Herald Holdings Limited

Stock Code : 00114

2017

ANNUAL REPORT

Contents

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

Lie-A-Cheong Tai-Chong, David 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 Hongkong 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 HM 11
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

FINANCIAL HIGHLIGHTS

	Year ended 31 March 2017 HK$'000	Year ended 31 March 2016 HK$'000
Revenue	1,095,026	1,528,985
Profit from operations	202,241	48,030
Profit attributable to equity shareholders	50,115	39,024
Dividends paid and proposed	48,200	48,200
Earnings per share		
– Basic (HK cents)	8.32	6.48
– Diluted (HK cents)	8.31	6.48
Dividends paid and proposed, per share (HK cents)	8	8

	As at 31 March 2017 HK$'000	As at 31 March 2016 HK$'000
Total assets	1,075,580	1,065,101
Total liabilities	274,204	240,750
Net assets	801,376	824,351
Net assets attributable to equity shareholders	786,792	806,805
Net assets attributable to equity shareholders per share (HK$)	1.31	1.34
Number of issued and fully paid shares	602,490,763 shares	602,490,763 shares

CHAIRMAN'S STATEMENT

I am pleased to present the annual report of Herald Holdings Limited ("the company") and its subsidiaries (together referred to as "the group") for the year ended 31 March 2017.

Results

The revenue of the group for the year ended 31 March 2017 was HK$1,095 million which was down 28% from HK$1,529 million in the previous year. The decrease in the group's revenue mainly came from the Toys Division and, to a lesser extent, the Computer Products and Timepieces Divisions. The net profit attributable to the equity shareholders of the company was HK$50.1 million, representing an increase of 28% from HK$39.0 million a year earlier.

The above-mentioned net profit included a net gain on disposal of properties in Shenzhen (the "Disposal") attributable to the equity shareholders of approximately HK$106.4 million. Excluding this item, the adjusted net loss attributable to the equity shareholders of the company for the year under review was HK$56.3 million. Detailed analysis of the operating results is set out in the following paragraphs.

Toys Division

The Toys Division performed well in the year ended 31 March 2016 due to the strong sales of toys related to a popular movie. However, such strong momentum could not continue in the financial year ended 31 March 2017 and the division's revenue for the full year dropped 38% year-on-year from HK$909 million to HK$564 million. Nonetheless, with the gain on the Disposal, the operating profit of the division soared to HK$270.8 million from HK$52.3 million a year earlier. In March 2017, the division completed the construction of a factory building in Dongguan at a cost of HK$23 million. The new factory building has a total floor area of approximately 150,000 square feet, which has boosted the production capacity of the division.

Computer Products Division

The Computer Products Division experienced a tough trading environment with weak demand for thin-film computer heads. As compared with the last financial year, the division's revenue dropped 23% from HK$227 million to HK$174 million. At the end of 2016, a major customer failed to make payments on its obligations to the division. As the recovery is in question, the management has decided to recognise an allowance for doubtful debt of HK$30 million for this customer and legal action is being taken. Coupled with a decline in revenue, the division sustained an operating loss of HK$46.1 million as compared with an operating profit of HK$14.0 million in the previous year.

Housewares Division

Following a fire accident at our Zhuhai factory that caused a suspension of production for five weeks in 2015, the Housewares Division saw its revenue for the year ended 31 March 2017 rise 9% year-on-year from HK$129 million to HK$141 million. For the year under review, the division's operating loss has shrunk to HK$0.3 million from HK$4.9 million a year earlier. Higher operating loss in the previous year was mainly due to a net loss attributable to the fire accident of approximately HK$4.5 million.

Timepieces Division

The performance of the Timepieces Division remained unsatisfactory amid weak consumer sentiment. The division's revenue for the year ended 31 March 2017 decreased by 18% year-on-year from HK$264 million to HK$217 million. With lower revenue and the absence of a net gain of HK$13.8 million from the disposal of properties last year, the division recorded an operating loss of HK$5.7 million as compared with an operating profit of HK$18.3 million in the previous year.

Other Investments

For the year ended 31 March 2017, the group recognised net realised and unrealised gains on trading securities of HK$10.6 million (2016: losses of HK$11.4 million) and impairment losses on other financial assets of HK$4.3 million (2016: HK$6.7 million). The dividend and interest income on trading securities amounted to HK$2.7 million for the year (2016: HK$3.1 million). At 31 March 2017, the group's trading securities amounted to HK$134 million, a decrease of HK$9 million from last year.

During the year under review, the group acquired a property in Wong Chuk Hang at a cost of HK$34 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.

Liquidity, financial resources and funding

The group continues to maintain its sound financial health. At the end of the financial year, the group had a strong financial position with healthy liquidity. At 31 March 2017, the total assets amounted to HK$1,076 million (2016: HK$1,065 million) which were financed by current liabilities of HK$264 million (2016: HK$237 million), non-current liabilities of HK$10 million (2016: HK$4 million), non-controlling interests of HK$15 million (2016: HK$18 million) and equity attributable to the company's equity shareholders of HK$787 million (2016: HK$807 million).

At 31 March 2017, the group's cash balances aggregated to HK$197 million, up from HK$180 million a year ago. The current assets at 31 March 2017 amounted to HK$691 million (2016: HK$745 million). The inventories decreased from HK$201 million to HK$183 million and the trade and other receivables decreased from HK$219 million to HK$173 million. The trading securities at 31 March 2017 amounted to HK$134 million (2016: HK$143 million).

At 31 March 2017, the group's current liabilities increased to HK$264 million from HK$237 million last year. The bank loans amounted to HK$54 million (2016: HK$5 million) which included revolving loans of HK$42 million (2016: Nil) and mortgage loan balances of HK$12 million (2016: HK$5 million), the latter of which were secured by two (2016: one) of the group's properties with a carrying value of HK$64 million (2016: HK$33 million). The mortgage loan balances of HK$11 million and HK$1 million are repayable by fixed monthly instalments with maturity date in August 2021 and July 2017 respectively. Certain trading securities and bank deposits amounting to HK$127 million (2016: HK$128 million) were also pledged to 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 31 March 2017 was 25% (2016: 23%). At 31 March 2017, the group's working capital ratio, an indicator of liquidity represented by a ratio between the current assets and the current liabilities, was 2.62 as compared to 3.14 last year. The quick ratio, another ratio that gauges the short-term liquidity and measured by trade debtors and bills receivable and cash and cash equivalents over current liabilities, decreased to 1.24 from 1.53 in the previous year.

CHAIRMAN'S STATEMENT

Contingent liabilities

As at 31 March 2017, 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.

Prospects and general outlook

The Toys Division started the new financial year with a strong order position. Projections from our customers indicate that the business of the division for the year ending 31 March 2018 will be better than that a year earlier. However, labour shortages in Southern China continue to be a major concern for the division.

The outlook for the Computer Products Division appears positive for the year ending 31 March 2018 as the sales of thin film computer heads are expected to pick up. Meanwhile, the management is optimistic about the prospects of smart connected devices.

Both the Housewares and Timepieces Divisions continue to face a challenging retail environment. Nevertheless, as these divisions are putting more effort into boosting sales and cutting costs, the management expects that their performance in the new financial year will improve over last year.

The group's overall orders at the end of May 2017 surged 23% from those at the same time in 2016. With stronger orders on hand, the management remains optimistic about the results of the group for the year ending 31 March 2018.

Dividend

At the forthcoming Annual General Meeting to be held on 15 September 2017, the directors will recommend a final dividend of HK4 cents per share (2016: HK5 cents). Together with the interim dividend of HK4 cents (2016: HK3 cents), the dividend payment for the year of HK8 cents (2016: HK8 cents) would represent an annual return of 7.3% (2016: 8.0%) on the company's average share price of HK$1.09 (2016: HK$1.00) in the year ended 31 March 2017.

The final dividend which will amount to HK$24.1 million is calculated on the total number of shares in issue as at 28 June 2017, being the latest practicable date prior to the announcement of the results.

Register of members

The Annual General Meeting is scheduled to be held on Friday, 15 September 2017. For determining the entitlement to attend and vote at the Annual General Meeting, the register of members of the company will be closed from Monday, 11 September 2017 to Friday, 15 September 2017, both days inclusive, during which period no transfer of shares will be effected. In order to be able to attend and vote at the Annual General Meeting, 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 Friday, 8 September 2017.

The proposed final dividend is subject to the passing of the ordinary resolution by the shareholders at the Annual General Meeting. The record date for entitlement to the proposed final dividend is Wednesday, 27 September 2017. For determining the entitlement to the proposed final dividend, the register of members of the company will be closed from Tuesday, 26 September 2017 to Wednesday, 27 September 2017, both days inclusive, during which period no transfer of shares will be effected. In order to be qualified for the proposed final dividend, shareholders should ensure that all transfers of shares, accompanied by the relevant share certificates, are lodged with Tricor Tengis Limited for registration no later than 4:30 p.m. on Monday, 25 September 2017. The payment of final dividend, if approved at the Annual General Meeting, will be made on Friday, 13 October 2017.

Appreciation

On behalf of the board of directors and shareholders, I would 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 our business partners, has been crucial to the success of the group.

Robert Dorfman
Chairman

Hong Kong, 29 June 2017

DIRECTORS' REPORT

The directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 March 2017.

Principal activities and business review

Herald Holdings Limited ("the company") is a company incorporated in Bermuda under the Bermuda Companies Act 1981 with limited liability. The principal activities of the company and its subsidiaries ("the group") are the manufacture, sale and distribution of toys, computer products, housewares, clocks, watches and electronic and gift products. Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including an indication of likely future developments in the group's business, can be found in the Chairman's Statement set out on pages 4 to 7 of this annual report. This discussion forms part of this director's report.

Principal risks and uncertainties

The group faces risks and uncertainties that could have a material impact on its business operation. The principal risks include an economic slowdown that would result in weaker consumer demand and lead to increasing competition in the business areas in which the group operates. In addition, there are risks of rising material costs and more stringent regulations which would drive up operating costs and put pressure on the group's business.

The group is also exposed to financial risks, such as foreign currency, interest rate, credit and liquidity risks. For further details of such risks, please refer to note 28 to the financial statements.

The group has set up an enterprise risk management mechanism which includes an internal control environment with proper segregation of duties among the senior management executives. Through regular management meetings with the participation of the executives of various departments, the management is able to perform risk identification, risk assessment as well as risk management.

Environmental policies and performance

The group is committed to protecting the environment in the areas where it operates and ensuring that environmental standards set by the local government are consistently met or exceeded. The group also encourages the efficient consumption of resources in its daily operations.

Compliance with laws and regulations

The group recognises the importance of compliance with regulatory requirements and risks of non-compliance with such requirements. As far as the directors are aware, the group has complied in material respects with the relevant laws and regulations that have a significant impact on the operations of the group.

Relationships with employees, customers, suppliers and other stakeholders

Employees are considered to be valuable assets of the group. To retain the best available human resources to serve the group, it is the group's policy to provide competitive remuneration package, career development opportunities and appropriate training for its employees.

The support of customers and suppliers is also the key to the group's success. The group has maintained good relationships with them to meet its business goals. Various means have been adopted to strengthen communication with its customers so as to provide them with excellent customer service. The group also works with its suppliers closely to ensure that the procurement process is conducted in an open, fair and just manner.

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	35%	
Five largest customers in aggregate	52%	
The largest supplier		4%
Five largest suppliers in aggregate		15%

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.

Connected transactions

On 31 March 2016, a non-wholly owned subsidiary of the company entered into agreements to dispose of its properties in Shenzhen to a non-controlling shareholder at a consideration of approximately HK$283 million (the "Disposal").

As the non-controlling shareholder has 20% interest in the non-wholly owned subsidiary and hence a connected person of the company, the Disposal constituted connected transactions of the company under the requirement of Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Relevant details of the above connected transactions were set out in the announcement dated 31 March 2016 and circular dated 29 April 2016 published on the website of The Stock Exchange of Hong Kong Limited at www.hkexnews.hk and the website of the company at www.heraldgroup.com.hk.

The Disposal was completed during the year ended 31 March 2017 and further details are disclosed in note 21 to the financial statements. Save for the above, the company did not enter into any other transactions constituted connected transactions as defined in Chapter 14A of the Listing Rules during the year ended 31 March 2017.

Recommended dividend

An interim dividend of HK4 cents (2016: HK3 cents) per share was paid on 13 January 2017. The directors now recommend the payment of a final dividend of HK4 cents (2016: HK5 cents) per share in respect of the year ended 31 March 2017.

Charitable donations

Charitable donations made by the group during the financial year amounted to HK$45,000 (2016: HK$1,465,000).

DIRECTORS' REPORT

Share capital

Details of the company's share capital are set out in note 27(c) to the financial statements. There were no movements during the financial year.

There were no purchases, sales or redemptions of the company's listed securities by the company or any of its subsidiaries during the financial year.

Distributability of reserves

At 31 March 2017, the aggregate amount of reserves available for distribution to equity shareholders of the company was HK$269,746,000 (2016: HK$276,331,000). After the end of the reporting period the directors proposed a final dividend of HK4 cents per share (2016: HK5 cents per share), amounting to HK$24,100,000 (2016: HK$30,125,000). This dividend has not been recognised as a liability at the end of the reporting period.

Directors

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

Executive directors

Mr Robert Dorfman
Mr Shum Kam-Hung
Dr Cheung Tsang-Kay, Stan

Independent non-executive directors

Mr Lie-A-Cheong Tai-Chong, David
Mr Yeh Man-Chun, Kent
Mr Ng Tze-Kin, David

In accordance with Bye-law 87 of the company's Bye-laws, Mr Shum Kam-Hung and Lie-A-Cheong Tai-Chong, David retire from the board by rotation at the forthcoming Annual General Meeting and are eligible for re-election. Mr Shum Kam-Hung and Mr Lie-A-Cheong Tai-Chong, David 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 based on the recommendation from the Remuneration Committee.

Directors and senior management

Directors

Robert DORFMAN, aged 62, brother of Mr Gershon Dorfman, is the Chairman of the company. He was appointed as an executive director of the company in 1992 and was appointed Chairman on 1 April 2014. Mr Dorfman is a past Chairman of The Americas Area Committee of The Hong Kong General Chamber of Commerce and served from 1999 to 2009 as Chairman of the Vision 2047 Foundation. Mr Dorfman was Chairman of the World Presidents' Organisation's ("WPO") Board of Directors 2011/12. In addition, he was a Member of the Council of Lingnan University in Hong Kong from 2010 to 2016. Mr Dorfman joined the group in 1983 and is a director of the principal subsidiaries of the company.

SHUM Kam-Hung, ACIS, CPA, aged 53, has been appointed as an executive director and the Managing Director of the company since 1 July 2015. Mr Shum joined the group as an accounting manager in 1994 and resigned in 1996. He then rejoined the group as the financial controller in 1999 and was appointed as the company secretary of the company during the period from 4 July 2008 to 30 June 2015. Mr Shum holds a Master of Business Administration degree from the University of Warwick, United Kingdom and is a member of the Hong Kong Institute of Certified Public Accountants, Chartered Accountants Australia and New Zealand and the Institute of Chartered Secretaries and Administrators. He has over 20 years of experience in auditing, accounting and financial management. Mr Shum is also a director of the principal subsidiaries of the company.

CHEUNG Tsang-Kay, Stan, PhD, Hon LLD, Hon DBA, JP, aged 73, has been an executive director of the company since 1992. He was Chairman of the company during the period from 4 July 2008 to 31 March 2014. 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. Also, he was formerly a member of The Chinese People's Political Consultative Conference, Shanghai Municipal Committee and Trustee of Fudan University. He is currently Honorary Trustee and Adjunct Professor at Shanghai Jiao Tung University and Director (Overseas) of Soong Ching Ling Foundation of Shanghai. Dr Cheung joined the group in 1975 and is a director of the principal subsidiaries of the company.

LIE-A-CHEONG Tai-Chong, David, SBS, OM, JP, aged 57, 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, 10th and 11th 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 Chairperson of the Hong Kong-Taiwan Economic and Cultural Co-operation and Promotion Council ("ECCPC"), a Board Member of the Commission on Strategic Development, a Standing Committee Member of the China Overseas Friendship Association, a General Committee Member of the Hong Kong General Chamber of Commerce. Currently, he is also an independent non-executive director of Aluminum Corporation of China Limited, a company listed on The Stock Exchange of Hong Kong Limited ("the Stock Exchange").

Directors and senior management *(continued)*

Directors *(continued)*

YEH Man-Chun, Kent, aged 62, was appointed as an independent non-executive director of the company on 5 October 2005. Mr Yeh was an independent non-executive director of Pacific Andes International Holdings Limited ("PAI"), a company listed on the Stock Exchange during the period from 30 September 2004 to 16 August 2008 and is now the head of business development for PAI. His diverse management and operational experience include business advisory services, corporate management, marketing, distribution and manufacturing. Mr Yeh had 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.

NG Tze-Kin, David, CA(AUST.), FCPA, aged 67, was appointed as an independent non-executive director of the company on 1 February 2010. Mr Ng holds a Master's Degree in Commerce from Macquarie University, Sydney and is an Australian Chartered Accountant and Chartered Secretary. Mr Ng had worked for PWC Hong Kong for 8 years. After leaving PWC, Mr Ng has been and is currently the managing director of a certified public accountants firm in Hong Kong. Mr Ng was also the Qualified Accountant for Air China Limited (stock code: 00753) for the period from November 2005 to December 2008. Currently, he is also an independent non-executive director of BEP International Holdings Limited (stock code: 02326).

Senior management

Gershon DORFMAN, aged 61, brother of Mr Robert Dorfman, 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 Managing Director of Herald Datanetics Limited and a director of certain of the group's companies.

KWOK Nam-Po, aged 66, obtained a diploma in Management Studies from The Hong Kong Polytechnic University. He joined the group in 1974. He has more than 40 years' experience in toy industry and is now Managing Director of Herald Metal and Plastic Works Limited, Dongguan Herald Metal and Plastic Company Limited and Dongguan Herald Toys 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 Toys Council.

Directors' and chief executives' interests and short positions in shares, underlying shares and debentures

As at 31 March 2017, 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				Percentage of total issued shares
Directors	Personal interests	Interests of spouse	Other interests	Total	
Dr Cheung Tsang-Kay, Stan	1,897,500	830,000	99,047,393 (Notes (i), (ii))	101,774,893	16.89%
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 39,222,633 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 31 March 2017, 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.

DIRECTORS' REPORT

Equity-linked agreement

Details of the equity-linked agreement subsisting at the end of the year are set out in the section "Share option scheme" below.

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 31 March 2017 was 60,249,076 shares (2016: 60,249,076 shares) which represented 10% of the issued share capital of the company as at 31 March 2017. 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.

Share option scheme *(continued)*

As at 31 March 2017, an employee of the group had the following interests in options to subscribe for shares of the company (market value per share as at 31 March 2017 was HK$1.16) 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.

	No. of options outstanding at the beginning and the end of the year	Date granted	Period during which options are exercisable	Exercise price per share	Market value per share at date of grant of options*
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 year ended 31 March 2017.

Information on the accounting policy for share options granted and the weighted average value per option is provided in note 1(q)(ii) and note 26(b) to the financial statements respectively.

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' and chief executives' interests and short positions in shares, underlying shares and debentures" in respect of directors, as at 31 March 2017, 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)

		Number of shares				Percentage
	Note	Personal interests	Interests of spouse	Other interests	Total	of total issued shares
Substantial shareholders						
Ms Ng Yiu-Chi, Eleanor	(i)	830,000	100,944,893	–	101,774,893	16.89%
Ms Cheung Yee, Alice	(ii)	30,281,424	–	39,222,633	69,504,057	11.54%
Ms Chang Kan, Jane	(iii)	24,781,424	–	39,322,633	64,104,057	10.64%
Mr Tong Shek-King, Denny	(iv)	–	64,004,057	100,000	64,104,057	10.64%
Other persons						
Moral Excel Holdings Ltd ("MEH")	(v)	57,634,760	–	2,190,000	59,824,760	9.93%
HSBC International Trustee Ltd ("HIT")	(v)	–	–	59,824,760	59,824,760	9.93%
Mrs Sheri Tillman Dorfman	(vi)	–	51,471,000	–	51,471,000	8.54%
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%

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 101,774,893 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) Ms Cheung Yee, Alice is interested in 39,222,633 shares together with Dr Cheung Tsang-Kay, Stan and Ms Chang Kan, Jane.

(iii) Ms Chang Kan, Jane is interested in 39,222,633 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.

(iv) These interests in shares are duplicated by those beneficially owned by Ms Chang Kan, Jane.

(v) MEH is a company owned by a family trust which is 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.

(vi) 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".

(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.

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 Listing Rules.

Permitted indemnity provisions

Pursuant to the Bye-law 166 of the company's Bye-laws, the directors of the company shall be indemnified and secured harmless out of the assets and profits of the company against all actions, costs, charges, losses, damages and expenses which they or any of them may incur about the execution of their duty, or supposed duty, in their respective offices. Throughout the year, the company has maintained directors' and officers' liability insurance, which provides cover for the directors of the company and its subsidiaries.

DIRECTORS' REPORT

Directors' interests in transactions, arrangements or contracts

No transaction, arrangement or 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

Particulars of the bank loans of the group as at 31 March 2017 are set out in note 23 to the financial statements.

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 112 of the annual report.

Employees

As at 31 March 2017, the number of employees of the group was approximately 221 (2016: 227) in Hong Kong, 4,973 (2016: 5,116) in Mainland China and 76 (2016: 72) in Europe. The group ensures that its employees' remuneration packages are competitive. Employees are rewarded based on their performance and experience and the prevailing industry practice.

Retirement schemes

Particulars of employee retirement schemes of the group are set out in note 26(a) to 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.

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

Robert Dorfman
Chairman

Hong Kong, 29 June 2017

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

This is the first Environmental, Social and Governance ("ESG") Report issued by Herald Holdings Limited (the "company") and its subsidiaries (together the "group"), and this report has been prepared in accordance with the Environmental, Social and Governance Reporting Guide as set out in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

This report covers the period from 1 April 2016 to 31 March 2017 and is prepared annually.

The group understands the importance of its corporate responsibility and is committed to raise its stakeholders' awareness over the ESG matters. The board has overall responsibility for the company's ESG strategy and reporting. Through collecting the ESG data, the group is able to understand its performance and identify the room for improvements.

The scope of this report includes four subsidiaries, namely Dongguan Herald Metal and Plastic Company Limited, Dongguan Herald Toys Company Limited, Zhuhai Herald Datanetics Limited and Zhuhai Herald Houseware Limited (collectively "the companies"), and further information of the companies are disclosed in note 13 to the financial statements.

Environmental

Emissions

The companies have complied with the relevant laws and regulations relating to greenhouse gas emissions and waste management. Greenhouse gases are mainly indirect emissions resulting from the acquired electricity. Waste is classified as non-hazardous waste and hazardous waste, which are collected by qualified contractors. Recycling is encouraged in order to reduce waste.

Use of resources

We encourage the efficient consumption of resources including electricity, water and raw materials in the daily operations. The consumption of electricity and water is monitored regularly in order to identify energy saving initiatives.

The environmental and natural resources

Apart from those mentioned in the preceding paragraphs, the companies' operating activities do not have significant impact on the environment and natural resources.

Social – employment and labour practices

Employment

Employees are mainly recruited through job advertisements and recruitment agents. Competitive remuneration, allowances and benefits in accordance with the local regulations are provided to the employees. The overtime hours for each employee is monitored and compensated in accordance with the local regulations.

Health and safety

We are committed to provide a safe and healthy working environment to our employees. Protective equipment including goggles and gloves are offered to employees as appropriate. Safeguards including water sprinklers, emergency exit light signs and fire extinguishers are installed at the companies according to the local requirements. Inspections and fire drills are also carried out regularly.

Development and training

Pre-employment training and on-the-job training are offered by the companies in order to equip the employees with the necessary skills to discharge their duties at work.

Labour standards

Child labour and forced labour are strictly prohibited. Potential employees are required to provide the legal proof of their age prior to their employment in order to prevent child labour. Employees work at the companies at their own will and are free to leave the companies upon reasonable notice period under the terms of their employment contracts.

Social – operating practices

Supply chain management

Suppliers for raw materials and equipment are selected according to the procurement policy of the companies, and regular assessments are carried out to monitor the performance of the major suppliers.

Product responsibility

Various internal and external testing are carried out in accordance with the customer's requirements and recognised industry standards to ensure our products are in accordance with the health and safety requirements.

Anti-corruption

Bribery, extortion, fraud and money laundering are strictly prohibited and the relevant policies are communicated to employees upon the employment. In addition, there are channels including the "whistle-blowing procedures" for the employees to report any suspicious activities.

Community investment

The companies care about the community and encourage the employees to participate in charity events to help people in need.

CORPORATE GOVERNANCE REPORT

The company is committed to maintaining 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 Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31 March 2017 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 during the financial year and up to 29 June 2017 comprised:

Executive directors

Mr Robert Dorfman *(Chairman)*
Mr Shum Kam-Hung *(Managing Director)*
Dr Cheung Tsang-Kay, Stan

Independent non-executive directors

Mr Lie-A-Cheong Tai-Chong, David
Mr Yeh Man-Chun, Kent
Mr Ng Tze-Kin, David

The Board is responsible for leadership and control of the company and oversees the group's businesses, strategic direction and performance. The management team is delegated the authority and responsibility by the Board for the day-to-day management, administration and operation 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.

CORPORATE GOVERNANCE REPORT

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 independent non-executive directors are able to obtain independence professional advice at the company's expenses whenever they deem necessary. 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 and senior management have family relationships with each other, the details of which are set out in the biographical details of Directors and Senior Management on pages 11 to 12. None of the directors and senior management 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. Four regular board meetings were held during the financial year. Attendance of individual director at the regular Board meetings, the Committee meetings, the annual general meeting and the special general meeting during the financial year is set out below:

	Number of meetings attended/eligible to attend					
Executive directors	Board	Audit Committee	Remuneration Committee	Nomination Committee	Annual General Meeting	Special General Meeting
Mr Robert Dorfman	4/4	N/A	N/A	1/1	1/1	1/1
Mr Shum Kam-Hung	4/4	N/A	3/3	N/A	1/1	1/1
Dr Cheung Tsang-Kay, Stan	4/4	N/A	N/A	1/1	1/1	1/1
Independent non-executive directors						
Mr Lie-A-Cheong Tai-Chong, David	4/4	3/3	N/A	1/1	1/1	1/1
Mr Yeh Man-Chun, Kent	4/4	3/3	3/3	0/1	1/1	1/1
Mr Ng Tze-Kin, David	4/4	3/3	3/3	1/1	1/1	1/1

Chairman and managing director

The Board has appointed Mr Robert Dorfman as the Chairman and Mr Shum Kam-Hung 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.

Directors' training

According to the code provision A.6.5 of the CG Code, all directors should participate in continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. During the year under review, the company had arranged for directors to attend training sessions which placed emphasis on the roles, functions and duties of a listed company director. In addition to the training arranged by the company, the directors have also participated in other continuous professional development activities.

The training received by the directors during the year ended 31 March 2017 is summarised below:

	Types of training
Executive directors	
Mr Robert Dorfman	A, B
Mr Shum Kam-Hung	A, B
Dr Cheung Tsang-Kay, Stan	A, B
Independent non-executive directors	
Mr Lie-A-Cheong Tai-Chong, David	A, B
Mr Yeh Man-Chun, Kent	A, B
Mr Ng Tze-Kin, David	A, B

A – attending briefings/seminars/conferences/forums
B – reading journals, updates, articles and/or materials

Remuneration committee

The company has established a Remuneration Committee which currently 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 major roles and functions of the Remuneration Committee are (1) to make recommendations to the Board on the company's policy and structure for the remuneration of all directors' and senior management; (2) to determine, with delegated responsibility, the remuneration packages of individual executive directors and senior management; and (3) to make recommendations to the Board on the remuneration of the 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 reward the executive directors and senior management in recognition of good individual and group performance. The emoluments of directors and senior management are determined with reference to the company's performance and profitability, as well as remuneration benchmark in the industry and the prevailing market conditions.

The Remuneration Committee held three meetings during the financial year to review and discuss the company's remuneration policy and the remuneration of all directors and senior management.

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 Lie-A-Cheong Tai-Chong, David, 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.

In order to achieve a diversity of perspectives among members of the Board, it is the board diversity policy of the company to consider a number of factors when deciding on appointments to the Board and the continuation of those appointments to the Board. The Nomination Committee will carry out the selection process in accordance with the board diversity policy of the company and by making reference to a range of diversity perspectives, including but not limited to difference in skills, experience and background, geographical and industry experience, ethnicity, gender, knowledge and length of service and other qualities of the members of the Board.

During the financial year, the Nomination Committee held one meeting to discuss and review the structure, size and composition of the Board to achieve a balance of skills, experience and diversity of perspectives of the Board which are appropriate to the requirements of the company's business and to assess the independence of the independent non-executive directors.

Audit committee

The company has established an Audit Committee which currently comprises three independent non-executive directors. The Committee is chaired by Mr Ng Tze-Kin, David 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.

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

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

Corporate governance functions

The Board is responsible for performing corporate governance duties, and in this respect, corporate governance practice has been performed by the Board during the year pursuant to a company policy which includes (a) developing and reviewing the company's corporate governance principles, practices and processes; (b) reviewing and monitoring the training and continuous professional development of directors and senior management; (c) reviewing and monitoring the company's policies and practices on compliance with legal and regulatory requirements; (d) developing, reviewing and monitoring the code of conduct applicable to employees and directors; and (e) reviewing the company's compliance with the CG Code and disclosure in the corporate governance report.

Auditor's remuneration

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

Nature of Services	Fees HK$'000
Audit services	3,143
Taxation services	463
Other services	287
	3,893

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 auditor of the company regarding their responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 27 to 30.

Risk management and internal control

The Board has overall responsibility for maintaining the internal control and risk management systems of the group and for reviewing their effectiveness. The Board is committed to implementing effective and sound internal control and risk management systems to safeguard the interests of shareholders and the group's assets. As part of the process of the annual review, the Board has performed evaluation of the group's accounting and financial reporting function to ensure that there is adequacy of resources, qualifications and experience of staff of the function, and their training programmes and budget. Moreover, the Board has employed an independent firm of professionals, Baker Tilly Hong Kong Risk Assurance Ltd. ("Baker Tilly Hong Kong"), to conduct an annual review of the systems of internal control and risk management of the group which covered all relevant financial, operational and compliance controls within an established framework.

The group's internal control and risk management systems are designed in consideration of the nature of business as well as the organisation structure of the group as a whole. The systems are 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 systems are further designed 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.

CORPORATE GOVERNANCE REPORT

An internal control review report and a risk management assessment report issued by Baker Tilly Hong Kong were tabled before the members of the Audit Committee during the Audit Committee meeting held on 23 June 2017. The principal purposes of the internal control review and risk management assessment carried out by Baker Tilly Hong Kong were to obtain sufficient knowledge and understanding about the attitude, awareness and actions of management and the governing body concerning the factors of the control environment and risk management mechanism. Based on the findings and comments by Baker Tilly Hong Kong and the Audit Committee, the Board considered the internal control and risk management systems effective and adequate and was of the opinion that 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 systems of internal control and risk management annually and further enhance the group's systems as appropriate.

The group has established an inside information policy which aims at providing the directors and relevant employees with guidelines on assessing, reporting and disseminating inside information. Inside information is disseminated to relevant persons on a need-to-know basis, and the group reviews the existing policy and practice from time to time to ensure full compliance with the regulatory requirements.

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 in order to meet its needs. Nevertheless, the directors will continue to review at least annually the need for an internal audit function.

Shareholders' rights

The following "shareholder rights" information is set out on pages 113 to 114 of the annual report:

1. procedures for shareholders to convene special general meetings;

2. procedures for sending enquiries to the Board; and

3. procedures for shareholders to move resolutions in general meetings.

During the year ended 31 March 2017, there had been no changes in the company's constitutional documents.

INDEPENDENT AUDITOR'S REPORT

KPMG

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

Opinion

We have audited the consolidated financial statements of Herald Holdings Limited ("the company") and its subsidiaries ("the group") set out on pages 31 to 111, which comprise the consolidated statement of financial position as at 31 March 2017, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the group as at 31 March 2017 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis of opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in Bermuda, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters *(continued)*

Recoverability of trade receivables

Refer to note 18 to the consolidated financial statements and the accounting policy in notes 1(l) and 1(m).

The key audit matter

The carrying value of the group's trade receivables as at 31 March 2017 totalled HK$145 million, which included an allowance for doubtful debts of HK$36 million.

The group's allowance for doubtful debts is based on management's estimate of the recoverability of individual trade receivables with reference to the ageing of overdue balances, repayment histories of individual debtors, existing customer-specific and market conditions and fulfilment of repayment arrangements agreed with specific debtors. Management are required to apply judgement in assessing the allowance for doubtful debts for individual trade receivables. The ability of the debtors to repay the group depends on customer-specific and market conditions which involves inherent uncertainty.

We identified the recoverability of trade receivables as a key audit matter because of the inherent uncertainty in assessing if trade receivables will be recovered in full and because the assessment of the allowance for doubtful debts requires the application of management judgement.

How the matter was addressed in our audit

Our audit procedures to assess the recoverability of trade receivables included the following:

- obtaining an understanding of and assessing the design, implementation and operating effectiveness of key internal controls relating to credit control, debt collection and the calculation of the allowance for doubtful debts;

- assessing the classification of individual balances in the trade receivables ageing report by comparing the details in the trade receivables ageing report with underlying invoices on a sample basis;

- obtaining an understanding of the basis of management's judgements about the recoverability of individual overdue balances and evaluating the allowance for doubtful debts made by management for these individual balances with reference to the debtors' financial condition, the industry in which the debtors are operating, the ageing of overdue balances, historical and post year-end payment records and repayment arrangements agreed with specific debtors. This included inspecting relevant correspondence with individual debtors;

- assessing the historical accuracy of the estimates made by the management for the allowance for doubtful debts by comparing the level of provision made by the management as at 31 March 2016 with the actual new provisions, write offs and recoveries in respect of trade receivables as at 31 March 2016 during the current year; and

- comparing cash receipts from debtors subsequent to the financial year end relating to trade receivable balances at 31 March 2017 with bank statements and relevant underlying documentation on a sample basis.

Information other than the consolidated financial statements and our auditor's report thereon

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated financial statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 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 this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

Auditor's responsibilities for the audit of the consolidated financial statements *(continued)*

- Obtain an understanding of internal control relevant to the audit 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 group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Lau Tai Cheong.

KPMG
Certified Public Accountants

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

29 June 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 March 2017

	Note	2017 HK$'000	2016 HK$'000
Revenue	3, 10	1,095,026	1,528,985
Cost of sales		(851,391)	(1,164,142)
Gross profit		243,635	364,843
Other revenue	4	7,795	10,460
Other net loss	4	(10,087)	(5,263)
Selling expenses		(31,399)	(30,692)
Administrative expenses		(258,398)	(278,187)
Gain on disposal of non-current assets classified as held for sale	21	250,515	–
Valuation gains on investment properties	11(d)	180	785
Impairment losses on property, plant and equipment	11(e)	–	(13,916)
Profit from operations		202,241	48,030
Finance costs	5(a)	(667)	(192)
Profit before taxation	5	201,574	47,838
Income tax	6(a)	(81,668)	(9,590)
Profit for the year		119,906	38,248
Attributable to:			
Equity shareholders of the company		50,115	39,024
Non-controlling interests		69,791	(776)
Profit for the year		119,906	38,248
Earnings per share	9		
Basic (HK cents)		8.32	6.48
Diluted (HK cents)		8.31	6.48

The notes on pages 37 to 111 form part of these financial statements. Details of dividends payable to equity shareholders of the company attributable to the profit for the year are set out in note 27(b).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2017

	Note	2017 HK$'000	2016 HK$'000
Profit for the year		119,906	38,248
Other comprehensive income for the year			
Items that will not be reclassified to profit or loss:			
Surplus on revaluation of land and buildings held for own use upon change of use to investment properties (no tax effect)	11(a)	–	1,662
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong (no tax effect)		(17,425)	(10,216)
Reclassification of accumulated exchange differences to profit or loss upon deregistration of a subsidiary (no tax effect)		1,202	–
Total comprehensive income for the year		103,683	29,694
Attributable to:			
Equity shareholders of the company		34,212	30,749
Non-controlling interests		69,471	(1,055)
Total comprehensive income for the year		103,683	29,694

The notes on pages 37 to 111 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 March 2017

	Note	2017 HK$'000	2016 HK$'000
Non-current assets			
Investment properties	11	12,300	12,777
Other property, plant and equipment	11	321,302	268,715
Interests in leasehold land held for own use under operating leases	11	3,809	3,933
		337,411	285,425
Intangible assets	12	1,965	2,033
Interest in a joint venture	14	–	–
Other financial assets	15	12,734	11,340
Deposits for purchase of property, plant and equipment		7,007	–
Deferred tax assets	24(b)	25,276	21,402
		384,393	320,200
Current assets			
Trading securities	16	133,972	142,704
Inventories	17	182,770	200,963
Trade and other receivables	18	173,494	219,145
Pledged bank balances	19	14,636	3,806
Cash and cash equivalents	20(a)	182,068	176,042
Current tax recoverable	24(a)	4,247	31
		691,187	742,691
Non-current assets classified as held for sale	21	–	2,210
		691,187	744,901
Current liabilities			
Trade and other payables	22	204,744	215,344
Bank loans	23	54,404	4,989
Current tax payable	24(a)	4,983	16,900
		264,131	237,233
Net current assets		427,056	507,668
Total assets less current liabilities		811,449	827,868

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 March 2017

	Note	2017 HK$'000	2016 HK$'000
Non-current liabilities			
Deferred tax liabilities	24(b)	7,032	238
Provision for long service payments	25	3,041	3,279
		10,073	3,517
NET ASSETS		801,376	824,351
CAPITAL AND RESERVES			
Share capital	27(c)	46,994	46,994
Reserves		739,798	759,811
Total equity attributable to equity shareholders of the company		786,792	806,805
Non-controlling interests		14,584	17,546
TOTAL EQUITY		801,376	824,351

Approved and authorised for issue by the board of directors on 29 June 2017.

Robert Dorfman	Shum Kam-Hung
Director	*Director*

The notes on pages 37 to 111 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2017

		Attributable to equity shareholders of the company										
	Note	Share capital	Share premium	Contributed surplus	Capital reserve	Exchange reserve	Property revaluation reserve	PRC statutory reserve	Retained profits	Total	Non-controlling interests	Total equity
		HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	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
Changes in equity for 2016:												
Profit for the year		–	–	–	–	–	–	–	39,024	39,024	(776)	38,248
Other comprehensive income		–	–	–	–	(9,937)	1,662	–	–	(8,275)	(279)	(8,554)
Total comprehensive income		–	–	–	–	(9,937)	1,662	–	39,024	30,749	(1,055)	29,694
Dividends approved in respect of the previous year	27(b)	–	–	–	–	–	–	–	(24,100)	(24,100)	–	(24,100)
Transfer between reserves		–	–	–	–	–	–	2,457	(2,457)	–	–	–
Dividends declared in respect of the current year	27(b)	–	–	–	–	–	–	–	(18,075)	(18,075)	–	(18,075)
Dividends paid to non-controlling interests		–	–	–	–	–	–	–	–	–	(315)	(315)
Balance at 31 March 2016 and 1 April 2016		46,994	18,737	53,891	1,220	15,242	1,662	12,658	656,401	806,805	17,546	824,351
Changes in equity for 2017:												
Profit for the year		–	–	–	–	–	–	–	50,115	50,115	69,791	119,906
Other comprehensive income		–	–	–	–	(15,903)	–	–	–	(15,903)	(320)	(16,223)
Total comprehensive income		–	–	–	–	(15,903)	–	–	50,115	34,212	69,471	103,683
Dividends approved in respect of the previous year	27(b)	–	–	–	–	–	–	–	(30,125)	(30,125)	–	(30,125)
Transfer between reserves		–	–	–	–	–	–	7,511	(7,511)	–	–	–
Deregistration of a subsidiary		–	–	–	–	–	–	(2,465)	2,465	–	–	–
Dividends declared in respect of the current year	27(b)	–	–	–	–	–	–	–	(24,100)	(24,100)	–	(24,100)
Dividends paid to non-controlling interests		–	–	–	–	–	–	–	–	–	(72,433)	(72,433)
Balance at 31 March 2017		46,994	18,737	53,891	1,220	(661)	1,662	17,704	647,245	786,792	14,584	801,376

The notes on pages 37 to 111 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2017

	Note	2017 HK$'000	2016 HK$'000
Operating activities			
Cash generated from operations	20(b)	24,116	78,827
Tax paid:			
– Hong Kong Profits Tax paid		(19,810)	(5,522)
– Taxation outside Hong Kong paid		(75,048)	(4,548)
		(94,858)	(10,070)
Net cash (used in)/generated from operating activities		(70,742)	68,757
Investing activities			
Payment for the purchase of property, plant and equipment		(100,306)	(57,251)
Payment for the purchase of trading securities		(31,912)	(9,523)
Payment for the purchase of intangible assets		–	(190)
Proceeds from disposal of property, plant and equipment		131	18,330
Proceeds from sale of trading securities		51,229	25,393
Net proceeds from disposal of non-current assets classified as held for sale		252,725	–
Distributions from other financial assets		975	–
Payment for the investment in other financial assets		(6,634)	–
Interest received		3,193	3,224
Dividends received from listed securities		1,540	1,603
(Increase)/decrease in pledged bank balances		(10,830)	1,254
Net cash generated from/(used in) investing activities		160,111	(17,160)
Financing activities			
Proceeds from new bank loans		110,510	–
Repayment of bank loans		(61,095)	(3,623)
Interest paid		(667)	(192)
Dividends paid to equity shareholders of the company	27(b)	(54,225)	(42,175)
Dividends paid to non-controlling interests		(72,433)	(315)
Net cash used in financing activities		(77,910)	(46,305)
Net increase in cash and cash equivalents		11,459	5,292
Cash and cash equivalents at the beginning of the year		176,042	172,171
Effect of foreign exchange rate changes		(5,433)	(1,421)
Cash and cash equivalents at the end of the year	20(a)	182,068	176,042

The notes on pages 37 to 111 form part of these financial statements.

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.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the group and the company. Note 2 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 March 2017 comprise the company and its subsidiaries (together referred to as the "group") and the group's interest in a joint venture.

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)); and

– financial instruments classified as trading securities (see note 1(f)).

Non-current assets classified as held for sale are stated at the lower of carrying amount and fair value less costs to sell (see note 1(w)).

1 Significant accounting policies *(continued)*

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

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 major sources of estimation uncertainty are discussed in note 33.

(c) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the group. The group controls an entity when it is exposed, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the group has power, only substantive rights (held by the group and other parties) are considered.

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, transactions and cash flows 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.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the company, 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.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the company. Non-controlling interests in the results of the group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the company.

1 Significant accounting policies *(continued)*

(c) Subsidiaries and non-controlling interests *(continued)*

Changes in the group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 1(f) or, when appropriate, the cost on initial recognition of an investment in an associate or a joint venture (see note 1(d)).

In the company's statement of financial position, investments in subsidiaries are stated at cost less impairment losses (see note 1(m)).

(d) Associate and joint ventures

An associate is an entity in which the group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the group and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post-acquisition change in the group's share of the investee's net assets and any impairment loss relating to the investment (see note 1(m)). Any acquisition-date excess over cost, the group's share of the post-acquisition, post-tax results of the investees and any impairment loss for the year are recognised in the consolidated statement of profit or loss, whereas the group's share of the post-acquisition post-tax items of the investee's other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the group's share of losses exceeds its interest in the associate or the joint venture, 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 investee. For this purpose, the group's interest 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 associate or the joint venture.

1 Significant accounting policies *(continued)*

(d) Associate and joint ventures *(continued)*

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

If an investment in a joint venture becomes an investment in an associate or vice versa, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 1(f)).

(e) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 1(m)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

1 Significant accounting policies *(continued)*

(f) Other investments in debt and equity securities and managed funds

The group's and the company's policies for investments in debt and equity securities and managed funds, other than investments in subsidiaries, an associate and joint ventures, are as follows:

Investments in debt and equity securities and managed funds are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses 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 debt and equity securities and managed funds held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss. The net gain or loss recognised in profit or loss does not include any interest or dividends earned on these investments as these are recognised in accordance with the policies set out in notes 1(t)(ii) and (iii).

– Investments in equity securities that do not have a quoted market price in an active market for an identical instrument and whose fair value cannot be reliably measured are recognised in the statement of financial position at cost less impairment losses (see note 1(m)).

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

1 Significant accounting policies *(continued)*

(g) Property, plant and equipment

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

– freehold land and buildings;

– land classified as being held under finance leases and buildings thereon (see note 1(j));

– buildings held for own use which are situated on leasehold land classified as held under operating leases (see note 1(j)); and

– other items of plant and equipment.

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located.

In prior years certain land and buildings held for own use were revalued to their fair value. 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 these land and buildings have not been revalued to their fair value at the end of the reporting period.

If land and buildings held for own use becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item at the date of transfer is recognised in other comprehensive income and accumulated in property revaluation reserve. On subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to retained profits.

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. Any related revaluation surplus is transferred from the revaluation reserve to retained profits and is not reclassified to profit or loss.

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

– Freehold land is not depreciated.

– Leasehold land classified as being held under finance lease and buildings are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years.

1 Significant accounting policies *(continued)*

(g) Property, plant and equipment *(continued)*

- Other plant and equipment at the following rates:

–	Plant, machinery, furniture, fixtures and office equipment	9 – 30%
–	Moulds	20 – 50%
–	Motor vehicles	10 – 25%

No depreciation is provided in respect of construction in progress.

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation 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.

(h) Investment properties

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 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) Intangible assets (other than goodwill)

Intangible assets that are acquired by the group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 1(m)). Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight line basis over the assets' estimated useful lives. The intangible assets with finite useful lives are amortised from the date they are available for use and their useful lives are 24 years. Both the period and method of amortisation are reviewed annually.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.

1 Significant accounting policies *(continued)*

(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 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.

(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)).

1 Significant accounting policies *(continued)*

(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 using the effective interest method, less allowance for impairment of 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 allowance for impairment of doubtful debts.

(m) Impairment of assets

(i) Impairment of investments in equity securities and other receivables

Investments in equity securities and other current and non-current receivables that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

1 Significant accounting policies *(continued)*

(m) Impairment of assets *(continued)*

(i) Impairment of investments in equity securities and other receivables (continued)

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For investment in an associate and joint ventures accounted for under the equity method in the consolidated financial statements (see note 1(d)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 1(m)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 1(m)(ii).

– For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.

– For receivables and other financial assets 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 financial 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. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  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.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

1 Significant accounting policies *(continued)*

(m) Impairment of assets *(continued)*

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, 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 operating leases;

– intangible assets;

– goodwill; and

– investments in subsidiaries in the company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill and intangible assets that have indefinite useful lives, 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 fair value less costs of disposal 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 the 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 if 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 first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other 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 of disposal (if measurable) or value in use (if determinable).

1 Significant accounting policies *(continued)*

(m) Impairment of assets *(continued)*

(ii) Impairment of other assets (continued)

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

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.

(iii) Interim financial reporting and impairment

Under the Listing Rules, the group is required to prepare an interim financial report in compliance with HKAS 34, *Interim financial reporting*, in respect of the first six months of the financial year. At the end of the interim period, the group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 1(m)(i) and (ii)).

Impairment losses recognised in an interim period in respect of goodwill and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

(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.

(o) Payables

Payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 1(s)(i), payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

1 Significant accounting policies *(continued)*

(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

(i) 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.

Termination benefits are recognised at the earlier of when the group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

(ii) *Share-based payments*

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial lattice model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is included in the amount recognised in share capital for the shares issued) or the option expires (when it is released directly to retained profits).

1 Significant accounting policies *(continued)*

(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 in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, 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.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, 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.

1 Significant accounting policies *(continued)*

(r) Income tax *(continued)*

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 1(h), the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the end of the reporting period unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, 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 end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period 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.

Additional income taxes that arise from distribution of dividends are recognised when the liability to pay the related dividends is recognised.

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.

1 Significant accounting policies *(continued)*

(s) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the group issues a financial guarantee, the fair value of the guarantee is initially recognised as deferred income within trade and other payables. The fair value of financial guarantees issued at the time of issuance is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 1(s)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the group under the guarantee, and (ii) the amount of that claim on the group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) Other provisions and contingent liabilities

Provisions are recognised for other 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.

1 Significant accounting policies *(continued)*

(t) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. 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 for domestic sales or when goods are shipped on board for export sales 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 tax 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 earned according to the terms of licence agreement.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2017

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 end of the reporting period. 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 measured.

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. Statement of financial position items are translated into Hong Kong dollars at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of an operation outside Hong Kong, the cumulative amount of the exchange differences relating to that operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(v) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

1 Significant accounting policies *(continued)*

(w) Non-current assets classified as held for sale

A non-current asset (or disposal group) is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for sale in its present condition. A disposal group is a group of assets to be disposed of together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

When the group is committed to a sale plan involving loss of control of a subsidiary, all the assets and liabilities of that subsidiary are classified as held for sale when the above criteria for classification as held for sale are met, regardless of whether the group will retain a non-controlling interest in the subsidiary after the sale.

Immediately before classification as held for sale, the measurement of the non-current assets (and all individual assets and liabilities in a disposal group) is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the non-current assets (except for certain assets as explained below), or disposal groups, are recognised at the lower of their carrying amount and fair value less costs to sell. The principal exceptions to this measurement policy so far as the financial statements of the group are concerned are deferred tax assets, assets arising from employee benefits, financial assets (other than investments in subsidiaries, an associate and joint ventures) and investment properties. These assets, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in note 1.

Impairment losses on initial classification as held for sale, and on subsequent remeasurement while held for sale, are recognised in profit or loss. As long as a non-current asset is classified as held for sale, or is included in a disposal group that is classified as held for sale, the non-current asset is not depreciated or amortised.

(x) Related parties

(1) A person, or a close member of that person's family, is related to the group if that person:

(i) has control or joint control over the group;

(ii) has significant influence over the group; or

(iii) is a member of the key management personnel of the group.

1 Significant accounting policies *(continued)*

(x) Related parties *(continued)*

(2) An entity is related to the group if any of the following conditions applies:

(i) The entity and the group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the group or an entity related to the group.

(vi) The entity is controlled or jointly controlled by a person identified in (1).

(vii) A person identified in (1)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the group.

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

(y) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

2 Changes in accounting policies

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the group. None of these developments have 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 Revenue

The principal activities of the group are the manufacture, sale and distribution of toys, computer products, housewares, clocks, watches and electronic and gift products. The principal activities of the major subsidiaries are set out in note 13 to the financial statements.

Revenue represents the sales value of goods supplied to customers less value added tax, trade discounts and returns.

The group's customer base is diversified and includes only one (2016: one) customer with whom transactions have exceeded 10% of the group's revenue. During the year, revenue from sales of toys to this customer amounted to approximately HK$385,860,000 (2016: HK$698,360,000). For both years, the sales arose mainly in the North America geographical region in which the toys division is active. Details of concentrations of credit risk arising from this customer are set out in note 28(a).

Further details regarding the group's principal activities are disclosed in note 10 to the financial statements.

4 Other revenue and other net loss

	2017 HK$'000	2016 HK$'000
Other revenue		
Interest income from deposits with banks	804	420
Interest income from trading securities	1,189	1,473
Interest income from a trade debtor	1,200	1,331
Rental income	826	1,004
Dividend income from listed securities	1,540	1,603
Royalty income	757	3,270
Others	1,479	1,359
	7,795	10,460
Other net loss		
Net (loss)/gain on disposal of property, plant and equipment	(271)	11,810
Net foreign exchange (loss)/gain	(16,290)	985
Net realised and unrealised gains/(losses) on trading securities	10,585	(11,416)
Impairment loss on other financial assets	(4,265)	(6,700)
Loss on deregistration of a subsidiary	(235)	–
Others	389	58
	(10,087)	(5,263)

5 Profit before taxation

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

		2017 HK$'000	2016 HK$'000
(a)	**Finance costs**		
	Interest on bank loans and other borrowings	667	192
(b)	**Staff costs# (including directors' emoluments)**		
	Contributions to defined contribution retirement plans	29,042	38,689
	Write-back of provision for long service payments	(202)	(101)
	Total retirement costs	28,840	38,588
	Salaries, wages and other benefits	361,457	486,969
		390,297	525,557
(c)	**Other items**		
	Amortisation		
	– land lease premium# (note 11(a))	124	124
	– intangible assets (note 12)	68	17
	Cost of inventories# (note 17(b))	851,391	1,164,142
	Depreciation# (note 11(a))	28,918	27,354
	Auditors' remuneration		
	– audit services	3,608	3,911
	– tax services	468	524
	– other services	303	45
	Impairment losses		
	– other property, plant and equipment (note 11(a))	–	13,916
	– trade debtors (note 18(b))	30,812	15,459
	Reversal of impairment losses on trade debtors (note 18(b))	(11,174)	–
	Operating lease charges: minimum lease payments#		
	– land and buildings	9,889	10,708
	– other assets	1,741	1,819
	Rentals receivable from investment properties less direct outgoings of HK$32,000 (2016: HK$94,000)	(421)	(486)

Cost of inventories includes HK$248,720,000 (2016: HK$365,683,000) 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 5(b) for each of these types of expenses.

6 Income tax in the consolidated statement of profit or loss

(a) Taxation in the consolidated statement of profit or loss represents:

	2017 HK$'000	2016 HK$'000
Current tax – Hong Kong Profits Tax		
Provision for the year	5,998	15,958
Over-provision in respect of prior years	(2,200)	(1,274)
	3,798	14,684
Current tax – Outside Hong Kong		
Provision for the year	60,052	3,173
Over-provision in respect of prior years	(600)	–
	59,452	3,173
Land Appreciation Tax	15,475	–
Deferred tax		
Origination and reversal of temporary differences	2,943	(8,267)
	81,668	9,590

The provision for Hong Kong Profits Tax for 2017 is calculated at 16.5% (2016: 16.5%) 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. The Corporate Income Tax rate applicable to subsidiaries located in the People's Republic of China (the "PRC") is 25% (2016: 25%) for the current year. No provision has been made for subsidiaries located in the United Kingdom for the years ended 31 March 2017 and 2016 because either they sustained a loss for taxation purposes or their tax losses brought forward exceeded the estimated assessable profits for both years.

Land Appreciation Tax is levied on the appreciation of land value in respect of the disposal of non-current assets classified as held for sale as set out in note 21.

6 Income tax in the consolidated statement of profit or loss *(continued)*

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

	2017 HK$'000	2016 HK$'000
Profit before taxation	201,574	47,838
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	53,097	7,962
Tax effect of non-deductible expenses	7,817	5,609
Tax effect of non-taxable income	(6,229)	(4,074)
Tax effect of current year tax losses not recognised	9,295	1,907
Tax effect of other temporary differences not recognised	(87)	21
Tax effect of utilisation of prior years' tax losses not previously recognised	(1,519)	(575)
Tax effect of undistributed profits of a subsidiary	6,800	–
Land Appreciation Tax	15,475	–
Over-provision in respect of prior years	(2,800)	(1,274)
Others	(181)	14
Actual tax expense	81,668	9,590

7 Directors' emoluments

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	2017				
	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					
Mr Robert Dorfman	–	4,050	1,418	373	5,841
Mr Shum Kam-Hung	–	2,505	877	231	3,613
Dr Cheung Tsang-Kay, Stan	–	3,855	1,350	356	5,561
Independent non-executive directors					
Mr Lie-A-Cheong Tai-Chong, David	252	–	–	–	252
Mr Yeh Man-Chun, Kent	252	–	–	–	252
Mr Ng Tze-Kin, David	252	–	–	–	252
	756	10,410	3,645	960	15,771

7 Directors' emoluments *(continued)*

	2016				
	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					
Mr Robert Dorfman	–	3,810	1,040	351	5,201
Mr Shum Kam-Hung (appointed on 1 July 2015)	–	1,700	782	152	2,634
Dr Cheung Tsang-Kay, Stan	–	3,615	988	333	4,936
Mr Tang King-Hung (retired on 1 July 2015)	–	2,980	–	84	3,064
Independent non-executive directors					
Mr Lie-A-Cheong Tai-Chong, David	234	–	–	–	234
Mr Yeh Man-Chun, Kent	234	–	–	–	234
Mr Ng Tze-Kin, David	234	–	–	–	234
	702	12,105	2,810	920	16,537

8 Individuals with highest emoluments

Of the five individuals with the highest emoluments, two (2016: two) are directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other three (2016: three) individuals are as follows:

	2017 HK$'000	2016 HK$'000
Salaries and other emoluments	10,688	10,118
Discretionary bonuses	3,528	3,335
Retirement scheme contributions	790	751
	15,006	14,204

8 Individuals with highest emoluments *(continued)*

The emoluments of the three (2016: three) individuals with the highest emoluments are within the following bands:

	2017	2016
HK$4,000,001 – HK$4,500,000	2	2
HK$5,500,001 – HK$6,000,000	–	1
HK$6,000,001 – HK$6,500,000	1	–

9 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$50,115,000 (2016: HK$39,024,000) and the weighted average number of shares of 602,491,000 (2016: 602,491,000) in issue during the year.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to equity shareholders of the company of HK$50,115,000 (2016: HK$39,024,000) and the weighted average number of shares of 603,152,000 (2016: 602,671,000), calculated as follows:

	Weighted average number of shares (diluted)	
	2017	2016
	’000	’000
Weighted average number of shares at 31 March	602,491	602,491
Effect of deemed issue of shares under the company’s share option scheme for nil consideration	661	180
Weighted average number of shares (diluted) at 31 March	603,152	602,671

10 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 and managed funds.
Others	:	The leasing of properties to group companies and third parties to generate rental income and to gain from the appreciation in the properties' values in the long term.

(a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible assets, intangible assets and current assets with the exception of interest in a joint venture, current tax recoverable, deferred tax assets and other corporate assets. Segment liabilities include all liabilities with the exception of current tax payable, deferred tax liabilities and other corporate liabilities.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments. Segment revenue and expenses do not include the group's share of revenue and expenses arising from the activities of the group's joint venture.

The measure used for reporting segment profit/(loss) is "profit/(loss) from operations".

10 Segment reporting *(continued)*

(a) Segment results, assets and liabilities *(continued)*

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 years ended 31 March 2017 and 2016 is set out below:

	2017						
	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	563,771	173,792	140,953	216,510	–	–	1,095,026
Inter-segment revenue	–	–	–	–	–	3,580	3,580
Reportable segment revenue	563,771	173,792	140,953	216,510	–	3,580	1,098,606
Reportable segment profit/(loss)	270,816	(46,098)	(260)	(5,738)	13,315	(1,574)	230,461
Interest income	603	1,209	22	28	1,189	–	3,051
Interest expense	(274)	–	–	–	–	(256)	(530)
Depreciation and amortisation for the year	(15,240)	(5,387)	(2,650)	(1,825)	–	(4,008)	(29,110)
Reportable segment assets	362,630	130,670	114,657	123,229	148,608	77,633	957,427
Additions to non-current segment assets during the year	54,908	4,308	5,882	1,128	–	34,080	100,306
Reportable segment liabilities	153,587	17,186	39,548	28,551	–	12,387	251,259

10 Segment reporting *(continued)*

(a) Segment results, assets and liabilities *(continued)*

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 years ended 31 March 2017 and 2016 is set out below: *(continued)*

	2016						
	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	908,585	226,681	129,426	264,293	–	–	1,528,985
Inter-segment revenue	–	–	–	–	–	3,365	3,365
Reportable segment revenue	908,585	226,681	129,426	264,293	–	3,365	1,532,350
Reportable segment profit/(loss)	52,345	13,954	(4,914)	18,342	(8,336)	(829)	70,562
Interest income	250	1,350	12	97	1,473	–	3,182
Interest expense	–	–	–	–	–	(192)	(192)
Depreciation and amortisation for the year	(14,653)	(5,306)	(2,818)	(2,390)	–	(2,328)	(27,495)
Impairment losses on property, plant and equipment	(13,916)	–	–	–	–	–	(13,916)
Reportable segment assets	376,224	195,452	111,612	149,475	146,510	47,484	1,026,757
Additions to non-current segment assets during the year	42,397	6,992	3,177	4,860	–	15	57,441
Reportable segment liabilities	140,559	26,208	33,648	32,532	–	6,357	239,304

10 Segment reporting *(continued)*

(b) Reconciliations of reportable segment revenue, profit, interest income, interest expense, assets and liabilities

	2017 HK$'000	2016 HK$'000
Revenue		
Reportable segment revenue	1,098,606	1,532,350
Elimination of inter-segment revenue	(3,580)	(3,365)
Consolidated revenue	1,095,026	1,528,985
Profit		
Reportable segment profit	230,461	70,562
Unallocated corporate expenses	(28,887)	(22,724)
Consolidated profit before taxation	201,574	47,838
Interest income		
Reportable segment interest income	3,051	3,182
Unallocated corporate interest income	142	42
Consolidated interest income	3,193	3,224
Interest expense		
Reportable segment interest expense	530	192
Unallocated corporate interest expense	137	–
Consolidated interest expense	667	192
Assets		
Reportable segment assets	957,427	1,026,757
Elimination of inter-segment receivables	(19,000)	(20,276)
	938,427	1,006,481
Current tax recoverable	4,247	31
Deferred tax assets	25,276	21,402
Unallocated corporate assets	107,630	37,187
Consolidated total assets	1,075,580	1,065,101
Liabilities		
Reportable segment liabilities	251,259	239,304
Elimination of inter-segment payables	(19,000)	(20,276)
	232,259	219,028
Current tax payable	4,983	16,900
Deferred tax liabilities	7,032	238
Unallocated corporate liabilities	29,930	4,584
Consolidated total liabilities	274,204	240,750

10 Segment reporting *(continued)*

(c) Geographic information

The following table sets out information about the geographical location of (i) the group's revenue from external customers and (ii) the group's investment properties, other property, plant and equipment, interests in leasehold land held for own use under operating leases, intangible assets, deposits for purchase of property, plant and equipment and interest in a joint venture ("specified non-current assets"). The geographical location of customers is based on the location at which the goods were delivered. The geographical location of the specified non-current assets is based on the physical location of the assets, in the case of investment properties, other property, plant and equipment, interests in leasehold land held for own use under operating leases and deposits for purchase of property, plant and equipment, the location of the operation to which they are allocated, in the case of intangible assets, and the location of operations, in the case of interest in a joint venture.

	Revenue from external customers		Specified non-current assets	
	2017	2016	2017	2016
	HK$'000	HK$'000	HK$'000	HK$'000
Hong Kong (place of domicile)	84,496	100,605	90,359	65,663
North America	479,138	688,735	3	4
United Kingdom	236,780	272,044	21,952	25,550
Europe (excluding United Kingdom)	130,257	232,667	–	–
Asia (excluding Mainland China and Hong Kong)	52,399	65,222	–	–
Mainland China	65,702	66,442	234,069	196,241
Others	46,254	103,270	–	–
	1,010,530	1,428,380	256,024	221,795
	1,095,026	1,528,985	346,383	287,458

11 Investment properties, other property, plant and equipment and leasehold land

(a) Reconciliation of carrying amount

	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	Construction in progress HK$'000	Sub-total HK$'000	Investment properties HK$'000	Interests in leasehold land held for own use under operating leases HK$'000	Total HK$'000
Cost or valuation:									
At 1 April 2016	288,324	418,200	7,408	27,631	2,766	744,329	12,777	10,614	767,720
Exchange adjustments	(7,270)	(17,080)	–	(805)	–	(25,155)	(657)	(260)	(26,072)
Additions	34,778	38,743	386	4,100	15,292	93,299	–	–	93,299
Disposals	(340)	(1,014)	–	(4,280)	–	(5,634)	–	–	(5,634)
Transfer from construction in progress	18,058	–	–	–	(18,058)	–	–	–	–
Fair value adjustment	–	–	–	–	–	–	180	–	180
At 31 March 2017	333,550	438,849	7,794	26,646	–	806,839	12,300	10,354	829,493
Representing:									
Cost	322,088	438,849	7,794	26,646	–	795,377	–	10,354	805,731
Valuation – 1987	11,462	–	–	–	–	11,462	–	–	11,462
– 2017	–	–	–	–	–	–	12,300	–	12,300
	333,550	438,849	7,794	26,646	–	806,839	12,300	10,354	829,493
Accumulated amortisation, depreciation and impairment losses:									
At 1 April 2016	148,213	296,795	7,235	23,371	–	475,614	–	6,681	482,295
Exchange adjustments	(4,182)	(8,962)	–	(619)	–	(13,763)	–	(260)	(14,023)
Amortisation and depreciation charge for the year	9,351	16,889	176	2,502	–	28,918	–	124	29,042
Written back on disposals	(117)	(1,002)	–	(4,113)	–	(5,232)	–	–	(5,232)
At 31 March 2017	153,265	303,720	7,411	21,141	–	485,537	–	6,545	492,082
Net book value:									
At 31 March 2017	180,285	135,129	383	5,505	–	321,302	12,300	3,809	337,411

11 Investment properties, other property, plant and equipment and leasehold land *(continued)*

(a) Reconciliation of carrying amount *(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	Construction in progress HK$'000	Sub-total HK$'000	Investment properties HK$'000	Interests in leasehold land held for own use under operating leases HK$'000	Total HK$'000
Cost or valuation:									
At 1 April 2015	303,049	386,170	7,391	27,974	18,648	743,232	6,980	10,794	761,006
Exchange adjustments	(2,425)	(6,281)	–	(537)	(45)	(9,288)	(250)	(180)	(9,718)
Additions	228	52,204	170	909	3,740	57,251	–	–	57,251
Disposals	(9,187)	(10,960)	(153)	(715)	–	(21,015)	–	–	(21,015)
Transfer from construction in progress	19,577	–	–	–	(19,577)	–	–	–	–
Transfer to investment properties	(5,413)	–	–	–	–	(5,413)	5,262	–	(151)
Transfer to non-current assets classified as held for sale	(19,167)	(2,933)	–	–	–	(22,100)	–	–	(22,100)
Fair value adjustment	1,662	–	–	–	–	1,662	785	–	2,447
At 31 March 2016	288,324	418,200	7,408	27,631	2,766	744,329	12,777	10,614	767,720
Representing:									
Cost	276,862	418,200	7,408	27,631	2,766	732,867	–	10,614	743,481
Valuation – 1987	11,462	–	–	–	–	11,462	–	–	11,462
– 2016	–	–	–	–	–	–	12,777	–	12,777
	288,324	418,200	7,408	27,631	2,766	744,329	12,777	10,614	767,720
Accumulated amortisation, depreciation and impairment losses:									
At 1 April 2015	162,646	284,095	7,110	21,992	–	475,843	–	6,737	482,580
Exchange adjustments	(1,355)	(5,194)	–	(414)	–	(6,963)	–	(180)	(7,143)
Amortisation and depreciation charge for the year	8,048	16,762	278	2,266	–	27,354	–	124	27,478
Impairment loss	–	13,745	–	171	–	13,916	–	–	13,916
Transfer to investment properties	(151)	–	–	–	–	(151)	–	–	(151)
Transfer to non-current assets classified as held for sale	(17,250)	(2,640)	–	–	–	(19,890)	–	–	(19,890)
Written back on disposals	(3,725)	(9,973)	(153)	(644)	–	(14,495)	–	–	(14,495)
At 31 March 2016	148,213	296,795	7,235	23,371	–	475,614	–	6,681	482,295
Net book value:									
At 31 March 2016	140,111	121,405	173	4,260	2,766	268,715	12,777	3,933	285,425

11 Investment properties, other property, plant and equipment and leasehold land *(continued)*

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

	Investment properties		Land and buildings held for own use		Interests in leasehold land held for own use under operating leases	
	2017	2016	2017	2016	2017	2016
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
In Hong Kong						
– medium-term leases	2,800	2,800	80,101	50,580	–	–
Outside Hong Kong						
– freehold	4,530	5,187	11,403	13,212	–	–
– medium-term leases	4,970	4,790	88,781	76,319	3,809	3,933
	12,300	12,777	180,285	140,111	3,809	3,933

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

At 31 March 2017, included in land and buildings held for own use were properties carried at valuation less accumulated depreciation and impairment losses amounting to HK$2,731,000 (2016: HK$2,843,000). The carrying amount of these properties held for own use would have been HK$405,000 (2016: HK$469,000) had they been carried at cost less accumulated depreciation and impairment losses.

(d) Fair value measurement of properties

(i) Fair value hierarchy

The following table presents the fair value of the group's properties 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

11 Investment properties, other property, plant and equipment and leasehold land *(continued)*

(d) Fair value measurement of properties *(continued)*

(i) Fair value hierarchy (continued)

	Fair value at 31 March 2017 HK$'000	Fair value measurements as at 31 March 2017 categorised into		
		Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000
Recurring fair value measurement				
Investment properties:				
– Commercial – Mainland China	4,970	–	–	4,970
– Residential – United Kingdom	4,530	–	–	4,530
– Industrial – Hong Kong	2,800	–	–	2,800

	Fair value at 31 March 2016 HK$'000	Fair value measurements as at 31 March 2016 categorised into		
		Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000
Recurring fair value measurement				
Investment properties:				
– Commercial – Mainland China	4,790	–	–	4,790
– Residential – United Kingdom	5,187	–	–	5,187
– Industrial – Hong Kong	2,800	–	–	2,800

During the year ended 31 March 2017, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2016: Nil). The group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period of the financial year in which they occur.

All investment properties of the group were revalued as at 31 March 2017. The valuations of the investment properties in Mainland China, the United Kingdom and Hong Kong 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. The group management has discussion with the surveyors on the valuation assumptions and valuation results when the valuation is performed at each annual reporting date.

11 Investment properties, other property, plant and equipment and leasehold land *(continued)*

(d) Fair value measurement of properties *(continued)*

(ii) Information about Level 3 fair value measurements

	Valuation techniques	Unobservable input	Range	Weighted average/ adopted value
Investment properties Commercial – Mainland China	Sales comparison approach (2016: Income approach)	Discount on quality of the buildings (2016: Yield rate)	7.00% to 13.00% (2016: 4.00% to 4.50%)	8.00% (2016: 4.25%)
Investment properties Residential – United Kingdom	Income approach	Yield rate	Not applicable*	4.60% (2016: 4.50%)
Investment properties Industrial – Hong Kong	Income approach	Yield rate	Not applicable* (2016: 3.50% to 4.00%)	3.00% (2016: 3.75%)

* Only one yield rate is adopted in calculating the fair value and reversionary value given the rents of the respective investment properties are close to market rents at the measurement date.

The fair value of investment properties located in Mainland China, the United Kingdom and Hong Kong is determined using income approach by taking into account the current rent receivable from the existing tenancies and the reversionary potential of the property interests. Appropriate yield rates were adopted in income approach for the existing rent receivable during the tenancies' terms and for the reversionary value of the properties. The fair value measurement is negatively correlated to the yield rates.

At 31 March 2017, the investment properties located in Mainland China are vacant and marketed for leasing. The valuation technique to revalue the investment properties changed from income approach in 2016 to sales comparison approach in 2017.

The fair value of the investment properties located in Mainland China as at 31 March 2017 is determined using sales comparison approach by reference to recent sales price of comparable properties on a price per square meter basis, adjusted for a premium or a discount specific to the quality of the buildings compared to the recent sales. Higher discount for lower quality buildings will result in a lower fair value measurement.

11 Investment properties, other property, plant and equipment and leasehold land *(continued)*

(d) Fair value measurement of properties *(continued)*

(ii) Information about Level 3 fair value measurements (continued)

The movements during the period in the balance of these Level 3 fair value measurements are as follows:

	2017 HK$'000	2016 HK$'000
Investment properties – Commercial – Mainland China:		
At the beginning of the year	4,790	4,380
Fair value adjustment	180	410
At the end of the year	4,970	4,790
Investment properties – Residential – United Kingdom:		
At the beginning of the year	5,187	–
Transfer	–	5,262
Fair value adjustment	–	175
Exchange adjustment	(657)	(250)
At the end of the year	4,530	5,187
Investment properties – Industrial – Hong Kong:		
At the beginning of the year	2,800	2,600
Fair value adjustment	–	200
At the end of the year	2,800	2,800

11 Investment properties, other property, plant and equipment and leasehold land *(continued)*

(d) Fair value measurement of properties *(continued)*

(ii) Information about Level 3 fair value measurements (continued)

For the year ended 31 March 2016, there was a change in use of property from being used by the group to earning rental from external third parties. In accordance with HKAS 16, *Property, plant and equipment* and HKAS 40, *Investment property*, the property was transferred from land and buildings held for own use to investment properties at fair value on the date of transfer.

Fair value adjustment of investment properties is recognised in the line item "valuation gains on investment properties" on the face of the consolidated statement of profit or loss.

All the gains recognised in profit or loss for the year arise from the investment properties held at the end of the reporting period.

(e) During the year ended 31 March 2017, the directors carried out an assessment of the recoverable amount of certain property, plant and equipment of the group and as a result no write-down of the carrying amount of the property, plant and equipment has been made (2016: write-down of HK$13,916,000). The estimates of the recoverable amount were based on the value in use of the property, plant and equipment. During the year ended 31 March 2016, the directors considered that these assets were unable to generate positive cash flows to the group.

(f) Term loans (note 23(c)) are secured on the group's properties with a carrying amount of HK$64,042,000 (2016: HK$32,677,000) at 31 March 2017.

(g) The group leases out certain properties under operating leases. The leases typically run for an initial period of one to ten 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.

Total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	2017 HK$'000	2016 HK$'000
Within 1 year	154	599

12 Intangible assets

	Club memberships	
	2017	2016
	HK$'000	HK$'000
Cost:		
At the beginning of the year	2,310	2,120
Additions	–	190
At the end of the year	2,310	2,310
Accumulated amortisation and impairment losses:		
At the beginning of the year	277	260
Charge for the year	68	17
At the end of the year	345	277
Net book value:		
At the end of the year	1,965	2,033

Club memberships represent the rights to use the clubs' facilities, which have finite and indefinite useful lives. The amortisation charge for club memberships with finite useful lives for the year is included in administrative expenses in the consolidated statement of profit or loss.

During the year ended 31 March 2017, the directors carried out an assessment of the recoverable amount of the club memberships. Based on their review, no impairment losses were recognised during the year (2016: Nil). The estimates of the recoverable amount were based on recent observable market prices.

13 Investments in subsidiaries

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the group. The class of shares held is ordinary and the capital is fully paid up unless otherwise stated.

Name of companies	Place/country of establishment/ incorporation	Place/country of operation	Particulars of issued capital/ registered capital	Percentage of ownership interest held by the company	subsidiaries	Principal activities
Herald Group Limited	The British Virgin Islands ("BVI")	Hong Kong	1 share of US$1	100	–	Investment holding
Herald (Hong Kong) Limited	Hong Kong	Hong Kong	10,000 shares	–	100	Investment holding
Herald China Investments Limited	Hong Kong	Hong Kong	1,000,000 shares	–	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 shares	–	100	Trading of toys
			1,953,000 deferred shares	–	100	
Dongguan Herald Toys Company Limited@	PRC	PRC	Registered capital of HK$55,000,000	–	100	Manufacture of toys
Dongguan Herald Metal and Plastic Company Limited@	PRC	PRC	Registered capital of HK$105,400,000 and paid up capital of HK$98,400,000	–	100	Manufacture of toys
Shenzhen Herald Metal and Plastic Company Limited*	PRC	PRC	Registered capital of HK$23,500,000	–	–	Manufacture of toys
Herald Datanetics Limited	Hong Kong	Hong Kong	1,128,000 shares	–	100	Manufacture and sale of computer products
Zhuhai Herald Datanetics Limited#	PRC	PRC	Registered capital of HK$38,000,000	–	80	Manufacture of computer products
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 shares	–	100	Trading of housewares

13 Investments in subsidiaries *(continued)*

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the group. The class of shares held is ordinary and the capital is fully paid up unless otherwise stated. *(continued)*

Name of companies	Place/country of establishment/ incorporation	Place/country of operation	Particulars of issued capital/ registered capital	Percentage of ownership interest held by the company	Percentage of ownership interest held by the subsidiaries	Principal activities
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	2,160,247 shares of GBP1 each	–	100	Sales and distribution of housewares
Zeon Limited	United Kingdom	United Kingdom	4,283,750 shares of GBP1 each	–	100	Sales and distribution of clocks, watches and electronic products
			165,417 preferred shares of GBP1 each	–	100	
Zeon Far East Limited	Hong Kong	Hong Kong	2 shares	–	100	Trading of clocks and watches
Herald Electronics Limited	Hong Kong	Hong Kong	1,000,000 shares	–	100	Trading of clocks
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 shares	–	100	Property investment
Premium Account Limited	BVI	PRC	2 shares of US$1 each	–	100	Property investment
Zeon US Inc&	United States of America	United States of America	1,000 shares of US$0.001 each	–	100	Sales and distribution of clocks, watches and electronic products

\# Equity joint ventures registered under the laws of the PRC as Sino-foreign Joint Venture Enterprises. The operation period of these equity joint ventures will be expired as follows:

- Zhuhai Herald Datanetics Limited: 2 August 2018
- Zhuhai Herald Houseware Limited: 23 April 2020
- Shanghai Herald Electronics Company Limited: 1 November 2019

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

* Shenzhen Herald Metal and Plastic Company Limited was deregistered during the year ended 31 March 2017.

& Zeon US Inc was incorporated on 25 August 2016 in New Jersey, United States.

14 Interest in a joint venture

	2017 HK$'000	2016 HK$'000
Amount due from a joint venture	6,028	6,028
Loan to a joint venture	10,833	12,403
Less: impairment losses (note 14(c))	(16,861)	(18,431)
	–	–

(a) Details of the group's interest in a joint venture, which is accounted for using the equity method in the consolidated financial statements, are as follows:

Name of joint venture	Form of business structure	Place of incorporation and operation	Particulars of issued and paid up capital/ registered capital	Percentage of ownership interest held by the subsidiaries	Principal activity
Ventura Watch AG ("Ventura")	Limited liability company	Switzerland	1,000 ordinary shares of CHF260 each	55%	Distribution of clocks, watches and electronic products

Ventura is an unlisted corporate entity which the quoted market price is not available. In the opinion of the directors, the group does not have the power to govern the financial and operating policies of Ventura. Accordingly, this investment has been accounted for as a joint venture.

(b) The group has discontinued the recognition of its share of loss of the joint venture, Ventura, because the share of loss exceeded the group's interest in the joint venture and the group's interest was reduced to nil. Ventura is in the process of liquidation and the amount of the group's unrecognised share of loss of this joint venture at 31 March 2017 was HK$3,466,000 (2016: HK$3,466,000).

(c) At 31 March 2017, a loan to a joint venture of HK$10,833,000 (2016: HK$12,403,000) and an amount due from a joint venture of HK$6,028,000 (2016: HK$6,028,000) were individually determined to be impaired.

The loan to the joint venture is unsecured, interest-bearing at 4.75% per annum and repayable on or before 31 December 2017, while the amount due from the joint venture is unsecured, interest-free and has no fixed terms of repayment.

At 31 March 2017, the directors carried out an assessment of the recoverable amounts of the amount due from and the loan to the joint venture. Based on their review, no reversal of impairment losses (2016: Nil) was recognised during the year. The estimates of recoverable amounts were based on the value in use of the interest in a joint venture and the directors considered that this asset is unable to generate positive cash flows to the group.

15 Other financial assets

	2017 HK$'000	2016 HK$'000
Unlisted equity securities, at cost	27,599	21,940
Less: impairment losses	(14,865)	(10,600)
	12,734	11,340

At 31 March 2017, the directors carried out an assessment of the recoverable amount of other financial assets. Based on their review, an additional impairment loss of HK$4,265,000 (2016: HK$6,700,000) was recognised in profit or loss during the year ended 31 March 2017. The estimates of the recoverable amount were based on the value in use of the other financial assets and the directors considered that a portion of these assets is unable to generate positive cash flows to the group.

16 Trading securities

	2017 HK$'000	2016 HK$'000
Listed equity securities, at market value		
– in Hong Kong	20,531	22,941
– outside Hong Kong	3,311	2,427
	23,842	25,368
Unlisted managed funds, at fair value (note 16(a))	96,617	90,962
Unlisted debt securities, at fair value	2,014	2,025
Listed debt securities, at market value	11,499	24,349
	133,972	142,704

(a) Managed funds

The group acquired certain managed funds for trading purposes. These managed funds are issued by financial institutions with high credit ratings and have underlying investments in both listed and unlisted debt and equity securities and commodities around the world.

(b) At 31 March 2017, trading securities of HK$112,358,000 (2016: HK$124,059,000) are pledged to banks to secure banking facilities, which include revolving credit facility and investment trading line granted to the group.

17 Inventories

(a) Inventories in the consolidated statement of financial position comprise:

	2017 HK$'000	2016 HK$'000
Raw materials	40,207	49,206
Work in progress	46,095	58,855
Finished goods	96,468	92,902
	182,770	200,963

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	2017 HK$'000	2016 HK$'000
Carrying amount of inventories sold	846,754	1,160,899
Write-down of inventories	4,637	3,243
	851,391	1,164,142

18 Trade and other receivables

	2017 HK$'000	2016 HK$'000
Trade debtors and bills receivable	180,852	202,860
Less: allowance for doubtful debts (note 18(b))	(36,044)	(16,484)
	144,808	186,376
Deposits, prepayments and other receivables	28,686	32,769
	173,494	219,145

No trade debtors (2016: HK$12,782,000) are expected to be recovered after more than one year. All of the other trade and other receivables are expected to be recovered or recognised as expense within one year.

18 Trade and other receivables *(continued)*

(a) Ageing analysis

As of the end of the reporting period, the ageing analysis of trade debtors and bills receivable (which are included in trade and other receivables), based on the invoice date and net of allowance for doubtful debts, is as follows:

	2017 HK$'000	2016 HK$'000
Within 3 months	132,601	147,392
4 to 6 months	10,130	11,821
7 to 12 months	2,064	14,192
13 to 24 months	13	12,971
	144,808	186,376

Trade debtors and bills receivable are normally due within 90 days from the date of billing. Further details on the group's credit policy are set out in note 28(a).

(b) Impairment of trade debtors and bills receivable

Impairment losses in respect of trade debtors and bills receivable are recorded using an allowance account unless the group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors and bills receivable directly (see note 1(m)(i)).

The movement in the allowance for doubtful debts during the year is as follows:

	2017 HK$'000	2016 HK$'000
At the beginning of the year	16,484	1,025
Impairment loss recognised	30,812	15,459
Reversal of impairment loss	(11,174)	–
Uncollectible amounts written off	(78)	–
At the end of the year	36,044	16,484

At 31 March 2017, trade debtors and bills receivable of HK$54,613,000 (2016: HK$32,775,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that a portion of the receivables is not expected to be recovered. Consequently, specific allowances for doubtful debts of HK$36,044,000 (2016: HK$16,484,000) were recognised.

18 Trade and other receivables *(continued)*

(c) Trade debtors and bills receivable that are not impaired

The ageing analysis of trade debtors and bills receivable that are neither individually nor collectively considered to be impaired is as follows:

	2017 HK$'000	2016 HK$'000
Neither past due nor impaired		
Current	113,053	100,595
Past due but not impaired		
Less than 1 month past due	8,183	34,787
1 to 3 months past due	3,457	8,155
4 to 12 months past due	1,521	13,728
13 to 24 months past due	25	12,820
Amounts past due	13,186	69,490
	126,239	170,085

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The group does not hold any collateral over these balances.

19 Pledged bank balances

The following bank balances of the group are pledged to banks to secure banking facilities, which include revolving credit facility and investment trading line granted to the group:

	2017 HK$'000	2016 HK$'000
Cash at bank	14,636	3,806

20 Cash and cash equivalents

(a) Cash and cash equivalents comprise:

	2017 HK$'000	2016 HK$'000
Deposits with banks	1,043	5,122
Cash at bank and on hand	181,025	170,920
Cash and cash equivalents	182,068	176,042

(b) Reconciliation of profit before taxation to cash generated from operations:

	Note	2017 HK$'000	2016 HK$'000
Profit before taxation		201,574	47,838
Adjustments for:			
Interest income	4	(3,193)	(3,224)
Dividend income from listed securities	4	(1,540)	(1,603)
Depreciation	5(c)	28,918	27,354
Amortisation of land lease premium	5(c)	124	124
Amortisation of intangible assets	5(c)	68	17
Net loss/(gain) on disposal of property, plant and equipment	4	271	(11,810)
Gain on disposal of non-current assets classified as held for sale		(250,515)	–
Valuation gains on investment properties	11(d)	(180)	(785)
Impairment losses on property, plant and equipment	11(e)	–	13,916
Impairment loss on other financial assets	4	4,265	6,700
Net realised and unrealised (gains)/losses on trading securities	4	(10,585)	11,416
Finance costs	5(a)	667	192
Foreign exchange loss/(gain)		1,001	(6,227)
Loss on deregistration of a subsidiary		235	–
Changes in working capital:			
Decrease/(increase) in inventories		18,193	(12,904)
Decrease/(increase) in trade and other receivables		45,651	(29,003)
(Decrease)/increase in trade and other payables		(10,600)	36,927
Decrease in provision for long service payments		(238)	(101)
Cash generated from operations		24,116	78,827

21 Gain on disposal of non-current assets classified as held for sale and non-current assets classified as held for sale

On 31 March 2016, the group entered into a framework agreement with a non-controlling shareholder of Shenzhen Herald Metal and Plastic Company Limited, pursuant to which the group agreed to dispose of certain properties located in Shenzhen to the non-controlling shareholder at a consideration of RMB235,000,000 ("the Disposal").

During the year ended 31 March 2017, the group received net proceeds of HK$252,725,000 and recognised a pre-tax gain on the Disposal of HK$250,515,000 after deducting the stamp duty, value added tax, surcharges and professional fees. The Land Appreciation Tax and Corporate Income Tax in relation to the Disposal amounted to approximately HK$15,475,000 and HK$57,725,000 respectively, where both of which were recognised as income tax expense as set out in note 6(a).

22 Trade and other payables

	2017 HK$'000	2016 HK$'000
Trade creditors and bills payable	45,184	51,736
Accruals and other payables	159,560	163,608
	204,744	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.

As of the end of the reporting period, the ageing analysis of trade creditors and bills payable (which are included in trade and other payables), based on the invoice date, is as follows:

	2017 HK$'000	2016 HK$'000
Within 1 month	34,303	42,127
Over 1 month but within 3 months	9,553	7,967
Over 3 months	1,328	1,642
	45,184	51,736

23 Bank loans

(a) The analysis of carrying amount of interest-bearing bank loans is as follows:

	2017 HK$'000	2016 HK$'000
Current liabilities		
Unsecured revolving loan	20,000	–
Secured:		
– revolving loan	22,110	–
– current portion of term loans from bank	3,661	3,724
– non-current portion of term loans from bank repayable on demand	8,633	1,265
	54,404	4,989

The non-current portion of term loans repayable on demand is carried at amortised cost. None of the non-current portion of term loans is expected to be settled within one year.

(b) At 31 March 2017, the bank loans were due for repayment as follows:

	2017 HK$'000	2016 HK$'000
Revolving loans and portion of term loans due for repayment within 1 year	45,771	3,724
Non-current portion of term loans due for repayment after one year		
– after 1 year but within 2 years	2,454	1,265
– after 2 years but within 5 years	6,179	–
	8,633	1,265
	54,404	4,989

The bank loan agreements contain a clause which gives the lender the right at its sole discretion to demand immediate repayment and therefore the non-current portion of term loans is classified as a current liability.

(c) At 31 March 2017, the term loans are secured on the group's properties with a carrying amount of HK$64,042,000 (2016: HK$32,677,000).

23 Bank loans *(continued)*

(d) At 31 March 2017, a revolving bank loan of HK$22,110,000 is secured by trading securities and pledged bank balances with a carrying amount of HK$73,953,000 (2016: Nil) and HK$14,231,000 (2016: Nil) respectively.

(e) Some of the group's banking facilities are subject to the fulfilment of covenants relating to the financial position of the group, as are commonly found in lending arrangements with financial institutions. If the group was to breach the covenants, the drawn down facilities would become payable on demand. The group regularly monitors its compliance with these covenants. Further details of the group's management of liquidity risk are set out in note 28(b). As at 31 March 2017, none of the covenants relating to drawn down facilities had been breached (2016: Nil).

24 Income tax in the consolidated statement of financial position

(a) Current taxation in the consolidated statement of financial position represents:

	2017 HK$'000	2016 HK$'000
Provision for Hong Kong Profits Tax for the year	5,998	15,958
Provisional Profits Tax paid	(10,901)	(6,285)
	(4,903)	9,673
Balance of Profits Tax provision relating to prior years	2,194	3,630
	(2,709)	13,303
Taxation outside Hong Kong	39	160
Balance of provision relating to prior years	3,406	3,406
	3,445	3,566
	736	16,869
Representing:		
Current tax recoverable	(4,247)	(31)
Current tax payable	4,983	16,900
	736	16,869

24 Income tax in the consolidated statement of financial position *(continued)*

(b) Deferred tax assets and liabilities recognised

The components of deferred tax (assets)/liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Differences between depreciation allowances and the related depreciation HK$'000	Revaluation of properties HK$'000	Tax losses HK$'000	Provisions HK$'000	Undistributed profits of a subsidiary HK$'000	Others HK$'000	Total HK$'000
At 1 April 2015	338	–	(3,071)	(11,274)	–	1,117	(12,890)
(Credited)/charged to profit or loss	(2,739)	156	(1,007)	(3,437)	–	(1,240)	(8,267)
Exchange adjustment	–	(7)	–	–	–	–	(7)
At 31 March 2016	(2,401)	149	(4,078)	(14,711)	–	(123)	(21,164)
At 1 April 2016	(2,401)	149	(4,078)	(14,711)	–	(123)	(21,164)
Charged/(credited) to profit or loss	845	–	(2,996)	(725)	6,800	(981)	2,943
Exchange adjustment	–	(23)	–	–	–	–	(23)
At 31 March 2017	(1,556)	126	(7,074)	(15,436)	6,800	(1,104)	(18,244)

	2017 HK$'000	2016 HK$'000
Net deferred tax assets recognised in the consolidated statement of financial position	(25,276)	(21,402)
Net deferred tax liabilities recognised in the consolidated statement of financial position	7,032	238
	(18,244)	(21,164)

24 Income tax in the consolidated statement of financial position *(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$45,499,000 (2016: HK$39,121,000) in respect of differences between depreciation allowances and the related depreciation, cumulative tax losses and provisions of HK$3,991,000 (2016: HK$4,236,000), HK$263,325,000 (2016: HK$219,459,000) and Nil (2016: HK$382,000) respectively as it is not probable that future taxable profits against which the losses and other temporary differences can be utilised will be available in the relevant tax jurisdictions and entities.

Included in unrecognised cumulative tax losses is an amount of HK$8,911,000 (2016: HK$7,651,000) which can be carried forward for up to five years from the year in which the loss originated. The remaining balance of HK$254,414,000 (2016: HK$211,808,000) does not expire under current tax legislation.

(d) Deferred tax liabilities not recognised

At 31 March 2017, temporary differences relating to undistributed profits of subsidiaries not recognised as deferred tax liabilities amounted to HK$17,242,000 (2016: HK$20,520,000). Deferred tax liabilities of HK$862,000 (2016: HK$1,026,000) have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the company controls the dividend policy of these subsidiaries and it has been determined that it is probable that these profits will not be distributed in the foreseeable future.

25 Provision for long service payments

	2017 HK$'000	2016 HK$'000
At the beginning of the year	3,279	3,380
Write-back of provision during the year	(202)	(101)
Provision utilised during the year	(36)	–
At the end of the year	3,041	3,279

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.

26 Employee benefits

(a) Employee retirement benefits

(i) The principal subsidiaries of the company in Hong Kong operate 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 ten 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$30,000. 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 2017, there was no forfeited contribution which is available to reduce the contributions payable in future years (2016: Nil).

(ii) The employees of 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 ("the share option scheme") on 16 September 2013. 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 ten years from the date of its adoption. 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 ten 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.

(i) The terms and conditions of the grants are as follows:

	Number of instruments	Vesting conditions	Contractual life of options
Options granted to an employee:			
– On 23 January 2015	6,000,000	N/A	10 years

(ii) The number and weighted average exercise prices of share options are as follows:

	2017 Weighted average exercise price	2017 Number of share options '000	2016 Weighted average exercise price	2016 Number of share options '000
Outstanding at the beginning and at the end of the year	HK$0.97	6,000	HK$0.97	6,000
Exercisable at the end of the year	HK$0.97	6,000	HK$0.97	6,000

The share options outstanding at 31 March 2017 had an exercise price of HK$0.97 (2016: HK$0.97) and a weighted average remaining contractual life of 7.8 years (2016: 8.8 years).

There were no service and market conditions associated with the share option grants.

27 Capital, reserves and dividends

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the company's individual components of equity between the beginning and the end of the year are set out below:

Company

	Note	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000	Retained profits HK$'000	Total equity HK$'000
Balance at 1 April 2015		46,994	18,737	1,220	271,275	338,226
Changes in equity for 2016:						
Profit and total comprehensive income for the year		–	–	–	47,231	47,231
Dividend approved in respect of the previous year	27(b)	–	–	–	(24,100)	(24,100)
Dividend declared in respect of the current year	27(b)	–	–	–	(18,075)	(18,075)
Balance at 31 March 2016 and 1 April 2016		46,994	18,737	1,220	276,331	343,282
Changes in equity for 2017:						
Profit and total comprehensive income for the year		–	–	–	47,640	47,640
Dividend approved in respect of the previous year	27(b)	–	–	–	(30,125)	(30,125)
Dividend declared in respect of the current year	27(b)	–	–	–	(24,100)	(24,100)
Balance at 31 March 2017		46,994	18,737	1,220	269,746	336,697

27 Capital, reserves and dividends *(continued)*

(b) Dividends

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

	2017 HK$'000	2016 HK$'000
Interim dividend declared and paid of HK4 cents (2016: HK3 cents) per share	24,100	18,075
Final dividend proposed after the end of the reporting period of HK4 cents (2016: HK5 cents) per share	24,100	30,125
	48,200	48,200

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

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

	2017 HK$'000	2016 HK$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK5 cents (2016: HK4 cents) per share	30,125	24,100

27 Capital, reserves and dividends *(continued)*

(c) Share capital

(i) *Authorised and issued share capital*

	2017		2016	
	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
Ordinary shares, issued and fully paid:				
At the beginning and the end of the year	602,491	46,994	602,491	46,994

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.

(ii) *Terms of unexpired and unexercised share options at the end of the reporting period*

Exercise period	Exercise price	2017 Number	2016 Number
23 January 2015 to 22 January 2025	HK$0.97	6,000,000	6,000,000

Each option entitles the holder to subscribe for one ordinary share in the company. Further details of these options are set out in note 26(b) to the financial statements.

27 Capital, reserves and dividends *(continued)*

(d) Nature and purpose of reserves

(i) Capital reserve

The capital reserve comprises the portion of the grant date fair value of unexercised share options granted to employees of the company that has been recognised in accordance with the accounting policy adopted for share-based payments in note 1(q)(ii).

(ii) 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.

(iii) Contributed surplus

Contributed surplus represents the excess value of the consolidated net tangible assets represented by the shares of the former holding company 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.

(iv) 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).

(v) Property revaluation reserve

The property revaluation reserve has been set up and is dealt with in accordance with the accounting policies adopted for land and buildings set out in note 1(g).

(vi) PRC statutory reserve

PRC statutory reserve includes 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.

27 Capital, reserves and dividends *(continued)*

(e) Capital management

The group's primary objectives when managing capital are to safeguard the group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The group monitors its capital structure on the basis of a gearing ratio, which is calculated as a percentage of total liabilities over total assets. During 2017, the group's strategy, which was unchanged from 2016, was to maintain the gearing ratio of no more than 50%. In order to maintain or adjust the ratio, the group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt. The gearing ratio of the group as at 31 March 2017 was 25% (2016: 23%).

Neither the company nor any of its subsidiaries are subject to externally imposed capital requirements except for the covenants as disclosed in note 23(e).

28 Financial risk management and fair values

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the group's business. The group is also exposed to equity price risk arising from its equity investments in other entities.

The group's exposure to these risks and the financial risk management policies and practices used by the group to manage these risks are 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 individual customers are performed periodically. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are generally due within 90 days from the date of billing. Normally, the group does not obtain collateral from customers.

28 Financial risk management and fair values *(continued)*

(a) Credit risk *(continued)*

The group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than of the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the group has significant exposure to individual customers. At the end of the reporting period, 35% (2016: 21%) and 62% (2016: 63%) 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 principally listed or liquid securities issued by counterparties with a credit rating equal to or better than the group. Given their high credit ratings, management does not expect any counterparty failing to meet its obligations.

The group does not provide any financial guarantees which would expose the group to credit risk.

(b) Liquidity risk

Individual operating entities within the group are responsible for their own cash management.

The group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at the end of the reporting period of the group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates, or if floating, based on rates current at the end of the reporting period) and the earliest date the group can be required to pay.

For term loans subject to repayment on demand clauses which can be exercised at the bank's sole discretion, the analysis shows the cash outflows based on the contractual repayment schedule and, separately, the impact to the timing of the cash outflows if the lender was to invoke its unconditional rights to call the loans with immediate effect.

28 Financial risk management and fair values *(continued)*

(b) Liquidity risk *(continued)*

2017

	Contractual undiscounted cash outflow					
	On demand HK$'000	Within 1 year HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	Total HK$'000	Carrying amount HK$'000
Trade and other payables (excluding receipts in advance)	–	199,278	–	–	199,278	199,278
Bank loans	–	46,051	2,634	6,366	55,051	54,404
	–	245,329	2,634	6,366	254,329	253,682
Adjustments to present cash flows on term loans based on lender's right to demand repayment	12,294	(3,906)	(2,634)	(6,366)	(612)	
	12,294	241,423	–	–	253,717	

2016

	Contractual undiscounted cash outflow					
	On demand HK$'000	Within 1 year HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	Total HK$'000	Carrying amount HK$'000
Trade and other payables (excluding receipts in advance)	–	209,338	–	–	209,338	209,338
Bank loan	–	3,814	1,272	–	5,086	4,989
	–	213,152	1,272	–	214,424	214,327
Adjustments to present cash flows on term loan based on lender's right to demand repayment	4,989	(3,814)	(1,272)	–	(97)	
	4,989	209,338	–	–	214,327	

28 Financial risk management and fair values *(continued)*

(c) Interest rate risk

The group's interest rate risk arises primarily from bank loans. Loans issued at variable rates expose the group to cash flow interest rate risk. The group's interest rate profile is set out in (i) below.

(i) Interest rate profile

The following table details the interest rate profile of the group's borrowings at the end of the reporting period.

	2017		2016	
	Effective interest rate	Amount HK$'000	Effective interest rate	Amount HK$'000
Variable rate borrowings:				
Bank loans	2.31%	54,404	2.75%	4,989

(ii) Sensitivity analysis

At 31 March 2017, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the group's profit after tax and retained profits by approximately HK$491,000 (2016: HK$42,000). Other components of consolidated equity would not be affected by changes in interest rates.

The sensitivity analysis above indicates the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the group at the end of the reporting period. The impact on the group's profit after tax and retained profits is estimated as an annualised impact on interest expense of such a change in interest rates. The analysis is performed on the same basis for 2016.

28 Financial risk management and fair values *(continued)*

(d) Currency risk

The group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash and cash equivalents that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily United States dollars ("US$"), Pound Sterling ("GBP") and Renminbi ("RMB"). Management monitors the group's exposure to currency risk and will consider hedging significant foreign currency exposure should the need arise.

(i) Exposure to currency risk

The following table details the group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate.

	Exposure to foreign currencies					
	2017			2016		
	United States Dollars HK$'000	Pound Sterling HK$'000	Renminbi HK$'000	United States Dollars HK$'000	Pound Sterling HK$'000	Renminbi HK$'000
Trading securities	74,637	3,309	4,984	76,560	2,427	10,568
Trade and other receivables	85,784	77,034	757	146,374	84,504	625
Pledged bank balances	11,856	30	–	2,030	34	446
Cash and cash equivalents	42,890	2,025	1,625	88,995	84	6,912
Trade and other payables	(46,625)	(26)	(54,555)	(57,873)	(25)	(60,062)
Net exposure arising from recognised assets and liabilities	168,542	82,372	(47,189)	256,086	87,024	(41,511)

28 Financial risk management and fair values *(continued)*

(d) Currency risk *(continued)*

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the group's profit after tax and retained profits that would arise if foreign exchange rates to which the group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant. In this regard, it is assumed that the pegged rate between Hong Kong dollars and the US$ would be materially unaffected by any changes in movement in value of US$ against other currencies.

	2017		2016	
	Increase/ (decrease) in foreign exchange rates	Increase/ (decrease) in profit after tax and retained profits HK$'000	Increase/ (decrease) in foreign exchange rates	Increase/ (decrease) in profit after tax and retained profits HK$'000
United States Dollars	10%	(1,633)	10%	(1,618)
	(10)%	1,633	(10)%	1,618
Pound Sterling	10%	7,902	10%	8,702
	(10)%	(7,902)	(10)%	(8,702)
Renminbi	10%	(5,128)	10%	(3,255)
	(10)%	5,128	(10)%	3,255

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the group entities' profit after tax measured in the respective functional currencies, translated into Hong Kong dollars at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the group which expose the group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of operations outside Hong Kong into the group's presentation currency. The analysis is performed on the same basis for 2016.

28 Financial risk management and fair values *(continued)*

(e) Equity price risk

The group is exposed to equity price changes arising from listed equity investments and unlisted managed funds, which are classified as trading securities (see note 16).

The group's listed investments are listed on the Stock Exchange of Hong Kong and London Stock Exchange and are included in the Hang Seng Index and FTSE 100 Index. Decisions to buy or sell trading securities are based on daily monitoring of the performance of individual securities compared to that of the respective indexes and other industry indicators, as well as the group's liquidity needs.

The unlisted managed funds have underlying investments in listed and unlisted debt and equity securities and commodities throughout the world. Their performance is assessed at least bi-annually against performance of similar funds available in the market.

At 31 March 2017, it is estimated that an increase/decrease of 10% (2016: 10%) in the relevant stock market index, with all other variables held constant, would have increased/decreased the group's profit after tax and retained profits as follows. Other components of consolidated equity would not be affected by changes in the stock market indexes.

	2017		2016	
	Increase/ (decrease) in the relevant risk variable	Increase/ (decrease) in profit after tax and retained profits HK$'000	Increase/ (decrease) in the relevant risk variable	Increase/ (decrease) in profit after tax and retained profits HK$'000
Stock market indexes in relation to listed investments				
– Hang Seng Index	10%	1,470	10%	2,153
	(10)%	(1,470)	(10)%	(2,153)
– FTSE 100 Index	10%	393	10%	313
	(10)%	(393)	(10)%	(313)

The sensitivity analysis indicates the instantaneous change in the group's profit after tax and retained profits that would arise assuming that the changes in the stock market index had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the group which expose the group to equity price risk at the end of the reporting period. It is also assumed that the fair values of the group's equity investments would change in accordance with the historical correlation with the relevant stock market index and that all other variables remain constant. The sensitivity analysis takes into account the equity price changes arising from the listed equity investments only as it is impractical to link the performance of the unlisted managed funds to specific stock market indexes. The analysis is performed on the same basis for 2016.

28 Financial risk management and fair values *(continued)*

(f) Fair values

(i) 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 at 31 March 2017	Fair value measurements as at 31 March 2017 categorised into		Fair value at 31 March 2016	Fair value measurements as at 31 March 2016 categorised into	
		Level 1	Level 2		Level 1	Level 2
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Recurring fair value measurements						
Assets						
Trading securities						
– listed debt and equity securities	35,341	35,341	–	49,717	49,717	–
– unlisted managed funds and debt securities	98,631	–	98,631	92,987	–	92,987
	133,972	35,341	98,631	142,704	49,717	92,987

During the years ended 31 March 2017 and 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 of the financial year in which they occur.

28 Financial risk management and fair values *(continued)*

(f) Fair values *(continued)*

(i) Financial instruments carried at fair value (continued)

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 prices quoted by financial institutions.

(ii) 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 31 March 2017 and 2016.

29 Commitments

(a) At 31 March 2017, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2017		2016	
	Land and buildings HK$'000	Others HK$'000	Land and buildings HK$'000	Others HK$'000
Within 1 year	6,926	1,244	6,521	1,501
After 1 year but within 5 years	11,504	1,240	6,995	1,027
After 5 years	13,903	–	16,993	–
	32,333	2,484	30,509	2,528

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

29 Commitments *(continued)*

(b) Capital commitments outstanding at 31 March 2017 not provided for in the financial statements were as follows:

	2017 HK$'000	2016 HK$'000
Contracted for the purchase of property, plant and equipment	8,131	21,268

(c) The group entered into contracts related to obtaining rights to distribute timepieces products under licences, which require the payment of minimum guaranteed royalties. At 31 March 2017, the future minimum guaranteed royalties for licences are payable as follows:

	2017 HK$'000	2016 HK$'000
Within 1 year	8,005	6,002
After 1 year but within 5 years	11,930	18,157
	19,935	24,159

30 Material related party transactions

Key management personnel remuneration

Remuneration for key management personnel of the group, including amounts paid to the company's directors as disclosed in note 7 and certain of the highest paid employees as disclosed in note 8, is as follows:

	2017 HK$'000	2016 HK$'000
Short-term employee benefits	24,994	27,071
Post-employment benefits	1,448	3,670
	26,442	30,741

Total remuneration is included in "staff costs" (see note 5(b)).

31 Company-level statement of financial position at 31 March 2017

	Note	2017 HK$'000	2016 HK$'000
Non-current assets			
Investments in subsidiaries		328,585	328,585
Current assets			
Other receivables		178	237
Amounts due from subsidiaries		9,005	15,657
Cash and cash equivalents		1,727	1,641
		10,910	17,535
Current liabilities			
Other payables		2,798	2,838
Net current assets		8,112	14,697
NET ASSETS		336,697	343,282
CAPITAL AND RESERVES	27(a)		
Share capital		46,994	46,994
Reserves		289,703	296,288
TOTAL EQUITY		336,697	343,282

Approved and authorised for issue by the board of directors on 29 June 2017.

Robert Dorfman
Director

Shum Kam-Hung
Director

32 Non-adjusting events after the reporting period

Subsequent to the end of the reporting period, the directors proposed a final dividend. Further details are disclosed in note 27(b).

33 Accounting judgements and estimates

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 interests in leasehold land

If circumstances indicate that the carrying amounts of property, plant and equipment and interests 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 fair value less costs of disposal 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) Impairment of receivables

Receivables that are measured at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. If any such evidence exists, impairment loss is provided. Objective evidence of impairment includes observable data that comes to the attention of the group about loss events such as a significant decline in the estimated future cash flow of an individual debtor or the portfolio of debtors, and significant changes in the financial condition that have an adverse effect on the debtor. If there is a change in the objective evidence of impairment in relation to the debtor, the impairment loss would be higher or lower than the allowance for doubtful debts recognised in the financial statements.

(c) 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.

33 Accounting judgements and estimates *(continued)*

(d) 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 estimated net realisable values of inventories decline below their carrying amounts. However, actual consumption may be different from estimation and profit or loss could be affected by differences in this estimation.

(e) Income tax

Determining income tax provisions involves judgement on the future tax treatment of certain transactions and interpretation of tax rules. The group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation.

The recognition of deferred tax assets require formal assessment by the group of the future profitability of related operations. In making this judgement, the group evaluates, amongst other factors, the forecast financial performance, changes in technology and operational and financing cashflows.

Where the final outcome is different from initial assessment, the income tax provisions and deferred tax assets recognised could be affected by differences in this assessment.

34 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 March 2017

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and new standards which are not yet effective for the year ended 31 March 2017 and which have not been adopted in these financial statements. These include the following which may be relevant to the group.

	Effective for accounting periods beginning on or after
Amendments to HKAS 7, *Statement of cash flows: Disclosure initiative*	1 January 2017
Amendments to HKAS 12, *Income taxes: Recognition of deferred tax assets for unrealised losses*	1 January 2017
HKFRS 9, *Financial instruments*	1 January 2018
HKFRS 15, *Revenue from contracts with customers*	1 January 2018
Amendments to HKFRS 2, *Share-based payment: Classification and measurement of share-based payment transactions*	1 January 2018
HKFRS 16, *Leases*	1 January 2019

34 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 March 2017 *(continued)*

The group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. As the group has not completed its assessment, further impacts may be identified in due course and will be taken into consideration when determining whether to adopt any of these new requirements before their effective date and which transitional approach to take, where there are alternative approaches allowed under the new standards.

HKFRS 9, *Financial instruments*

HKFRS 9 will replace the current standard on accounting for financial instruments, HKAS 39, *Financial instruments*: *Recognition and measurement.* HKFRS 9 introduces new requirements for classification and measurement of financial assets, calculation of impairment of financial assets and hedge accounting. On the other hand, HKFRS 9 incorporates without substantive changes the requirements of HKAS 39 for recognition and derecognition of financial instruments and the classification of financial liabilities. Expected impacts of the new requirements on the group's consolidated financial statements are as follows:

(a) Classification and measurement

HKFRS 9 contains three principal classification categories for financial assets: measured at (1) amortised cost, (2) fair value through profit or loss ("FVTPL") and (3) fair value through other comprehensive income ("FVTOCI") as follows:

The classification for debt instruments is determined based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the asset. If a debt instrument is classified as FVTOCI then effective interest, impairments and gains/losses on disposal will be recognised in profit or loss.

For equity securities, the classification is FVTPL regardless of the entity's business model. The only exception is if the equity security is not held for trading and the entity irrevocably elects to designate that security as FVTOCI. If an equity security is designated as FVTOCI then only dividend income on that security will be recognised in profit or loss. Gains, losses and impairments on that security will be recognised in other comprehensive income without recycling.

Based on the preliminary assessment, the group expects that its financial assets currently measured at FVTPL will continue with their classification and measurements upon the adoption of HKFRS 9.

34 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 March 2017 *(continued)*

HKFRS 9, *Financial instruments (continued)*

(a) Classification and measurement *(continued)*

With respect to the group's financial assets currently classified as "available-for-sale", these are investments in equity securities which the group may classify as either FVTPL or irrevocably elect to designate as FVTOCI (without recycling) on transition to HKFRS 9. The group has not yet decided whether it will irrevocably designate these investments as FVTOCI or classify them as FVTPL. Either classification would give rise to a change in accounting policy compared to the group's policy set out in notes 1(f) and 1(m) in respect of whether to recognise fair value changes, impairment losses and gains or losses on disposal in other comprehensive income or in profit or loss. However, a more detailed analysis is required to determine the extent of the impact.

The classification and measurement requirements for financial liabilities under HKFRS 9 are largely unchanged from HKAS 39, except that HKFRS 9 requires the fair value change of a financial liability designated at FVTPL that is attributable to changes of that financial liability's own credit risk to be recognised in other comprehensive income (without reclassification to profit or loss). The group currently does not have any financial liabilities designated at FVTPL and therefore this new requirement may not have any impact on the group on adoption of HKFRS 9.

(b) Impairment

The new impairment model in HKFRS 9 replaces the "incurred loss" model in HKAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure expected credit losses as either 12-month expected credit losses or lifetime expected credit losses, depending on the asset and the facts and circumstances. This new impairment model may result in an earlier recognition of credit losses on the group's trade receivables and other financial assets. However, a more detailed analysis is required to determine the extent of the impact.

34 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 March 2017 *(continued)*

HKFRS 16, *Leases*

As disclosed in note 1(j), currently the group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The group enters into some leases as the lessor and others as the lessee.

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

HKFRS 16 will primarily affect the group's accounting as a lessee of leases for land and buildings and other assets which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease. As disclosed in note 29(a), at 31 March 2017 the group's future minimum lease payments under non-cancellable operating leases amounted to HK$32,333,000 and HK$2,484,000 for land and buildings and other assets respectively, the majority of which is payable either between 1 and 5 years after the reporting date or in more than 5 years. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted. The group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of HKFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of HKFRS 16 and the effects of discounting.

The group is considering whether to adopt HKFRS 16 before its effective date of 1 January 2019. However, early adoption of HKFRS 16 is only permitted if this is no earlier than the adoption of HKFRS 15. It is therefore unlikely that HKFRS 16 will be adopted before the effective date of HKFRS 15, being 1 January 2018.

FIVE YEAR SUMMARY

	2017 HK$'000	2016 HK$'000	2015 HK$'000	2014 HK$'000	2013 HK$'000
Results					
Revenue	1,095,026	1,528,985	1,265,104	1,339,770	1,344,898
Profit before taxation	201,574	47,838	21,001	41,735	41,435
Income tax	(81,668)	(9,590)	(4,685)	(14,304)	(16,721)
Profit for the year	119,906	38,248	16,316	27,431	24,714
Attributable to:					
– Equity shareholders of the company	50,115	39,024	16,222	26,474	22,989
– Non-controlling interests	69,791	(776)	94	957	1,725
Profit for the year	119,906	38,248	16,316	27,431	24,714
Assets and liabilities					
Investment properties, other property, plant and equipment and leasehold land	337,411	285,425	278,426	273,366	266,613
Intangible assets	1,965	2,033	1,860	1,860	1,860
Interest in an associate	–	–	–	–	1,968
Interests in joint ventures	–	–	–	–	225
Other financial assets	12,734	11,340	18,040	10,920	14,820
Deposits for purchase of property, plant and equipment	7,007	–	–	–	–
Deferred tax assets	25,276	21,402	13,037	9,217	10,552
Current assets	691,187	744,901	725,422	795,426	795,152
Current liabilities	(264,131)	(237,233)	(196,111)	(223,907)	(206,917)
Total assets less current liabilities	811,449	827,868	840,674	866,882	884,273
Non-current liabilities	(10,073)	(3,517)	(3,527)	(3,842)	(3,898)
Net assets	801,376	824,351	837,147	863,040	880,375
Capital and reserves					
Share capital	46,994	46,994	46,994	46,994	46,994
Reserves	739,798	759,811	771,237	796,502	813,651
Total equity attributable to equity shareholders of the company	786,792	806,805	818,231	843,496	860,645
Non-controlling interests	14,584	17,546	18,916	19,544	19,730
Total equity	801,376	824,351	837,147	863,040	880,375

A. Procedures for Shareholders to convene special general meetings

Subject to the provisions of the bye-laws (the "Bye-laws") of the company, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the applicable laws and regulations, shareholders of the company (the "Shareholders") may convene special general meetings of the company in accordance with the following procedures:

1. Shareholders holding not less than one-tenth of the paid-up capital of the company carrying the right of voting at the general meetings of the company (the "Requisitionists") may require the board (the "Board") of directors (the "Directors") of the company to convene a special general meeting ("SGM") of the company by depositing a written requisition (the "Requisition") at the registered office of the company at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda, and a copy thereof at the head office of the company in Hong Kong at 3110, 31/F, Tower Two, Lippo Centre, 89 Queensway, Hong Kong, for the attention of the company secretary.

2. The Requisition must specify the purposes of the SGM and be signed by the Requisitionists and may consist of several documents in like form, each signed by one or more of the Requisitionists.

3. Upon receipt of the Requisition, the Directors shall forthwith proceed duly to convene the SGM, and such SGM shall be held within two months after the deposit of the Requisition.

4. If the Directors do not within twenty-one days from the date of the deposit of the Requisition proceed duly to convene the SGM, the Requisitionists, or any of them representing more than one half of the total voting rights of all of them, may themselves convene the SGM, but any meeting so convened shall be held within three months from the date of deposit of the Requisition. The Requisitionists shall convene a SGM in the same manner, as nearly as possible, as that in which SGMs are to be convened by Directors. Under the Bye-laws and pursuant to the requirements of the Listing Rules, a notice specifying the time and place and the general nature of the proposed business to be transacted at the SGM shall be given to all Shareholders entitled to attend the SGM for consideration in the following manner:

   - notice of not less than 21 clear days or 10 clear business days, whichever is the longer, if a special resolution is to be passed at the SGM; and

   - notice of not less than 14 clear days or 10 clear business days, whichever is the longer, in all other cases, provided that a SGM may be called by a shorter notice if it is so agreed by a majority in number of the Shareholders having the right to attend and vote at the SGM, being a majority together holding not less than 95% in nominal value of the issued shares of the company giving such right.

   The notice period is exclusive of (i) the day on which the notice is served or deemed to be served; and (ii) the day on which the SGM is to be held.

5. If for any reason it is impracticable to call a meeting of the company in any manner in which meetings of the company may be called, any Shareholder who would be entitled to vote at the meeting may apply to the Supreme Court of Bermuda for an order for a meeting of the company to be called, held and conducted in such manner as the Supreme Court of Bermuda thinks fit.

B. Procedures for sending enquiries to the Board

Shareholders may send their enquiries and concerns to the Board of the company by addressing them to the company secretary by mail at the head office of the company in Hong Kong at 3110, 31/F, Tower Two, Lippo Centre, 89 Queensway, Hong Kong or by e-mail at heraldhk@heraldgroup.com.hk.

Upon receipt of the enquiries, the company secretary will forward:

1. communications relating to matters within the Board's purview to the Board;

2. communications relating to matters within a Board committee's area of responsibility to the chair of the appropriate committee; and

3. communications relating to ordinary business matters, such as suggestions, inquiries and consumer complaints, to the appropriate management of the company.

C. Procedures for Shareholders to move resolutions in general meetings

Subject to the provisions of the bye-laws of the company and the applicable laws and regulations, Shareholders may move a resolution at the Annual General Meeting of the company or give a statement (no more than one thousand words) in relation to any particular resolution being proposed in any general meeting of the company in accordance with the following procedures:

1. The minimum number of Shareholders required to move a resolution or to circulate any statement (the "Requisitionists") shall be:

   (i) any number of the Shareholders representing not less than one-twentieth of the total voting rights of all the Shareholders having a right to vote at the relevant general meeting; or

   (ii) not less than one hundred Shareholders.

2. The Requisitionists must sign a written request (the "Requisition") setting out the resolution to be moved at the next Annual General Meeting or the statement of not more than one thousand words in relation to any particular resolution being proposed or business to be dealt with in the relevant general meeting of the company (as the case may be).

3. A copy of the Requisition, or two or more copies which between them contain the signatures of all the Requisitionists, must be deposited at the registered office of the company at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda, with a copy thereof deposited at the head office of the company in Hong Kong at 3110, 31/F, Tower Two, Lippo Centre, 89 Queensway, Hong Kong, for the attention of the company secretary:

   (i) not less than six weeks before the Annual General Meeting in the case of a Requisition requiring notice of a resolution, unless an Annual General Meeting is called for a date six weeks or less after the deposit of the Requisition, in which case the Requisition will be deemed to have been properly deposited; or

   (ii) not less than one week before the relevant general meeting in the case of other Requisition.

4. The Requisitionists must deposit a sum which is reasonably sufficient to meet the company's expenses in giving effect to the Requisition.