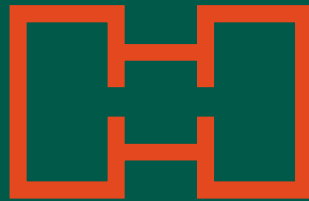


HERALD HOLDINGS LIMITED



A N N U A L R E P O R T 1 9 9 9

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

George Bloch *Chairman*
Cheung Tsang-Kay, Stan PhD, Hon LLD, 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
Bank Austria Creditanstalt International AG

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

Claredon House, Church Street
Hamilton HM 11
Bermuda

PRINCIPAL REGISTRARS

Butterfield Corporate Services Limited
Rosebank Centre
14 Bermudiane Road
Pembroke
Bermuda

HONG KONG SHARE REGISTRARS

Tengis Limited
1601 Hutchison House
10 Harcourt Road
Hong Kong

FINANCIAL HIGHLIGHTS

(Expressed in Hong Kong dollars)

	Year ended 31 March 1999 HK\$'000	Year ended 31 March 1998 HK\$'000
Turnover	873,181	1,038,820
Profit attributable to shareholders	22,482	5,065
Dividends paid and proposed	19,461	13,087
Earnings per share		
– Basic	3.45 cents	0.79 cent
– Diluted	–	0.78 cent
Dividends paid and proposed, per share	3 cents	2 cents
	As at 31 March 1999	As at 31 March 1998
Net tangible assets	455,836	454,566
Net tangible assets per share	70.12 cents	69.55 cents
Total assets	641,132	616,204
Number of issued and fully paid shares	650,085,763 shares	653,535,763 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 1999.

RESULTS

The Group's turnover ("Turnover") and profit attributable to shareholders ("Net Profit") for the year under review amounted to HK\$873 million and HK\$22 million respectively. As compared to last year, the Turnover decreased by 16% while the Net Profit improved by 344%. The earnings per share for the year increased by 337% to 3.45 cents from last year's 0.79 cent. The increase in Net Profit was largely due to the recovery of the computer head division which had an operating loss a year earlier.

REVIEW OF OPERATIONS

The Group experienced a very tough year in 1998. All divisions faced declines in sales and pressure on profit margins. Under difficult circumstances, the management carried out various measures to reduce operating overheads in all divisions and looked at every means to improve operating efficiency. Having weathered this difficult time, the directors are pleased to report that all four core divisions were profitable in the year under review.

Following a poor first-half year with a significant drop in turnover and profit, the business of the toy division improved in the second-half of the year. Bolstered by the sales of toys related to a very popular movie which premiered in the United States in May 1999, the division operated at normal capacity during the quarter ended 31 March 1999, which usually is a quiet quarter for the toy business. While traditional plastic figurines still account for a major portion of the business, the toy division commenced the development of interactive toys. The management anticipates that business for these toys will be a future growth area for the toy division. During the year under review the division streamlined its operation in Hong Kong resulting in a 10% reduction in its overall administrative expenses. In order to upgrade and enlarge its production capabilities, the division set up a wholly owned enterprise named Dongguan Herald Metal and Plastic Company Limited in Dongguan, PRC. The new company has a total floor area of approximately 380,000 sq. ft. and is now in trial production. It is anticipated that this company will start normal production in September 1999.

The computer head division also experienced a recovery in the second-half of the last fiscal year. In the previous financial year, the division developed the technology for the manufacture of half-inch thin-film heads and half-inch ferrite heads. These heads received customers' final qualification during the year under review and generated additional sales in the second-half of the year which helped the division return to profitability. On the other hand, the business of quarter-inch ferrite heads remained stable. During the year under review, the division developed and delivered new quarter-inch ferrite heads with larger storage capacity using more advanced technology.

The houseware division's performance was satisfactory. Turnover remained almost the same as last year. Pilot, the division's distributing arm in the U.K. experienced an 14% drop in turnover. This shortfall was made up by additional sales to the United States transferred from other Asian countries due to political and economic instability in those areas.

The timepiece division managed to achieve satisfactory results. The Hong Kong timepiece division has developed a series of "Touch Screen" watches and clocks which received enthusiastic response at trade fairs held in April 1999. It secured the "Elle Petite" and "Elle Studio" manufacturing licenses for watches and clocks. In addition, Zeon Limited, the group's timepiece division in the UK acquired the "Star Wars" clock license for Europe.

CHAIRMAN'S STATEMENT

FINANCIAL POSITION

As at 31 March 1999 the Group had total assets of HK\$641 million (1998: HK\$616 million) which were financed by current liabilities and deferred taxation of HK\$151 million (1998: HK\$128 million), minority interests of HK\$34 million (1998: HK\$34 million) and shareholders' equity of HK\$456 million (1998: HK\$454 million).

At the end of the financial year, the Group had a strong balance sheet with a healthy liquidity position. At the balance sheet date, the Group had fixed deposits and cash balances aggregate to HK\$128 million (1998: HK\$123 million) and had negligible bank borrowings of HK\$4 million (1998: HK\$13 million). As at 31 March 1999, the working capital ratio was 2.44 compared to 2.78 last year and the quick ratio decreased to 1.36 from 1.56.

PROSPECTS AND GENERAL OUTLOOK

The Directors are cautiously optimistic about the overall prospects for the business in the Group's four core businesses. The toy division started the new fiscal year with a strong sales order position. The business of the half-inch ferrite and thin-film heads will provide good opportunities for the growth in the computer head division. Despite a general downbeat climate in the markets of both the timepiece division and the houseware division, it is expected that both divisions will perform well in the current year.

DIVIDENDS

The Directors will recommend a final dividend of 2 cents per share at the forthcoming Annual General Meeting to be held on 15 September 1999. Together with the interim dividend of 1 cent per share, total dividends for the year under review will amount to 3 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, 30 July 1999

REPORT OF THE DIRECTORS

The directors have pleasure in submitting their annual report together with the audited accounts for the year ended 31 March 1999.

PRINCIPAL ACTIVITIES

The principal activity of the company is investment holding. The activities of the principal subsidiaries are set out on pages 36 to 38.

The analyses 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 operating profit before exceptional items HK\$'000
Principal activities		
Electronic products	501,305	26,541
Non-electronic products	356,986	18,737
Non-manufacturing	14,890	(14,126)
	<u>873,181</u>	<u>31,152</u>

	Group turnover HK\$'000
--	----------------------------------------

Geographical location

Europe	
United Kingdom	313,828
Other countries	160,024
North America	289,285
Asia	70,831
Other	39,213
	<u>873,181</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	23%	
Five largest customers in aggregate	50%	
The largest supplier		8%
Five largest suppliers in aggregate		24%

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) any interests (as defined in the Listing Rules) in these major customers and suppliers.

PRINCIPAL SUBSIDIARIES

Particulars of the company's principal subsidiaries at 31 March 1999 are set out on pages 36 to 38.

ACCOUNTS

The profit of the group for the year ended 31 March 1999 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 35.

An interim dividend of 1 cent per share was paid on 21 January 1999. The directors now recommend a final dividend of 2 cents per share in respect of the year ended 31 March 1999.

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 1999 are set out in note 15 on the accounts.

CHARITABLE DONATIONS

Donations made by the group during the year amounted to HK\$72,625 (1998: HK\$94,488).

SHARE CAPITAL

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

The company repurchased and then cancelled 3,450,000 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.

REPORT OF THE DIRECTORS

SHARE CAPITAL (Continued)

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:

G Bloch
D S Chang
S T K Cheung
M Y S Thong
R Dorfman
D C Bray *
H M G Forsgate *
P K Y Tsao *

* *Non-executive directors*

In accordance with bye-law 87 of the company's bye-laws, Messrs H M G Forsgate and P K Y Tsao 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 78, 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, 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.

CHEUNG Tsang-Kay, Stan, PhD, Hon LLD, JP, aged 55, 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.

REPORT OF THE DIRECTORS

DIRECTORS AND SENIOR MANAGEMENT (continued)

CHANG Dong-Song, aged 78, the father of Dr Cheung, has been an Executive Director of the company since 1992. Mr Chang was a co-founder of Herald Metal and Plastic Works Limited 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 44, 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 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 49, 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 73, 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 First Pacific Davies Limited, Leighton Asia Limited and The Hong Kong Philharmonic Orchestra.

Hugh Moss Gerald FORSGATE, CBE JP, aged 80, 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 65, 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.

REPORT OF THE DIRECTORS

DIRECTORS AND SENIOR MANAGEMENT (continued)

Gershon DORFMAN, aged 43, 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 Dataneitics Limited and a director of some of the group's companies.

DIRECTORS' INTERESTS IN SHARES

The directors who held office at 31 March 1999 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:

	Personal interests	Family interests	Number of shares Corporate interests	Other interests (Note)	Total
Herald Holdings Limited					
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
Herald Dataneitics Limited					
G Bloch	–	–	67,000	–	67,000
D S Chang	–	29,000	–	–	29,000
S T K Cheung	36,000	–	–	93,000	129,000
M Y S Thong	7,500	–	–	–	7,500
R Dorfman	28,250	–	–	–	28,250

Note:

Dr S T K Cheung is the beneficiary of a family trust which owned 75,498,356 shares in the company and 93,000 shares in Herald Dataneitics Limited respectively at 31 March 1999.

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.

REPORT OF THE DIRECTORS

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 1999 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	10.73%
HSBC International Trustee Limited ("HIT")	75,498,356	11.61%
HSBC Holdings B.V. ("HHBV")	88,905,856	13.68%
HSBC Holdings plc ("HH")	89,905,856	13.83%
HSBC Finance (Netherlands) Limited ("HFNL")	88,905,856	13.68%
HSBC Investment Bank Holdings B.V. ("HIB")	88,905,856	13.68%

GIL is a company owned by a family trust which owned an aggregate of 75,498,356 shares in the company at 31 March 1999 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, HFNL, HIB had a further interest of 13,407,500 shares and HH had a further interest of 14,407,500 shares in the company at 31 March 1999.

DIRECTORS' INTERESTS IN CONTRACTS

No 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 with 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 PROBLEM

Certain of the group's older computer programmes were written using two digits rather than four to define the applicable year. As a result, those computer programmes have time-sensitive software that recognises a date using "00" as year 1900 rather than the year 2000. This could cause a system failure or miscalculations causing disruption in operations including, among other things, a temporary inability to process transactions, send invoices, or engage in normal business activities. Most of the group's major customers have raised their concerns over the Year 2000 problem and have requested the group's computer systems to be Year 2000 compliant in due course.

REPORT OF THE DIRECTORS

THE YEAR 2000 PROBLEM (continued)

In 1998, the group commenced a Year 2000 compliance project to make assessment of the problems and develop and implement plans to reduce the group's potential exposure to the problems relating to its business and operations. The project was completed by the end of June 1999 and the group has achieved a satisfactory result on evaluations and testing of all relevant systems to ensure that they are Year 2000 compliant and has confirmed with its major trading partners that they are Year 2000 ready. In addition, contingency plans are in place to cater for possible risks that may arise during the transition to Year 2000.

The total cost of the group's Year 2000 project is approximately HK\$6.6 million, which includes HK\$4.2 million for the purchase of new hardware and software that was capitalised and HK\$2.4 million that was expensed as incurred. Up to 31 March 1999, the group incurred and expensed approximately HK\$1.7 million for the development of a modification plan and spent and capitalised HK\$3.6 million in respect of the purchase of new hardware and software. The remaining cost of HK\$1.3 million was spent over the quarter ended 30 June 1999, out of which HK\$0.6 million in respect of hardware and software was capitalised and HK\$0.7 million was treated as expenses. These additional costs have not been provided for in the accounts for the year ended 31 March 1999 and have been neither contracted for nor authorised by the directors at 31 March 1999.

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 39 of the annual report.

AUDITORS

On 19 November 1998, our auditors changed the name under which they practise to KPMG and, accordingly, have signed their report in their new name. A resolution for the re-appointment of KPMG as auditors of the company is to be proposed at the forthcoming annual general meeting.

By order of the board

Thong Yeung-Sum, Michael

Director

Hong Kong, 30 July 1999

REPORT OF THE AUDITORS



To the shareholders of Herald Holdings Limited

(Incorporated in Bermuda with limited liability)

We have audited the accounts on pages 14 to 35 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, in all material respects, of the state of affairs of the company and of the group as at 31 March 1999 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, 30 July 1999

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31 March 1999

(Expressed in Hong Kong dollars)

	Note	1999 \$'000	1998 \$'000
Turnover	2	<u>873,181</u>	<u>1,038,820</u>
Operating profit before exceptional items		31,152	16,212
Exceptional items	3	<u>–</u>	<u>(24,235)</u>
Profit/ (loss) from ordinary activities	4	31,152	(8,023)
Share of losses of associated companies		<u>(1,433)</u>	<u>(4,231)</u>
Profit/ (loss) before taxation		29,719	(12,254)
Taxation	6	<u>(5,448)</u>	<u>(7,107)</u>
Profit/ (loss) after taxation		24,271	(19,361)
Minority interests		<u>(1,789)</u>	<u>24,426</u>
Profit attributable to shareholders	7, 18	<u>22,482</u>	<u>5,065</u>
Dividends	8, 18	<u>19,461</u>	<u>13,087</u>
Earnings per share:	9		
– Basic		3.45 cents	0.79 cent
– Diluted		<u>–</u>	<u>0.78 cent</u>

The notes on pages 21 to 35 form part of these accounts.

CONSOLIDATED BALANCE SHEET

At 31 March 1999

(Expressed in Hong Kong dollars)

	Note	1999 \$'000	1998 \$'000
Fixed assets	10	<u>268,083</u>	<u>257,224</u>
Interest in associated companies	12	<u>1,064</u>	<u>3,856</u>
Long term investments	13	<u>3,163</u>	<u>2,485</u>
Current assets			
Inventories	14	139,178	132,513
Trade debtors		77,405	75,296
Other debtors, deposits and prepayments		24,349	22,247
Cash at bank and in hand		127,890	122,583
		<u>368,822</u>	<u>352,639</u>
Current liabilities			
Bank loans and overdrafts	15	4,378	13,243
Trade creditors		42,410	46,378
Other creditors and accrued charges		81,802	49,894
Taxation	6	9,553	10,616
Proposed final dividend	8	12,944	6,535
		<u>151,087</u>	<u>126,666</u>
Net current assets		<u>217,735</u>	<u>225,973</u>
Deferred taxation	16	<u>(450)</u>	<u>(1,000)</u>
		<u>489,595</u>	<u>488,538</u>
Representing:			
Share capital	17	50,707	50,976
Reserves	18	<u>405,129</u>	<u>403,590</u>
Shareholders' funds		455,836	454,566
Minority interests		<u>33,759</u>	<u>33,972</u>
		<u>489,595</u>	<u>488,538</u>

Approved by the board of directors on 30 July 1999.

Chang Dong-Song
Director

Thong Yeung-Sum, Michael
Director

The notes on pages 21 to 35 form part of these accounts.

BALANCE SHEET

At 31 March 1999

(Expressed in Hong Kong dollars)

	Note	1999 \$'000	1998 \$'000
Investments in subsidiaries	11	<u>327,365</u>	<u>327,365</u>
Current assets			
Amount due from subsidiary		23,629	34,763
Prepayments and deposits		128	109
Tax recoverable	6	59	14
Cash at bank		<u>81</u>	<u>2,348</u>
		<u>23,897</u>	<u>37,234</u>
Current liabilities			
Creditors and accrued charges		550	423
Proposed final dividend	8	<u>12,944</u>	<u>6,535</u>
		<u>13,494</u>	<u>6,958</u>
Net current assets		<u>10,403</u>	<u>30,276</u>
		<u>337,768</u>	<u>357,641</u>
Representing:			
Share capital	17	50,707	50,976
Reserves	18	<u>287,061</u>	<u>306,665</u>
Shareholders' funds		<u>337,768</u>	<u>357,641</u>

Approved by the board of directors on 30 July 1999.

Chang Dong-Song
Director

Thong Yeung-Sum, Michael
Director

The notes on pages 21 to 35 form part of these accounts.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 1999

(Expressed in Hong Kong dollars)

		1999		1998	
	Note	\$'000	\$'000	\$'000	\$'000
Net cash inflow from operating activities	(a)		78,933		98,005
Returns on investments and servicing of finance					
Interest paid		(3,071)		(4,910)	
Interest received		5,593		3,749	
Dividends paid to minority interests		(2,323)		(12,649)	
Dividends paid		(13,052)		(16,495)	
Net cash outflow from returns on investments and servicing of finance			(12,853)		(30,305)
Taxation					
Hong Kong profits tax		(3,557)		(2,495)	
Overseas tax		(3,504)		(547)	
Tax paid			(7,061)		(3,042)
Investing activities					
Purchase of fixed assets		(43,593)		(18,063)	
Purchase of long term investments		(678)		(795)	
Sale of fixed assets		-		5,839	
Acquisition of additional shares in subsidiary		-		(2,881)	
Capital refunded by associated companies		-		3,251	
Disposal of subsidiary	(d)	-		127	
Net cash outflow from investing activities			(44,271)		(12,522)
Net cash inflow before financing carried forward			14,748		52,136

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 1999

(Expressed in Hong Kong dollars)

		1999		1998	
	Note	\$'000	\$'000	\$'000	\$'000
Net cash inflow before financing brought forward			14,748		52,136
Financing					
Issue of shares		–		19,200	
Repurchases of shares	(b)	<u>(576)</u>		<u>(3,434)</u>	
Net cash (outflow)/inflow from financing			<u>(576)</u>		<u>15,766</u>
Increase in cash and cash equivalents			14,172		67,902
Cash and cash equivalents at 1 April			<u>109,340</u>		<u>41,438</u>
Cash and cash equivalents at 31 March	(c)		<u>123,512</u>		<u>109,340</u>

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 1999

(Expressed in Hong Kong dollars)

Notes:

(a) Reconciliation of operating profit before exceptional items to net cash inflow from operating activities

	1999 \$'000	1998 \$'000
Operating profit before exceptional items	31,152	16,212
Research and development costs of computer head products	–	(16,615)
Loss/(profit) on disposal of fixed assets	7,543	(567)
Provision against minority interest	972	2,269
Interest income	(5,593)	(3,749)
Depreciation	33,230	37,113
Interest expenses	3,071	4,910
Decrease in net amounts due from associated companies	1,387	865
(Increase)/decrease in inventories	(6,665)	61,315
(Increase)/decrease in trade debtors	(2,109)	8,453
Increase in other debtors, deposits and prepayments	(2,102)	(1,267)
Decrease in trade creditors	(3,968)	(21,227)
Increase in other creditors and accrued charges	23,292	3,772
Movement in minority interest	(533)	–
Effect of foreign exchange	(744)	6,521
Net cash inflow from operating activities	<u>78,933</u>	<u>98,005</u>

(b) Analysis of changes in financing during the year

	Share capital (including premium) \$'000
Balance at 1 April 1998	88,383
Repurchases of shares	<u>(576)</u>
Balance at 31 March 1999	<u>87,807</u>

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

	1999 \$'000	1998 \$'000
Cash at bank and in hand	127,890	122,583
Bank loans and overdrafts	<u>(4,378)</u>	<u>(13,243)</u>
	<u>123,512</u>	<u>109,340</u>

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 1999

(Expressed in Hong Kong dollars)

Notes: (Continued)

(d) Disposal of subsidiary

	1999 \$'000	1998 \$'000
Net assets disposed of:		
Fixed assets	-	1,263
Stocks	-	5,803
Trade debtors	-	1,305
Other debtors, deposits and prepayments	-	459
Trade creditors	-	(1,816)
Other creditors and accrued charges	-	(703)
	<hr/>	<hr/>
	-	6,311
Loss on disposal	-	(6,184)
	<hr/>	<hr/>
	-	127
	<hr/>	<hr/>
Satisfied by:		
Cash consideration received	-	1,000
Cash at bank disposed of	-	(882)
Bank loan and overdraft disposed of	-	9
	<hr/>	<hr/>
	-	127
	<hr/>	<hr/>

(e) Major non-cash transaction

During the year, the company completed the construction of a factory in the PRC. Part of the construction costs, amounting to \$8,616,000 was not settled at 31 March 1999.

NOTES ON THE ACCOUNTS

Expressed in Hong Kong dollars

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation of accounts

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 the Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants 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 consolidation

The consolidated balance sheet and profit and loss account incorporate the accounts of the company and 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 during the year are included in the consolidated profit and loss account from the date of their acquisition. All material intercompany transactions and balances are eliminated on consolidation.

(c) Interest in subsidiaries

A subsidiary is a company in which more than 50 per cent of its issued capital is held long term by the group. Interest in subsidiaries in the company's balance sheet is stated at cost less any provisions for permanent diminution in value as determined by the directors.

(d) Associated companies

An associated company is a company, not being a subsidiary of the group, in which the group's interest is for the long term and, having regard to the disposition of the other shareholdings, the group is in a position to exercise significant influence over that company's management. The consolidated profit and loss account includes the group's share of the results of its associated companies for the year. In the consolidated balance sheet, the investment in associated companies is stated at the group's share of their net assets or liabilities.

(e) Goodwill and capital reserve on consolidation

Goodwill arising on consolidation represents the excess of the cost of investment in subsidiaries and associated companies over the fair value of their separable net assets at the respective dates of acquisition and is written off against reserves in the year of acquisition.

The excess of the fair value of the net assets of subsidiaries and associated companies acquired over the cost of investments in these companies is credited to capital reserve.

NOTES ON THE ACCOUNTS

Expressed in Hong Kong dollars

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Fixed assets and accumulated 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%

(g) Long term investments

Long term investments are stated at cost less any provision for diminution in value which, in the opinion of the directors, is of a permanent nature.

(h) 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.

(i) 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 goods are delivered at the customers' premises which is taken to be the point in time 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.

NOTES ON THE ACCOUNTS

Expressed in Hong Kong dollars

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Revenue recognition (Continued)

(ii) Interest income

Interest income from bank deposits is accrued on a time proportion basis on the principal outstanding and at the rate applicable.

(j) Operating leases

Receipts or payments under operating leases are credited or charged to the profit and loss account on a straight line basis over the periods of the respective leases.

(k) 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.

(l) 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.

(m) 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. Exchange gains and losses arising are dealt with as a movement in reserves.

(n) 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

Expressed in Hong Kong dollars

2 TURNOVER

Turnover represents:

	1999 \$'000	1998 \$'000
Net invoiced sales to customers less returns	871,923	1,037,680
Rental income	1,258	1,140
	<u>873,181</u>	<u>1,038,820</u>

3 EXCEPTIONAL ITEMS

Exceptional items in 1998 comprise:

	1999 \$'000	1998 \$'000
Loss on closure of electronics factory in Shanghai	-	(7,620)
Research and development costs of computer head products	-	(16,615)
	<u>-</u>	<u>(24,235)</u>

4 PROFIT/ (LOSS) FROM ORDINARY ACTIVITIES

Profit/(loss) from ordinary activities is arrived at

	1999 \$'000	1998 \$'000
after charging:		
Cost of inventories	645,020	718,678
Depreciation	33,230	37,113
Interest on bank advances and other borrowings repayable within five years	3,071	4,910
Auditors' remuneration		
- current year	2,138	2,354
- (over)/underprovision in previous year	(175)	291
Operating lease charges		
- for land and buildings	8,370	9,680
- for other assets	2,196	2,419
	<u>692,010</u>	<u>790,585</u>
and crediting :		
Interest income	5,593	3,749
Rental income less outgoings	1,321	1,140
	<u>6,914</u>	<u>4,889</u>

NOTES ON THE ACCOUNTS

Expressed in Hong Kong dollars

5 DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' remuneration

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

	1999 \$'000	1998 \$'000
Executive directors		
Salaries and allowances	13,364	12,238
Pension scheme contributions	853	823
Bonuses	2,161	3,649
	<u>16,378</u>	<u>16,710</u>
Deemed gain on share options exercised	–	9,375
	<u>16,378</u>	<u>26,085</u>
Non-executive directors		
Fees	540	540
	<u>16,918</u>	<u>26,625</u>

The remuneration of the directors is within the following bands:

	Number of directors	
	1999	1998
\$Nil to \$1,000,000	3	3
\$2,500,001 to \$3,000,000	1	–
\$3,000,001 to \$3,500,000	3	–
\$3,500,001 to \$4,000,000	1	–
\$4,500,001 to \$5,000,000	–	1
\$5,000,001 to \$5,500,000	–	3
\$5,500,001 to \$6,000,000	–	1
	<u>–</u>	<u>1</u>

NOTES ON THE ACCOUNTS

Expressed in Hong Kong dollars

5 DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

(b) Employees' emoluments

During the year ended 31 March 1999, the five highest paid individuals comprised 4 directors (1998: five directors), details of whose emoluments are set out in note 5(a). The aggregate of the emoluments in respect of the remaining individual in 1999 were as follows:

	1999 \$'000	1998 \$'000
Salaries and other allowances	2,649	–
Pension scheme contributions	201	–
Bonuses	462	–
	<u>3,312</u>	<u>–</u>

6 TAXATION

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

	1999 \$'000	1998 \$'000
Provision for Hong Kong profits tax at 16% (1998: 16.5%) for the year	4,287	6,908
Overprovision in respect of prior year	(224)	(1,073)
Hong Kong tax rebate received	(270)	–
Overseas taxation at applicable rates	2,205	2,342
Deferred taxation (note 16)	(550)	(1,070)
	<u>5,448</u>	<u>7,107</u>
Taxation charge		

(b) Taxation in the consolidated balance sheet represents:

	1999 \$'000	1998 \$'000
Provision for Hong Kong profits tax for the year	4,287	6,908
Provisional profits tax paid	(2,220)	(1,818)
Balance of profits tax provision relating to prior years	6,586	3,327
Overseas taxation	900	2,199
	<u>9,553</u>	<u>10,616</u>

NOTES ON THE ACCOUNTS

Expressed in Hong Kong dollars

6 TAXATION (Continued)

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

	1999 \$'000	1998 \$'000
Provisional profits tax recoverable	<u>(59)</u>	<u>(14)</u>

7 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders includes a profit of \$164,000 (1998: a loss of \$63,000) which has been dealt with in the accounts of the company.

8 DIVIDENDS

	1999 \$'000	1998 \$'000
Interim dividend of 1 cent per share (1998: 1 cent)	6,517	6,552
Final dividend proposed of 2 cents per share (1998: 1 cent)	<u>12,944</u>	<u>6,535</u>
	<u>19,461</u>	<u>13,087</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 for the year ended 31 March 1999 have been charged to the contributed surplus (note 18).

9 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the net profit for the year attributable to ordinary shareholders of \$22,482,000 (1998: \$5,065,000), and on 652,085,000 (1998: 642,733,000) ordinary shares, being the weighted average number of ordinary shares outstanding during the year.

(b) Diluted earnings per share

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

The calculation of diluted earnings per share for the year ended 31 March 1998 was based on the net profit for the year attributable to ordinary shareholders of \$5,065,000 and on 650,367,000 ordinary shares, being the weighted average number of ordinary shares outstanding during the year, adjusted for the effects of all dilutive potential ordinary shares.

NOTES ON THE ACCOUNTS

Expressed in Hong Kong dollars

9 EARNINGS PER SHARE (Continued)

(c) Reconciliations

	1999	1998
Weighted average number of ordinary shares used in calculating basic earnings per share	652,085,000	642,733,000
Deemed issue of ordinary shares for no consideration	—	7,634,000
	<u>652,085,000</u>	<u>650,367,000</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>652,085,000</u>	<u>650,367,000</u>

10 FIXED ASSETS

	Land and buildings \$'000	Plant, machinery, furniture, fixtures and office equipment \$'000	Moulds \$'000	Motor vehicles \$'000	Total \$'000
(a) The group					
Cost:					
At 1 April 1998	202,285	220,919	20,960	16,514	460,678
Exchange differences	(494)	(352)	—	(62)	(908)
Additions	41,394	6,517	2,516	1,782	52,209
Disposals	(8,839)	(10,921)	(226)	(3,093)	(23,079)
	<u>234,346</u>	<u>216,163</u>	<u>23,250</u>	<u>15,141</u>	<u>488,900</u>
At 31 March 1999	234,346	216,163	23,250	15,141	488,900
Aggregate amortisation and depreciation:					
At 1 April 1998	37,901	135,949	18,740	10,864	203,454
Exchange differences	(90)	(212)	—	(29)	(331)
Charge for the year	8,752	20,337	2,025	2,116	33,230
Written back on disposal	(2,039)	(10,702)	(131)	(2,664)	(15,536)
	<u>44,524</u>	<u>145,372</u>	<u>20,634</u>	<u>10,287</u>	<u>220,817</u>
At 31 March 1999	44,524	145,372	20,634	10,287	220,817
Net book value:					
At 31 March 1999	<u>189,822</u>	<u>70,791</u>	<u>2,616</u>	<u>4,854</u>	<u>268,083</u>
At 31 March 1998	<u>164,384</u>	<u>84,970</u>	<u>2,220</u>	<u>5,650</u>	<u>257,224</u>

NOTES ON THE ACCOUNTS

Expressed in Hong Kong dollars

10 FIXED ASSETS (Continued)

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

	The group	
	1999	1998
	\$'000	\$'000
Freehold outside Hong Kong	6,250	6,560
Long term leases outside Hong Kong	–	43,837
Medium term lease		
– in Hong Kong	74,312	75,624
– outside Hong Kong	106,972	37,908
Short term lease outside Hong Kong	2,288	455
	<u>189,822</u>	<u>164,384</u>

(c) The gross amount of fixed assets of the group held for use in operating leases at 31 March 1999 was \$19,371,000 (1998: \$10,061,000) and the related accumulated depreciation was \$1,589,000 (1998: \$1,031,000).

11 INVESTMENTS IN SUBSIDIARIES

	The company	
	1999	1998
	\$'000	\$'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 1999 are set out on pages 36 to 38.

12 INTEREST IN ASSOCIATED COMPANIES

	The group	
	1999	1998
	\$'000	\$'000
Share of net assets	2,447	3,852
Amounts due from associated companies	–	638
Amount due to associated company	(1,383)	(634)
	<u>1,064</u>	<u>3,856</u>

NOTES ON THE ACCOUNTS

Expressed in Hong Kong dollars

12 INTEREST IN ASSOCIATED COMPANIES (Continued)

Details of the group's principal associated companies are as follows:

Name of company	Principal activities	Place of incorporation	Effective percentage of shares held by the group
Chinaview Limited	Investment holding	The British Virgin Islands	50.0
Clearwater Services Limited	Investment holding	The British Virgin Islands	43.0
Ningbo Herald Metal Products Company Limited	Manufacture of household wares	The People's Republic of China	40.0

13 LONG TERM INVESTMENTS

	The group	
	1999	1998
	\$'000	\$'000
Investments listed in Hong Kong, at cost	880	880
Unlisted investments	2,283	1,605
	<u>3,163</u>	<u>2,485</u>
Market value of listed investments	<u>550</u>	<u>860</u>

14 INVENTORIES

	The group	
	1999	1998
	\$'000	\$'000
Raw materials	53,176	54,502
Work in progress	30,264	21,751
Finished goods	55,738	56,260
	<u>139,178</u>	<u>132,513</u>

The amount of inventories (included above) carried at net realisable value is \$73,006,000 (1998: \$70,494,000).

NOTES ON THE ACCOUNTS

Expressed in Hong Kong dollars

15 BANK LOANS AND OVERDRAFTS

	The group	
	1999	1998
	\$'000	\$'000
Secured	–	1,710
Unsecured	4,378	11,533
	<u>4,378</u>	<u>13,243</u>

16 DEFERRED TAXATION

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

	1999	1998
	\$'000	\$'000
Balance at 1 April	1,000	2,070
Transfer to the profit and loss account (note 6)	(550)	(1,070)
	<u>450</u>	<u>1,000</u>

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

	1999		1998	
	Provided	Potential assets unrecognised	Provided	Potential assets unrecognised
	\$'000	\$'000	\$'000	\$'000
Depreciation allowances in excess of related depreciation	508	–	1,092	–
Future benefit of tax losses	–	(2,123)	–	(4,973)
Others	(58)	–	(92)	(13)
	<u>450</u>	<u>(2,123)</u>	<u>1,000</u>	<u>(4,986)</u>

NOTES ON THE ACCOUNTS

Expressed in Hong Kong dollars

17 SHARE CAPITAL

	1999		1998	
	Number of shares (Thousand)	Amount \$'000	Number of shares (Thousand)	Amount \$'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	653,536	50,976	602,976	47,032
Shares repurchased and cancelled	(3,450)	(269)	(9,440)	(736)
Shares issued on exercise of share options	<u>—</u>	<u>—</u>	<u>60,000</u>	<u>4,680</u>
At 31 March	<u>650,086</u>	<u>50,707</u>	<u>653,536</u>	<u>50,976</u>

During the year, the company repurchased a total of 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 \$'000
		Highest \$	Lowest \$	
May 1998	600	0.255	0.245	151
August 1998	375	0.130	0.130	49
September 1998	500	0.130	0.125	65
October 1998	390	0.171	0.171	67
January 1999	820	0.150	0.150	123
February 1999	435	0.150	0.148	65
March 1999	<u>330</u>	<u>0.170</u>	<u>0.164</u>	<u>56</u>
	<u>3,450</u>			<u>576</u>

NOTES ON THE ACCOUNTS

Expressed in Hong Kong dollars

18 RESERVES

(a) The group

	Share premium \$'000	Capital reserve \$'000	Contributed surplus \$'000	Exchange fluctuation reserve \$'000	Retained profits \$'000	Total \$'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>

The group's share of post acquisition accumulated losses of associated companies at 31 March 1999 is \$5,844,741 (1998: \$4,411,000). The group's share of loss of associated companies for the year is \$1,433,000 (1998: \$4,231,000).

(b) The company

	Share premium \$'000	Contributed surplus \$'000	Retained profits \$'000	Total \$'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)
At 31 March 1999	<u>37,100</u>	<u>249,445</u>	<u>516</u>	<u>287,061</u>

The distributable reserves of the company as at 31 March 1999 amounted to \$249,961,000 (1998: \$269,258,000).

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

NOTES ON THE ACCOUNTS

Expressed in Hong Kong dollars

19 CONTINGENT LIABILITIES

At 31 March 1999, there were contingent liabilities in respect of the following:

	The group		The company	
	1999	1998	1999	1998
	\$'000	\$'000	\$'000	\$'000
Guarantees issued in respect of facilities granted by banks to subsidiaries	–	–	215,093	201,993
Bills discounted with banks	643	1,616	–	–
Others	–	3,572	–	–
	<u>643</u>	<u>5,188</u>	<u>215,093</u>	<u>201,993</u>

At 31 March 1999, the group had commitments in respect of forward exchange contracts entered into in the normal course of business.

20 CAPITAL AND LEASE COMMITMENTS

- (a) Capital commitments of the group outstanding at 31 March 1999 not provided for in the accounts were as follows:

	1999	1998
	\$'000	\$'000
Contracted for	<u>3,757</u>	<u>22,727</u>

- (b) At 31 March 1999, the group had commitments to make payments under operating leases in the next year as follows:

	1999		1998	
	Land and buildings	Others	Land and buildings	Others
	\$'000	\$'000	\$'000	\$'000
Leases expiring:				
Within 1 year	2,635	38	1,552	200
After 1 year but within 5 years	3,823	836	3,958	516
After 5 years	860	3	1,289	48
	<u>7,318</u>	<u>877</u>	<u>6,799</u>	<u>764</u>

NOTES ON THE ACCOUNTS

Expressed in Hong Kong dollars

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 \$5,394,000 (1998: \$3,932,000). 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 1999, the total amount of forfeited contributions which are available to reduce the contributions payable in future years was \$306,000 (1998: \$1,341,000).

22 RELATED PARTY TRANSACTIONS

There were no material related party transactions for the years ended 31 March 1998 and 1999.

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 \$0.15 each	–	100
Herald China Investments Limited	Investment holding	Hong Kong	Hong Kong	1,000,000 shares of \$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\$3,177,500	–	100
Herald Metal and Plastic Works Limited	Manufacture of toys	Hong Kong	Hong Kong	100 ordinary shares of \$10 each	–	100
				1,953,000 deferred shares of \$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 RMB12,000,000	–	100
Herald Plastic Products Company Limited * #	Manufacture of toys and watches	The People's Republic of China	The People's Republic of China	Equity of RMB6,750,000	–	56
Shenzhen Herald Metal and Plastic Company Limited * #	Manufacture of toys	The People's Republic of China	The People's Republic of China	Equity of \$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 Datatronics Limited	Manufacture of computer heads	Hong Kong	Hong Kong	1,128,000 shares of \$10 each	–	69

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 Datanetics Limited * #	Manufacture of computer heads	The People's Republic of China	The People's Republic of China	Equity of \$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 aluminium houseware	Hong Kong	Hong Kong	5,000,000 shares of \$1 each	–	100
Herald Metal Products Company Limited * #	Manufacture of aluminium 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 aluminium houseware	The People's Republic of China	The People's Republic of China	Equity of \$30,000,000	–	80
Pilot Housewares (U.K.) Limited *	Sales and distribution of aluminium 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 \$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 \$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 \$1 each	–	100
Herald Marketing Limited	Marketing	Hong Kong	Hong Kong	3,000,000 shares of \$1 each	–	100
Jonell Limited	Property investment	Hong Kong	Hong Kong	2 shares of \$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 5.8% (1998: 5.6%) of the consolidated turnover for the year ended 31 March 1999.

Equity joint ventures registered under the laws of the People's Republic of China as Sole Foreign Investment Enterprise or Sino-foreign Joint Equity Enterprises.

FIVE YEARS SUMMARY

Expressed in Hong Kong dollars

	1999 \$'000	1998 \$'000	1997 \$'000	1996 \$'000	1995 \$'000
Results					
Turnover	873,181	1,038,820	1,025,804	1,246,497	1,259,140
Operating profit before exceptional items	31,152	16,212	20,430	43,256	49,114
Exceptional items	–	(24,235)	(8,100)	(11,394)	(16,259)
	31,152	(8,023)	12,330	31,862	32,855
Share of losses less profits of associated companies	(1,433)	(4,231)	545	(6,958)	(4,262)
Profit/(loss) before taxation	29,719	(12,254)	12,875	24,904	28,593
Taxation	(5,448)	(7,107)	1,290	(7,154)	(10,826)
Profit/(loss) after taxation	24,271	(19,361)	14,165	17,750	17,767
Minority interests	(1,789)	24,426	(531)	(5,956)	(12,951)
Profit attributable to shareholders	22,482	5,065	13,634	11,794	4,816
Balance sheet					
Fixed assets	268,083	257,224	300,407	330,558	384,424
Interest in associated companies	1,064	3,856	12,172	23,004	34,973
Long term investments	3,163	2,485	1,690	250	35,974
Net current assets	217,735	225,973	209,708	188,427	104,699
Deferred taxation	(450)	(1,000)	(2,070)	(5,070)	(9,070)
	489,595	488,538	521,907	537,169	551,000
Shareholders' funds	455,836	454,566	449,481	460,445	451,969
Minority interests	33,759	33,972	72,426	76,724	99,031
	489,595	488,538	521,907	537,169	551,000

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Shareholders of the Company will be held at the Coral Room 1, 3rd Floor, Furama Hotel Hong Kong, 1 Connaught Road Central, Hong Kong on Wednesday, 15 September 1999 at 3:45 pm for the following purposes:

1. To receive and consider the Financial Statements for the year ended 31 March 1999 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, 30 July 1999

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.