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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

George Bloch *Chairman*
Cheung Tsang-Kay, Stan PhD,
Hon LLD, Hon DBA, JP
Managing Director
Chang Dong-Song
Robert Dorfman
Thong Yeung-Sum, Michael FCCA, AHKSA

INDEPENDENT NON-EXECUTIVE DIRECTORS

Denis Campbell Bray CMG, CVO, JP
Tsao Kwang-Yung, Peter CBE, CPM

SECRETARY

Thong Yeung-Sum, Michael FCCA, AHKSA

PRINCIPAL BANKERS

Bank of America, N.A.
International Bank of Asia Limited

AUDITORS

KPMG

SOLICITORS

Stephenson Harwood & Lo
Richards Butler
Susan Liang & Co.

PRINCIPAL OFFICE

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

REGISTERED OFFICE

Clarendon House, Church Street
Hamilton HM 11
Bermuda

PRINCIPAL REGISTRARS

Butterfield Corporate Services Limited
Rosebank Centre
14 Bermudiana Road
Pembroke
Bermuda

HONG KONG SHARE REGISTRARS

Tengis Limited
G/F., Bank of East Asia Harbour View Center
56 Gloucester Road
Wanchai
Hong Kong

COMPANY'S WEBSITE

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

FINANCIAL HIGHLIGHTS

	Year ended 31 March 2003 HK\$'000	Year ended 31 March 2002 HK\$'000
Turnover	925,954	867,062
Profit/(loss) attributable to shareholders	30,562	(32,416)
Dividends paid and proposed	18,504	6,226
Earnings/(loss) per share		
– Basic	HK4.92 cents	(HK5.19 cents)
Dividends paid and proposed, per share	HK3 cents	HK1 cent
	As at 31 March 2003 HK\$'000	As at 31 March 2002 restated HK\$'000
Net tangible assets	439,529	419,924
Net tangible assets per share	HK71.27 cents	HK67.29 cents
Total assets	565,825	557,292
Number of issued and fully paid shares	616,670,763 shares	624,010,763 shares

CHAIRMAN'S STATEMENT

I am pleased to present my review of the results and operations of the Herald Group (the "Group") for the year ended 31 March 2003.

RESULTS

The financial year under review was very challenging for the Group. The global economy continued to be hampered by the crisis over Iraq and consumers' sentiments in the group's major markets remained low. The strike on the US West Coast also further adversely affected the export business in Hong Kong at the end of 2002. However, the Group managed to turn around and returned to profitability in 2002. The Group's turnover for the year ended 31 March 2003 amounted to HK\$926 million, representing a 7% increase as compared to the turnover of HK\$867 million in the last financial year. Net profit attributable to shareholders was HK\$30.6 million as compared to a net loss of HK\$32.4 million in the previous financial year. Last year, the net loss included impairment losses and revaluation deficits for the Group's properties amounting to HK\$36.9 million. Before these charges, the Group had a net profit of HK\$4.5 million in the year ended 31 March 2002. The earnings per share for the year was HK4.92 cents as compared to last year's loss per share of HK5.19 cents.

REVIEW OF OPERATIONS

Toy and Gift Division

Bolstered by the strong sales of Star Wars action figures, the Toy and Gift Division recorded a very strong growth in the first half of the financial year over the same period in 2001. In the second half financial year, the growth leveled off as sales of the Star Wars toys slowed down. The overall toy industry was weak amidst a very weak market sentiment, resulting from the military crisis in Iraq and the prolonged weakness of the global economy. The Division successfully developed some new toy products with some new customers which also contributed to the increase of sales in the fourth quarter in the year under review. Throughout the year, the political uncertainties led to rapid rises in plastic material prices. The Division took early measures to reduce this negative impact of rising costs by purchasing larger quantities of plastic material ahead of production. The Division finished the financial year under review with a 14% increase in sales and a satisfactory result.

To cope with the future expansion, the Toy and Gift Division set up a new factory in Fulong, Dongguan, PRC. The total investment for the factory, which has a total floor area of approximately 120,000 sq. ft., is approximately HK\$15 million.

Computer Head Division

The Computer Head Division experienced a satisfactory increase in the thin film head business. However, this was not enough to make up for the rapid decline in the ferrite head business due to changing technologies. As a result, the Division recorded a substantial net loss. To reduce its overall reliance on the tape head business, new products have been developed in the fields of fiber optics and biometrics and are currently being introduced to potential customers and markets. The Division is undergoing a restructuring in order to correspond with the current level of business.

CHAIRMAN'S STATEMENT (CONTINUED)

REVIEW OF OPERATIONS (CONTINUED)

Houseware Division

For the year under review, the Houseware Division performed well. The overall sales of the Division increased by 37% over the last financial year. Sales of aluminium cookware and stainless steel cookware grew by 26% and 80% respectively. Following the success of the stainless steel cookware, the Division developed a wider range of cookware products for its customers. These new products include carbon steel cookware, copper bottom stainless steel cookware and tri-ply stainless steel cookware. These new products have been well received by the customers.

Timepiece Division

We are pleased to report that the Timepiece Division returned to profitability in the second half financial year and recovered partially the losses suffered in the first half of the financial year. The improvement was partly due to the strength of sterling which helped to improve the gross profit margin. Following the closure of the operation in France in March 2002, the Division's operation in Germany also ceased business in January 2003. These operations were loss making and had been cash drains for the Division in previous years. After their closures, the Division can now focus more on the UK market. Substantial sales were achieved through customers who focus on television and internet marketing.

FINANCIAL POSITION

The Group has maintained its sound financial position. At the end of the financial year, the Group had a strong balance sheet with a healthy liquidity position. As at 31 March 2003, the Group had total assets of HK\$566 million (2002: HK\$557 million) which were financed by current liabilities of HK\$94 million (2002 as restated: HK\$113 million), non-current liabilities of HK\$6 million (2002: HK\$6 million), minority interests of HK\$26 million (2002: HK\$18 million) and shareholders' equity of HK\$440 million (2002 as restated: HK\$420 million).

At 31 March 2003, the Group's cash balances aggregated to HK\$160 million representing an increase of HK\$29 million over the balance of HK\$131 million in last year's balance sheet. The increase in the Group's cash balances was largely due to the positive cash inflows from operation after non-cash items such as depreciation charges. The Group's current assets position as at 31 March 2003 was HK\$373 million which was similar to the level at the last year-end. The trade and other receivables decreased to HK\$95 million from HK\$121 million as at 31 March 2002 partly due to an overall reduction of sales volume of the Computer Head Division and partly due to less shipments of the Toy and Gift Division in March 2003.

The Group's current liabilities decreased from HK\$113 million to HK\$94 million primarily due to decrease in trade and other payables that is attributed to the same factors affecting the level of trade and other receivables above-mentioned.

As in the previous year, the Group's borrowings were maintained at a low level of HK\$1 million (2002: HK\$3 million). None of the Group's assets are charged to secure the Group's banking facilities. Furthermore, the Group has no long-term borrowings. The Group's gearing ratio, which is calculated based on the Group's total borrowings and the shareholders' equity, was 0.002 (2002: 0.008). As at 31 March 2003, the working capital ratio, an indicator of a company's liquidity represented by a ratio between the current assets over the current liabilities, was 3.96 compared to 3.22 last year. The quick ratio, another ratio that gauges the short-term liquidity of a company measured by trade debtors and cash at bank and in hand over the current liabilities, increases to 2.45 from 2.08.

CHAIRMAN'S STATEMENT (CONTINUED)

CONTINGENT LIABILITIES

As at 31 March 2003 the Group did not have any significant contingent liabilities.

FOREIGN EXCHANGE EXPOSURE

During the year under review, approximately 28% of the Group's turnover is denominated in sterling and euro. From time to time, the Group enters forward foreign exchange contracts to hedge its foreign exchange exposure.

PROSPECTS AND GENERAL OUTLOOK

In the middle of March 2003, SARS broke out in Hong Kong. Soon, the deadly disease spread to Beijing and other northern provinces in China. Hong Kong and Guangdong, where the Group's factories are located, were declared SARS affected areas by the World Health Organization. Though SARS has not directly caused any damage to us, toy production plans were adversely affected as local authorities banned any new recruitment of workers. While the disease was gradually brought under control by late May in both Hong Kong and China, the Toy and Gift Division may have some late shipments in the following months.

On the positive side, we are delighted that the war in Iraq was over by the middle of April 2003. This has cleared away a major uncertainty, which affected both the economy of the USA and the world.

On the whole, we are optimistic about the Group's performance in 2003. Both the Toy and Gift Division and the Houseware Division will continue to perform well in the new fiscal year. Zeon, the Timepiece Division's operation in the UK, started the new fiscal year with stable sales and a positive outlook. Furthermore, without the financial burdens of its subsidiaries in France and Germany, Zeon's profits from the operation in the UK will fully be reflected in the Group's results.

On the other hand, the Computer Head Division may still face very difficult market conditions. However, with reduced overheads, it can now break-even at lower turnover levels.

DIVIDENDS

Last year, the Company paid a final dividend of HK1 cent per share and did not pay any interim dividend. This year, the Company resumed the payment of an interim dividend of HK1 cent per share. At the forthcoming Annual General Meeting to be held on 18 September 2003, the Directors will recommend a final dividend of HK2 cents per share. Together with the interim dividend, the dividend for the year of HK3 cents would represent an annual return of 15% on the Company's average share price of HK20 cents in the year ended 31 March 2003.

The total final dividend will amount to HK\$12,305,000 and is calculated based on the total number of shares in issue as at 14 July 2003 being the latest practicable date prior to the announcement of the results. Dividend will be payable on 26 September 2003 to shareholders registered in the Register of Members on 18 September 2003.

CHAIRMAN'S STATEMENT (CONTINUED)

APPRECIATION

On behalf of the Board of Directors and shareholders, I should like to extend my sincere thanks to all the Group's employees for their efforts and hard work under difficult market conditions.

George Bloch

Chairman

Hong Kong, 15 July 2003

REPORT OF THE DIRECTORS

The directors have pleasure in submitting their annual report together with the audited accounts for the year ended 31 March 2003.

PRINCIPAL ACTIVITIES

The principal activity of the company is investment holding. The activities of the principal subsidiaries are set out on pages 58 to 60.

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	30%	
Five largest customers in aggregate	54%	
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 per cent of the company's share capital) had any interest (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules")) in these major customers and suppliers.

PRINCIPAL SUBSIDIARIES

Particulars of the company's principal subsidiaries at 31 March 2003 are set out on pages 58 to 60.

ACCOUNTS

The profit of the group for the year ended 31 March 2003 and the state of the company's and the group's affairs at that date are set out in the accounts on pages 16 to 57.

An interim dividend of HK1 cent per share (2002: HK Nil cent per share) was paid on 17 January 2003. The directors now recommend the payment of a final dividend of HK2 cents per share (2002: HK1 cent per share) in respect of the year ended 31 March 2003.

REPORT OF THE DIRECTORS (CONTINUED)

FIXED ASSETS

Movements in fixed assets during the year are set out in note 12 on the accounts.

BANK LOANS AND OVERDRAFTS

Particulars of bank loans and overdrafts of the group as at 31 March 2003 are set out in note 19 on the accounts.

CHARITABLE DONATIONS

Donations made by the group during the year amounted to HK\$25,000 (2002: HK\$128,000).

SHARE CAPITAL

Movements in share capital during the year are set out in note 23 on the accounts.

The company repurchased and then cancelled 7,340,000 (2002: 1,190,000) of its own shares during the year. The directors consider that the repurchase of shares will benefit shareholders by enhancing the earnings per share of the company.

Except as disclosed above, neither the company nor any of its subsidiaries purchased, redeemed or sold any of the company's listed securities during the financial year.

DIRECTORS

The directors during the financial year were:

Executive directors

G Bloch
D S Chang
S T K Cheung
R Dorfman
M Y S Thong

Non-executive directors

D C Bray
P K Y Tsao

In accordance with Bye-law 87 of the company's Bye-laws, R Dorfman and M Y S Thong retire from the board by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

REPORT OF THE DIRECTORS (CONTINUED)

DIRECTORS AND SENIOR MANAGEMENT

George BLOCH, aged 82, has been the Chairman of the company since its incorporation in 1992. He is a graduate of the College of Technology in Northampton, England. He went to Shanghai in 1939 and worked for a large engineering firm. He established his business in Japan in 1949 and moved to Hong Kong in 1955. In 1969, Mr Bloch, together with Mr Chang Dong-Song founded Herald Metal and Plastic Works Limited ("HMPL"), the initial company of the group. Mr Bloch is a Past District Governor of Lions International in Hong Kong and is Vice-Chairman of the Liver Foundation and was for several years Chairman of the Eye Bank. He is a leading collector of both western and Chinese art and his collection has been exhibited internationally. He has been honoured by the French Government and made a "Chevalier de l'Ordre des Arts et des Lettres" and also has a major decoration from the Government of Austria. In May 2000 he received the "Chevalier de la Couronne" from the Belgian Government in recognition of his contribution to the arts.

CHEUNG Tsang-Kay, Stan, PhD, Hon LLD, Hon DBA, JP, aged 59, has been the Managing Director of the company since its incorporation. 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, etc. He is currently a member of The Chinese People's Political Consultative Conference, Shanghai Municipal Committee. Also, he is the Honorary Trustee and Adjunct Professor at Shanghai Jiao Tung University, Trustee of Fudan University and Director of Soong Ching Ling Foundation of Shanghai. Dr Cheung joined the group in 1975 and is a director of the principal companies of the group.

CHANG Dong-Song, aged 82, the father of Dr Cheung, has been an Executive Director of the company since 1992. Mr Chang was a co-founder of HMPL and since 1969 has played a principal role in the development of the group's manufacturing activities. He is now a director of some of the group's companies. He was a member of the Toys Advisory Council of the Hong Kong Trade Development Council. Mr Chang is also a member of The Chinese People's Political Consultative Conference, Jiangsu Changshu Committee.

Robert DORFMAN, aged 48, is the step-son of Mr Bloch. He joined the group in 1983 and has been an executive director of the company since 1992. Mr Dorfman is a past Chairman of The Americas Area Committee of The Hong Kong General Chamber of Commerce and is Chairman of the Vision 2047 Foundation. Mr Dorfman is a past Chairman of the Young Presidents' Organisation's Asia-Pacific Regional Board and serves as a Director on its International Board. Mr Dorfman is a director of some of the group's companies.

THONG Yeung-Sum, Michael, FCCA, AHKSA, aged 53, obtained a degree in Social Science at the University of Hong Kong. He is a member of the Hong Kong Society of Accountants and the Chartered Association of Certified Accountants. Before joining the group in 1976, he worked for three years with the Hong Kong office of a leading international accounting firm. Mr Thong has been an Executive Director of the company since 1992 and now serves as finance director and company secretary of the principal companies of the group.

Denis Campbell BRAY, CMG, CVO, JP, aged 77, has served as a Non-Executive Director of the company since 1992. Mr Bray joined the Hong Kong Government in 1950. In 1971, he was appointed District Commissioner, New Territories. He also served as Hong Kong Commissioner in London from 1977 to 1980 and as Secretary of Home Affairs and an ex-officio member of the Executive and Legislative Councils. From 1985 to 1992, Mr Bray was Executive Director of The Community Chest of Hong Kong. He is Chairman of the charity Christian Action.

REPORT OF THE DIRECTORS (CONTINUED)

DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

TSAO Kwang-Yung, Peter, CBE, CPM, aged 69, has served as a Non-Executive Director of the company since 1992. Mr Tsao joined the Hong Kong Government in 1955. He has served in key positions within the Department of Trade and Industry and led the Hong Kong delegation in numerous rounds of trade negotiations with the EU and the United States. In 1983, Mr Tsao became Director of Information Services and was involved in the negotiations with China over the future of Hong Kong. He later served as Secretary for Administrative Services and Information and retired in 1992 from the post of Secretary of Home Affairs. Mr Tsao now serves as a non-executive director in several other listed companies in Hong Kong.

Gershon DORFMAN, aged 47, step-son of Mr Bloch, 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 the Managing Director of Herald Datametals Limited and a director of some of the group's companies.

KWOK Nam-Po, aged 52, obtained a diploma in Management Studies from The Hong Kong Polytechnic University. He joined the group in 1974. He has more than 28 years' experience in toy industry and is now the Managing Director of Herald Metal and Plastic Works Limited and Dongguan Herald Metal and Plastic Company Limited. He is currently a vice president and treasurer of The Toys Manufacturer's Association of Hong Kong Limited as well as a committee member of The Hong Kong Toy Council.

DIRECTORS' INTERESTS IN SHARES

The directors who held office at 31 March 2003 had the following beneficial interests in the issued share capital of the company (within the meaning of the Securities (Disclosure of Interests) Ordinance) at that date as recorded in the register of directors' share interests:

	Personal interests	Family interests	Number of shares		Total
			Corporate interests	Other interests (Note)	
Herald Holdings Limited (Shares of US\$0.01 each)					
G Bloch	150,000	8,091,500	1,250,000	–	9,491,500
D S Chang	10,040,000	21,654,879	–	–	31,694,879
S T K Cheung	35,542,808	–	–	75,498,356	111,041,164
R Dorfman	46,470,000	–	–	–	46,470,000
M Y S Thong	11,383,308	–	–	–	11,383,308

Note: Dr S T K Cheung is the beneficiary of a family trust which owned 75,498,356 shares in the company at 31 March 2003.

REPORT OF THE DIRECTORS *(CONTINUED)*

DIRECTORS' INTERESTS IN SHARES *(CONTINUED)*

Apart from the foregoing, at no time during the year was the company or any of its subsidiaries a party to any arrangement to enable the directors of the company or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in or debentures of the company or any other body corporate.

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

The company has been notified of the following interests in the company's issued shares at 31 March 2003 amounting to 10 per cent or more of the shares in issue:

	Shares held	Percentage of total issued shares
Goldfinch Investments Limited ("GIL")	69,728,356	11.31%
HSBC International Trustee Limited ("HIT")	75,698,356	12.28%
HSBC Holdings plc ("HHP")	75,698,356	12.28%
HSBC Private Banking Holdings (Suisse) SA ("HPB")	75,698,356	12.28%
HSBC Europe (Netherlands) BV ("HEN")	75,698,356	12.28%
HSBC Europe BV ("HEBV")	75,698,356	12.28%
Griffin International Limited ("GRIFFIN")	75,698,356	12.28%
Midcorp Limited ("MCL")	75,698,356	12.28%
HSBC Bank plc ("HBP")	75,698,356	12.28%

GIL is a company owned by a family trust which owned an aggregate of 75,498,356 shares in the company at 31 March 2003 as noted under "Directors' interests in shares", comprising 69,728,356 shares held by GIL and 5,770,000 shares held by the trust itself. HIT, the trustee for the trust, was deemed to be interested in the 75,498,356 shares held by the trust. HPB, HEN, HEBV, GRIFFIN, MCL, HBP and HHP were all deemed to be interested in these shares due to their direct or indirect holdings in the shares of HIT. In addition, HIT, HPB, HEN, HEBV, GRIFFIN, MCL, HBP and HHP had a further interest of 200,000 shares in the company at 31 March 2003.

DIRECTORS' INTERESTS IN CONTRACTS

No 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.

REPORT OF THE DIRECTORS *(CONTINUED)*

DIRECTORS' SERVICE CONTRACTS

No director 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.

The non-executive directors were re-appointed by the board of directors for a term of two years commencing on 1 April 2003. They 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 annually.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

The company has complied throughout the year with the Code of Best Practice as set out in Appendix 14 to the Listing Rules.

AUDIT COMMITTEE

The audit committee comprises two independent non-executive directors and reports to the board of directors. The audit committee meets with the group's senior management and external auditors regularly to review the effectiveness of the internal control systems and the interim and annual reports of the group.

EMPLOYEES

At 31 March 2003, the number of employees of the group was approximately 195 in Hong Kong, 3,232 in the People's Republic of China and 92 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

The group operates defined contribution retirement schemes which cover 97% of the group's employees, and Mandatory Provident Fund Schemes for the remaining employees not covered by the defined contribution retirement schemes. Particulars of these retirement schemes are set out in note 27 on the accounts.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the company's Bye-laws or the Companies Act 1981 of Bermuda (as amended).

FIVE YEAR SUMMARY

A summary of the results and of the assets and liabilities of the group for the last five financial years is set out on page 61 of the annual report.

REPORT OF THE DIRECTORS *(CONTINUED)*

AUDITORS

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

THONG Yeung-Sum, Michael

Director

Hong Kong, 15 July 2003

REPORT OF THE AUDITORS



AUDITORS' REPORT TO THE SHAREHOLDERS OF HERALD HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

We have audited the accounts on pages 16 to 57 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The company's directors are responsible for the preparation of accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the company's and the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, the accounts give a true and fair view of the state of affairs of the company and of the group as at 31 March 2003 and of the group's profit and cash flows for the year then ended and have been properly prepared in accordance with accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG

Certified Public Accountants

Hong Kong, 15 July 2003

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31 March 2003

	Note	2003 HK\$'000	2002 HK\$'000
Turnover	3 & 11	925,954	867,062
Cost of sales		<u>(695,624)</u>	<u>(688,259)</u>
		230,330	178,803
Other revenue	4	5,579	5,288
Other net income	4	3,390	4,976
Selling expenses		(37,132)	(34,793)
Administrative expenses		(157,985)	(144,959)
Impairment loss on fixed assets	12(e)	(1,000)	(31,894)
Deficits on revaluation of investment properties	12(d)	<u>(895)</u>	<u>(5,009)</u>
Profit/(loss) from operations		42,287	(27,588)
Finance costs	5	(168)	(660)
Share of profit of a jointly controlled entity		<u>439</u>	<u>343</u>
Profit/(loss) from ordinary activities before taxation	5	42,558	(27,905)
Taxation	7	<u>(7,868)</u>	<u>(2,635)</u>
Profit/(loss) from ordinary activities after taxation		34,690	(30,540)
Minority interests		<u>(4,128)</u>	<u>(1,876)</u>
Profit/(loss) attributable to shareholders	8 & 24	<u>30,562</u>	<u>(32,416)</u>
Dividends attributable to the year:	9		
Interim dividend declared during the year		6,199	–
Final dividend proposed after the balance sheet date		<u>12,305</u>	<u>6,226</u>
		<u>18,504</u>	<u>6,226</u>
Earnings/(loss) per share:	10		
Basic		<u>HK4.92 cents</u>	<u>(HK5.19 cents)</u>

CONSOLIDATED BALANCE SHEET

at 31 March 2003

		2003	2002
	Note	HK\$'000	restated HK\$'000
Non-current assets			
Fixed assets			
– Investment properties		15,201	13,528
– Other property, plant and equipment		169,586	170,988
		<u>184,787</u>	<u>184,516</u>
Interest in a jointly controlled entity	12	184,787	184,516
Other non-current financial assets	14	1,698	1,759
	15	6,777	6,046
		<u>193,262</u>	<u>192,321</u>
Current assets			
Inventories	16	117,559	112,659
Trade and other receivables	17	94,900	121,231
Cash and cash equivalents	18	160,104	131,081
		<u>372,563</u>	<u>364,971</u>
Current liabilities			
Bank loans and overdrafts	19	918	3,345
Trade and other payables	20	89,263	107,737
Taxation	7	3,852	2,249
		<u>94,033</u>	<u>113,331</u>
Net current assets		<u>278,530</u>	<u>251,640</u>
Total assets less current liabilities		<u>471,792</u>	<u>443,961</u>

CONSOLIDATED BALANCE SHEET (CONTINUED)

at 31 March 2003

	Note	2003 HK\$'000	2002 restated HK\$'000
Non-current liabilities			
Deferred taxation	21	1,559	844
Provision for long service payments	22	4,364	5,340
		<u>5,923</u>	<u>6,184</u>
Minority interests		<u>26,340</u>	<u>17,853</u>
NET ASSETS		<u>439,529</u>	<u>419,924</u>
CAPITAL AND RESERVES			
Share capital	23	48,100	48,673
Reserves	24	391,429	371,251
		<u>439,529</u>	<u>419,924</u>

Approved and authorised for issue by the board of directors on 15 July 2003

CHEUNG Tsang-Kay, Stan
Director

THONG Yeung-Sum, Michael
Director

BALANCE SHEET

at 31 March 2003

	Note	2003 HK\$'000	2002 HK\$'000
Non-current assets			
Investments in subsidiaries	13	<u>327,365</u>	<u>327,365</u>
Current assets			
Amounts due from subsidiaries		14,157	14,169
Trade and other receivables	17	126	124
Tax recoverable	7	25	70
Cash and cash equivalents		<u>265</u>	<u>157</u>
		<u>14,573</u>	<u>14,520</u>
Current liabilities			
Amount due to a subsidiary		40,825	26,985
Trade and other payables	20	<u>960</u>	<u>751</u>
		<u>41,785</u>	<u>27,736</u>
Net current liabilities		<u>(27,212)</u>	<u>(13,216)</u>
NET ASSETS		<u><u>300,153</u></u>	<u><u>314,149</u></u>
CAPITAL AND RESERVES			
Share capital	23	48,100	48,673
Reserves	24	<u>252,053</u>	<u>265,476</u>
		<u><u>300,153</u></u>	<u><u>314,149</u></u>

Approved and authorised for issue by the board of directors on 15 July 2003

CHEUNG Tsang-Kay, Stan

Director

THONG Yeung-Sum, Michael

Director

The notes on pages 23 to 57 form part of these accounts.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2003

	Note	2003 HK\$'000	2002 restated HK\$'000
Shareholders' equity at 1 April			
– As previously reported		420,849	458,243
– Opening balance adjustment against retained profits arising from the change in accounting policy for long service payments		–	(3,328)
		<u>420,849</u>	<u>454,915</u>
– Prior period adjustment arising from the change in accounting policy for short-term employee benefits	2	(925)	(925)
As restated		<u>419,924</u>	<u>453,990</u>
Exchange difference on translation of the accounts of foreign entities		3,056	(1,444)
Net gains/(losses) not recognised in the profit and loss account		<u>3,056</u>	<u>(1,444)</u>
Net profit/(loss) for the year		<u>30,562</u>	<u>(32,416)</u>
Dividends approved during the year	9	<u>(12,425)</u>	<u>–</u>
Movements in share capital:			
– Shares repurchased and cancelled	23	(573)	(93)
– Premium paid on repurchase of shares	24	(1,015)	(113)
Net decrease in shareholders' equity arising from capital transactions with shareholders		<u>(1,588)</u>	<u>(206)</u>
Shareholders' equity at 31 March		<u><u>439,529</u></u>	<u><u>419,924</u></u>

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 March 2003

	2003	2002
	HK\$'000	restated HK\$'000
Note		
Operating activities		
Profit/(loss) from ordinary activities before taxation	42,558	(27,905)
Adjustments for:		
– (Gain)/loss on disposal of fixed assets	(5,280)	97
– Interest income	(1,232)	(1,341)
– Depreciation	25,268	27,756
– Impairment loss on fixed assets	1,000	31,894
– Deficits on revaluation of investment properties	895	5,009
– Finance costs	168	660
– Dividend income from investments	(36)	(23)
– Share of profit of a jointly controlled entity	(439)	(343)
– Net realised and unrealised losses/(gains) on other securities carried at fair value	858	(688)
– Foreign exchange loss/(gain)	1,197	(1,577)
	<u>64,957</u>	<u>33,539</u>
Operating profit before changes in working capital	64,957	33,539
Increase in amount due to a jointly controlled entity	14	46
(Increase)/decrease in inventories	(4,900)	46,861
Decrease/(increase) in trade and other receivables	26,331	(15,271)
Decrease in trade and other payables	(18,474)	(3,297)
Decrease in provision for long service payments	(976)	(498)
Movement in minority interests	5,794	(2,338)
	<u>72,746</u>	<u>59,042</u>
Cash generated from operations	72,746	59,042
Tax (paid)/refunded		
– Hong Kong profits tax (paid)/refunded	(4,467)	519
– Overseas tax (paid)/refunded	(1,013)	36
	<u>(5,480)</u>	<u>555</u>
Net cash from operating activities carried forward	67,266	59,597

CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

for the year ended 31 March 2003

	Note	2003 HK\$'000	2002 restated HK\$'000
Net cash from operating activities			
brought forward		<u>67,266</u>	<u>59,597</u>
Investing activities			
Payment for purchase of fixed assets		(27,279)	(12,269)
Payment for purchase of other non-current financial assets		(1,589)	–
Proceeds from disposal of fixed assets		6,220	281
Acquisition of additional shares in subsidiary		–	(7,770)
Interest received		1,232	1,341
Dividend received from investments		36	23
Dividend received from a jointly controlled entity		376	–
		<u> </u>	<u> </u>
Net cash used in investing activities		<u>(21,004)</u>	<u>(18,394)</u>
Financing activities			
Repayment of bank loan		(929)	–
Interest paid		(168)	(660)
Payment for repurchase of shares		(1,588)	(206)
Dividend paid		(12,425)	–
Dividend paid to minority interests		(1,435)	(2,087)
		<u> </u>	<u> </u>
Net cash used in financing activities		<u>(16,545)</u>	<u>(2,953)</u>
Net increase in cash and cash equivalents		29,717	38,250
Cash and cash equivalents at 1 April		128,665	90,333
Effects of foreign exchange rates changes		<u>804</u>	<u>82</u>
Cash and cash equivalents at 31 March	18	<u>159,186</u>	<u>128,665</u>

NOTES ON THE ACCOUNTS

for the year ended 31 March 2003

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 ("HKSA"), 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 an enterprise controlled by the company. Control exists when 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 subsidiary is consolidated into the consolidated accounts, unless a subsidiary 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.

NOTES ON THE ACCOUNTS (CONTINUED)

for the year ended 31 March 2003

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 and other parties, where the contractual arrangement establishes that the group 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 profit and loss account 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 the 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.

(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)).

NOTES ON THE ACCOUNTS *(CONTINUED)*

for the year ended 31 March 2003

1 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(e) Goodwill (CONTINUED)

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 in group reserves is included in the calculation of the profit or loss on disposal.

(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.

NOTES ON THE ACCOUNTS (CONTINUED)

for the year ended 31 March 2003

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Fixed assets

- (i) Fixed assets are carried in the balance sheet 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.

In preparing these accounts, advantage has been taken of the transitional provisions set out in paragraph 80 of Statement of Standard Accounting Practice 17 "Property, plant and equipment" issued by the HKSA, with the effect that land and buildings held for own use have not been revalued to fair value at the balance sheet date.

- (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.
- (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.

NOTES ON THE ACCOUNTS (CONTINUED)

for the year ended 31 March 2003

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

(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 other 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%

NOTES ON THE ACCOUNTS *(CONTINUED)*

for the year ended 31 March 2003

1 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(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); and
- investments in subsidiaries and jointly controlled entity.

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).

(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.

NOTES ON THE ACCOUNTS *(CONTINUED)*

for the year ended 31 March 2003

1 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(k) Inventories (CONTINUED)

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, 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 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. Bank overdrafts that are repayable on demand and form an integral part of the group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(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 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.

NOTES ON THE ACCOUNTS (CONTINUED)

for the year ended 31 March 2003

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) *Provisions and contingent liabilities* (CONTINUED)

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 goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added 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.

(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 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.

NOTES ON THE ACCOUNTS *(CONTINUED)*

for the year ended 31 March 2003

1 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(p) Employee benefits

- (i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present value.
- (ii) The regular cost of providing benefits in respect of the group's defined contribution retirement schemes, and 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 at the rates as specified in the respective scheme when incurred.

(q) 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 of foreign enterprises are translated into Hong Kong dollars at the average exchange rates for the year; balance sheet items 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.

(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.

NOTES ON THE ACCOUNTS (CONTINUED)

for the year ended 31 March 2003

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) *Segment reporting* (CONTINUED)

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, results, 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 CHANGE IN ACCOUNTING POLICY

Short-term employee benefits

In prior years, the group did not make provision for paid annual leave of their employees in return of services rendered to the group. With the effect from 1 April 2002, in order to comply with SSAP 34 "Employee benefits" issued by the HKSA, the group adopted a new policy for short-term employee benefits as set out in note 1(p)(i) above.

As a result of the new accounting policy, the net assets as at the year end have been decreased by HK\$925,000 (2002: HK\$925,000) and there has been no impact on the profit or loss for the current and prior years. The new accounting policy has been adopted retrospectively, with the opening balance of retained profits and the comparative information adjusted for the amounts relating to prior periods as disclosed in the consolidated statement of changes in equity.

NOTES ON THE ACCOUNTS (CONTINUED)

for the year ended 31 March 2003

3 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:

	2003	2002
	HK\$'000	HK\$'000
Toy and gift products	481,755	424,084
Computer heads	118,418	183,806
Housewares	166,914	121,921
Timepieces	156,326	134,169
Others	2,541	3,082
	925,954	867,062

NOTES ON THE ACCOUNTS (CONTINUED)

for the year ended 31 March 2003

4 OTHER REVENUE AND OTHER NET INCOME

	2003 HK\$'000	2002 HK\$'000
Other revenue		
Interest income	1,232	1,341
Rental income	2,663	2,216
Dividend income from listed investments	36	23
Others	1,648	1,708
	<u>5,579</u>	<u>5,288</u>
Other net income		
Gain/(loss) on disposal of fixed assets	5,280	(97)
Net exchange (loss)/gain	(1,467)	587
Net realised and unrealised (losses)/gains on other securities	(858)	688
Write back on provision for bad debts	–	1,464
Cash distribution from investment previously written off	101	296
Others	334	2,038
	<u>3,390</u>	<u>4,976</u>

NOTES ON THE ACCOUNTS (CONTINUED)

for the year ended 31 March 2003

5 PROFIT/(LOSS) FROM ORDINARY ACTIVITIES BEFORE TAXATION

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

	2003 HK\$'000	2002 HK\$'000
(a) Finance cost:		
Interest on bank advances and other borrowings repayable within five years	<u>168</u>	<u>660</u>
(b) Staff costs:		
Contributions to defined contribution plans	9,178	8,888
Increase in provision for long service payments	<u>33</u>	<u>365</u>
Retirement costs	9,211	9,253
Salaries, wages and other benefits	<u>154,504</u>	<u>152,067</u>
	<u>163,715</u>	<u>161,320</u>
(c) Other items:		
Cost of inventories	695,624	688,259
Depreciation		
– assets held for use under operating leases	257	1,474
– other assets	25,011	26,282
Auditors' remuneration		
– current year	2,367	2,777
– (over)/underprovision in previous year	(34)	11
Operating lease charges		
– land and buildings	4,524	5,218
– other assets	<u>1,104</u>	<u>1,828</u>

NOTES ON THE ACCOUNTS (CONTINUED)

for the year ended 31 March 2003

6 DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' remuneration

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

	2003 HK\$'000	2002 HK\$'000
Executive directors		
Salaries and allowances	16,700	16,700
Retirement scheme contributions	1,411	1,411
	<u>18,111</u>	<u>18,111</u>
Non-executive directors		
Fees	360	465
	<u>18,471</u>	<u>18,576</u>

The remuneration of the directors is within the following bands:

	Number of directors	
	2003	2002
HK\$Nil to HK\$1,000,000	2	3
HK\$2,500,001 to HK\$3,000,000	1	1
HK\$3,500,001 to HK\$4,000,000	4	4

NOTES ON THE ACCOUNTS (CONTINUED)

for the year ended 31 March 2003

6 DIRECTORS' AND EMPLOYEES' EMOLUMENTS (CONTINUED)

(b) Individuals with highest emoluments

During the year ended 31 March 2003, the five highest paid individuals included four directors (2002: four directors). The aggregate of the emoluments in respect of the five highest paid individuals are as follows:

	2003 HK\$'000	2002 HK\$'000
Salaries and other emoluments	17,390	17,138
Retirement scheme contributions	1,582	1,582
	<u>18,972</u>	<u>18,720</u>

The emoluments of the five individuals with the highest emoluments are within the following band:

	Number of individuals	
	2003	2002
HK\$3,500,001 to HK\$4,000,000	<u>5</u>	<u>5</u>

7 TAXATION

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

	2003 HK\$'000	2002 HK\$'000
Provision for Hong Kong Profits Tax for the year	6,174	3,303
Overprovision in respect of prior year	(453)	(489)
Overseas taxation at applicable rates	1,362	(36)
Deferred taxation (note 21)	675	(229)
	<u>7,758</u>	<u>2,549</u>
Share of a jointly controlled entity's taxation	110	86
	<u>7,868</u>	<u>2,635</u>

The provision for Hong Kong Profits Tax is calculated at 16% (2002: 16%) of the estimated assessable profits for the year ended 31 March 2003. Taxation for overseas subsidiaries is similarly charged at the appropriate current rates of taxation ruling in the relevant countries.

NOTES ON THE ACCOUNTS (CONTINUED)

for the year ended 31 March 2003

7 TAXATION (CONTINUED)

(b) *Taxation in the consolidated balance sheet represents:*

	2003 HK\$'000	2002 HK\$'000
Provision for Hong Kong Profits Tax for the year	6,174	3,303
Provisional profits tax paid	(3,423)	(1,831)
Tax recoverable in respect of prior year	(25)	–
Overseas taxation	1,126	777
	<u>3,852</u>	<u>2,249</u>
Tax payable	<u>3,852</u>	<u>2,249</u>

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

	2003 HK\$'000	2002 HK\$'000
Provision for Hong Kong Profits Tax for the year	–	19
Provisional profits tax paid	(25)	(89)
	<u>(25)</u>	<u>(70)</u>
Tax recoverable	<u>(25)</u>	<u>(70)</u>

8 PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS

The profit/(loss) attributable to shareholders includes a profit of HK\$17,000 (2002: HK\$96,000) which has been dealt with in the accounts of the company.

NOTES ON THE ACCOUNTS (CONTINUED)

for the year ended 31 March 2003

9 DIVIDENDS

(a) Dividends attributable to the year

	2003 HK\$'000	2002 HK\$'000
Interim dividend declared and paid of HK1 cent per share (2002: Nil cent per share)	6,199	–
Final dividend proposed after the balance sheet date of HK2 cents per share (2002: HK1 cent per share)	<u>12,305</u>	<u>6,226</u>
	<u>18,504</u>	<u>6,226</u>

The interim dividend has been charged to the contributed surplus (note 24).

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

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

	2003 HK\$'000	2002 HK\$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK1 cent per share (2002: Nil cent per share)	<u>6,226</u>	<u>–</u>

The final dividend has been charged to the contributed surplus (note 24).

10 EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the net profit for the year attributable to ordinary shareholders of HK\$30,562,000 (2002: net loss of HK\$32,416,000), and on 620,957,000 (2002: 624,934,000) 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 2003 and 2002.

NOTES ON THE ACCOUNTS (CONTINUED)

for the year ended 31 March 2003

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.
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

	2003						Consolidated HK\$'000
	Toy and gift products HK\$'000	Computer heads HK\$'000	Housewares HK\$'000	Timepieces HK\$'000	Others HK\$'000	Inter-segment elimination HK\$'000	
Revenue from external customers	481,755	118,418	166,914	156,326	2,541	-	925,954
Other revenue from external customers	1,791	184	1,380	463	1,761	-	5,579
Inter-segment revenue	-	-	-	-	6,064	(6,064)	-
Total	483,546	118,602	168,294	156,789	10,366	(6,064)	931,533
Segment result	43,003	(21,661)	19,890	(523)	(2,016)		38,693
Inter-segment transactions	(3,383)	(1,253)	-	(1,428)	6,064		-
Contribution from operations	39,620	(22,914)	19,890	(1,951)	4,048		38,693
Unallocated operating income and expenses							3,594
Profit from operations							42,287
Finance costs							(168)
Share of profit of a jointly controlled entity	-	-	439	-	-		439
Taxation							(7,868)
Minority interests							(4,128)
Profit attributable to shareholders							30,562

NOTES ON THE ACCOUNTS (CONTINUED)

for the year ended 31 March 2003

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
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 costs							(660)
Share of profit of a jointly controlled entity	–	–	343	–	–		343
Taxation							(2,635)
Minority interests							(1,876)
Loss attributable to shareholders							(32,416)

NOTES ON THE ACCOUNTS (CONTINUED)

for the year ended 31 March 2003

11 SEGMENT REPORTING (CONTINUED)

Business segments (continued)

	2003						
	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
Depreciation for the year	11,039	8,122	3,281	1,647	1,179		25,268
Impairment loss for the year	–	1,000	–	–	–		1,000
Significant non-cash expenses (other than depreciation and amortisation)	50	–	–	100	745		895
Segment assets	273,731	87,064	108,167	56,318	30,186	(19,022)	536,444
Interest in a jointly controlled entity	–	–	1,698	–	–		1,698
Unallocated assets							27,683
Total assets							565,825
Segment liabilities	45,644	17,707	31,024	15,448	660	(19,022)	91,461
Unallocated liabilities							8,495
Total liabilities							99,956
Capital expenditure incurred during the year	21,668	2,429	1,014	1,658	510	–	27,279

NOTES ON THE ACCOUNTS (CONTINUED)

for the year ended 31 March 2003

11 SEGMENT REPORTING (CONTINUED)

Business segments (continued)

	2002						
	Toy and gift products HK\$'000	Computer heads HK\$'000 restated	Housewares HK\$'000	Timepieces HK\$'000	Others HK\$'000	Inter-segment elimination HK\$'000	Consolidated HK\$'000 restated
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)	<u>2,711</u>	<u>–</u>	<u>–</u>	<u>711</u>	<u>1,587</u>		<u>5,009</u>
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							<u>15,705</u>
Total assets							<u>557,292</u>
Segment liabilities	71,963	15,667	31,637	11,736	1,122	(20,241)	111,884
Unallocated liabilities							<u>7,631</u>
Total liabilities							<u>119,515</u>
Capital expenditure incurred during the year	6,189	3,124	707	2,039	210	–	<u>12,269</u>

NOTES ON THE ACCOUNTS (CONTINUED)

for the year ended 31 March 2003

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").

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.

	2003							Total	
	Asia		Europe		North	Others			
	Hong Kong	The PRC	Others	United		America			
				Kingdom	Others				
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
Revenue from external customers	64,293	3,702	28,943	297,819	58,338	455,917	16,942	925,954	
Segment assets	254,636	228,774	–	79,241	2,701	473	–	565,825	
Capital expenditure incurred during the year	7,539	18,694	–	1,038	–	8	–	27,279	

	2002							Total	
	Asia		Europe		North	Others			
	Hong Kong	The PRC	Others	United		America			
				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	
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	

NOTES ON THE ACCOUNTS (CONTINUED)

for the year ended 31 March 2003

12 FIXED ASSETS

(a) The group

	Land and buildings held for own use HK\$'000	Plant, machinery, furniture, fixtures and office equipment HK\$'000	Moulds HK\$'000	Motor vehicles HK\$'000	Sub-total HK\$'000	Investment properties HK\$'000	Total HK\$'000
Cost or valuation:							
At 1 April 2002	199,985	236,806	28,192	15,878	480,861	13,528	494,389
Exchange differences	694	1,113	–	200	2,007	–	2,007
Additions	3,815	21,298	917	1,249	27,279	–	27,279
Disposals	–	(8,675)	(2,184)	(480)	(11,339)	–	(11,339)
Reclassification (note (c))	(3,943)	–	–	–	(3,943)	2,568	(1,375)
Deficits on revaluation	–	–	–	–	–	(895)	(895)
At 31 March 2003	200,551	250,542	26,925	16,847	494,865	15,201	510,066
Accumulated depreciation and impairment losses:							
At 1 April 2002	93,305	178,052	26,187	12,329	309,873	–	309,873
Exchange differences	87	733	–	92	912	–	912
Charge for the year	5,686	16,905	1,318	1,359	25,268	–	25,268
Impairment loss	–	1,000	–	–	1,000	–	1,000
Written back on disposal	–	(7,859)	(2,184)	(356)	(10,399)	–	(10,399)
Reclassification (note (c))	(1,375)	–	–	–	(1,375)	–	(1,375)
At 31 March 2003	97,703	188,831	25,321	13,424	325,279	–	325,279
Net book value:							
At 31 March 2003	102,848	61,711	1,604	3,423	169,586	15,201	184,787
At 31 March 2002	106,680	58,754	2,005	3,549	170,988	13,528	184,516

NOTES ON THE ACCOUNTS (CONTINUED)

for the year ended 31 March 2003

12 FIXED ASSETS (CONTINUED)

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

	The group			
	Investment properties		Land and buildings held for own use	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Freehold outside Hong Kong	–	–	5,900	5,354
Medium term leases				
– in Hong Kong	14,001	12,278	27,329	31,094
– outside Hong Kong	1,200	1,250	69,245	69,842
Short term leases outside Hong Kong	–	–	374	390
	<u>15,201</u>	<u>13,528</u>	<u>102,848</u>	<u>106,680</u>

(c) At 31 March 2003, certain land and buildings of the group with a net book value of HK\$2,568,000 (total costs of HK\$3,943,000 and accumulated depreciation and impairment losses of HK\$1,375,000) have been reclassified to investment properties as at that date.

(d) Investment properties of the group located in Hong Kong and the PRC were revalued at 31 March 2003 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\$895,000 (2002: HK\$5,009,000) have been charged to the profit and loss account.

(e) During the year, the directors have performed an assessment of the recoverable amount of the group's plant and machinery of its computer heads division. Based on this assessment, the carrying amount of the plant and machinery was written down by HK\$1,000,000. The estimated recoverable amount of the plant and machinery was based on the value in use of the plant and machinery, determined using a discount rate of 5%.

In prior year, an impairment loss of HK\$31,894,000 was provided for the group's leasehold land and buildings held for own use.

(f) The gross amounts of investment properties of the group held for use in operating leases were HK\$15,201,000 (2002: HK\$13,528,000). The gross amount of fixed assets other than investment properties of the group held for use in operating leases at 31 March 2003 was HK\$3,959,000 (2002: HK\$3,959,000) and the related accumulated depreciation and impairment losses were HK\$2,874,000 (2002: HK\$2,727,000).

NOTES ON THE ACCOUNTS (CONTINUED)

for the year ended 31 March 2003

12 FIXED ASSETS (CONTINUED)

- (g) The group's total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	The group	
	2003	2002
	HK\$'000	HK\$'000
Within 1 year	1,369	2,107
After 1 year but within 5 years	858	2,068
	<u>2,227</u>	<u>4,175</u>

13 INVESTMENTS IN SUBSIDIARIES

	The company	
	2003	2002
	HK\$'000	HK\$'000
Unlisted shares, at cost, net of dividend received from subsidiary from pre-acquisition profits	<u>327,365</u>	<u>327,365</u>

Details of the company's principal subsidiaries at 31 March 2003 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.

NOTES ON THE ACCOUNTS (CONTINUED)

for the year ended 31 March 2003

14 INTEREST IN A JOINTLY CONTROLLED ENTITY

	The group	
	2003	2002
	HK\$'000	HK\$'000
Share of net assets	1,756	1,803
Amount due to a jointly controlled entity	(58)	(44)
	<u>1,698</u>	<u>1,759</u>

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	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	
	2003	2002
	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	70	28
– outside Hong Kong	4,587	3,898
	<u>4,657</u>	<u>3,926</u>
	<u>6,777</u>	<u>6,046</u>
Market value of listed investments	<u>4,657</u>	<u>3,926</u>

NOTES ON THE ACCOUNTS (CONTINUED)

for the year ended 31 March 2003

16 INVENTORIES

	The group	
	2003	2002
	HK\$'000	HK\$'000
Raw materials	56,579	52,779
Work in progress	23,344	19,570
Finished goods	37,636	40,310
	<u>117,559</u>	<u>112,659</u>

The amount of inventories (included above) carried at net realisable value is HK\$17,303,000 (2002: HK\$10,744,000).

17 TRADE AND OTHER RECEIVABLES

	The group		The company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade debtors and bills receivable	69,961	104,428	–	–
Other receivables	24,939	16,803	126	124
	<u>94,900</u>	<u>121,231</u>	<u>126</u>	<u>124</u>

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	
	2003	2002
	HK\$'000	HK\$'000
<i>By date of invoice</i>		
Within 1 month	51,510	71,411
After 1 month but within 3 months	17,877	24,053
After 3 months	574	8,964
	<u>69,961</u>	<u>104,428</u>

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.

NOTES ON THE ACCOUNTS (CONTINUED)

for the year ended 31 March 2003

18 CASH AND CASH EQUIVALENTS

	The group	
	2003	2002
	HK\$'000	HK\$'000
Cash and cash equivalents in the consolidated balance sheet	160,104	131,081
Bank overdrafts	(918)	(2,416)
	<u>160,104</u>	<u>131,081</u>
Cash and cash equivalents in the consolidated cash flow statement	<u>159,186</u>	<u>128,665</u>

19 BANK LOANS AND OVERDRAFTS

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

20 TRADE AND OTHER PAYABLES

	The group		The company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		restated		
Trade creditors and bills payable	42,937	48,855	–	–
Accruals and other payables	46,326	58,882	960	751
	<u>42,937</u>	<u>48,855</u>	<u>960</u>	<u>751</u>
	<u>89,263</u>	<u>107,737</u>	<u>960</u>	<u>751</u>

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	
	2003	2002
	HK\$'000	HK\$'000
<i>By date of invoice</i>		
Within 1 month	26,126	34,048
After 1 month but within 3 months	14,621	13,660
After 3 months	2,190	1,147
	<u>26,126</u>	<u>34,048</u>
	<u>42,937</u>	<u>48,855</u>

NOTES ON THE ACCOUNTS (CONTINUED)

for the year ended 31 March 2003

21 DEFERRED TAXATION

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

	2003 HK\$'000	2002 HK\$'000
At 1 April	844	1,072
Transfer from/(to) the profit and loss account (note 7)	675	(229)
Exchange difference	40	1
	<u>1,559</u>	<u>844</u>
At 31 March	<u>1,559</u>	<u>844</u>

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

	2003		2002	
	Provided HK\$'000	Potential assets unrecognised HK\$'000	Provided HK\$'000	Potential assets unrecognised HK\$'000
Depreciation allowances in excess of related depreciation	2,239	–	1,403	–
Future benefit of tax losses	–	(8,031)	–	(5,490)
Other timing differences	(720)	(221)	(560)	(306)
Exchange difference	40	–	1	–
	<u>1,559</u>	<u>(8,252)</u>	<u>844</u>	<u>(5,796)</u>

NOTES ON THE ACCOUNTS (CONTINUED)

for the year ended 31 March 2003

22 PROVISION FOR LONG SERVICE PAYMENTS

	HK\$'000
At 1 April 2002	5,340
Payments made during the year	(1,009)
Charge for the year	33
	<hr/>
At 31 March 2003	4,364
	<hr/> <hr/>

According to Part VB of the Hong Kong 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.

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.

23 SHARE CAPITAL

	2003		2002	
	Number of shares (Thousand)	Amount HK\$'000	Number of shares (Thousand)	Amount HK\$'000
Authorised:				
Ordinary shares of US\$0.01 each	<u>1,000,000</u>	<u>78,000</u>	<u>1,000,000</u>	<u>78,000</u>
Issued and fully paid:				
Shares of US\$0.01 each				
At 1 April	624,011	48,673	625,201	48,766
Shares repurchased and cancelled	<u>(7,340)</u>	<u>(573)</u>	<u>(1,190)</u>	<u>(93)</u>
At 31 March	<u>616,671</u>	<u>48,100</u>	<u>624,011</u>	<u>48,673</u>

NOTES ON THE ACCOUNTS (CONTINUED)

for the year ended 31 March 2003

23 SHARE CAPITAL (CONTINUED)

During the year, the company repurchased a total of 7,340,000 (2002: 1,190,000) 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		Aggregate price HK\$'000
		Highest HK\$	Lowest HK\$	
April 2002	80	0.190	0.190	16
May 2002	565	0.225	0.220	127
June 2002	765	0.215	0.210	165
July 2002	360	0.190	0.190	69
August 2002	800	0.166	0.163	133
September 2002	880	0.172	0.170	151
October 2002	270	0.158	0.157	43
November 2002	400	0.158	0.158	63
December 2002	300	0.210	0.210	63
January 2003	490	0.205	0.200	99
February 2003	610	0.280	0.243	152
March 2003	1,820	0.290	0.260	507
	<u>7,340</u>			<u>1,588</u>

NOTES ON THE ACCOUNTS (CONTINUED)

for the year ended 31 March 2003

24 RESERVES

(a) The group

	Share premium	Contributed surplus (Note i)	Exchange fluctuation reserve	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2001					
– As previously reported	27,699	271,692	(9,161)	119,247	409,477
– Opening balance adjustment against retained profits arising from the change in accounting policy for long service payments	–	–	–	(3,328)	(3,328)
	27,699	271,692	(9,161)	115,919	406,149
– Prior period adjustment in respect of short-term employee benefits (note 2)	–	–	–	(925)	(925)
As restated	27,699	271,692	(9,161)	114,994	405,224
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	<u>27,586</u>	<u>271,692</u>	<u>(10,605)</u>	<u>82,578</u>	<u>371,251</u>
At 1 April 2002					
– As previously reported	27,586	271,692	(10,605)	83,503	372,176
– Prior period adjustment in respect of short-term employee benefits (note 2)	–	–	–	(925)	(925)
As restated	27,586	271,692	(10,605)	82,578	371,251
Dividend approved in respect of the previous year (note 9(b))	–	(6,226)	–	–	(6,226)
Exchange difference on consolidation	–	–	3,056	–	3,056
Premium paid on repurchase of shares	(1,015)	–	–	–	(1,015)
Profit for the year	–	–	–	30,562	30,562
Dividend declared in respect of the current year (note 9(a))	–	(6,199)	–	–	(6,199)
At 31 March 2003	<u>26,571</u>	<u>259,267</u>	<u>(7,549)</u>	<u>113,140</u>	<u>391,429</u>

NOTES ON THE ACCOUNTS (CONTINUED)

for the year ended 31 March 2003

24 RESERVES (CONTINUED)

(b) The company

	Share premium	Contributed surplus (Note i)	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
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
	<u>27,586</u>	<u>218,005</u>	<u>19,885</u>	<u>265,476</u>
At 31 March 2002	27,586	218,005	19,885	265,476
Dividend approved in respect of previous year (note 9(b))	–	(6,226)	–	(6,226)
Premium paid on repurchase of shares	(1,015)	–	–	(1,015)
Profit for the year	–	–	17	17
Dividend declared in respect of the current year (note 9(a))	–	(6,199)	–	(6,199)
	<u>26,571</u>	<u>205,580</u>	<u>19,902</u>	<u>252,053</u>

Notes:

(i) 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.

(ii) At 31 March 2003, the aggregate amount of reserves available for distribution to shareholders of the company was HK\$225,482,000 (2002: HK\$237,890,000).

NOTES ON THE ACCOUNTS (CONTINUED)

for the year ended 31 March 2003

25 CONTINGENT LIABILITIES

At 31 March 2003, there were contingent liabilities in respect of the following:

	The company	
	2003	2002
	HK\$'000	HK\$'000
Guarantees issued in respect of facilities granted by banks to subsidiaries	<u>39,938</u>	<u>39,248</u>

26 COMMITMENTS

At 31 March 2003, the total future lease payments of the group under non-cancellable operating leases are payable as follows:

	2003		2002	
	Land and buildings	Others	Land and buildings	Others
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within 1 year	5,765	712	7,039	1,011
After 1 year but within 5 years	11,950	541	9,720	1,110
After 5 years	16,568	–	16,379	22
	<u>34,283</u>	<u>1,253</u>	<u>33,138</u>	<u>2,143</u>

The group leases a number of properties under operating leases. The leases typically run for a period of one to five years. None of the leases includes contingent rentals.

27 RETIREMENT SCHEMES

The principal subsidiaries of the company in Hong Kong have 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, 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.

NOTES ON THE ACCOUNTS (CONTINUED)

for the year ended 31 March 2003

27 RETIREMENT SCHEMES (CONTINUED)

The principal subsidiaries in Hong Kong also operate Mandatory Provident Fund Schemes ("the MPF schemes") under the Hong Kong Mandatory Provident Fund Schemes Ordinance 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, the employer and its 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\$20,000. Contributions to the schemes vest immediately.

The employees in certain subsidiaries in the People's Republic of China ("the PRC") are members of the state-sponsored retirement benefit scheme organised by the PRC government. The subsidiaries are required to contribute, based on a certain percentage of the basic payroll, to the retirement benefit scheme to fund the benefits. The only obligation of the subsidiaries with respect to the retirement benefit scheme is to make the required contributions under the scheme.

The total retirement scheme cost charged to the profit and loss account for the year was HK\$9,178,000 (2002: HK\$8,888,000). 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 2003, the total amount of forfeited contributions which are available to reduce the contributions payable in future years was HK\$168,000 (2002: HK\$221,000).

28 COMPARATIVE INFORMATION

The presentation and classification of items in the consolidated cash flow statement have been changed due to the adoption of the requirement of SSAP 15 (revised) "Cash flow statements".

Certain comparative figures have also been adjusted as a result of the change in accounting policy for short-term employee benefits as set out in note 2. The comparative figures for selling expenses and administrative expenses in the profit and loss account have been adjusted to better reflect the nature of such expenses.

DETAILS OF PRINCIPAL SUBSIDIARIES

Name of company	Principal activities	Place/country of incorporation	Place/country of operation	Particulars of issued and fully paid shares/equity	Percentage of issued shares/equity held by	
					company	subsidiaries
Herald Group Limited	Investment holding	The British Virgin Islands	Hong Kong	1 share of US\$1 each	100	–
Herald (Hong Kong) Limited	Investment holding	Hong Kong	Hong Kong	10,000 shares of HK\$0.15 each	–	100
Herald China Investments Limited	Investment holding	Hong Kong	Hong Kong	1,000,000 shares of HK\$1 each	–	100
Herald Investments (China) Company Limited * @	Investment holding	The People's Republic of China	The People's Republic of China	Equity of US\$11,500,000	–	100
Herald Metal and Plastic Works Limited	Manufacture of toys	Hong Kong	Hong Kong	100 ordinary shares of HK\$10 each	–	100
				1,953,000 deferred shares of HK\$10 each	–	100
Dongguan Herald Metal and Plastic Company Limited * @	Manufacture of toys	The People's Republic of China	The People's Republic of China	Equity of HK\$35,400,000	–	100
Shenzhen Herald Metal and Plastic Company Limited * #	Manufacture of toys	The People's Republic of China	The People's Republic of China	Equity of HK\$23,500,000	–	60
Herald Datanetics Limited	Manufacture of computer heads	Hong Kong	Hong Kong	1,128,000 shares of HK\$10 each	–	100
Cyber Network Limited	Trading of computer heads	Hong Kong	Hong Kong	2 shares of HK\$1 each	–	100
Zhuhai Herald Datanetics Limited * #	Manufacture of computer heads	The People's Republic of China	The People's Republic of China	Equity of HK\$38,000,000	–	75

DETAILS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

Name of company	Principal activities	Place/country of incorporation	Place/country of operation	Particulars of issued and fully paid shares/equity	Percentage of issued shares/equity held by company subsidiaries	
Herald Engineering Services Inc. *	Engineering service	United States	United States	75,000 shares of US\$0.4 each	–	100
Herald Houseware Limited	Trading of housewares	Hong Kong	Hong Kong	5,000,000 shares of HK\$1 each	–	100
Herald Metal Products Company Limited * #	Manufacture of housewares	The People's Republic of China	The People's Republic of China	Equity of US\$1,650,000	–	51
Zhuhai Herald Houseware Limited * #	Manufacture of housewares	The People's Republic of China	The People's Republic of China	Equity of HK\$30,000,000	–	80
Pilot Housewares (U.K.) Limited *	Sales and distribution of housewares	England	England	800,000 shares of £1 each	–	100
Zeon Limited	Sales and distribution of clocks, watches and electronic products	England	England	433,750 ordinary shares of £1 each	–	100
				1,250,000 12.5% cumulative redeemable preference shares of £1 each	–	100
				165,417 preferred shares of £1 each	–	100
Zeon Far East Limited	Trading of clocks and watches	Hong Kong	Hong Kong	2 shares of HK\$1 each	–	100

DETAILS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

Name of company	Principal activities	Place/country of incorporation	Place/country of operation	Particulars of issued and fully paid shares/equity	Percentage of issued shares/equity held by company subsidiaries	
Zeon GmbH *	Sales and distribution of clocks, watches and electronic products	Germany	Germany	500,000 shares of Euro 0.511 each	–	100
Herald Electronics Limited	Trading of clocks and watches	Hong Kong	Hong Kong	1,000,000 shares of HK\$1 each	–	100
Shanghai Herald Electronics Company Limited *#	Manufacture of clocks and watches	The People's Republic of China	The People's Republic of China	Equity of RMB3,200,000	–	75
Herald Marketing Limited	Marketing	Hong Kong	Hong Kong	3,000,000 shares of HK\$1 each	–	100
Jonell Limited	Property investment	Hong Kong	Hong Kong	2 shares of HK\$10 each	–	100
Premium Account Limited *	Property investment	The British Virgin Islands	The People's Republic of China	2 shares of US\$1 each	–	100

* Companies not audited by KPMG, which constitute 11.2% (2002: 9.5%) of the consolidated turnover for the year ended 31 March 2003.

Equity joint ventures registered under the laws of the People's Republic of China as Sino-foreign Joint Venture Enterprises.

@ Wholly-Owned Foreign Investment Enterprise registered under the laws of the People's Republic of China.

FIVE YEAR SUMMARY

	2003	2002	2001	2000	1999
	HK\$'000	restated HK\$'000	HK\$'000	HK\$'000	HK\$'000
Results					
Turnover	<u>925,954</u>	<u>867,062</u>	<u>953,884</u>	<u>947,486</u>	<u>905,930</u>
Profit/(loss) from ordinary activities before taxation	42,558	(27,905)	15,863	44,004	29,719
Taxation	(7,868)	(2,635)	(2,257)	1,548	(5,448)
Minority interests	<u>(4,128)</u>	<u>(1,876)</u>	<u>(4,933)</u>	<u>(6,185)</u>	<u>(1,789)</u>
Profit/(loss) attributable to shareholders	<u>30,562</u>	<u>(32,416)</u>	<u>8,673</u>	<u>39,367</u>	<u>22,482</u>
Assets and liabilities					
Fixed assets	184,787	184,516	237,232	250,051	268,083
Interest in a jointly controlled entity/associates	1,698	1,759	1,548	1,204	1,064
Other non-current financial assets	6,777	6,046	5,358	7,519	3,163
Current assets	372,563	364,971	357,328	382,127	368,822
Current liabilities	<u>(94,033)</u>	<u>(113,331)</u>	<u>(111,469)</u>	<u>(127,109)</u>	<u>(136,343)</u>
Total assets less current liabilities	471,792	443,961	489,997	513,792	504,789
Non-current liabilities	(5,923)	(6,184)	(3,582)	(3,487)	(2,250)
Minority interests	<u>(26,340)</u>	<u>(17,853)</u>	<u>(28,172)</u>	<u>(27,143)</u>	<u>(33,759)</u>
NET ASSETS	<u>439,529</u>	<u>419,924</u>	<u>458,243</u>	<u>483,162</u>	<u>468,780</u>
CAPITAL AND RESERVES					
Share capital	48,100	48,673	48,766	49,566	50,707
Reserves	<u>391,429</u>	<u>371,251</u>	<u>409,477</u>	<u>433,596</u>	<u>418,073</u>
	<u>439,529</u>	<u>419,924</u>	<u>458,243</u>	<u>483,162</u>	<u>468,780</u>

In order to comply with Hong Kong Statement of Standard Accounting Practice ("SSAP") No.34 "Employee benefits", the group adopted a new accounting policy for short-term employee benefits in 2003. Figures for the year 2002 have been adjusted and it is not practicable to restate earlier years for comparison purposes.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY given that the Annual General Meeting of Shareholders of the Company will be held at the Chater Room II, Function Room Level (B1), The Ritz-Carlton Hotel Hong Kong, 3 Connaught Road Central, Hong Kong on Thursday, 18 September 2003 at 3:45 p.m. for the following purposes:

1. To receive and consider the Audited Financial Statements and the Reports of the Directors and Auditors for the year ended 31 March 2003.
2. To re-elect Directors.
3. To appoint Auditors and to authorize the Board of Directors to fix their remuneration.
4. To declare a final dividend.

By Order of the Board
Thong Yeung Sum, Michael
Secretary

Hong Kong, 15 July 2003

Notes:

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and, on a poll, vote instead of him at the meeting. A proxy need not be a member of the Company.
2. To be valid, the form of proxy must be deposited at the principal office of the Company in Hong Kong at 3110, 31/F., Tower Two, Lippo Centre, 89 Queensway, Hong Kong together with any power of attorney or other authority, if any, under which it is signed or certified copy of that power or authority, not less than 48 hours before the time for holding of the meeting or any adjournment thereof.