



HERALD HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

Financial Results for the year ended 31 March, 2002

PRESS RELEASE

The Board of Directors of Herald Holdings Limited (the “Company”) presents the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 March, 2002, together with the comparative figures for the previous year, as follows:

RESULTS

	Note	2002 HK\$'000	2001 HK\$'000
Turnover	(2)	867,062	953,884
Cost of sales		<u>(688,259)</u>	<u>(738,815)</u>
Gross profit		178,803	215,069
Other revenue		5,288	8,885
Other net income/(loss)		4,976	(5,552)
Selling expenses		(24,082)	(28,594)
Administrative expenses		(155,670)	(173,161)
Impairment loss on fixed assets		(31,894)	-
Deficits on revaluation of investment properties		<u>(5,009)</u>	<u>-</u>
(Loss)/profit from operations	(2)	(27,588)	16,647
Finance cost		(660)	(1,315)
Share of profit of a jointly controlled entity		<u>343</u>	<u>531</u>
(Loss)/profit from ordinary activities before taxation	(3)	(27,905)	15,863
Taxation	(4)	<u>(2,635)</u>	<u>(2,257)</u>
(Loss)/profit from ordinary activities after taxation		(30,540)	13,606
Minority interests		<u>(1,876)</u>	<u>(4,933)</u>
(Loss)/profit attributable to shareholders		<u>(32,416)</u>	<u>8,673</u>
Dividends	(5)	<u>6,226</u>	<u>6,252</u>
(Loss)/earnings per share	(6)		
- Basic		<u>(5.19 cents)</u>	<u>1.39 cents</u>

SEGMENTAL INFORMATION

The Group is principally engaged in the manufacture, sale and distribution of toy and gift products, computer heads, housewares and timepieces.

An analysis of the Group's turnover and contribution to operating (loss)/profit for the year by business segment and geographical segment is as follows:

	Turnover		Contribution to (loss)/ profit from operations	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Business segments:				
Toy and gift products	424,084	402,518	9,458	13,416
Computer heads	183,806	207,988	1,198	6,615
Housewares	121,921	137,379	3,052	7,741
Timepieces	134,169	195,675	(15,679)	(607)
Others	3,082	10,324	(18,247)	4,116
	<u>867,062</u>	<u>953,884</u>	<u>(20,218)</u>	<u>31,281</u>
Unallocated operating income and expenses			<u>(7,370)</u>	<u>(14,634)</u>
(Loss)/profit from operations			<u>(27,588)</u>	<u>16,647</u>
	Turnover		Contribution to (loss)/ profit from operations	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Geographical segments:				
Europe				
United Kingdom	262,669	261,471	(3,312)	2,994
Other countries	66,402	136,143	(14,279)	(435)
North America	353,830	402,204	9,504	7,443
Asia				
Hong Kong	33,323	52,860	(8,302)	3,262
The PRC	15,306	4,027	(12,326)	1,332
Other countries	116,848	66,327	204	1,683
Others	18,684	30,852	923	368
	<u>867,062</u>	<u>953,884</u>	<u>(27,588)</u>	<u>16,647</u>

REVIEW OF OPERATIONS

The Group's turnover ("Turnover") for the year ended 31 March, 2002 amounted to HK\$867 million, representing a 9.1% decrease as compared to a turnover of HK\$954 million in the last financial year. Following the adoption of the new Statement of Standard Accounting Practice ("SSAP") 31 on Impairment of assets, the Group assessed the recoverable amount of its land and buildings at the end of the fiscal year and recognised impairment losses of HK\$31.9 million. In addition, the Group also had deficits on revaluation of its investments properties amounting to HK\$5 million. After the said impairment losses and revaluation deficits, the Group had a net loss attributable to shareholders ("Net Loss") amounting to HK\$32.4 million as compared to a net profit attributable to shareholders of HK\$8.7 million in the previous year. Discounting the impact of the said losses relating to properties, the Group had a net profit of HK\$4.5

million which represents a decrease of 48% from last year's net profit. The loss per share for the year was 5.19 cents as compared to last year's earnings per share of 1.39 cents.

The year under review was very challenging for the Group. In early 2001 the world economy was clouded with uncertainties. The weak retail market in the United States was further hampered by the September terrorist attack and the Afghanistan war. The market conditions for information storage products had a rapid and unfavourable change since early 2001 due to the slowdown of overall information technology spending. Other than the toy and gift division which had a 5.4% increase in sales, the computer head division, the timepiece division and the houseware division all had significant declines in sales. Though the results for the year were negatively affected by the said losses relating to properties of the Group, the toy and gift division, the computer head division and the houseware division were all profitable in the year ended 31 March, 2002.

Toy and Gift Division

In the first three quarters of the year under review, the turnover of the toy and gift division was flat as compared with the same period in the previous year. During this period, the division also saw a decline in its gross profit margins due to our lower pricing policy to secure more sales orders. In the last quarter the division performed very well mainly due to sales of action figure toys related to the movie "Star Wars : Episode II - Attack of the Clones", a very popular movie released in mid- May 2002.

Computer Head Division

The turnover of the computer head division for the year under review decreased by 11.6% from the level of the previous year. The overall market condition for the information storage market was very weak. To remain competitive, the division slashed prices of its products and, as a result, the gross profit margins decreased by 4% point from 15% to 11%. While the business of thin-film computer heads remains steady, we saw a very rapid decline in the sales of ferrite computer heads in the second-half of the fiscal year under review. The division took steps to streamline its manufacturing operations, resulting in a reduction of 47% of the total work force from 1,700 at the beginning of the fiscal year to approximately 900 at 31 March, 2002. With lower factory and administrative costs, the division recovered in the second-half year the losses it suffered in the first half of the year.

To cope with the decline in our computer head business, Herald Datanetics Limited has been working on the development of several new products which require similar expertise and technology know-how as building computer heads. These new products include card reader heads, drum lens for fibre optics and firmware for a fingerprint recognition module. By the end of the fiscal year, pilot productions had been made for the card reader heads and drum lens. However, at this time it is difficult to determine the impact of these new products on the future business of the division.

In November 2001, the Group acquired all the remaining shares of Herald Datanetics Limited ("HDL") from connected parties of the Company for a total consideration of approximately HK\$7.8 million. Following the acquisition, the Group has full control of HDL which has then become its wholly owned subsidiary. The details of this connected party transaction are disclosed in the Directors' Report of the Company.

Houseware Division

The market condition for cookware products remained soft in the year ended 31 March, 2002. The overall sales of aluminium cookware produced by the division reduced by 31%. Due to the continuous weakness of the Japanese economy, the sales of aluminium cookware to Japan reduced by 43%. As a result, the Group's joint-venture factories in

Shanghai and Zhuhai both operated below their production capacity during the year under review. To reduce costs for the cookware products, the division succeeded in replacing aluminium circles imported to Mainland China with cheaper products that are of equal quality manufactured domestically in the PRC. In addition, the success in the introduction of new product lines in stainless steel cookware made up for the above-mentioned loss in sales of aluminium cookware. Furthermore, both the turnover and net profit for the year ended 31 March, 2002 for Pilot Housewares, the division's UK operation, were higher than the levels in the prior year due to the addition of aluminium cookware product lines sourced from European manufacturers.

Timepiece Division

The turnover of the timepiece division decreased by 31% as compared to the level of the previous year. The operating loss for the year was widened to HK\$15.7 million from last year's loss of HK\$0.6 million. This was largely due to the losses made by the division's two subsidiaries in Europe which have both seen decreases in turnover. The turnover of our subsidiaries in France and Germany decreased by 72% and 48% respectively over the year. At the end of the fiscal year, the Group closed down the French operation.

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, 2002, the Group had total assets of HK\$557 million (2001: HK\$601 million) which were financed by current liabilities of HK\$112 million (2001: HK\$111 million), non-current liabilities of HK\$6 million (2001: HK\$4 million), minority interests of HK\$18 million (2001: HK\$28 million) and shareholders' equity of HK\$421 million (2001: HK\$458 million).

At 31 March, 2002 the Group's cash balances aggregated to HK\$131 million representing an increase of HK\$40 million over the comparable figure in last year's balance sheet. The increase in the Group's cash balances was largely due to lower inventories and the positive cash inflows from operation after non-cash items such as depreciation charges of fixed assets, impairment losses of land and buildings and deficits on revaluation of investment properties.

As in the previous year, the Group's borrowings were maintained at a low level of HK\$3 million (2001: HK\$1 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 0.008 (2001: 0.003). As at 31 March, 2002, the working capital ratio, an indicator of a company's liquidity represented by a ratio between the current assets over the current liabilities, was 3.25 compared to 3.21 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, improved to 2.1 from 1.55.

PROSPECTS AND GENERAL OUTLOOK

The Directors remain very cautious about the overall prospects for our business in the new financial year. The toy industry in 2002 will be more stable as the major toy companies in the USA have returned to profitability in 2001. Though market conditions still remain severely competitive, the Directors anticipate that the toy and gift division will perform well with a similar level of sales in the new fiscal year as in the previous year.

As approximately two thirds of the sales of both the houseware division and the timepiece division are derived from the UK market, they will benefit from the current strong sterling. With lower administrative overheads, both divisions now require a lower level of sales to be profitable. The closure of the French operation will also help the management to have a more positive outlook for the overall timepiece operation.

The computer head division is facing a more difficult year as compared to the previous year. In May 2002, it lost a major customer who changed its procurement policy to purchase solely from a competing vendor due to a rapid decline in demand of its ferrite head tape systems. On the positive side, another major customer has identified Herald Datanetics as its sole manufacturing partner and it is anticipated that business with this customer will grow substantially towards the end of 2002. The Directors also have a positive outlook in the medium term for this division in view of the newly developed products mentioned earlier.

Despite the adverse economic environment and market conditions, the management has confidence that the Group shall weather the market downturn and return to a reasonable level of profitability.

ANNUAL GENERAL MEETING AND DIVIDENDS

Last year, the Company paid an interim dividend of HK1 cent per share and did not pay any final dividend. This year, the Company did not pay any interim dividend as the world economy was volatile following the terrorist attacks in the USA in September 2001 and the war in Afghanistan. In view of better consumer confidence in the Group's major markets together with the Group's strong financial position, the Directors believe that it is in the best interests of the shareholders that the company resume the declaration of dividends to its shareholders. The Directors will recommend a final dividend of HK1 cent per share at the forthcoming Annual General Meeting to be held on 18 September, 2002. A cash dividend of HK1 cent would represent an annual return of 4.5% on the Company's average price of HK22 cents in the year ended 31 March, 2002.

The total dividend per share for the year under review will amount to HK1 cent per share (2001: HK1 cent). The total amount of final dividend payment of HK\$6,226,000 was based on the total number of shares in issue as at 15 July, 2002 being the latest practicable date prior to the announcement of the results. Dividends will be payable on 26 September, 2002 to shareholders registered in the Register of Members on 18 September, 2002.

REGISTER OF MEMBERS

The Register of Members will be closed on 17 and 18 September, 2002. Shareholders should ensure that all transfers accompanied by relevant share certificates are lodged with the Company's Registrars, Tengis Limited at 4th Floor, Hutchison House, 10 Harcourt Road, Hong Kong for registration not later than 4:00 p.m. on 16 September, 2002 in order that they may receive their dividend entitlement.

Herald Holdings Limited
Hong Kong, 16 July, 2002

Contact Person : Mr. Thong Yeung Sum Michael Tel : 2726 5565