 2. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) that are first effective for the current accounting period of the Group. Of these, the following amendments are relevant to the Group:

- *Annual Improvements to HKFRSs 2012-2014 Cycle*
- *Amendments to HKAS 1, Presentation of Financial Statements: Disclosure Initiative*

None of these developments has had a material effect on how the Group’s results and financial position for the current or prior periods have been prepared or presented.

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

## 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 2016 and 2015 is set out below.

		Six months ended 30 September 2016						
		Toys	Computer products	Housewares	Timepieces	Investments	Others	Total
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from external customers		365,948	103,733	71,183	109,029	-	-	649,893
Inter-segment revenue		-	-	-	-	-	-	-
Reportable segment revenue		365,948	103,733	71,183	109,029	-	-	649,893
Reportable segment profit/(loss)		283,125	(3,572)	(1,269)	(6,711)	8,531	(186)	279,918
		As at 30 September 2016						
		Toys	Computer products	Housewares	Timepieces	Investments	Others	Total
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Reportable segment assets		561,890	176,775	122,458	129,440	151,545	80,656	1,222,764
Reportable segment liabilities		145,725	20,088	38,888	31,695	-	16,547	252,943

## Six months ended 30 September 2015

	Toys HK\$'000	Computer products HK\$'000	Housewares HK\$'000	Timepieces HK\$'000	Investments HK\$'000	Others HK\$'000	Total HK\$'000
Revenue from external customers	496,579	115,567	61,050	140,791	-	-	813,987
Inter-segment revenue	-	-	-	-	-	-	-
Reportable segment revenue	496,579	115,567	61,050	140,791	-	-	813,987
Reportable segment profit/(loss)	45,995	2,919	(5,138)	(2,520)	(10,280)	113	31,089

## As at 31 March 2016

	Toys HK\$'000	Computer products HK\$'000	Housewares HK\$'000	Timepieces HK\$'000	Investments HK\$'000	Others HK\$'000	Total HK\$'000
Reportable segment assets	376,224	195,452	111,612	149,475	146,510	47,484	1,026,757
Reportable segment liabilities	140,559	26,208	33,648	32,532	-	6,357	239,304

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

	<b>Six months ended 30 September</b>	
	<b>2016</b>	2015
	<b>HK\$'000</b>	HK\$'000
<b>Profit</b>		
Reportable segment profit	<b>279,918</b>	31,089
Unallocated corporate income and expenses	<b>(14,653)</b>	(4,769)
	<b>265,265</b>	26,320
<b>Assets</b>		
	<b>At 30 September 2016</b>	At 31 March 2016
	<b>HK\$'000</b>	HK\$'000
Reportable segment assets	<b>1,222,764</b>	1,026,757
Elimination of inter-segment receivables	<b>(20,157)</b>	(20,276)
	<b>1,202,607</b>	1,006,481
Current tax recoverable	–	31
Deferred tax assets	<b>20,577</b>	21,402
Unallocated corporate assets	<b>36,541</b>	37,187
	<b>1,259,725</b>	1,065,101
<b>Liabilities</b>		
	<b>At 30 September 2016</b>	At 31 March 2016
	<b>HK\$'000</b>	HK\$'000
Reportable segment liabilities	<b>252,943</b>	239,304
Elimination of inter-segment payables	<b>(20,157)</b>	(20,276)
	<b>232,786</b>	219,028
Current tax payable	<b>22,391</b>	16,900
Deferred tax liabilities	<b>8,020</b>	238
Dividends payable to equity shareholders of the Company	<b>30,125</b>	–
Unallocated corporate liabilities	<b>4,740</b>	4,584
	<b>298,062</b>	240,750

**(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>2016</b>	2015
	<b>HK\$'000</b>	HK\$'000
<b>Revenue from external customers</b>		
Hong Kong (place of domicile)	<b>29,281</b>	46,090
North America	<b>323,247</b>	391,526
United Kingdom	<b>120,824</b>	134,274
Europe (excluding United Kingdom)	<b>82,157</b>	121,427
Asia (excluding Mainland China and Hong Kong)	<b>26,458</b>	34,095
Mainland China	<b>34,749</b>	30,490
Others	<b>33,177</b>	56,085
	<b>620,612</b>	767,897
	<b>649,893</b>	813,987

#### 4. PROFIT BEFORE TAXATION

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

	<b>Six months ended 30 September</b>	
	<b>2016</b>	2015
	<b>HK\$'000</b>	HK\$'000
<b>(a) Finance cost</b>		
Interest on bank loans	<b>115</b>	109
<b>(b) Other items</b>		
Depreciation	<b>14,994</b>	13,987
Amortisation of land lease premium	<b>62</b>	62
Net loss on disposal of other property, plant and equipment	<b>3</b>	614
Net realised and unrealised (gains)/losses on trading securities	<b>(6,841)</b>	12,210
Staff costs	<b>217,979</b>	264,963
Impairment loss on other financial assets	<b>1,500</b>	–
Interest income from		
– trading securities	<b>(524)</b>	(706)
– deposits with banks	<b>(501)</b>	(275)
– debtors	<b>(860)</b>	(636)
Rental income	<b>(530)</b>	(540)
Dividend income	<b>(1,166)</b>	(1,225)

- (c) The Group recognised a pre-tax gain of HK\$250,515,000 on disposal of properties in Shenzhen (the “Disposal”) after deducting stamp duty, value added taxes, surcharges and professional fees. The Land Appreciation Tax and Corporate Income Tax (“LAT”) in relation to the Disposal are estimated to be HK\$15,475,000 and HK\$57,725,000 respectively, where both of which were recognised as income tax expenses as set out in note 5.

## 5. INCOME TAX

	<b>Six months ended 30 September</b>	
	<b>2016</b>	2015
	<b>HK\$'000</b>	HK\$'000
Current tax – Hong Kong Profits Tax	<b>6,191</b>	6,437
Current tax – Outside Hong Kong	<b>57,444</b>	1,716
Land Appreciation Tax	<b>15,475</b>	–
Deferred tax	<b>8,626</b>	1,513
	<b>87,736</b>	9,666

The provision for Hong Kong Profits Tax is calculated by applying the estimated annual effective tax rate of 16.5% (2015: 16.5%) to the six months ended 30 September 2016. 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.

LAT is levied on the appreciation of land value in respect of the Disposal.

## 6. DIVIDENDS

Dividends payable to equity shareholders attributable to the interim period

	<b>Six months ended 30 September</b>	
	<b>2016</b>	2015
	<b>HK\$'000</b>	HK\$'000
Interim dividend declared and paid after the interim period of HK4 cents per share (2015: HK3 cents per share)	<b>24,100</b>	18,075

The interim dividend has not been recognised as a liability at the end of the reporting period.

## 7. EARNINGS PER SHARE

### (a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of HK\$106,909,000 (2015: HK\$17,958,000) and the weighted average number of shares of 602,491,000 (2015: 602,491,000) in issue during the period.

### (b) Diluted earnings per share

The calculation of diluted earnings per share for the period ended 30 September 2016 is based on the profit attributable to equity shareholders of the Company of HK\$106,909,000 and the weighted average number of shares of 603,000,000, calculated as follows:

	<b>Weighted average number of shares (diluted)</b>	
	<b>2016</b>	2015
	<b>'000</b>	'000
Weighted average number of shares at 30 September	<b>602,491</b>	602,491
Effect of deemed issue of shares under the Company's share option scheme for nil consideration	<b>509</b>	–
Weighted average number of shares (diluted) at 30 September	<b>603,000</b>	602,491

There were no dilutive potential shares in existence during the period ended 30 September 2015, and therefore the diluted earnings per share is the same as the basic earnings per share for the prior period.

## 8. INVESTMENT PROPERTIES, OTHER PROPERTY, PLANT AND EQUIPMENT AND LEASEHOLD LAND

The movements during the period are:

	<b>Investment properties</b>	<b>Other property, plant and equipment</b>	<b>Interests in leasehold land held for own use under operating leases</b>	<b>Total</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
Net book value as at 1 April 2016	12,777	268,715	3,933	285,425
Additions	–	55,323	–	55,323
Disposals	–	(373)	–	(373)
Depreciation/ amortisation	–	(14,994)	(62)	(15,056)
Exchange adjustments	(494)	(3,406)	–	(3,900)
<b>Net book value as at 30 September 2016</b>	<b>12,283</b>	<b>305,265</b>	<b>3,871</b>	<b>321,419</b>

## 9. 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 end of the reporting period:

	<b>At 30 September 2016 HK\$'000</b>	At 31 March 2016 HK\$'000
<b>By date of invoice</b>		
Within 3 months	<b>160,669</b>	147,392
4 to 6 months	<b>11,211</b>	11,821
7 to 12 months	<b>4,820</b>	14,192
13 to 24 months	<b>26,422</b>	12,971
Trade debtors and bills receivable	<b>203,122</b>	186,376
Deposits, prepayments and other receivables	<b>21,523</b>	32,769
	<b>224,645</b>	219,145

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. Except for the trade debtors amounting to HK\$19,310,000 (at 31 March 2016: HK\$12,782,000) which are expected to be recovered after more than one year, all other trade and other receivables are expected to be recovered or recognised as expenses within one year.

## 10. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade creditors and bills payable with the following ageing analysis as of the end of the reporting period:

	<b>At 30 September 2016 HK\$'000</b>	At 31 March 2016 HK\$'000
<b>By date of invoice</b>		
Within 1 month	<b>23,596</b>	42,127
Over 1 month but within 3 months	<b>14,695</b>	7,967
Over 3 months	<b>2,135</b>	1,642
Trade creditors and bills payable	<b>40,426</b>	51,736
Accruals and other payables	<b>178,531</b>	163,608
	<b>218,957</b>	215,344

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.

## 11. 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>
<b>Issued and fully paid:</b>		
At 1 April 2016 and 30 September 2016	<b>602,491</b>	<b>46,994</b>

## 12. 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 end of the reporting period 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

	Fair value as at 30 September 2016	Fair value measurement as at 30 September 2016 categorised into		Fair value as at 31 March 2016	Fair value measurement as at 31 March 2016 categorised into	
	HK\$'000	Level 1	Level 2	HK\$'000	Level 1	Level 2
		HK\$'000	HK\$'000		HK\$'000	HK\$'000
<b>Recurring fair value measurement</b>						
Assets						
Trading securities						
– listed debt and equity securities	47,711	47,711	-	49,717	49,717	-
– unlisted managed funds, debt securities and structured products	99,543	-	99,543	92,987	-	92,987
	147,254	47,711	99,543	142,704	49,717	92,987

During the six months ended 30 September 2016, 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 end of the reporting 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 end of the reporting period 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 end of the reporting period. Where a pricing model is used, inputs are based on market related data at the end of the reporting period.

#### (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 2016 and 31 March 2016 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.

## 13. COMMITMENTS

- (a) At 30 September 2016, the total future minimum lease payments of the Group under non-cancellable operating leases are payable as follows:

	At 30 September 2016		At 31 March 2016	
	Land and buildings	Others	Land and buildings	Others
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within 1 year	6,328	1,605	6,521	1,501
After 1 year but within 5 year	8,914	1,769	6,995	1,027
After 5 years	14,613	–	16,993	–
	<b>29,855</b>	<b>3,374</b>	30,509	2,528

- (b) Capital commitments outstanding at 30 September 2016 not provided for in the financial statements were as follows:

	<b>At 30 September 2016 HK\$'000</b>	At 31 March 2016 HK\$'000
Contracted for the purchase of property, plant and equipment	<b>8,004</b>	21,268

#### 14. MATERIAL RELATED PARTY TRANSACTIONS

##### Key management personnel remuneration

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

	<b>Six months ended 30 September</b>	
	<b>2016 HK\$'000</b>	2015 HK\$'000
Short-term employee benefits	<b>11,274</b>	10,305
Post-employment benefits	<b>715</b>	2,700
	<b>11,989</b>	13,005

## BUSINESS REVIEW

The Group's revenue for the six months ended 30 September 2016 amounted to HK\$650 million, representing a decline of 20% as compared with HK\$814 million in the corresponding period last year. The net profit attributable to the equity shareholders for the same period was HK\$106.9 million which was close to 6 times the net profit of HK\$17.9 million a year earlier.

The increase in net profit was primarily due to a pre-tax gain of approximately HK\$250.5 million on disposal of properties in Shenzhen (the "Disposal"). The total amount of Land Appreciation Tax and Corporate Income Tax in relation to the Disposal is estimated to be approximately HK\$73.2 million. The properties were owned by a non-wholly owned subsidiary in which the Group has 60% interest, and other details of the Disposal were disclosed in the circular dated 29 April 2016. After tax and non-controlling interests, the net gain on the Disposal attributable to the equity shareholders was approximately HK\$106.4 million. Further analysis of the operating results is set out in the following paragraphs.

The Toys Division started the current fiscal year with a strong order position. However, the division's business in the second fiscal quarter was not as good as that a year earlier and, for the whole period under review, its revenue decreased by 26% year-on-year from HK\$497 million to HK\$366 million. Nonetheless, with gain on the Disposal, the first-half operating profit of the division surged to HK\$283.1 million from HK\$46.0 million in the same period last year.

The Computer Products Division suffered a slowdown in its performance with a 10% drop in half-yearly revenue to HK\$104 million from HK\$116 million a year earlier. The revenue decline was mainly attributable to sluggish demand for thin-film computer heads. The division incurred an operating loss of HK\$3.6 million for the six months ended 30 September 2016 as compared with an operating profit of HK\$2.9 million in the year-ago period.

The revenue of the Housewares Division experienced a satisfactory growth in the first half of the fiscal year and increased by 16% year-on-year from HK\$61 million to HK\$71 million. Weaker sales in the prior-year period were mainly due to a fire accident at our Zhuhai factory that caused a suspension of production for five weeks in 2015. Because of higher revenue, the division saw its half-yearly operating loss shrink to HK\$1.3 million from HK\$5.1 million a year ago.

The business of the Timepieces Division was impacted by a difficult trading environment, particularly in the Asian markets. Some of its brands performed below expectations. Compared with the same period last year, the division's revenue dropped 23% from HK\$141 million to HK\$109 million, while its operating loss increased from HK\$2.5 million to HK\$6.7 million.

The Group recorded net realised and unrealised gains on trading securities of HK\$6.8 million for the period under review compared with losses of HK\$12.2 million a year ago. At 30 September 2016, the Group's trading securities increased to HK\$147 million from HK\$143 million as at the beginning of the fiscal year.

At the end of August 2016, the Group completed the acquisition of a property in Wong Chuk Hang at a cost of HK\$34 million, comprising the consideration of HK\$31 million and stamp duty and professional fees of HK\$3 million, for use by the Computer Products Division. The acquisition was financed partly by internal funding and partly by a mortgage loan of HK\$12.4 million, repayable over 5 years and secured by the property.

## PROSPECTS AND GENERAL OUTLOOK

Due to seasonal factors, the business of the Toys Division will slow down in the second half of the fiscal year. The Computer Products Division continues to be adversely affected by the weak demand in thin-film computer heads. However, it is anticipated that the sales of smart connected devices will pick up in the coming year. On the other hand, both the Timepieces and Housewares Divisions still face difficult challenges ahead amid weak consumer spending.

Despite the favorable results in the first half of the fiscal year, the Group's overall orders at the end of October 2016 fell 30% from those at the same time in 2015. With weaker orders on hand, the management has some concerns about the results of the Group in the second half of the fiscal 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 2016, the Group's cash surplus amounted to HK\$356 million (at 31 March 2016: HK\$180 million).

At 30 September 2016, the Group's total current assets were HK\$906 million (at 31 March 2016: HK\$745 million). The trade and other receivables amounted to HK\$225 million (at 31 March 2016: HK\$219 million) and the current liabilities HK\$287 million (at 31 March 2016: HK\$237 million) which included mortgage loan balances of HK\$15 million (at 31 March 2016: HK\$5 million) secured by two (at 31 March 2016: one) of the Group's properties with a carrying value of HK\$66 million (at 31 March 2016: HK\$33 million). The mortgage loan balances of HK\$12 million and HK\$3 million are repayable by fixed monthly instalments with maturity date in August 2021 and July 2017 respectively. Certain trading securities and bank deposits totalling HK\$136 million (at 31 March 2016: HK\$128 million) are pledged to the banks to secure banking facilities granted to the Group.

The Group monitors its capital structure on the basis of gearing ratio, which is calculated as a percentage of total liabilities over total assets. The gearing ratio of the Group as at 30 September 2016 was 24% (at 31 March 2016: 23%).

As at 30 September 2016, the Group's working capital ratio, an indicator of liquidity represented by a ratio between the current assets and the current liabilities, was 3.16 compared to 3.14 at 31 March 2016. The quick ratio, another ratio that gauges the short term liquidity and measured by trade debtors and cash and cash equivalents over current liabilities, increased to 1.93 from 1.53 at 31 March 2016.

## CONTINGENT LIABILITIES

As at 30 September 2016, 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 HK4 cents per share (2015: HK3 cents). The total amount of dividend payment of HK\$24 million (2015: HK\$18 million) was based on the total number of shares in issue as at 28 November 2016, being the latest practicable date prior to the announcement of the interim results. The dividend will be paid on Friday, 13 January 2017 to shareholders registered in the Register of Members on Friday, 30 December 2016.

## CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to the interim dividend, the Register of Members of the Company will be closed from Thursday, 29 December 2016 to Friday, 30 December 2016, 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 Wednesday, 28 December 2016.

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

As at 30 September 2016, 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")), which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any such director or chief executive was taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code"), to be notified to the Company and the Stock Exchange, were as follows:

### Interests in issued shares

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

	Number of shares			Total	Percentage of total issued shares
	Personal interests	Interests of spouse	Other interests		
<b>Directors</b>					
Dr Cheung Tsang Kay Stan	1,897,500	830,000	80,047,393 (Note (i) & (ii))	82,774,893	13.74%
Mr Robert Dorfman	51,471,000	–	–	51,471,000	8.54%

Notes:

- (i) Dr Cheung Tsang Kay Stan is the founder of a family trust which owned 59,824,760 shares. His spouse and family members are the beneficiaries of this family trust.
- (ii) Dr Cheung Tsang Kay Stan is interested in 20,222,633 shares together with other family members.

All the interests stated above represent long positions.

An employee of the Group has been granted options under the Company's share option scheme, details of which are set out in the section "Share option scheme" below.

Apart from the foregoing, as at 30 September 2016, 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 (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such Director or chief executive was taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

## SHARE OPTION SCHEME

The Company adopted a share option scheme (“the share option scheme”) on 16 September 2013 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 share option scheme, the directors of the Company are authorised, at their discretion, to invite any director (including executive, non-executive or independent non-executive directors), employee, 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 share option scheme is required to pay the Company HK\$1 within 21 days from the date of offer.

The share option scheme became effective on 16 September 2013 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 30 September 2016 was 60,249,076 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 share option 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.

At 30 September 2016, an employee of the Group had the following interests in options to subscribe for shares of the Company (market value per share at 30 September 2016 was HK\$1.04) granted for a nominal consideration of HK\$1 for acceptance of the offer under the share option scheme of the Company. The options are unlisted. Each option gives the holder the right to subscribe for one ordinary share of the Company.

	<b>No. of options outstanding at the beginning and at the end of the period</b>	<b>Date granted</b>	<b>Period during which options are exercisable</b>	<b>Exercise price per share</b>	<b>Market value per share at date of grant of options*</b>
Employee	6,000,000	23 January 2015	23 January 2015 to 22 January 2025	HK\$0.97	HK\$0.97

\* being the weighted average closing price of the Company's ordinary shares immediately before the dates on which the options were granted or exercised, as applicable.

No share options have been exercised, granted, lapsed or cancelled during the six months ended 30 September 2016.

Apart from the foregoing, at no time during the period 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' and chief executives' interests and short positions in shares, underlying shares and debentures" in respect of directors, as at 30 September 2016, the persons or corporations (other than directors or chief executives of the Company) who had interests or short positions in the shares and underlying shares of the Company which were required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

### 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 shareholder</b>						
Ms Ng Yiu Chi Eleanor	(i)	830,000	81,944,893	-	82,774,893	13.74%
<b>Other persons</b>						
Moral Excel Holdings Ltd ("MEH")	(ii)	57,634,760	-	2,190,000	59,824,760	9.93%
HSBC International Trustee Ltd ("HIT")	(ii)	-	-	59,824,760	59,824,760	9.93%
Mrs Sheri Tillman Dorfman	(iii)	-	51,471,000	-	51,471,000	8.54%
Ms Cheung Yee Alice	(iv)	30,281,424	-	20,222,633	50,504,057	8.38%
Ms Chang Kan Jane	(v)	24,781,424	-	20,322,633	45,104,057	7.49%
Mr Tong Shek King Denny	(vi)	-	45,004,057	100,000	45,104,057	7.49%
Mrs Mirriam Bloch		38,572,500	-	-	38,572,500	6.40%
Mr Gershon Dorfman		37,325,799	-	-	37,325,799	6.20%
Mrs Lydia Dorfman	(vii)	-	37,325,799	-	37,325,799	6.20%

*Notes:*

- (i) The entire interests in shares of 82,774,893 are duplicated by those disclosed under Dr Cheung Tsang Kay Stan, 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) MEH is a Company owned by a family trust which was interested in 59,824,760 shares, comprising 57,634,760 shares held by MEH and 2,190,000 shares held by its subsidiary company, as noted in the section "Directors' and chief executives' interests and short positions in shares, underlying shares and debentures". HIT, the trustee of this trust, is deemed to be interested in the 59,824,760 shares owned by this trust.
- (iii) These interests in shares are duplicated by those disclosed under Mr Robert 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) Ms Cheung Yee Alice is interested in 20,222,633 shares together with Dr Cheung Tsang Kay Stan and Ms Chang Kan Jane.
- (v) Ms Chang Kan Jane is interested in 20,222,633 shares together with Dr Cheung Tsang Kay Stan and Ms Cheung Yee Alice. Ms Chang Kan Jane is interested in another 100,000 shares with Mr Tong Shek King Denny.
- (vi) These interests in shares are duplicated by those beneficially owned by Ms Chang Kan Jane.
- (vii) These interests in shares are duplicated by those beneficially owned by Mr Gershon Dorfman.

All the interests stated above represent long positions.

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.

## EMPLOYEES

As at 30 September 2016, the number of employees of the Group was 230 (2015: 233) in Hong Kong, 4,425 (2015: 6,685) in the Mainland China and 75 (2015: 71) in Europe. Total staff costs for the period under review amounted to HK\$217,979,000 (2015: HK\$264,963,000). The Group ensures that its employees' remuneration packages are competitive. Employees are rewarded based on their performance and experience and the prevailing industry practice.

## CHANGE IN DIRECTORS' INFORMATION

The annual basic remuneration, excluding retirement scheme contributions and discretionary bonuses, if any, for the executive directors was revised starting from 1 July 2016 as follows:

	<b>Annual basic remuneration after revision</b>	<b>Annual basic remuneration before revision</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Mr Robert Dorfman	4,095	3,900
Dr Cheung Tsang Kay Stan	3,900	3,705
Mr Shum Kam Hung	2,535	2,405

Saved as disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

## 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 2016.

## 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 risk management and 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 Shum Kam 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 2016 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, 29 November 2016