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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

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

AUDITORS

KPMG

SOLICITORS

Stephenson Harwood & Lo
Richards Butler
Susan Liang & Co.

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

COMPANY'S WEBSITE

<http://www.heraldgroup.com.hk>

FINANCIAL HIGHLIGHTS

	Year ended 31 March 2001 HK\$'000	Year ended 31 March 2000 HK\$'000
Turnover	953,884	947,486
Profit attributable to shareholders	8,673	39,367
Dividends paid and proposed	6,252	25,188
Earnings per share – Basic	1.39 cents	6.10 cents
Dividends paid and proposed, per share	1 cent	4 cents
	As at 31 March 2001	As at 31 March 2000
Net tangible assets	458,243	464,406
Net tangible assets per share	73.30 cents	73.08 cents
Total assets	601,466	640,901
Number of issued and fully paid shares	625,200,763 shares	635,460,763 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 2001.

RESULTS

The Group's turnover ("Turnover") and profit attributable to shareholders ("Net Profit") for the year ended 31 March 2001 amounted to HK\$954 million and HK\$8.7 million respectively. As compared to last year, the Turnover increased marginally by 0.7% while the Net Profit decreased by 78%. The earnings per share for the year decreased by 77% to 1.39 cents from last year's 6.10 cents.

During the year under review, the Group faced very tough market conditions. Though the Group was able to maintain the Turnover at a similar level to last year, the gross profit percentage declined by 5.6% percentage points to 22.5% from last year's 28.1%. The drop in gross profit margin was the primary factor contributing to the decrease in the Net Profit. Other than the timepiece division which made a loss of approximately HK\$2 million, the toy division, the computer head division and the houseware division were all profitable in the year under review.

REVIEW OF OPERATIONS

TOYS

In the first half of the financial year, the toy division's performance was affected by the world-wide shortage of electronic components. The unstable situation improved in the second half and the division finished the year with a 15% increase in turnover. Without any particularly hot items, the division produced a much wider range of toys resulting in higher costs of production and lower gross margins. To cope with the shifting marketing trend for more sophisticated and high-tech toys, the division has improved its production abilities for toys which require more advanced high speed equipment using Surface-Mount Technology.

COMPUTER HEADS

Due to high costs associated with the development of the new half-inch high-capacity ferrite tape heads, the computer head division did not perform well in the first half of the year under review. In early 2001, the division's concerted efforts significantly improved the production yield of these heads which was the main factor that enabled the division to recover the losses made in the first half. Throughout the year, the demand for half-inch thin film heads remained stable. As in the case of ferrite heads, the division has started to build the Head Frame Assemblies for the thin film heads which would result in more added value and increased revenues.

HOUSEWARE

The results of the houseware division were adversely affected by the weak sterling as the UK market accounts for approximately 50% of the total turnover of the division. Following a very strong growth in turnover in the previous fiscal year, Pilot, the UK operation of the division posted a further 8% growth in turnover in local currency. This year the growth was primarily due to the successful launch of a new range of stainless steel cookware sourced from third-party manufacturers. Due to the strong competition from other aluminum cookware suppliers in the PRC and South Korea, the division saw a rapid decline in its sales to the USA and Japan. Despite the difficult market conditions, the division had a satisfactory performance and contributed positively to the Group's profit in the year under review.

CHAIRMAN'S STATEMENT

TIMEPIECES

The turnover of the timepiece division for the year under review decreased by 24% over the same period last year. The decrease was partly due to a significant slowdown in the level of sales to Zeon Limited's major mail order customers in the UK, who have themselves experienced falls in trade. In addition, a lower conversion exchange rate being used when the sales of Zeon were consolidated in the Group's turnover was also a factor accounting for the decrease. On the other hand, sales in France and Germany performed very well due to "Pokemon" timepiece products. However, these increases could not make up the shortfall in the UK.

INVESTMENT

In early 2000 the Group invested US\$1 million in a new company which specializes in e-commerce security solutions. However, the overall sentiment of the new economy venture capital investment market has deteriorated rapidly. It is now extremely difficult for this company to raise new funds to enable the company to launch its products into the market. In view of the uncertainty of the future of this company, the Group made a full provision against this investment.

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 2001, the Group had total assets of HK\$601 million (2000: HK\$641 million) which were financed by current liabilities of HK\$114 million (2000: HK\$149 million), non-current liabilities of HK\$29 million (2000: HK\$28 million) and shareholders' equity of HK\$458 million (2000: HK\$464 million).

At 31 March 2001 the Group's cash balances aggregated to HK\$91 million representing a decrease of HK\$69 million over the comparable figure in last year's balance sheet. The decrease in the Group's cash balances was partly due to higher inventories and trade receivables and partly due to payments of dividends to shareholders.

As in the previous year, the Group's borrowings were maintained at a low level of HK\$1 million (2000: HK\$6 million). None of the Group's assets are charged to secure the Group's banking facilities. Furthermore, the Group has no long-term borrowings. The Group's gearing ratio, which is calculated based on the Group's total borrowings and the shareholders' equity, was 0.003 (2000: 0.01). As at 31 March 2001, the working capital ratio, an indicator of a company's liquidity represented by a ratio between the current assets over the current liabilities, was 3.14 compared to 2.57 last year. The quick ratio, another ratio that gauges the short-term liquidity of a company measured by trade debtors and cash at bank and in hand over the current liabilities, decreases slightly to 1.52 from 1.59.

CONTINGENT LIABILITIES

As at 31 March 2001 the Group did not have significant contingent liabilities.

PROSPECTS AND GENERAL OUTLOOK

In January this year, the Directors were more optimistic about the overall prospects for the business in the following financial year. The prospects for both the toy division and the computer head division looked quite promising. However, we have seen a very rapid deterioration in the overall market sentiment largely due to a more obvious and severe slowdown of the U.S. economy.

CHAIRMAN'S STATEMENT

The overall toy industry in 2001 is very difficult. Following disappointing results in 2000, the major toy companies in the USA continued reporting losses in the first quarter of 2001. Facing an increasingly severe competitive environment, the toy division has substantially reduced its profit margins to secure more business. It is anticipated that such an aggressive approach will enable the division to maintain at least a similar level of sales in the new fiscal year as in the previous year.

As the UK is an important market for both the houseware division and the timepiece division, the weak sterling will continue to be a negative factor affecting both divisions. The houseware division continues its efforts on the new stainless steel and anodized product lines to offset the adverse impact from the weaker currency. Both divisions have recently streamlined their operations to reduce administrative expenses.

The computer head division also sees a rapid and unfavorable change in its market condition. The division's products are mostly for the high-end backup storage systems which are particularly more sensitive to the slowdown of the overall information technology spending. Buyers' decisions for these backup systems may either be put off or delayed. To cope with the adverse situation, the division downsized its work force in June 2001.

Despite the adverse economic environment and market condition, the management has confidence that with all the various steps that have been taken, the Group shall weather the economic downturn.

DIVIDENDS

The Directors will not recommend any final dividend at the forthcoming Annual General Meeting to be held on 18 September 2001. As the Company has paid an interim dividend of HK1 cent per share, the total dividend for the year under review is HK1 cent per share too.

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 under difficult market conditions.

George Bloch

Chairman

Hong Kong, 16 July 2001

REPORT OF THE DIRECTORS

The directors have pleasure in submitting their annual report together with the audited accounts for the year ended 31 March 2001.

PRINCIPAL ACTIVITIES

The principal activity of the company is investment holding. The activities of the principal subsidiaries are set out on pages 42 to 44.

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	24%	
Five largest customers in aggregate	47%	
The largest supplier		6%
Five largest suppliers in aggregate		22%

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 2001 are set out on pages 42 to 44.

ACCOUNTS

The profit of the group for the year ended 31 March 2001 and the state of the company's and the group's affairs at that date are set out in the accounts on pages 14 to 41.

An interim dividend of HK1 cent per share (2000: HK1 cent) was paid on 18 January 2001. The directors do not recommend the payment of a final dividend in respect of the year ended 31 March 2001 (2000: HK3 cents).

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 2001 are set out in note 16 on the accounts.

CHARITABLE DONATIONS

Donations made by the group during the year amounted to HK\$40,000 (2000: HK\$40,000).

REPORT OF THE DIRECTORS

SHARE CAPITAL

Movements in share capital during the year are set out in note 19 on the accounts.

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

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

DIRECTORS

The directors during the financial year were:

EXECUTIVE DIRECTORS

G Bloch

D S Chang

S T K Cheung

R Dorfman

M Y S Thong

NON-EXECUTIVE DIRECTORS

D C Bray

H M G Forsgate

P K Y Tsao

In accordance with bye-law 87 of the company's bye-laws, Messrs R Dorfman and D C Bray 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 80, 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

CHEUNG Tsang-Kay, Stan, PhD, Hon LLD, Hon DBA, JP, aged 57, 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 80, 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 46, is the step-son of Mr Bloch. He 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 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, FCCA, AHKSA, aged 51, obtained a degree in Social Science at the University of Hong Kong. He is a member of the Hong Kong Society of Accountants and the Chartered Association of Certified Accountants. Before joining the group in 1976, he worked for three years with the Hong Kong office of a leading international accounting firm. Mr Thong has been an Executive Director of the company since 1992 and now serves as finance director and company secretary of the principal companies of the group.

Denis Campbell BRAY, CMG, CVO, JP, aged 75, 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 The Hong Kong Philharmonic Orchestra.

Hugh Moss Gerald FORSGATE, CBE JP, aged 82, 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.

REPORT OF THE DIRECTORS

TSAO Kwang-Yung, Peter, CBE, CPM, aged 67, has served as a Non-Executive Director of the company since 1992. Mr Tsao joined the Hong Kong Government in 1955. He has served in key positions within the Department of Trade and Industry and led the Hong Kong delegation in numerous rounds of trade negotiations with the EU and the United States. In 1983, Mr Tsao became Director of Information Services and was involved in the negotiations with China over the future of Hong Kong. He later served as Secretary for Administrative Services and Information and retired in 1992 from the post of Secretary of Home Affairs.

Gershon DORFMAN, aged 45, 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 2001 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
R Dorfman	40,470,000	–	–	–	40,470,000
M Y S Thong	11,233,308	–	–	–	11,233,308
Herald Datanetics Limited					
(Shares of HK\$10 each)					
D S Chang	–	29,000	–	–	29,000
S T K Cheung	26,500	–	–	–	26,500
R Dorfman	19,750	–	–	–	19,750
M Y S Thong	7,500	–	–	–	7,500

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 2001.

REPORT OF THE DIRECTORS

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

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

The company has been notified of the following interests in the company's issued shares at 31 March 2001 amounting to 10 per cent or more of the shares in issue:

	Shares held	Percentage of total issued shares
Goldfinch Investments Limited ("GIL")	69,728,356	11.15%
HSBC International Trustee Limited ("HIT")	75,698,356	12.10%
HSBC Holdings B.V. ("HHBV")	90,650,856	14.49%
HSBC Holdings plc ("HH")	90,650,856	14.49%
HSBC Finance (Netherlands) ("HFN")	90,650,856	14.49%
HSBC Investment Bank Holdings B.V. ("HIB")	90,650,856	14.49%

GIL is a company owned by a family trust which owned an aggregate of 75,498,356 shares in the company at 31 March 2001 as noted under "Directors' interests in shares", comprising 69,728,356 shares held by GIL and 5,770,000 shares held by the trust itself. HIT, the trustee for the trust, was deemed to be interested in the 75,498,356 shares held by the trust. HHBV, HH, HFN and HIB were all deemed to be interested in these shares due to their direct or indirect holdings in the shares of HIT. In addition, HHBV, HH, HFN and HIB had a further interest of 15,152,500 shares and HIT had a further interest of 200,000 shares in the company at 31 March 2001.

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.

DIRECTORS' SERVICE CONTRACTS

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

The non-executive directors were re-appointed by the board of directors for a term of two years commencing on 1 April 2001. 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.

REPORT OF THE DIRECTORS

EMPLOYEES

At 31 March 2001, the number of employees of the group was approximately 210 in Hong Kong, 3,800 in the People's Republic of China and 130 in Europe. The group ensures that its employees' remuneration packages are competitive. Employees are rewarded based on their performance, experience and prevailing industry practice.

PRE-EMPTIVE RIGHTS

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

FIVE YEAR SUMMARY

A summary of the results and of the assets and liabilities of the group for the last five financial years is set out on page 45 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, 16 July 2001

REPORT OF THE AUDITORS



Auditors' report to the shareholders of

Herald Holdings Limited

(Incorporated in Bermuda with limited liability)

We have audited the accounts on pages 14 to 41 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 2001 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, 16 July 2001

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31 March 2001

	Note	2001 HK\$'000	2000 HK\$'000
Turnover	2	953,884	947,486
Cost of sales		<u>(738,815)</u>	<u>(681,390)</u>
		215,069	266,096
Other revenue	3	8,885	10,387
Other net losses	3	(5,552)	(4,959)
Selling expenses		(28,594)	(26,451)
Administrative expenses		<u>(173,161)</u>	<u>(199,982)</u>
Profit from operations		16,647	45,091
Finance cost	4	(1,315)	(1,224)
Share of profit of a jointly controlled entity		<u>531</u>	<u>137</u>
Profit from ordinary activities before taxation	4	15,863	44,004
Taxation	6	<u>(2,257)</u>	<u>1,548</u>
Profit from ordinary activities after taxation		13,606	45,552
Minority interests		<u>(4,933)</u>	<u>(6,185)</u>
Profit attributable to shareholders	7, 20	<u>8,673</u>	<u>39,367</u>
Dividends	8, 20	<u>6,252</u>	<u>25,188</u>
Earnings per share:	9		
Basic		<u>1.39 cents</u>	<u>6.10 cents</u>

The notes on pages 22 to 41 form part of these accounts.

CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

for the year ended 31 March 2001

	Note	2001 HK\$'000	2000 HK\$'000
Exchange difference on translation of the accounts of foreign entities	20	<u>(3,525)</u>	<u>348</u>
Net (losses)/gains not recognised in the profit and loss account		(3,525)	348
Net profit for the year		<u>8,673</u>	<u>39,367</u>
Total recognised gains and losses		5,148	39,715
Capital reserve released on disposal of a subsidiary		–	244
Movement of goodwill taken directly to reserves		<u>–</u>	<u>82</u>
		<u>5,148</u>	<u>40,041</u>

The notes on pages 22 to 41 form part of these accounts.

CONSOLIDATED BALANCE SHEET

at 31 March 2001

	Note	2001 HK\$'000	2000 HK\$'000
Non-current assets			
Fixed assets	10	237,232	250,051
Interest in a jointly controlled entity	12	1,548	1,204
Other non-current financial assets	13	5,358	7,519
		<u>244,138</u>	<u>258,774</u>
Current assets			
Inventories	14	159,520	123,278
Trade and other receivables	15	105,960	99,396
Tax recoverable	6	1,084	–
Cash at bank and in hand		90,764	159,453
		<u>357,328</u>	<u>382,127</u>
Current liabilities			
Bank loans and overdrafts	16	1,360	5,770
Trade and other payables	17	112,619	121,487
Taxation	6	–	2,652
Proposed final dividend	8	–	18,756
		<u>113,979</u>	<u>148,665</u>
Net current assets		<u>243,349</u>	<u>233,462</u>
Total assets less current liabilities		<u>487,487</u>	<u>492,236</u>
Non-current liabilities			
Deferred taxation	18	(1,072)	(687)
Minority interests		(28,172)	(27,143)
NET ASSETS		<u>458,243</u>	<u>464,406</u>
CAPITAL AND RESERVES			
Share capital	19	48,766	49,566
Reserves	20	409,477	414,840
		<u>458,243</u>	<u>464,406</u>

Approved by the board of directors on 16 July 2001

Cheung Tsang-Kay, Stan
Director

Thong Yeung-Sum, Michael
Director

The notes on pages 22 to 41 form part of these accounts.

BALANCE SHEET

at 31 March 2001

	Note	2001 HK\$'000	2000 HK\$'000
Non-current assets			
Investments in subsidiaries	11	327,365	327,365
Current assets			
Amounts due from subsidiaries		14,769	17,166
Trade and other receivables	15	111	157
Tax recoverable	6	–	130
Cash at bank and in hand		156	83
		15,036	17,536
Current liabilities			
Amount due to a subsidiary		27,429	–
Trade and other payables	17	710	1,069
Proposed final dividend	8	–	18,756
Taxation	6	3	–
		28,142	19,825
Net current liabilities		(13,106)	(2,289)
NET ASSETS		314,259	325,076
CAPITAL AND RESERVES			
Share capital	19	48,766	49,566
Reserves	20	265,493	275,510
		314,259	325,076

Approved by the board of directors on 16 July 2001

Cheung Tsang-Kay, Stan
Director

Thong Yeung-Sum, Michael
Director

The notes on pages 22 to 41 form part of these accounts.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 March 2001

	Note	2001 HK\$'000	2000 HK\$'000
Net cash (outflow)/inflow from operating activities	(a)	(10,600)	93,430
Returns on investments and servicing of finance			
Interest paid		(1,315)	(1,224)
Interest received		3,945	4,540
Dividend income from investments		56	198
Dividend income from a jointly controlled entity		223	372
Dividends paid		(25,008)	(19,376)
Dividends paid to minority interests		(1,045)	(566)
Net cash outflow from returns on investments and servicing of finance		(23,144)	(16,056)
Taxation			
Hong Kong profits tax		(2,891)	(3,388)
Overseas tax		(2,531)	(1,728)
Tax paid		(5,422)	(5,116)
Investing activities			
Proceeds from disposal of other non-current financial assets		1,275	–
Payment for purchase of fixed assets		(17,163)	(29,134)
Payment for purchase of other non-current financial assets		–	(5,790)
Proceeds from sale of fixed assets		1,244	12,891
Acquisition of additional shares in subsidiary		(3,266)	(13,490)
Capital refunded by a jointly controlled entity		–	228
Disposal of subsidiaries		–	(509)
Net cash outflow from investing activities		(17,910)	(35,804)
Net cash (outflow)/inflow before financing carried forward		(57,076)	36,454

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 March 2001

		2001		2000	
	Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Net cash (outflow)/inflow before financing brought forward			(57,076)		36,454
Financing					
Repayment of bank loans	(b)	(1,580)		–	
New bank loans	(b)	–		2,509	
Repurchases of shares	(b)	(5,059)		(6,283)	
Net cash outflow from financing			(6,639)		(3,774)
(Decrease)/increase in cash and cash equivalents			(63,715)		32,680
Effect of foreign exchange rates			(2,144)		–
Cash and cash equivalents at 1 April			156,192		123,512
Cash and cash equivalents at 31 March	(c)		90,333		156,192

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 March 2001

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

	2001 HK\$'000	2000 HK\$'000
Profit from operations	16,647	45,091
Loss on disposal of fixed assets	141	3,837
Loss on disposal of subsidiaries	–	1,167
Interest income	(3,945)	(4,540)
Depreciation	27,298	29,402
Dividend income from investments	(56)	(198)
Net realised and unrealised losses on other securities	886	1,271
Decrease in net amount due to a jointly controlled entity	(177)	(1,208)
(Increase)/decrease in inventories	(36,242)	13,593
Increase in trade and other receivables	(6,564)	(2,877)
(Decrease)/increase in trade and other payables	(8,868)	5,787
Movement in minority interest	407	1,496
Effect of foreign exchange	(127)	609
Net cash (outflow)/inflow from operating activities	<u>(10,600)</u>	<u>93,430</u>

(b) Analysis of changes in financing during the year

	Bank loans HK\$'000	Share capital (including premium) HK\$'000
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>
Balance at 1 April 2000	2,509	81,524
Repayment of bank loans	(1,580)	–
Repurchases of shares	–	(5,059)
Balance at 31 March 2001	<u>929</u>	<u>76,465</u>

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 March 2001

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

	2001 HK\$'000	2000 HK\$'000
Cash at bank and in hand	90,764	159,453
Bank overdrafts	(431)	(3,261)
	<u>90,333</u>	<u>156,192</u>

NOTES ON THE ACCOUNTS

Accounts for the year ended 31 March 2001

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, these 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. These accounts also comply with the applicable 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.

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.

(e) Jointly controlled entity

A jointly controlled entity is an entity which operates under a contractual arrangement between the group or company and other parties, where the contractual arrangement establishes that the group or company and one or more of the other parties share joint control over the economic activity of the entity.

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

NOTES ON THE ACCOUNTS

Accounts for the year ended 31 March 2001

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Jointly controlled entity (continued)

On disposal of a jointly controlled entity during the year, any attributable amount of purchased goodwill not previously amortised through the profit and loss account or which has previously been dealt with as a movement on group reserves is included in the calculation of the profit or loss on disposal.

Unrealised profits and losses resulting from transactions between the group and its jointly controlled entities are eliminated to the extent of the group's interest in the jointly controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the profit and loss account.

The results of the jointly controlled entities are included in the company's profit and loss account to the extent of dividends received and receivable, providing the dividend is in respect of a period ending on or before that of the company and the company's right to receive the dividend is established before the accounts of the company are approved by the directors. In the company's balance sheet, its investments in jointly controlled entities are stated at cost less any provisions for diminution in value which is other than temporary as determined by the directors for each jointly controlled entity individually. Any such provisions are recognised as an expense in the profit and loss account.

(f) Goodwill and capital reserve on consolidation

Goodwill arising on the acquisition of subsidiaries, or jointly controlled entities, 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 jointly controlled entities acquired over the cost of investments in these companies is credited directly to capital reserve.

(g) Investments in securities

The group's policies for investments in securities other than investments in subsidiaries and jointly controlled entities 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 2001

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. In determining the recoverable amount, expected future cash flows generated by the fixed assets are not discounted to their present values.

When the circumstances and events that led to the write-down or write-off cease to exist, any subsequent increase in the recoverable amount of an asset is written back to the profit and loss account. The amount written back is reduced by the amount that would have been recognised as depreciation had the write-down or write-off not occurred.

- (iv) Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the enterprise. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.
- (v) Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the profit and loss account on the date of retirement or disposal.

(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.

NOTES ON THE ACCOUNTS

Accounts for the year ended 31 March 2001

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Inventories (continued)

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.

(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.

(iii) Dividends

- Dividend income from unlisted investments other than jointly controlled entities is recognised when the shareholder's right to receive payment is established.
- Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(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.

NOTES ON THE ACCOUNTS

Accounts for the year ended 31 March 2001

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) 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.

(n) 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 resulting exchange differences are dealt with as a movement in reserves.

(o) 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.

NOTES ON THE ACCOUNTS

Accounts for the year ended 31 March 2001

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 42 to 44.

Turnover represents the net invoiced sales to customers less returns.

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

	Group turnover		Contribution to profit from operations	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Principal activities				
Electronic products	504,840	519,962	5,784	18,400
Non-electronic products	432,206	418,033	20,941	28,859
Non-manufacturing	16,838	9,491	(10,078)	(2,168)
	953,884	947,486	16,647	45,091

	Group turnover	
	2001	2000
	HK\$'000	HK\$'000
Geographical locations of operations		
Europe		
United Kingdom	261,471	347,749
Other countries	135,711	146,365
North America	376,294	305,841
Asia	121,597	109,424
Others	58,811	38,107
	953,884	947,486

NOTES ON THE ACCOUNTS

Accounts for the year ended 31 March 2001

3 INCOME

	2001 HK\$'000	2000 HK\$'000
Other revenue		
Interest income	3,945	4,540
Rental income	2,329	2,505
Dividend income (including from listed investments HK\$56,000 (2000: HK\$123,000))	56	198
Others	2,555	3,144
	<u>8,885</u>	<u>10,387</u>
Other net losses		
Loss on disposal of fixed assets	(141)	(3,837)
Exchange loss	(3,595)	(56)
Provision for diminution in value of investments	(7,800)	–
Loss on disposal of subsidiaries	–	(1,167)
Write back on provision for diminution in value of a subsidiary	2,236	–
Others	3,748	101
	<u>(5,552)</u>	<u>(4,959)</u>

NOTES ON THE ACCOUNTS

Accounts for the year ended 31 March 2001

4 PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

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

	2001 HK\$'000	2000 HK\$'000
(a) Finance cost:		
Interest on bank advances and other borrowings repayable within five years	<u>1,315</u>	<u>1,224</u>
(b) Other items:		
Cost of inventories	738,815	681,390
Staff costs (including retirement cost of HK\$6,231,000 (2000: HK\$4,899,000))	169,154	161,186
Depreciation	27,298	29,402
Auditors' remuneration		
– current year	2,251	2,101
– under/(over)provision in previous year	10	(346)
Operating lease charges		
– land and buildings	6,645	6,317
– other assets	969	1,890
Net unrealised and realised losses on other securities	<u>886</u>	<u>1,271</u>

NOTES ON THE ACCOUNTS

Accounts for the year ended 31 March 2001

5 DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' remuneration

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

	2001 HK\$'000	2000 HK\$'000
Executive directors		
Salaries and allowances	17,225	13,094
Pension scheme contributions	1,323	853
Discretionary bonuses	–	2,653
	18,548	16,600
Non-executive directors		
Fees	540	540
	19,088	17,140

The remuneration of the directors is within the following bands:

	Number of directors	
	2001	2000
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
HK\$3,500,001 to HK\$4,000,000	2	2
HK\$4,000,001 to HK\$4,500,000	2	–

(b) Employees' emoluments

During the year ended 31 March 2001, the five highest paid individuals comprised four directors (2000: 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 2001 (2000: one) is as follows:

	2001 HK\$'000	2000 HK\$'000
Salaries and allowances	3,385	2,603
Pension scheme contributions	302	202
Bonuses	–	588
	3,687	3,393

NOTES ON THE ACCOUNTS

Accounts for the year ended 31 March 2001

6 TAXATION

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

	2001 HK\$'000	2000 HK\$'000
Provision for Hong Kong profits tax for the year	2,171	2,402
Overprovision in respect of prior year	(1,556)	(7,251)
Overseas taxation at applicable rates	1,072	3,064
Deferred taxation (<i>note 18</i>)	430	237
	<u>2,117</u>	<u>(1,548)</u>
Share of a jointly controlled entity's taxation	140	–
	<u>140</u>	<u>–</u>
Taxation charge/(credit)	<u>2,257</u>	<u>(1,548)</u>

The provision for Hong Kong profits tax is calculated at 16% (2000: 16%) of the estimated assessable profits for the year ended 31 March 2001. Taxation for overseas subsidiaries is similarly charged at the appropriate current rates of taxation ruling in the relevant countries.

(b) Taxation in the consolidated balance sheet represents:

	2001 HK\$'000	2000 HK\$'000
Provision for Hong Kong profits tax for the year	2,171	2,402
Provisional profits tax paid	(4,031)	(3,295)
Tax recoverable in respect of prior year	(1)	–
Balance of profits tax provision relating to prior years	–	1,309
Overseas taxation	777	2,236
	<u>(1,084)</u>	<u>2,652</u>
Taxation (recoverable)/payable	<u>(1,084)</u>	<u>2,652</u>

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

	2001 HK\$'000	2000 HK\$'000
Provision for Hong Kong profits tax for the year	50	–
Provisional profits tax paid	(47)	(130)
	<u>3</u>	<u>(130)</u>
Tax payable/(recoverable)	<u>3</u>	<u>(130)</u>

NOTES ON THE ACCOUNTS

Accounts for the year ended 31 March 2001

7 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders includes a profit of HK\$494,000 (2000: HK\$18,779,000) which has been dealt with in the accounts of the company.

8 DIVIDENDS

	2001 HK\$'000	2000 HK\$'000
Interim dividend paid of HK1 cent per share (2000: HK1 cent per share)	6,252	6,432
Final dividend proposed of Nil cent per share (2000: HK3 cents per share)	—	18,756
	<u>6,252</u>	<u>25,188</u>

The dividends have been charged to the contributed surplus (note 20).

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\$8,673,000 (2000: HK\$39,367,000), and on 625,826,000 (2000: 645,031,000) 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 2001 and 2000.

NOTES ON THE ACCOUNTS

Accounts for the year ended 31 March 2001

10 FIXED ASSETS

(a) The group

	Land and buildings HK\$'000	Plant, machinery, furniture, fixtures and office equipment HK\$'000	Moulds HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost:					
At 1 April 2000	222,448	220,190	25,710	16,257	484,605
Exchange differences	(829)	(943)	–	(228)	(2,000)
Additions	2,438	12,609	1,077	1,039	17,163
Disposals	–	(3,204)	–	(1,414)	(4,618)
At 31 March 2001	224,057	228,652	26,787	15,654	495,150
Accumulated depreciation:					
At 1 April 2000	50,809	149,538	22,777	11,430	234,554
Exchange differences	(126)	(446)	–	(129)	(701)
Charge for the year	8,334	15,840	1,898	1,226	27,298
Written back on disposal	–	(2,062)	–	(1,171)	(3,233)
At 31 March 2001	59,017	162,870	24,675	11,356	257,918
Net book value:					
At 31 March 2001	165,040	65,782	2,112	4,298	237,232
At 31 March 2000	171,639	70,652	2,933	4,827	250,051

NOTES ON THE ACCOUNTS

Accounts for the year ended 31 March 2001

10 FIXED ASSETS (continued)

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

	The group	
	2001 HK\$'000	2000 HK\$'000
Freehold outside Hong Kong	5,403	6,188
Medium term leases		
– in Hong Kong	62,535	65,596
– outside Hong Kong	95,110	97,715
Short term leases		
– outside Hong Kong	1,992	2,140
	165,040	171,639

(c) The gross amount of fixed assets of the group held for use in operating leases at 31 March 2001 was HK\$14,822,000 (2000: HK\$14,822,000) and the related accumulated depreciation was HK\$2,449,000 (2000: HK\$2,024,000).

11 INVESTMENTS IN SUBSIDIARIES

	The company	
	2001 HK\$'000	2000 HK\$'000
Unlisted shares, at cost, net of dividend received from subsidiary from pre-acquisition profits	327,365	327,365

Details of the company's principal subsidiaries at 31 March 2001 are set out on pages 42 to 44.

NOTES ON THE ACCOUNTS

Accounts for the year ended 31 March 2001

12 INTEREST IN A JOINTLY CONTROLLED ENTITY

	The group	
	2001	2000
	HK\$'000	HK\$'000
Share of net assets	1,546	1,379
Amount due from/(to) a jointly controlled entity	2	(175)
	<u>1,548</u>	<u>1,204</u>

Details of the group's jointly controlled entity are as follows:

Name of company	Principal activity	Place of incorporation and operation	Effective percentage of equity held by company	subsidiaries
Ningbo Herald Metal Products Company Limited	Manufacture of houseware	The People's Republic of China	–	40

13 OTHER NON-CURRENT FINANCIAL ASSETS

	The group	
	2001	2000
	HK\$'000	HK\$'000
Investment securities		
Unlisted debt securities, at cost	2,120	2,120
Other investments		
Listed equity shares, at fair value		
– in Hong Kong	23	1,504
– outside Hong Kong	3,215	3,895
	<u>3,238</u>	<u>5,399</u>
	<u>5,358</u>	<u>7,519</u>
Market value of listed investments	<u>3,238</u>	<u>5,399</u>

NOTES ON THE ACCOUNTS

Accounts for the year ended 31 March 2001

14 INVENTORIES

	The group	
	2001	2000
	HK\$'000	HK\$'000
Raw materials	65,420	56,722
Work in progress	29,599	24,284
Finished goods	64,501	42,272
	159,520	123,278

The amount of inventories (included above) carried at net realisable value is HK\$10,259,000 (2000: HK\$13,047,000).

15 TRADE AND OTHER RECEIVABLES

	The group		The company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade debtors and bills receivables	81,888	77,057	–	–
Other receivables	24,072	22,339	111	157
	105,960	99,396	111	157

All of the trade and other receivables are expected to be recovered within one year.

Included in trade and other receivables are trade debtors and bills receivable (net of specific provisions for bad and doubtful debts) with the following ageing analysis:

	The group	
	2001	2000
	HK\$'000	HK\$'000
Within 1 month	63,503	55,696
2 – 3 months	13,839	17,561
Over 3 months	4,546	3,800
	81,888	77,057

The credit terms given to the customers vary and are generally based on the financial strengths of individual customers. In order to effectively manage the credit risks associated with trade receivables, credit evaluations of customers are performed periodically.

NOTES ON THE ACCOUNTS

Accounts for the year ended 31 March 2001

16 BANK LOANS AND OVERDRAFTS

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

17 TRADE AND OTHER PAYABLES

	The group		The company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Trade creditors and bills payable	60,935	48,017	–	–
Accruals and other payables	51,684	73,470	710	1,069
	112,619	121,487	710	1,069

All of the trade and other payables are expected to be settled within one year.

Included in trade and other payables are trade creditors and bills payable with the following ageing analysis:

	The group	
	2001 HK\$'000	2000 HK\$'000
On demand or within 1 month	54,171	39,109
2 – 3 months	4,877	8,420
Over 3 months	1,887	488
	60,935	48,017

18 DEFERRED TAXATION

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

	2001 HK\$'000	2000 HK\$'000
Balance at 1 April	687	450
Transfer from the profit and loss account (note 6)	430	237
Exchange difference	(45)	–
	1,072	687

NOTES ON THE ACCOUNTS

Accounts for the year ended 31 March 2001

18 DEFERRED TAXATION (continued)

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

	2001		2000	
	Provided	Potential assets unrecognised	Provided	Potential assets unrecognised
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Depreciation allowances in excess of related depreciation	1,504	–	834	–
Future benefit of tax losses	–	(5,154)	(18)	(1,827)
Other timing differences	(387)	–	(129)	–
Exchange difference	(45)	–	–	–
	<u>1,072</u>	<u>(5,154)</u>	<u>687</u>	<u>(1,827)</u>

19 SHARE CAPITAL

	2001		2000	
	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	635,461	49,566	650,086	50,707
Shares repurchased and cancelled	<u>(10,260)</u>	<u>(800)</u>	<u>(14,625)</u>	<u>(1,141)</u>
At 31 March	<u>625,201</u>	<u>48,766</u>	<u>635,461</u>	<u>49,566</u>

NOTES ON THE ACCOUNTS

Accounts for the year ended 31 March 2001

19 SHARE CAPITAL (continued)

During the year, the company repurchased a total of 10,260,000 (2000: 14,625,000) 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 2000	6,635	0.550	0.435	3,480
May 2000	3,625	0.445	0.400	1,579
	<u>10,260</u>			<u>5,059</u>

20 RESERVES

(a) The group

	Share premium HK\$'000	Capital reserve (Note i) HK\$'000	Contributed surplus (Note ii) HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
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>
At 1 April 2000	31,958	5,885	87,205	(5,636)	295,428	414,840
Exchange difference on consolidation	–	–	–	(3,525)	–	(3,525)
Premium paid on repurchase of shares	(4,259)	–	–	–	–	(4,259)
Profit for the year	–	–	–	–	8,673	8,673
Dividends	–	–	(6,252)	–	–	(6,252)
At 31 March 2001	<u>27,699</u>	<u>5,885</u>	<u>80,953</u>	<u>(9,161)</u>	<u>304,101</u>	<u>409,477</u>

NOTES ON THE ACCOUNTS

Accounts for the year ended 31 March 2001

20 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 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)
At 31 March 2000	31,958	224,257	19,295	275,510
At 1 April 2000	31,958	224,257	19,295	275,510
Premium paid on repurchase of shares	(4,259)	–	–	(4,259)
Profit for the year	–	–	494	494
Dividends	–	(6,252)	–	(6,252)
At 31 March 2001	27,699	218,005	19,789	265,493

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 a jointly controlled entity 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 total distributable reserves of the company as at 31 March 2001 amounted to HK\$237,794,000 (2000: HK\$243,552,000).

NOTES ON THE ACCOUNTS

Accounts for the year ended 31 March 2001

21 CONTINGENT LIABILITIES

At 31 March 2001, there were contingent liabilities in respect of the following:

	The group		The company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Guarantees issued in respect of facilities granted by banks to subsidiaries	45,148	–	45,148	84,148

22 COMMITMENTS

At 31 March 2001, the group had commitments to make payments under operating leases in the next year as follows:

	2001		2000	
	Land and buildings	Others	Land and buildings	Others
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Leases expiring:				
Within 1 year	3,386	340	3,169	262
After 1 year but within 5 years	1,476	828	2,470	858
After 5 years	470	11	531	16
	5,332	1,179	6,170	1,136

23 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\$6,231,000 (2000: HK\$4,899,000). 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 2001, the total amount of forfeited contributions which are available to reduce the contributions payable in future years was HK\$120,000 (2000: HK\$383,000).

DETAILS OF PRINCIPAL SUBSIDIARIES

Name of company	Principal activities	Place/country of incorporation	Place/country of operation	Particulars of 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\$35,400,000	–	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
Herald Datanetics Limited	Manufacture of computer heads	Hong Kong	Hong Kong	1,128,000 shares of HK\$10 each	–	90
Cyber Network Limited	Trading of computer heads	Hong Kong	Hong Kong	2 shares of HK\$1 each	–	100
Zuhai Herald Datanetics 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

DETAILS OF PRINCIPAL SUBSIDIARIES

Name of company	Principal activities	Place/country of incorporation	Place/country of operation	Particulars of issued and fully paid shares/equity	Percentage of issued shares/equity held by	
					Company	Subsidiaries
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
Zeon Far East Limited	Trading of clocks and watches	Hong Kong	Hong Kong	2 shares of \$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

DETAILS OF PRINCIPAL SUBSIDIARIES

Name of company	Principal activities	Place/country of incorporation	Place/country of operation	Particulars of issued and fully paid shares/equity	Percentage of issued shares/equity held by	
					Company	Subsidiaries
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
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 7.6% (2000: 8.6%) of the consolidated turnover for the year ended 31 March 2001.

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 YEAR SUMMARY

	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000	1997 HK\$'000
Results					
Turnover	953,884	947,486	905,930	1,038,820	1,025,804
Profit/(loss) from ordinary activities before taxation	15,863	44,004	29,719	(12,254)	12,875
Taxation	(2,257)	1,548	(5,448)	(7,107)	1,290
Minority interests	(4,933)	(6,185)	(1,789)	24,426	(531)
Profit attributable to shareholders	8,673	39,367	22,482	5,065	13,634
Assets and liabilities					
Fixed assets	237,232	250,051	268,083	257,224	300,407
Interest in a jointly controlled entity/ associates	1,548	1,204	1,064	3,856	12,172
Other non-current financial assets	5,358	7,519	3,163	2,485	1,690
Current assets	357,328	382,127	368,822	352,639	385,850
Current liabilities	(113,979)	(148,665)	(151,087)	(126,666)	(176,142)
Total assets less current liabilities	487,487	492,236	490,045	489,538	523,977
Deferred taxation	(1,072)	(687)	(450)	(1,000)	(2,070)
Minority interests	(28,172)	(27,143)	(33,759)	(33,972)	(72,426)
NET ASSETS	458,243	464,406	455,836	454,566	449,481
CAPITAL AND RESERVES					
Share capital	48,766	49,566	50,707	50,976	47,032
Reserves	409,477	414,840	405,129	403,590	402,449
	458,243	464,406	455,836	454,566	449,481

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Shareholders of the Company will be held at the Jade Ballroom 1, 3rd Floor, Furama Hotel Hong Kong, 1 Connaught Road Central, Hong Kong on Tuesday, 18 September, 2001 at 3:45 p.m. for the following purposes:

1. To receive and consider the Audited Financial Statements and the Reports of the Directors and Auditors for the year ended 31 March 2001.
2. To re-elect Directors.
3. To appoint Auditors and to authorize the Board of Directors to fix their remuneration.

By Order of the Board
Thong Yeung Sum, Michael
Secretary

Hong Kong, 16 July 2001

Notes:

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and, on a poll, vote instead of him at the meeting. A proxy need not be a member of the Company.
2. 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 Bldg., 22 Des Voeux Road Central, Hong Kong together with any power of attorney or other authority, if any, under which it is signed or certified copy of that power or authority, not less than 48 hours before the time for holding of the meeting or any adjournment thereof.