

Report of the Directors

The directors submit herewith their annual report together with the audited accounts for the year ended 31 March 2002.

PRINCIPAL ACTIVITIES

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

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	Percentage of the group's total	
	Sales	Purchases
The largest customer	32%	
Five largest customers in aggregate	57%	
The largest supplier		5%
Five largest suppliers in aggregate		20%

At no time during the year, have the directors, their associates or any shareholder of the company (which to the knowledge of the directors owns more than 5 per cent of the company's share capital) had any interest (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules")) in these major customers and suppliers.

PRINCIPAL SUBSIDIARIES

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

ACCOUNTS

The results of the group for the year ended 31 March 2002 and the state of the company's and the group's affairs at that date are set out in the accounts on pages 16 to 57.

No interim dividend was paid during the year (2001: HK 1 cent per share). The directors now recommend the payment of a final dividend of HK 1 cent per share in respect of the year ended 31 March 2002 (2001: Nil).

FIXED ASSETS

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

BANK LOANS AND OVERDRAFTS

Particulars of bank loans and overdrafts of the group as at 31 March 2002 are set out in note 18 on the accounts.

CHARITABLE DONATIONS

Donations made by the group during the year amounted to HK\$128,000 (2001: HK\$40,000).

SHARE CAPITAL

Movements in share capital during the year are set out in note 22 on the accounts.

The company repurchased and then cancelled 1,190,000 (2001: 10,260,000) of its own shares during the year. The directors consider that the repurchase of shares will benefit shareholders by enhancing the earnings per share of the company.

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

DIRECTORS

The directors during the financial year were:

Executive directors

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

Non-executive directors

D C Bray
H M G Forsgate (deceased on 20 October 2001)
P K Y Tsao

In accordance with bye-law 87 of the company's bye-laws, D S Chang and P K Y Tsao retire from the board by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

DIRECTORS AND SENIOR MANAGEMENT

George BLOCH, aged 81, has been the Chairman of the company since its incorporation in 1992. He is a graduate of the College of Technology in Northampton, England. He went to Shanghai in 1939 and worked for a large engineering firm. He established his business in Japan in 1949 and moved to Hong Kong in 1955. In 1969, Mr Bloch, together with Mr Chang Dong-Song founded Herald Metal and Plastic Works Limited (“HMPL”), the initial company of the group. Mr Bloch is a Past District Governor of Lions International in Hong Kong and is Vice-Chairman of the Liver Foundation and was for several years Chairman of the Eye Bank. He is a leading collector of both western and Chinese art and his collection has been exhibited internationally. He has been honoured by the French Government and made a “Chevalier de l’Ordre des Arts et des Lettres” and also has a major decoration from the Government of Austria. In May 2000 he received the “Chevalier de la Couronne” from the Belgian Government in recognition of his contribution to the arts.

CHEUNG Tsang-Kay, Stan, PhD, Hon LLD, Hon DBA, JP, aged 58, has been the Managing Director of the company since its incorporation. Dr Cheung’s community services in the past included Urban Council member, Broadcasting Authority member, The Hong Kong Polytechnic University Council member and Vice-Chairman of Occupational Safety & Health Council, etc. He is currently a member of The Chinese People’s Political Consultative Conference, Shanghai Municipal Committee. Also, he is the Honorary Trustee and Adjunct Professor at Shanghai Jiao Tung University, Trustee of Fudan University and Director of Soong Ching Ling Foundation of Shanghai. Dr Cheung joined the group in 1975 and is a director of the principal companies of the group.

CHANG Dong-Song, aged 81, the father of Dr Cheung, has been an Executive Director of the company since 1992. Mr Chang was a co-founder of HMPL and since 1969 has played a principal role in the development of the group’s manufacturing activities. He is now a director of some of the group’s companies. He was a member of the Toys Advisory Council of the Hong Kong Trade Development Council. Mr Chang is also a member of The Chinese People’s Political Consultative Conference, Jiangsu Changshu Committee.

Robert DORFMAN, aged 47, 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 immediate past Chairman of the Young Presidents’ Organisation’s Asia-Pacific Regional Board and serves as a Director on its International Board. Mr Dorfman is a director of some of the group’s companies.

THONG Yeung-Sum, Michael, FCCA, AHKSA, aged 52, obtained a degree in Social Science at the University of Hong Kong. He is a member of the Hong Kong Society of Accountants and the Chartered Association of Certified Accountants. Before joining the group in 1976, he worked for three years with the Hong Kong office of a leading international accounting firm. Mr Thong has been an Executive Director of the company since 1992 and now serves as finance director and company secretary of the principal companies of the group.

Denis Campbell BRAY, CMG, CVO, JP, aged 76, has served as a Non-Executive Director of the company since 1992. Mr Bray joined the Hong Kong Government in 1950. In 1971, he was appointed District Commissioner, New Territories. He also served as Hong Kong Commissioner in London from 1977 to 1980 and as Secretary of Home Affairs and an ex-officio member of the Executive and Legislative Councils. From 1985 to 1992, Mr Bray was Executive Director of The Community Chest of Hong Kong. He is Chairman of the charity Christian Action. He is also a director of The Hong Kong Philharmonic Orchestra.

Hugh Moss Gerald FORSGATE, CBE, JP, served as a Non-Executive Director of the company since 1992. Mr Forsgate joined Hong Kong and Kowloon Wharf & Godown Company Limited in 1947 and served as a Director and General Manager from 1959 to 1979. He was appointed to the Urban Council in 1965 and acted as its Chairman from 1986 to 1991. He was also Chairman of the Kowloon-Canton Railway Corporation. Mr Forsgate was the Chairman of Eralda Industries Limited and an adviser to the Jardine Pacific Group. He also served as a Non-Executive Director in several other listed companies in Hong Kong and was a member of the HK Port and Maritime Board. In addition, he was the President of Hong Kong Rugby Union and Hong Kong Football Club. Mr Forsgate passed away on 20 October 2001 at the age of 82. He enjoyed high esteem in the business community and was a wise and experienced counsellor to many. His memory will always be treasured in our group.

TSAO Kwang-Yung, Peter, CBE, CPM, aged 68, has served as a Non-Executive Director of the company since 1992. Mr Tsao joined the Hong Kong Government in 1955. He has served in key positions within the Department of Trade and Industry and led the Hong Kong delegation in numerous rounds of trade negotiations with the EU and the United States. In 1983, Mr Tsao became Director of Information Services and was involved in the negotiations with China over the future of Hong Kong. He later served as Secretary for Administrative Services and Information and retired in 1992 from the post of Secretary of Home Affairs. Mr Tsao now serves as a non-executive director in several other listed companies in Hong Kong.

Gershon DORFMAN, aged 46, 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 Datatronics Limited and a director of some of the group's companies.

DIRECTORS' INTERESTS IN SHARES

The directors who held office at 31 March 2002 had the following beneficial interests in the issued share capital of the company (within the meaning of the Securities (Disclosure of Interests) Ordinance) at that date as recorded in the register of directors' share interests:

	Number of shares				Total
	Personal interests	Family interests	Corporate interests	Other interests (Note)	
Herald Holdings Limited (Shares of US\$0.01 each)					
G Bloch	150,000	8,091,500	1,250,000	–	9,491,500
D S Chang	10,040,000	21,654,879	–	–	31,694,879
S T K Cheung	35,542,808	–	–	75,498,356	111,041,164
R Dorfman	40,470,000	–	–	–	40,470,000
M Y S Thong	10,233,308	–	–	–	10,233,308

Note: Dr S T K Cheung is the beneficiary of a family trust which owned 75,498,356 shares in the company at 31 March 2002.

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 or chief executive of the company or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in or debentures of the company or any other body corporate.

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

The company has been notified of the following interests in the company's issued shares at 31 March 2002 amounting to 10 per cent or more of the shares in issue:

	Shares held	Percentage of total issued shares
Goldfinch Investments Limited ("GIL")	69,728,356	11.17%
HSBC International Trustee Limited ("HIT")	75,698,356	12.13%
HSBC Holdings B.V. ("HHBV")	75,698,356	12.13%
HSBC Holdings plc ("HH")	75,698,356	12.13%
HSBC Finance (Netherlands) ("HFN")	75,698,356	12.13%
HSBC Investment Bank Holdings B.V. ("HIB")	75,698,356	12.13%

GIL is a company owned by a family trust which owned an aggregate of 75,498,356 shares in the company at 31 March 2002 as noted under "Directors' interests in shares", comprising 69,728,356 shares held by GIL and 5,770,000 shares held by the trust itself. HIT, the trustee for the trust, was deemed to be interested in the 75,498,356 shares held by the trust. HHBV, HH, HFN and HIB were all deemed to be interested in these shares due to their direct or indirect holdings in the shares of HIT. In addition, HIT, HHBV, HH, HFN and HIB had a further interest of 200,000 shares in the company at 31 March 2002.

DIRECTORS' INTERESTS IN CONTRACTS

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

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.

DIRECTORS' SERVICE CONTRACTS

No director has an unexpired service contract which is not determinable by the company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

The non-executive directors were re-appointed by the board of directors for a term of two years commencing on 1 April 2001. They are subject to the retirement from office by rotation in accordance with the bye-law of the company. Their remuneration is determined by the board of directors annually.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

The company has complied throughout the year with the Code of Best Practice as set out by The Stock Exchange of Hong Kong Limited in Appendix 14 to the Listing Rules.

AUDIT COMMITTEE

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

EMPLOYEES

At 31 March 2002, the number of employees of the group was approximately 190 in Hong Kong, 4,080 in the People's Republic of China and 110 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.

PRE-EMPTIVE RIGHTS

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

FIVE YEAR SUMMARY

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

AUDITORS

A resolution for the re-appointment of KPMG as auditors of the company is to be proposed at the forthcoming annual general meeting.

By order of the board

THONG Yeung-Sum, Michael

Director

Hong Kong, 16 July 2002