



**Herald Holdings Limited**

Stock Code : 00114

Annual Report **2020**

## CONTENTS

Corporate Information	2
Financial Highlights	3
Chairman’s Statement	4
Directors’ Report	8
Environmental, Social and Governance Report	17
Corporate Governance Report	22
Independent Auditor’s Report	28
Consolidated Statement of Profit or Loss	33
Consolidated Statement of Profit or Loss and Other Comprehensive Income	34
Consolidated Statement of Financial Position	35
Consolidated Statement of Changes in Equity	37
Consolidated Cash Flow Statement	38
Notes to the Financial Statements	40
Five Year Summary	122
Particulars of Investment Properties	124
Shareholders’ Rights	125



# 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 EdD, CA (AUST.), FCPA

## Secretary

Lai Man Pun 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*  
Public Interest Entity Auditor registered in accordance  
with the Financial Reporting Council Ordinance

## 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  
4th Floor, North Cedar House  
41 Cedar Avenue  
Hamilton HM12  
Bermuda

## Hong Kong Share Registrar

Tricor Tengis Limited  
Level 54, Hopewell Centre  
183 Queen's Road East  
Hong Kong

## Company's Website

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

# FINANCIAL HIGHLIGHTS

	Year ended 31 March 2020 HK\$'000	Year ended 31 March 2019 HK\$'000
Revenue	<b>1,011,870</b>	952,465
Profit/(loss) from operations	<b>23,879</b>	(26,314)
Profit/(loss) attributable to equity shareholders	<b>8,798</b>	(26,158)
Dividends paid and proposed	<b>30,225</b>	18,135
Earnings/(loss) per share		
– Basic (HK cents)	<b>1.46</b>	(4.33)
– Diluted (HK cents)	<b>1.46</b>	(4.33)
Dividends paid and proposed, per share (HK cents)	<b>5</b>	3
	As at 31 March 2020 HK\$'000	As at 31 March 2019 HK\$'000
Total assets	<b>876,225</b>	954,942
Total liabilities	<b>196,370</b>	236,503
Net assets	<b>679,855</b>	718,439
Net assets attributable to equity shareholders	<b>672,436</b>	708,751
Net assets attributable to equity shareholders per share (HK\$)	<b>1.11</b>	1.17
Number of issued and fully paid shares	<b>604,490,763 shares</b>	604,490,763 shares

# CHAIRMAN'S STATEMENT

On behalf of the board of directors, I am pleased to present to our shareholders the annual report of Herald Holdings Limited ("the company") and its subsidiaries (together referred to as "the group") for the year ended 31 March 2020.

## Results

The revenue of the group for the year ended 31 March 2020 was HK\$1,012 million which was up 6% from HK\$952 million in the previous year. The group recorded a net profit attributable to equity shareholders of HK\$8.8 million as compared with a net loss of HK\$26.2 million a year earlier. During the year under review, the group disposed of a property in Hong Kong for approximately HK\$31 million and recorded a net gain of approximately HK\$29.4 million from the transaction. Detailed analysis of the operating results is set out in the following paragraphs.

### Toys Division

The Toys Division finished the financial year with a satisfactory result. Bolstered by the strong sales of toys related to several popular movies, the revenue of the division for the year ended 31 March 2020 surged 29% to HK\$709 million from HK\$548 million in the previous year. Despite labour shortages in Southern China, the division was able to complete all the production as scheduled. Because of higher revenue, the division recorded an operating profit of HK\$38.1 million as compared with an operating loss of HK\$0.1 million a year earlier.

### Computer Products Division

The business of the Computer Products Division weakened in the financial year under review with its revenue shrinking by 37% year-on-year to HK\$109 million. The decrease was mainly due to the decline in the sales of smart connected devices amid uncertainty over the US-China trade war. Nevertheless, with continuous efforts in streamlining the operation and the absence of redundancy compensation payments of approximately HK\$7.7 million, the division brought down its full-year operating loss to HK\$6.6 million from HK\$12.7 million last year.

### Housewares Division

Compared to last year, the revenue of the Housewares Division for the year ended 31 March 2020 fell 17% year-on-year from HK\$79 million to HK\$66 million, while its operating loss has shrunk from HK\$18.7 million to HK\$9.5 million. As the division suffered losses over the past few years and the outlook for the division is not very promising, the management has decided to discontinue its business at the end of March 2021 and make a provision of approximately HK\$3.5 million in relation to termination payments for employees.

### Timepieces Division

We are pleased to report the Timepieces Division returned to profitability in the financial year under review. The improvement was mainly attributable to stringent measures taken to control operating costs. Although its revenue for the year ended 31 March 2020 decreased by 16% year-on-year from HK\$153 million to HK\$129 million, the division recorded an operating profit of HK\$3.9 million as compared with an operating loss of HK\$5.2 million in the previous year.

### Other Investments

For the year ended 31 March 2020, the group recognised net realised and unrealised losses on trading securities of HK\$10.8 million (2019: HK\$3.1 million). The dividend and interest income on trading securities amounted to HK\$2.1 million for the year (2019: HK\$2 million). At 31 March 2020, the group's trading securities amounted to HK\$75 million, a decrease of HK\$10 million from last year.

## 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 2020, the total assets amounted to HK\$876 million (2019: HK\$955 million) which were financed by current liabilities of HK\$173 million (2019: HK\$215 million), non-current liabilities of HK\$23 million (2019: HK\$22 million), non-controlling interests of HK\$7 million (2019: HK\$10 million) and equity attributable to the company's equity shareholders of HK\$672 million (2019: HK\$709 million).

At 31 March 2020, the group's cash balances aggregated to HK\$191 million, up from HK\$187 million a year ago. The current assets at 31 March 2020 amounted to HK\$531 million (2019: HK\$573 million). The inventories decreased from HK\$175 million to HK\$149 million while the trade and other receivables decreased from HK\$123 million to HK\$116 million. The trading securities at 31 March 2020 amounted to HK\$75 million (2019: HK\$85 million).

At 31 March 2020, the group's current liabilities decreased to HK\$173 million from HK\$215 million last year. The bank loans amounted to HK\$4 million (2019: HK\$40 million) which included revolving loans of HK\$Nil (2019: HK\$34 million) and mortgage loan balance of HK\$4 million (2019: HK\$6 million). The mortgage loan balance of HK\$4 million is repayable by fixed monthly instalments with maturity date in August 2021. Certain trading securities and bank deposits amounting to HK\$72 million (2019: HK\$81 million), along with certain properties with a carrying amount of HK\$55 million (2019: HK\$58 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 2020 was 22% (2019: 25%). At 31 March 2020, the group's working capital ratio, an indicator of liquidity represented by a ratio between the current assets and the current liabilities, was 3.06 as compared to 2.67 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 equivalent over current liabilities, increased to 1.64 from 1.29 in the previous year.

## Contingent liabilities

As at 31 March 2020, 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. Management monitors the group's exposure to currency risk and will consider hedging significant foreign currency exposure should the need arises.

## Prospect and General outlook

Since early 2020, the outbreak of the coronavirus has significantly impacted businesses worldwide. In particular, rising unemployment and a slump in global demand have pushed many countries into recession. Amid adverse economic conditions, we anticipate that 2020 will be a challenging year for the group.

As indicated by the current order position, the business of the Toys Division will remain robust in the first half of the new financial year. However, several customers have cancelled orders and postponed shipments of certain products due to the impact of coronavirus-led lockdowns. The management is also concerned that the demand for toys might decrease in view of the global economic slowdown.

# CHAIRMAN'S STATEMENT

The outlook for the Computer Products Division is not very encouraging due to a weak order position. Nevertheless, the management is optimistic about the prospects of a newly-developed smart medical device which is under the process of CE and FDA application. In response to the outbreak of the coronavirus, the division has set up a production line in Zhuhai, the PRC to make disposable face masks.

The retail trading conditions in the UK have become very tough since the coronavirus crisis began. Several well-known retailers have either cut down the number of their stores or ceased operations. As the UK is the major market for the Timepieces and Housewares Divisions, the businesses of both divisions are expected to be difficult in 2020.

Despite the challenging business environment, the management is confident that the group will weather the impact of the coronavirus and strive to achieve a solid result in the financial year ending 31 March 2021.

## Dividend

At the forthcoming Annual General Meeting to be held on 18 September 2020, the directors will recommend a final dividend of HK3 cents per share (2019: HK3 cents). Together with the interim dividend of HK2 cents (2019: Nil), the dividend payment for the year of HK5 cents (2019: HK3 cents) would represent an annual return of 7.4% (2019: 3.4%) on the company's average share price of HK\$0.68 (2019: HK\$0.88) in the year ended 31 March 2020.

The final dividend which will amount to HK\$18.1 million is calculated on the total number of shares in issue as at 26 June 2020, 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, 18 September 2020. 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, 14 September 2020 to Friday, 18 September 2020, 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Friday, 11 September 2020.

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, 30 September 2020. For determining the entitlement to the proposed final dividend, the register of members of the company will be closed from Tuesday, 29 September 2020 to Wednesday, 30 September 2020, 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, 28 September 2020. The payment of final dividend, if approved at the Annual General Meeting, will be made on Friday, 16 October 2020.

# CHAIRMAN'S STATEMENT

---

## 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 2020



# DIRECTORS' REPORT

The directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 March 2020.

## 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 directors’ 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, worsening of the coronavirus outbreak and global trade issues 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 29 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.

# DIRECTORS' REPORT

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	54%	
Five largest customers in aggregate	71%	
The largest supplier		5%
Five largest suppliers in aggregate		20%

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.

## Recommended dividend

An interim dividend of HK2 cents (2019: Nil) per share was paid on 16 January 2020. The directors now recommend the payment of a final dividend of HK3 cents (2019: HK3 cents) per share in respect of the year ended 31 March 2020.

## Charitable donations

Charitable donations made by the group during the financial year amounted to HK\$137,000 (2019: HK\$25,000).

## Share capital

The movement in the company's share capital during the year are set in note 28(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 2020, the aggregate amount of reserves available for distribution to equity shareholders of the company was HK\$263,565,000 (2019: HK\$264,289,000). After the end of the reporting period the directors proposed a final dividend of HK3 cents per share (2019: HK3 cents per share), amounting to HK\$18,135,000 (2019: HK\$18,135,000). This dividend has not been recognised as a liability at the end of the reporting period.

# DIRECTORS' REPORT

## 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  
Dr Ng Tze-Kin, David

In accordance with Bye-law 87 of the company's Bye-laws, Mr Shum Kam-Hung and Mr 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 65, 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 56, 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 Chartered Governance Institute. 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.

## Directors and senior management (*continued*)

### Directors (*continued*)

CHEUNG Tsang-Kay, Stan, PhD, Hon LLD, Hon DBA, JP, aged 76, 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 60, 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, 11th and 13th 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 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 and Harbour Centre Development Limited, both being listed on The Stock Exchange of Hong Kong Limited ("the Stock Exchange").

YEH Man-Chun, Kent, aged 65, 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 was the head of business development for PAI until 31 December 2017. 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, EdD, CA (AUST.), FCPA, aged 70, was appointed as an independent non-executive director of the company on 1 February 2010. Dr Ng holds a Master's Degree in Commerce from Macquarie University, Sydney, a Doctor's Degree in Education from The Education University of Hong Kong and is an Australian Chartered Accountant and Chartered Secretary. Dr Ng had worked for PWC Hong Kong for 8 years. After leaving PWC, Dr Ng has been and is currently the managing director of a certified public accountants firm in Hong Kong. Dr 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 New Provenance Everlasting Holdings Limited (stock code: 02326).

### Senior management

Gershon DORFMAN, aged 64, 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 69, 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.

# DIRECTORS' REPORT

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

As at 31 March 2020, 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)

Directors	Number of shares			Total	Percentage of total issued shares
	Personal interests	Interests of spouse	Other interests		
Dr Cheung Tsang-Kay, Stan	2,727,500	–	103,762,393 (Notes (i), (ii))	106,489,893	17.62%
Mr Robert Dorfman	51,471,000	–	–	51,471,000	8.51%

Notes:

- (i) Dr Cheung Tsang-Kay, Stan is the founder of a family trust which owned 64,539,760 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 2020, 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.

### 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 2020 was 60,249,076 shares (2019: 60,249,076 shares) which represented 10% of the issued share capital of the company as at the date of adoption of the share option scheme. In respect of the maximum entitlement of each participant under the share option scheme, the number of securities issued and to be issued upon exercise of the options granted to each participant in any 12-month period is limited to 1% of the company's shares in issue.

As at 31 March 2020, 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 2020 was HK\$0.62) 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 at 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	4,000,000	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 2020.

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 27(b)(ii) 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.

# DIRECTORS' REPORT

## 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 2020, the persons or corporations (other than directors or chief executives of the company) who had interests or short positions in the shares and underlying shares of the company which were required to be disclosed to the company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the company under section 336 of the SFO were as follows:

### Interests in issued shares

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

	Note	Number of shares			Total	Percentage of total issued shares
		Personal interests	Interests of spouse	Other interests		
<b>Substantial shareholders</b>						
Ms Ng Yiu-Chi, Eleanor	(i)	–	106,489,893	–	106,489,893	17.62%
Ms Cheung Yee, Alice	(ii)	30,281,424	–	39,222,633	69,504,057	11.50%
Moral Excel Holdings Ltd ("MEH")	(iii)	64,414,760	–	125,000	64,539,760	10.68%
HSBC International Trustee Ltd ("HIT")	(iii)	–	–	64,539,760	64,539,760	10.68%
Ms Chang Kan, Jane	(iv)	24,781,424	–	39,322,633	64,104,057	10.60%
Mr Tong Shek-King, Denny	(v)	–	64,004,057	100,000	64,104,057	10.60%
<b>Other persons</b>						
Mrs Sheri Tillman Dorfman	(vi)	–	51,471,000	–	51,471,000	8.51%
Mrs Mirriam Bloch		38,572,500	–	–	38,572,500	6.38%
Mr Gershon Dorfman		37,325,799	–	–	37,325,799	6.17%
Mrs Lydia Dorfman	(vii)	–	37,325,799	–	37,325,799	6.17%

## 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 106,489,893 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) MEH is a company owned by a family trust which is interested in 64,539,760 shares, comprising 64,414,760 shares held by MEH and 125,000 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 64,539,760 shares owned by this trust.
- (iv) 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.
- (v) These interests in shares are duplicated by those beneficially owned by Ms Chang Kan, Jane.
- (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. She ceased to have these interests on 15 May 2020.

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 2020 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 pages 122 to 123 of this annual report.

## Employees

As at 31 March 2020, the number of employees of the group was approximately 155 (2019: 162) in Hong Kong, 3,950 (2019: 3,194) in Mainland China and 51 (2019: 53) 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 27(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 2020

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

This Environmental, Social and Governance (“ESG”) Report is issued by Herald Holdings Limited (the “company”) and its subsidiaries (together the “group”) to provide an overview of the group’s management on significant issues affecting the operation, and the performance of the group in terms of environmental and social aspects.

## Reporting guideline

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.

## Comment and feedback

The group understands the importance of continuous improvement in our environmental, social and governance performances and welcomes feedback on this report. Comments can be shared with us by sending an email to [heraldhk@heraldgroup.com.hk](mailto:heraldhk@heraldgroup.com.hk).

## Reporting scope

This report covers the year from 1 April 2019 to 31 March 2020 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.

The group identifies a list of key ESG issues associated with the business and operations, assesses the importance and relevance of those key issues that are most important to our business and stakeholders, and determines the scope and content of disclosure in this report. The group considers key factors including financials, sales and purchase volume and number of employees. We also refer to the ESG reports of the group’s industry peers and prioritise ESG issues based on the frequency of its disclosure by selected peer companies.

Based on the assessment, the following three subsidiaries (collective “the companies”), which cover all of the group’s manufacturing operations, are included in the scope of this report:

- Dongguan Herald Metal and Plastic Company Limited
- Dongguan Herald Toys Company Limited
- Zhuhai Herald Datametals Limited

In addition, the three key ESG issues identified are:

- Environmental
- Social – employment and labour practices
- Social – operating practices



# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Environmental

As a manufacturer, the companies aim to reduce the impact from our business activities on the environment and be responsible for the use of resources. For key resources, reduction targets are set each year to monitor consumption levels. Control measures are established to follow the latest environmental rules and regulations. No instances of significant non-compliance regarding environmental issues is noted during the reporting period.

## Emissions

The major emissions from the companies include greenhouse gases, industrial wastewater, hazardous waste and non-hazardous wastes and the emissions during the year are shown as below:

	Units	Year ended 31 March 2020	Year ended 31 March 2019
Greenhouses gases	Tonnes CO <sub>2</sub> e	<b>17,939.4</b>	16,363.3
Industrial wastewater	m <sup>3</sup>	<b>933.0</b>	398.0
Hazardous wastes	Tonnes	<b>6.2</b>	4.3
Non-hazardous wastes	Tonnes	<b>266.7</b>	335.2

Greenhouse gases are mainly indirect emissions resulting from the acquired electricity and are subject to the policy and saving initiatives as described in the section "Use of resources".

Industrial wastewater is generated from the manufacturing of computer products and is treated prior to emission. Regular testing is carried out on the concentration and pollutants in the industrial wastewater emission to ensure the emission is within the *Emission Limits of Water Pollutants, Guangdong Province*. As no industrial wastewater would be generated from the manufacturing of plastic toys, the above data for industrial wastewater represents the emissions from Zhuhai Herald Datanetics Limited only. The increase is mainly because the classification and definition of industrial wastewater was revised during the year ended 31 March 2020.

Waste is classified as non-hazardous waste and hazardous waste, which are collected by qualified contractors. Recycling facilities are available to encourage in order to reduce waste.

## Use of resources

The resources used by the companies mainly include energy from acquired electricity, water and raw materials. We encourage the efficient consumption of resources in the daily operations through the following initiatives:

- Enhance staff awareness on energy saving and resource reduction
- Adopt electrical saving system in injection machines and energy saving lighting to reduce energy consumption
- Support employees to reuse materials such as carton boxes and wooden pallets
- Encourage double-sided printing and photocopying
- Promote the usage of electronic documents for internal and external communication
- Collect data on resource consumption trends

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The consumption of electricity and water and the use of packaging materials (mainly include boxes, paper, blisters and cartons) during the year are shown as below:

	Units	Year ended 31 March 2020	Year ended 31 March 2019
Electricity consumption	kWh	<b>20,023,890</b>	18,264,612
Water consumption	m <sup>3</sup>	<b>305,803</b>	321,330
Packaging materials used	Tonnes	<b>4,204</b>	3,340

We encourage the efficient consumption of resources in the daily operations and the consumption of electricity and water is monitored regularly in order to identify saving initiatives. There are no issues in sourcing water.

## The environmental and natural resources

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

## Social – employment and labour practices

### Employment

The companies recognise the importance of our employees as they form the foundation to the group's long-term success. Employees are mainly recruited through job advertisements and recruitment agents. The recruitment process follows the principles of equal opportunities and all employees are hired based on merits, regardless of their gender, age, race, religion and marital status. Competitive remuneration, allowances and benefits in accordance with the local regulations are provided to the employees. To motivate staff, rewards in terms of bonuses, promotions and other fringe benefits are also provided based on the staff's competence and performance level. Overtime hours for each employee is monitored and compensated in accordance with the local regulations. During the reporting period, no significant instances of non-compliance with the *Employment Contract Law of the PRC* is noted.

### Health and safety

We are committed to provide a safe and healthy working environment to our employees. Key safety measures are implemented as follows:

- Protective equipment including goggles and gloves are offered to employees as appropriate.
- Regular checks and maintenance are performed on the machinery and equipment.
- 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.

Fire safety inspections and production safety inspections carried out by the local authorities during the year have not revealed any significant non-compliance with the relevant laws and regulations.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Development and training

The companies recognise the importance of development and training to continuously enhance their work quality and professional skills.

Orientation training is provided for all new joiners to understand their job responsibilities, work safety, our factory policies, company culture and Code of Conduct standards. An effective training process is also established for all managers and workers to attend refresher training at least once a year.

## Labour standards

Child labour and forced labour are strictly prohibited and the companies have complied with the relevant requirements as set out in the *Regulation on the Prohibited Use of Child Labour and Employment Law of PRC*. 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. Annual training is also provided on our anti-forced labour policy.

## Social – operating practices

### Supply chain management

The companies understand the environmental impacts associated with our supply chain and we work closely with our suppliers to align with our commitment to social compliance. Suppliers for raw materials and equipment are selected according to the procurement policy of the companies. Before acceptance of a supplier, procedures are carried out to evaluate their reputation, creditability and quality of products or service supplied. Regular assessments are also performed to review and maintain the long-term relationship with our suppliers. If key issues or non-compliance are identified, the supplier will be requested to undertake corrective actions. In addition, the companies prohibit sourcing of conflict minerals, such as coltan, tin, tungsten or gold from the Democratic Republic of the Congo or an adjoining country.

### Customer confidentiality and intellectual property

We are committed to protecting the intellectual property and information of our customers. Our policies and employment contracts stipulate that all employees should protect such information and should not use or disclose the information without authorisation. Orientation training and regular training are also provided to our employees on this subject.

If such violation of customer confidentiality is identified, the companies will take corrective actions promptly and may also take legal actions against the involved employees. We are not aware of any material non-compliance with laws and regulations relating to confidentiality and intellectual property matters.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

---

## Product responsibility

The companies' products are subject to the strict requirements from the customers and recognised industry standards including *Restrictions of Hazardous Substances (RoHS2)* and *Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH)*. Various internal and external testing are carried out to ensure our products are in compliance with the relevant requirements.

## Anti-corruption

The companies take a zero-tolerance stance against bribery, extortion, fraud and money laundering. These 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. Allegations will be investigated while respecting the privacy and anonymity of the whistle-blowers and disciplinary actions such as dismissal or legal actions will be taken if the allegations are substantiated.

During the reporting period, no instances of non-compliance of the relevant laws and regulations relating to bribery, extortion, fraud and money laundering are noted.

## 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 2020 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 to 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 2020 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  
Dr 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 with 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.

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 independent 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 10 to 11. None of the directors and senior management has other material financial, business or relevant relationships with each other.



# CORPORATE GOVERNANCE REPORT

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 directors at the regular Board meetings, the Committee meetings and the annual general meeting during the financial year is set out below:

	Number of meetings attended/eligible to attend				Annual General Meeting
	Board	Audit Committee	Remuneration Committee	Nomination Committee	
<b>Executive directors</b>					
Mr Robert Dorfman	4/4	N/A	N/A	1/1	1/1
Mr Shum Kam-Hung	4/4	N/A	2/2	N/A	1/1
Dr Cheung Tsang-Kay, Stan	4/4	N/A	N/A	1/1	1/1
<b>Independent non-executive directors</b>					
Mr Lie-A-Cheong Tai-Chong, David	4/4	3/3	N/A	1/1	1/1
Mr Yeh Man-Chun, Kent	4/4	3/3	2/2	1/1	1/1
Dr Ng Tze-Kin, David	4/4	3/3	2/2	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 director of a listed company. 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 2020 is summarised below:

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

A – attending briefings/seminars/conferences/forums

B – reading journals, updates, articles and/or materials

# CORPORATE GOVERNANCE REPORT

## Remuneration committee

The Remuneration Committee comprises two independent non-executive directors, namely Dr 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 two 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 comprises 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 Dr 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.

The purpose of the nomination policy is to identify and evaluate a candidate for nomination to the Board for appointment or to the shareholders for election as a director. The Nomination Committee shall consider, among others, the following criteria in evaluating and selecting candidates for directorships:

1. age, skills, knowledge, experience, professional and educational qualifications and other personal qualities of the candidate;
2. effect on the board's composition and diversity;
3. commitment to devote sufficient time to discharge the directors' duties;
4. potential/actual conflicts of interest that may arise if the candidate is selected;
5. independence of the candidate.

If an additional or replacement director is considered necessary, the Nomination Committee shall identify suitably qualified persons to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorship. Regarding the appointment of any proposed candidate to the Board, the Nomination Committee shall undertake adequate due diligence in respect of the individual and make recommendations for the Board's consideration and approval.

# CORPORATE GOVERNANCE REPORT

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 Audit Committee comprises three independent non-executive directors. The Committee is chaired by Dr 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 the 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	3,180
Taxation services	419
Other services	42
	<hr/>
	3,641

In addition, audit services and taxation services were provided by other auditors to certain subsidiaries for the year ended 31 March 2020 and the related fees amounted to HK\$383,000 and HK\$177,000 respectively.

# CORPORATE GOVERNANCE REPORT

## 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 in respect of the financial statements is set out in the Independent Auditor's Report on pages 28 to 32.

## 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, BT Corporate Governance Limited ("BTCGL"), 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.

An internal control review report and an enterprise risk assessment report issued by BTCGL were tabled before the members of the Audit Committee during the Audit Committee meeting held on 22 June 2020. The principal purposes of the internal control review and the enterprise risk assessment carried out by BTCGL were to obtain sufficient knowledge and understanding about the attitude, awareness and actions of management and the Board concerning the factors of the control environment and risk management mechanism. Based on the findings and comments by BTCGL 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 in addition to keeping confidentiality of the 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.

# CORPORATE GOVERNANCE REPORT

## Dividend policy

Dividends may be distributed by way of cash and by other means that the Board considers appropriate. A decision to declare and pay dividends will require the approval of the Board and will be at its discretion. Such discretion is subject to the applicable laws and regulations, the company's Bye-Laws and the approval of the shareholders, if applicable.

The following factors would be considered by the Board before declaring or recommending dividends:

1. actual past and future expected financial performance;
2. retained earnings and distributable reserves;
3. cash flows and the liquidity position;
4. working capital requirements and future investment plan;
5. general business conditions and the group's business strategies; and
6. any factors that the Board deems appropriate.

## Shareholders' rights

The following "shareholders' rights" information is set out on pages 125 to 126 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 2020, there had been no changes in the company's constitutional documents.



# INDEPENDENT AUDITOR'S REPORT



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 33 to 121, which comprise the consolidated statement of financial position as at 31 March 2020, 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 consolidated financial position of the group as at 31 March 2020 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 for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") 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.

# INDEPENDENT AUDITOR'S REPORT

## Key audit matters (continued)

### Loss allowance for trade receivables

Refer to notes 18 and 29(a) to the consolidated financial statements and the accounting policy in notes 1(l) and 1(m).

The Key Audit Matter	How the matter was addressed in our audit
<p>The carrying value of the group's trade receivables as at 31 March 2020 totalled HK\$146,870,000, against which a loss allowance of HK\$52,943,000 was recorded.</p> <p>The group operates in different business segments with customers of different credit risk characteristics. Management measures the loss allowance at an amount equal to lifetime expected credit loss based on the estimated loss rate for each category of receivables. The estimated loss rates take into account the ageing of the trade receivable balances, the repayment history, current market conditions, customer-specific conditions and forward looking information. Such assessment involves significant management judgement and estimation.</p> <p>We identified loss allowance for trade receivables as a key audit matter because determining the level of the loss allowance is inherently subjective and requires the exercise of significant management judgement.</p>	<p>Our audit procedures to assess the loss allowance for trade receivables included the following:</p> <ul style="list-style-type: none"><li>• obtaining an understanding of and assessing the design, implementation and operating effectiveness of management's key internal controls relating to credit control, debt collection, segmentation of trade receivables and estimating the credit loss allowance;</li><li>• evaluating the group's policy for estimating the credit loss allowance with reference to the requirements of the prevailing accounting standards;</li><li>• obtaining an understanding on the key parameters and assumptions of the expected credit loss model adopted by the management, including the basis of segmentation of the trade receivables based on credit risk characteristics of customers and the historical default data in management's estimated loss rates;</li><li>• assessing the reasonableness of management's loss allowance estimates by examining the information used by management to form such estimates, including testing the accuracy of the historical default data and evaluating whether the historical loss rates are appropriately adjusted based on current economic conditions and forward-looking information;</li><li>• assessing whether items were correctly categorised in the trade receivables ageing report by comparing a sample of individual items with the sales invoices and other relevant underlying documentation; and</li><li>• comparing, on a sample basis, cash receipts from customers subsequent to the financial year end relating to trade receivable balances at 31 March 2020 with bank statements and relevant underlying documentation.</li></ul>

# INDEPENDENT AUDITOR'S REPORT

## Key audit matters (continued)

### Inventory provision

Refer to note 17 to the consolidated financial statements and the accounting policy in note 1(k).

The Key Audit Matter	How the matter was addressed in our audit
<p>The group is primarily involved in the manufacture, sale and distribution of toy products.</p> <p>Management performs regular reviews of the carrying values of inventories with reference to the inventory ageing report, expected future sales or utilisation of individual items and their selling prices based on management's experience and judgement. A write-down will be made when it is expected that an item cannot be sold or utilised or the estimated net realisable value would fall below its carrying amount.</p> <p>We identified assessing the inventory provision as a key audit matter because of the inherent risk that the group's inventories may become obsolete and because the judgement exercised by management in determining the appropriate provision for inventories involves management's assessment of factors which can be inherently uncertain.</p>	<p>Our audit procedures to assess the inventory provision included the following:</p> <ul style="list-style-type: none"><li>• assessing the group's inventory provisioning policy in the consolidated financial statements with reference to the requirements of the prevailing accounting standards;</li><li>• assessing whether the inventory write-down at the reporting date was calculated on a basis consistent with the group's inventory provisioning policy by recalculating the write-down based on the percentages or other parameters in the group's inventory provisioning policy;</li><li>• assessing, on a sample basis, whether items in the inventory ageing report, if applicable, were classified within the appropriate ageing bracket by comparing individual items in the report with underlying documents;</li><li>• inquiring of management about any slow-moving or obsolete inventories and comparing their representations with actual transactions and utilisation subsequent to the end of the reporting period, and inspecting, on a sample basis, the relevant underlying documentation for sales orders received and where applicable delivery of inventories subsequent to the end of the reporting period;</li><li>• comparing, on a sample basis, the unit cost of inventories at the reporting date with sales price achieved subsequent to the end of the reporting period; and</li><li>• assessing the historical accuracy of management's process for calculating the provision for inventories by examining the utilisation or release of the provision recorded at the end of the previous financial year during the current year.</li></ul>

# INDEPENDENT AUDITOR'S REPORT

## 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 HKSAAs 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 HKSAAs, 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.
- 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.

# INDEPENDENT AUDITOR'S REPORT

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

- 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 Chan Tsz Kei.

### KPMG

*Certified Public Accountants*

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

29 June 2020

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 March 2020

	Note	2020 HK\$'000	2019 (Note) HK\$'000
Revenue	3, 10	<b>1,011,870</b>	952,465
Cost of sales		<b>(800,071)</b>	(812,201)
<b>Gross profit</b>		<b>211,799</b>	140,264
Other revenue	4	<b>7,654</b>	6,204
Other net income	4	<b>17,161</b>	30,761
Selling expenses		<b>(15,294)</b>	(21,006)
Administrative expenses		<b>(197,868)</b>	(204,059)
Gain on disposal of non-current assets classified as held for sale	21	<b>-</b>	21,609
Valuation gains/(losses) on investment properties	11(a)	<b>427</b>	(87)
<b>Profit/(loss) from operations</b>		<b>23,879</b>	(26,314)
Finance costs	5(a)	<b>(2,116)</b>	(2,331)
<b>Profit/(loss) before taxation</b>	5	<b>21,763</b>	(28,645)
Income tax	6(a)	<b>(14,387)</b>	516
<b>Profit/(loss) for the year</b>		<b>7,376</b>	(28,129)
<b>Attributable to:</b>			
Equity shareholders of the company		<b>8,798</b>	(26,158)
Non-controlling interests		<b>(1,422)</b>	(1,971)
<b>Profit/(loss) for the year</b>		<b>7,376</b>	(28,129)
<b>Earnings/(loss) per share</b>	9		
Basic (HK cents)		<b>1.46</b>	(4.33)
Diluted (HK cents)		<b>1.46</b>	(4.33)

Note: The group has initially applied HKFRS 16 at 1 April 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2.

The notes on pages 40 to 121 form part of these financial statements. Details of dividends payable to equity shareholders of the company are set out in note 28(b).



# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2020

	Note	2020 HK\$'000	2019 (Note) HK\$'000
Profit/(loss) for the year		<u>7,376</u>	<u>(28,129)</u>
Other comprehensive income for the year			
<i>Item that will not be reclassified to profit or loss:</i>			
Surplus on revaluation of land and buildings held for own use upon change of use to investment properties (net of tax effect of HK\$Nil (2019: HK\$16,260,000))	11(a), 25(b)	–	25,988
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong (no tax effect)		(15,330)	(22,205)
Reclassification of accumulated exchange differences to profit or loss upon deregistration of a subsidiary (no tax effect)		348	–
Other comprehensive income for the year		<u>(14,982)</u>	<u>3,783</u>
Total comprehensive income for the year		<u>(7,606)</u>	<u>(24,346)</u>
Attributable to:			
Equity shareholders of the company		(6,090)	(21,982)
Non-controlling interests		(1,516)	(2,364)
Total comprehensive income for the year		<u>(7,606)</u>	<u>(24,346)</u>

Note: The group has initially applied HKFRS 16 at 1 April 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2.

The notes on pages 40 to 121 form part of these financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 March 2020

	Note	2020 HK\$'000	2019 (Note) HK\$'000
<b>Non-current assets</b>			
Investment properties	11	<b>55,181</b>	57,769
Other property, plant and equipment	11	<b>272,233</b>	296,001
		<b>327,414</b>	353,770
Intangible assets	12	<b>1,090</b>	1,124
Interest in a joint venture	14	–	–
Other financial assets	15	<b>2,300</b>	2,300
Deferred tax assets	25(b)	<b>14,438</b>	24,519
		<b>345,242</b>	381,713
<b>Current assets</b>			
Trading securities	16	<b>74,829</b>	84,814
Inventories	17	<b>148,834</b>	174,555
Trade and other receivables	18	<b>116,144</b>	122,628
Pledged bank balances	19	<b>1,020</b>	464
Cash and cash equivalents	20(a)	<b>189,971</b>	186,606
Current tax recoverable	25(a)	<b>185</b>	4,162
		<b>530,983</b>	573,229
<b>Current liabilities</b>			
Trade and other payables and contract liabilities	22	<b>141,686</b>	158,291
Bank loans	23	<b>3,668</b>	40,243
Lease liabilities	24	<b>5,303</b>	–
Current tax payable	25(a)	<b>22,803</b>	16,093
		<b>173,460</b>	214,627

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 March 2020

	Note	2020 HK\$'000	2019 (Note) HK\$'000
Net current assets		<u>357,523</u>	<u>358,602</u>
Total assets less current liabilities		<u>702,765</u>	<u>740,315</u>
Non-current liabilities			
Lease liabilities	24	4,772	–
Deferred tax liabilities	25(b)	16,805	20,465
Provision for long service payments	26	1,333	1,411
		<u>22,910</u>	<u>21,876</u>
NET ASSETS		<u>679,855</u>	<u>718,439</u>
CAPITAL AND RESERVES			
Share capital	28(c)	47,150	47,150
Reserves		625,286	661,601
Total equity attributable to equity shareholders of the company		672,436	708,751
Non-controlling interests		7,419	9,688
TOTAL EQUITY		<u>679,855</u>	<u>718,439</u>

Approved and authorised for issue by the board of directors on 29 June 2020.

Robert Dorfman  
*Director*

Shum Kam-Hung  
*Director*

Note: The group has initially applied HKFRS 16 at 1 April 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2.

The notes on pages 40 to 121 form part of these financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2020

Note	Attributable to equity shareholders of the company										Total equity HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	Capital reserve HK\$'000	Exchange reserve HK\$'000	Property revaluation reserve HK\$'000	PRC statutory reserve HK\$'000	Retained profits (Note) HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	
Balance at 1 April 2018	47,150	20,928	53,891	813	34,476	1,662	18,068	571,880	748,868	12,052	760,920
Changes in equity for 2019:											
Loss for the year	-	-	-	-	-	-	-	(26,158)	(26,158)	(1,971)	(28,129)
Other comprehensive income	-	-	-	-	(21,812)	25,988	-	-	4,176	(393)	3,783
Total comprehensive income	-	-	-	-	(21,812)	25,988	-	(26,158)	(21,982)	(2,364)	(24,346)
Dividends approved in respect of the previous year	28(b)	-	-	-	-	-	-	(18,135)	(18,135)	-	(18,135)
Balance at 31 March 2019 and 1 April 2019	<b>47,150</b>	<b>20,928</b>	<b>53,891</b>	<b>813</b>	<b>12,664</b>	<b>27,650</b>	<b>18,068</b>	<b>527,587</b>	<b>708,751</b>	<b>9,688</b>	<b>718,439</b>
Changes in equity for 2020:											
Profit for the year	-	-	-	-	-	-	-	8,798	8,798	(1,422)	7,376
Other comprehensive income	-	-	-	-	(14,888)	-	-	-	(14,888)	(94)	(14,982)
Total comprehensive income	-	-	-	-	(14,888)	-	-	8,798	(6,090)	(1,516)	(7,606)
Dividends approved in respect of the previous year	28(b)	-	-	-	-	-	-	(18,135)	(18,135)	-	(18,135)
Dividends declared in respect of the current year	28(b)	-	-	-	-	-	-	(12,090)	(12,090)	-	(12,090)
Dividends paid to non-controlling interests		-	-	-	-	-	-	-	-	(753)	(753)
Balance at 31 March 2020	<b>47,150</b>	<b>20,928</b>	<b>53,891</b>	<b>813</b>	<b>(2,224)</b>	<b>27,650</b>	<b>18,068</b>	<b>506,160</b>	<b>672,436</b>	<b>7,419</b>	<b>679,855</b>

Note: The group has initially applied HKFRS 16 at 1 April 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2.

The notes on pages 40 to 121 form part of these financial statements.

# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2020

	Note	2020 HK\$'000	2019 (Note) HK\$'000
<b>Operating activities</b>			
Cash generated from/(used in) operations	20(b)	<b>45,952</b>	(4,902)
Tax refunded/(paid):			
– Hong Kong Profits Tax refunded		<b>4,384</b>	14,247
– Taxation outside Hong Kong paid		<b>(636)</b>	(1,949)
		<b>3,748</b>	12,298
<b>Net cash generated from operating activities</b>		<b>49,700</b>	7,396
<b>Investing activities</b>			
Payment for the purchase of property, plant and equipment		<b>(3,878)</b>	(1,806)
Payment for the purchase of trading securities		<b>(9,150)</b>	(8,053)
Proceeds from disposal of property, plant and equipment		<b>34,332</b>	44,500
Proceeds from sales of trading securities		<b>8,311</b>	68,092
Net proceeds from disposal of non-current assets classified as held for sale		–	22,734
Proceeds from disposal of intangible asset		–	1,448
Interest received		<b>1,411</b>	940
Dividends received from listed securities		<b>1,955</b>	1,814
Increase in pledged bank balances		<b>(556)</b>	(220)
<b>Net cash generated from investing activities</b>		<b>32,425</b>	129,449
<b>Financing activities</b>			
Proceeds from new bank loans	20(c)	<b>8,000</b>	58,856
Repayment of bank loans	20(c)	<b>(44,575)</b>	(125,895)
Capital element of lease rentals paid	20(c)	<b>(4,315)</b>	–
Interest element of lease rentals paid	20(c)	<b>(443)</b>	–
Interest paid	20(c)	<b>(1,673)</b>	(2,331)
Dividends paid to equity shareholders of the company	28(b)	<b>(30,225)</b>	(18,135)
Dividends paid to non-controlling shareholders		<b>(753)</b>	–
<b>Net cash used in financing activities</b>		<b>(73,984)</b>	(87,505)

# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2020

	Note	2020 HK\$'000	2019 (Note) HK\$'000
Net increase in cash and cash equivalents		<b>8,141</b>	49,340
Cash and cash equivalents at the beginning of the year		<b>186,606</b>	142,099
Effect of foreign exchange rate changes		<b>(4,776)</b>	(4,833)
Cash and cash equivalents at the end of the year	20(a)	<b><u>189,971</u></b>	<u>186,606</u>

Note: The group has initially applied HKFRS 16 at 1 April 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2.

The notes on pages 40 to 121 form part of these financial statements.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 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. 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 2020 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, including interests in leasehold land and buildings held as investment property where the group is the registered owner of the property interest (see note 1(h));
- equity investments classified as other financial assets (see note 1(f)); 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)).

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.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 1 Significant accounting policies *(continued)*

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

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 34.

### (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.

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)).

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 1 Significant accounting policies (*continued*)

### (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 (after applying the ECL model to such other long-term interests where applicable (see note 1(m)(i))).

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.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 1 Significant accounting policies (*continued*)

### (e) Goodwill (*continued*)

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.

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

The group's policies for investments in debt and equity securities and managed funds, other than investments in subsidiaries, an associate and joint ventures, are set out below:

Investments in debt and equity securities and managed funds are recognised/derecognised on the date the group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss ("FVPL") for which transaction costs are recognised directly in profit or loss. For an explanation of how the group determines fair value of financial instruments, see note 29(f). These investments are subsequently accounted for as follows, depending on their classification.

#### *Investments other than equity investments*

Non-equity investments held by the group are classified into one of the following measurement categories:

- amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method (see note 1(t)(ii)).
- fair value through other comprehensive income ("FVOCI") (recycling), if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.
- fair value at profit or loss ("FVPL") if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 1 Significant accounting policies (*continued*)

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

#### *Equity investments*

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the group makes an election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained profits. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI (non-recycling), are recognised in profit or loss as other income in accordance with the policy set out in note 1(t)(iii).

### (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;
- interests in leasehold land and buildings where the group is the registered owner of the property interest (see note 1(j));
- right-of-use assets arising from leases over freehold or leasehold properties where the group is not the registered owner of the property interest (see note 1(j)); and
- other items of plant and equipment, including right-of-use assets arising from leases of underlying plant and equipment (see note 1(j)).

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 80AA 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.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 1 Significant accounting policies (continued)

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

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 and the group's interests in buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years.
- 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).

In the comparative period, when the group held a property interest under an operating lease and used the property to earn rental income and/or for capital appreciation, the group could elect on a property-by-property basis to classify and account for such interest as an investment property. Any such property interest which had been classified as an investment property was accounted for as if it were held under a finance lease (see note 1(j)), and the same accounting policies were applied to that interest as were applied to other investment properties leased under finance leases. Lease payments were 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.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 1 Significant accounting policies (continued)

### (i) Intangible assets (other than goodwill) (continued)

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.

### (j) Leased assets

At inception of a contract, the group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

#### (i) As a lessee

##### (A) Policy applicable from 1 April 2019

At the lease commencement date, the group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the group enters into a lease in respect of a low-value asset, the group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see notes 1(g) and 1(m)(ii)), except for the right-of-use assets that meet the definition of investment property are carried at fair value in accordance with note 1(h).



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 1 Significant accounting policies *(continued)*

### (j) Leased assets *(continued)*

#### (i) *As a lessee (continued)*

##### (A) Policy applicable from 1 April 2019 *(continued)*

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The group presents right-of-use assets that do not meet the definition of investment property in 'other property, plant and equipment' and presents lease liabilities separately in the consolidated statement of financial position.

##### (B) Policy applicable prior to 1 April 2019

In the comparative period, as a lessee the group classified leases as finance leases if the leases transferred substantially all the risks and rewards of ownership to the group. Leases which did not transfer substantially all the risks and rewards of ownership to the group were classified as operating leases, with the following exceptions:

- property held under operating leases that would otherwise meet the definition of an investment property was classified as investment property on a property-by-property basis and, if classified as investment property, was 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 could not be measured separately from the fair value of a building situated thereon at the inception of the lease, was accounted for as being held under a finance lease, unless the building was also clearly held under an operating lease. For these purposes, the inception of the lease was the time that the lease was first entered into by the group, or taken over from the previous lessee.

Where the group acquired the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets were recognised as property, plant and equipment and the corresponding liabilities, net of finance charges, were recorded as obligations under finance leases. Depreciation was provided at rates which wrote off the cost or valuation of the assets over the term of the relevant lease or, where it was likely the group would obtain ownership of the asset, the life of the asset, as set out in note 1(g). Impairment losses were accounted for in accordance with the accounting policy as set out in note 1(m)(ii). Finance charges implicit in the lease payments were charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals were charged to profit or loss in the accounting period in which they were incurred.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 1 Significant accounting policies *(continued)*

### (j) Leased assets *(continued)*

#### (i) *As a lessee (continued)*

##### (B) Policy applicable prior to 1 April 2019 *(continued)*

Where the group had the use of assets held under operating leases, payments made under the leases were charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis was more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received were recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals were charged to profit or loss in the accounting period in which they were incurred.

#### (ii) *As a lessor*

When the group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

When a contract contains lease and non-lease components, the group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. The rental income from operating leases is recognised in accordance with note 1(t)(iv).

### (k) Inventories

Inventories are assets which are held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

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

A receivable is recognised when the group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due.

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 1(m)(i)).

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 1 Significant accounting policies (*continued*)

### (m) Credit losses and impairment of assets

#### (i) *Credit losses from financial instruments*

The group recognises a loss allowance for expected credit losses (“ECLs”) on financial assets measured at amortised cost (including cash and cash equivalents, trade receivables and other receivables, including loan to a joint venture, which is held for the collection of contractual cash flows which represent solely payments of principal and interest). Financial assets measured at fair value are not subject to the ECL assessment.

#### Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the group in accordance with the contract and the cash flows that the group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

- fixed-rate financial assets, trade and other receivables: effective interest rate determined at initial recognition or an approximation thereof;
- variable-rate financial assets: current effective interest rate;

The maximum period considered when estimating ECLs is the maximum contractual period over which the group is exposed to credit risk.

In measuring ECLs, the group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the group’s historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 1 Significant accounting policies *(continued)*

### (m) Credit losses and impairment of assets *(continued)*

#### (i) *Credit losses from financial instruments (continued)*

##### Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the group in full, without recourse by the group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- failure to make payments of principal or interest on their contractually due dates;
- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 1 Significant accounting policies *(continued)*

### (m) Credit losses and impairment of assets *(continued)*

#### (i) *Credit losses from financial instruments (continued)*

##### Basis of calculation of interest income

Interest income recognised in accordance with note 1(t)(ii) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or past due event;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or
- the disappearance of an active market for a security because of financial difficulties of the issuer.

##### Write-off policy

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 1 Significant accounting policies (continued)

### (m) Credit losses and impairment of assets (continued)

#### (ii) Impairment of other non-current 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, including right-of-use assets (other than property carried at revalued amounts);
- 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).

- 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.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 1 Significant accounting policies (continued)

### (m) Credit losses and impairment of assets (continued)

#### (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 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 measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the group's accounting policy for borrowing costs (see note 1(v)).

### (o) Payables and contract liabilities

#### (i) *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.

#### (ii) *Contract liabilities*

A contract liability is recognised when the customer pays non-refundable consideration before the company recognises the related revenue (see note 1(t)). A contract liability would also be recognised if the company has an unconditional right to receive non-refundable consideration before the company recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 1(l)).

### (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. Cash and cash equivalents are assessed for ECL in accordance with the policy set out in note 1(m)(i).



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 1 Significant accounting policies (*continued*)

### (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).

### (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.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 1 Significant accounting policies (*continued*)

### (r) Income tax (*continued*)

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.

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.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 1 Significant accounting policies *(continued)*

### (r) Income tax *(continued)*

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.

### (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.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 1 Significant accounting policies *(continued)*

### (s) Financial guarantees issued, provisions and contingent liabilities *(continued)*

#### (i) *Financial guarantees issued (continued)*

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.

The group monitors the risk that the specified debtor will default on the contract and recognises a provision when ECLs on the financial guarantees are determined to be higher than the amount carried in "trade and other payables" in respect of the guarantees (i.e. the amount initially recognised, less accumulated amortisation).

To determine ECLs, the group considers changes in the risk of default of the specified debtor since the issuance of the guarantee. A 12-month ECL is measured unless the risk that the specified debtor will default has increased significantly since the guarantee is issued, in which case a lifetime ECL is measured. The same definition of default and the same assessment of significant increase in credit risk as described in note 1(m)(i) apply. As the group is required to make payments only in the event of a default by the specified debtor in accordance with the terms of the instrument that is guaranteed, an ECL is estimated based on the expected payments to reimburse the holder for a credit loss that it incurs less any amount that the group expects to receive from the holder of the guarantee, the specified debtor or any other party. The amount is then discounted using the current risk-free rate adjusted for risks specific to the cash flows.

#### (ii) *Other provisions and contingent liabilities*

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

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

### (t) Revenue and other income

Income is classified by the group as revenue when it arises from the sale of goods in the ordinary course of the group's business.

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Further details of the group's revenue and other income recognition policies are as follows:

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

Revenue is recognised when the customer takes possession of and accepts the products. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 1 Significant accounting policies *(continued)*

### (t) Revenue and other income *(continued)*

#### (ii) *Interest income*

Interest income is recognised as it accrues using the effective interest method. For financial assets measured at amortised cost or FVOCI (recycling) that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see note 1(m)(i)).

#### (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. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are earned.

#### (v) *Royalties*

Royalties are recognised when earned according to the terms of licence agreement.

### (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. The transaction date is the date on which the company initially recognises such non-monetary assets or liabilities. 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.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 1 Significant accounting policies (*continued*)

### (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.

### (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.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 1 Significant accounting policies (*continued*)

### (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.
- (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.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 2 Changes in accounting policies

The HKICPA has issued a new HKFRS, HKFRS 16, *Leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the group.

Except for HKFRS 16, *Leases*, none of the 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.

### HKFRS 16, *Leases*

HKFRS 16 replaces HKAS 17, *Leases*, and the related interpretations, HK(IFRIC) 4, *Determining whether an arrangement contains a lease*, HK(SIC) 15, *Operating leases – incentives*, and HK(SIC) 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low-value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

HKFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The group has initially applied HKFRS 16 as from 1 April 2019. The group has elected to use the modified retrospective approach and there is no impact to the opening balance of equity at 1 April 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

#### a. *New definition of a lease*

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 April 2019. For contracts entered into before 1 April 2019, the group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 2 Changes in accounting policies (continued)

### HKFRS 16, *Leases* (continued)

#### b. *Lessee accounting and transitional impact*

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets which are exempt. As far as the group is concerned, these newly capitalised leases are primarily in relation to property, plant and equipment as disclosed in note 30(a). For an explanation of how the group applies lessee accounting, see note 1(j)(i).

At the date of transition to HKFRS 16 (i.e. 1 April 2019), the group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 April 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 4.76%.

To ease the transition to HKFRS 16, the group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

- (i) the group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 March 2020; and
- (ii) when measuring the lease liabilities at the date of initial application of HKFRS 16, the group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment).

The following table reconciles the operating lease commitments as disclosed in note 30(a) as at 31 March 2019 to the opening balance for lease liabilities recognised as at 1 April 2019:

	1 April 2019 HK\$'000
Operating lease commitments at 31 March 2019	14,548
Less: short-term leases and other leases with remaining lease term ending on or before 31 March 2020	<u>(4,385)</u>
	10,163
Less: total future interest expenses	<u>(657)</u>
Total lease liabilities recognised at 1 April 2019	<u><u>9,506</u></u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 2 Changes in accounting policies (continued)

HKFRS 16, *Leases* (continued)

### b. Lessee accounting and transitional impact (continued)

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position at 31 March 2019.

The following table summarises the impacts of the adoption of HKFRS 16 on the group's consolidated statement of financial position:

	Carrying amount at 31 March 2019 HK\$'000	Capitalisation of operating lease contracts HK\$'000	Carrying amount at 1 April 2019 HK\$'000
Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16:			
Other property, plant and equipment	296,001	12,058	308,059
Non-current assets	381,713	12,058	393,771
Trade and other receivables	122,628	(2,552)	120,076
Current assets	573,229	(2,552)	570,677
Lease liabilities (current)	–	3,949	3,949
Current liabilities	214,627	3,949	218,576
Net current assets	358,602	(6,501)	352,101
Total assets less current liabilities	740,315	5,557	745,872
Lease liabilities (non-current)	–	5,557	5,557
Non-current liabilities	21,876	5,557	27,433
Net assets	718,439	–	718,439

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 2 Changes in accounting policies (continued)

HKFRS 16, *Leases* (continued)

### c. Impact on the financial result and cash flows of the group

After the initial recognition of right-of-use assets and lease liabilities as at 1 April 2019, the group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a positive impact on the reported profit from operations in the group's consolidated statement of profit or loss, as compared to the results if HKAS 17 had been applied during the year.

In the consolidated cash flow statement, the group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element (see note 20(c)). These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under HKAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under HKAS 17. Although total cash flows are unaffected, the adoption of HKFRS 16 therefore results in a significant change in presentation of cash flows within the consolidated cash flow statement (see note 20(d)).

The following tables give an indication of the estimated impact of the adoption of HKFRS 16 on the group's financial result for the year ended 31 March 2020, by adjusting the amounts reported under HKFRS 16 in these consolidated financial statements to compute estimates of the hypothetical amounts that would have been recognised under HKAS 17 if this superseded standard had continued to apply in 2020 instead of HKFRS 16, and by comparing these hypothetical amounts for 2020 with the actual 2019 corresponding amounts which were prepared under HKAS 17.

	2020			2019	Compared to amounts reported for 2019 under HKAS 17 HK\$'000
	Amounts reported under HKFRS 16 HK\$'000	Add back: HKFRS 16 depreciation and interest expense HK\$'000	Deduct: Estimated amount related to operating leases as if under HKAS 17 (Note) HK\$'000		
Financial result for year ended 31 March 2020 impacted by the adoption of HKFRS 16:					
Profit/(loss) from operations	23,879	5,501	(5,802)	23,578	(26,314)
Finance costs	(2,116)	443	-	(1,673)	(2,331)
Profit/(loss) before taxation	21,763	5,944	(5,802)	21,905	(28,645)
Profit/(loss) for the year	7,376	5,944	(5,802)	7,518	(28,129)

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 2 Changes in accounting policies (continued)

HKFRS 16, *Leases* (continued)

### c. Impact on the financial result and cash flows of the group (continued)

Note: The “estimated amounts related to operating leases” is an estimate of the amounts of the cash flows in 2020 that relate to leases which would have been classified as operating leases, if HKAS 17 had still applied in 2020. This estimate assumes that there were no differences between rentals and cash flows and that all of the new leases entered into in 2020 would have been classified as operating leases under HKAS 17, if HKAS 17 had still applied in 2020. Any potential net tax effect is ignored.

### d. Leasehold investment property

Under HKFRS 16, the group is required to account for all leasehold properties as investment properties when these properties are held to earn rental income and/or for capital appreciation (“leasehold investment properties”). The adoption of HKFRS 16 does not have a significant impact on the group’s financial statements as the group previously elected to apply HKAS 40, *Investment properties*, to account for all of its leasehold properties that were held for investment purposes as at 31 March 2019. Consequentially, these leasehold investment properties continue to be carried at fair value.

## 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.

Disaggregation of revenue from contracts with customers by major product lines is as follows:

	2020 HK\$'000	2019 HK\$'000
<b>Revenue from sale of goods within the scope of HKFRS 15</b>		
Disaggregated by major product lines		
– Toys	<b>708,594</b>	548,063
– Computer products	<b>108,772</b>	172,814
– Housewares	<b>65,628</b>	78,852
– Timepieces	<b>128,876</b>	152,736
	<b>1,011,870</b>	952,465

Disaggregation of revenue from contracts with customers by geographic markets is disclosed in note 10(c).

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 3 Revenue (continued)

The group's customer base includes one (2019: 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\$547,900,000 (2019: HK\$383,700,000). 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 29(a).

The group has applied practical expedient in paragraph 121 of HKFRS 15 to exempt the disclosure of revenue expected to be recognised in the future arising from contracts with customers in existence at the reporting date to its revenue from sales of goods as the performance obligation is part of a contract that has an original expected duration of one year or less.

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

## 4 Other revenue and other net income

	2020 HK\$'000	2019 HK\$'000
<b>Other revenue</b>		
Interest income from deposits with banks	1,129	747
Interest income from trading securities	178	178
Interest income from debtors	104	15
Rental income	2,444	981
Dividend income from listed securities	1,955	1,814
Sales of scrap materials	1,054	1,657
Others	790	812
	<u>7,654</u>	<u>6,204</u>
<b>Other net income</b>		
Net gain on disposal of property, plant and equipment	31,034	41,023
Net gain on disposal of intangible asset	–	709
Net foreign exchange loss	(2,231)	(6,303)
Net realised and unrealised losses on trading securities	(10,824)	(3,052)
Net unrealised losses on other financial assets	–	(2,000)
Net loss on deregistration of a subsidiary	(348)	–
Others	(470)	384
	<u>17,161</u>	<u>30,761</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 5 Profit/(loss) before taxation

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

	2020 HK\$'000	2019 (Note) HK\$'000
<b>(a) Finance costs</b>		
Interest on bank loans and other borrowings (note 20(c))	1,673	2,331
Interest on lease liabilities (note 20(c))	443	–
	<u>2,116</u>	<u>2,331</u>
Note: The group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2.		
<b>(b) Staff costs<sup>#</sup> (including directors' emoluments)</b>		
Contributions to defined contribution retirement plans	22,668	25,211
Provision/(write-back) for long service payments	69	(190)
	<u>22,737</u>	<u>25,021</u>
Total retirement costs	22,737	25,021
Salaries, wages and other benefits	340,918	323,370
	<u>363,655</u>	<u>348,391</u>
<b>(c) Other items</b>		
Amortisation of intangible assets (note 12)	34	34
Cost of inventories <sup>#</sup> (note 17(b))	800,071	812,201
Depreciation <sup>#</sup> (note 11)		
– owned property, plant and equipment*	18,924	30,079
– right-of-use assets*	12,596	–
Auditors' remuneration		
– audit services	3,563	3,420
– tax services	596	501
– other services	42	42
Reversal of impairment losses on trade debtors (note 29(a))	(2,764)	(842)
Total minimum lease payments for leases previously classified as operating lease under HKAS 17 <sup>*#</sup>		
– land and buildings	–	9,173
– other assets	–	1,203
Rentals receivable from investment properties less direct outgoings of HK\$51,000 (2019: HK\$78,000)	(2,393)	(903)

\* The group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2.

# Cost of inventories includes HK\$247,489,000 (2019: HK\$234,910,000) relating to staff costs, depreciation and lease expenses, 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.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 6 Income tax in the consolidated statement of profit or loss

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

	2020 HK\$'000	2019 HK\$'000
<b>Current tax – Hong Kong Profits Tax</b>		
Provision for the year	4,542	880
Over-provision in respect of prior years	(747)	(14,581)
	<u>3,795</u>	<u>(13,701)</u>
<b>Current tax – Outside Hong Kong</b>		
Provision for the year	<u>4,187</u>	9,013
<b>Deferred tax</b>		
Origination and reversal of temporary differences	<u>6,405</u>	<u>4,172</u>
	<u><b>14,387</b></u>	<u><b>(516)</b></u>

The provision for Hong Kong Profits Tax for 2020 is calculated at 16.5% (2019: 16.5%) of the estimated assessable profits for the year, except for a subsidiary of the group which is a qualifying corporation under the two-tier profits tax regime.

Current tax in Hong Kong for 2019 included a tax credit of HK\$14,578,000 relating to a subsidiary incorporated in Hong Kong which reported its income as onshore sourced and taxable under Hong Kong Profits Tax and paid Hong Kong Profits Tax in prior years. After reviewing its operations, the subsidiary lodged a claim to the Inland Revenue Department of Hong Kong (“IRD”) that 50% of its profits was not subject to Hong Kong Profits Tax for the years of assessment from 2010/11 to 2016/17. During the year ended 31 March 2019, the claim was reviewed and accepted by the IRD and a tax credit was recognised.

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% (2019: 25%) for the current year. No provision has been made for subsidiaries located in the United Kingdom for the years ended 31 March 2020 and 2019 because either they sustained a loss for taxation purposes or their tax losses brought forward exceeded the estimated assessable profits for both years.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

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

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

	2020 HK\$'000	2019 HK\$'000
Profit/(loss) before taxation	<u>21,763</u>	<u>(28,645)</u>
Notional tax on profit/(loss) before taxation, calculated at the rates applicable to profit/(loss) in the tax jurisdictions concerned	2,375	(5,237)
Tax effect of non-deductible expenses	5,511	7,512
Tax effect of non-taxable income	(6,763)	(11,108)
Tax effect of current year tax losses not recognised	5,382	12,267
Tax effect of other temporary differences not recognised	5,244	5,077
Tax effect of utilisation of prior years' tax losses not previously recognised	(2,876)	(337)
Tax effect of undistributed profits of a subsidiary	(2,700)	(2,500)
Tax effect of reversal of tax losses previously recognised	732	-
Over-provision in respect of prior years	(747)	(14,581)
Others	8,229	8,391
Actual tax expense/(credit)	<u>14,387</u>	<u>(516)</u>

## 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:

	2020				
	Directors' fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Discretionary bonuses HK\$'000	Retirement scheme contributions HK\$'000	Total HK\$'000
<b>Executive directors</b>					
Mr Robert Dorfman	-	4,095	1,103	378	5,576
Mr Shum Kam-Hung	-	2,535	390	234	3,159
Dr Cheung Tsang-Kay, Stan	-	3,900	1,050	360	5,310
<b>Independent non-executive directors</b>					
Mr Lie-A-Cheong Tai-Chong, David	300	-	-	-	300
Mr Yeh Man-Chun, Kent	300	-	-	-	300
Dr Ng Tze-Kin, David	300	-	-	-	300
	<u>900</u>	<u>10,530</u>	<u>2,543</u>	<u>972</u>	<u>14,945</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 7 Directors' emoluments (continued)

	2019				Total HK\$'000
	Directors' fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Discretionary bonuses HK\$'000	Retirement scheme contributions HK\$'000	
<b>Executive directors</b>					
Mr Robert Dorfman	–	4,095	158	378	4,631
Mr Shum Kam-Hung	–	2,535	–	234	2,769
Dr Cheung Tsang-Kay, Stan	–	3,900	150	360	4,410
<b>Independent non-executive directors</b>					
Mr Lie-A-Cheong Tai-Chong, David	300	–	–	–	300
Mr Yeh Man-Chun, Kent	300	–	–	–	300
Dr Ng Tze-Kin, David	300	–	–	–	300
	<u>900</u>	<u>10,530</u>	<u>308</u>	<u>972</u>	<u>12,710</u>

## 8 Individuals with highest emoluments

Of the five individuals with the highest emoluments, two (2019: two) are directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other three (2019: three) individuals are as follows:

	2020 HK\$'000	2019 HK\$'000
Salaries and other emoluments	10,778	10,778
Discretionary bonuses	3,179	–
Retirement scheme contributions	797	797
	<u>14,754</u>	<u>11,575</u>

The emoluments of the other three (2019: three) individuals with the highest emoluments are within the following bands:

	2020	2019
HK\$3,500,001 – HK\$4,000,000	1	2
HK\$4,000,001 – HK\$4,500,000	1	1
HK\$6,500,001 – HK\$7,000,000	1	–
	<u>1</u>	<u>–</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 9 Earnings/(loss) per share

### (a) Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the profit attributable to equity shareholders of the company of HK\$8,798,000 (2019: loss of HK\$26,158,000) and the weighted average number of shares of 604,491,000 (2019: 604,491,000) in issue during the year.

### (b) Diluted earnings/(loss) per share

The calculation of diluted earnings/(loss) per share is based on the profit attributable to equity shareholders of the company of HK\$8,798,000 (2019: loss of HK\$26,158,000) and the weighted average number of shares of 604,491,000 (2019: 604,491,000).

Diluted earnings/(loss) per share for the years ended 31 March 2020 and 2019 are same as the basic earnings/(loss) per share as the share options outstanding during the year had an anti-dilutive effect on the basic earnings/(loss) per share.

## 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 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.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 10 Segment reporting (continued)

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

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".

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 2020 and 2019 is set out below:

	2020						Total HK\$'000
	Toys HK\$'000	Computer products HK\$'000	Housewares HK\$'000	Timepieces HK\$'000	Investments HK\$'000	Others HK\$'000	
Revenue from external customers	708,594	108,772	65,628	128,876	-	-	1,011,870
Inter-segment revenue	683	-	-	-	-	2,540	3,223
Reportable segment revenue	<u>709,277</u>	<u>108,772</u>	<u>65,628</u>	<u>128,876</u>	<u>-</u>	<u>2,540</u>	<u>1,015,093</u>
Reportable segment profit/(loss) (Note)	38,069	(6,572)	(9,457)	3,891	(8,691)	27,813	45,053
Interest income	85	238	8	53	178	3	565
Interest expense	(1,171)	(19)	-	(93)	-	(139)	(1,422)
Depreciation and amortisation for the year (Note)	<u>(18,308)</u>	<u>(4,030)</u>	<u>(859)</u>	<u>(3,207)</u>	<u>-</u>	<u>(5,150)</u>	<u>(31,554)</u>
Reportable segment assets	361,176	125,369	58,591	98,417	78,149	105,239	826,941
Additions to non-current segment assets during the year	3,278	578	161	792	-	4,559	9,368
Reportable segment liabilities	<u>102,185</u>	<u>11,931</u>	<u>26,498</u>	<u>21,955</u>	<u>-</u>	<u>4,102</u>	<u>166,671</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 10 Segment reporting (continued)

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

	2019						Total HK\$'000
	Toys HK\$'000	Computer products HK\$'000	Housewares HK\$'000	Timepieces HK\$'000	Investments HK\$'000	Others HK\$'000	
Revenue from external customers	548,063	172,814	78,852	152,736	-	-	952,465
Inter-segment revenue	611	-	-	-	-	4,246	4,857
<b>Reportable segment revenue</b>	<b>548,674</b>	<b>172,814</b>	<b>78,852</b>	<b>152,736</b>	<b>-</b>	<b>4,246</b>	<b>957,322</b>
<b>Reportable segment (loss)/profit (Note)</b>	<b>(54)</b>	<b>(12,684)</b>	<b>(18,683)</b>	<b>(5,199)</b>	<b>(3,060)</b>	<b>29,623</b>	<b>(10,057)</b>
Interest income	42	10	62	54	178	2	348
Interest expense	(1,487)	-	-	-	-	(189)	(1,676)
Depreciation and amortisation for the year	(20,378)	(4,133)	(934)	(1,399)	-	(3,269)	(30,113)
<b>Reportable segment assets</b>	<b>359,688</b>	<b>143,958</b>	<b>70,914</b>	<b>117,505</b>	<b>87,578</b>	<b>111,797</b>	<b>891,440</b>
Additions to non-current segment assets during the year	391	650	392	373	-	-	1,806
<b>Reportable segment liabilities</b>	<b>99,391</b>	<b>23,439</b>	<b>26,891</b>	<b>23,489</b>	<b>-</b>	<b>6,506</b>	<b>179,716</b>

Note: During the year ended 31 March 2019, a property classified as non-current assets held for sale under toys segment was disposed and a gain on disposal of HK\$21,609,000 was recognised (see note 21) and included in segment result above.

During the year ended 31 March 2020, a property under others segment was disposed and a gain on disposal of HK\$29,442,000 (2019: HK\$30,178,000) was recognised and included in segment result above.

The group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 10 Segment reporting (continued)

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

	2020 HK\$'000	2019 (Note) HK\$'000
<b>Revenue</b>		
Reportable segment revenue	1,015,093	957,322
Elimination of inter-segment revenue	(3,223)	(4,857)
Consolidated revenue	<u>1,011,870</u>	<u>952,465</u>
<b>Profit/(loss)</b>		
Reportable segment profit/(loss)	45,053	(10,057)
Unallocated corporate expenses	(23,290)	(18,588)
Consolidated profit/(loss) before taxation	<u>21,763</u>	<u>(28,645)</u>
<b>Interest income</b>		
Reportable segment interest income	565	348
Unallocated corporate interest income	846	592
Consolidated interest income	<u>1,411</u>	<u>940</u>
<b>Interest expense</b>		
Reportable segment interest expense	1,422	1,676
Unallocated corporate interest expense	694	655
Consolidated interest expense	<u>2,116</u>	<u>2,331</u>
<b>Assets</b>		
Reportable segment assets	826,941	891,440
Elimination of inter-segment receivables	(19,313)	(19,018)
Current tax recoverable	807,628	872,422
Deferred tax assets	185	4,162
Unallocated corporate assets	14,438	24,519
	53,974	53,839
Consolidated total assets	<u>876,225</u>	<u>954,942</u>
<b>Liabilities</b>		
Reportable segment liabilities	166,671	179,716
Elimination of inter-segment payables	(19,313)	(19,018)
Current tax payable	147,358	160,698
Deferred tax liabilities	22,803	16,093
Unallocated corporate liabilities	16,805	20,465
	9,404	39,247
Consolidated total liabilities	<u>196,370</u>	<u>236,503</u>



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 10 Segment reporting (continued)

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

Note: The group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2.

- (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, intangible assets 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 and other property, plant and equipment and based on the location of the operation in the case of intangible assets and interest in a joint venture.

	Revenue from external customers		Specified non-current assets	
	2020 HK\$'000	2019 HK\$'000	2020 HK\$'000	2019 (Note) HK\$'000
Hong Kong (place of domicile)	<b>77,948</b>	98,624	<b>79,458</b>	81,792
North America	<b>495,639</b>	469,059	–	–
United Kingdom	<b>169,007</b>	153,931	<b>22,265</b>	21,721
Europe (excluding United Kingdom)	<b>110,271</b>	90,351	–	–
Asia (excluding Mainland China and Hong Kong)	<b>36,758</b>	29,031	–	–
Mainland China	<b>66,211</b>	65,332	<b>226,781</b>	251,381
Others	<b>56,036</b>	46,137	–	–
	<b>933,922</b>	853,841	<b>249,046</b>	273,102
	<b>1,011,870</b>	952,465	<b>328,504</b>	354,894

Note: The group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 11 Investment properties and other property, plant and equipment

### (a) Reconciliation of carrying amount

	Ownership interest in land and buildings held for own use HK\$'000	Other properties leased for own use carried at cost HK\$'000	Plant, machinery, furniture, fixtures and office equipment HK\$'000	Moulds HK\$'000	Motor vehicles HK\$'000	Sub-total HK\$'000	Investment properties HK\$'000	Total HK\$'000
Cost or valuation:								
At 31 March 2019	320,148	-	420,330	7,549	21,779	769,806	57,769	827,575
Impact on initial application of HKFRS 16 (Note)	-	10,198	611	-	1,249	12,058	-	12,058
At 1 April 2019	320,148	10,198	420,941	7,549	23,028	781,864	57,769	839,633
Exchange adjustments	(7,707)	(470)	(16,731)	-	(560)	(25,468)	(3,015)	(28,483)
Additions	-	5,098	3,843	26	401	9,368	-	9,368
Disposals	(3,344)	-	(9,325)	(5,338)	(873)	(18,880)	-	(18,880)
Fair value adjustment	-	-	-	-	-	-	427	427
At 31 March 2020	<u>309,097</u>	<u>14,826</u>	<u>398,728</u>	<u>2,237</u>	<u>21,996</u>	<u>746,884</u>	<u>55,181</u>	<u>802,065</u>
Representing:								
Cost	297,635	14,826	398,728	2,237	21,996	735,422	-	735,422
Valuation - 1987	11,462	-	-	-	-	11,462	-	11,462
- 2020	-	-	-	-	-	-	55,181	55,181
	<u>309,097</u>	<u>14,826</u>	<u>398,728</u>	<u>2,237</u>	<u>21,996</u>	<u>746,884</u>	<u>55,181</u>	<u>802,065</u>
Accumulated depreciation and impairment losses:								
At 1 April 2019	153,823	-	293,594	7,371	19,017	473,805	-	473,805
Exchange adjustments	(5,091)	(81)	(8,663)	-	(1,257)	(15,092)	-	(15,092)
Depreciation charge for the year	7,236	4,839	17,328	79	2,038	31,520	-	31,520
Written back on disposals	(2,441)	-	(7,472)	(5,213)	(456)	(15,582)	-	(15,582)
At 31 March 2020	<u>153,527</u>	<u>4,758</u>	<u>294,787</u>	<u>2,237</u>	<u>19,342</u>	<u>474,651</u>	<u>-</u>	<u>474,651</u>
Net book value:								
At 31 March 2020	<u>155,570</u>	<u>10,068</u>	<u>103,941</u>	<u>-</u>	<u>2,654</u>	<u>272,233</u>	<u>55,181</u>	<u>327,414</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 11 Investment properties and other property, plant and equipment (continued)

### (a) Reconciliation of carrying amount (continued)

	Ownership interest in land and buildings held for own use HK\$'000	Other properties leased for own used carried at cost HK\$'000	Plant, machinery, furniture, fixtures and office equipment HK\$'000	Moulds HK\$'000	Motor vehicles HK\$'000	Sub-total HK\$'000	Investment properties HK\$'000	Total HK\$'000
<b>Cost or valuation:</b>								
At 1 April 2018	355,731	-	493,825	7,683	26,899	884,138	14,639	898,777
Exchange adjustments	(6,658)	-	(17,996)	-	(706)	(25,360)	(367)	(25,727)
Additions	-	-	1,667	139	-	1,806	-	1,806
Disposals	(8,832)	-	(57,166)	(273)	(4,414)	(70,685)	-	(70,685)
Transfer to investment properties	(62,341)	-	-	-	-	(62,341)	43,584	(18,757)
Fair value adjustment	42,248	-	-	-	-	42,248	(87)	42,161
At 31 March 2019	<u>320,148</u>	<u>-</u>	<u>420,330</u>	<u>7,549</u>	<u>21,779</u>	<u>769,806</u>	<u>57,769</u>	<u>827,575</u>
<b>Representing:</b>								
Cost	308,686	-	420,330	7,549	21,779	758,344	-	758,344
Valuation - 1987	11,462	-	-	-	-	11,462	-	11,462
- 2019	-	-	-	-	-	-	57,769	57,769
	<u>320,148</u>	<u>-</u>	<u>420,330</u>	<u>7,549</u>	<u>21,779</u>	<u>769,806</u>	<u>57,769</u>	<u>827,575</u>
<b>Accumulated depreciation and impairment losses:</b>								
At 1 April 2018	174,312	-	336,031	7,376	21,984	539,703	-	539,703
Exchange adjustments	(3,380)	-	(6,357)	-	(275)	(10,012)	-	(10,012)
Depreciation charge for the year	8,514	-	19,575	268	1,722	30,079	-	30,079
Transfer to investment properties	(18,757)	-	-	-	-	(18,757)	-	(18,757)
Written back on disposals	(6,866)	-	(55,655)	(273)	(4,414)	(67,208)	-	(67,208)
At 31 March 2019	<u>153,823</u>	<u>-</u>	<u>293,594</u>	<u>7,371</u>	<u>19,017</u>	<u>473,805</u>	<u>-</u>	<u>473,805</u>
<b>Net book value:</b>								
At 31 March 2019	<u>166,325</u>	<u>-</u>	<u>126,736</u>	<u>178</u>	<u>2,762</u>	<u>296,001</u>	<u>57,769</u>	<u>353,770</u>

Note: The group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 11 Investment properties and other property, plant and equipment (continued)

### (b) Right-of-use assets

The analysis of the net book value of right-of-use assets by class of underlying asset is as follows:

	Note	31 March 2020 HK\$'000	1 April 2019 HK\$'000
Ownership interests in leasehold land and buildings held for own use, carried at depreciated cost, with remaining lease term between 10 and 50 years	(i)	144,689	154,640
Other properties leased for own use, carried at depreciated cost	(ii)	10,068	10,198
Other plant, machinery and equipment, carried at depreciated cost	(iii)	1,358	1,860
		<b>156,115</b>	166,698
Ownership interests in leasehold investment property, carried at fair value, with remaining lease term between 10 and 50 years		50,708	53,012
		<b>206,823</b>	219,710

The analysis of expense items in relation to leases recognised in profit or loss is as follows:

	2020 HK\$'000	2019 (Note) HK\$'000
Depreciation charge of right-of-use assets by class of underlying asset:		
Ownership interests in leasehold land and buildings	7,095	–
Other properties leased for own use	4,839	–
Plant, machinery and equipment	662	–
	<b>12,596</b>	–
Interest on lease liabilities (note 5(a))	443	–
Expense relating to short-term leases and other leases with remaining lease term ending on or before 31 March 2020	3,111	–
Total minimum lease payments for leases previously classified as operating leases under HKAS 17	–	10,376

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

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

### (b) Right-of-use assets *(continued)*

Note: The group has initially applied HKFRS 16 using the modified retrospective approach at 1 April 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. After initial recognition of right-of-use assets at 1 April 2019, the group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated. See note 2.

During the year, additions to right-of-use assets were HK\$5,490,000. This amount is primarily related to the capitalised lease payments payable under new tenancy agreements.

Details of total cash outflow for leases and the maturity analysis of lease liabilities are set out in notes 20(d) and 24, respectively.

#### (i) *Ownership interests in leasehold land and buildings held for own use*

The group holds several industrial properties for its toys, computer products, housewares, and timepieces business. The group is the registered owner of these property interests, including the whole or part of undivided share in the underlying land. Lump sum payments were made upfront to acquire the right-of-use, and there are no ongoing payments to be made under the terms of the land lease, other than payments based on rateable values set by the relevant government authorities. These payments vary from time to time and are payable to the relevant government authorities.

#### (ii) *Other properties leased for own use*

The group has obtained the right to use other properties as its warehouses and offices through tenancy agreements. The leases typically run for an initial period of 2 to 3 years.

#### (iii) *Other leases*

The group leases motor vehicles and office equipment under leases expiring from 2 to 5 years. Some leases include an option to renew the lease when all terms are renegotiated. None of the leases includes variable lease payments.

- (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 2020, included in land and buildings held for own use were properties carried at valuation less accumulated depreciation and impairment losses amounting to HK\$2,395,000 (2019: HK\$2,507,000). The carrying amount of these properties held for own use would have been HK\$215,000 (2019: HK\$278,000) had they been carried at cost less accumulated depreciation and impairment losses.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

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

### (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

	Fair value at 31 March 2020	Fair value measurements as at 31 March 2020 categorised into		
	HK\$'000	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000
Recurring fair value measurement				
Investment properties:				
– Commercial – Mainland China	5,908	–	–	5,908
– Industrial – Mainland China	39,712	–	–	39,712
– Residential – United Kingdom	4,473	–	–	4,473
– Industrial – Hong Kong	5,088	–	–	5,088

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

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

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

#### (i) Fair value hierarchy *(continued)*

	Fair value at 31 March 2019 HK\$'000	Fair value measurements as at 31 March 2019 categorised into		
		Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000
<b>Recurring fair value measurement</b>				
Investment properties:				
– Commercial – Mainland China	5,840	–	–	5,840
– Industrial – Mainland China	41,790	–	–	41,790
– Residential – United Kingdom	4,757	–	–	4,757
– Industrial – Hong Kong	5,382	–	–	5,382

During the year ended 31 March 2020, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. During the year ended 31 March 2019, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 other than the reclassification of certain properties from land and buildings held for own use to investment properties. 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 2020. The valuations of the investment properties in Mainland China, the United Kingdom and Hong Kong were carried out by independent firms of surveyors, LCH (Asia-Pacific) Surveyors Limited and Prudential Surveyors (Hong Kong) Limited respectively, 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 holds discussions with the surveyors on the valuation assumptions and valuation results when the valuation is performed at each annual reporting date.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 11 Investment properties and other property, plant and equipment *(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	Discount on quality of the buildings (2019: Discount on quality of the buildings)	9.00% to 19.00% (2019: 9.00% to 14.00%)	15.00% (2019: 12.00%)
Industrial – Mainland China	Sales comparison approach	Discount on quality of the buildings (2019: Discount on quality of the buildings)	14.00% to 25.00% (2019: 0.00% to 25.00%)	22.00% (2019: 21.00%)
	Income approach	Yield rate	N/A (2019: N/A*)	N/A (2019: 5.00%)
Residential – United Kingdom	Income approach	Yield rate	N/A* (2019: N/A*)	4.50% (2019: 4.55%)
Industrial – Hong Kong	Income approach	Yield rate	N/A* (2019: N/A*)	3.00% (2019: 2.80%)

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

The fair value of investment properties located in the United Kingdom and Hong Kong and certain investment properties located in Mainland China 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.

The fair value of certain investment properties located in Mainland China as at 31 March 2020 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 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.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 11 Investment properties and other property, plant and equipment *(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:

	Investment properties				Total HK\$'000
	Commercial Mainland China HK\$'000	Industrial Mainland China HK\$'000	Residential United Kingdom HK\$'000	Industrial Hong Kong HK\$'000	
At 1 April 2018	6,115	-	5,124	3,400	14,639
Transfer	-	41,790	-	1,794	43,584
Fair value adjustment	(275)	-	-	188	(87)
Exchange adjustment	-	-	(367)	-	(367)
At 31 March 2019 and 1 April 2019	<b>5,840</b>	<b>41,790</b>	<b>4,757</b>	<b>5,382</b>	<b>57,769</b>
Fair value adjustment	<b>68</b>	<b>653</b>	<b>-</b>	<b>(294)</b>	<b>427</b>
Exchange adjustment	<b>-</b>	<b>(2,731)</b>	<b>(284)</b>	<b>-</b>	<b>(3,015)</b>
At 31 March 2020	<b>5,908</b>	<b>39,712</b>	<b>4,473</b>	<b>5,088</b>	<b>55,181</b>

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

All the gains/(losses) 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 2020, the directors carried out an assessment of the recoverable amounts of certain property, plant and equipment of the group. Based on their review, no impairment loss was recognised during the year (2019: HK\$Nil).
- (f) Term loans and revolving bank loans (note 23(c)) are secured on the group's properties with a carrying amount of HK\$27,469,000 (2019: HK\$29,198,000) at 31 March 2020.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

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

- (g) The group leases out certain properties under operating leases. The leases typically run for an initial period of one to five years, with an option to renew the lease after that date at which time all terms are renegotiated. None of the leases includes variable lease payments.

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

Undiscounted lease payments under non-cancellable operating leases in place at the reporting date will be receivable by the group in future periods as follows:

	2020 HK\$'000	2019 HK\$'000
Within 1 year	944	862
After 1 year but within 2 years	244	–
	<u>1,188</u>	<u>862</u>

- (h) Further particulars of the group's investment properties are included on page 124.

## 12 Intangible assets

	Club memberships	
	2020 HK\$'000	2019 HK\$'000
<b>Cost:</b>		
At the beginning of the year	1,495	2,310
Disposal	–	(815)
	<u>1,495</u>	<u>1,495</u>
At the end of the year	1,495	1,495
<b>Accumulated amortisation and impairment losses:</b>		
At the beginning of the year	371	413
Charge for the year	34	34
Written back on disposal	–	(76)
	<u>405</u>	<u>371</u>
At the end of the year	405	371
<b>Net book value:</b>		
At the end of the year	<u>1,090</u>	<u>1,124</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 12 Intangible assets (continued)

Club memberships represent the rights to use the clubs' facilities, which have finite or 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 2020, 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 (2019: HK\$Nil). The estimates of the recoverable amount were based on recent observable market prices.

## 13 Investments in subsidiaries

(a) 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		Principal activities
				company	subsidiaries	
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 <sup>®</sup>	PRC	PRC	Registered capital of US\$11,500,000	-	100	Investment holding
Herald Metal and Plastic Works Limited	Hong Kong	Hong Kong	100 shares	-	100	Trading of toys
			1,953,000 deferred shares	-	100	
Dongguan Herald Toys Company Limited <sup>®</sup>	PRC	PRC	Registered capital of HK\$55,000,000	-	100	Manufacture of toys
Dongguan Herald Metal and Plastic Company Limited <sup>®</sup>	PRC	PRC	Registered capital of HK\$105,400,000	-	100	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 <sup>®</sup>	PRC	PRC	Registered capital of HK\$38,000,000	-	80	Manufacture of computer products
Herald Technology Inc.	United States of America	United States of America	100 shares of US\$1 each	-	100	Provision of marketing services

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 13 Investments in subsidiaries (continued)

- (a) 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 subsidiaries		Principal activities
Herald Houseware Limited	Hong Kong	Hong Kong	5,000,000 shares	-	100	Trading of housewares
Zhuhai Herald Houseware Limited <sup>#</sup>	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	6,983,750 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 <sup>*</sup>	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	1 share of US\$1 each	-	100	Property investment

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

- Zhuhai Herald Datametals Limited: 2 August 2024
- Zhuhai Herald Houseware Limited: 8 June 2030

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

<sup>\*</sup> Shanghai Herald Electronics Company Limited was deregistered during the year ended 31 March 2020.

- (b) At 31 March 2019 and 2020, the group's subsidiaries do not have material non-controlling interests.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 14 Interest in a joint venture

	2020 HK\$'000	2019 HK\$'000
Loan to a joint venture	10,697	11,376
Less: impairment losses (note 14(c))	(10,697)	(11,376)
	-	-

- (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 2020 was HK\$3,466,000 (2019: HK\$3,466,000).
- (c) At 31 March 2020, a loan to a joint venture of HK\$10,697,000 (2019: HK\$11,376,000) determined to be impaired.

At 31 March 2020, the directors carried out an assessment of the recoverable amounts of the loan to the joint venture. Based on their review, no reversal of impairment losses (2019: HK\$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.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 15 Other financial assets

	2020 HK\$'000	2019 HK\$'000
Financial assets measured at FVPL		
– Unlisted equity securities	<b>2,300</b>	2,300

## 16 Trading securities

	2020 HK\$'000	2019 HK\$'000
Listed equity securities, at market value		
– in Hong Kong	<b>33,091</b>	39,030
– outside Hong Kong	<b>2,354</b>	3,481
	<b>35,445</b>	42,511
Unlisted managed funds, at fair value (note 16(a))	<b>39,384</b>	39,124
Listed debt securities, at market value	–	3,179
	<b>74,829</b>	84,814

### (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 debt and equity securities and commodities around the world.

- (b) At 31 March 2020, trading securities of HK\$70,744,000 (2019: HK\$80,583,000) 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:

	2020 HK\$'000	2019 HK\$'000
Raw materials	<b>32,715</b>	48,390
Work in progress	<b>38,010</b>	43,155
Finished goods	<b>78,109</b>	83,010
	<b>148,834</b>	174,555



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 17 Inventories (continued)

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

	2020 HK\$'000	2019 HK\$'000
Carrying amount of inventories sold	801,753	807,421
(Reversal of write-down)/write-down of inventories	<b>(1,682)</b>	4,780
	<b>800,071</b>	812,201

The reversal of write-down of inventories arose due to increase in the net realisable value of certain goods as a result of a change in consumer preference.

## 18 Trade and other receivables

	31 March 2020 HK\$'000	1 April 2019 HK\$'000	31 March 2019 HK\$'000
Trade debtors and bills receivable, net of loss allowance of HK\$52,943,000 (2019: HK\$55,741,000)	93,927	91,100	91,100
Deposits, prepayments and other receivables (Note)	22,217	28,976	31,528
	<b>116,144</b>	120,076	122,628

Note: On the date of transition to HKFRS 16, prepaid lease payments of HK\$2,552,000 previously included in "Deposits, prepayments and other receivables" were adjusted to right-of-use assets recognised at 1 April 2019. See note 2.

At 31 March 2020, all of the trade and other receivables are expected to be recovered within one year. At 31 March 2019, the amount of deposits, prepayments and other receivables expected to be recovered or recognised as expense after more than one year was HK\$3,297,000. All of the other trade and other receivables were expected to be recovered or recognised as expense within one year.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 18 Trade and other receivables (continued)

### 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 loss allowance, is as follows:

	2020 HK\$'000	2019 HK\$'000
Within 3 months	86,942	83,613
4 to 6 months	6,683	7,226
7 to 12 months	290	110
13 to 24 months	12	151
	<u>93,927</u>	<u>91,100</u>

Trade debtors and bills receivable are normally due within 90 days from the date of billing. Further details on the group's credit policy and credit risk arising from trade debtors and bills receivable are set out in note 29(a).

## 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:

	2020 HK\$'000	2019 HK\$'000
Cash at bank	<u>1,020</u>	<u>464</u>

## 20 Cash and cash equivalents and other cash flow information

(a) Cash and cash equivalents comprise:

	2020 HK\$'000	2019 HK\$'000
Deposits with banks	1,057	1,050
Cash at bank and on hand	<u>188,914</u>	<u>185,556</u>
Cash and cash equivalents	<u>189,971</u>	<u>186,606</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 20 Cash and cash equivalents and other cash flow information (continued)

(b) Reconciliation of profit/(loss) before taxation to cash generated from/(used in) operations:

	Note	2020 HK\$'000	2019 (Note) HK\$'000
Profit/(loss) before taxation		<b>21,763</b>	(28,645)
Adjustments for:			
Interest income	4	<b>(1,411)</b>	(940)
Dividend income from listed securities	4	<b>(1,955)</b>	(1,814)
Depreciation	5(c)	<b>31,520</b>	30,079
Amortisation of intangible assets	5(c)	<b>34</b>	34
Net gain on disposal of property, plant and equipment	4	<b>(31,034)</b>	(41,023)
Gain on disposal of non-current assets classified as held for sale	21	<b>–</b>	(21,609)
Net gain on disposal of intangible asset	4	<b>–</b>	(709)
Valuation (gains)/losses on investment properties	11(a)	<b>(427)</b>	87
Net unrealised losses on other financial assets	4	<b>–</b>	2,000
Net realised and unrealised losses on trading securities	4	<b>10,824</b>	3,052
Finance costs	5(a)	<b>2,116</b>	2,331
Net foreign exchange (gain)/loss		<b>(1,833)</b>	368
Loss on deregistration of a subsidiary		<b>348</b>	–
Changes in working capital:			
Decrease in inventories		<b>25,427</b>	47,693
Decrease in trade and other receivables		<b>2,311</b>	30,361
Decrease in trade and other payables and contract liabilities		<b>(11,653)</b>	(24,556)
Decrease in provision for long service payments		<b>(78)</b>	(1,611)
Cash generated from/(used in) operations		<b>45,952</b>	(4,902)

Note: The group has initially applied HKFRS 16 using the modified retrospective approach at 1 April 2019 to recognise right-of-use assets and lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Previously, cash payments under operating leases made by the group as a lessee of HK\$10,376,000 were classified as operating activities in the consolidated cash flow statement. Under HKFRS 16, except for short-term lease payments, payments for leases of low value assets and variable lease payments not included in the measurement of lease liabilities, all other rentals paid on leases are now split into capital element and interest element (see note 20(c)) and classified as financing cash outflows. Under the modified retrospective approach, the comparative information is not restated. Further details on the impact of the transition to HKFRS 16 are set out in note 2.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 20 Cash and cash equivalents and other cash flow information (continued)

### (c) Reconciliation of liabilities arising from financing activities:

The table below details changes in the group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the cash flow statement as cash flows from financing activities.

	<b>Bank loans</b> HK\$'000 (Note 23)	<b>Lease liabilities</b> HK\$'000 (Note 24)	<b>Total</b> HK\$'000
As at 1 April 2018	107,282	–	107,282
Changes from financing cash flows:			
Proceeds from new bank loans	58,856	–	58,856
Repayment of bank loans	(125,895)	–	(125,895)
Interest paid	(2,331)	–	(2,331)
Total changes from financing cash flow	(69,370)	–	(69,370)
Interest on bank loans and other borrowings (note 5(a))	2,331	–	2,331
As at 31 March 2019	40,243	–	40,243
Impact on initial application of HKFRS 16 (Note)	–	9,506	9,506
As at 1 April 2019	<b>40,243</b>	<b>9,506</b>	<b>49,749</b>
Changes from financing cash flows:			
Proceeds from new bank loans	<b>8,000</b>	–	<b>8,000</b>
Repayment of bank loans	<b>(44,575)</b>	–	<b>(44,575)</b>
Interest paid	<b>(1,673)</b>	–	<b>(1,673)</b>
Capital element of lease rentals paid	–	<b>(4,315)</b>	<b>(4,315)</b>
Interest element of lease rentals paid	–	<b>(443)</b>	<b>(443)</b>
Total changes from financing cash flow	<b>(38,248)</b>	<b>(4,758)</b>	<b>(43,006)</b>
Exchange adjustments	–	<b>(606)</b>	<b>(606)</b>
Other changes:			
Interest expenses (note 5(a))	<b>1,673</b>	<b>443</b>	<b>2,116</b>
Increase in lease liabilities from entering into new leases during the period	–	<b>5,490</b>	<b>5,490</b>
Total other changes	<b>1,673</b>	<b>5,933</b>	<b>7,606</b>
As at 31 March 2020	<b>3,668</b>	<b>10,075</b>	<b>13,743</b>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 20 Cash and cash equivalents and other cash flow information (continued)

### (c) Reconciliation of liabilities arising from financing activities: (continued)

Note: The group has initially applied HKFRS 16 using the modified retrospective method at 1 April 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. See notes 2 and 20(b).

### (d) Total cash outflow for leases

Amounts included in the cash flow statement for leases comprise the following:

	2020 HK\$'000	2019 (Note) HK\$'000
Within operating cash flows	3,111	10,376
Within financing cash flows	4,758	–
	<u>7,869</u>	<u>10,376</u>

Note: As explained in the note to note 20(b), the adoption of HKFRS 16 introduces a change in classification of cash flows of certain rentals paid on leases. The comparative amounts have not been restated.

These amounts relate to the following:

	2020 HK\$'000	2019 HK\$'000
Lease rentals paid	<u>7,869</u>	<u>10,376</u>

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

During the year ended 31 March 2019, the group entered into a sales and purchase agreement with a third party and agreed to dispose of the property at a consideration of HK\$22,980,000. The group received net proceeds of HK\$22,734,000 after deducting transaction costs and recognised a gain on disposal of HK\$21,609,000 during the year ended 31 March 2019.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 22 Trade and other payables and contract liabilities

	Note	2020 HK\$'000	2019 HK\$'000
<b>Trade and other payables</b>	(a)		
Trade creditors and bills payable		<b>22,423</b>	28,197
Accruals and other payables		<b>114,230</b>	111,785
		<b>136,653</b>	139,982
<b>Contract liabilities</b>	(b)		
Forward sales deposits		<b>5,033</b>	18,309
		<b>141,686</b>	158,291

### (a) Trade and other payables

All of the trade and other payables 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:

	2020 HK\$'000	2019 HK\$'000
Within 1 month	<b>14,936</b>	20,047
Over 1 month but within 3 months	<b>5,173</b>	7,709
Over 3 months	<b>2,314</b>	441
	<b>22,423</b>	28,197

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 22 Trade and other payables and contract liabilities (continued)

### (b) Contract liabilities

Typical payment terms which impact on the amount of contract liabilities recognised are as follows:

The group receives advances from certain customers for sale of goods when they place sales orders. This deposit is recognised as a contract liability until the sales transactions are completed. The amount of the deposit is negotiated on a case by case basis with customers.

	2020 HK\$'000	2019 HK\$'000
<b>Movements in contract liabilities</b>		
Balance at the beginning of the year	18,309	21,990
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year	(15,738)	(20,114)
Increase in contract liabilities as a result of receiving forward sales deposits during the year	2,462	16,433
Balance at the end of the year	<u>5,033</u>	<u>18,309</u>

The amount of forward sales deposits received are expected to be recognised as income within one year.

## 23 Bank loans

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

	2020 HK\$'000	2019 HK\$'000
<b>Current liabilities</b>		
Secured:		
– revolving loan	–	33,856
– current portion of term loans from bank	2,576	2,718
– non-current portion of term loans from bank repayable on demand	1,092	3,669
	<u>3,668</u>	<u>40,243</u>

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.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 23 Bank loans (continued)

(b) At 31 March 2020, the bank loans were due for repayment as follows:

	2020 HK\$'000	2019 HK\$'000
Revolving loans and portion of term loans due for repayment within 1 year	<u>2,576</u>	<u>36,574</u>
Non-current portion of term loans due for repayment after one year		
– after 1 year but within 2 years	1,092	2,576
– after 2 years but within 5 years	–	1,093
	<u>1,092</u>	<u>3,669</u>
	<u>3,668</u>	<u>40,243</u>

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 2020, term loans of HK\$3,668,000 (2019: HK\$6,387,000) are secured on the group's properties with a carrying amount of HK\$27,469,000 (2019: HK\$29,198,000).
- (d) At 31 March 2019, revolving bank loans of HK\$33,856,000 are secured by trading securities and pledged bank balances with a carrying amount of HK\$80,583,000 and HK\$464,000 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 29(b). None of the covenants relating to drawn down facilities had been breached.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 24 Lease liabilities

The following table shows the remaining contractual maturities of the group's lease liabilities at the end of the current reporting period and at the date of transition to HKFRS 16:

	At 31 March 2020		At 1 April 2019 (Note)	
	Present value of the minimum lease payments HK\$'000	Total HK\$'000	Present value of the minimum lease payments HK\$'000	Total HK\$'000
Within 1 year	5,303	5,712	3,949	4,046
After 1 year but within 2 years	3,454	3,653	3,680	3,942
After 2 years but within 5 years	1,318	1,343	1,742	2,026
After 5 years	–	–	135	149
	<u>4,772</u>	<u>4,996</u>	<u>5,557</u>	<u>6,117</u>
	<u>10,075</u>	<u>10,708</u>	<u>9,506</u>	<u>10,163</u>
Less: total future interest expenses		(633)		(657)
Present value of lease liabilities		<u>10,075</u>		<u>9,506</u>

Note: The group has initially applied HKFRS 16 using the modified retrospective approach at 1 April 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Comparative information as at 31 March 2019 has not been restated. Further details on the impact of the transition to HKFRS 16 are set out in note 2.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 25 Income tax in the consolidated statement of financial position

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

	2020 HK\$'000	2019 HK\$'000
Provision for Hong Kong Profits Tax for the year	4,542	880
Provisional Profits Tax paid	(426)	(516)
	<u>4,116</u>	364
Balance of Profits Tax provision/(recoverable) relating to prior years	1,602	(2,825)
	<u>5,718</u>	(2,461)
Taxation outside Hong Kong	3,377	7,092
Balance of provision relating to prior years	13,523	7,300
	<u>16,900</u>	14,392
	<u>22,618</u>	11,931
Representing:		
Current tax recoverable	(185)	(4,162)
Current tax payable	22,803	16,093
	<u>22,618</u>	11,931

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 25 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	Total HK\$'000
At 1 April 2018	(3,308)	142	(11,643)	(15,865)	6,200	(24,474)
Charged/(credited) to profit or loss	2,728	(11)	(2,229)	6,184	(2,500)	4,172
Charged to reserves	-	16,260	-	-	-	16,260
Exchange adjustment	-	(12)	-	-	-	(12)
At 31 March 2019	<u>(580)</u>	<u>16,379</u>	<u>(13,872)</u>	<u>(9,681)</u>	<u>3,700</u>	<u>(4,054)</u>
At 1 April 2019	<b>(580)</b>	<b>16,379</b>	<b>(13,872)</b>	<b>(9,681)</b>	<b>3,700</b>	<b>(4,054)</b>
Charged/(credited) to profit or loss	<b>1,225</b>	<b>332</b>	<b>5,097</b>	<b>2,451</b>	<b>(2,700)</b>	<b>6,405</b>
Exchange adjustment	<b>115</b>	<b>(1,071)</b>	<b>446</b>	<b>526</b>	<b>-</b>	<b>16</b>
At 31 March 2020	<u><b>760</b></u>	<u><b>15,640</b></u>	<u><b>(8,329)</b></u>	<u><b>(6,704)</b></u>	<u><b>1,000</b></u>	<u><b>2,367</b></u>
					<b>2020</b> <b>HK\$'000</b>	<b>2019</b> <b>HK\$'000</b>
Net deferred tax assets recognised in the consolidated statement of financial position					<b>(14,438)</b>	(24,519)
Net deferred tax liabilities recognised in the consolidated statement of financial position					<b>16,805</b>	20,465
					<u><b>2,367</b></u>	<u>(4,054)</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 25 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\$78,097,000 (2019: HK\$69,827,000) in respect of cumulative tax losses of HK\$383,863,000 (2019: HK\$366,248,000) and other deductible temporary differences of HK\$45,374,000 (2019: HK\$24,677,000) 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\$35,923,000 (2019: HK\$33,550,000) which can be carried forward for up to five years from the year in which the loss originated. The remaining balance of HK\$347,940,000 (2019: HK\$332,698,000) does not expire under current tax legislation.

### (d) Deferred tax liabilities not recognised

At 31 March 2020, temporary differences relating to undistributed profits of subsidiaries not recognised as deferred tax liabilities amounted to HK\$5,654,000 (2019: HK\$5,822,000). Deferred tax liabilities of HK\$283,000 (2019: HK\$291,000) 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.

## 26 Provision for long service payments

	2020 HK\$'000	2019 HK\$'000
At the beginning of the year	1,411	3,022
Provision made during the year	69	–
Write-back of provision during the year	–	(190)
Provision utilised during the year	(147)	(1,421)
At the end of the year	<u>1,333</u>	<u>1,411</u>

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

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 27 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 2020, there was no forfeited contribution which is available to reduce the contributions payable in future years (2019: 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.

### (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.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 27 Employee benefits (continued)

### (b) Share option scheme (continued)

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:

	2020		2019	
	Weighted average exercise price	Number of share options '000	Weighted average exercise price	Number of share options '000
Outstanding at the beginning and the end of the year	<b>HK\$0.97</b>	<b>4,000</b>	HK\$0.97	4,000
Exercisable at the end of the year	<b>HK\$0.97</b>	<b>4,000</b>	HK\$0.97	4,000

The share options outstanding at 31 March 2020 had an exercise price of HK\$0.97 (2019: HK\$0.97) and a weighted average remaining contractual life of 4.8 years (2019: 5.8 years).

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



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 28 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 2018		47,150	20,928	813	262,962	331,853
Changes in equity for 2019:						
Profit and total comprehensive income for the year		-	-	-	19,462	19,462
Dividend approved in respect of the previous year	28(b)	-	-	-	(18,135)	(18,135)
<b>Balance at 31 March 2019 and 1 April 2019</b>		<b>47,150</b>	<b>20,928</b>	<b>813</b>	<b>264,289</b>	<b>333,180</b>
Changes in equity for 2020:						
Profit and total comprehensive income for the year		-	-	-	29,501	29,501
Dividend approved in respect of the previous year	28(b)	-	-	-	(18,135)	(18,135)
Dividend declared in respect of the current year	28(b)	-	-	-	(12,090)	(12,090)
<b>Balance at 31 March 2020</b>		<b>47,150</b>	<b>20,928</b>	<b>813</b>	<b>263,565</b>	<b>332,456</b>

Note: The group, including the company, has initially applied HKFRS 16 at 1 April 2019 using the modified retrospective approach. Under this approach, comparative information is not restated and there is no net effect on the opening balance of the company's equity as at 1 April 2019. See notes 2 and 33.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 28 Capital, reserves and dividends (continued)

### (b) Dividends

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

	2020 HK\$'000	2019 HK\$'000
Interim dividend declared and paid of HK2 cents (2019: Nil) per share	12,090	–
Final dividend proposed after the end of the reporting period of HK3 cents (2019: HK3 cents) per share	18,135	18,135
	<b>30,225</b>	18,135

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

	2020 HK\$'000	2019 HK\$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK3 cents (2019: HK3 cents) per share	18,135	18,135

### (c) Share capital

#### (i) Authorised and issued share capital

	2020		2019	
	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	604,491	47,150	604,491	47,150

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.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 28 Capital, reserves and dividends (continued)

### (c) Share capital (continued)

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

Exercise period	Exercise price	2020 Number of options	2019 Number of options
23 January 2015 to 22 January 2025	HK\$0.97	<b>4,000,000</b>	4,000,000

Each option entitles the holder to subscribe for one ordinary share in the company. Further details of these options are set out in note 27(b) to the financial statements.

### (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.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 28 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 2020, the group's strategy, which was unchanged from 2019, 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 2020 was 22% (2019: 25%).

The group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the group recognises right-of-use assets and corresponding lease liabilities for almost all leases previously accounted for as operating leases as from 1 April 2019. This caused a slight increase in the group's total debt and hence the group's gearing ratio rose from 25% to 26% on 1 April 2019 when compared to its position as at 31 March 2019.

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).

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 29 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

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the group. 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 group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than 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, 60% (2019: 34%) and 76% (2019: 60%) of the total trade receivables was due from the group's largest customer and the five largest customers respectively.

Individual credit evaluations are performed on all customers requiring credit over a certain amount. 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.

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 sound credit rating. Given their high credit ratings, management does not expect any counterparty failing to meet its obligations.

The group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 29 Financial risk management and fair values (continued)

### (a) Credit risk (continued)

The following table provides information about the group's exposure to credit risk and ECLs for trade receivables:

	2020		
	Expected loss rate %	Gross carrying amount HK\$'000	Loss allowance HK\$'000
Current	0.5%	72,483	374
Less than 1 month past due	0%	14,236	–
1 to 3 months past due	2.6%	3,670	96
4 to 12 months past due	6.8%	4,300	292
More than 12 months past due	100.0%	52,181	52,181
		<b>146,870</b>	<b>52,943</b>
	2019		
	Expected loss rate %	Gross carrying amount HK\$'000	Loss allowance HK\$'000
Current	0%	75,014	–
Less than 1 month past due	0%	5,410	–
1 to 3 months past due	0%	5,427	–
4 to 12 months past due	1.0%	5,299	50
More than 12 months past due	100.0%	55,691	55,691
		<b>146,841</b>	<b>55,741</b>

Expected loss rates are based on the estimated loss rate for each category of receivables. The estimated loss rates take into account the ageing of the trade receivable balances, the repayment history, current market conditions, customer-specific conditions and forward looking information.

Movement in the loss allowance account in respect of trade receivables during the year is as follows:

	2020 HK\$'000	2019 HK\$'000
At the beginning of the year	55,741	57,304
Reversal of impairment loss	(2,764)	(842)
Uncollectible amounts written off	(34)	(721)
At the end of the year	<b>52,943</b>	55,741

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 29 Financial risk management and fair values (continued)

### (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.

	2020					Carrying amount HK\$'000
	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	
Trade and other payables	-	136,653	-	-	136,653	136,653
Bank loans	-	2,636	1,098	-	3,734	3,668
Lease liabilities	-	5,712	3,653	1,343	10,708	10,075
	-	145,001	4,751	1,343	151,095	150,396
Adjustments to present cash flows on term loans based on lender's right to demand repayment	3,668	(2,636)	(1,098)	-	(66)	
	3,668	142,365	3,653	1,343	151,029	



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 29 Financial risk management and fair values (continued)

### (b) Liquidity risk (continued)

	2019					Carrying amount HK\$'000
	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	
Trade and other payables	–	139,982	–	–	139,982	139,982
Bank loans	–	36,735	2,639	1,100	40,474	40,243
	–	176,717	2,639	1,100	180,456	<u>180,225</u>
Adjustments to present cash flows on term loans based on lender's right to demand repayment	<u>40,243</u>	<u>(36,735)</u>	<u>(2,639)</u>	<u>(1,100)</u>	<u>(231)</u>	
	<u>40,243</u>	<u>139,982</u>	<u>–</u>	<u>–</u>	<u>180,225</u>	

Note: The group has initially applied HKFRS 16 using the modified retrospective approach at 1 April 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Lease liabilities include amounts recognised at the date of transition to HKFRS 16 in respect of leases previously classified as operating leases under HKAS 17 and amounts relating to new leases entered into during the year. Under this approach, the comparative information is not restated. See note 2.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 29 Financial risk management and fair values (continued)

### (c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the financial instrument will fluctuate because of changes in market interest rates. 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.

	2020		2019	
	Effective interest rate	Amount HK\$'000	Effective interest rate	Amount HK\$'000
Fixed rate borrowings:				
Lease liabilities (Note)	4.49%	10,075	–	–
Variable rate borrowings:				
Bank loans	2.40%	3,668	2.63%	40,243

Note: The group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 April 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Under this approach, the comparative information is not restated. See note 2.

#### (ii) Sensitivity analysis

At 31 March 2020, 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 (2019: increased/decreased the group's loss after tax) and decreased/increased retained profits by approximately HK\$31,000 (2019: HK\$392,000). 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 or loss after tax and retained profits is estimated as an annualised impact on interest expense of such a change in interest rates. The analysis does not take into account exposure to fair value interest rate risk arising from fixed rate instruments as the group does not hold any fixed rate instruments which are measured at fair value in the financial statements. The analysis is performed on the same basis for 2019.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 29 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					
	2020			2019		
	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	37,046	2,354	–	40,040	3,479	–
Trade and other receivables	29,853	63,520	108	48,331	94,873	547
Pledged bank balances	139	30	–	432	32	–
Cash and cash equivalents	67,887	10,243	186	49,380	7,526	192
Trade and other payables	(17,480)	–	(14,189)	(29,457)	–	(34,324)
Net exposure arising from recognised assets and liabilities	<u>117,445</u>	<u>76,147</u>	<u>(13,895)</u>	<u>108,726</u>	<u>105,910</u>	<u>(33,585)</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 29 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 or loss 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.

	2020		2019	
	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 loss after tax and (decrease)/ increase in retained profits HK\$'000
United States Dollars	10% (10)%	(2,986) 2,986	10% (10)%	(3,548) 3,548
Pound Sterling	10% (10)%	7,372 (7,372)	10% (10)%	10,243 (10,243)
Renminbi	10% (10)%	(1,257) 1,257	10% (10)%	(3,367) 3,367

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the group entities' profit or loss 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 2019.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 29 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 2020, it is estimated that an increase/decrease of 10% (2019: 10%) in the relevant stock market index, with all other variables held constant, would have increased/decreased (2019: decreased/increased) the group's profit or loss after tax and increased/decreased retained profits as follows. Other components of consolidated equity would not be affected by changes in the stock market indexes.

	2020		2019	
	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 loss after tax and (decrease)/ increase in retained profits HK\$'000
Stock market indexes in relation to listed investments				
– Hang Seng Index	10% (10)%	3,474 (3,474)	10% (10)%	4,631 (4,631)
– FTSE 100 Index	10% (10)%	265 (265)	10% (10)%	339 (339)

The sensitivity analysis indicates the instantaneous change in the group's profit or loss 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 2019.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 29 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	Fair value measurements as			Fair value at	Fair value measurements as		
	31 March	at 31 March 2020 categorised into			31 March	at 31 March 2019 categorised into		
	2020	Level 1	Level 2	Level 3	2019	Level 1	Level 2	Level 3
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Recurring fair value measurements								
Assets:								
Trading securities								
– listed debt and equity securities	35,445	35,445	-	-	45,690	45,690	-	-
– unlisted managed funds	39,384	-	39,384	-	39,124	-	39,124	-
Unlisted equity securities	2,300	-	-	2,300	2,300	-	-	2,300
	<b>77,129</b>	<b>35,445</b>	<b>39,384</b>	<b>2,300</b>	<b>87,114</b>	<b>45,690</b>	<b>39,124</b>	<b>2,300</b>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 29 Financial risk management and fair values (continued)

### (f) Fair values (continued)

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

During the years ended 31 March 2020 and 2019, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. 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.

#### 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 are based on prices quoted by financial institutions.

#### Information about Level 3 fair value measurements

	Valuation techniques	Significant unobservable inputs	Percentage
Unlisted equity securities	Adjusted net assets value	Minority discount	23% (2019: 21%)

The fair value of unlisted equity instruments is determined using the adjusted net assets value of the unlisted company adjusted for minority discount. The fair value measurement is negatively correlated to the minority discount. As at 31 March 2020, it is estimated that with all other variables held constant, an increase/decrease in minority discount by 5% (2019: 5%) would have increased/decreased the group's profit or loss before/after tax by HK\$147,000 (2019: HK\$154,000).



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 29 Financial risk management and fair values (continued)

### (f) Fair values (continued)

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

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

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

	2020 HK\$'000	2019 HK\$'000
Unlisted equity securities:		
At the beginning of the year	2,300	–
Reclassified from available-for-sale at cost less impairment losses	–	10,232
Initial adjustment on adoption of HKFRS 9	–	(5,932)
Net unrealised losses recognised in profit or loss during the year	–	(2,000)
At the end of the year	<u>2,300</u>	<u>2,300</u>

The gain or loss arising from the remeasurement of the group's unlisted equity securities are recognised in profit or loss. Upon disposal of the equity securities, any gains or losses arising from the disposal of the unlisted equity securities are presented in the "Other net income" line item in the consolidated statement of profit or loss.

#### (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 2020.

## 30 Commitments

### (a) At 31 March 2019, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

	2019	
	Land and buildings HK\$'000	Others HK\$'000
Within 1 year	6,313	1,123
After 1 year but within 5 years	5,784	1,328
	<u>12,097</u>	<u>2,451</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 30 Commitments (continued)

- (a) At 31 March 2019, the total future minimum lease payments under non-cancellable operating leases were payable as follows: (continued)

The group is the lessee in respect of a number of properties and items of office equipment held under leases which were previously classified as operating leases under HKAS 17. The group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the group adjusted the opening balances at 1 April 2019 to recognise lease liabilities relating to these leases (see note 2). From 1 April 2019 onwards, future lease payments are recognised as lease liabilities in the statement of financial position in accordance with the policies set out in note 1(j), and the details regarding the group's future lease payments are disclosed in note 24.

- (b) Capital commitments outstanding at 31 March 2020 not provided for in the financial statements were as follows:

	2020 HK\$'000	2019 HK\$'000
Contracted for the purchase of property, plant and equipment	<u>539</u>	<u>664</u>

- (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 2020, the future minimum guaranteed royalties for licences are payable as follows:

	2020 HK\$'000	2019 HK\$'000
Within 1 year	3,737	4,181
After 1 year but within 5 years	<u>-</u>	<u>3,286</u>
	<u>3,737</u>	<u>7,467</u>

## 31 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:

	2020 HK\$'000	2019 HK\$'000
Short-term employee benefits	24,135	19,227
Post-employment benefits	<u>1,466</u>	<u>1,466</u>
	<u>25,601</u>	<u>20,693</u>

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

## 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 28(b).

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 33 Company-level statement of financial position at 31 March 2020

	Note	2020 HK\$'000	2019 (Note) HK\$'000
<b>Non-current asset</b>			
Investments in subsidiaries		<u>328,178</u>	<u>328,178</u>
<b>Current assets</b>			
Other receivables		274	186
Amounts due from subsidiaries		5,067	5,866
Cash and cash equivalents		<u>2,075</u>	<u>1,912</u>
		<u>7,416</u>	<u>7,964</u>
<b>Current liability</b>			
Other payables		<u>3,138</u>	<u>2,962</u>
Net current assets		<u>4,278</u>	<u>5,002</u>
<b>NET ASSETS</b>		<u><b>332,456</b></u>	<u>333,180</u>
<b>CAPITAL AND RESERVES</b>			
	28(a)		
Share capital		47,150	47,150
Reserves		<u>285,306</u>	<u>286,030</u>
<b>TOTAL EQUITY</b>		<u><b>332,456</b></u>	<u>333,180</u>

Approved and authorised for issue by the board of directors on 29 June 2020.

Robert Dorfman  
*Director*

Shum Kam-Hung  
*Director*

Note: The company has initially applied HKFRS 16 at 1 April 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 34 Accounting judgements and estimates

Note 29 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

If circumstances indicate that the carrying amounts of property, plant and equipment 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) Credit losses of trade receivables

The group maintains a loss allowance account measured at an amount equal to lifetime ECL of receivables stated at amortised cost. The loss allowance is estimated using a provision matrix based on the group’s historical credit loss experience, adjusted for factor that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date. If there is a change in the financial condition of the debtors, actual write-offs would be higher or lower than estimated.

### (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.

### (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.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 34 Accounting judgements and estimates (*continued*)

### (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 requires 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.

## 35 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 March 2020

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and a new standard which are not yet effective for the year ended 31 March 2020 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 HKFRS 3, <i>Definition of a business</i>	1 January 2020
Amendments to HKAS 1 and HKAS 8, <i>Definition of material</i>	1 January 2020

The group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

## FIVE YEAR SUMMARY

	2020 HK\$'000	2019 HK\$'000	2018 HK\$'000	2017 HK\$'000	2016 HK\$'000
<b>Results</b>					
Revenue	<b>1,011,870</b>	952,465	1,271,606	1,095,026	1,528,985
Profit/(loss) before taxation	<b>21,763</b>	(28,645)	(28,552)	201,574	47,838
Income tax	<b>(14,387)</b>	516	(1,340)	(81,668)	(9,590)
Profit/(loss) for the year	<b>7,376</b>	(28,129)	(29,892)	119,906	38,248
Attributable to:					
– Equity shareholders of the company	<b>8,798</b>	(26,158)	(26,754)	50,115	39,024
– Non-controlling interests	<b>(1,422)</b>	(1,971)	(3,138)	69,791	(776)
Profit/(loss) for the year	<b>7,376</b>	(28,129)	(29,892)	119,906	38,248
<b>Assets and liabilities</b>					
Investment properties and other property, plant and equipment	<b>327,414</b>	353,770	359,074	337,411	285,425
Intangible assets	<b>1,090</b>	1,124	1,897	1,965	2,033
Interests in joint ventures	–	–	–	–	–
Other financial assets	<b>2,300</b>	2,300	10,232	12,734	11,340
Deposits for purchase of property, plant and equipment	–	–	–	7,007	–
Deferred tax assets	<b>14,438</b>	24,519	31,115	25,276	21,402
Current assets	<b>530,983</b>	573,229	676,425	691,187	744,901
Current liabilities	<b>(173,460)</b>	(214,627)	(302,228)	(264,131)	(237,233)
Total assets less current liabilities	<b>702,765</b>	740,315	776,515	811,449	827,868
Non-current liabilities	<b>(22,910)</b>	(21,876)	(9,663)	(10,073)	(3,517)
Net assets	<b>679,855</b>	718,439	766,852	801,376	824,351
<b>Capital and reserves</b>					
Share capital	<b>47,150</b>	47,150	47,150	46,994	46,994
Reserves	<b>625,286</b>	661,601	707,650	739,798	759,811
Total equity attributable to equity shareholders of the company	<b>672,436</b>	708,751	754,800	786,792	806,805
Non-controlling interests	<b>7,419</b>	9,688	12,052	14,584	17,546
Total equity	<b>679,855</b>	718,439	766,852	801,376	824,351

## Notes to the five year summary

As a result of the adoption of HKFRS 16, *Leases*, with effect from 1 April 2019, the group has changed its accounting policies in respect of the lessee accounting model. In accordance with the transitional provisions of the standard, the changes in accounting policies were adopted by way of opening balance adjustments to recognise right-of-use assets and lease liabilities as at 1 April 2019. After initial recognition of these assets and liabilities, the group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Figures in years earlier than 2020 are stated in accordance with the policies applicable in those years.

The group has initially adopted HKFRS 9 and HKFRS 15 at 1 April 2018. Under the transition methods chosen, figures in years earlier than 2019 are stated in accordance with the policies applicable in those years.



## PARTICULARS OF INVESTMENT PROPERTIES

Details of the major investment property of the group are as follows:

Location	Existing use	Term of lease
Major property held for investment		
Portion of an Industrial Building No. 2 Cuizhu Third Street Qianshan District Zhuhai Guangdong Province The People's Republic of China	Industrial	Medium-term

## 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.

# SHAREHOLDERS' RIGHTS

## 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](mailto: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.