



**HERALD HOLDINGS LIMITED**  
(Incorporated in Bermuda with limited liability)

**FINANCIAL RESULTS FOR THE YEAR ENDED 31 MARCH 2003**

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 2003, together with the comparative figures for the previous year, as follows:

**RESULTS**

	<i>Note</i>	<b>2003</b> <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Turnover	(2)	<b>925,954</b>	867,062
Cost of sales		<b>(695,624)</b>	(688,259)
Gross profit		<b>230,330</b>	178,803
Other revenue		<b>5,579</b>	5,288
Other net income		<b>3,390</b>	4,976
Impairment loss on fixed assets		<b>(1,000)</b>	(31,894)
Deficits on revaluation of investment properties		<b>(895)</b>	(5,009)
Selling expenses		<b>(37,132)</b>	(34,793)
Administrative expenses		<b>(157,985)</b>	(144,959)
Profit/(loss) from operations	(2)	<b>42,287</b>	(27,588)
Finance costs		<b>(168)</b>	(660)
Share of profit of a jointly controlled entity		<b>439</b>	343
Profit/(loss) from ordinary activities before taxation	(3)	<b>42,558</b>	(27,905)
Taxation	(4)	<b>(7,868)</b>	(2,635)
Profit/(loss) from ordinary activities after taxation		<b>34,690</b>	(30,540)
Minority interests		<b>(4,128)</b>	(1,876)
Profit/(loss) attributable to shareholders		<b>30,562</b>	(32,416)
Dividends	(5)	<b>18,504</b>	6,226
Earnings/(loss) per share	(6)		
– Basic		<b>4.92 cents</b>	(5.19 cents)

Notes:

## 1. Basis of preparation and accounting policies

These financial statements have been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants (“HKSA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention as modified by the revaluation of investment properties and the marking to market of certain investments in securities.

In the current year, the Group adopted new or revised Hong Kong Statements of Standard Accounting Practice (“SSAPs”) issued by the HKSA which became effective for accounting periods commencing on or after 1 January 2002 and applicable to the Group:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 15 (revised)	:	Cash flow statements
SSAP 34	:	Employee benefits

As a result of the adoption of new accounting policy for employee benefits in compliance with SSAP 34 with effect from 1 April 2002, the net assets as at the year end have been decreased by HK\$925,000 (2002: HK\$925,000) and there has been no impact on the profit or loss for the current and prior years. The new accounting policy has been adopted retrospectively, with the opening balance of retained profits and the comparative information adjusted for the amounts relating to prior periods.

Certain comparative figures have been adjusted as a result of the change in accounting policy for employee benefits. The comparative figures for selling expenses and administrative expenses in the profit and loss account have been adjusted to better reflect the nature of such expenses.

## 2. 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 profit/(loss) for the year by business segment is as follows:

	Turnover		Contribution to profit/ (loss) from operations	
	2003 HK\$’000	2002 HK\$’000	2003 HK\$’000	2002 HK\$’000
<b>Business segments:</b>				
Toy and gift products	481,755	424,084	39,620	9,458
Computer heads	118,418	183,806	(22,914)	1,198
Housewares	166,914	121,921	19,890	3,052
Timepieces	156,326	134,169	(1,951)	(15,679)
Others	2,541	3,082	4,048	(18,247)
	<u>925,954</u>	<u>867,062</u>	<u>38,693</u>	<u>(20,218)</u>
Unallocated operating income and expenses			<u>3,594</u>	<u>(7,370)</u>
Profit /(loss) from operations			<u>42,287</u>	<u>(27,588)</u>

An analysis of the Group's turnover for the year by geographical segment is as follows:

	<b>Turnover</b>	
	<b>2003</b> <i>HK\$'000</i>	2002 <i>HK\$'000</i>
<b>Geographical segments:</b>		
Europe		
United Kingdom	<b>297,819</b>	262,669
Other countries	<b>58,338</b>	66,402
North America	<b>455,917</b>	353,830
Asia		
Hong Kong	<b>64,293</b>	33,323
The PRC	<b>3,702</b>	15,306
Other countries	<b>28,943</b>	116,848
Others	<b>16,942</b>	18,684
	<b><u>925,954</u></b>	<b><u>867,062</u></b>

### 3. Profit/(loss) from ordinary activities before taxation

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

	<b>2003</b> <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Interest on borrowings	<b>168</b>	660
Depreciation	<b>25,268</b>	27,756
(Gain)/loss on disposal of fixed assets	<b>(5,280)</b>	97
Net realised and unrealised losses/(gains) on other securities	<b>858</b>	(688)
Interest income	<b>(1,232)</b>	(1,341)
Rental income	<b>(2,663)</b>	(2,216)
Dividend income from listed investment	<b>(36)</b>	(23)
	<b><u>(36)</u></b>	<b><u>(23)</u></b>

### 4. Taxation

	<b>2003</b> <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Hong Kong profits tax		
– Current year	<b>6,174</b>	3,303
– Overprovision in prior year	<b>(453)</b>	(489)
Overseas taxation	<b>1,362</b>	(36)
Deferred taxation	<b>675</b>	(229)
	<b><u>7,758</u></b>	<b><u>2,549</u></b>
Share of a jointly controlled entity's taxation	<b>110</b>	86
	<b><u>7,868</u></b>	<b><u>2,635</u></b>

The provision for Hong Kong Profits Tax is calculated at 16% (2002: 16%) of the estimated assessable profits for the year ended 31 March 2003. Taxation for overseas subsidiaries is similarly charged at the appropriate current rates of taxation ruling in the relevant countries.

## 5. Dividends

	2003 HK\$'000	2002 HK\$'000
Interim dividend declared and paid – HK1 cent per share (2002: Nil)	6,199	–
Final dividend proposed – HK2 cents per share (2002: HK1 cent per share)	<u>12,305</u>	<u>6,226</u>
	<u><u>18,504</u></u>	<u><u>6,226</u></u>

## 6. Earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the net profit for the year attributable to ordinary shareholders of HK\$30,562,000 (2002: net loss of HK\$32,416,000) and on 620,957,000 (2002: 624,934,000) 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 2003 and 2002.

## 7. Reserves

	Share premium HK\$'000	Contributed surplus HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 April 2001					
– as previously reported	27,699	271,692	(9,161)	119,247	409,477
– opening balance adjustment in respect of long service payments	–	–	–	(3,328)	(3,328)
	<u>27,699</u>	<u>271,692</u>	<u>(9,161)</u>	<u>115,919</u>	<u>406,149</u>
– prior period adjustment in respect of short-term employee benefits	–	–	–	(925)	(925)
	<u>27,699</u>	<u>271,692</u>	<u>(9,161)</u>	<u>114,994</u>	<u>405,224</u>
– As restated	27,699	271,692	(9,161)	114,994	405,224
Exchange difference on consolidation	–	–	(1,444)	–	(1,444)
Premium paid on repurchase of shares	(113)	–	–	–	(113)
Loss for the year	–	–	–	(32,416)	(32,416)
	<u>27,586</u>	<u>271,692</u>	<u>(10,605)</u>	<u>82,578</u>	<u>371,251</u>
At 31 March 2002	<u>27,586</u>	<u>271,692</u>	<u>(10,605)</u>	<u>82,578</u>	<u>371,251</u>
At 1 April 2002					
– as previously reported	27,586	271,692	(10,605)	83,503	372,176
– prior period adjustment in respect of short-term employee benefits	–	–	–	(925)	(925)
	<u>27,586</u>	<u>271,692</u>	<u>(10,605)</u>	<u>82,578</u>	<u>371,251</u>
– As restated	27,586	271,692	(10,605)	82,578	371,251
Dividend approved in respect of the previous year	–	(6,226)	–	–	(6,226)
Exchange difference on consolidation	–	–	3,056	–	3,056
Premium paid on repurchase of shares	(1,015)	–	–	–	(1,015)
Profit for the year	–	–	–	30,562	30,562

Dividend declared in respect of the current year	–	(6,199)	–	–	(6,199)
<b>At 31 March 2003</b>	<b><u>26,571</u></b>	<b><u>259,267</u></b>	<b><u>(7,549)</u></b>	<b><u>113,140</u></b>	<b><u>391,429</u></b>

## REVIEW OF OPERATIONS

The financial year under review was very challenging for the Group. The global economy continued to be hampered by the crisis over Iraq and consumers' sentiments in the group's major markets remained low. The strike on the US West Coast also further adversely affected the export business in Hong Kong at the end of 2002. However, the Group managed to turn around and returned to profitability in 2002. The Group's turnover for the year ended 31 March 2003 amounted to HK\$926 million, representing a 7% increase as compared to the turnover of HK\$867 million in the last financial year. Net profit attributable to shareholders was HK\$30.6 million as compared to a net loss of HK\$32.4 million in the previous financial year. Last year, the net loss included impairment losses and revaluation deficits for the Group's properties amounting to HK\$36.9 million. Before these charges, the Group had a net profit of HK\$4.5 million in the year ended 31 March 2002. The earnings per share for the year was HK4.92 cents as compared to last year's loss per share of HK5.19 cents.

### Toy and Gift Division

Bolstered by the strong sales of Star Wars action figures, the Toy and Gift Division recorded a very strong growth in the first half of the financial year over the same period in 2001. In the second half financial year, the growth leveled off as sales of the Star Wars toys slowed down. The overall toy industry was weak amidst a very weak market sentiment, resulting from the military crisis in Iraq and the prolonged weakness of the global economy. The Division successfully developed some new toy products with some new customers which also contributed to the increase of sales in the fourth quarter in the year under review. Throughout the year, the political uncertainties led to rapid rises in plastic material prices. The Division took early measures to reduce this negative impact of rising costs by purchasing larger quantities of plastic material ahead of production. The Division finished the financial year under review with a 14% increase in sales and a satisfactory result.

To cope with the future expansion, the Toy and Gift Division set up a new factory in Fulong, Dongguan, PRC. The total investment for the factory, which has a total floor area of approximately 120,000 sq. ft., is approximately HK\$15 million.

### Computer Head Division

The Computer Head Division experienced a satisfactory increase in the thin film head business. However, this was not enough to make up for the rapid decline in the ferrite head business due to changing technologies. As a result, the Division recorded a substantial net loss. To reduce its overall reliance on the tape head business, new products have been developed in the fields of fiber optics and biometrics and are currently being introduced to potential customers and markets. The Division is undergoing a restructuring in order to correspond with the current level of business.

### Houseware Division

For the year under review, the Houseware Division performed well. The overall sales of the Division increased by 37% over the last financial year. Sales of aluminium cookware and stainless steel cookware grew by 26% and 80% respectively. Following the success of the stainless steel cookware, the Division developed a wider range of cookware products for its customers. These new products include carbon steel cookware, copper bottom stainless steel cookware and tri-ply stainless steel cookware. These new products have been well received by the customers.

## **Timepiece Division**

We are pleased to report that the Timepiece Division returned to profitability in the second half financial year and recovered partially the losses suffered in the first half of the financial year. The improvement was partly due to the strength of sterling which helped to improve the gross profit margin. Following the closure of the operation in France in March 2002, the Division's operation in Germany also ceased business in January 2003. These operations were loss making and had been cash drains for the Division in previous years. After their closures, the Division can now focus more on the UK market. Substantial sales were achieved through customers who focus on television and internet marketing.

## **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 2003, the Group had total assets of HK\$566 million (2002: HK\$557 million) which were financed by current liabilities of HK\$94 million (2002 as restated: HK\$113 million), non-current liabilities of HK\$6 million (2002: HK\$6 million), minority interests of HK\$26 million (2002: HK\$18 million) and shareholders' equity of HK\$440 million (2002 as restated: HK\$420 million).

At 31 March 2003, the Group's cash balances aggregated to HK\$160 million representing an increase of HK\$29 million over the balance of HK\$131 million in last year's balance sheet. The increase in the Group's cash balances was largely due to the positive cash inflows from operation after non-cash items such as depreciation charges. The Group's current assets position as at 31 March 2003 was HK\$373 million which was similar to the level at the last year-end. The trade and other receivables decreased to HK\$95 million from HK\$121 million as at 31 March 2002 partly due to an overall reduction of sales volume of the Computer Head Division and partly due to less shipments of the Toy and Gift Division in March 2003.

The Group's current liabilities decreased from HK\$113 million to HK\$94 million primarily due to decrease in trade and other payables that is attributed to the same factors affecting the level of trade and other receivables above-mentioned.

As in the previous year, the Group's borrowings were maintained at a low level of HK\$1 million (2002: HK\$3 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 0.002 (2002: 0.008). As at 31 March 2003, the working capital ratio, an indicator of a company's liquidity represented by a ratio between the current assets over the current liabilities, was 3.96 compared to 3.22 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, increases to 2.45 from 2.08.

## **CONTINGENT LIABILITIES**

As at 31 March 2003 the Group did not have any significant contingent liabilities.

## **FOREIGN EXCHANGE EXPOSURE**

During the year under review, approximately 28% of the Group's turnover is denominated in sterling and euro. From time to time, the Group enters forward foreign exchange contracts to hedge its foreign exchange exposure.

## **PROSPECTS AND GENERAL OUTLOOK**

In the middle of March 2003, SARS broke out in Hong Kong. Soon, the deadly disease spread to Beijing and other northern provinces in China. Hong Kong and Guangdong, where the Group's factories are located, were declared SARS affected areas by the World Health Organization. Though SARS has not directly caused any damage to us, toy production plans were adversely affected as local authorities

banned any new recruitment of workers. While the disease was gradually brought under control by late May in both Hong Kong and China, the Toy and Gift Division may have some late shipments in the following months.

On the positive side, we are delighted that the war in Iraq was over by the middle of April 2003. This has cleared away a major uncertainty, which affected both the economy of the USA and the world.

On the whole, we are optimistic about the Group's performance in 2003. Both the Toy and Gift Division and the Houseware Division will continue to perform well in the new fiscal year. Zeon, the Timepiece Division's operation in the UK, started the new fiscal year with stable sales and a positive outlook. Furthermore, without the financial burdens of its subsidiaries in France and Germany, Zeon's profits from the operation in the UK will fully be reflected in the Group's results.

On the other hand, the Computer Head Division may still face very difficult market conditions. However, with reduced overheads, it can now break-even at lower turnover levels.

## **DIVIDENDS**

Last year, the Company paid a final dividend of HK1 cent per share and did not pay any interim dividend. This year, the Company resumed the payment of an interim dividend of HK1 cent per share. At the forthcoming Annual General Meeting to be held on 18 September 2003, the Directors will recommend a final dividend of HK2 cents per share. Together with the interim dividend, the dividend for the year of HK3 cents would represent an annual return of 15% on the Company's average share price of HK20 cents in the year ended 31 March 2003.

The total final dividend will amount to HK\$12,305,000 and is calculated based on the total number of shares in issue as at 14 July 2003 being the latest practicable date prior to the announcement of the results. Dividend will be payable on 26 September 2003 to shareholders registered in the Register of Members on 18 September 2003.

## **REGISTER OF MEMBERS**

The Register of Members will be closed on 17 and 18 September 2003. Shareholders should ensure that all transfers accompanied by relevant share certificates are lodged with the Company's Registrars, Tengis Limited at G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration not later than 4:00 p.m. on 16 September 2003 in order that they may receive their dividend entitlement.

## **NOTICE OF ANNUAL GENERAL MEETING**

The notice convening the Annual General Meeting of shareholders together with the 2003 Annual Report will be despatched to shareholders of the Company shortly.

## **EMPLOYEES**

At 31 March 2003, the number of employees of the Group was 195 in Hong Kong, 3,232 in the People's Republic of China and 92 in Europe. The Group ensures that its employee's remuneration packages are competitive. Employees are rewarded based on their performance and experience and the prevailing industry practice.

## **PURCHASE, SALES OR REDEMPTION OF SHARES IN THE COMPANY**

During the year, the Company repurchased a total of 7,340,000 of its shares on The Stock Exchange of Hong Kong Limited ("Stock Exchange"), 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	Price per share		Aggregate Price
		Highest HK\$	Lowest HK\$	HK\$
April 2002	80,000	0.190	0.190	16,000
May 2002	565,000	0.225	0.220	127,000
June 2002	765,000	0.215	0.210	165,000
July 2002	360,000	0.190	0.190	69,000
August 2002	800,000	0.166	0.163	133,000
September 2002	880,000	0.172	0.170	151,000
October 2002	270,000	0.158	0.157	43,000
November 2002	400,000	0.158	0.158	63,000
December 2002	300,000	0.210	0.210	63,000
January 2003	490,000	0.205	0.200	99,000
February 2003	610,000	0.280	0.243	152,000
March 2003	1,820,000	0.290	0.260	507,000
	<u>7,340,000</u>			<u>1,588,000</u>

## AUDIT COMMITTEE

The audit committee comprises two independent non-executive directors and reports to the board of directors. The audit committee meets with the Group's senior management and external auditors regularly to review the effectiveness of the internal control systems and the interim and annual reports of the Group.

## COMPLIANCE WITH THE CODE OF BEST PRACTICE

The Company has complied throughout the year with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

## PUBLICATION OF DETAILED ANNUAL RESULTS ON THE STOCK EXCHANGE'S WEBSITE

All the information of the annual results of the Group for the year ended 31 March 2003 required by paragraphs 45(1) to 45(3) of Appendix 16 of the Listing Rules will be published on the Stock Exchange's website in due course.

By Order of the Board  
**George Bloch**  
*Chairman*

Hong Kong, 15 July 2003

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## NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of Shareholders of the Company will be held at the Chater Room II, Function Room Level (B1), The Ritz-Carlton Hotel Hong Kong, 3 Connaught Road Central, Hong Kong on Thursday, 18 September 2003 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 2003.
2. To re-elect Directors.



3. To appoint Auditors and to authorize the Board of Directors to fix their remuneration.
4. To declare a final dividend

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

Hong Kong, 15 July 2003

*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 3110, 31/F., Tower Two, Lippo Centre, 89 Queensway, 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.