1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The company was incorporated in Bermuda on 17 August 1992 as an exempt company under the Companies Act, 1981 of Bermuda (as amended).

Although not required to do so under the bye-laws of the company, these accounts are prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These accounts also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the group is set out below.

(b) Basis of preparation of the accounts

The measurement basis used in the preparation of the accounts is historical cost modified by the revaluation of investment properties, and the marking to market of certain investments in securities as explained in the accounting policies set out below.

(c) Subsidiaries

A subsidiary is a company in which the group, directly or indirectly, holds more than half of the issued share capital, or controls more than half the voting power, or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

An investment in a controlled subsidiary is consolidated into the consolidated accounts, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the group, in which case, it is stated in the consolidated balance sheet at fair value with changes in fair value recognised in the consolidated profit and loss account as they arise.

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated accounts. 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.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Subsidiaries (Continued)

In the company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 1(j)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the company, in which case, it is stated at fair value with changes in fair value recognised in the profit and loss account as they arise.

(d) Jointly controlled entities

A jointly controlled entity is an entity which operates under a contractual arrangement between the group or company and other parties, where the contractual arrangement establishes that the group or company and one or more of the other parties share joint control over the economic activity of the entity.

An investment in a jointly controlled entity is accounted for in the consolidated accounts under the equity method and is initially recorded at cost and adjusted thereafter for the post-acquisition change in the group's share of the jointly controlled entity's net assets, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investor or venturer, in which case it is stated at fair value with changes in fair value recognised in the consolidated profit and loss account as they arise. The consolidated accounts reflects the group's share of the post-acquisition results of the jointly controlled entities for the year, including any amortisation of positive or negative goodwill charged or credited during the year in accordance with note 1(e).

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

In the company's balance sheet, its investments in jointly controlled entities are stated at cost less impairment losses (see note 1(j)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investor or venturer, in which case, it is stated at fair value with changes in fair value recognised in the profit and loss account as they arise.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Goodwill

Positive goodwill arising on consolidation represents the excess of the cost of the acquisition over the group's share of the fair value of the identifiable assets and liabilities acquired. Positive goodwill is amortised to the consolidated profit and loss account on a straight-line basis over its estimated useful life. Positive goodwill is stated in the consolidated balance sheet at cost less any accumulated amortisation and any impairment losses (see note 1(j)).

Negative goodwill arising on acquisitions of controlled subsidiaries and jointly controlled entities represents the excess of the group's share of the fair value of the identifiable assets and liabilities acquired over the cost of the acquisition. To the extent that negative goodwill relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which have not yet been recognised, it is recognised in the consolidated profit and loss account when the future losses and expenses are recognised. Any remaining negative goodwill, but not exceeding the fair values of the non-monetary assets acquired, is recognised in the consolidated profit and loss account over the weighted average useful life of those non-monetary assets that are depreciable/amortisable. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the consolidated profit and loss account.

In respect of any negative goodwill not yet recognised in the consolidated profit and loss account:

– for controlled subsidiaries, such negative goodwill is shown in the consolidated balance sheet as a deduction from assets in the same balance sheet classification as positive goodwill; and

– for jointly controlled entities, such negative goodwill is included in the carrying amount of the interests in jointly controlled entities.

On disposal of a controlled subsidiary or a jointly controlled entity during the year, any attributable amount of purchased goodwill not previously amortised through the consolidated profit and loss account or which has previously been dealt with as a movement on group reserves is included in the calculation of the profit or loss on disposal.

1 **SIGNIFICANT ACCOUNTING POLICIES** (Continued)

(f) Investments in securities

The group's policies for investments in securities other than investments in subsidiaries and jointly controlled entities are as follows:

(i) Investment securities are stated in the balance sheet at cost less any provisions for diminution in value.

(ii) Other investments are stated in the balance sheet at fair value. Changes in fair values are recognised in the profit and loss account as they arise.

(iii) Profits or losses on disposal of investments in securities are determined as the difference between the estimated net disposal proceeds and the carrying amount of the investments and are accounted for in the profit and loss account as they arise.

(g) Fixed assets

(i) Fixed assets are carried in the balance sheets on the following bases:

– investment properties with an unexpired lease term of more than 20 years are stated in the balance sheet at their open market value which is assessed annually by external qualified valuers; and

– land and buildings held for own use, plant, machinery and other fixed assets are stated in the balance sheet at cost less accumulated depreciation (see note 1(i)) and impairment losses (see note 1(j)).

(ii) Changes arising on the revaluation of investment properties are generally dealt with in reserves. The only exceptions are as follows:

– when a deficit arises on revaluation, it will be charged to the profit and loss account, if and to the extent that it exceeds the amount held in the reserve in respect of the portfolio of investment properties, immediately prior to the revaluation; and

– when a surplus arises on revaluation, it will be credited to the profit and loss account, if and to the extent that a deficit on revaluation in respect of the portfolio of investment properties, had previously been charged to the profit and loss account.

(iii) Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the enterprise. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

1 **SIGNIFICANT ACCOUNTING POLICIES** (Continued)

(g) **Fixed assets** (Continued)

(iv) Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the profit and loss account on the date of retirement or disposal. On disposal of an investment property, the related portion of surpluses or deficits previously taken to the investment properties revaluation reserve is also transferred to the profit and loss account for the year.

(h) **Leased assets**

Leases of assets under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases.

(i) Assets held for use in operating leases

Where the group leases out assets under operating leases, the assets are included in the balance sheet according to their nature and, where applicable, are depreciated in accordance with the group's depreciation policies, as set out in note 1(i). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(j). Revenue arising from operating leases is recognised in accordance with the group's revenue recognition policies, as set out in note 1(o)(iv).

(ii) Operating lease charges

Where the group has the use of assets under operating leases, payments made under the leases are charged to the profit and loss account in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the profit and loss account as an integral part of the aggregate net lease payments made.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Depreciation

(i) No depreciation is provided on investment properties with an unexpired lease term of over 20 years or on freehold land.

(ii) Depreciation is calculated to write off the cost of fixed assets over their estimated useful lives on a straight-line basis at the following annual rates:

Leasehold land	Over the remaining terms of the leases
Buildings	4 – 5%
Plant, machinery, furniture, fixtures and office equipment	9 – 20%
Moulds	20 – 50%
Motor vehicles	10 – 25%

(j) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

– fixed assets (other than investment properties carried at revalued amounts);

– investments in subsidiaries and jointly controlled entity; and

– positive goodwill (whether taken initially to reserves or recognised as an asset).

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Impairment of assets (Continued)

(ii) 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 reversed only if the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

A reversal of impairment losses 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 the profit and loss account in the year in which the reversals are recognised.

(k) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period in which the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(l) Cash equivalents

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired. For the purposes of the cash flow statement, cash equivalents would also include bank overdrafts and advances from banks repayable within three months from the date of the advance.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Deferred taxation

Deferred taxation is provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which are expected with reasonable probability to crystallise in the foreseeable future.

Future deferred tax benefits are not recognised unless their realisation is assured beyond reasonable doubt.

(n) Provisions and contingent liabilities

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

(o) Revenue recognition

Provided it is probable that the economic benefits will flow to the group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the profit and loss account as follows:

(i) Sale of goods

Revenue is recognised when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added or other sales taxes and is after deduction of any trade discounts.

(ii) Interest income

Interest income from bank deposits is accrued on a time-apportioned basis by reference to the principal outstanding and the rate applicable.

1 **SIGNIFICANT ACCOUNTING POLICIES** (Continued)

(o) **Revenue recognition** (Continued)

(iii) Dividends

– Dividend income from unlisted investments other than jointly controlled entities 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 the profit and loss account in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives granted are recognised in the profit and loss account as an integral part of the aggregate net lease payments receivable.

(p) **Translation of foreign currencies**

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the profit and loss account.

The results and balance sheet items of foreign enterprises are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with as a movement in reserves.

On disposal of a foreign enterprise, the cumulative amount of the exchange differences which relate to that foreign enterprise is included in the calculation of the profit and loss on disposal.

(q) **Retirement costs**

The regular cost of providing benefits in respect of the group's defined contribution retirement schemes is charged to the profit and loss account at the rates as specified in the scheme when incurred.

Contributions to the Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance are charged to the profit and loss account when incurred.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Related parties

For the purposes of these accounts, parties are considered to be related to the group if the group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

(s) Segment reporting

A segment is a distinguishable component of the group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the group's internal financial reporting, the group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format.

Segment revenue, expenses, result, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and fixed assets. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

2 TURNOVER

The principal activity of the company is investment holding. The principal activities of the group are the manufacture, sale and distribution of toy and gift products, computer heads, housewares, clocks, watches and electronic products. The activities of the principal subsidiaries are set out on pages 58 to 60.

Turnover represents the net invoiced sales to customers less returns. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2002	2001
	HK$'000	HK$'000
Toy and gift products	**424,084**	402,518
Computer heads	**183,806**	207,988
Housewares	**121,921**	137,379
Timepieces	**134,169**	195,675
Others	**3,082**	10,324
	867,062	953,884

3 OTHER REVENUE AND OTHER NET INCOME/(LOSS)

	2002	2001
	HK$'000	HK$'000
Other revenue		
Interest income	**1,341**	3,945
Rental income	**2,216**	2,329
Dividend income from listed investments	**23**	56
Others	**1,708**	2,555
	5,288	8,885
Other net income/(loss)		
Loss on disposal of fixed assets	**(97)**	(141)
Net exchange gain/(loss)	**587**	(3,595)
Provision for diminution in value of investments	**–**	(7,800)
Write back on provision for diminution in value of investments	**687**	–
Write back on provision for bad debts	**1,464**	–
Cash distribution from investment previously written off	**296**	2,236
Others	**2,039**	3,748
	4,976	(5,552)

4 (LOSS)/PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

(Loss)/profit from ordinary activities before taxation is arrived at after charging/(crediting):

	2002 HK$'000	2001 HK$'000
(a) Finance cost:		
Interest on bank advances and other borrowings repayable within five years	**660**	1,315
(b) Other items:		
Cost of inventories	**688,259**	738,815
Staff costs (including retirement cost of HK$5,940,000 (2001: HK$6,231,000))	**160,955**	169,154
Depreciation		
– assets held for use under operating leases	**1,474**	1,984
– other assets	**26,282**	25,314
Auditors' remuneration		
– current year	**2,777**	2,251
– underprovision in previous year	**11**	10
Operating lease charges		
– land and buildings	**5,218**	6,645
– other assets	**1,828**	969
Net unrealised and realised (gains)/losses on other securities	**(688)**	886

5 DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' remuneration

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

	2002 HK$'000	2001 HK$'000
Executive directors		
Salaries and allowances	**16,700**	17,225
Pension scheme contributions	**1,411**	1,323
	18,111	18,548
Non-executive directors		
Fees	**465**	540
	18,576	19,088

The remuneration of the directors is within the following bands:

			Number of directors 2002	2001
HK$Nil	to	HK$1,000,000	**3**	3
HK$2,500,001	to	HK$3,000,000	**1**	1
HK$3,500,001	to	HK$4,000,000	**4**	2
HK$4,000,001	to	HK$4,500,000	**–**	2

5 DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

(b) Employees' emoluments

During the year ended 31 March 2002, the five highest paid individuals comprised four directors (2001: four directors), details of whose emoluments are set out in note 5(a). The aggregate of the emoluments in respect of the remaining individual in 2002 (2001: one) is as follows:

	2002	2001
	HK$'000	HK$'000
Salaries and allowances	**3,276**	3,385
Pension scheme contributions	**302**	302
	3,578	3,687

6 TAXATION

(a) Taxation in the consolidated profit and loss account represents:

	2002	2001
	HK$'000	HK$'000
Provision for Hong Kong Profits Tax for the year	**3,303**	2,171
Overprovision in respect of prior year	**(489)**	(1,556)
Overseas taxation at applicable rates	**(36)**	1,072
Deferred taxation *(note 20)*	**(229)**	430
	2,549	2,117
Share of a jointly controlled entity's taxation	**86**	140
Taxation charge	**2,635**	2,257

The provision for Hong Kong Profits Tax is calculated at 16% (2001: 16%) of the estimated assessable profits for the year ended 31 March 2002. Taxation for overseas subsidiaries is similarly charged at the appropriate current rates of taxation ruling in the relevant countries.

6 TAXATION (Continued)

(b) Taxation in the consolidated balance sheet represents:

	2002 HK$'000	2001 HK$'000
Provision for Hong Kong Profits Tax for the year	**3,303**	2,171
Provisional profits tax paid	**(1,831)**	(4,031)
Tax recoverable in respect of prior year	**–**	(1)
Overseas taxation	**777**	777
Taxation payable/(recoverable)	**2,249**	(1,084)

(c) Taxation in the company's balance sheet represents:

	2002 HK$'000	2001 HK$'000
Provision for Hong Kong Profits Tax at 16% (2001: 16%) on the estimated assessable profits for the year	**19**	50
Provisional profits tax paid	**(89)**	(47)
Tax (recoverable)/payable	**(70)**	3

7 (LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The (loss)/profit attributable to shareholders includes a profit of HK$96,000 (2001: HK$494,000) which has been dealt with in the accounts of the company.

8 DIVIDENDS

(a) Dividends attributable to the year

	2002 HK$'000	2001 HK$'000
Interim dividend declared and paid of Nil cent per share (2001: HK1 cent per share)	**–**	6,252
Final dividend proposed after the balance sheet date of HK1 cent per share (2001: Nil)	**6,226**	–
	6,226	6,252

The interim dividend has been charged to the contributed surplus *(note 23)*.

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

8 DIVIDENDS (Continued)

(b) Dividends attributable to the previous financial year, approved and paid during the year

	2002 **HK$'000**	2001 HK$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of Nil per share (2001: HK3 cents per share)	–	18,756

9 (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share is based on the net loss for the year attributable to ordinary shareholders of HK$32,416,000 (2001: net profit of HK$8,673,000), and on 624,934,000 (2001: 625,826,000) ordinary shares, being the weighted average number of ordinary shares outstanding during the year.

There were no dilutive potential ordinary shares in existence during the years ended 31 March 2002 and 2001.

10 CHANGES IN ACCOUNTING POLICIES

(i) Dividends

In prior years, dividends proposed or declared were recognised as a liability in the accounting period to which they related. With effect from 1 April 2001, in order to comply with Statement of Standard Accounting Practice 9 (revised) issued by the Hong Kong Society of Accountants ("HKSA"), the group recognises dividends proposed or declared as a liability in the accounting period in which they are declared by the directors (in the case of interim dividends) or approved by the shareholders (in the case of final dividends). Consequently, dividend income from subsidiaries and jointly controlled entities is recognised as income in the company's profit and loss account in the accounting period in which they are declared.

There is no impact on the group's (loss)/profit attributable to shareholders for the periods presented as a result of the new accounting policy. The new accounting policy has been adopted retrospectively, with the opening balance of contributed surplus and the comparative information adjusted for the amounts relating to prior periods.

10 CHANGES IN ACCOUNTING POLICIES (Continued)

(ii) Goodwill

With effect from 1 April 2001, the group changed the accounting policy on goodwill arising from the acquisition of subsidiaries or jointly controlled entities. In prior years, positive or negative goodwill arising on acquisition of subsidiaries was eliminated against reserves or was credited to a capital reserve respectively. In order to comply with Statement of Standard Accounting Practice 30 issued by the HKSA, the group adopted a new accounting policy for goodwill as set out in note 1(e).

There is no impact from the new accounting policy on the group's (loss)/profit attributable to shareholders for the year and the net assets as at year end for the periods presented. The new accounting policy has been adopted retrospectively, with the opening balances of contributed surplus, retained profits and capital reserve and the comparative information adjusted for the amounts relating to prior periods.

(iii) Provision for long service payments

Prior to 1 April 2001, a general provision for long service payments for employees had been made based on directors' assessments. With effect from 1 April 2001, the group has adopted the accounting policy as set out in note 1(n) in order to comply with Statement of Standard Accounting Practice 28 ("SSAP 28") issued by the HKSA. Provision for long service payments at 1 April 2001 is estimated at HK$5,838,000 based on the best estimate of the long service payments that are required to be made to employees in respect of their service to date, less any amounts that would be expected to be met out of the group's defined contribution retirement schemes and mandatory provident fund contributions. The effect of adopting SSAP 28 has been adjusted to the opening balance of retained earnings for the year. No restatement of other comparative information has been made.

11 SEGMENT REPORTING

Segment information is presented in respect of the group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the group's internal financial reporting.

Business segments

The group comprises the following main business segments:

Toy and gift products: The manufacture, sale and distribution of toy and gift products.
Computer heads : The manufacture and sale of computer heads, as well as research and development activities in this area.
Housewares : The manufacture, sale and distribution of housewares.
Timepieces : The manufacture, sale and distribution of clocks, watches and electronic products.
Others : The leasing of properties to generate rental income and the marketing activities

	2002						
	Toy and gift products HK$'000	Computer heads HK$'000	Housewares HK$'000	Timepieces HK$'000	Others HK$'000	Inter-segment elimination HK$'000	Consolidated HK$'000
Revenue from external customers	424,084	183,806	121,921	134,169	3,082	-	867,062
Other revenue from external customers	1,186	330	978	462	2,332	-	5,288
Inter-segment revenue	-	-	-	-	4,447	(4,447)	-
Total	425,270	184,136	122,899	134,631	9,861	(4,447)	872,350
Segment result	11,561	2,705	3,167	(14,957)	(22,694)		(20,218)
Inter-segment transactions	(2,103)	(1,507)	(115)	(722)	4,447		-
Contribution from operations	9,458	1,198	3,052	(15,679)	(18,247)		(20,218)
Unallocated operating income and expenses							(7,370)
Loss from operations							(27,588)
Finance cost							(660)
Share of profit of a jointly controlled entity	-	-	343	-	-		343
Taxation							(2,635)
Minority interests							(1,876)
Loss attributable to shareholders							(32,416)

11 SEGMENT REPORTING (Continued)

Business segments (Continued)

	2001						
	Toy and gift products	Computer heads	Housewares	Timepieces	Others	Inter-segment elimination	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue from external customers	402,518	207,988	137,379	195,675	10,324	–	953,884
Other revenue from external customers	3,140	391	1,745	783	2,826	–	8,885
Inter-segment revenue	–	–	–	–	5,403	(5,403)	–
Total	405,658	208,379	139,124	196,458	18,553	(5,403)	962,769
Segment result	15,404	8,883	8,414	(133)	(1,287)		31,281
Inter-segment transactions	(1,988)	(2,268)	(673)	(474)	5,403		–
Contribution from operations	13,416	6,615	7,741	(607)	4,116		31,281
Unallocated operating income and expenses							(14,634)
Profit from operations							16,647
Finance cost							(1,315)
Share of profit of a jointly controlled entity	–	–	531	–	–		531
Taxation							(2,257)
Minority interests							(4,933)
Profit attributable to shareholders							8,673

11 SEGMENT REPORTING (Continued)

Business segments (Continued)

2002

	Toy and gift products HK$'000	Computer heads HK$'000	Housewares HK$'000	Timepieces HK$'000	Others HK$'000	Inter-segment elimination HK$'000	Consolidated HK$'000
Depreciation for the year	9,643	9,534	3,367	2,238	2,974		27,756
Impairment loss for the year	4,190	-	2,172	827	24,705		31,894
Significant non-cash expenses (other than depreciation and amortisation)	2,711	-	-	711	1,587		5,009
Segment assets	282,036	102,895	94,104	49,318	31,716	(20,241)	539,828
Interest in a jointly controlled entity	-	-	1,759	-	-		1,759
Unallocated assets							15,705
Total assets							557,292
Segment liabilities	71,963	14,742	31,637	11,736	1,122	(20,241)	110,959
Unallocated liabilities							7,631
Total liabilities							118,590
Capital expenditure incurred during the year	6,189	3,124	707	2,039	210	-	12,269

2001

	Toy and gift products HK$'000	Computer heads HK$'000	Housewares HK$'000	Timepieces HK$'000	Others HK$'000	Inter-segment elimination HK$'000	Consolidated HK$'000
Depreciation for the year	9,223	9,208	3,193	2,401	3,273		27,298
Impairment loss for the year	–	–	–	–	–		–
Significant non-cash expenses (other than depreciation and amortisation)	–	–	–	–	–		–
Segment assets	250,290	145,616	79,598	72,486	57,272	(23,434)	581,828
Interest in a jointly controlled entity	–	–	1,548	–	–		1,548
Unallocated assets							18,090
Total assets							601,466
Segment liabilities	37,718	49,528	30,828	15,724	879	(23,434)	111,243
Unallocated liabilities							3,808
Total liabilities							115,051
Capital expenditure incurred during the year	5,485	7,845	1,543	1,489	798	–	17,160

11 SEGMENT REPORTING (Continued)

Geographical segments

The group's business is managed on a worldwide basis, but participates mainly in three principal economic environments. North America is a major market for the toy and gift division, the computer head division and the houseware division. Europe is a major market for the timepiece division and the houseware division and to a lesser extent the toy and gift division and the computer head division. In Asia, the group's manufacturing activities are carried out in the People's Republic of China ("the PRC") and a major customer for the computer head division is in Malaysia.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets and capital expenditure are based on the geographical location of the assets.

2002

	Asia			Europe		North America	Others	Total
	Hong Kong	The PRC	Others	United Kingdom	Others			
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue from external customers	33,323	15,306	116,848	262,669	66,402	353,830	18,684	867,062
Contribution to (loss)/profit from operations	(8,302)	(12,326)	204	(3,312)	(14,279)	9,504	923	(27,588)
Segment assets	254,823	214,127	-	81,858	6,179	305	-	557,292
Capital expenditure incurred during the year	8,309	1,789	-	2,146	-	25	-	12,269

2001

	Asia			Europe		North America	Others	Total
	Hong Kong	The PRC	Others	United Kingdom	Others			
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue from external customers	52,860	4,027	66,327	261,471	136,143	402,204	30,852	953,884
Contribution to (loss)/profit from operations	3,262	1,332	1,684	2,994	(435)	7,443	367	16,647
Segment assets	221,560	265,413	–	83,168	27,485	3,840	–	601,466
Capital expenditure incurred during the year	7,135	8,130	–	1,895	–	–	–	17,160

12 FIXED ASSETS

(a) The group

	Land and buildings 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:							
At 1 April 2001	224,057	228,652	26,787	15,654	495,150	–	495,150
Exchange differences	33	44	–	8	85	–	85
Additions	871	9,646	1,405	347	12,269	–	12,269
Disposals	(240)	(1,536)	–	(131)	(1,907)	–	(1,907)
Reclassification *(note (e))*	(24,736)	–	–	–	(24,736)	18,537	(6,199)
Deficits on revaluation	–	–	–	–	–	(5,009)	(5,009)
At 31 March 2002	**199,985**	**236,806**	**28,192**	**15,878**	**480,861**	**13,528**	**494,389**
Accumulated depreciation:							
At 1 April 2001	59,017	162,870	24,675	11,356	257,918	–	257,918
Exchange differences	5	25	–	3	33	–	33
Charge for the year	8,660	16,502	1,512	1,082	27,756	–	27,756
Impairment loss	31,894	–	–	–	31,894	–	31,894
Written back on disposal	(72)	(1,345)	–	(112)	(1,529)	–	(1,529)
Reclassification *(note (e))*	(6,199)	–	–	–	(6,199)	–	(6,199)
At 31 March 2002	**93,305**	**178,052**	**26,187**	**12,329**	**309,873**	**-**	**309,873**
Net book value:							
At 31 March 2002	**106,680**	**58,754**	**2,005**	**3,549**	**170,988**	**13,528**	**184,516**
At 31 March 2001	165,040	65,782	2,112	4,298	237,232	–	237,232

12 FIXED ASSETS (Continued)

(b) Net book value of land and buildings comprises:

	The group			
	Investment properties		Land and buildings	
	2002	2001	**2002**	2001
	HK$'000	HK$'000	**HK$'000**	HK$'000
Freehold outside Hong Kong	**–**	–	**5,354**	5,403
Medium term leases				
– in Hong Kong	**12,278**	–	**31,094**	62,535
– outside Hong Kong	**1,250**	–	**69,842**	95,110
Short term leases outside Hong Kong	**–**	–	**390**	1,992
	13,528	–	**106,680**	165,040

(c) Investment properties of the group located in Hong Kong were revalued at 31 March 2002 by an independent firm of surveyors, LCH (Asia-Pacific) Surveyors Limited who have among their staff Fellows of the Hong Kong Institute of Surveyors on an open market basis assuming sale with vacant possession by reference to comparable market transactions.

Investment properties of the group located in the PRC were revalued at 31 March 2002 by an independent firm of surveyors, LCH (Asia-Pacific) Surveyors Limited who have among their staff Fellows of the Hong Kong Institute of Surveyors, on an investment approach by taking into account of current rent passing receivable from the existing tenancy agreements and the reversionary potential of the property interests.

The revaluation deficits of HK$5,009,000 have been charged to the profit and loss account.

(d) During the year, the directors have performed an assessment of the recoverable amount of the group's leasehold land and buildings held for own use. Based on this assessment, the carrying amount of leasehold land and buildings held for own use was written down by HK$31,894,000. The estimated recoverable amount of the property was based on the estimated market value of the property.

(e) At 31 March 2002, certain land and buildings of the group with a net book value of HK$18,537,000 (total costs of HK$24,736,000 and accumulated depreciation of HK$6,199,000) have been reclassified to investment properties as at that date.

(f) The gross amounts of investment properties of the group held for use in operating leases were HK$13,528,000 (2001: Nil). The gross amount of fixed assets other than investment properties of the group held for use in operating leases at 31 March 2002 was HK$3,959,000 (2001: HK$14,822,000) and the related accumulated depreciation and impairment loss was HK$1,395,000 (2001: HK$2,449,000) and HK$1,332,000 (2001: Nil) respectively.

13 INVESTMENTS IN SUBSIDIARIES

	The company	
	2002	2001
	HK$'000	HK$'000
Unlisted shares, at cost, net of dividend received from subsidiary from pre-acquisition profits	**327,365**	327,365

Details of the company's principal subsidiaries at 31 March 2002 are set out on pages 58 to 60.

All of these are controlled subsidiaries as defined under note 1(c) and have been consolidated into the group accounts.

14 INTEREST IN A JOINTLY CONTROLLED ENTITY

	The group	
	2002	2001
	HK$'000	HK$'000
Share of net assets	**1,803**	1,546
Amount due (to)/from a jointly controlled entity	**(44)**	2
	1,759	1,548

Details of the group's jointly controlled entity are as follows:

Name of company	Principal activity	Place of incorporation and operation	Effective percentage of equity held by company	Effective percentage of equity held by subsidiaries
Ningbo Herald Metal Products Company Limited	Manufacture of housewares	The People's Republic of China	–	40

15 OTHER NON-CURRENT FINANCIAL ASSETS

	The group	
	2002	2001
	HK$'000	HK$'000
Investment securities		
Unlisted debt securities, at cost	**2,120**	2,120
Other investments		
Listed equity shares, at fair value		
– in Hong Kong	**28**	23
– outside Hong Kong	**3,898**	3,215
	3,926	3,238
	6,046	5,358
Market value of listed investments	**3,926**	3,238

16 INVENTORIES

	The group	
	2002	2001
	HK$'000	HK$'000
Raw materials	**52,779**	65,420
Work in progress	**19,570**	29,599
Finished goods	**40,310**	64,501
	112,659	159,520

The amount of inventories (included above) carried at net realisable value is HK$10,744,000 (2001: HK$10,259,000).

17 TRADE AND OTHER RECEIVABLES

	The group		The company	
	2002	2001	**2002**	2001
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade debtors and bills receivable	**104,428**	81,888	**–**	–
Other receivables	**16,803**	24,072	**124**	111
	121,231	105,960	**124**	111

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

Included in trade and other receivables are trade debtors and bills receivable (net of specific provisions for bad and doubtful debts) with the following ageing analysis:

	The group	
	2002	2001
	HK$'000	HK$'000
By date of invoice		
Within 1 month	**71,411**	63,503
2 – 3 months	**24,053**	13,839
Over 3 months	**8,964**	4,546
	104,428	81,888

The credit terms given to the customers vary and are generally based on the financial strengths of individual customers. In order to effectively manage the credit risks associated with trade receivables, credit evaluations of customers are performed periodically.

18 BANK LOANS AND OVERDRAFTS

All bank loans and overdrafts are unsecured and repayable on demand or within one year.

19 TRADE AND OTHER PAYABLES

	The group		The company	
	2002	2001	**2002**	2001
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade creditors and bills payable	**48,855**	60,935	**–**	–
Accruals and other payables	**57,957**	49,174	**751**	710
	106,812	110,109	**751**	710

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

Included in trade and other payables are trade creditors and bills payable with the following ageing analysis:

	The group	
	2002	2001
	HK$'000	HK$'000
By date of invoice		
On demand or within 1 month	**34,048**	54,171
2 – 3 months	**13,660**	4,877
Over 3 months	**1,147**	1,887
	48,855	60,935

20 DEFERRED TAXATION

(a) Movements in deferred taxation of the group comprise:

	2002	2001
	HK$'000	HK$'000
Balance at 1 April	**1,072**	687
Transfer (to)/from the profit and loss account *(note 6)*	**(229)**	430
Exchange difference	**1**	(45)
Balance at 31 March	**844**	1,072

20 DEFERRED TAXATION (Continued)

(b) Major components of deferred taxation of the group are set out below:

	2002		2001	
		Potential assets		Potential assets
	Provided	**unrecognised**	Provided	unrecognised
	HK$'000	**HK$'000**	HK$'000	HK$'000
Depreciation allowances in excess of related depreciation	**1,403**	**–**	1,504	–
Future benefit of tax losses	**–**	**(5,490)**	–	(5,154)
Other timing differences	**(560)**	**(306)**	(387)	–
Exchange difference	**1**	**–**	(45)	–
	844	**(5,796)**	1,072	(5,154)

21 PROVISION FOR LONG SERVICE PAYMENTS

	HK$'000
Balance at 1 April 2001	
– as previously stated	2,510
– change in accounting policy recognised in retained earnings *(note 10(iii))*	3,328
– as restated	5,838
Payments made during the year	(863)
Charge for the year	365
Balance at 31 March 2002	**5,340**

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

At 31 March 2002, 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 employees in respect of their service to date, less any amounts that would be expected to be met out of the group's defined contribution retirement schemes and mandatory provident fund contributions.

22 SHARE CAPITAL

	2002		2001	
	Number of shares (Thousand)	**Amount HK$'000**	Number of shares (Thousand)	Amount HK$'000
Authorised:				
Ordinary shares of US$0.01 each	**1,000,000**	**78,000**	1,000,000	78,000
Issued and fully paid:				
Shares of US$0.01 each				
At 1 April	**625,201**	**48,766**	635,461	49,566
Shares repurchased and cancelled	**(1,190)**	**(93)**	(10,260)	(800)
At 31 March	**624,011**	**48,673**	625,201	48,766

During the year, the company repurchased a total of 1,190,000 (2001: 10,260,000) of its shares on The Stock Exchange of Hong Kong Limited, all of which were then cancelled. The premium paid on repurchase was charged against share premium in accordance with the Companies Act 1981 of Bermuda (as amended). Details of the shares repurchased are as follows:

Month of repurchase	**Number of shares** (Thousand)	**Price per share Highest** HK$	**Lowest** HK$	**Aggregate price** HK$'000
December 2001	400	0.174	0.174	70
January 2002	690	0.172	0.170	119
February 2002	100	0.172	0.172	17
	1,190			206

23 RESERVES

(a) The group

	Share premium	Capital reserve *(Note i)*	Contributed surplus *(Note ii)*	Exchange fluctuation reserve	Retained profits	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 April 2000						
– as previously reported	31,958	5,885	87,205	(5,636)	295,428	414,840
– prior period adjustments in respect of:						
– dividend proposed *(note 10(i))*	–	–	18,756	–	–	18,756
– goodwill *(note 10(ii))*	–	(5,885)	190,739	–	(184,854)	–
– as restated	31,958	–	296,700	(5,636)	110,574	433,596
Dividend approved in respect of the previous year *(note 8(b))*	–	–	(18,756)	–	–	(18,756)
Exchange difference on consolidation	–	–	–	(3,525)	–	(3,525)
Premium paid on repurchase of shares	(4,259)	–	–	–	–	(4,259)
Profit for the year	–	–	–	–	8,673	8,673
Dividend declared in respect of the current year *(note 8(a))*	–	–	(6,252)	–	–	(6,252)
At 31 March 2001	27,699	–	271,692	(9,161)	119,247	409,477
At 1 April 2001						
– as previously reported	27,699	–	271,692	(9,161)	119,247	409,477
– opening balance adjustment in respect of long service payments *(note 10(iii))*	–	–	–	–	(3,328)	(3,328)
– as restated	27,699	–	271,692	(9,161)	115,919	406,149
Exchange difference on consolidation	–	–	–	(1,444)	–	(1,444)
Premium paid on repurchase of shares	(113)	–	–	–	–	(113)
Loss for the year	–	–	–	–	(32,416)	(32,416)
At 31 March 2002	**27,586**	**–**	**271,692**	**(10,605)**	**83,503**	**372,176**

23 RESERVES (Continued)

(b) The company

	Share premium	Contributed surplus *(Note ii)*	Retained profits	Total
	HK$'000	HK$'000	HK$'000	HK$'000
At 1 April 2000				
– as previously reported	31,958	224,257	19,295	275,510
– prior period adjustment in respect of dividend proposed *(note 10(i))*	–	18,756	–	18,756
– as restated	31,958	243,013	19,295	294,266
Dividend approved in respect of previous year *(note 8(b))*	–	(18,756)	–	(18,756)
Premium paid on repurchase of shares	(4,259)	–	–	(4,259)
Profit for the year	–	–	494	494
Dividend declared in respect of the current year *(note 8(a))*	–	(6,252)	–	(6,252)
At 31 March 2001	27,699	218,005	19,789	265,493
At 1 April 2001	27,699	218,005	19,789	265,493
Premium paid on repurchase of shares	(113)	–	–	(113)
Profit for the year	–	–	96	96
At 31 March 2002	**27,586**	**218,005**	**19,885**	**265,476**

23 RESERVES (Continued)

Notes:

(i) Capital reserve

The capital reserve represented the excess of the group's share of the fair value of the separable net assets of subsidiaries or associates acquired over the cost of investments in these companies.

(ii) Contributed surplus

The contributed surplus represents the excess value of the consolidated net tangible assets represented by the shares of the former holding of the group, Herald (Hong Kong) Limited, acquired by the company over the nominal value of the shares issued by the company in exchange pursuant to a Scheme of Arrangement in 1992, less dividends. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is available for distribution to shareholders.

(iii) At 31 March 2002, the aggregate amount of reserves available for distribution to shareholders of the company was HK$237,890,000 (2001: HK$237,794,000).

24 CONTINGENT LIABILITIES

At 31 March 2002, there were contingent liabilities in respect of the following:

	The company	
	2002	2001
	HK$'000	HK$'000
Guarantees issued in respect of facilities granted by banks to subsidiaries	**39,248**	45,148

25 COMMITMENTS

At 31 March 2002, the total lease payments of the group under non-cancellable operating leases are payable as follows:

	2002		2001	
	Land and buildings	**Others**	Land and buildings	Others
	HK$'000	**HK$'000**	HK$'000	HK$'000
Within 1 year	**7,039**	**1,011**	5,064	384
After 1 year but within 5 years	**9,720**	**1,110**	3,867	904
After 5 years	**16,379**	**22**	2,935	11
	33,138	**2,143**	11,866	1,299

26 PENSION SCHEMES

The principal subsidiaries of the company have defined contribution pension 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, the employers are required to make contributions to the schemes calculated at 5% of employees' basic salaries on a monthly basis. One of these schemes also requires the employer's contributions to be increased to 10% after the employees' length of service exceeds five years. The employees are entitled to 100% of the employers' contributions and the accrued income after completion of 10 years' service, and at an increasing scale rate between 50% and 90% after completion of five to nine years' service.

The total retirement scheme cost charged to the profit and loss account for the year was HK$5,940,000 (2001: HK$6,231,000). Where there are employees who leave the 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 2002, the total amount of forfeited contributions which are available to reduce the contributions payable in future years was HK$221,000 (2001: HK$120,000).

27 RELATED PARTY TRANSACTIONS

On 23 November 2001, the company announced that Herald (Hong Kong) Limited, a wholly owned subsidiary of the company, had entered into an agreement for the purchase of 111,000 shares in a subsidiary, Herald Datanetics Limited ("HDL"), at HK$70 per share. This acquisition was a connected transaction and was announced in the newspaper in accordance with the Listing Rules. The total consideration was HK$7,770,000 of which HK$3,762,500 was paid to three directors of the company, HK$1,750,000 was paid to two directors of the company's subsidiaries, and the remaining HK$2,257,500 was paid to associates of two directors of the company. The vendors guaranteed that the audited net tangible asset value per share of HDL as at 31 March 2002 ("NAV") will not be less than HK$70.

28 COMPARATIVE FIGURES

Certain comparative figures have been adjusted as a result of changes in accounting policies for dividends, goodwill and provision for long service payments, details of which are set out in note 10. The provision for long service payments as at 31 March 2001 has been reclassified from current liabilities to non-current liabilities in order to better reflect the nature of the provision.