



HERALD HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

Financial Results for the year ended 31 March, 2002

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>

Notes :

1. Basis of preparation and accounting policies

These financial statements have been prepared in accordance with all applicable Statements of Standard Accounting Practices and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. 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.

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 (loss)/profit for the year by business segment and geographical segment is as follows:

	Turnover		Contribution to (loss)/ profit from operations	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	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	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	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>

3. (Loss)/profit from ordinary activities before taxation

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

	2002 HK\$'000	2001 HK\$'000
Interest on borrowings	660	1,315
Depreciation	27,756	27,298
Net loss on disposal of fixed assets	97	141
Net realised and unrealised (gains)/losses on other securities	(688)	886
Interest income	(1,341)	(3,945)
Rental income	(2,216)	(2,329)
Dividend income	(23)	(56)

4. Taxation

	2002 HK\$'000	2001 HK\$'000
Hong Kong profits tax		
- Current year	3,303	2,171
- Overprovision in prior year	(489)	(1,556)
Overseas taxation	(36)	1,072
Deferred taxation	(229)	430
	<u>2,549</u>	<u>2,117</u>
Share of a jointly controlled entity's taxation	86	140
Taxation charge	<u>2,635</u>	<u>2,257</u>

The provision for Hong Kong Profits Tax is calculated at 16% (2001: 16%) of the estimated assessable profits for the year ended 31 March, 2002. Taxation for overseas subsidiaries is similarly charged at the appropriate current rates of taxation ruling in the relevant countries.

5. Dividends

	2002 HK\$'000	2001 HK\$'000
Interim dividend paid - Nil (2001 : HK1 cent per share)	-	6,252
Final dividend proposed – HK1 cent per share (2001 : Nil)	6,226	-
	<u>6,226</u>	<u>6,252</u>

6. (Loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the net loss for the year attributable to ordinary shareholders of HK\$32,416,000 (2001: net profit of HK\$8,673,000) and on 624,934,000 (2001: 625,826,000) 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, 2002 and 2001.

7. Reserves

	Share premium	Capital reserve	Contributed surplus	Exchange fluctuation reserve	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April, 2000						
- as previously reported	31,958	5,885	87,205	(5,636)	295,428	414,840
- prior period adjustments in respect of :						
- dividend proposed	-	-	18,756	-	-	18,756
- goodwill	-	(5,885)	190,739	-	(184,854)	-
- as restated	31,958	-	296,700	(5,636)	110,574	433,596
Dividend approved in respect of the previous year	-	-	(18,756)	-	-	(18,756)
Exchange difference on consolidation	-	-	-	(3,525)	-	(3,525)
Premium paid on repurchase of shares	(4,259)	-	-	-	-	(4,259)
Profit for the year	-	-	-	-	8,673	8,673
Dividend declared in respect of the current year	-	-	(6,252)	-	-	(6,252)
At 31 March, 2001	27,699	-	271,692	(9,161)	119,247	409,477
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)
- as restated	27,699	-	271,692	(9,161)	115,919	406,149
Exchange difference on consolidation	-	-	-	(1,444)	-	(1,444)
Premium paid on repurchase of shares	(113)	-	-	-	-	(113)
Loss for the year	-	-	-	-	(32,416)	(32,416)
At 31 March, 2002	27,586	-	271,692	(10,605)	83,503	372,176

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.

CONTINGENT LIABILITIES

As at 31 March, 2002, 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

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.

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.

NOTICE OF ANNUAL GENERAL MEETING

The notice convening the Annual General Meeting of shareholders together with the 2002 Annual Report will be despatched to shareholders of the Company shortly.

EMPLOYEES

At 31 March, 2002, the number of employees of the Group was approximately 190 in Hong Kong, 4,080 in the People's Republic of China and 110 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 1,190,000 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	Price per share		Aggregate Price HK\$
		Highest HK\$	Lowest HK\$	
December, 2001	400,000	0.174	0.174	70,000
January, 2002	690,000	0.172	0.170	119,000
February, 2002	<u>100,000</u>	0.172	0.172	<u>17,000</u>
	<u>1,190,000</u>			<u>206,000</u>

AUDIT COMMITTEE

The audit committee comprises two independent non-executive directors and reports to the board of directors. The audit committee meets with 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, 2002 required by paragraph 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, 16 July, 2002

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 Wednesday, 18 September, 2002 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, 2002.
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, 16 July, 2002

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.