



HERALD HOLDINGS LIMITED

興利集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code : 00114)

Financial Results for the year ended 31 March 2005

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 2005, together with the comparative figures for the previous year, as follows:

RESULTS

| | <i>Notes</i> | 2005 HK\$'000 | 2004 HK\$'000 |
|--|--------------|--------------------------------|------------------|
| Turnover | (2) | 1,442,998 | 1,103,819 |
| Cost of sales | | (1,080,829) | (825,018) |
| Gross profit | | 362,169 | 278,801 |
| Other revenue | | 5,849 | 4,661 |
| Other net income | | 2,565 | 4,786 |
| Selling expenses | | (59,968) | (47,266) |
| Administrative expenses | | (195,521) | (164,744) |
| Surplus on revaluation of investment properties | | 1,172 | 517 |
| Impairment loss on fixed assets | | – | (1,853) |
| Provision for diminution in value of investment securities | | (520) | – |
| Profit from operations | (2) | 115,746 | 74,902 |
| Finance costs | | (275) | (151) |
| Share of profit of jointly controlled entity | | 279 | 835 |
| Profit from ordinary activities before taxation | (3) | 115,750 | 75,586 |
| Income tax | (4) | (16,578) | (11,817) |
| Profit from ordinary activities after taxation | | 99,172 | 63,769 |
| Minority interests | | (3,055) | (1,829) |
| Profit attributable to shareholders | | 96,117 | 61,940 |
| Dividends | (5) | 39,906 | 27,646 |
| Earnings per share | (6) | | |
| – Basic | | 15.66 cents | 10.07 cents |

Notes:

1. Recently issued accounting standards

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“new HKFRSs”) which are effective for accounting periods beginning on or after 1 January 2005.

The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 March 2005. The Group has carried out an assessment of the impact of these new HKFRSs and concluded that the adoption of these new HKFRSs would not have a significant impact on its results of operations and financial position.

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 for the year by business segment is as follows:

| | Turnover | | Contribution to profit from operations | |
|---|-------------------------|-------------------------|---|----------------------|
| | 2005 | 2004 | 2005 | 2004 |
| | HK\$’000 | HK\$’000 | HK\$’000 | HK\$’000 |
| Business segments: | | | | |
| Toy and gift products | 645,162 | 497,565 | 27,703 | 10,184 |
| Computer heads | 154,908 | 141,459 | 16,304 | 13,536 |
| Housewares | 242,185 | 179,094 | 12,409 | 14,524 |
| Timepieces | 370,219 | 284,219 | 50,434 | 28,472 |
| Others | 30,524 | 1,482 | 8,903 | 4,083 |
| | <u>1,442,998</u> | <u>1,103,819</u> | <u>115,753</u> | <u>70,799</u> |
| Unallocated operating income and expenses | | | (7) | 4,103 |
| Profit from operations | | | <u>115,746</u> | <u>74,902</u> |

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

| | Turnover | |
|-------------------------------|-------------------------|-------------------------|
| | 2005 | 2004 |
| | HK\$’000 | HK\$’000 |
| Geographical segments: | | |
| Europe | | |
| United Kingdom | 684,032 | 473,741 |
| Other countries | 101,744 | 68,481 |
| North America | 524,834 | 486,847 |
| Asia | | |
| Hong Kong | 77,432 | 38,013 |
| The PRC | 9,402 | 8,846 |
| Other countries | 29,339 | 16,479 |
| Others | 16,215 | 11,412 |
| | <u>1,442,998</u> | <u>1,103,819</u> |

3. Profit from ordinary activities before taxation

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

| | 2005 HK\$'000 | 2004 HK\$'000 |
|--|------------------|------------------|
| Interest on borrowings | 275 | 151 |
| Depreciation | 27,441 | 26,581 |
| Loss on disposal of fixed assets | 247 | 33 |
| Net realised and unrealised losses/(gains) on other securities | 121 | (2,488) |
| Interest income | (1,686) | (956) |
| Rental income | (3,021) | (2,718) |
| Dividend income from listed investment | (49) | (31) |

4. Income tax

| | 2005 HK\$'000 | 2004 HK\$'000 |
|---|------------------|------------------|
| Hong Kong Profits Tax | 10,664 | 450 |
| Overseas taxation | 8,947 | 6,971 |
| Deferred taxation | (3,131) | 4,261 |
| | 16,480 | 11,682 |
| Share of jointly controlled entity's taxation | 98 | 135 |
| | 16,578 | 11,817 |

Provision for Hong Kong Profits Tax is calculated at 17.5% (2004: 17.5%) of the estimated assessable profits for the year. Taxation for subsidiaries outside Hong Kong is charged at the appropriate current rates of taxation ruling in the relevant countries.

5. Dividends

| | 2005 HK\$'000 | 2004 HK\$'000 |
|---|------------------|------------------|
| Interim dividend declared and paid – HK2 cents per share (2004: HK1.5 cents per share) | 12,279 | 9,228 |
| Final dividend proposed after the balance sheet date – HK4.5 cents per share (2004: HK3 cents per share) | 27,627 | 18,418 |
| | 39,906 | 27,646 |

6. Earnings per share

The calculation of basic earnings per share is based on the net profit for the year attributable to shareholders of HK\$96,117,000 (2004: HK\$61,940,000) and on 613,926,000 (2004: 615,045,000) shares, being the weighted average number of shares in issue during the year.

There were no dilutive potential shares in existence during the years ended 31 March 2005 and 2004, therefore diluted earnings per share is not presented.

7. Reserves

| | Share premium HK\$'000 | Contributed surplus HK\$'000 | Exchange fluctuation reserve HK\$'000 | PRC statutory reserves HK\$'000 | Retained profits HK\$'000 | Total HK\$'000 |
|---|------------------------------|------------------------------------|--|--|---------------------------------|-----------------------|
| At 1 April 2003 | 26,571 | 259,267 | (7,549) | – | 120,931 | 399,220 |
| Dividend approved in respect of the previous year | – | (12,305) | – | – | – | (12,305) |
| Exchange difference on translation of financial statements of subsidiaries outside Hong Kong | – | – | 6,812 | – | – | 6,812 |
| Premium paid on repurchase of shares | (851) | – | – | – | – | (851) |
| Profit for the year | – | – | – | – | 61,940 | 61,940 |
| Dividend declared in respect of the current year | – | (9,228) | – | – | – | (9,228) |
| At 31 March 2004 | <u>25,720</u> | <u>237,734</u> | <u>(737)</u> | <u>–</u> | <u>182,871</u> | <u>445,588</u> |
| At 1 April 2004 | 25,720 | 237,734 | (737) | – | 182,871 | 445,588 |
| Dividend approved in respect of the previous year | – | (18,418) | – | – | – | (18,418) |
| Transfer between reserves | – | – | – | 5,280 | (5,280) | – |
| Exchange difference on translation of financial statements of subsidiaries outside Hong Kong | – | – | 2,044 | – | – | 2,044 |
| Profit for the year | – | – | – | – | 96,117 | 96,117 |
| Dividend declared in respect of the current year | – | (12,279) | – | – | – | (12,279) |
| At 31 March 2005 | <u>25,720</u> | <u>207,037</u> | <u>1,307</u> | <u>5,280</u> | <u>273,708</u> | <u>513,052</u> |

REVIEW OF OPERATIONS

The Group achieved favourable results in the financial year under review. The turnover of the Group for the year ended 31 March 2005 was HK\$1,443 million which was 30.7% above the turnover of HK\$1,104 million in the previous year. This was a record annual turnover since the Group's listing on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in 1988. The net profit of the Group also grew impressively by 55.3% to HK\$96.1 million from HK\$61.9 million in the prior year.

Timepiece Division

Consecutively for the second year, the Timepiece Division recorded substantial growth in both turnover and profitability. During the year under review and particularly in the first half of the year, the division developed a wide range of very successful product lines in timepieces with a TV and internet retail group in the UK. This, together with the success of brands such as Playboy, Elle and Ted Baker to other customers, resulted in the division being the largest contributor to the Group's profits. For the year ended 31 March 2005, the total turnover of the division increased by HK\$86 million or 30% to HK\$370 million from HK\$284 million in the previous year and its profit from operations increased by HK\$21.9 million or 76.8% from HK\$28.5 million to HK\$50.4 million.

Toy and Gift Division

In general, toy manufacturers suffered the negative impact of high plastic raw materials, and a shortage of labour and electricity in their factories in China. We are pleased that our Toy and Gift Division successfully overcame these problems and managed to achieve a better result as compared to last year. The business of the division was less satisfactory in the first half of the year but clearly improved in the second half. The turnover in the second half was particularly bolstered by the sales of products related to a very popular movie, “Star Wars Episode III: Revenge of the Sith”. As a result, the division’s factories in Dongguan were fully engaged in the last quarter of the financial year which customarily is a slow season for the toy industry. The division had a profit from operations of HK\$27.7 million as compared to HK\$10.2 million in the prior year.

Computer Head Division

The business of the Computer Head Division progresses well. During the year under review, thin-film computer tape heads remained the principal product of the division. These heads which included Linear Tape-Open (“LTO”) heads are used in LTO tape drives and libraries. In August 2004, the division started shipping computer heads for LTO Generation 3 tape drives. With an uncompressed capacity of 400 gigabytes, these drives are the most advanced products in the market for computer data storage. The division also had very strong growth in the ferrite head business. Zhuhai Herald Datanetics Ltd., the division’s joint-venture in Zhuhai, PRC which produces the ferrite heads thus had better result than last year. Other than computer tape heads, the division also manufactures and sells card heads, fiber optic components, miniature magnets and ferrite components. The division had a profit from operations of HK\$16.3 million, compared to last year’s profit from operations of HK\$13.5 million.

Houseware Division

For the year ended 31 March 2005, the turnover of the Houseware Division grew by 35.2% as compared to last year, primarily due to the increase of sales to a major retailer in the USA. Compared to last financial year, the division had respectively 19% and 69% growth in the sales of aluminium cookware and stainless steel cookware. Due to the strong growth of the stainless steel business, the percentage of its sales to the division’s total sales increased respectively from 25% to 33% and from 33% to 40% in the last two years. Notwithstanding the strong increase of sales, the division’s profit from operations decreased by 14.5% to HK\$12.4 million. This is partly due to the increase of prices of aluminium and stainless steel and partly due to losses arising from a product claim in March 2005.

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 2005, the Group had total assets of HK\$759 million (2004: HK\$648 million) which were financed by current liabilities of HK\$166 million (2004: HK\$121 million), non-current liabilities of HK\$4 million (2004: HK\$6 million), minority interests of HK\$28 million (2004: HK\$28 million) and shareholders’ equity of HK\$561 million (2004: HK\$493 million).

At 31 March 2005, the Group’s cash balances aggregated to HK\$223 million representing an increase of HK\$51 million over the HK\$172 million in last year’s balance sheet. The Group’s current assets position as at 31 March 2005 was HK\$567 million compared to HK\$454 million as at 31 March 2004. The inventories increased to HK\$168 million from HK\$143 million and the trade and other receivables increased to HK\$174 million from HK\$139 million. The increases were in line with the growth of the Group’s sales activities.

The Group's current liabilities increased from HK\$121 million to HK\$166 million primarily due to increase in trade and other payables.

Like last year, the Group had no bank borrowings at 31 March 2005. None of the Group's assets are charged to secure the Group's banking facilities. Furthermore, the Group has no long-term borrowings. As at 31 March 2005, the working capital ratio, an indicator of a company's liquidity represented by a ratio between the current assets over the current liabilities, was 3.41 compared to 3.75 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, slightly decreases to 2.21 from 2.23.

CONTINGENT LIABILITIES

As at 31 March 2005 the Group did not have any significant contingent liabilities.

FOREIGN EXCHANGE EXPOSURE

During the year under review, approximately 39% of the Group's turnover was denominated in sterling. From time to time, the Group enters forward foreign exchange contracts to hedge its foreign exchange exposure.

PROSPECTS AND GENERAL OUTLOOK

The Group recorded growth of sales in the first quarter of the fiscal year 2006 compared to the sales in the same period last year. The overall sales order position at the end of June 2005 was stronger compared to the position at the same time in the previous year. The business of the Toy and Gift Division continues to be strong while the businesses of the computer heads and houseware remain quite stable. However, the management has concerns over the business of the Timepiece Division. There are signs showing that the retail trading conditions in the UK have become very tough. UK retailers in general have a very cautious view on the business outlook for 2005. Several well-known retailers, including Littlewood's Index stores and Alders, have either cut down the number of their stores or ceased operations. Some of these retailers were important customers of the division. The management feels that there are economic uncertainties which could affect the Group's results. Due to increasing trade deficits, the United States and the EU countries have continuously been putting pressure on China to revalue its currency. If the renminbi appreciates, the Group will have to bear higher production costs as all our production facilities are located in China. Furthermore, the sterling has been very strong in 2004. At the end of June 2005, the sterling against the US dollar had fallen by approximately 6.4% against the level at the end of 2004. As the UK is the major market for the Group's timepiece products and cookware products, our margins will be negatively impacted in a weak sterling environment. Despite the above-mentioned adverse economic factors, the management remains optimistic about the business developments and the financial performance of the Group in the coming year.

DIVIDENDS

At the forthcoming Annual General Meeting to be held on 16 September 2005, the Directors will recommend a final dividend of HK4.5 cents per share (2004: HK3 cents). Together with the interim dividend of HK2 cents (2004: HK1.5 cents), the dividend for the year of HK6.5 cents (2004: HK4.5 cents) would represent an annual return of 11% on the Company's average share price of HK61 cents in the year ended 31 March 2005.

The total final dividend will amount to HK\$27,627,000 and is calculated based on the total number of shares in issue as at 14 July 2005 being the latest practicable date prior to the announcement of the results. Dividend will be payable on 30 September 2005 to shareholders registered in the Register of Members on 16 September 2005.

REGISTER OF MEMBERS

The Register of Members will be closed on 15 and 16 September 2005. 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 14 September 2005 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 2005 Annual Report will be despatched to shareholders of the Company shortly.

EMPLOYEES

At 31 March 2005, the number of employees of the Group was approximately 204 in Hong Kong, 7,376 in the People's Republic of China and 117 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. Total staff costs for the year amounted to HK\$230,393,000 (2004: HK\$177,361,000).

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the financial year.

AUDIT COMMITTEE AND INDEPENDENT NON-EXECUTIVE DIRECTORS

The audit committee reports to the Board of Directors. It 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.

Mr. Denis Campbell Bray, an independent non-executive director and audit committee member of the Company, passed away on 8 July 2005. Currently, the Company has only two independent non-executive directors and two audit committee members, which fall short of the requirements under Rule 3.10 and Rule 3.21 respectively of the Rules Governing the Listing of Securities on the Stock Exchange (the "Main Board Listing Rules"). The Directors expect that the appointment of the new independent non-executive director and audit committee member will be finalised in two to three months.

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 Main Board Listing Rules, except that the independent non-executive directors of the Company are not appointed for a specific term but are subject to retirement by rotation and re-election at the Annual General Meeting of the Company in accordance with the Company's Bye-laws.

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 2005 required by paragraphs 45(1) to 45(3) of Appendix 16 of the Main Board Listing Rules in force prior to 31 March 2004, which remain applicable to results announcement in respect of accounting period commencing before 1 July 2004 under the transitional arrangements, will be published on the Stock Exchange's website in due course.

By Order of the Board
George Bloch
Chairman

Hong Kong, 15 July 2005

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 I, Function Room Level (B1), The Ritz-Carlton Hotel Hong Kong, 3 Connaught Road Central, Hong Kong on Friday, 16 September 2005 at 3:45 p.m. for the following purposes:

1. To adopt the Audited Financial Statements and the Reports of the Directors and Auditors for the year ended 31 March 2005.
2. To re-elect Directors.
3. To appoint Auditors and to authorise 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 2005

Notes:

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and 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 a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority, not less than 48 hours before the time for holding of the meeting or any adjournment thereof.

As at the date hereof, the Board of Directors of the Company comprises Mr. George Bloch, Dr. Cheung Tsang-Kay, Stan PhD, Hon LLD, Hon DBA, JP, Mr. Chang Dong-Song, Mr. Robert Dorfman and Mr. Thong Yeung-Sum, Michael FCCA, CPA as executive directors and Mr. Tang King-Hung ACA, FCCA, ACIS, CPA and Mr. David Tai-Chong Lie-A-Cheong as independent non-executive directors.

* *For identification only*