

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 Datametals 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)

Directors	Number of shares				Total	Percentage of total issued shares
	Personal interests (Note (i))	Interests of spouse	Corporate interests	Other interests		
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)

	Note	Number of shares				Percentage of total issued shares
		Personal interests	Interests of spouse	Other interests	Total	
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