

REPORT OF THE DIRECTORS

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

PRINCIPAL ACTIVITIES

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

MAJOR CUSTOMERS AND SUPPLIERS

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

	Percentage of the group's total	
	Sales	Purchases
The largest customer	30%	
Five largest customers in aggregate	54%	
The largest supplier		5%
Five largest suppliers in aggregate		20%

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

PRINCIPAL SUBSIDIARIES

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

ACCOUNTS

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

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

REPORT OF THE DIRECTORS (CONTINUED)

FIXED ASSETS

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

BANK LOANS AND OVERDRAFTS

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

CHARITABLE DONATIONS

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

SHARE CAPITAL

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

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

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

DIRECTORS

The directors during the financial year were:

Executive directors

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

Non-executive directors

D C Bray
P K Y Tsao

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

REPORT OF THE DIRECTORS (CONTINUED)

DIRECTORS AND SENIOR MANAGEMENT

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

CHEUNG Tsang-Kay, Stan, PhD, Hon LLD, Hon DBA, JP, aged 59, has been the Managing Director of the company since its incorporation. Dr Cheung's community services in the past included Urban Council member, Broadcasting Authority member, The Hong Kong Polytechnic University Council member and Vice-Chairman of Occupational Safety & Health Council, etc. He is currently a member of The Chinese People's Political Consultative Conference, Shanghai Municipal Committee. Also, he is the Honorary Trustee and Adjunct Professor at Shanghai Jiao Tung University, Trustee of Fudan University and Director of Soong Ching Ling Foundation of Shanghai. Dr Cheung joined the group in 1975 and is a director of the principal companies of the group.

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

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

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

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

REPORT OF THE DIRECTORS (CONTINUED)

DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

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

Gershon DORFMAN, aged 47, step-son of Mr Bloch, received his primary and secondary education in Hong Kong, Japan and Switzerland. He then obtained a degree in Business Administration from the University of Washington. Before joining the group in 1983 he spent six years with a leading local watch manufacturing company. He is the Managing Director of Herald Datametals Limited and a director of some of the group's companies.

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

DIRECTORS' INTERESTS IN SHARES

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

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

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

REPORT OF THE DIRECTORS *(CONTINUED)*

DIRECTORS' INTERESTS IN SHARES *(CONTINUED)*

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

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

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

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

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

DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance, to which the company or any of its subsidiaries was a party and in which a director of the company had a material interest, subsisted at the end of the year or at any time during the year.

REPORT OF THE DIRECTORS (CONTINUED)

DIRECTORS' SERVICE CONTRACTS

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

The non-executive directors were re-appointed by the board of directors for a term of two years commencing on 1 April 2003. They are subject to retirement from office by rotation in accordance with the Bye-laws of the company. Their remuneration is determined by the board of directors annually.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

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

AUDIT COMMITTEE

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

EMPLOYEES

At 31 March 2003, the number of employees of the group was approximately 195 in Hong Kong, 3,232 in the People's Republic of China and 92 in Europe. The group ensures that its employees' remuneration packages are competitive. Employees are rewarded based on their performance and experience and the prevailing industry practice.

RETIREMENT SCHEMES

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

PRE-EMPTIVE RIGHTS

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

FIVE YEAR SUMMARY

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

REPORT OF THE DIRECTORS *(CONTINUED)*

AUDITORS

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

By order of the board

THONG Yeung-Sum, Michael

Director

Hong Kong, 15 July 2003