

# REPORT OF THE DIRECTORS

The directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 March 2005.

## PRINCIPAL ACTIVITIES

The principal activity of the company is investment holding. The principal activities and other particulars of the principal subsidiaries are set out on pages 61 to 62.

The analysis of the principal activities and geographical locations of the operations of the company and its principal subsidiaries during the financial year are set out in note 10 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	21%	
Five largest customers in aggregate	52%	
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 (as defined in the Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited (the "Main Board Listing Rules")) in these major customers and suppliers.

## FINANCIAL STATEMENTS

The profit of the group for the year ended 31 March 2005 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 19 to 60.

An interim dividend of HK2 cents (2004: HK1.5 cents) per share was paid on 21 January 2005. The directors now recommend the payment of a final dividend of HK4.5 cents (2004: HK3 cents) per share in respect of the year ended 31 March 2005.

## RESERVES

Details of movements in reserves of the company and the group during the year are set out in note 24 on the financial statements.

## **REPORT OF THE DIRECTORS** (CONTINUED)

### **FIXED ASSETS**

Details of movements in fixed assets during the year are set out in note 11 on the financial statements.

### **BANK LOANS AND OTHER BORROWINGS**

At 31 March 2005, the group did not have any bank loans and other borrowings.

### **CHARITABLE DONATIONS**

Charitable donations made by the group during the year amounted to HK\$64,140 (2004: HK\$60,000).

### **SHARE CAPITAL**

Details of movements in share capital during the year are set out in note 23 on the financial statements.

### **DIRECTORS**

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

#### ***Executive directors***

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

#### ***Independent non-executive directors***

K H Tang	(appointed on 28 September 2004)
D T C Lie-A-Cheong	(appointed on 16 June 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, M Y S Thong retires from the board by rotation at the forthcoming annual general meeting and, being eligible, offers himself for re-election.

In addition, according to Bye-law 86(2) of the company's Bye-laws, K H Tang, who was appointed as an addition to the existing board, and D T C Lie-A-Cheong, who was appointed to fill a casual vacancy, hold office until the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

The company has received from each independent non-executive director an annual confirmation of his independence pursuant to Rule 3.13 of Chapter 3 of the Main Board Listing Rules and the company considers such directors to be independent.

## REPORT OF THE DIRECTORS (CONTINUED)

### DIRECTORS AND SENIOR MANAGEMENT

#### *Directors*

**George BLOCH**, aged 84, 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 also 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.

**CHEUNG Tsang-Kay, Stan**, PhD, Hon LLD, Hon DBA, JP, aged 61, 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 84, 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 50, 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 a director of some of the group’s companies.

**THONG Yeung-Sum, Michael**, FCCA, CPA, aged 55, 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 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 the finance director and company secretary of the principal companies of the group.

# REPORT OF THE DIRECTORS (CONTINUED)

## DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

### *Directors (CONTINUED)*

**Denis Campbell BRAY**, CMG, CVO, JP, served as an independent 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. Mr Bray passed away on 8 July 2005 at the age of 79. He provided wise counsel to the Herald Board for which we will always be grateful. He will be sadly missed.

**TSAO Kwang-Yung, Peter**, CBE, CPM, served as an independent non-executive director of the company since 1992. Mr Tsao joined the Hong Kong Government in 1955. He 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 served as a non-executive director in several other listed companies in Hong Kong. Mr Tsao passed away on 5 June 2005 at the age of 71. He enjoyed high esteem in the business community and was a wise and experienced counsellor to many. He will be sadly missed.

**TANG King-Hung**, ACA, FCCA, ACIS, CPA, aged 54, 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.

**LIE-A-CHEONG Tai-Chong, David**, aged 45, 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 is also the Honorary Consul of the Hashemite Kingdom of Jordan in Hong Kong, the chairman of the China Committee of The Hong Kong General Chamber of Commerce, the North Asia Area chair of The Young Presidents' Organisation, a member of the Hong Kong Committee for Pacific Economic Cooperation and a member of The National Committee of the 8th, 9th and 10th Chinese People's Political Consultative Conference since 1993. He also holds a number of other public offices. Mr Lie-A-Cheong is an independent non-executive director of Wheelock Properties Limited, a company whose shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

### *Senior Management*

**Gershon DORFMAN**, aged 49, 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 a director of some of the group's companies.

# REPORT OF THE DIRECTORS (CONTINUED)

## DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

### Senior Management (CONTINUED)

**KWOK Nam-Po**, aged 54, 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 2005, the beneficial interests of the directors of the company and their associates in the shares of the company and its associated corporation (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)

Directors	Capacity	Number of shares				Total	Percentage of total issued shares
		Personal interests	Family interests	Corporate interests	Other interests		
G Bloch	Beneficial owner, interest of spouse and interests of controlled corporations	150,000	8,091,500	1,250,000 (Note (i))	–	9,491,500	1.55%
D S Chang	Beneficial owner, interest of spouse and founder of a trust	10,040,000	21,654,879	–	75,498,356 (Note (iii))	107,193,235	17.46%
S T K Cheung	Beneficial owner, interest of spouse, interest of controlled corporation and beneficiary of a trust	36,252,808	950,000	50,000 (Note (ii))	75,498,356 (Note (iii))	112,751,164	18.36%
R Dorfman	Beneficial owner	46,470,000	–	–	–	46,470,000	7.57%
M Y S Thong	Beneficial owner	11,383,308	–	–	–	11,383,308	1.85%



## REPORT OF THE DIRECTORS (CONTINUED)

### DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (CONTINUED)

#### *Interests in issued shares (CONTINUED)*

Notes:

- (i) 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 2005.
- (ii) Each of Dr S T K Cheung and his spouse, Ms Ng Yiu Chi Eleanor, is a beneficial shareholder of 50% of the issued capital of Money Plus Enterprises Limited which owned 50,000 shares in the company at 31 March 2005.
- (iii) Dr S T K Cheung is the beneficiary of a family trust which owned 75,498,356 shares in the company at 31 March 2005. Mr D S Chang, being the founder of the trust, is also deemed to be interested in these shares.

As at 31 March 2005, no short positions were recorded in the register required to be kept under section 352 of the SFO.

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 and any of its subsidiaries, 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.

### SUBSTANTIAL SHAREHOLDERS' 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 2005 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)*

Shareholders	Note	Capacity	Number of shares held	Percentage of total issued shares
Chan Him Wee	(i)	Beneficial owner and interest of spouse	107,193,235	17.46%
Ng Yiu Chi Eleanor	(ii)	Beneficial owner, interest of spouse and interest of controlled corporation	112,751,164	18.36%

## REPORT OF THE DIRECTORS *(CONTINUED)*

### SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES *(CONTINUED)*

#### **Interests in issued shares** *(CONTINUED)*

*(Shares of US\$0.01 each of the company)*

Shareholders	Note	Capacity	Number of shares held	Percentage of total issued shares
Sheri Tilman Dorfman	(iii)	Interest of spouse	46,470,000	7.57%
Goldfinch Investments Ltd ("GIL")	(iv)	Beneficial owner	69,728,356	11.36%
HSBC International Trustee Ltd ("HIT")	(iv)	Trustee	75,698,356	12.33%
Gershon Dorfman	(v)	Beneficial owner	37,605,799	6.13%
Lydia Dorfman	(v)	Interest of spouse	37,605,799	6.13%

Notes:

- (i) Ms Chan Him Wee, the spouse of Mr D S Chang, is deemed to be interested in 85,538,356 shares through interests of her spouse. Her entire interests in the shares of 107,193,235 are duplicated by those disclosed under Mr D S Chang in the section "Directors' interests and short positions in shares, underlying shares and debentures".
- (ii) Ms Ng Yiu Chi Eleanor, the spouse of Dr S T K Cheung, is deemed to be interested in 111,751,164 shares through interests of her spouse and 50,000 shares through interests in 50% of the issued capital of Money Plus Enterprise Limited. Her entire interests in the shares of 112,751,164 are duplicated by those disclosed under Dr S T K Cheung in the section "Directors' interests and short positions in shares, underlying shares and debentures".
- (iii) Mrs Sheri Tilman Dorfman, the spouse of Mr R Dorfman, is deemed to be interested in these shares through interests of her spouse. These interests are duplicated by those disclosed under Mr R Dorfman in the section "Directors' interests and short positions in shares, underlying shares and debentures".
- (iv) 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 2005 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 2005.
- (v) Mrs Lydia Dorfman is the spouse of Mr Gershon Dorfman and is deemed to be interested in these shares through interests of her spouse.

As at 31 March 2005, no short positions were recorded in the register required to be kept under section 336 of the SFO.

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.

## **REPORT OF THE DIRECTORS** *(CONTINUED)*

### **DIRECTORS' INTERESTS IN CONTRACTS**

No contract of significance to which the company or any of its subsidiaries was a party, 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 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.

### **SHARE OPTION SCHEME**

At the special general meeting of the company held on 18 September 2003, the shareholders of the company approved the adoption of a share option scheme 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 director) 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 2005 was 61,522,576 shares which represented 10% of the issued share capital of the company as at 31 March 2005. 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.



## **REPORT OF THE DIRECTORS** *(CONTINUED)*

### **SHARE OPTION SCHEME** *(CONTINUED)*

No options have been granted by the company since the adoption of the new 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.

### **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 Main Board Listing Rules except that the independent non-executive directors are not appointed for a specific term but are subject to retirement from office by rotation and re-election at the annual general meeting of the company in accordance with the Bye-laws of the company.

### **AUDIT COMMITTEE AND INDEPENDENT NON-EXECUTIVE DIRECTORS**

The audit committee reports to the board of directors and 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.

Mr Denis Campbell Bray, an independent non-executive director and audit committee member, passed away on 8 July 2005. As at the date of this report, the company has only two independent non-executive directors and two audit committee members which fall short of the requirements under Rules 3.10 and 3.12 of the Main Board Listing Rules. The directors expect that the appointment of a new independent non-executive director and audit committee member will be finalised in the next two to three months.

### **EMPLOYEES**

As at 31 March 2005, the number of employees of the group was approximately 204 (2004: 195) in Hong Kong, 7,376 (2004: 4,944) in the People's Republic of China and 117 (2004: 108) 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 22 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.

## **REPORT OF THE DIRECTORS** *(CONTINUED)*

### **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

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

### **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 63.

### **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, 15 July 2005