Herald Holdings Limited

Stock Code : 0114

Annual Report 2006

Contents

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, CPA

INDEPENDENT NON-EXECUTIVE DIRECTORS

Tang King-Hung ACA, FCCA, ACIS, CPA
Lie-A-Cheong Tai-Chong, David JP
Yeh Man-Chun, Kent

SECRETARY

Thong Yeung-Sum, Michael FCCA, CPA

PRINCIPAL BANKERS

Bank of America, N.A.
The Hongkong and Shanghai Banking
Corporation Limited
Fubon Bank (Hong Kong) Limited

AUDITORS

KPMG
Certified Public Accountants

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, 2 Church Street
Hamilton HM 11
Bermuda

PRINCIPAL REGISTRARS

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
14 Bermudiana Road
Pembroke
Bermuda

HONG KONG SHARE REGISTRARS

Tengis Limited
26/F., Tesbury Centre
28 Queen's Road East
Hong Kong

COMPANY'S WEBSITE

http://www.heraldgroup.com.hk

	Year ended 31 March 2006 HK$'000	Year ended 31 March 2005 HK$'000
Turnover	**1,325,686**	1,442,998
Profit attributable to equity shareholders	**86,290**	96,117
Dividends paid and proposed	**39,906**	39,906
Earnings per share – Basic and diluted	**HK14.06 cents**	HK15.66 cents
Dividends paid and proposed, per share	**HK6.5 cents**	HK6.5 cents

	As at 31 March 2006 HK$'000	As at 31 March 2005 HK$'000
Net assets attributable to equity shareholders	**602,309**	560,938
Net assets attributable to equity shareholders per share	**HK98.11 cents**	HK91.37 cents
Total assets	**763,485**	759,360
Number of issued and fully paid shares	**613,925,763 shares**	613,925,763 shares

I am pleased to present my review of the results and operations of the Herald Group (the "group") for the year ended 31 March 2006.

RESULTS

The group achieved favourable results in the financial year under review amid a very challenging operating environment. The turnover of the group for the year ended 31 March 2006 was HK$1,326 million which was HK$117 million or 8% below the turnover of HK$1,443 million in the previous year. During the year under review, the Timepiece Division experienced a very sharp decrease in turnover while the businesses of the other divisions were relatively stable. The net profit attributable to the equity shareholders of the company in the year under review was HK$86.3 million, 10% down from the net profit of HK$96.1 million in the previous year. This year's net profit included a write-back of HK$9.3 million relating to impairment losses on property, plant and equipment which were charged to the profits in previous financial years. Excluding this write-back, the net profit of the group was HK$77 million, representing a decrease of 20% compared to the year-ago net profit.

REVIEW OF OPERATIONS

Toy and Gift Division

During the year under review, the Toy and Gift Division performed well amid very difficult market conditions. The division was able to maintain a relatively satisfactory result mainly due to the robust sales of the toys related to the "Star Wars" brands, particularly in the first half of the year. The turnover of the division increased modestly by 0.3% to HK$647 million from the turnover of HK$645 million a year earlier, while its operating profit increased by HK$1.2 million or 4.3% from HK$27.7 million to HK$28.9 million. The increase in operating profit was virtually due to provisions for impairment losses for bad and doubtful debts of HK$2.1 million and impairment losses of property, plant and equipment of HK$3.5 million written back to profit or loss in the reporting fiscal year. Excluding these write-backs, the division's operating profit decreased by HK$4.4 million. Like most of the toy factories in Guangdong, the division experienced very tough operating conditions. Firstly, the price pressure resulting from intense competition among toy factories has continued to erode the profit margins in the toy industry. Furthermore, labour shortages have become a much more serious problem for factories in the Pearl River Delta region. In March 2005, the minimum wage rate in the Dongguan area increased by as much as 27.6%. As labour is an important cost factor for the division, the steep wage increase had a negative impact on the results of the division.

Computer Head Division

The Computer Head Division also performed well in the fiscal year 2006. Compared to last year, the division's turnover increased moderately by 2% from HK$155 million to HK$158 million, while the operating profit increased by 56% from HK$16.3 million to HK$25.5 million. During the year under review, the division achieved better production efficiency due to higher volumes, resulting in improved product yields and substantially lower reject rates. In 2005, the division completed the development of computer tape heads for the Linear Tape-Open Generation 4 tape drives. With an uncompressed capacity of 800 gigabytes, these heads are now the most advanced products in the market for computer data tape storage. The division has started delivery of these heads in April 2006. The division has always been concerned with environmental protection. In January 2006 the division acquired certification of ISO14001 relating to its environmental management system reflecting the division's strong commitment to environmentally friendly policies and procedures.

Houseware Division

The sales of the Houseware Division edged downwards by 1% to HK$240 million from last year. The operating profit of HK$12.4 million for the year was relatively flat compared to the operating profit in the earlier fiscal year. In the year ended 31 March 2005, the division had a product claim for which the division made a provision of HK$8.6 million. The claim was settled in the year under review and an excess provision of HK$1.5 million was written back as profit in fiscal 2006. Excluding the impact of this provision/write back, the operating profit for this year decreased by HK$10.1 million on a year-on-year comparison. The increases of prices of aluminum and stainless steel were the major factors that attributed to the decrease.

Timepiece Division

As mentioned in the interim report, the sales of the Timepiece Division were dampened by the general weakness of the retail sales in the UK and the closures of business of some of the division's customers. Furthermore, the business from a TV and internet retail group, which rapidly increased the sales of the division in the previous year, receded significantly. For the year ended 31 March 2006, the sales of the division decreased by 33% or HK$121 million to HK$249 million from HK$370 million in the prior year. Mainly due to lower turnover, the operating profit for the year under review declined to HK$21.4 million, representing merely 42% of last year's profit.

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 2006, the group had total assets of HK$763 million (2005: HK$759 million) which were financed by current liabilities of HK$124 million (2005: HK$166 million), non-current liabilities of HK$4 million (2005: HK$4 million), minority interests of HK$33 million (2005: HK$28 million) and equity attributable to equity shareholders of HK$602 million (2005: HK$561 million).

At 31 March 2006, the group's cash balances aggregated to HK$239 million representing an increase of HK$15 million over the HK$224 million in last year's balance sheet. The group's current assets position as at 31 March 2006 was HK$574 million compared to HK$567 million as at 31 March 2005. The inventories decreased to HK$140 million from HK$168 million and the trade and other receivables decreased to HK$132 million from HK$174 million. The decreases were mainly due to the decline of the group's sales activities. During the year, the group acquired certain listed equity securities and unlisted equity linked notes which are held for trading. Together with other equity securities acquired in previous years and reclassified as trading securities during the year, the group's trading securities as at 31 March 2006 amounted to HK$60 million (2005: HK$Nil).

The group's current liabilities decreased from HK$166 million to HK$124 million primarily due to decrease in trade and other payables.

Like last year, the group had no bank borrowings at 31 March 2006. Furthermore, the group has no long-term borrowings. Trading securities of HK$37 million (2005: HK$Nil) are pledged to a bank to secure the banking facilities granted to a subsidiary of the company. As at 31 March 2006, the working capital ratio, an indicator of a company's liquidity represented by a ratio between the current assets over the current liabilities, was 4.64 compared to 3.41 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, slightly increases to 2.76 from 2.21.

CONTINGENT LIABILITIES

As at 31 March 2006 the group did not have any significant contingent liabilities.

FOREIGN EXCHANGE EXPOSURE

During the year under review, approximately 30% of the group's turnover was denominated in sterling. From time to time, the group enters forward foreign exchange contracts to hedge its foreign exchange exposure.

PROSPECTS AND GENERAL OUTLOOK

The new fiscal year will continue to be very challenging for the group. The problems of rising material costs and labour costs will continue to put pressure on the already tight profit margins of the group's businesses. Though relatively still higher than 2005, the management is pleased to see that metal prices have eased since mid June 2006. As at 7 July 2006, the LME aluminum closing price has come down to USD2,521 per metric ton from its peak of USD3,275 at 11 May 2006. The Shenzhen government has already raised the minimum wage rate in the Special Economic Zone by 17.4% with effect from 1 July 2006. It is believed that other areas in Guangdong will very soon have similar increases in the second half of 2006. Furthermore, up to the end of June 2006, the value of Renminbi has further increased by 1.4% against the U.S. dollar following an appreciation of 2% in July 2005. It is generally believed that the currency will further strengthen in the coming year. As the group's factories are all located in the PRC, an even stronger Renminbi will further lift the production costs of the group's products.

Despite the above-mentioned adverse market conditions, there are signs that retail sales in both the UK and the USA, which accounted for 37% and 48% of the group's sales respectively in the last fiscal year have both picked up in the first half of 2006. The management is confident that the group will weather the market difficulties and strive to achieve a solid result in the new fiscal year.

DIVIDENDS

At the forthcoming Annual General Meeting to be held on 15 September 2006, the Directors will recommend a final dividend of HK4 cents per share (2005: HK4.5 cents). Together with the interim dividend of HK2.5 cents (2005: HK2 cents), the dividend for the year of HK6.5 cents (2005: HK6.5 cents) would represent an annual return of 8% on the company's average share price of HK80 cents in the year ended 31 March 2006.

The total final dividend will amount to HK$24,558,000 and is calculated based on the total number of shares in issue as at 13 July 2006 being the latest practicable date prior to the announcement of the results. Dividend will be payable on 29 September 2006 to shareholders registered in the Register of Members on 15 September 2006.

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. Their commitment to the group, along with the support of customers and suppliers, has been crucial to the success of the group.

George Bloch
Chairman

Hong Kong, 14 July 2006

The directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 March 2006.

PRINCIPAL ACTIVITIES

The principal activity of the company is investment holding. The principal activities and other particulars of the principal subsidiaries are set out in note 36 on the financial statements.

The analysis of the principal activities and geographical locations of the operations of the company and its principal subsidiaries ("the group") during the financial year are set out in note 12 on the financial statements.

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	25%	
Five largest customers in aggregate	56%	
The largest supplier		6%
Five largest suppliers in aggregate		19%

At no time during the year have the directors, their associates or any shareholder of the company (which to the knowledge of the directors owns more than 5% of the company's share capital) had any interest in these major customers and suppliers.

FINANCIAL STATEMENTS

The profit of the group for the year ended 31 March 2006 and the state of the company's and the group's affairs as at that date are set out in the financial statements on pages 21 to 84.

TRANSFER TO RESERVES

Profit attributable to equity shareholders of the company, before dividends, of HK$86,290,000 (2005: HK$96,117,000) has been transferred to reserves. Other movements in reserves are set out in note 27 on the financial statements.

An interim dividend of HK2.5 cents (2005: HK2 cents) per share was paid on 20 January 2006. The directors now recommend the payment of a final dividend of HK4 cents (2005: HK4.5 cents) per share in respect of the year ended 31 March 2006.

CHARITABLE DONATIONS

Charitable donations made by the group during the financial year amounted to HK$1,126,715 (2005: HK$64,140).

FIXED ASSETS

Details of movements in fixed assets during the financial year are set out in note 13 on the financial statements.

SHARE CAPITAL

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

Neither the company nor any of its subsidiaries has purchased, sold or redeemed any of the company's listed securities during the financial year.

DIRECTORS

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

Executive directors

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

Independent non-executive directors

K H Tang	
D T C Lie-A-Cheong	(appointed on 16 June 2005)
K M C Yeh	(appointed on 5 October 2005)
D C Bray	(deceased on 8 July 2005)
P K Y Tsao	(deceased on 5 June 2005)

In accordance with Bye-law 87 of the company's Bye-laws, D S Chang and R Dorfman retire from the board by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

In addition, according to Bye-law 86(2) of the company's Bye-laws, K M C Yeh, who was appointed to fill a casual vacancy, holds office until the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.

No director proposed for re-election at the forthcoming Annual General Meeting has an unexpired service contract which is not determinable by the company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

Independent non-executive directors are not appointed for a specific term but are subject to retirement from office by rotation in accordance with the Bye-laws of the company. Their remuneration is determined by the board of directors annually.

DIRECTORS AND SENIOR MANAGEMENT

Directors

George BLOCH, aged 85, 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 a "Chevalier dans l'Ordre de la Legion d'Honneur". He received the "Chevalier de la Couronne" from the Belgian Government and has a major decoration from the Government of Austria in recognition of his contribution to the arts. In addition, he was made recently "Commendatore dell' Ordine della Stella della Solidarieta' Italiana" by the President of the Republic of Italy.

CHEUNG Tsang-Kay, Stan, PhD, Hon LLD, Hon DBA, JP, aged 62, 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 director of principal subsidiaries of the company.

CHANG Dong-Song, aged 85, is the father of Dr Cheung Tsang-Kay, Stan. Mr Chang has been an executive director of the company since 1992. Mr Chang is a co-founder of HMPL and has played a principal role in the development of the group's manufacturing activities since 1969. He is now a director of some of the group's companies. He has served in the past as a member of the Toys Advisory Council of the Hong Kong Trade Development Council. Mr Chang is now a member of The Chinese People's Political Consultative Conference, Jiangsu Changshu Committee.

Robert DORFMAN, aged 51, 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 served as a Director on its International Board. Mr Dorfman is director of certain of the group's companies.

THONG Yeung-Sum, Michael, FCCA, CPA, aged 56, obtained a degree in Social Science at the University of Hong Kong. He is a member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. Before joining the group in 1976, he worked for three years in 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 the finance director and company secretary of principal subsidiaries of the company. Mr Thong is an advisor of The Chinese People's Political Consultative Conference, Zhuhai Committee.

DIRECTORS AND SENIOR MANAGEMENT *(Continued)*

Directors *(Continued)*

TANG King-Hung, ACA, FCCA, ACIS, CPA, aged 55, was appointed as an independent non-executive director of the company on 28 September 2004. Mr Tang is a member of the Hong Kong Institute of Certified Public Accountants, the Institute of Chartered Accountants in England and Wales and the Institute of Chartered Secretaries and Administrators. He has over 30 years of experience in auditing, accounting and financial management. Mr Tang is now a consultant to a firm of certified public accountants. Mr Tang is an independent non-executive director of World Houseware (Holdings) Limited, a company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

LIE-A-CHEONG Tai-Chong, David, JP, aged 46, was appointed as an independent non-executive director of the company on 16 June 2005. Mr Lie-A-Cheong is the executive chairman of Newpower International (Holdings) Co., Ltd. and China Concept Consulting Ltd. He has been selected as a Member of the National Committee of the 8th, 9th and 10th Chinese People's Political Consultative Conference since 1993. Mr Lie-A-Cheong is currently the Honorary Consul of the Hashemite Kingdom of Jordan in the Hong Kong Special Administrative Region ("HKSAR"), a member of the Commission on Strategic Development of HKSAR, a Member of The Greater Pearl River Delta Business Council, a Board Member of The Hospital Authority, a Member of the China Overseas Friendship Association, a General Committee Member of the Hong Kong General Chamber of Commerce, Hong Kong Chair of Hong Kong Trade Development Council – Hong Kong/France Business Partnership. Mr Lie-A-Cheong is an independent non-executive director of Wheelock Properties Limited, a company whose securities are listed on the Stock Exchange.

YEH Man-Chun, Kent, aged 51, was appointed as an independent non-executive director of the company on 5 October 2005. Mr Yeh is the Senior Vice President of Robina Wood Limited, a company involved in the marketing, distribution and manufacturing of wood flooring products. Prior to joining the Robin Group, Mr Yeh was a partner and director of Prima (Shanghai) Co., Ltd, a Shanghai-based firm providing business advisory services. Mr Yeh is an independent non-executive director of Pacific Andes International Holdings Limited, a company listed on the Stock Exchange. Mr Yeh had also been the managing director of Tai Ping Carpets International Limited. Mr Yeh received a Bachelor of Science degree in Industrial Engineering from the University of California, Berkeley, U.S.A. and a Master of Business Administration degree from the Wharton School of the University of Pennsylvania, U.S.A.

Senior Management

Gershon DORFMAN, aged 50, 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 Datanetics Limited and director of certain of the group's companies.

KWOK Nam-Po, aged 55, obtained a diploma in Management Studies from The Hong Kong Polytechnic University. He joined the group in 1974. He has more than 30 years' experience in toy industry and is now the Managing Director of HMPL 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. Mr Kwok is also a member of The Chinese People's Political Consultative Conference, Dongguan City Committee.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 March 2006, the beneficial interests of the directors of the company and their associates in the shares of the company, its subsidiaries and other associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the company pursuant to section 352 of the SFO, or as otherwise notified to the company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"), were as follows:

Interests in issued shares
(Shares of US$0.01 each of the company)

	Number of shares					Percentage of total
Directors	**Personal interests** (Note (i))	**Interests of spouse**	**Corporate interests**	**Other interests**	**Total**	**issued shares**
G Bloch	150,000	8,091,500	1,250,000 (Note (ii))	–	9,491,500	1.55%
D S Chang	10,040,000	21,654,879	–	75,498,356 (Note (iii))	107,193,235	17.46%
S T K Cheung	36,742,808	950,000	–	75,498,356 (Note (iii))	113,191,164	18.44%
R Dorfman	46,470,000	–	–	–	46,470,000	7.57%
M Y S Thong	11,383,308	–	–	–	11,383,308	1.85%

Notes:

(i) The shares are registered under the names of the directors who are the beneficial owners.

(ii) Mr G Bloch and his associates are beneficial shareholders of 100% and 58% of the issued capital of Anglo Tex Limited and Herald International Limited respectively, which owned 1,000,000 shares and 250,000 shares respectively in the company at 31 March 2006.

(iii) Dr S T K Cheung and Mr D S Chang are the beneficiaries of a family trust which owned 75,498,356 shares in the company at 31 March 2006.

Apart from the foregoing, none of the directors of the company or any of their spouses or children under eighteen years of age has interests or short positions in the shares, underlying shares or debentures of the company, any of its subsidiaries or other associated corporations, as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the company pursuant to the Model Code.

SHARE OPTION SCHEME

The company adopted a share option scheme on 18 September 2003 for the primary purpose of motivating the eligible participants under the scheme to utilise their performance and efficiency for the benefit of the group.

According to the scheme, the directors of the company are authorised, at their discretion, to invite any employee (including executive or independent non-executive directors) of the company and its subsidiaries, consultant, customer, supplier, agent, partner or adviser of or contractor to the group or any entity in which any member of the group holds any interest, and any discretionary trust or company whose discretionary objects or owners include the aforementioned parties to take up options to subscribe for shares of the company. Upon acceptance of an option, each eligible participant under the scheme is required to pay the company HK$1 within 21 days from the date of offer.

The share option scheme became effective on 18 September 2003 and remains in force for 10 years from that date. The exercise price of the options is at least the highest of (a) the closing price of the shares as stated in the daily quotations sheet of the Stock Exchange on the date of grant, which must be a business day; (b) the average of the closing price of the shares as stated in the daily quotations sheets of the Stock Exchange for the five business days immediately preceding the date of grant; and (c) the nominal value of the shares. Unless otherwise determined by the directors of the company, there is no requirement of a minimum period for which an option must be held before it can be exercised. An option is exercisable at any time during such period to be notified by the directors of the company to each grantee, but in any event not later than 10 years from the date of grant of the option. Each option gives the holder the right to subscribe for one share of US$0.01 each in the company.

The total number of shares available for issue under the share option scheme as at 31 March 2006 was 61,522,576 shares which represented 10% of the issued share capital of the company as at 31 March 2006. In respect of the maximum entitlement of each participant under the scheme, the number of securities issued and to be issued upon exercise of the options granted to each participant in any 12-month period is limited to 1% of the company's shares in issue.

No options have been granted by the company since the adoption of the share option scheme.

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

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

Other than the interests disclosed in the section "Directors' interests and short positions in shares, underlying shares and debentures" in respect of directors, the following shareholders were interested in 5% or more of the issued share capital of the company as at 31 March 2006 according to the register of interests required to be kept by the company under section 336 of the SFO.

Interests in issued shares

(Shares of US$0.01 each of the company)

		Number of shares				Percentage of total
	Note	Personal interests	Interests of spouse	Other interests	Total	issued shares
Substantial shareholders						
Chan Him Wee	(i)	21,654,879	85,538,356	–	107,193,235	17.46%
Ng Yiu Chi Eleanor	(ii)	950,000	112,241,164	–	113,191,164	18.44%
Goldfinch Investments Ltd ("GIL")	(iii)	69,728,356	–	–	69,728,356	11.36%
HSBC International Trustee Ltd ("HIT")	(iii)	200,000	–	75,498,356	75,698,356	12.33%
Other persons						
Sheri Tillman Dorfman	(iv)	–	46,470,000	–	46,470,000	7.57%
Gershon Dorfman		37,605,799	–	–	37,605,799	6.13%
Lydia Dorfman	(v)	–	37,605,799	–	37,605,799	6.13%

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES *(Continued)*

Interests in issued shares *(Continued)*

Notes:

(i) The entire interests in shares of 107,193,235 are duplicated by those disclosed under Mr D S Chang, the spouse of Ms Chan Him Wee, in the section "Directors' interests and short positions in shares, underlying shares and debentures".

(ii) The entire interests in shares of 113,191,164 are duplicated by those disclosed under Dr S T K Cheung, the spouse of Ms Ng Yiu Chi Eleanor, in the section "Directors' interests and short positions in shares, underlying shares and debentures".

(iii) GIL is a company owned by a family trust which owned an aggregate of 75,498,356 shares in the company as at 31 March 2006 as noted in the section "Directors' interests and short positions in shares, underlying shares and debentures", comprising 69,728,356 shares held by GIL and 5,770,000 shares held by the trust itself. HIT, the trustee of the trust, is deemed to be interested in the 75,498,356 shares held by the trust. In addition, HIT had a further interest of 200,000 shares in the company as at 31 March 2006.

(iv) These interests in shares are duplicated by those disclosed under Mr R Dorfman, the spouse of Mrs Sheri Tillman Dorfman, in the section "Directors' interests and short positions in shares, underlying shares and debentures".

(v) These interests in shares are duplicated by those beneficially owned by Mr Gershon Dorfman.

Apart from the foregoing, no other interests required to be recorded in the register kept under section 336 of the SFO have been notified to the company.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the company and within the knowledge of the directors of the company as at the date of this annual report, the company has maintained the prescribed public float under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

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.

BANK LOANS AND OTHER BORROWINGS

At 31 March 2006, the group did not have any bank loans and other borrowings.

EMPLOYEES

As at 31 March 2006, the number of employees of the group was approximately 210 (2005: 204) in Hong Kong, 7,172 (2005: 7,376) in Mainland China and 98 (2005: 117) in Europe. The group ensures that its employees' remuneration packages are competitive. Employees are rewarded based on their performance and experience and the prevailing industry practice.

RETIREMENT SCHEMES

Particulars of employee retirement schemes of the group are set out in note 26 on the financial statements.

PRE-EMPTIVE RIGHTS

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

FIVE YEAR SUMMARY

A summary of the results and of the assets and liabilities of the group for the last five financial years is set out on pages 85 and 86 of the annual report.

CONFIRMATION OF INDEPENDENCE

The company has received from each of the independent non-executive directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive directors to be independent.

AUDITORS

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board

THONG Yeung-Sum, Michael
Director

Hong Kong, 14 July 2006

The company is committed to maintain a high standard of corporate governance practices with an emphasis on the principles of transparency, accountability and independence.

CORPORATE GOVERNANCE PRACTICES

The company has complied with the code provisions of the Code on Corporate Governance Practice ("CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") throughout the year ended 31 March 2006 except that the independent non-executive directors are not appointed for a specific term, which deviates from the code provision A.4.1. However, the independent non-executive directors are subject to retirement from office by rotation under the requirements of the Bye-laws of the company. As such, the company considers that sufficient measures have been taken to ensure that the company's corporate governance practices are no less exacting than those in the CG Code.

DIRECTORS' SECURITIES TRANSACTIONS

The company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard of the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules.

Having made specific enquiry of the company's directors, all directors confirmed that they have complied with the required standard set out in the Model Code and the company's code of conduct regarding directors' securities transactions.

BOARD OF DIRECTORS

The Board of the company comprises:

Executive directors

Mr George Bloch *(Chairman)*
Dr Cheung Tsang-Kay, Stan *(Managing Director)*
Mr Chang Dong-Song
Mr Robert Dorfman
Mr Thong Yeung-Sum, Michael

Independent non-executive directors

Mr Tang King-Hung
Mr Lie-A-Cheong Tai-Chong, David
Mr Yeh Man-Chun, Kent

The Board is responsible for leadership and control of the company and oversees the group's businesses, strategic direction and performance. The management team was delegated the authority and responsibility by the Board for the day-to-day management of the group. In addition, the Board has delegated various responsibilities to the Board Committees. Further details of these Committees are set out in this report.

BOARD OF DIRECTORS *(Continued)*

The company has three independent non-executive directors representing more than one third of the Board. One of the three independent non-executive directors has the appropriate accounting and financial management expertise under Rule 3.10 of the Listing Rules. The company has received confirmation from each independent non-executive director of his independence and considers that each of them is independent under the guidelines set out in Rule 3.13 of the Listing Rules.

Several directors have family relationships with each other, the details of which are set out in the biographical details of Directors and Senior Management on pages 9 to 10. None of the directors has other material financial, business or relevant relationships with each other.

The Board meets regularly to review the financial and operating performance of the group. Five regular board meetings were held during the financial year. Individual attendance of each director at the regular board meetings, the Audit Committee meetings and the Remuneration Committee meetings during the financial year is set out below:

	Number of meetings attended/eligible to attend		
Executive directors	**Board**	**Audit Committee**	**Remuneration Committee**
Mr George Bloch	5/5	N/A	N/A
Dr Cheung Tsang-Kay, Stan	5/5	N/A	N/A
Mr Chang Dong-Song	5/5	N/A	N/A
Mr Robert Dorfman	5/5	N/A	N/A
Mr Thong Yeung-Sum, Michael	5/5	N/A	2/2
Independent non-executive directors			
Mr Denis Campbell Bray (deceased on 8 July 2005)	2/2	N/A	1/1
Mr Tsao Kwang-Yung, Peter (deceased on 5 June 2005)	1/1	N/A	N/A
Mr Tang King-Hung	4/5	2/2	2/2
Mr Lie-A-Cheong Tai-Chong, David (appointed on 16 June 2005)	2/3	2/2	N/A
Mr Yeh Man-Chun, Kent (appointed on 5 October 2005)	1/1	1/1	N/A

CHAIRMAN AND MANAGING DIRECTOR

The Board has appointed Mr George Bloch as the Chairman and Dr Cheung Tsang-Kay, Stan as the Managing Director of the company. The primary role of the Chairman is to provide leadership for the Board and to ensure that it works effectively in discharging its responsibilities. The Managing Director is responsible for the day-to-day management of the group's businesses.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The company established a Remuneration Committee on 16 March 2005. The Remuneration Committee currently comprises two independent non-executive directors, namely Mr Tang King-Hung, being the Chairman, and Mr Yeh Man-Chun, Kent and one executive director, namely Mr Thong Yeung-Sum, Michael.

The major roles and functions of the Remuneration Committee are to make recommendations to the Board on the company's policy and structure for the remuneration of directors and senior management, to determine the specific remuneration packages of all executive directors and senior management, and to make recommendations to the Board of the remuneration of independent non-executive directors.

The company's remuneration policy of executive directors and senior management is (1) to provide an equitable and competitive remuneration package to the executive directors and senior management so as to attract and retain the best available human resources to serve the group and (2) to award the executive directors and senior management in recognition of good individual and group performance.

The Remuneration Committee held two meetings during the financial year, which were attended by all Committee members, to review and discuss its terms of reference, the company's remuneration policy and the remuneration of directors and senior management.

NOMINATION OF DIRECTORS

When selecting potential candidates for directors, skills, experience, expertise, his devotion of time, conflicts of interests are key factors for consideration. No nomination Committee has been set up, and hence, the nomination and selection process is performed by the Board. The Board meets at least once a year in discussing whether the composition, size, structure of the Board is adequate.

The Board held two meetings during the year to approve the appointment of Mr Lie-A-Cheong Tai-Chong, David and Mr Yeh Man-Chun, Kent respectively as independent non-executive directors of the company. The first meeting was attended by all directors of the company and the second meeting was attended by five directors, namely Mr George Bloch, Dr Cheung Tsang-Kay, Stan, Mr Chang Dong-Song, Mr Robert Dorfman and Mr Thong Yeung-Sum, Michael.

AUDITORS' REMUNERATION

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

Nature of Services	Fees HK$'000
Audit services	2,410
Taxation services	315
Other services	25
	2,750

AUDIT COMMITTEE

The company has established an Audit Committee which currently comprises three independent non-executive directors. The Committee is chaired by Mr Tang King-Hung who is a certified public accountant with extensive experience in auditing, accounting and financial management. The other Committee members are Mr Lie-A-Cheong Tai-Chong, David and Mr Yeh Man-Chun, Kent.

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

The Audit Committee held two meetings during the financial year, which were attended by all Committee members, to review the accounting principles and practices adopted by the group and to discuss auditing, internal control and financial reporting matters including a review of the interim results and annual results of the group.

DIRECTORS AND AUDITORS' RESPONSIBILITIES OF FINANCIAL STATEMENTS

The directors acknowledge their responsibility for preparing the group's financial statements which give a true and fair view and are in accordance with all applicable accounting and statutory requirements.

The statement of the auditors of the company regarding their responsibilities on the financial statements is set out in the Auditors' Report on page 20.

INTERNAL CONTROLS

The company is currently in the process of developing the procedures for the review of the effectiveness of its internal control system. The annual review requirement of the effectiveness of the company's internal control system under the CG Code shall apply to the company starting from the accounting period beginning on 1 April 2006.

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

We have audited the financial statements on pages 21 to 84 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 financial statements which give a true and fair view. In preparing financial statements 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 financial statements and to report our opinion solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, 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 financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the company and of the group as at 31 March 2006 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, 14 July 2006

	Note	2006	2005 (restated)
		HK$'000	HK$'000
Turnover	3 & 12	**1,325,686**	1,442,998
Cost of sales		**(1,000,531)**	(1,080,829)
Gross profit		**325,155**	362,169
Other revenue	4	**13,468**	5,849
Other net income	4	**2,212**	2,565
Selling expenses		**(57,766)**	(59,968)
Administrative expenses		**(189,789)**	(195,521)
Valuation gains on investment properties	13(c)	**2,140**	1,172
Write back of impairment losses on property, plant and equipment	13(d)	**9,294**	–
Write back of/(provision for) impairment losses on club membership	14	**60**	(520)
Profit from operations		**104,774**	115,746
Finance costs	5(a)	**(145)**	(275)
Share of profit of jointly controlled entity		**494**	181
Profit before taxation	5	**105,123**	115,652
Income tax	6(a)	**(14,392)**	(16,480)
Profit for the year		**90,731**	99,172
Attributable to:			
Equity shareholders of the company	9 & 27	**86,290**	96,117
Minority interests	27	**4,441**	3,055
Profit for the year	27	**90,731**	99,172
Dividends payable to equity shareholders of the company attributable to the year:	10		
Interim dividend declared during the year		**15,348**	12,279
Final dividend proposed after the balance sheet date		**24,558**	27,627
		39,906	39,906
Earnings per share	11		
Basic and diluted		**HK14.06 cents**	HK15.66 cents

The notes on pages 28 to 84 form part of these financial statements.

Consolidated Balance Sheet

At 31 March 2006

	Note	2006 HK$'000	2005 (restated) HK$'000
Non-current assets			
Fixed assets	13		
– Investment properties		**16,750**	16,290
– Other property, plant and equipment		**154,848**	151,217
– Interests in leasehold land held for own use under operating leases		**6,468**	6,704
		178,066	174,211
Club membership	14	**1,660**	1,600
Interest in jointly controlled entity	16	**2,150**	1,804
Other financial assets	17	**2,000**	9,024
Deferred tax assets	24(b)	**5,249**	6,118
		189,125	192,757
Current assets			
Trading securities	18	**59,917**	–
Inventories	19	**140,459**	167,794
Trade and other receivables	20	**131,657**	174,421
Current tax recoverable	24(a)	**2,932**	824
Cash and cash equivalents	22	**239,395**	223,564
		574,360	566,603
Current liabilities			
Trade and other payables	23	**121,003**	156,480
Current tax payable	24(a)	**2,728**	9,867
		123,731	166,347
Net current assets		**450,629**	400,256
Total assets less current liabilities		**639,754**	593,013

	Note	2006	2005 (restated)
		HK$'000	HK$'000
Non-current liabilities			
Deferred tax liabilities	24(b)	**1,642**	979
Provision for long service payments	25	**2,799**	3,072
		4,441	4,051
NET ASSETS		**635,313**	588,962
CAPITAL AND RESERVES	27(a)		
Share capital		**47,886**	47,886
Reserves		**554,423**	513,052
Total equity attributable to equity shareholders of the company		**602,309**	560,938
Minority interests		**33,004**	28,024
TOTAL EQUITY		**635,313**	588,962

Approved and authorised for issue by the board of directors on 14 July 2006.

Chang Dong-Song
Director

Thong Yeung-Sum, Michael
Director

The notes on pages 28 to 84 form part of these financial statements.

Balance Sheet

At 31 March 2006

	Note	2006 HK$'000	2005 HK$'000
Non-current assets			
Investments in subsidiaries	15	**327,365**	327,365
Current assets			
Trading securities	18	**303**	–
Trade and other receivables	20	**143**	131
Amounts due from subsidiaries	21	**14,157**	14,197
Current tax recoverable	24(a)	**11**	–
Cash and cash equivalents	22	**620**	303
		15,234	14,631
Current liabilities			
Amount due to subsidiary	21	**316**	92
Trade and other payables	23	**1,059**	953
Current tax payable	24(a)	**–**	28
		1,375	1,073
Net current assets		**13,859**	13,558
NET ASSETS		**341,224**	340,923
CAPITAL AND RESERVES	27(b)		
Share capital		**47,886**	47,886
Reserves		**293,338**	293,037
TOTAL EQUITY		**341,224**	340,923

Approved and authorised for issue by the board of directors on 14 July 2006.

CHANG Dong-Song
Director

THONG Yeung-Sum, Michael
Director

The notes on pages 28 to 84 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 March 2006

	Note	2006	2005 (restated)
		HK$'000	HK$'000
Total equity at 1 April			
As previously reported, attributable to:			
– equity shareholders of the company		**560,938**	493,474
– minority interests	2(a)	**28,024**	27,532
As restated	27(a)	**588,962**	521,006
Net (expense)/income recognised directly in equity:			
Exchange differences on translation of the financial statements of subsidiaries outside Hong Kong	27(a)	**(1,405)**	2,044
Net profit for the year:	27(a)		
Attributable to:			
– equity shareholders of the company		**86,290**	96,117
– minority interests		**4,441**	3,055
		90,731	99,172
Total recognised income and expense for the year		**89,326**	101,216
Attributable to:			
– equity shareholders of the company		**84,346**	98,161
– minority interests		**4,980**	3,055
		89,326	101,216
Dividends declared or approved during the year		**(42,975)**	(30,697)
Dividend paid to minority interests	27(a)	**–**	(2,563)
		(42,975)	(33,260)
Total equity at 31 March	27(a)	**635,313**	588,962

The notes on pages 28 to 84 form part of these financial statements.

	2006 HK$'000	2005 (restated) HK$'000
Operating activities		
Profit before taxation	**105,123**	115,652
Adjustments for:		
– Interest income	**(5,070)**	(1,686)
– Dividend income from listed securities	**(397)**	(49)
– Share of profit of jointly controlled entity	**(494)**	(181)
– Depreciation	**26,796**	27,149
– Amortisation of land lease premium	**299**	292
– Loss on disposal of fixed assets	**41**	247
– Valuation gains on investment properties	**(2,140)**	(1,172)
– Write back of impairment losses on property, plant and equipment	**(9,294)**	–
– (Write back of)/provision for impairment losses on club membership	**(60)**	520
– Net realised and unrealised (gains)/losses on trading securities (2005: other securities)	**(1,180)**	121
– Finance costs	**145**	275
– Foreign exchange loss	**61**	910
Operating profit before changes in working capital	**113,830**	142,078
Increase/(decrease) in amount due to jointly controlled entity	**2**	(15)
Decrease/(increase) in inventories	**27,335**	(25,289)
Decrease/(increase) in trade and other receivables	**42,764**	(35,173)
(Decrease)/increase in trade and other payables	**(35,477)**	38,413
Decrease in provision for long service payments	**(273)**	(603)
Cash generated from operations	**148,181**	119,411
Tax paid		
– Hong Kong Profits Tax paid	**(18,294)**	(5,085)
– Taxation outside Hong Kong paid	**(3,731)**	(8,239)
	(22,025)	(13,324)
Net cash generated from operating activities	**126,156**	106,087

	Note	2006	2005 (restated)
		HK$'000	HK$'000
Investing activities			
Payment for purchase of fixed assets		**(21,230)**	(23,191)
Payment for purchase of:			
– trading securities		**(61,130)**	–
– other financial assets		**–**	(2,000)
Proceeds from disposal of fixed assets		**3,228**	976
Proceeds from sale of trading securities		**9,426**	–
Interest received		**5,070**	1,686
Dividends received from listed securities		**397**	49
Dividend received from jointly controlled entity		**230**	376
Net cash used in investing activities		**(64,009)**	(22,104)
Financing activities			
Interest paid		**(145)**	(275)
Dividends paid to equity shareholders of the company		**(42,975)**	(30,697)
Dividend paid to minority interests		**–**	(2,563)
Net cash used in financing activities		**(43,120)**	(33,535)
Net increase in cash and cash equivalents		**19,027**	50,448
Cash and cash equivalents at 1 April		**223,564**	172,330
Effect of foreign exchange rate changes		**(3,196)**	786
Cash and cash equivalents at 31 March	22	**239,395**	223,564

The notes on pages 28 to 84 form part of these financial statements.

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The company was incorporated in Bermuda on 17 August 1992 as an exempt company under the Bermuda Companies Act 1981.

Although not required to do so under the Bye-laws of the company, these financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"). A summary of the significant accounting policies adopted by the group is set out below.

The HKICPA has issued a number of new and revised HKFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. Information on the changes in accounting policies resulting from initial application of these new and revised HKFRSs for the current and prior accounting periods reflected in these financial statements is provided in note 2.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 March 2006 comprise the company and its subsidiaries (together referred to as the "group") and the group's interest in jointly controlled entity.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets are stated at their fair value as explained in the accounting policies set out below:

– investment properties (see note 1(g));

– financial instruments classified as trading securities (see note 1(e)); and

– derivative financial instruments (see note 1(f)).

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 34.

(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 of an enterprise, so as to obtain benefits from its activities.

An investment in a controlled subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet and statement of changes in equity within equity, separately from equity attributable to the equity shareholders of the company. Minority interests in the results of the group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the group's interest is allocated all such profits until the minority's share of losses previously absorbed by the group has been recovered.

In the company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 1(m)).

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Jointly controlled entity

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 jointly controlled entity is accounted for in the consolidated financial statements 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. The consolidated income statement includes the group's share of the post-acquisition, post-tax results of the jointly controlled entity for the year.

When the group's share of losses exceeds its interest in the jointly controlled entity, the group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the group has incurred legal or constructive obligations or made payments on behalf of the jointly controlled entity. For this purpose, the group's interest in the jointly controlled entity is the carrying amount of the investment under the equity method together with the group's long-term interests that in substance form part of the group's net investment in the jointly controlled entity.

Unrealised profits and losses resulting from transactions between the group and jointly controlled entity 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 profit or loss.

(e) Other investments in debt and equity securities

The group's policies for investments in debt and equity securities, other than investments in subsidiaries and jointly controlled entity, are as follows:

– Investments in securities held for trading are classified as current assets and are initially stated at fair value. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss.

– Investments in unlisted dated debt securities with fixed or determinable payments and not quoted in an active market are classified as loans and receivables (see note 1(l)).

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

(f) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At each balance sheet date the fair value is remeasured. The gain or loss on remeasurement to fair value is charged immediately to profit or loss.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Investment property

Investment properties are land and buildings which are owned or held under a leasehold interest (see note 1(j)) to earn rental income and/or for capital appreciation.

Investment properties are stated in the balance sheet at fair value. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 1(s)(iv).

When the group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note 1(j)), and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note 1(j).

(h) Other property, plant and equipment

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

– freehold land and buildings;

– land held under operating leases and buildings thereon, where the fair values of the leasehold interest in the land and buildings cannot be measured separately at the inception of the lease and the building is clearly not held under an operating lease;

– buildings situated on leasehold land, where the fair value of the building could be measured separately from the fair value of the leasehold land at the inception of the lease (see note 1(j)); and

– other items of plant and equipment.

In preparing these financial statements, advantage has been taken of the transitional provisions set out in paragraph 80(A) of HKAS 16, *Property, plant and equipment* issued by the HKICPA, with the effect that certain land and buildings held for own use have not been revalued to their fair value at the balance sheet date.

Gains or losses arising from the retirement or disposal of an item of other property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) ***Other property, plant and equipment*** *(Continued)*

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

– Freehold land is not depreciated.

– Leasehold land and buildings are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of purchase.

– Other plant and equipment at the following rates:

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

Where parts of an item of other property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(i) ***Club membership***

Club membership with indefinite life is stated in the balance sheet at cost less accumulated impairment loss (see note 1(m)). Conclusion that the useful life is indefinite is reviewed annually.

(j) ***Leased assets***

(i) Classification of assets leased to the group

Leases which do not transfer substantially all the risks and rewards of ownership to the group are classified as operating leases, with the following exceptions:

– property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (see note 1(g)); and

– land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the group or taken over from the previous lessee or at the date of construction of those buildings, if later.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Leased assets (Continued)

(ii) Operating lease charges

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

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property.

(k) Inventories

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

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

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

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

(l) Receivables

Receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 1(m)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see note 1(m)).

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Impairment of assets

(i) Impairment of receivables

Receivables are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

– For receivables carried at cost, the impairment loss is measured as the difference between the asset's carrying amount and the estimated future cash flows, discounted at the current market rate of return for a similar asset where the effect of discounting is material. Impairment losses are reversed if in a subsequent period the amount of the impairment loss decreases.

– For receivables carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets).

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

(ii) Impairment of other 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:

– property, plant and equipment;

– interests in leasehold land classified as being held under an operating lease; and

– investments in subsidiaries.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) ***Impairment of assets*** *(Continued)*

(ii) Impairment of other assets *(Continued)*

If any such indication exists, the asset's recoverable amount is estimated. In addition, for club membership that has indefinite useful life, the recoverable amount is estimated annually to determine whether or not there is any indication of impairment.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its 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).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(n) ***Interest-bearing borrowings***

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in profit or loss over the period of the borrowings using the effective interest method.

(o) ***Payables***

Payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(q) Provisions and contingent liabilities

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

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

(r) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) ***Income tax*** *(Continued)*

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination) and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the company or the group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the company or the group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) 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 profit or loss 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 is recognised as it accrues using the effective interest method.

(iii) Dividends

– Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

– Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(iv) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable.

(t) Employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(u) Borrowing costs

Borrowing costs are expensed in profit or loss in the period in which they are incurred.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(v) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of operations outside Hong Kong are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity.

On disposal of an operation outside Hong Kong, the cumulative amount of the exchange differences recognised in equity which relate to that operation is included in the calculation of the profit or loss on disposal.

(w) Related parties

For the purposes of these financial statements, 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 (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the group or of any entity that is a related party of the group.

(x) Segment reporting

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

In accordance with the group’s internal financial reporting, the group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(x) ***Segment reporting*** *(Continued)*

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 entities 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 corporate and financial assets, tax balances, and corporate and financing expenses.

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of new and revised HKFRSs that are effective for accounting periods beginning on or after 1 January 2005.

The accounting policies of the group and/or the company after the adoption of these new and revised HKFRSs have been summarised in note 1. The following sets out information on the significant changes in accounting policies for the current and prior accounting periods reflected in these financial statements.

The group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 35).

(a) ***Restatement of prior period balances***

The following tables disclose the adjustments that have been made in accordance with the transitional provisions of the respective HKFRSs to each of the line items in the consolidated income statement and balance sheet and other significant related disclosure items as previously reported for the year ended 31 March 2005.

There is no impact on the company's balance sheet and reserves for the current and prior accounting periods as a result of the adoption of the new and revised HKFRSs.

2 CHANGES IN ACCOUNTING POLICIES *(Continued)*

(a) Restatement of prior period balances (Continued)

(i) Effect on the consolidated income statement for the year ended 31 March 2005

	2005 (as previously reported) HK$'000	Effect of new policy (increase/(decrease) in profit for the year) HKAS 1 (note 2(c)) HK$'000	HKAS 17 (note 2(d)) HK$'000	2005 (as restated) HK$'000
Profit from operations	115,746	–	–	115,746
Finance costs	(275)	–	–	(275)
Share of profit of jointly controlled entity	279	(98)	–	181
Profit before taxation	115,750	(98)	–	115,652
Income tax	(16,578)	98	–	(16,480)
Profit after taxation	99,172	–	–	99,172
Minority interests	(3,055)	3,055	–	–
Profit for the year	96,117	3,055	–	99,172
Attributable to:				
Equity shareholders of the company	96,117	–	–	96,117
Minority interests	–	3,055	–	3,055
Profit for the year	96,117	3,055	–	99,172
Other significant disclosure items:				
Depreciation – other assets	(27,121)	–	292	(26,829)
Amortisation of land lease premium	–	–	(292)	(292)

2 CHANGES IN ACCOUNTING POLICIES *(Continued)*

(a) ***Restatement of prior period balances*** *(Continued)*

(ii) Effect on the consolidated balance sheet as at 31 March 2005

		Effect of new policy (increase/(decrease) in net assets)			
	2005 (as previously reported) HK$'000	HKAS 1 (note 2(c)) HK$'000	HKAS 17 (note 2(d)) HK$'000	Reclassification (note 33) HK$'000	2005 (as restated) HK$'000
Non-current assets					
Fixed assets					
– Investment properties	16,290	–	–	–	16,290
– Other property, plant and equipment	157,921	–	(6,704)	–	151,217
– Interests in leasehold land held for own use under operating leases	–	–	6,704	–	6,704
	174,211	–	–	–	174,211
Club membership	–	–	–	1,600	1,600
Interest in jointly controlled entity	1,804	–	–	–	1,804
Other financial assets	10,624	–	–	(1,600)	9,024
Deferred tax assets	6,118	–	–	–	6,118
	192,757	–	–	–	192,757
Current assets	566,603	–	–	–	566,603
Current liabilities	(166,347)	–	–	–	(166,347)
Net current assets	400,256	–	–	–	400,256

2 CHANGES IN ACCOUNTING POLICIES *(Continued)*

(a) Restatement of prior period balances (Continued)

(ii) Effect on the consolidated balance sheet as at 31 March 2005 *(Continued)*

	2005 (as previously reported) HK$'000	Effect of new policy (increase/(decrease) in net assets): HKAS 1 (note 2(c)) HK$'000	HKAS 17 (note 2(d)) HK$'000	Reclassification (note 33) HK$'000	2005 (as restated) HK$'000
Total assets less current liabilities	593,013	–	–	–	593,013
Non-current liabilities	(4,051)	–	–	–	(4,051)
Minority interests	(28,024)	28,024	–	–	–
NET ASSETS	560,938	28,024	–	–	588,962
CAPITAL AND RESERVES					
Attributable to equity shareholders of the company					
– Share capital	47,886	–	–	–	47,886
– Reserves	513,052	–	–	–	513,052
	560,938	–	–	–	560,938
Attributable to minority interests	–	28,024	–	–	28,024
TOTAL EQUITY	560,938	28,024	–	–	588,962

2 CHANGES IN ACCOUNTING POLICIES *(Continued)*

(b) *Estimated effect of changes in accounting policies on the current period*

The following tables provide estimates of the extent to which each of the line items in the consolidated income statement and balance sheet and other significant related disclosure items for the year ended 31 March 2006 is higher or lower than it would have been had the previous policies still been applied in the year, where it is practicable to make such estimates.

(i) Estimated effect on the consolidated income statement for the year ended 31 March 2006

	Estimated effect of new policy (increase/(decrease) in profit for the year)		
	HKAS 1 (note 2(c)) HK$'000	HKAS 17 (note 2(d)) HK$'000	Total HK$'000
Share of profit of jointly controlled entity	(198)	–	(198)
Profit before taxation	(198)	–	(198)
Income tax	198	–	198
Profit after taxation	–	–	–
Minority interests	4,441	–	4,441
Profit for the year	4,441	–	4,441
Attributable to:			
Equity shareholders of the company	–	–	–
Minority interests	4,441	–	4,441
Profit for the year	4,441	–	4,441
Other significant disclosure items:			
Depreciation – other assets	–	299	299
Amortisation of land lease premium	–	(299)	(299)

2 CHANGES IN ACCOUNTING POLICIES *(Continued)*

(b) *Estimated effect of changes in accounting policies on the current period* (Continued)

(ii) Estimated effect on the consolidated balance sheet as at 31 March 2006

	Estimated effect of new policy (increase/ (decrease) in net assets)		
	HKAS 1 (note 2(c)) HK$'000	HKAS 17 (note 2(d)) HK$'000	Total HK$'000
Non-current assets			
Fixed assets			
– Other property, plant and equipment	–	(6,468)	(6,468)
– Interests in leasehold land held for own use under operating leases	–	6,468	6,468
	–	–	–
Minority interests	33,004	–	33,004
NET ASSETS	33,004	–	33,004
CAPITAL AND RESERVES			
Attributable to minority interests	33,004	–	33,004
TOTAL EQUITY	33,004	–	33,004

(c) *Changes in presentation (HKAS 1, Presentation of financial statements)*

(i) Presentation of share of jointly controlled entity's taxation *(HKAS 1, Presentation of financial statements)*

In prior years, the group's share of taxation of jointly controlled entity accounted for using the equity method was included as part of the group's income tax in the consolidated income statement. With effect from 1 April 2005, in accordance with the implementation guidance in HKAS 1, the group has changed the presentation and includes the share of taxation of jointly controlled entity accounted for using the equity method in the share of profit or loss of the jointly controlled entity reported in the consolidated income statement before arriving at the group's profit or loss before tax. These changes in presentation have been applied retrospectively with comparatives restated as shown in note 2(a).

2 CHANGES IN ACCOUNTING POLICIES *(Continued)*

(c) Changes in presentation (HKAS 1, Presentation of financial statements) *(Continued)*

(ii) Minority interests *(HKAS 1, Presentation of financial statements and HKAS 27, Consolidated and separate financial statements)*

In prior years, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and as a deduction from net assets. Minority interests in the results of the group for the year were also separately presented in the consolidated income statement as a deduction before arriving at the profit attributable to shareholders (the equity shareholders of the company).

With effect from 1 April 2005, in order to comply with HKAS 1 and HKAS 27, the group has changed its accounting policy relating to presentation of minority interests. Under the new policy, minority interests are presented as part of equity, separately from interests attributable to the equity shareholders of the company. Further details of the new policy are set out in note 1(c). These changes in presentation have been applied retrospectively with comparatives restated as shown in note 2(a).

(d) Leasehold land and buildings (HKAS 17, Leases)

In prior years, all interests in leasehold land held for own use were presented together with the buildings situated on that land and stated at cost or revalued amount less accumulated depreciation and accumulated impairment losses.

With effect from 1 April 2005, in order to comply with HKAS 17, the group has adopted a new policy for leasehold land and buildings held for own use. Under the new policy, the leasehold interest in the land held for own use is accounted for as being held under an operating lease where the fair value of the interest in any buildings situated on the leasehold land could be measured separately from the fair value of the leasehold interest in the land at the time the lease was first entered into by the group or taken over from the previous lessee or at the date of construction of those buildings, if later.

Any buildings held for own use which are situated on such land leases continue to be presented as other property, plant and equipment. Further details of the new policy are set out in notes 1(h) and (j).

The above new accounting policy has been adopted retrospectively. The adjustments for each financial statement line item affected for the years ended 31 March 2005 and 2006 are set out in notes 2(a) and 2(b).

2 CHANGES IN ACCOUNTING POLICIES *(Continued)*

(e) *Financial instruments (HKAS 32, Financial instruments: Disclosure and presentation and HKAS 39, Financial instruments: Recognition and measurement)*

With effect from 1 April 2005, in order to comply with HKAS 32 and HKAS 39, the group has changed its accounting policies relating to financial instruments to those as set out in notes 1(e), (f), and (l) to (o). Further details of the changes are as follows.

In prior years, other investments in securities were stated at fair value with changes in fair value recognised in profit or loss, with the exception of dated debt securities being held to maturity which were stated at amortised cost less provision.

With effect from 1 April 2005, and in accordance with HKAS 39, unlisted dated debt securities with fixed or determinable payments and not quoted in an active market are classified as loans and receivables and stated at amortised cost less impairment losses. Other investments in securities held for trading are classified as financial assets at fair value through profit or loss and carried at fair value with changes in fair value recognised in profit or loss. Further details of the new policy are set out in note 1(e).

As a result of adopting HKAS 39, the group has reclassified held-to-maturity securities with a carrying amount of HK$2,000,000 at 31 March 2005 as loans and receivables at 1 April 2005. There is no effect on the opening balance of the retained earnings or other reserves at 1 April 2005 as a result of the reclassification. Comparative amounts have not been restated as this is prohibited by the transitional arrangements in HKAS 39.

(f) *Investment property (HKAS 40, Investment property and HK(SIC) Interpretation 21, Income taxes – Recovery of revalued non-depreciable assets)*

Changes in accounting policies relating to investment properties are as follows:

(i) Timing of recognition of movements in fair value in profit or loss

In prior years movements in the fair value of the group's investment property were recognised directly in the investment property revaluation reserve except when, on a portfolio basis, the reserve was insufficient to cover a deficit on the portfolio, or when, a deficit previously recognised in profit or loss had reversed, or when an individual investment property was disposed of. In these limited circumstances movements in the fair value were recognised in profit or loss.

Upon adoption of HKAS 40 as from 1 April 2005, the group has adopted a new policy for investment property. Under this new policy, all changes in the fair value of investment property are recognised directly in profit or loss in accordance with the fair value model in HKAS 40. Further details of the new policy for investment property are set out in note 1(g). There is no impact on the group's results of operations and financial position arising from the adoption of the new policy.

2 CHANGES IN ACCOUNTING POLICIES *(Continued)*

(f) ***Investment property (HKAS 40, Investment property and HK(SIC) Interpretation 21, Income taxes – Recovery of revalued non-depreciable assets)*** *(Continued)*

(ii) Measurement of deferred tax on movements in fair value

In prior years the group was required to apply the tax rate that would be applicable to the sale of investment property to determine whether any amounts of deferred tax should be recognised on the revaluation of investment property. Consequently, deferred tax was only provided to the extent that tax allowances already given would be clawed back if the property were disposed of at its carrying value, as there would be no additional tax payable on disposal.

As from 1 April 2005, in accordance with HK(SIC) Interpretation 21, the group recognises deferred tax on movements in the value of an investment property using tax rates that are applicable to the property's use, if the group has no intention to sell it and the property would have been depreciable had the group not adopted the fair value model. Further details of the policy for deferred tax are set out in note 1(r). There is no impact on the group's results of operations and financial position arising from the adoption of the new policy.

(g) ***Definition of related parties (HKAS 24, Related party disclosures)***

As a result of the adoption of HKAS 24, the definition of related parties as disclosed in note 1(w) has been expanded to clarify that related parties include entities that are under the significant influence of a related party that is an individual (i.e. key management personnel, significant shareholders and/or their close family members) and post-employment benefit plans which are for the benefit of employees of the group or of any entity that is a related party of the group. The clarification of the definition of related parties has not resulted in any material changes to the previously reported disclosures of related party transactions nor has it had any material effect on the disclosures made in the current period, as compared to those that would have been reported had Statement of Standard Accounting Practice 20, *Related party disclosures*, still been in effect.

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 principal activities of the major subsidiaries are set out in note 36 on the financial statements.

Turnover represents the sales value of goods supplied to customers less returns.

4 OTHER REVENUE AND OTHER NET INCOME

	2006 HK$'000	2005 HK$'000
Other revenue		
Interest income	**5,070**	1,686
Rental income	**3,215**	3,021
Dividend income from listed securities	**397**	49
Others	**4,786**	1,093
	13,468	5,849
Other net income		
Gain/(loss) on disposal of fixed assets		
– other property, plant and equipment	**(211)**	(167)
– investment properties	**170**	(80)
Net foreign exchange (losses)/gains	**(3,153)**	158
Net realised and unrealised gains/(losses) on trading securities (2005: other securities)	**1,180**	(121)
Write back of impairment losses on trade receivables	**3,745**	1,480
Others	**481**	1,295
	2,212	2,565

5 PROFIT BEFORE TAXATION

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

	2006 HK$'000	2005 (restated) HK$'000
(a) Finance costs:		
Interest on bank advances and other borrowings repayable within five years	**145**	275
(b) Staff costs #:		
Contributions to defined contribution plans	**15,540**	15,114
Write back of provision for long service payments	**(222)**	(349)
Retirement costs	**15,318**	14,765
Salaries, wages and other benefits	**220,485**	215,628
	235,803	230,393
(c) Other items:		
Amortisation of land lease premium #	**299**	292
Cost of inventories # (note 19(b))	**1,000,531**	1,080,829
Depreciation #		
– assets held for use under operating leases	**310**	320
– other assets	**26,486**	26,829
Auditors' remuneration		
– audit services	**2,749**	2,468
– tax services	**315**	298
– other services	**25**	19
Operating lease charges: minimum lease payments #		
– land and buildings	**6,961**	6,800
– other assets	**265**	1,875
Share of jointly controlled entity's taxation	**198**	98
Rentals receivable from investment properties less direct outgoings of HK$157,000 (2005: HK$131,000)	**(1,479)**	(1,424)

Cost of inventories includes HK$135,907,000 (2005: HK$123,991,000) relating to staff costs, depreciation and amortisation expenses and operating lease charges, which amount is also included in the respective total amounts disclosed separately above or in note 5(b) for each of these types of expenses.

6 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	2006 HK$'000	2005 (restated) HK$'000
Current tax – Hong Kong Profits Tax		
Provision for the year	**10,515**	10,471
Under provision in respect of prior years	**287**	193
	10,802	10,664
Current tax – Outside Hong Kong		
Provision for the year	**1,976**	8,947
Deferred tax		
Origination and reversal of temporary differences	**1,614**	(3,131)
	14,392	16,480

Provision for Hong Kong Profits Tax is calculated at 17.5% (2005: 17.5%) of the estimated assessable profits for the year. Taxation for subsidiaries outside Hong Kong is charged at the appropriate current rates of taxation ruling in the relevant tax jurisdictions.

6 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT *(Continued)*

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

	2006	2005 (restated)
	HK$'000	HK$'000
Profit before tax	**105,123**	115,652
Notional tax on profit before tax, calculated at the rates applicable to profits in the tax jurisdictions concerned	**17,030**	22,402
Tax effect of non-deductible expenses	**1,970**	1,319
Tax effect of non-taxable revenue	**(2,974)**	(2,339)
Tax effect of prior years' unrecognised tax losses utilised this year	**(1,446)**	(3,946)
Tax effect of tax losses not recognised	**595**	–
Under provision in respect of prior years	**287**	193
Others	**(1,070)**	(1,149)
Actual tax expense	**14,392**	16,480

7 DIRECTORS' REMUNERATION

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

	2006				
	Directors' fees HK$'000	**Salaries, allowances and benefits in kind HK$'000**	**Discretionary bonuses HK$'000**	**Retirement scheme contributions HK$'000**	**Total HK$'000**
Executive directors					
G Bloch	**–**	**3,604**	**831**	**333**	**4,768**
S T K Cheung	**–**	**3,379**	**780**	**312**	**4,471**
D S Chang	**–**	**982**	**–**	**96**	**1,078**
R Dorfman	**–**	**2,838**	**655**	**175**	**3,668**
M Y S Thong	**–**	**3,315**	**756**	**302**	**4,373**
Independent non-executive directors					
K H Tang	**174**	**–**	**–**	**–**	**174**
D T C Lie-A-Cheong	**142**	**–**	**–**	**–**	**142**
K M C Yeh	**88**	**–**	**–**	**–**	**88**
D C Bray	**60**	**–**	**–**	**–**	**60**
P K Y Tsao	**45**	**–**	**–**	**–**	**45**
	509	**14,118**	**3,022**	**1,218**	**18,867**

7 DIRECTORS' REMUNERATION *(Continued)*

	2005				
	Directors' fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Retirement scheme contributions HK$'000	Total HK$'000
Executive directors					
G Bloch	–	3,604	831	333	4,768
S T K Cheung	–	3,379	780	312	4,471
D S Chang	–	3,604	831	333	4,768
R Dorfman	–	2,837	655	131	3,623
M Y S Thong	–	3,315	756	302	4,373
Independent non-executive directors					
K H Tang	61	–	–	–	61
D C Bray	180	–	–	–	180
P K Y Tsao	180	–	–	–	180
	421	16,739	3,853	1,411	22,424

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2005: four) are directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other two (2005: one) individuals are as follows:

	2006 HK$'000	2005 HK$'000
Salaries and other emoluments	**6,672**	4,077
Discretionary bonuses	**2,937**	4,500
Retirement scheme contributions	**527**	230
	10,136	8,807

The emoluments of the two (2005: one) individuals with the highest emoluments are within the following bands:

	Number of individuals	
	2006	2005
HK$4,500,001-HK$5,000,000	**1**	–
HK$5,500,001-HK$6,000,000	**1**	–
HK$8,500,001-HK$9,000,000	**–**	1

9 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the company includes a profit of HK$43,276,000 (2005: HK$34,095,000) which has been dealt with in the financial statements of the company.

10 DIVIDENDS

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

	2006	2005
	HK$'000	HK$'000
Interim dividend declared and paid of HK2.5 cents (2005: HK2 cents) per share	**15,348**	12,279
Final dividend proposed after the balance sheet date of HK4 cents (2005: HK4.5 cents) per share	**24,558**	27,627
	39,906	39,906

The interim dividend has been charged to the contributed surplus (note 27).

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

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

	2006	2005
	HK$'000	HK$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK4.5 cents (2005: HK3 cents) per share	**27,627**	18,418

The final dividend has been charged to the contributed surplus (note 27).

11 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the company of HK$86,290,000 (2005: HK$96,117,000) and the weighted average number of shares of 613,926,000 (2005: 613,926,000) in issue during the year.

There were no dilutive potential shares in existence during the years ended 31 March 2005 and 2006, therefore diluted earnings per share are same as the basic earnings per share for both the current and prior years.

12 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 other distribution activities.

	2006						
	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	647,063	158,439	239,772	249,330	31,082	–	1,325,686
Other revenue from external customers	2,115	–	3,822	315	1,749	–	8,001
Inter-segment revenue	–	–	–	–	2,979	(2,979)	–
Total	649,178	158,439	243,594	249,645	35,810	(2,979)	1,333,687
Segment result	28,889	25,471	12,417	21,365	10,310		98,452
Unallocated operating income and expenses							6,322
Profit from operations							104,774
Finance costs							(145)
Share of profit of jointly controlled entity	–	–	494	–	–		494
Income tax							(14,392)
Profit for the year							90,731
Depreciation and amortisation for the year	16,249	5,245	1,835	2,161	1,605		27,095
Write back of impairment losses on property, plant and equipment	3,480	–	988	–	4,826		9,294

12 SEGMENT REPORTING *(Continued)*

Business segments (Continued)

2006

	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
Segment assets	327,362	123,172	128,041	73,060	44,369	(19,092)	676,912
Interest in jointly controlled entity	–	–	2,150	–	–		2,150
Unallocated assets							84,423
Total assets							763,485
Segment liabilities	64,756	18,646	37,411	17,080	2,366	(19,092)	121,167
Unallocated liabilities							7,005
Total liabilities							128,172
Capital expenditure incurred during the year	12,579	4,637	2,757	1,117	140		21,230

2005

	Toy and gift products HK$'000	Computer heads HK$'000	Housewares (restated) HK$'000	Timepieces HK$'000	Others HK$'000	Inter-segment elimination HK$'000	Consolidated (restated) HK$'000
Revenue from external customers	645,162	154,908	242,185	370,219	30,524	–	1,442,998
Other revenue from external customers	2,034	98	470	184	1,328	–	4,114
Inter-segment revenue	–	–	–	–	3,129	(3,129)	–
Total	647,196	155,006	242,655	370,403	34,981	(3,129)	1,447,112
Segment result	27,703	16,304	12,409	50,434	8,903		115,753
Unallocated operating income and expenses							(7)
Profit from operations							115,746
Finance costs							(275)
Share of profit of jointly controlled entity	–	–	181	–	–		181
Income tax							(16,480)
Profit for the year							99,172

12 SEGMENT REPORTING *(Continued)*

Business segments *(Continued)*

	2005						
	Toy and gift products	Computer heads	Housewares (restated)	Timepieces	Others	Inter-segment elimination	Consolidated (restated)
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Depreciation and amortisation for the year	13,857	5,725	2,759	3,564	1,536		27,441
Write back of impairment losses on property, plant and equipment	–	–	–	–	–		–
Segment assets	346,843	104,749	134,529	101,074	36,835	(19,084)	704,946
Interest in jointly controlled entity	–	–	1,804	–	–		1,804
Unallocated assets							52,610
Total assets							759,360
Segment liabilities	76,667	22,036	44,271	30,452	2,632	(19,084)	156,974
Unallocated liabilities							13,424
Total liabilities							170,398
Capital expenditure incurred during the year	11,284	3,258	1,568	5,547	1,534		23,191

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.

12 SEGMENT REPORTING *(Continued)*

Geographical segments *(Continued)*

	2006						
	Asia			Europe		North America	Others
	Hong Kong	Mainland China	Others	United Kingdom	Others		
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue from external customers	**63,076**	**11,137**	**12,582**	**493,672**	**84,068**	**640,622**	**20,529**
Segment assets	**355,686**	**220,306**	**–**	**119,256**	**–**	**756**	**–**
Capital expenditure incurred during the year	**2,858**	**16,402**	**–**	**1,970**	**–**	**–**	**–**

	2005						
	Asia			Europe		North America	Others
	Hong Kong	Mainland China	Others	United Kingdom	Others		
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue from external customers	77,432	9,402	29,339	684,032	101,744	524,834	16,215
Segment assets	338,686	222,037	–	162,590	–	717	–
Capital expenditure incurred during the year	6,184	11,942	–	5,065	–	–	–

13 FIXED ASSETS

(a) The group

	Land and buildings held for own use (restated) HK$'000	Plant, machinery, furniture, fixtures and office equipment HK$'000	Moulds HK$'000	Motor vehicles HK$'000	Sub-total (restated) HK$'000	Investment properties HK$'000	Interests in leasehold land held for own use under operating leases (restated) HK$'000	Total fixed assets HK$'000
Cost or valuation:								
At 1 April 2004	196,443	259,848	21,816	17,044	495,151	15,718	9,637	520,506
Exchange adjustments	225	381	–	54	660	–	–	660
Additions	2,673	18,104	429	1,985	23,191	–	–	23,191
Disposals	(244)	(1,637)	(696)	(435)	(3,012)	(600)	–	(3,612)
Fair value adjustment	–	–	–	–	–	1,172	–	1,172
At 31 March 2005	199,097	276,696	21,549	18,648	515,990	16,290	9,637	541,917
Representing:								
Cost	187,635	276,696	21,549	18,648	504,528	–	9,637	514,165
Valuation – 1987	11,462	–	–	–	11,462	–	–	11,462
– 2005	–	–	–	–	–	16,290	–	16,290
	199,097	276,696	21,549	18,648	515,990	16,290	9,637	541,917
Accumulated amortisation, depreciation and impairment losses:								
At 1 April 2004	101,802	204,231	20,486	13,208	339,727	–	2,641	342,368
Exchange adjustments	39	229	–	18	286	–	–	286
Amortisation and depreciation charge for the year	5,958	18,926	850	1,415	27,149	–	292	27,441
Written back on disposal	(29)	(1,281)	(687)	(392)	(2,389)	–	–	(2,389)
At 31 March 2005	107,770	222,105	20,649	14,249	364,773	–	2,933	367,706
Net book value:								
At 31 March 2005	91,327	54,591	900	4,399	151,217	16,290	6,704	174,211

13 FIXED ASSETS *(Continued)*

(a) ***The group*** *(Continued)*

	Land and buildings held for own use HK$'000	Plant, machinery, furniture, fixtures and office equipment HK$'000	Moulds HK$'000	Motor vehicles HK$'000	Sub-total HK$'000	Investment properties HK$'000	Interests in leasehold land held for own use under operating leases HK$'000	Total fixed assets HK$'000
Cost or valuation:								
At 1 April 2005 (restated)	199,097	276,696	21,549	18,648	515,990	16,290	9,637	541,917
Exchange adjustments	2,350	300	–	173	2,823	–	150	2,973
Additions	330	17,828	600	2,472	21,230	–	–	21,230
Disposals	(34)	(20,051)	(12,923)	(5,141)	(38,149)	(1,680)	–	(39,829)
Fair value adjustment	–	–	–	–	–	2,140	–	2,140
At 31 March 2006	**201,743**	**274,773**	**9,226**	**16,152**	**501,894**	**16,750**	**9,787**	**528,431**
Representing:								
Cost	190,281	274,773	9,226	16,152	490,432	–	9,787	500,219
Valuation – 1987	11,462	–	–	–	11,462	–	–	11,462
– 2006	–	–	–	–	–	16,750	–	16,750
	201,743	**274,773**	**9,226**	**16,152**	**501,894**	**16,750**	**9,787**	**528,431**
Accumulated amortisation, depreciation and impairment losses:								
At 1 April 2005 (restated)	107,770	222,105	20,649	14,249	364,773	–	2,933	367,706
Exchange adjustments	992	228	–	111	1,331	–	87	1,418
Amortisation and depreciation charge for the year	6,280	18,337	650	1,529	26,796	–	299	27,095
Write back of impairment losses	(9,294)	–	–	–	(9,294)	–	–	(9,294)
Written back on disposal	(13)	(19,208)	(12,916)	(4,423)	(36,560)	–	–	(36,560)
At 31 March 2006	**105,735**	**221,462**	**8,383**	**11,466**	**347,046**	**–**	**3,319**	**350,365**
Net book value:								
At 31 March 2006	**96,008**	**53,311**	**843**	**4,686**	**154,848**	**16,750**	**6,468**	**178,066**

13 FIXED ASSETS *(Continued)*

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

	Investment properties		Land and buildings held for own use		Interests in leasehold land held for own use under operating leases	
	2006	2005	**2006**	2005 (restated)	**2006**	2005 (restated)
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
In Hong Kong						
– medium-term leases	**15,750**	15,340	**34,585**	27,028	**–**	–
Outside Hong Kong						
– freehold	**–**	–	**6,249**	6,895	**–**	–
– medium-term leases	**1,000**	950	**54,845**	57,060	**6,468**	6,704
– short-term leases	**–**	–	**329**	344	**–**	–
	16,750	16,290	**96,008**	91,327	**6,468**	6,704

(c) All investment properties of the group were revalued as at 31 March 2006 on an open market value basis assuming sale with existing tenancies by using the investment approach by capitalising the net rental income receivable from the existing tenancies and the reversionary rental income potentials, or otherwise assuming sale with vacant possession by using sales comparison approach. The valuations were carried out by an independent firm of surveyors, LCH (Asia-Pacific) Surveyors Limited, who have among their staff Fellows of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued. Valuation gains of HK$2,140,000 (2005: HK$1,172,000) has been recognised in the consolidated income statement.

(d) During the year, the directors carried out a review of the recoverable amount of the properties and considered that impairment losses recognised in prior years had decreased. Based on their review, provision for impairment losses of HK$9,294,000 (2005: HK$Nil) has been written back. The estimates of recoverable amount were made based on fair values less costs to sell, determined with reference to valuation performed by professional surveyors.

13 FIXED ASSETS *(Continued)*

(e) The group leases out certain fixed assets under operating leases. The leases typically run for an initial period of one to two years, with an option to renew the lease after that date at which time all terms are renegotiated. None of the leases includes contingent rentals.

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

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

	2006	2005
	HK$'000	HK$'000
Within 1 year	**2,079**	1,919
After 1 year but within 5 years	**3,039**	3,062
	5,118	4,981

14 CLUB MEMBERSHIP

	The group	
	2006	2005
		(restated)
	HK$'000	HK$'000
Cost:		
At 1 April and 31 March	**2,120**	2,120
Accumulated impairment losses:		
At 1 April	**520**	–
Charge for the year	**–**	520
Written back during the year	**(60)**	–
At 31 March	**460**	520
Net book value:		
At 31 March	**1,660**	1,600

During the year, the directors carried out a review of the carrying amount of the club membership. Based on their review which is with reference to recent observable market prices, impairment losses of HK$60,000 have been written back (2005: provision made of HK$520,000).

15 INVESTMENTS IN SUBSIDIARIES

	The company	
	2006	2005
	HK$'000	HK$'000
Unlisted shares, at cost, net of dividend received from subsidiary from pre-acquisition profits	**327,365**	327,365

Details of the company's principal subsidiaries at 31 March 2006 are set out in note 36 on the financial statements.

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

16 INTEREST IN JOINTLY CONTROLLED ENTITY

	The group	
	2006	2005
	HK$'000	HK$'000
Share of net assets	**2,233**	1,885
Amount due to jointly controlled entity	**(83)**	(81)
	2,150	1,804

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

Name of joint venture	Form of business structure	Place of establishment and operation	Particulars of registered capital	Percentage of equity held by the subsidiary	Principal activity
Ningbo Herald Metal Products Company Limited	Incorporated	PRC	Registered capital of US$280,000	40%	Manufacture of housewares

16 INTEREST IN JOINTLY CONTROLLED ENTITY *(Continued)*

Summary financial information of the jointly controlled entity is as follows:

	At the group's effective interest	
	2006	2005
	HK$'000	HK$'000
Non-current assets	**689**	839
Current assets	**1,866**	1,606
Current liabilities	**(322)**	(372)
Non-current liabilities	**–**	(188)
Net assets	**2,233**	1,885
Income	**3,792**	3,078
Expenses	**(3,100)**	(2,799)
Profit before taxation	**692**	279
Income tax	**(198)**	(98)
Profit for the year	**494**	181

17 OTHER FINANCIAL ASSETS

	The group	
	2006	2005 (restated)
	HK$'000	HK$'000
Loans and receivables (2005: held-to-maturity debt securities)		
Unlisted dated debt securities	**2,000**	2,000
Other securities		
Listed equity securities (at market value)		
– in Hong Kong	**–**	92
– outside Hong Kong	**–**	6,932
	–	7,024
	2,000	9,024

Listed equity securities with a carrying amount of HK$7,024,000 at 31 March 2005 have been transferred into financial assets held for trading during the year ended 31 March 2006 (see note 18).

Included in other financial assets is the following amount denominated in a currency other than the functional currency of the entity to which it relates:

	The group	
	2006	2005
	'000	'000
United States dollars	**USD –**	USD 864

18 TRADING SECURITIES

	The group		The company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Listed equity securities (at market value)				
– in Hong Kong	**35,748**	–	**303**	–
– outside Hong Kong	**7,171**	–	**–**	–
	42,919	–	**303**	–
Unlisted equity-linked notes (at fair value)	**16,998**	–	**–**	–
	59,917	–	**303**	–

(a) *Transfer of equity securities*

During the year, the group acquired certain listed equity securities and unlisted equity-linked notes which are held for trading. These trading securities are managed together with the group's listed equity securities acquired in previous years (with a carrying amount of HK$7,024,000 and classified as other securities under "Other financial assets" at 31 March 2005 (see note 17)). The directors consider that the equity securities acquired in previous years now become part of the group's trading portfolio that is actively traded and therefore, have transferred them into financial assets held for trading during the year ended 31 March 2006.

(b) *Equity-linked notes*

During the year, the group acquired certain equity-linked notes ("notes") which are issued by financial institutions ("issuers") with principal amount totalling USD2.2 million and original maturity of 1 to 2 years. In respect of a note with principal amount of USD1.0 million, the group is entitled to receive a fixed coupon of 8.5% per annum payable on a quarterly basis and bonus payable on maturity. The amount of bonus receivable is determined and calculated with reference to the market prices of a basket of underlying listed shares to which the note is linked. On maturity, the group will receive 100% of the principal except that if the closing price of any of the underlying shares is below their respective strike price on valuation date (both determined according to the terms of the note), the group is required to buy the least performing underlying share at the strike price.

18 TRADING SECURITIES *(Continued)*

(b) *Equity-linked notes (Continued)*

In respect of the remaining notes with principal amount of USD1.2 million, the group is entitled to an additional payment which is accrued daily, calculated based on a fixed percentage of the principal which varies with each note ranging from 14% to 17.4% per annum and payable on a bi-monthly or quarterly basis. However, the group will only be entitled to the additional payment in a day if the closing prices of all of the shares within a basket of underlying listed shares to which the notes are linked are at or above the respective strike price (determined according to the terms of each note); otherwise, no additional payment will be accrued for that day. On maturity, the group will receive 100% of the principal except that the group may also be required to buy the least performing underlying share at the strike price under similar circumstances as set out in the preceding paragraph. In addition, the issuers may elect to early terminate and redeem the notes at par before maturity if the closing prices of all of the underlying shares are at or above their respective trigger price on certain dates, both determined according to the terms of each note.

(c) At 31 March 2006, trading securities of HK$36,828,000 (2005: HK$Nil) are pledged to a bank to secure the banking facilities granted to a subsidiary.

(d) Included in trading securities is the following amount denominated in a currency other than the functional currency of the entity to which it relates:

	The group	
	2006	2005
	'000	'000
United States dollars	**USD 3,072**	USD –

19 INVENTORIES

(a) *Inventories in the balance sheet comprise:*

	The group	
	2006	2005
	HK$'000	HK$'000
Raw materials	**50,422**	58,332
Work in progress	**30,482**	38,519
Finished goods	**59,555**	70,943
	140,459	167,794

(b) *The analysis of the amount of inventories recognised as an expense is as follows:*

	The group	
	2006	2005
	HK$'000	HK$'000
Carrying amount of inventories sold	**1,003,011**	1,081,741
Reversal of write-down of inventories	**(2,480)**	(912)
	1,000,531	1,080,829

20 TRADE AND OTHER RECEIVABLES

	The group		The company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade debtors and bills receivable	**101,751**	144,164	**–**	–
Deposits, prepayments and other receivables	**29,906**	30,257	**143**	131
	131,657	174,421	**143**	131

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 impairment losses for bad and doubtful debts) with the following ageing analysis as of the balance sheet date:

	The group	
	2006	2005
	HK$'000	HK$'000
By date of invoice		
Within 1 month	**66,721**	116,347
Over 1 month but within 3 months	**33,601**	23,995
Over 3 months	**1,429**	3,822
	101,751	144,164

The group's credit policy is set out in note 28(a).

Included in trade and other receivables is the following amount denominated in a currency other than the functional currency of the entity to which they relate:

	The group	
	2006	2005
	'000	'000
United States dollars	**USD 6,456**	USD 7,687

21 AMOUNTS DUE FROM/TO SUBSIDIARIES

Amounts due from/to subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

22 CASH AND CASH EQUIVALENTS

	The group		The company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Deposits with banks	**27,414**	54,768	**–**	–
Cash at bank and in hand	**211,981**	168,796	**620**	303
	239,395	223,564	**620**	303

Included in cash and cash equivalents are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The group	
	2006	2005
	'000	'000
Sterling	**GBP 694**	GBP 1,539
United States dollars	**USD20,296**	USD17,490

23 TRADE AND OTHER PAYABLES

	The group		The company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade creditors and bills payable	**45,294**	58,997	**–**	–
Accruals and other payables	**75,709**	97,483	**1,059**	953
	121,003	156,480	**1,059**	953

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

23 TRADE AND OTHER PAYABLES *(Continued)*

Included in trade and other payables are trade creditors and bills payable with the following ageing analysis as of the balance sheet date:

	The group	
	2006	2005
	HK$'000	HK$'000
By date of invoice		
Within 1 month	**35,070**	45,987
Over 1 month but within 3 months	**9,535**	12,227
Over 3 months	**689**	783
	45,294	58,997

Included in trade and other payables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The group	
	2006	2005
	'000	'000
Renminbi	**RMB 7,621**	RMB 7,423
Sterling	**GBP 61**	GBP 265
United States dollars	**USD 2,576**	USD 2,475

24 INCOME TAX IN THE BALANCE SHEET

(a) Current taxation in the balance sheets represents:

	The group		The company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Provision for Hong Kong Profits Tax for the year	**10,515**	10,471	**23**	33
Provisional Profits Tax paid	**(11,064)**	(4,305)	**(34)**	(5)
	(549)	6,166	**(11)**	28
Balance of Profits Tax recoverable relating to prior years	**(777)**	–	**–**	–
Taxation outside Hong Kong	**1,122**	2,877	**–**	–
	(204)	9,043	**(11)**	28
Representing:				
Current tax recoverable	**(2,932)**	(824)	**(11)**	–
Current tax payable	**2,728**	9,867	**–**	28
	(204)	9,043	**(11)**	28

24 INCOME TAX IN THE BALANCE SHEET *(Continued)*

(b) Deferred tax assets and liabilities recognised

(i) The group

The components of deferred tax (assets)/liabilities of the group recognised in the consolidated balance sheet and the movements during the year are as follows:

Deferred tax arising from:	**Depreciation allowances in excess of the related depreciation HK$'000**	**Tax losses HK$'000**	**Provisions HK$'000**	**Others HK$'000**	**Total HK$'000**
At 1 April 2004	2,620	(206)	(2,668)	(1,780)	(2,034)
Exchange adjustments	26	–	–	–	26
(Credited)/charged to profit or loss	(925)	(138)	(2,089)	21	(3,131)
At 31 March 2005	1,721	(344)	(4,757)	(1,759)	(5,139)
At 1 April 2005	1,721	(344)	(4,757)	(1,759)	(5,139)
Exchange adjustments	(82)	–	–	–	(82)
(Credited)/charged to profit or loss	(241)	(643)	630	1,868	1,614
At 31 March 2006	**1,398**	**(987)**	**(4,127)**	**109**	**(3,607)**

	2006 HK$'000	2005 HK$'000
Net deferred tax assets recognised on the consolidated balance sheet	**(5,249)**	(6,118)
Net deferred tax liabilities recognised on the consolidated balance sheet	**1,642**	979
	(3,607)	(5,139)

(ii) The company

No deferred tax has been recognised as the company does not have any significant temporary differences at 31 March 2005 and 2006.

24 INCOME TAX IN THE BALANCE SHEET *(Continued)*

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 1(r), the group has not recognised deferred tax assets totalling HK$1,596,000 (2005: HK$2,447,000) in respect of tax losses of HK$9,693,000 (2005: HK$12,420,000) as it is not probable that future taxable profits against which losses can be utilised will be available in the relevant tax jurisdiction and entity.

Included in unrecognised tax losses is an amount of HK$3,182,000 (2005: HK$4,214,000) which can be carried forward for up to five years from the year in which the loss originated. The remaining balance of HK$6,511,000 (2005: HK$8,206,000) does not expire under current tax legislation.

25 PROVISION FOR LONG SERVICE PAYMENTS

	The group HK$'000
At 1 April 2005	3,072
Payments made during the year	(51)
Provision written back during the year	(222)
At 31 March 2006	**2,799**

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

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

26 EMPLOYEE BENEFITS

(a) Employee retirement benefits

(i) The principal subsidiaries of the company in Hong Kong 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, employers are required to make contributions to the schemes calculated at 5% to 10% of the employees' basic salaries on a monthly basis. The employees are entitled to 100% of the employers' contributions and the accrued income after completion of 10 years' service, and at an increasing scale rate between 50% and 90% after completion of five to nine years' service.

The subsidiaries in Hong Kong also participate in Mandatory Provident Fund Schemes (the "MPF schemes") under the Hong Kong Mandatory Provident Fund Schemes Ordinance commencing 1 December 2000 for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by the defined contribution retirement schemes. The MPF schemes are defined contribution retirement schemes administered by independent trustees. Under the MPF schemes, employers and employees are each required to make contributions to the schemes at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. Contributions to the MPF schemes vest immediately.

Where there are employees who leave the schemes, other than the MPF schemes, prior to vesting fully in the contributions, in accordance with the rules of the schemes, the forfeited employers' contributions shall be used to reduce the future contributions of the employers. At 31 March 2006, there was no forfeited contribution which is available to reduce the contributions payable in future years (2005: HK$Nil).

(ii) The employees in certain subsidiaries in the PRC participate in various state-sponsored retirement benefit schemes organised by the PRC government. The subsidiaries are required to contribute, based on a certain percentage of the employees' basic salaries, to the retirement benefit schemes to fund the benefits. The only obligation of the subsidiaries with respect to the retirement benefit schemes is to make the required contributions under these schemes. Contributions to these schemes vest immediately.

26 EMPLOYEE BENEFITS *(Continued)*

(b) Share option scheme

The company adopted a share option scheme on 18 September 2003. Under the terms of the scheme, the directors of the company may at their discretion grant options to employees (including executive or independent non-executive directors) of the company or its subsidiaries and other eligible participants to subscribe for the shares of US$0.01 each in the company. Upon acceptance of an option, each eligible participant under the scheme is required to pay the company HK$1 within 21 days from the date of offer. The share option scheme remains valid for a period of 10 years commencing 18 September 2003.

Unless otherwise determined by the directors, there is no requirement of a minimum period for which an option must be held before it can be exercised. An option is exercisable at any time during such period to be notified by the directors to each grantee, but in any event not later than 10 years from the date of grant of the option.

The exercise price of the options is at least the highest of (a) the closing price of the shares as stated in the daily quotations sheet of The Stock Exchange of Hong Kong Limited ("Stock Exchange") on the date of grant, which must be a business day; (b) the average of the closing price of the shares as stated in the daily quotations sheets of the Stock Exchange for the five business days immediately preceding the date of grant; and (c) the nominal value of the shares. Each option gives the holder the right to subscribe for one share.

No options have been granted by the company under the share option scheme since its adoption.

27 CAPITAL AND RESERVES

(a) The group

	Attributable to equity shareholders of the company								
	Share capital HK$'000	Share premium HK$'000	Contributed surplus HK$'000	Exchange reserve HK$'000	PRC statutory reserves HK$'000	Retained profits HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1 April 2004	47,886	25,720	237,734	(737)	–	182,871	493,474	27,532	521,006
Dividend approved in respect of the previous year (note 10(b))	–	–	(18,418)	–	–	–	(18,418)	–	(18,418)
Transfer between reserves	–	–	–	–	5,280	(5,280)	–	–	–
Exchange differences on translation of the financial statements of subsidiaries outside Hong Kong	–	–	–	2,044	–	–	2,044	–	2,044
Profit for the year	–	–	–	–	–	96,117	96,117	3,055	99,172
Dividend declared in respect of the current year (note 10(a))	–	–	(12,279)	–	–	–	(12,279)	–	(12,279)
Dividend paid to minority interests	–	–	–	–	–	–	–	(2,563)	(2,563)
At 31 March 2005	47,886	25,720	207,037	1,307	5,280	273,708	560,938	28,024	588,962
At 1 April 2005	47,886	25,720	207,037	1,307	5,280	273,708	560,938	28,024	588,962
Dividend approved in respect of the previous year (note 10(b))	–	–	(27,627)	–	–	–	(27,627)	–	(27,627)
Transfer between reserves	–	–	–	–	787	(787)	–	–	–
Exchange differences on translation of the financial statements of subsidiaries outside Hong Kong	–	–	–	(1,944)	–	–	(1,944)	539	(1,405)
Profit for the year	–	–	–	–	–	86,290	86,290	4,441	90,731
Dividend declared in respect of the current year (note 10(a))	–	–	(15,348)	–	–	–	(15,348)	–	(15,348)
At 31 March 2006	**47,886**	**25,720**	**164,062**	**(637)**	**6,067**	**359,211**	**602,309**	**33,004**	**635,313**

27 CAPITAL AND RESERVES *(Continued)*

(b) The company

	Share capital HK$'000	Share premium HK$'000	Contributed surplus HK$'000	Retained profits HK$'000	Total equity HK$'000
At 1 April 2004	47,886	25,720	184,047	79,872	337,525
Dividend approved in respect of the previous year (note 10(b))	–	–	(18,418)	–	(18,418)
Profit for the year	–	–	–	34,095	34,095
Dividend declared in respect of the current year (note 10(a))	–	–	(12,279)	–	(12,279)
At 31 March 2005	47,886	25,720	153,350	113,967	340,923
At 1 April 2005	47,886	25,720	153,350	113,967	340,923
Dividend approved in respect of the previous year (note 10(b))	–	–	(27,627)	–	(27,627)
Profit for the year	–	–	–	43,276	43,276
Dividend declared in respect of the current year (note 10(a))	–	–	(15,348)	–	(15,348)
At 31 March 2006	**47,886**	**25,720**	**110,375**	**157,243**	**341,224**

(c) Share capital

	2006		2005	
	Number of shares '000	**Amount HK$'000**	Number of shares '000	Amount HK$'000
Authorised:				
Shares of US$0.01 each	**1,000,000**	**78,000**	1,000,000	78,000
Issued and fully paid:				
At 1 April and 31 March	**613,926**	**47,886**	613,926	47,886

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the company. All ordinary shares rank equally with regard to the company's residual assets.

27 CAPITAL AND RESERVES *(Continued)*

(d) Nature and purpose of reserves

(i) Share premium

Under the Bye-laws of the company, share premium is not distributable but may be applied in paying up unissued shares of the company to be issued to the shareholders of the company as fully paid bonus shares or in providing for the premiums payable on repurchase of shares.

(ii) Contributed surplus

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 Bermuda Companies Act 1981, the contributed surplus is available for distribution to shareholders.

(iii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside Hong Kong. The reserve is dealt with in accordance with the accounting policy set out in note 1(v).

(iv) PRC statutory reserves

PRC statutory reserves include general reserve and enterprise expansion fund which are made in accordance with the articles of association of the group's PRC subsidiaries. These reserves are non-distributable but, as appropriate, can be used to make good losses and to convert into paid-up capital.

(e) Distributability of reserves

At 31 March 2006, the aggregate amount of reserves available for distribution to equity shareholders of the company was HK$267,618,000 (2005: HK$267,317,000). After the balance sheet date the directors proposed a final dividend of HK4 cents (2005: HK4.5 cents) per share, amounting to HK$24,558,000 (2005: HK$27,627,000). This dividend has not been recognised as a liability at the balance sheet date.

28 FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arise in the normal course of the group's business. These risks are limited by the group's financial management policies and practices described below.

(a) Credit risk

The group's credit risk is primarily attributable to trade receivables, cash and bank deposits and trading securities. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade receivables, the credit terms given to the customers vary and are generally based on the financial strengths of individual customers. In order to effectively manage the credit risks associated with trade receivables, credit evaluations of customers are performed periodically. Trade receivables are generally due within 60 days from the date of billing. Normally, the group does not obtain collateral from customers.

At the balance sheet date, the group has a certain concentration of credit risk as 16% (2005: 23%) and 55% (2005: 69%) of the total trade receivables were due from the group's largest customer and the five largest customers respectively.

Cash and bank deposits are placed with financial institutions with sound credit ratings. Trading securities are normally only in listed or liquid securities and with counterparties that have a credit rating equal to or better than the group. Given their high credit ratings, management does not expect any counterparty to fail to meet its obligations.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet. The group does not provide any financial guarantees which would expose the group to credit risk.

(b) Liquidity risk

The group's policy is to regularly monitor current and expected liquidity requirements, to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

28 FINANCIAL INSTRUMENTS *(Continued)*

(c) Interest rate risk

In respect of income-earning financial assets, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice or the maturity dates, if earlier.

	2006				2005			
	Effective interest rate	Total HK$'000	One year or less HK$'000	1-2 years HK$'000	Effective interest rate	Total HK$'000	One year or less HK$'000	2-5 years HK$'000
The group								
Repricing dates for assets which reprice before maturity								
Equity-linked notes	12.53%	16,998	16,998	–	–	–	–	–
Cash at bank and in hand	1.92%	211,981	211,981	–	1.22%	168,796	168,796	–
Maturity dates for assets which do not reprice before maturity								
Deposits with banks	4.48%	27,414	27,414	–	2.53%	54,768	54,768	–
Other financial assets	3.62%	2,000	–	2,000	3.62%	2,000	–	2,000
The company								
Repricing dates for assets which reprice before maturity								
Cash at bank and in hand	1.05%	620	620	–	0%	303	303	–

(d) Foreign currency risk

The group is exposed to foreign currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily United States dollars and Sterling. Management monitors the group's exposure to foreign currency risk and will consider hedging significant foreign currency exposure should the need arise. At 31 March 2006, the net fair value of forward exchange contracts recognised as net derivative financial assets (included in deposits, prepayments and other receivables) is HK$377,000 (2005: HK$515,000). All of the forward exchange contracts have maturities of less than one year after the balance sheet date.

28 FINANCIAL INSTRUMENTS *(Continued)*

(e) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 March 2006 and 2005 except amounts due from subsidiaries which are unsecured, interest-free and have no fixed terms of repayment (see note 21). Given these terms, it is not meaningful to disclose their fair values.

(f) Estimation of fair values

The fair value of equity securities is based on quoted market prices at the balance sheet date without any deduction for transaction costs. Forward exchange contracts are marked to market by discounting the contractual forward price and deducting the current spot rate.

The fair value of the equity-linked notes is estimated by discounted cash flow techniques and using a pricing model. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate for a similar instrument at the balance sheet date. Where a pricing model is used, inputs are based on market related data at the balance sheet date.

29 COMMITMENTS

At 31 March 2006, the total future minimum lease payments of the group under non-cancellable operating leases are payable as follows:

	2006		2005	
	Land and buildings HK$'000	**Others HK$'000**	Land and buildings HK$'000	Others HK$'000
Within 1 year	**5,158**	**1,722**	6,203	1,821
After 1 year but within 5 years	**10,551**	**1,206**	13,687	1,806
After 5 years	**10,654**	**–**	14,248	–
	26,363	**2,928**	34,138	3,627

The group leases a number of properties under operating leases. The leases typically run for a period of one to eleven years, with an option to renew the leases when all terms are renegotiated. None of the leases includes contingent rentals.

30 CONTINGENT LIABILITIES

The company has given undertakings to certain wholly-owned subsidiaries to provide them with such financial assistance as is necessary to enable them to continue as a going concern.

31 MATERIAL RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these financial statements, the group entered into the following material related party transactions.

Key management personnel remuneration

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

	2006	2005
	HK$'000	HK$'000
Short-term employee benefits	**25,646**	29,005
Post-employment benefits	**1,650**	1,842
	27,296	30,847

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

32 NON-ADJUSTING POST BALANCE SHEET EVENT

Subsequent to the balance sheet date, the directors proposed a final dividend, further details are disclosed in note 10.

33 COMPARATIVE FIGURES

(i) Certain comparative figures have been adjusted or reclassified as a result of the changes in accounting policies as set out in note 2.

(ii) Club membership with carrying amount of HK$1,600,000 which was included in "Other financial assets" in the 2005 financial statements has been separately shown as a non-current asset on the face of the consolidated balance sheet to conform with the current year's presentation. The directors consider the revised presentation reflects more appropriately the nature of this asset.

34 ACCOUNTING ESTIMATES AND JUDGEMENTS

Note 28 contains information about the assumptions and their risk factors relating to financial instruments. Apart from the above, the group believes the following critical accounting policies also involve significant judgements and estimates used in the preparation of the financial statements.

(a) Impairment and depreciation of property, plant and equipment and interest in leasehold land

(i) Impairment

If circumstances indicate that the carrying amounts of property, plant and equipment and interest in leasehold land (collectively "fixed assets") may not be recoverable, the assets may be considered "impaired" and are tested for impairment in accordance with HKAS 36, *Impairment of assets*. An impairment loss is recognised when the asset's recoverable amount has declined below its carrying amount. The recoverable amount is the greater of the net selling price and value in use. The asset's recoverable amount will also be estimated if circumstances indicate that an impairment loss previously recognised no longer exists or may have decreased. An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. In determining the recoverable amount, significant judgements are required and the group uses all readily available information, including estimates based on reasonable and supportable assumptions, projections of sale volume and operating costs or other market data, to arrive at an amount that is a reasonable approximation of recoverable amount. Any adverse changes in the assumptions used in determining the recoverable amount would cause the carrying amount of the asset to be significantly different from the recoverable amount.

(ii) Depreciation

Fixed assets are depreciated on a straight-line basis over their estimated useful lives, after taking into account the estimated residual values, if any. The group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the group's historical experience with similar assets and taking account of obsolescence and technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

(b) Write down of inventories

The group performs regular review of the carrying amounts of inventories with reference to aged inventories analysis, expected future consumption and management judgement. Based on this review, write down of inventories will be made when the carrying amounts of inventories decline below their estimated net realisable values. However, actual consumption may be different from estimation and profit or loss could be affected by differences in this estimation.

35 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED 31 MARCH 2006

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the accounting period ended 31 March 2006 and which have not been adopted in these financial statements.

Of these developments, the following relate to matters that may be relevant to the group's operations and financial statements:

		Effective for accounting periods beginning on or after
Amendments, as a consequence of the Hong Kong Companies (Amendment) Ordinance 2005, to:		
– HKAS 1	Presentation of financial statements	1 January 2006
– HKAS 27	Consolidated and separate financial statements	1 January 2006
– HKFRS 3	Business combinations	1 January 2006
HKFRS 7	Financial instruments: disclosures	1 January 2007
Amendment to HKAS 1	Presentation of financial statements: capital disclosures	1 January 2007
Amendment to HKAS 39	Financial instruments: Recognition and measurement – Financial guarantee contracts	1 January 2006

In addition, the Hong Kong Companies (Amendment) Ordinance 2005 came into effect on 1 December 2005 and would be first applicable to the group's financial statements for the period beginning 1 April 2006.

The group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that while the adoption of them may result in new or amended disclosures, it is unlikely to have a significant impact on the group's results of operations and financial position.

36 DETAILS OF PRINCIPAL SUBSIDIARIES

Name of company	Place/country of establishment	Place/country of operation	Particulars of issued and fully paid up capital/ registered capital	Percentage of ownership interest held by the company	Percentage of ownership interest held by the subsidiaries	Principal activities
Herald Group Limited	The British Virgin Islands ("BVI")	Hong Kong	1 share of US$1 each	100	–	Investment holding
Herald (Hong Kong) Limited	Hong Kong	Hong Kong	10,000 ordinary shares of HK$0.15 each	–	100	Investment holding
Herald China Investments Limited	Hong Kong	Hong Kong	1,000,000 ordinary shares of HK$1 each	–	100	Investment holding
Herald Investments (China) Company Limited @	PRC	PRC	Registered capital of US$11,500,000	–	100	Investment holding
Herald Metal and Plastic Works Limited	Hong Kong	Hong Kong	100 ordinary shares of HK$10 each	–	100	Manufacture of toys
			1,953,000 deferred shares of HK$10 each	–	100	
Dongguan Herald Metal and Plastic Company Limited @	PRC	PRC	Registered capital of HK$35,400,000	–	100	Manufacture of toys
Shenzhen Herald Metal and Plastic Company Limited #	PRC	PRC	Registered capital of HK$23,500,000	–	60	Manufacture of toys
Herald Datanetics Limited	Hong Kong	Hong Kong	1,128,000 ordinary shares of HK$10 each	–	100	Manufacture of computer heads
Zhuhai Herald Datanetics Limited #	PRC	PRC	Registered capital of HK$38,000,000	–	75	Manufacture of computer heads
Herald Engineering Services Inc.	United States of America	United States of America	75,000 shares of US$0.4 each	–	100	Engineering service
Herald Houseware Limited	Hong Kong	Hong Kong	5,000,000 ordinary shares of HK$1 each	–	100	Trading of housewares
Herald Metal Products Company Limited #	PRC	PRC	Registered capital of US$1,650,000	–	51	Manufacture of housewares
Zhuhai Herald Houseware Limited #	PRC	PRC	Registered capital of HK$30,000,000	–	80	Manufacture of housewares

36 DETAILS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name of company	Place/country of establishment	Place/country of operation	Particulars of issued and fully paid up capital/ registered capital	Percentage of ownership interest held by the company	subsidiaries	Principal activities
Pilot Housewares (U.K.) Limited	United Kingdom	United Kingdom	800,000 ordinary shares of GBP1 each	–	100	Sales and distribution of housewares
Zeon Limited	United Kingdom	United Kingdom	433,750 ordinary shares of GBP1 each	–	100	Sales and distribution of clocks, watches and electronic products
			1,250,000 12.5% cumulative redeemable preference shares of GBP1 each	–	100	
			165,417 preferred shares of GBP1 each	–	100	
Zeon Far East Limited	Hong Kong	Hong Kong	2 ordinary shares of HK$1 each	–	100	Trading of clocks and watches
Herald Electronics Limited	Hong Kong	Hong Kong	1,000,000 ordinary shares of HK$1 each	–	100	Trading of clocks and watches
Shanghai Herald Electronics Company Limited #	PRC	PRC	Registered capital of RMB3,200,000	–	75	Manufacture of clocks and watches
Jonell Limited	Hong Kong	Hong Kong	2 ordinary shares of HK$10 each	–	100	Property investment
Premium Account Limited	BVI	PRC	2 shares of US$1 each	–	100	Property investment

Equity joint ventures registered under the laws of the PRC as Sino-foreign Joint Venture Enterprises.

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

	2006	2005	2004	2003	2002
		(restated)	(restated)	(restated)	(restated)
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Results					
Turnover	**1,325,686**	1,442,998	1,103,819	925,954	867,062
Profit/(loss) before taxation	**105,123**	115,652	75,451	42,448	(27,991)
Income tax	**(14,392)**	(16,480)	(11,682)	(3,081)	(2,549)
Profit/(loss) for the year	**90,731**	99,172	63,769	39,367	(30,540)
Attributable to:					
– Equity shareholders of the company	**86,290**	96,117	61,940	35,156	(32,416)
– Minority interests	**4,441**	3,055	1,829	4,211	1,876
Profit/(loss) for the year	**90,731**	99,172	63,769	39,367	(30,540)
Assets and liabilities					
Fixed assets	**178,066**	174,211	178,138	184,787	184,516
Club membership	**1,660**	1,600	2,120	2,120	2,120
Interest in jointly controlled entity	**2,150**	1,804	1,984	1,698	1,759
Other financial assets	**2,000**	9,024	7,145	4,657	3,926
Deferred tax assets	**5,249**	6,118	4,484	7,916	–
Current assets	**574,360**	566,603	454,083	372,563	364,971
Current liabilities	**(123,731)**	(166,347)	(120,823)	(94,033)	(113,331)
Total assets less current liabilities	**639,754**	593,013	527,131	479,708	443,961
Non-current liabilities	**(4,441)**	(4,051)	(6,125)	(5,993)	(6,184)
Net assets	**635,313**	588,962	521,006	473,715	437,777

	2006	2005 (restated)	2004 (restated)	2003 (restated)	2002 (restated)
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Capital and reserves					
Share capital	**47,886**	47,886	47,886	48,100	48,673
Reserves	**554,423**	513,052	445,588	399,220	371,251
Total equity attributable to equity shareholders of the company	**602,309**	560,938	493,474	447,320	419,924
Minority interests	**33,004**	28,024	27,532	26,395	17,853
Total equity	**635,313**	588,962	521,006	473,715	437,777

Notes:

(1) The HKICPA has issued a number of new and revised HKFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. Information on the changes in accounting policies resulting from initial application of these new and revised HKFRSs is provided in note 2 on the financial statements. Figures for 2005 and 2006 have been adjusted for these new and revised policies as disclosed in note 2. Earlier years have only been restated to the extent that the new accounting policies are adopted retrospectively as disclosed in note 2.

(2) Hong Kong Statement of Standard Accounting Practice No. 12 (revised) "Income taxes" was first effective for accounting periods beginning on or after 1 January 2003. In order to comply with this revised statement, the group adopted a new accounting policy for deferred tax in 2004. Figures for the year 2003 have been adjusted. However, it is not practicable to restate earlier years for comparison purposes.