

HERALD HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2001

PRESS RELEASE

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	2000
		HK\$'000	HK\$'000
Turnover	1	449,178	498,887
Cost of sales		<u>(366,465)</u>	<u>(384,002)</u>
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		<u>(73,998)</u>	<u>(81,775)</u>
(Loss)/profit from operations	1	(1,014)	13,373
Finance cost		(262)	(828)
Share of profit of a jointly controlled entity		<u>159</u>	<u>335</u>
(Loss)/profit from ordinary activities before taxation	2	(1,117)	12,880
Taxation	3	<u>(2,167)</u>	<u>(3,822)</u>
(Loss)/profit from ordinary activities after taxation		(3,284)	9,058
Minority interests		<u>(653)</u>	<u>(1,003)</u>
(Loss)/profit attributable to shareholders		<u>(3,937)</u>	<u>8,055</u>
Interim dividends		<u>-</u>	<u>6,252</u>
Interim dividends per share		<u>-</u>	<u>1 cent</u>
(Loss)/earnings per share	4		
- basic		<u>(0.63 cents)</u>	<u>1.29 cents</u>

Consolidated Balance Sheet - Unaudited

At 30 September 2001

	30 September 2001 HK\$'000	31 March 2001 HK\$'000
Non-current assets		
Fixed assets	231,244	237,232
Interest in a jointly controlled entity	1,644	1,548
Other non-current financial assets	5,616	5,358
	<u>238,504</u>	<u>244,138</u>
Current assets		
Inventories	139,273	159,520
Trade and other receivables	134,942	105,960
Tax recoverable	-	1,084
Cash at bank and in hand	89,769	90,764
	<u>363,984</u>	<u>357,328</u>
Current liabilities		
Bank loans and overdrafts	7,886	1,360
Trade and other payables	112,120	112,619
Taxation	268	-
	<u>120,274</u>	<u>113,979</u>
Net current assets	<u>243,710</u>	<u>243,349</u>
Total assets less current liabilities	482,214	487,487
Non-current liabilities		
Deferred taxation	(969)	(1,072)
Minority interests	(25,698)	(28,172)
NET ASSETS	<u>455,547</u>	<u>458,243</u>
CAPITAL AND RESERVES		
Share capital	48,766	48,766
Reserves	406,781	409,477
	<u>455,547</u>	<u>458,243</u>

Consolidated Statement of Recognised Gains and Losses - Unaudited

For the six months ended 30 September 2001

	Six months ended 30 September	
	2001	2000
	HK\$'000	HK\$'000
Exchange difference on translation of the accounts of foreign entities	<u>1,241</u>	<u>(2,641)</u>
Net gain/(loss) not recognised in the profit and loss account	1,241	(2,641)
Net (loss)/profit for the period	<u>(3,937)</u>	<u>8,055</u>
Total recognised (losses)/gains	<u>(2,696)</u>	<u>5,414</u>

Condensed Consolidated Cash Flow Statement – Unaudited

For the six months ended 30 September 2001

	Six months ended 30 September	
	2001	2000
	HK\$'000	HK\$'000
Net cash inflow/(outflow) from operating activities	1,462	(56,930)
Net cash outflow from returns on investments and servicing of finance	(1,312)	(18,388)
Tax paid	(896)	(870)
Net cash outflow from investing activities	<u>(6,876)</u>	<u>(21,987)</u>
Net cash outflow before financing	(7,622)	(98,175)
Net cash outflow from financing	<u>-</u>	<u>(5,059)</u>
Decrease in cash and cash equivalents	(7,622)	(103,234)
Effect of foreign exchange rates	101	(1,573)
Cash and cash equivalents at 1 April	<u>89,404</u>	<u>153,683</u>
Cash and cash equivalents at 30 September	<u>81,883</u>	<u>48,876</u>
Analysis of the balances of cash and cash equivalents		
Cash at bank and in hand	89,769	64,259
Bank loans and overdrafts	<u>(7,886)</u>	<u>(15,383)</u>
	<u>81,883</u>	<u>48,876</u>

Notes:

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		Contribution to (loss)/ profit from operations	
	Six months ended		Six months ended	
	30 September		30 September	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	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>	18,501
Unallocated costs			<u>(564)</u>	<u>(5,128)</u>
			<u>(1,014)</u>	<u>13,373</u>

	Turnover		Contribution to (loss)/ profit from operations	
	Six months ended		Six months ended	
	30 September		30 September	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	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>	18,501
Unallocated costs			<u>(564)</u>	<u>(5,128)</u>
			<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	2000
	HK\$'000	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	<u>(257)</u>	<u>605</u>

3. Taxation

	Six months ended 30 September	
	2001	2000
	HK\$'000	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	<u>36</u>	<u>92</u>
	<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.

Herald Holdings Limited

Hong Kong, 18 December 2001

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