



HERALD HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2001

The Board of Directors of Herald Holdings Limited (the "Company") presents the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2001 as follows:

CONSOLIDATED PROFIT AND LOSS ACCOUNT – UNAUDITED

For the six months ended 30 September 2001

| | Note | Six months ended 30 September | |
|---|------|----------------------------------|----------------------|
| | | 2001 HK\$'000 | 2000 HK\$'000 |
| Turnover | | | |
| Cost of sales | 1 | 449,178 (366,465) | 498,887 (384,002) |
| Gross profit | | 82,713 | 114,885 |
| Other revenue | | 3,620 | 4,166 |
| Other net income/(losses) | | 3,546 | (3,685) |
| Selling expenses | | (16,895) | (20,218) |
| Administrative expenses | | (73,998) | (81,775) |
| (Loss)/profit from operations | 1 | (1,014) | 13,373 |
| Finance cost | | (262) | (828) |
| Share of profit of a jointly controlled entity | | 159 | 335 |
| (Loss)/profit from ordinary activities before taxation | 2 | (1,117) | 12,880 |
| Taxation | 3 | (2,167) | (3,822) |
| (Loss)/profit from ordinary activities after taxation | | (3,284) | 9,058 |
| Minority interests | | (653) | (1,003) |
| (Loss)/profit attributable to shareholders | | (3,937) | 8,055 |
| Interim dividends | | - | 6,252 |
| Interim dividends per share | | - | 1 cent |
| (Loss)/earnings per share | 4 | | |
| - basic | | (0.63 cents) | 1.29 cents |

Note:

1. Segment information

The Group is principally engaged in the manufacture and sale 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 period by business segments and geographical segments is as follows:

| | Turnover Six months ended 30 September | | Contribution to (loss)/ profit from operations Six months ended 30 September | |
|---------------------------|--|------------------|---|------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 | 2001 HK\$'000 | 2000 HK\$'000 |
| Business segments: | | | | |
| Toy and gift products | 219,122 | 229,487 | 10,885 | 13,622 |
| Computer heads | 102,199 | 80,035 | (2,189) | (2,787) |
| Housewares | 53,377 | 68,997 | (1,811) | 3,761 |
| Timepieces | 71,930 | 113,980 | (9,662) | 2,278 |
| Others | 2,550 | 6,388 | 2,327 | 1,627 |
| | <u>449,178</u> | <u>498,887</u> | <u>(450)</u> | <u>18,501</u> |
| Unallocated costs | | | (564) | (5,128) |
| | | | <u>(1,014)</u> | <u>13,373</u> |

Unallocated costs

| | Turnover Six months ended 30 September | | Contribution to (loss)/ profit from operations Six months ended 30 September | |
|-------------------------------|--|------------------|---|------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 | 2001 HK\$'000 | 2000 HK\$'000 |
| Geographical segments: | | | | |
| Europe | | | | |
| United Kingdom | 114,940 | 133,964 | (7,517) | 4,968 |
| Other countries | 38,323 | 80,116 | (2,352) | 2,098 |
| North America | 196,210 | 230,613 | 9,114 | 7,187 |
| Asia | 86,509 | 32,813 | (647) | 3,425 |
| Others | 13,196 | 21,381 | 952 | 823 |
| | <u>449,178</u> | <u>498,887</u> | <u>(450)</u> | <u>18,501</u> |
| Unallocated costs | | | (564) | (5,128) |
| | | | <u>(1,014)</u> | <u>13,373</u> |

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

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

| | Six months ended 30 September | |
|--|----------------------------------|------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 |
| Interest on borrowings | 262 | 828 |
| Depreciation | 13,263 | 13,845 |
| Net loss on sale of fixed assets | - | 650 |
| Net unrealised and realised (losses)/gains on other securities | (257) | 605 |

3. Taxation

| | Six months ended 30 September | |
|---|----------------------------------|------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 |
| Hong Kong taxation | 2,312 | 2,749 |
| Overseas taxation | (64) | 924 |
| Deferred taxation | (117) | 57 |
| Share of a jointly controlled entity's taxation | 36 | 92 |
| | <u>2,167</u> | <u>3,822</u> |

The provision for Hong Kong profits tax is calculated at 16% (2000: 16%) of the estimated assessable profits for the six months ended 30 September 2001. Taxation for overseas subsidiaries is similarly charged at the appropriate current rates of taxation ruling in the relevant countries.

4. (Loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the net loss attributable to shareholders of HK\$3,937,000 (2000: net profit of HK\$8,055,000) and on 625,201,000 (2000: 626,447,000) ordinary shares, being the weighted average number of ordinary shares outstanding during the period.

There were no dilutive potential ordinary shares in existence during the periods ended 30 September 2001 and 2000.

5. Contingent liabilities

As at 30 September 2001 and 31 March 2001, the Group did not have significant contingent liabilities.

BUSINESS REVIEW

The Group's turnover for the six months to 30 September 2001 amounted to HK\$449,178,000, representing a drop of 10% as compared with the corresponding period in the previous year. The loss attributable to shareholders for the same period was HK\$3,937,000 as compared to a profit of HK\$8,055,000 in the half year a year earlier.

During the period under review, the Group's gross profit declined by HK\$32.2 million from HK\$114.9 million to HK\$82.7 million. The drop of the gross profit was primarily due to the loss of sales and price competition. The profit margin, expressed as a percentage of sales, decreased by 4.6% from 23% to 18.4%.

The turnover of the Toy and Gift Division for the six months ended 30 September 2001 had a year-on-year decrease of 4.5%. Despite severe price pressure from customers, the division remained profitable in the first six-month period. Throughout the first half of the year, the production efficiency of the toy business had the benefits of stable supply of raw material and electronic components which were in short supply in 2000. Furthermore, due to the worldwide weak economic environment, most raw material prices have been quite stable in 2001.

For the first half, the Computer Head Division had a net loss of HK\$2 million. Although sales were strong in April 2001, the demand for our products, particularly the half inch ferrite tape heads declined drastically as a result of lower information technology spending amidst a very rapid and obvious slowdown of the world economy. To cope with the deterioration of market conditions, the division took immediate steps to further streamline its manufacturing operations, resulting in a reduction of the total work force from 1,700 at the beginning of the fiscal year to approximately 1,000 at 30 September 2001.

Both the Houseware Division and the Timepiece Division experienced lower turnover in the six months under review. The economy of the U.K., the major market for both divisions remained soft. In addition, the weakness of sterling affected their products' profit margins. Following the success of the stainless steel products which were introduced in 2000, the Houseware Division further broadened its product range by the addition of aluminium cookware products sourced from European manufacturers. These new product categories received good response from our customers.

FINANCIAL POSITION

As in the past, the Group continued to sustain a good liquidity position without any long term debt funding. At 30 September 2001, the Group had a net cash surplus of HK\$81.9 million which was slightly lower than HK\$89.4 million at 31 March 2001. In comparing the levels at 30 September 2001 and the same day last year, the net cash surplus increased by HK\$33 million from HK\$48.9 million. As at 30 September 2001, the working capital ratio, an indicator of a company's liquidity represented by the ratio between current assets over current liabilities, was 3.03 compared to 3.14 at 31 March 2001. The quick ratio, another ratio that gauges the financial strength of a company measured by trade debtors and cash at bank and in hand over current liabilities improved from 1.52 to 1.73 between the two same comparable dates.

PROSPECTS AND GENERAL OUTLOOK

The management anticipates that the adverse market conditions will continue into the second half of the current fiscal year. The terrorist attacks on the USA in September and the war in Afghanistan have further weakened consumers' sentiment in our principal markets. Having a strong balance sheet, the management remains confident that the Group is well able to weather the difficult market conditions until the global economy returns to normal.

DIVIDENDS

The Directors do not recommend the payment of an interim dividend for the six months ended 30 September 2001.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 September 2001.

EMPLOYEES

At 30 September 2001, the number of employees of the Group was approximately 200 in Hong Kong, 3,600 in the People's Republic of China and 120 in Europe. The Group ensures that its employees' remuneration packages are competitive. Employees are rewarded based on their performance, experience and prevailing industry practice.

CODE OF BEST PRACTICE

None of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30 September 2001, in compliance 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"). In compliance with the Code of Best Practice, the Company has established an Audit Committee with written terms of reference.

PUBLICATION OF INTERIM RESULTS ON THE STOCK EXCHANGE'S WEBSITE

The 2001/2002 interim report containing all information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Listing Rules will be published on the website of The Stock Exchange of Hong Kong Limited (<http://www.hkex.com.hk>) in due course.

By Order of the Board
George Bloch
Chairman

Hong Kong, 18 December 2001

This and other information about Herald Holdings Limited can be accessed via www.irasia.com/listco/hk/herald and www.heraldgroup.com.hk