

CONTENTS

	<i>Page</i>
CORPORATE INFORMATION	2
FINANCIAL HIGHLIGHTS	3
CHAIRMAN'S STATEMENT	4
REPORT OF THE DIRECTORS	7
REPORT OF THE AUDITORS	15
CONSOLIDATED PROFIT AND LOSS ACCOUNT	16
CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES	17
CONSOLIDATED BALANCE SHEET	18
BALANCE SHEET	19
CONSOLIDATED CASH FLOW STATEMENT	20
NOTES ON THE ACCOUNTS	24
DETAILS OF PRINCIPAL SUBSIDIARIES	43
FIVE YEARS SUMMARY	47
NOTICE OF ANNUAL GENERAL MEETING	48

CORPORATE INFORMATION

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, AHKSA

INDEPENDENT NON-EXECUTIVE DIRECTORS

Denis Campbell Bray CMG, CVO, JP
Hugh Moss Gerald Forsgate CBE, JP
Tsao Kwang-Yung, Peter CBE, CPM

SECRETARY

Thong Yeung-Sum, Michael FCCA, AHKSA

PRINCIPAL BANKERS

Société Générale
Bank of America, N.A.
International Bank of Asia Limited

AUDITORS

KPMG

SOLICITORS

Stephenson Harwood & Lo
Richards Butler

PRINCIPAL OFFICE

8th Floor, Wing On Life Building
22 Des Voeux Road Central
Hong Kong

REGISTERED OFFICE

Clarendon House, Church Street
Hamilton HM 11
Bermuda

PRINCIPAL REGISTRARS

Butterfield Corporate Services Limited
Rosebank Centre
14 Bermudiana Road
Pembroke
Bermuda

HONG KONG SHARE REGISTRARS

Tengis Limited
4th Floor, Hutchison House
10 Harcourt Road
Hong Kong

FINANCIAL HIGHLIGHTS

	Year ended 31 March 2000 HK\$'000	Year ended 31 March 1999 HK\$'000
Turnover	947,486	905,930
Profit attributable to shareholders	39,367	22,482
Dividends paid and proposed	25,188	19,461
Earnings per share		
– Basic	6.10 cents	3.45 cents
Dividends paid and proposed, per share	4 cents	3 cents
	As at 31 March 2000	As at 31 March 1999
Net tangible assets	464,406	455,836
Net tangible assets per share	73.08 cents	70.12 cents
Total assets	640,901	641,132
Number of issued and fully paid shares	635,460,763 shares	650,085,763 shares

CHAIRMAN'S STATEMENT

I am pleased to present my review of the results and operations of the Herald Group ("The Group") for the year ended 31 March 2000.

RESULTS

During the year under review, the Group recorded satisfactory results which were better than those achieved in the previous financial year. The Group's turnover ("Turnover") and profit attributable to shareholders ("Net Profit") for the year ended 31 March 2000 amounted to HK\$947 million and HK\$39 million respectively. As compared to last year, the Turnover increased by 5% while the Net Profit improved by 75%. The earnings per share for the year increased by 77% to HK6.10 cents from last year's HK3.45 cents.

REVIEW OF OPERATIONS

The toy division posted improved results over last year. However, the division experienced a year of fluctuations. The division started the financial year with a very strong order book largely due to a range of toys related to a very popular movie. In the first six months ended 30 September 1999, the division recorded a very strong 34% growth in its turnover. Unfortunately, the growth in sales could not be sustained in the second half of the fiscal year following an unexpected and rapid reduction of orders for the above-mentioned toys. In the second half of the year, the division was mostly operating below production capacity.

With the commencement of production at our new Dongguan factory in August 1999, the division has larger production facilities which can better serve our customers. The factory is equipped with more sophisticated mould tooling facilities which substantially shorten the time required for mould tooling. In December 1999, the division decided to close down our factory in Shanghai which manufactured toys due to higher manufacturing costs in the urban area in Shanghai where the factory was located.

The computer head division performed well during the year under review. The demand for half-inch thin film heads remained stable throughout the year. The division has developed manufacturing capabilities for higher level assemblies for these heads. The division produced small quantities of half-inch ferrite heads in the first nine months of the year and began to ramp up the production in January 2000. Furthermore, one of the major achievements in the year was the successful development of the technology to manufacture the head guide assemblies ("HGA") for the half-inch ferrite heads. On the other hand, sales of quarter-inch ferrite heads and 8 mm thin film heads were weak due to the end-buyers' concern over the Y2K issue and an overstock situation of some customers. In October 1999, the Group increased its holdings in Herald Datanetics Limited ("HDL") to 86.1% by an acquisition of an additional 16.8% interest in the shares of HDL from connected parties of the Company. The details of this connected party transaction are disclosed in the Directors' Report of the Group.

The results of the houseware division were similar to those of last year. On average, the aluminium price has increased by about 14% over the same period last year. As a result, the material costs of the division's products were higher and profit margins were narrower. The sales in both the USA and Japan were both down as compared to those in the same period last year. Pilot, the UK operation of the division, performed particularly well and recorded a 67% increase in turnover. During the year under review, the division has continued to develop new products and new production methods to improve the overall efficiency in production lines.

The overall results of Zeon Limited, the group's timepiece division in the UK, were in line with management's expectations. The sales in the UK dropped mainly due to the poor performance of character watches and clocks. On the other hand, Zeon recorded a very healthy growth in sales in France and Germany where additional sales were generated from several new large customers. In addition, the French subsidiary has been successful in commencing sales to hypermarkets. The results of the timepiece division in Hong Kong were severely affected by provisions for bad debts relating to two of its major customers which both went into liquidation.

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 2000 the Group had total assets of HK\$641 million (1999: HK\$641 million) which were financed by current liabilities and deferred taxation of HK\$150 million (1999: HK\$151 million), minority interests of HK\$27 million (1999: HK\$34 million) and shareholders' equity of HK\$464 million (1999: HK\$456 million).

At 31 March 2000 the Group's fixed deposits and cash balances aggregated to HK\$159 million representing an increase of HK\$31 million over the comparable figure in last year's balance sheet. As last year, the Group's borrowings were maintained at a low level of HK\$6 million (1999: HK\$4 million). As at 31 March 2000, the working capital ratio, an indicator of a company's liquidity represented by a ratio between the current assets over the current liabilities, was 2.57 compared to 2.44 last year.

PROSPECTS AND GENERAL OUTLOOK

The Directors are optimistic about the overall prospects of the business in the new Millennium. The Group will continue to concentrate its efforts on its existing four core businesses which include the manufacturing and sale of toys, computer tape heads, houseware and timepieces.

The toy division started the current financial year with a much lower order position than the same period in the previous year. The order situation has improved now and as a result, it is anticipated that the division will perform well in the current year.

With the introduction of stainless steel and anodised products, it is expected that both the turnover and profit in the houseware division will improve. At the moment, the division is exploring business opportunities with some major potential cookware companies which may generate new business in the near future.

The management is cautiously optimistic about the prospects of the computer head division. Substantial business may result from the half-inch ferrite heads which are now shipped together with HGA. With the Y2K concerns now over, there are indications that the orders for the quarter-inch ferrite heads are coming back.

Zeon has secured the timepiece license rights to the "Pokemon" characters in Europe. The management believes this brand together with the other two newly licensed brands, "Red or Dead" and "Fiorelli", are important product lines for the current financial year. Management is concerned about the impact of the adverse movement of sterling which has weakened by more than 10% since the beginning of this calendar year.

CHAIRMAN'S STATEMENT

DIVIDENDS

The Directors will recommend a final dividend of HK3 cents per share at the forthcoming Annual General Meeting to be held on 15 September 2000. Together with the interim dividend of HK1 cent per share, total dividends for the year under review will amount to HK4 cents per share.

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.

George Bloch

Chairman

Hong Kong, 28 July 2000

REPORT OF THE DIRECTORS

The directors have pleasure in submitting their annual report together with the audited accounts for the year ended 31 March 2000.

PRINCIPAL ACTIVITIES

The principal activity of the company is investment holding. The activities of the principal subsidiaries are set out on pages 43 to 46.

The analysis of the principal activities and geographical location of operations of the group during the financial year are as follows:

	Group turnover HK\$'000	Contribution to profit from operations HK\$'000
Principal activities		
Electronic products	519,962	18,400
Non-electronic products	418,033	28,859
Non-manufacturing	9,491	(2,168)
	<u>947,486</u>	<u>45,091</u>
	Group turnover HK\$'000	
Geographical locations of operations		
Europe		
United Kingdom	347,749	
Other countries	146,365	
North America	305,841	
Asia	109,424	
Other	38,107	
	<u>947,486</u>	

REPORT OF THE DIRECTORS

MAJOR CUSTOMERS AND SUPPLIERS

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

	Percentage of the group's total	
	Sales	Purchases
The largest customer	22%	
Five largest customers in aggregate	42%	
The largest supplier		9%
Five largest suppliers in aggregate		26%

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 2000 are set out on pages 43 to 46.

ACCOUNTS

The profit of the group for the year ended 31 March 2000 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 42.

An interim dividend of HK1 cent per share was paid on 21 January 2000. The directors now recommend a final dividend of HK3 cents per share in respect of the year ended 31 March 2000.

FIXED ASSETS

Movements in fixed assets during the year are set out in note 10 on the accounts.

BANK LOANS AND OVERDRAFTS

Particulars of bank loans and overdrafts of the group as at 31 March 2000 are set out in note 15 on the accounts.

CHARITABLE DONATIONS

Donations made by the group during the year amounted to HK\$40,000 (1999:HK\$72,625).

SHARE CAPITAL

Movements in share capital during the year are set out in note 17 on the accounts.

The company repurchased and then cancelled 14,625,000 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
M Y S Thong
R Dorfman

Non-executive directors

D C Bray
H M G Forsgate
P K Y Tsao

In accordance with bye-law 87 of the company's bye-laws, Messrs D S Chang 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.

DIRECTORS AND SENIOR MANAGEMENT

George BLOCH, aged 79, 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.

REPORT OF THE DIRECTORS

DIRECTORS AND SENIOR MANAGEMENT (continued)

CHEUNG Tsang-Kay, Stan, PhD, Hon LLD, Hon DBA, JP, aged 56, 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 79, 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 45, is the step-son of Mr Bloch. He has been an Executive Director of the company since 1992. Mr Dorfman is immediate past Chairman of The Americas Area Committee of the Hong Kong General Chamber of Commerce and is the Chairman of the Vision 2047 Foundation. He also serves on the Executive Committee of The Hong Kong Shippers' Council and is a member of the Corporate Contribution Programme Committee of The Community Chest of Hong Kong. Mr Dorfman joined the group in 1983. He is the Managing Director of Herald Marketing Limited and Herald Electronics Limited and a director of some of the group's companies.

THONG Yeung-Sum, Michael, aged 50, 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 in the group.

Denis Campbell BRAY, CMG, CVO, JP, aged 74, 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 also a director of Leighton Asia Limited and The Hong Kong Philharmonic Orchestra.

DIRECTORS AND SENIOR MANAGEMENT (continued)

Hugh Moss Gerald FORSGATE, CBE JP, aged 81, has 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 is the Chairman of Eralda Industries Limited and an adviser to the Jardine Pacific Group. He also serves as a Non-Executive Director in several other listed companies in Hong Kong and is a member of the HK Port and Maritime Board. In addition, he is the President of Hong Kong Rugby Union and Hong Kong Football Club.

TSAO Kwang-Yung, Peter, CBE, CPM, aged 66, 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 for Home Affairs.

Gershon DORFMAN, aged 44, 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.

DIRECTORS' INTERESTS IN SHARES

The directors who held office at 31 March 2000 had the following beneficial interests in the issued share capital of the company and a subsidiary (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
M Y S Thong	10,608,308	–	–	–	10,608,308
R Dorfman	40,470,000	–	–	–	40,470,000

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN SHARES (continued)

	Number of shares				Total
	Personal interests	Family interests	Corporate interests	Other interests (Note)	
Herald Datanetics Limited					
(Shares of HK\$10 each)					
D S Chang	–	29,000	–	–	29,000
S T K Cheung	26,500	–	–	–	26,500
M Y S Thong	7,500	–	–	–	7,500
R Dorfman	19,750	–	–	–	19,750

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 2000.

SHARE OPTION SCHEME

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 2000 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	10.97%
HSBC International Trustee Limited ("HIT")	75,698,356	11.91%
HSBC Holdings B.V. ("HHBV")	90,400,856	14.22%
HSBC Holdings plc ("HH")	90,400,856	14.22%
HSBC Finance (Netherlands) Limited ("HFNL")	90,400,856	14.22%
HSBC Investment Bank Holdings B.V. ("HIB")	89,105,856	14.02%

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY (continued)

GIL is a company owned by a family trust which owned an aggregate of 75,498,356 shares in the company at 31 March 2000 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, HFNL 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, HHBV, HH and HFNL had a further interest of 14,902,500 shares and HIT and HIB had a further interest of 200,000 shares and 13,607,500 shares respectively in the company at 31 March 2000.

DIRECTORS' INTERESTS IN CONTRACTS

On 26 October 1999, the company announced that Herald (Hong Kong) Limited, a wholly owned subsidiary of the company, had entered into an agreement for the purchase of 190,000 shares in a subsidiary, Herald Datanetics Limited ("HDL"), at HK\$71 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\$13,490,000, of which HK\$1,278,000 was paid to two directors of the company, HK\$6,603,000 was paid to a company owned by a family trust of which a director is a beneficiary, HK\$4,757,000 was paid to a company which is an associate of a director, and the remaining HK\$852,000 was paid to two directors of subsidiaries of the company. The vendors guaranteed that the audited net tangible asset value per share of HDL as at 31 March 2000 ("NAV") will not be less than HK\$71. Based on the audited accounts of HDL, the guaranteed NAV has been met.

No other contract of significance, to which the company or any subsidiary 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 with the company or any of its subsidiaries which is not determinable by the company 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 1999. 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.

THE YEAR 2000 COMPLIANCE

The group experienced a smooth transition into Year 2000. All computer systems and equipment of the group functioned properly during the transition to Year 2000. To date, the group has not experienced any Year 2000 non-compliance issues.

REPORT OF THE DIRECTORS

AUDIT COMMITTEE

Pursuant to the Listing Rules, an audit committee, comprising three independent non-executive directors, namely Messrs D C Bray, H M G Forsgate and P K Y Tsao, was established on 1 April 1999 with reference to "A Guide For The Formation of An Audit Committee" issued by the Hong Kong Society of Accountants.

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 YEARS 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 47 of the annual report.

AUDITORS

A resolution for the reappointment 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, 28 July 2000



To the shareholders of Herald Holdings Limited
(Incorporated in Bermuda with limited liability)

We have audited the accounts on pages 16 to 42 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 accounts which give a true and fair view. In preparing accounts 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 accounts and to report our opinion to you.

BASIS OF OPINION

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

OPINION

In our opinion, the accounts give a true and fair view of the state of affairs of the company and of the group as at 31 March 2000 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, 28 July 2000

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 March 2000

		2000	1999
	Note	HK\$'000	HK\$'000
Turnover	2	947,486	905,930
Cost of sales		<u>(681,390)</u>	<u>(658,449)</u>
		266,096	247,481
Other revenue	3	10,387	10,031
Other net losses	3	(4,959)	(9,373)
Selling expenses		(26,451)	(21,277)
Administrative expenses		<u>(199,982)</u>	<u>(192,639)</u>
Profit from operations		45,091	34,223
Finance cost	4	(1,224)	(3,071)
Share of profits/(losses) of associates		<u>137</u>	<u>(1,433)</u>
Profit from ordinary activities before taxation	4	44,004	29,719
Taxation	6	<u>1,548</u>	<u>(5,448)</u>
Profit from ordinary activities after taxation		45,552	24,271
Minority interests		<u>(6,185)</u>	<u>(1,789)</u>
Profit attributable to shareholders	7, 18	<u>39,367</u>	<u>22,482</u>
Dividends	8, 18	<u>25,188</u>	<u>19,461</u>
Earnings per share	9		
– Basic		<u>6.10 cents</u>	<u>3.45 cents</u>

The notes on pages 24 to 42 form part of these accounts.

CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

For the year ended 31 March 2000

	<i>Note</i>	2000 HK\$'000	1999 HK\$'000
Exchange difference on translation of the accounts of foreign entities	18	<u>348</u>	<u>(1,175)</u>
Net gains/(losses) not recognised in the profit and loss account		348	(1,175)
Net profit for the year		<u>39,367</u>	<u>22,482</u>
Total recognised gains and losses		39,715	21,307
Capital reserve released on disposal of a subsidiary		244	–
Movement of goodwill taken directly to reserves		<u>82</u>	<u>–</u>
		<u>40,041</u>	<u>21,307</u>

The notes on pages 24 to 42 form part of these accounts.

CONSOLIDATED BALANCE SHEET

At 31 March 2000

	Note	2000 HK\$'000	1999 HK\$'000
Non-current assets			
Fixed assets	10	250,051	268,083
Interest in an associate	12	1,204	1,064
Other non-current financial assets	13	7,519	3,163
		<u>258,774</u>	<u>272,310</u>
Current assets			
Inventories	14	123,278	139,178
Trade and other receivables		99,396	101,754
Cash at bank and in hand		159,453	127,890
		<u>382,127</u>	<u>368,822</u>
Current liabilities			
Bank loans and overdrafts	15	5,770	4,378
Trade and other payables		121,487	124,212
Taxation	6	2,652	9,553
Proposed final dividend	8	18,756	12,944
		<u>148,665</u>	<u>151,087</u>
Net current assets		<u>233,462</u>	<u>217,735</u>
Total assets less current liabilities		492,236	490,045
Non-current liabilities			
Deferred taxation	16	(687)	(450)
Minority interests		(27,143)	(33,759)
NET ASSETS		<u>464,406</u>	<u>455,836</u>
CAPITAL AND RESERVES			
Share capital	17	49,566	50,707
Reserves	18	414,840	405,129
		<u>464,406</u>	<u>455,836</u>

Approved by the board of directors on 28 July 2000

Chang Dong-Song
Director

Thong Yeung-Sum, Michael
Director

The notes on pages 24 to 42 form part of these accounts.

BALANCE SHEET

At 31 March 2000

	Note	2000 HK\$'000	1999 HK\$'000
Non-current assets			
Investments in subsidiaries	11	327,365	327,365
Current assets			
Amounts due from subsidiaries		17,166	23,629
Trade and other receivables		157	128
Tax recoverable	6	130	59
Cash at bank and in hand		83	81
		17,536	23,897
Current liabilities			
Trade and other payables		1,069	550
Proposed final dividend	8	18,756	12,944
		19,825	13,494
Net current (liabilities)/assets		(2,289)	10,403
NET ASSETS		325,076	337,768
CAPITAL AND RESERVES			
Share capital	17	49,566	50,707
Reserves	18	275,510	287,061
		325,076	337,768

Approved by the board of directors on 28 July 2000

Chang Dong-Song
Director

Thong Yeung-Sum, Michael
Director

The notes on pages 24 to 42 form part of these accounts.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2000

		2000		1999	
	Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Net cash inflow from operating activities	(a)		93,430		78,570
Returns on investments and servicing of finance					
Interest paid		(1,224)		(3,071)	
Interest received		4,540		5,593	
Dividend income from investments		198		363	
Dividend income from associate		372		–	
Dividends paid		(19,376)		(13,052)	
Dividends paid to minority interests		(566)		(2,323)	
Net cash outflow from returns on investments and servicing of finance			(16,056)		(12,490)
Taxation					
Hong Kong profits tax		(3,388)		(3,557)	
Overseas tax		(1,728)		(3,504)	
Tax paid			(5,116)		(7,061)
Investing activities					
Purchase of fixed assets		(29,134)		(43,593)	
Purchase of other non-current financial assets		(5,790)		(678)	
Sale of fixed assets		12,891		–	
Acquisition of additional shares in subsidiary		(13,490)		–	
Capital refunded by associate		228		–	
Disposal of subsidiaries	(d)	(509)		–	
Net cash outflow from investing activities			(35,804)		(44,271)
Net cash inflow before financing carried forward			36,454		14,748

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2000

		2000	1999
	Note	HK\$'000	HK\$'000
Net cash inflow before financing brought forward		36,454	14,748
Financing			
New bank loans	(b)	2,509	–
Repurchases of shares	(b)	(6,283)	(576)
Net cash outflow from financing		(3,774)	(576)
Increase in cash and cash equivalents		32,680	14,172
Cash and cash equivalents at 1 April		123,512	109,340
Cash and cash equivalents at 31 March	(c)	156,192	123,512

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2000

Notes:

(a) Reconciliation of profit from operations before taxation to net cash inflow from operating activities

	2000 HK\$'000	1999 HK\$'000
Profit from operations	45,091	34,223
Loss on disposal of fixed assets	3,837	7,543
Loss on disposal of subsidiaries	1,167	–
Provision against minority interest	–	972
Interest income	(4,540)	(5,593)
Depreciation	29,402	33,230
Dividend income from investments	(198)	(363)
Unrealised loss on investments	1,271	–
(Decrease)/increase in net amounts due to associates	(1,208)	1,387
Decrease/(increase) in inventories	13,593	(6,665)
Increase in trade and other receivables	(2,877)	(4,211)
Increase in trade and other payables	5,787	19,324
Movement in minority interest	1,496	(533)
Effect of foreign exchange	609	(744)
Net cash inflow from operating activities	<u>93,430</u>	<u>78,570</u>

(b) Analysis of changes in financing during the year

	Bank loans HK\$'000	Share capital (including premium) HK\$'000
Balance at 1 April 1998	–	88,383
Repurchases of shares	–	(576)
Balance at 31 March 1999	<u>–</u>	<u>87,807</u>
Balance at 1 April 1999	–	87,807
New bank loans	2,509	–
Repurchases of shares	–	(6,283)
Balance at 31 March 2000	<u>2,509</u>	<u>81,524</u>

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2000

(c) Analysis of the balance of cash and cash equivalents as shown in the consolidated balance sheet

	2000 HK\$'000	1999 HK\$'000
Cash at bank and in hand	159,453	127,890
Bank loans and overdrafts	(3,261)	(4,378)
	<u>156,192</u>	<u>123,512</u>

(d) Disposal of subsidiary

	2000 HK\$'000	1999 HK\$'000
Net assets disposed of:		
Fixed assets	782	–
Other non-current financial assets	768	–
Inventories	2,307	–
Trade and other receivables	5,235	–
Trade and other payables	(8,512)	–
Minority interest	(166)	–
Release of capital reserve	244	–
	<u>658</u>	<u>–</u>
Loss on disposal	(1,167)	–
	<u>(509)</u>	<u>–</u>
Satisfied by:		
Disposal expenses paid	(450)	–
Cash at bank disposed of	(59)	–
	<u>(509)</u>	<u>–</u>

NOTES ON THE ACCOUNTS

Accounts for the year ended 31 March 2000

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The company was incorporated in Bermuda on 17 August 1992 as an exempt company under The Companies Act, 1981 of Bermuda (as amended).

Although not required to do so under the bye-laws of the company, the accounts are prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The accounts also comply with the disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the group is set out below.

(b) Basis of preparation of the accounts

The measurement basis used in the preparation of the accounts is historical cost modified by the marking to market of certain investments in securities as explained in the accounting policies set out below.

(c) Basis of consolidation

The consolidated accounts include the accounts of the company and all its subsidiaries made up to 31 March each year, except for P.T. Herald Tristate Plastic which has an accounting date of 31 December and was dormant during the year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from or to the date of their acquisition or disposal, as appropriate. All material intercompany transactions and balances are eliminated on consolidation.

(d) Investments in subsidiaries

A subsidiary is a company in which the group, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors.

Investments in subsidiaries in the company's balance sheet are stated at cost less any provisions for diminution in value which is other than temporary as determined by the directors for each subsidiary individually. Any such provisions are recognised as an expense in the profit and loss account.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Associates

An associate is a company in which the group or company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

Unless the interest in the associate is acquired and held exclusively with a view to subsequent disposal in the near future, an investment in an associate is accounted for in the consolidated accounts 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 associate's net assets. The consolidated profit and loss account reflects the group's share of the post-acquisition results of the associates for the year.

(f) Goodwill and capital reserve on consolidation

Goodwill arising on the acquisition of subsidiaries or associates, being the excess of the cost of investment in these companies over the fair value of the group's share of the separable net assets acquired, is written off against reserves in the year of acquisition.

The excess of the group's share of the fair value of the separable net assets of subsidiaries or associates acquired over the cost of investments in these companies is credited to capital reserve.

(g) Investments in securities

The group's policies for investments in securities other than investments in subsidiaries and associates are as follows:

- (i) Investment securities are stated in the balance sheet at cost less any provisions for diminution in value.
- (ii) Other investments are stated in the balance sheet at fair value. Changes in fair values are recognised in the profit and loss account as they arise.
- (iii) Profits or losses on disposal of investments in securities are accounted for in the profit and loss account as they arise.

NOTES ON THE ACCOUNTS

Accounts for the year ended 31 March 2000

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Fixed assets and depreciation

- (i) Fixed assets are stated in the balance sheet at cost less accumulated depreciation.
- (ii) Depreciation is calculated to write off the cost of fixed assets over their anticipated useful lives on a straight-line basis at the following annual rates:

Leasehold land	Over the remaining terms of the leases
Buildings	4 – 5%
Plant, machinery, furniture, fixtures and office equipment	9 – 20%
Moulds	20 – 50%
Motor vehicles	10 – 25%

- (iii) The carrying amount of fixed assets is reviewed periodically in order to assess whether the recoverable amount has declined below the carrying amount. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The amount of the reduction is recognised as an expense in the profit and loss account.

(i) 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 in which the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Cash equivalents

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired. For the purposes of the cash flow statement, cash equivalents would also include advances from banks repayable within three months from the date of the advance.

(k) 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 the profit and loss account as follows:

(i) Sales of goods

Revenue is recognised 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 from bank deposits is accrued on a time-apportioned basis on the principal outstanding and at the rate applicable.

(l) Operating leases

Rentals payable or receivable under operating leases are accounted for in the profit and loss account on a straight-line basis over the periods of the respective leases.

(m) Research and development costs

Research and development costs comprise all costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities. Because of the nature of the group's research and development activities, no development costs satisfy the criteria for the recognition of such costs as an asset. Both research and development costs are therefore recognised as an expense in the period in which they are incurred.

(n) Deferred taxation

Deferred taxation is provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which are expected with reasonable probability to crystallise in the foreseeable future.

Future deferred tax benefits are not recognised unless their realisation is assured beyond reasonable doubt.

NOTES ON THE ACCOUNTS

Accounts for the year ended 31 March 2000

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the profit and loss account.

The accounts of overseas subsidiaries expressed in foreign currencies are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. The exchange differences are dealt with as a movement in reserves.

(p) Related parties

For the purposes of these accounts, 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 or entities.

2 TURNOVER

The principal activity of the company is investment holding. The principal activities of the group are the manufacture and sale of electronic products, toys and houseware and the sale and distribution of clocks, watches and electronic products. The activities of the principal subsidiaries are set out on pages 43 to 46.

Turnover represented the net invoiced sales to customers less returns.

3 INCOME

	2000 HK\$'000	1999 HK\$'000
Other revenue		
Interest income	4,540	5,593
Rental income	2,505	1,258
Dividend income (including from listed investments HK\$123,000 (1999: HK\$72,000))	198	363
Others	3,144	2,817
	<u>10,387</u>	<u>10,031</u>

NOTES ON THE ACCOUNTS

Accounts for the year ended 31 March 2000

3 INCOME (continued)

	2000 HK\$'000	1999 HK\$'000
Other net losses		
Loss on disposal of fixed assets	(3,837)	(7,543)
Exchange loss	(56)	(2,033)
Loss on disposal of subsidiaries	(1,167)	–
Others	101	203
	<u>(4,959)</u>	<u>(9,373)</u>

4 PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

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

	2000 HK\$'000	1999 HK\$'000
(a) Finance cost:		
Interest on bank advances and other borrowings repayable within five years	<u>1,224</u>	<u>3,071</u>
(b) Other items:		
Cost of inventories	681,390	658,449
Staff costs (including retirement cost of HK\$4,899,000 (1999: HK\$5,394,000))	161,186	165,520
Depreciation	29,402	33,230
Auditors' remuneration		
– current year	2,101	2,138
– overprovision in previous year	(346)	(175)
Operating lease charges		
– for land and buildings	6,317	8,370
– for other assets	<u>1,890</u>	<u>2,196</u>

NOTES ON THE ACCOUNTS

Accounts for the year ended 31 March 2000

5 DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' remuneration

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

	2000 HK\$'000	1999 HK\$'000
Executive directors		
Salaries and allowances	13,094	13,364
Pension scheme contributions	853	853
Bonuses	2,653	2,161
	<u>16,600</u>	<u>16,378</u>
Non-executive directors		
Fees	540	540
	<u>17,140</u>	<u>16,918</u>

The remuneration of the directors is within the following bands:

	Number of directors	
	2000	1999
HK\$Nil to HK\$1,000,000	3	3
HK\$2,500,001 to HK\$3,000,000	1	1
HK\$3,000,001 to HK\$3,500,000	2	3
HK\$3,500,001 to HK\$4,000,000	2	1
	<u>2</u>	<u>1</u>

NOTES ON THE ACCOUNTS

Accounts for the year ended 31 March 2000

5 DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

(b) Employees' emoluments

During the year ended 31 March 2000, the five highest paid individuals comprised four directors (1999: four directors), details of whose emoluments are set out in note 5(a). The aggregate of the emoluments in respect of the remaining individual in 2000 (1999: one) were as follows:

	2000 HK\$'000	1999 HK\$'000
Salaries and other allowances	2,603	2,649
Pension scheme contributions	202	201
Bonuses	588	462
	<u>3,393</u>	<u>3,312</u>

6 TAXATION

(a) Taxation in the consolidated profit and loss account represents:

	2000 HK\$'000	1999 HK\$'000
Provision for Hong Kong profits tax for the year	2,402	4,287
Overprovision in respect of prior year	(7,251)	(224)
Hong Kong tax rebate received	–	(270)
Overseas taxation at applicable rates	3,064	2,205
Deferred taxation (Note 16)	237	(550)
	<u>(1,548)</u>	<u>5,448</u>
Taxation (credit)/charge		

The provision for Hong Kong Profits Tax is calculated at 16% (1999: 16%) of the estimated assessable profits for the year ended 31 March 2000. Taxation for overseas subsidiaries is similarly charged at the appropriate current rates of taxation ruling in the relevant countries.

NOTES ON THE ACCOUNTS

Accounts for the year ended 31 March 2000

6 TAXATION (continued)

(b) Taxation in the consolidated balance sheet represents:

	2000 HK\$'000	1999 HK\$'000
Provision for Hong Kong profits tax for the year	2,402	4,287
Provisional profits tax paid	(3,295)	(2,220)
Balance of profits tax provision relating to prior years	1,309	6,586
Overseas taxation	2,236	900
	<u>2,652</u>	<u>9,553</u>

(c) Taxation in the company's balance sheet represents:

	2000 HK\$'000	1999 HK\$'000
Provisional profits tax recoverable	<u>(130)</u>	<u>(59)</u>

7 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders includes a profit of HK\$18,779,000 (1999: HK\$164,000) which has been dealt with in the accounts of the company.

8 DIVIDENDS

	2000 HK\$'000	1999 HK\$'000
Interim dividend of HK1 cent per share (1999: HK1 cent)	6,432	6,517
Final dividend proposed of HK3 cents per share (1999: HK2 cents)	<u>18,756</u>	<u>12,944</u>
	<u>25,188</u>	<u>19,461</u>

The amount of the final dividend proposed is calculated with reference to the number of shares in issue at the date of approval of the accounts.

The dividends have been charged to the contributed surplus (Note 18).

NOTES ON THE ACCOUNTS

Accounts for the year ended 31 March 2000

9 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit for the year attributable to ordinary shareholders of HK\$39,367,000 (1999: HK\$22,482,000), and on 645,031,000 (1999: 652,085,000) ordinary shares, being the weighted average number of ordinary shares outstanding during the year.

There were no dilutive potential ordinary shares in existence during the years ended 31 March 2000 and 1999.

10 FIXED ASSETS

	Land and buildings HK\$'000	Plant, machinery, furniture, fixtures and office equipment HK\$'000	Moulds HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
(a) The group					
Cost:					
At 1 April 1999	234,346	216,163	23,250	15,141	488,900
Exchange differences	(20)	(252)	–	(25)	(297)
Additions	6,873	18,090	2,460	1,711	29,134
Disposals	(18,751)	(13,811)	–	(570)	(33,132)
At 31 March 2000	222,448	220,190	25,710	16,257	484,605
Aggregate amortisation and depreciation:					
At 1 April 1999	44,524	145,372	20,634	10,287	220,817
Exchange differences	94	(113)	–	(25)	(44)
Charge for the year	10,765	14,932	2,143	1,562	29,402
Written back on disposal	(4,574)	(10,653)	–	(394)	(15,621)
At 31 March 2000	50,809	149,538	22,777	11,430	234,554
Net book value:					
At 31 March 2000	171,639	70,652	2,933	4,827	250,051
At 31 March 1999	189,822	70,791	2,616	4,854	268,083

NOTES ON THE ACCOUNTS

Accounts for the year ended 31 March 2000

10 FIXED ASSETS (continued)

(b) Net book value of land and buildings comprises:

	The group	
	2000 HK\$'000	1999 HK\$'000
Freehold outside Hong Kong	6,188	6,250
Medium term leases		
– in Hong Kong	65,596	74,312
– outside Hong Kong	97,715	106,972
Short term lease outside Hong Kong	2,140	2,288
	<u>171,639</u>	<u>189,822</u>

(c) The gross amount of fixed assets of the group held for use in operating leases at 31 March 2000 was HK\$14,822,000 (1999: HK\$19,371,000) and the related accumulated depreciation was HK\$2,024,000 (1999: HK\$1,589,000).

11 INVESTMENTS IN SUBSIDIARIES

	The company	
	2000 HK\$'000	1999 HK\$'000
Unlisted shares, at cost, net of dividend received from subsidiary from pre-acquisition profits	<u>327,365</u>	<u>327,365</u>

Details of the company's principal subsidiaries at 31 March 2000 are set out on pages 43 to 46.

12 INTEREST IN AN ASSOCIATE

	The group	
	2000 HK\$'000	1999 HK\$'000
Share of net assets	1,379	2,447
Amount due to an associate	(175)	(1,383)
	<u>1,204</u>	<u>1,064</u>

NOTES ON THE ACCOUNTS

Accounts for the year ended 31 March 2000

12 INTEREST IN AN ASSOCIATE (continued)

Details of the group's associate are as follows:

Name of company	Principal activities	Place of incorporation and operation	Effective percentage of equity held by the group
Ningbo Herald Metal Products Company Limited	Manufacture of houseware	The People's Republic of China	40.0

13 OTHER NON-CURRENT FINANCIAL ASSETS

	The group	
	2000 HK\$'000	1999 HK\$'000
Investment securities		
Unlisted debt securities, at cost	2,120	2,283
Other investments		
Listed equity shares, at fair value (1999: at cost) (Note)		
– in Hong Kong	1,504	880
– outside Hong Kong	3,895	–
	5,399	880
	7,519	3,163
Market value of listed investments	5,399	550

Note: In prior years, other investments were stated at cost less any provision for diminution in value which, in the opinion of the directors, was of a permanent nature. With effect from 1 April 1999, the Group adopted an accounting policy of stating other investments at fair value as set out in note 1(g) in order to comply with Statement of Standard Accounting Practice 24 issued by the Hong Kong Society of Accountants. As a result of the adoption of this accounting policy, the Group's profit for the year and the net assets as at 31 March 2000 have both been decreased by HK\$1,271,000. The change in accounting policy was not applied retrospectively because its impact is immaterial in prior years.

NOTES ON THE ACCOUNTS

Accounts for the year ended 31 March 2000

14 INVENTORIES

	The group	
	2000 HK\$'000	1999 HK\$'000
Raw materials	56,722	53,176
Work in progress	24,284	30,264
Finished goods	42,272	55,738
	<u>123,278</u>	<u>139,178</u>

The amount of inventories (included above) carried at net realisable value is HK\$13,047,000 (1999: HK\$11,269,000).

15 BANK LOANS AND OVERDRAFTS

All bank loans and overdrafts are unsecured and repayable on demand or within one year.

16 DEFERRED TAXATION

(a) Movements in deferred taxation of the group comprise:

	2000 HK\$'000	1999 HK\$'000
Balance at 1 April	450	1,000
Transfer from/(to) the profit and loss account (<i>Note 6</i>)	<u>237</u>	<u>(550)</u>
Balance at 31 March	<u>687</u>	<u>450</u>

NOTES ON THE ACCOUNTS

Accounts for the year ended 31 March 2000

16 DEFERRED TAXATION (continued)

(b) Major components of deferred taxation of the group are set out below:

	2000		1999	
	Provided	Potential assets unrecognised	Provided	Potential assets unrecognised
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Depreciation allowances in excess of related depreciation	834	–	508	–
Future benefit of tax losses	(18)	(1,827)	–	(2,123)
Others	(129)	–	(58)	–
	<u>687</u>	<u>(1,827)</u>	<u>450</u>	<u>(2,123)</u>

17 SHARE CAPITAL

	2000		1999	
	Number of shares (Thousand)	Amount HK\$'000	Number of shares (Thousand)	Amount HK\$'000
Authorised:				
Shares of US\$0.01 each	<u>1,000,000</u>	<u>78,000</u>	<u>1,000,000</u>	<u>78,000</u>
Issued and fully paid:				
Shares of US\$0.01 each				
At 1 April	650,086	50,707	653,536	50,976
Shares repurchased and cancelled	<u>(14,625)</u>	<u>(1,141)</u>	<u>(3,450)</u>	<u>(269)</u>
At 31 March	<u>635,461</u>	<u>49,566</u>	<u>650,086</u>	<u>50,707</u>

NOTES ON THE ACCOUNTS

Accounts for the year ended 31 March 2000

17 SHARE CAPITAL (continued)

During the year, the company repurchased a total of 14,625,000 (1999: 3,450,000) of its shares on The Stock Exchange of Hong Kong Limited, all of which were then cancelled. The premium paid on repurchase was charged against share premium in accordance with the Companies Act 1981 of Bermuda (as amended). Details of the shares repurchased are as follows:

Month of repurchase	Number of shares (Thousand)	Price per share		Aggregate price HK\$'000
		Highest HK\$	Lowest HK\$	
April 1999	400	0.220	0.215	88
May 1999	1,000	0.310	0.275	299
June 1999	1,495	0.345	0.340	512
September 1999	3,835	0.400	0.365	1,459
November 1999	155	0.365	0.355	57
December 1999	1,270	0.360	0.355	457
January 2000	430	0.350	0.340	150
March 2000	6,040	0.550	0.500	3,261
	<u>14,625</u>			<u>6,283</u>

NOTES ON THE ACCOUNTS

Accounts for the year ended 31 March 2000

18 RESERVES

(a) The group

	Share premium	Capital reserve (Note i)	Contributed surplus (Note ii)	Exchange fluctuation reserve	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 1998	37,407	5,559	131,854	(6,359)	235,129	403,590
Exchange difference on consolidation	-	-	-	(1,175)	-	(1,175)
Premium paid on repurchase of shares	(307)	-	-	-	-	(307)
Profit for the year	-	-	-	-	22,482	22,482
Dividends	-	-	(19,461)	-	-	(19,461)
At 31 March 1999	<u>37,100</u>	<u>5,559</u>	<u>112,393</u>	<u>(7,534)</u>	<u>257,611</u>	<u>405,129</u>
At 1 April 1999	37,100	5,559	112,393	(7,534)	257,611	405,129
Exchange difference on consolidation	-	-	-	348	-	348
Negative goodwill written back	-	82	-	-	-	82
Premium paid on repurchase of shares	(5,142)	-	-	-	-	(5,142)
Release on disposal of subsidiaries	-	244	-	1,550	(1,550)	244
Profit for the year	-	-	-	-	39,367	39,367
Dividends	-	-	(25,188)	-	-	(25,188)
At 31 March 2000	<u>31,958</u>	<u>5,885</u>	<u>87,205</u>	<u>(5,636)</u>	<u>295,428</u>	<u>414,840</u>

NOTES ON THE ACCOUNTS

Accounts for the year ended 31 March 2000

18 RESERVES (continued)

(b) The company

	Share premium	Contributed surplus (Note ii)	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 1998	37,407	268,906	352	306,665
Premium paid on repurchase of shares	(307)	–	–	(307)
Profit for the year	–	–	164	164
Dividends	–	(19,461)	–	(19,461)
	<u>37,100</u>	<u>249,445</u>	<u>516</u>	<u>287,061</u>
At 31 March 1999	<u>37,100</u>	<u>249,445</u>	<u>516</u>	<u>287,061</u>
At 1 April 1999	37,100	249,445	516	287,061
Premium paid on repurchase of shares	(5,142)	–	–	(5,142)
Profit for the year	–	–	18,779	18,779
Dividends	–	(25,188)	–	(25,188)
	<u>31,958</u>	<u>224,257</u>	<u>19,295</u>	<u>275,510</u>
At 31 March 2000	<u>31,958</u>	<u>224,257</u>	<u>19,295</u>	<u>275,510</u>

Notes:

(i) Capital reserve

The capital reserve represents the excess of the group's share of the fair value of the separable net assets of subsidiaries or associates acquired over the cost of investments in these companies.

(ii) Contributed surplus

The 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 Companies Act 1981 of Bermuda (as amended), the contributed surplus is available for distribution to shareholders.

(iii) The group's share of post acquisition accumulated losses of associates at 31 March 2000 is HK\$5,708,000 (1999: HK\$5,845,000). The group's share of profit of associates for the year is HK\$137,000 (1999: a loss of HK\$1,433,000).

(iv) The total distributable reserves of the company as at 31 March 2000 amounted to HK\$243,552,000 (1999: HK\$249,961,000).

NOTES ON THE ACCOUNTS

Accounts for the year ended 31 March 2000

19 CONTINGENT LIABILITIES

At 31 March 2000, there were contingent liabilities in respect of the following:

	The group		The company	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Guarantees issued in respect of facilities granted by banks to subsidiaries	-	-	84,148	215,093
Bills discounted with banks	-	643	-	-
	<u>-</u>	<u>643</u>	<u>84,148</u>	<u>215,093</u>

20 CAPITAL AND LEASE COMMITMENTS

- (a) Capital commitments of the group outstanding at 31 March 2000 not provided for in the accounts were as follows:

	2000	1999
	HK\$'000	HK\$'000
Contracted for	<u>-</u>	<u>3,757</u>

- (b) At 31 March 2000, the group had commitments to make payments under operating leases in the next year as follows:

	2000		1999	
	Land and buildings	Others	Land and buildings	Others
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Leases expiring:				
Within 1 year	3,169	262	2,635	38
After 1 year but within 5 years	2,470	858	3,823	836
After 5 years	531	16	860	3
	<u>6,170</u>	<u>1,136</u>	<u>7,318</u>	<u>877</u>

NOTES ON THE ACCOUNTS

Accounts for the year ended 31 March 2000

21 PENSION SCHEMES

The principal subsidiaries of the company have defined contribution pension 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, the employers are required to make contributions to the schemes calculated at 5% of employees' basic salaries on a monthly basis. One of these schemes also requires the employer's contributions to be increased to 10% after the employees' length of service exceeds five years. 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 total retirement scheme cost charged to the profit and loss account for the year was HK\$4,899,000 (1999: HK\$5,394,000). Where there are employees who leave the 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 2000, the total amount of forfeited contributions which are available to reduce the contributions payable in future years was HK\$383,000 (1999: HK\$306,000).

22 RELATED PARTY TRANSACTIONS

On 26 October 1999, the company announced that Herald (Hong Kong) Limited, a wholly owned subsidiary of the company, had entered into an agreement for the purchase of 190,000 shares in a subsidiary, Herald Datanetics Limited ("HDL"), at HK\$71 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\$13,490,000, of which HK\$1,278,000 was paid to two directors of the company, HK\$6,603,000 was paid to a company owned by a family trust of which a director is a beneficiary, HK\$4,757,000 was paid to a company which is an associate of a director, and the remaining HK\$852,000 was paid to two directors of subsidiaries of the company. The vendors guaranteed that the audited net tangible asset value per share of HDL as at 31 March 2000 ("NAV") will not be less than HK\$71. Based on the audited accounts of HDL, the guaranteed NAV has been met.

23 POST BALANCE SHEET EVENT

Since 31 March 2000, the company has repurchased a total of 10,260,000 of its shares at a consideration of HK\$5,059,000 on The Stock Exchange of Hong Kong Limited, all of which were then cancelled.

24 COMPARATIVE FIGURES

The presentation and classification of items in the accounts have been changed due to the adoption of the requirements of SSAP 1 (revised) "Presentation of financial statements" and SSAP 24 "Accounting for investment in securities". As a result, long-term investments have been analysed into investment securities and other investment securities as required by SSAP 24 and additional line items have been included on the face of the consolidated profit and loss account and the balance sheets as required by SSAP 1 (revised). Comparative figures have been reclassified to conform with the current year's presentation.

DETAILS OF PRINCIPAL SUBSIDIARIES

Name of company	Description of activities	Place/country of incorporation	Place/country of operation	Issued and fully paid shares/equity	Percentage of issued shares/ equity held by	
					Company	Subsidiaries
Herald Group Limited	Investment holding	The British Virgin Islands	Hong Kong	1 share of US\$1 each	100	–
Herald (Hong Kong) Limited	Investment holding	Hong Kong	Hong Kong	10,000 shares of HK\$0.15 each	–	100
Herald China Investments Limited	Investment holding	Hong Kong	Hong Kong	1,000,000 shares of HK\$1 each	–	100
Herald Investments (China) Company Limited * @	Investment holding	The People's Republic of China	The People's Republic of China	Equity of US\$11,500,000	–	100
Herald Metal and Plastic Works Limited	Manufacture of toys	Hong Kong	Hong Kong	100 ordinary shares of HK\$10 each	–	100
				1,953,000 deferred shares of HK\$10 each	–	100
Dongguan Herald Metal and Plastic Company Limited *@	Manufacture of toys	The People's Republic of China	The People's Republic of China	Equity of HK\$25,996,758	–	100
Shenzhen Herald Metal and Plastic Company Limited *#	Manufacture of toys	The People's Republic of China	The People's Republic of China	Equity of HK\$23,500,000	–	60
P.T. Herald Tristate Plastic*	Dormant	The Republic of Indonesia	The Republic of Indonesia	3,000 shares of US\$1,000 each	–	70
Herald Dataneitics Limited	Manufacture of computer heads	Hong Kong	Hong Kong	1,128,000 shares of HK\$10 each	–	86

DETAILS OF PRINCIPAL SUBSIDIARIES

Name of company	Description of activities	Place/country of incorporation	Place/country of operation	Issued and fully paid shares/equity	Percentage of issued shares/ equity held by	
					Company	Subsidiaries
Zhuhai Herald Datatronics Limited *#	Manufacture of computer heads	The People's Republic of China	The People's Republic of China	Equity of HK\$38,000,000	–	75
Herald Engineering Services Inc. *	Engineering service	United States	United States	75,000 shares of US\$0.4 each	–	100
Herald Houseware Limited	Trading of houseware	Hong Kong	Hong Kong	5,000,000 shares of HK\$1 each	–	100
Herald Metal Products Company Limited *#	Manufacture of houseware	The People's Republic of China	The People's Republic of China	Equity of US\$1,650,000	–	51
Zhuhai Herald Houseware Limited *#	Manufacture of houseware	The People's Republic of China	The People's Republic of China	Equity of HK\$30,000,000	–	80
Pilot Housewares (U.K.) Limited *	Sales and distribution of houseware	England	England	800,000 shares of £1 each	–	100
Taipan Herald Limited	Trading of watches	Hong Kong	Hong Kong	5,000,000 shares of HK\$1 each	–	100
Zeon Limited	Sales and distribution of clocks, watches and electronic products	England	England	433,750 ordinary shares of £1 each	–	100
				1,250,000 12.5% cumulative redeemable preference shares of £1 each	–	100
				165,417 preferred shares of £1 each	–	100

DETAILS OF PRINCIPAL SUBSIDIARIES

Name of company	Description of activities	Place/country of incorporation	Place/country of operation	Issued and fully paid shares/equity	Percentage of issued shares/ equity held by	
					Company	Subsidiaries
Zeon Far East Limited	Trading of clocks and watches	Hong Kong	Hong Kong	2 shares of HK\$1 each	–	100
Zeon GmbH *	Sales and distribution of clocks, watches and electronic products	Germany	Germany	500,000 shares of DM1 each	–	100
Zeon S.A. *	Sales and distribution of clocks, watches and electronic products	France	France	10,000 shares of FF100 each	–	100
Ingersoll Limited	Sales and distribution of clocks, watches and electronic products	England	England	2 shares of £1 each	–	100
Herald Electronics Limited	Trading of clocks and watches	Hong Kong	Hong Kong	1,000,000 shares of HK\$1 each	–	100
Shanghai Herald Electronics Company Limited *#	Manufacture of clocks and watches	The People's Republic of China	The People's Republic of China	Equity of RMB3,200,000	–	75
Herald Marketing Limited	Marketing	Hong Kong	Hong Kong	3,000,000 shares of HK\$1 each	–	100

DETAILS OF PRINCIPAL SUBSIDIARIES

Name of company	Description of activities	Place/country of incorporation	Place/country of operation	Issued and fully paid shares/equity	Percentage of issued shares/ equity held by	
					Company	Subsidiaries
Jonell Limited	Property investment	Hong Kong	Hong Kong	2 shares of HK\$10 each	–	100
Premium Account Limited *	Property investment	The British Virgin Islands	Hong Kong	2 shares of US\$1 each	–	100

* Companies not audited by KPMG, which constitute 8.6% (1999: 5.6%) of the consolidated turnover for the year ended 31 March 2000.

Equity joint ventures registered under the laws of the People's Republic of China as Sino-foreign Joint Venture Enterprises.

@ Wholly-Owned Foreign Investment Enterprise registered under the laws of the People's Republic of China.

FIVE YEARS SUMMARY

	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000	1997 HK\$'000	1996 HK\$'000
Results					
Turnover	947,486	905,930	1,038,820	1,025,804	1,246,497
Profit/(loss) from ordinary activities before taxation	44,004	29,719	(12,254)	12,875	24,904
Taxation	1,548	(5,448)	(7,107)	1,290	(7,154)
Minority interests	(6,185)	(1,789)	24,426	(531)	(5,956)
Profit attributable to shareholders	39,367	22,482	5,065	13,634	11,794
Assets and liabilities					
Fixed assets	250,051	268,083	257,224	300,407	330,558
Interest in associates	1,204	1,064	3,856	12,172	23,004
Other non-current financial assets	7,519	3,163	2,485	1,690	250
Current assets	382,127	368,822	352,639	385,850	355,947
Current liabilities	(148,665)	(151,087)	(126,666)	(176,142)	(167,520)
Total assets less current liabilities	492,236	490,045	489,538	523,977	542,239
Deferred taxation	(687)	(450)	(1,000)	(2,070)	(5,070)
Minority interests	(27,143)	(33,759)	(33,972)	(72,426)	(76,724)
NET ASSETS	464,406	455,836	454,566	449,481	460,445
CAPITAL AND RESERVES					
Share capital	49,566	50,707	50,976	47,032	47,778
Reserves	414,840	405,129	403,590	402,449	412,667
	464,406	455,836	454,566	449,481	460,445

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Shareholders of the Company will be held at the Tang Room, 4th Floor, Furama Hotel Hong Kong , 1 Connaught Road Central, Hong Kong on Friday, 15 September 2000 at 3:45 pm for the following purposes:

1. To receive and consider the Financial Statements for the year ended 31 March 2000 together with the Reports of the Directors and Auditors thereon.
2. To re-elect Directors.
3. To appoint Auditors and to authorize the Directors to fix their remuneration.
4. To declare a final dividend.

By Order of the Board
Thong Yeung-Sum, Michael
Secretary

Hong Kong, 28 July 2000

Notes:

1. A member entitled to vote at the meeting is entitled to appoint a proxy to attend and, on a poll, to vote instead of him at the meeting. A proxy need not be a member of the Company.
2. In order to be valid, the form of proxy must be deposited at the principal office of the Company in Hong Kong at 8th Floor, Wing On Life Building, 22 Des Voeux Road Central, Hong Kong together with the power of attorney, if any, under which it is signed, not less than 48 hours before the time for the holding of the meeting.