



# 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

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

### RESULTS

	Note	2005 HK\$'000	2004 HK\$'000
Turnover	(2)	1,442,998	1,103,819
Cost of sales		<u>(1,080,829)</u>	<u>(825,018)</u>
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		<u>(520)</u>	<u>-</u>
Profit from operations	(2)	115,746	74,902
Finance costs		(275)	(151)
Share of profit of jointly controlled entity		<u>279</u>	<u>835</u>
Profit from ordinary activities before taxation	(3)	115,750	75,586
Income tax	(4)	<u>(16,578)</u>	<u>(11,817)</u>
Profit from ordinary activities after taxation		99,172	63,769
Minority interests		<u>(3,055)</u>	<u>(1,829)</u>
Profit attributable to shareholders		<u>96,117</u>	<u>61,940</u>
Dividends	(5)	<u>39,906</u>	<u>27,646</u>
Earnings per share	(6)		
- Basic		<u>15.66 cents</u>	<u>10.07 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 profit for the year by business segment is as follows:

	Turnover		Contribution to profit from operations	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
<b>Business segments:</b>				
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 HK\$'000	2004 HK\$'000
<b>Geographical segments:</b>		
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>

## 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.

Herald Holdings Limited  
Hong Kong, 15 July 2005

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