



HERALD HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

Interim Results for the six months ended 30 September 2003

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 2003, together with the comparative figures for the corresponding period in 2002, as follows:

Consolidated Profit and Loss Account – Unaudited

For the six months ended 30 September 2003

	Six months ended	
	30 September 2003	2002
	HK\$'000	HK\$'000
Turnover	519,734	479,063
Cost of sales	<u>(412,234)</u>	<u>(368,557)</u>
Gross profit	107,500	110,506
Other revenue	3,119	3,337
Other net income/(loss)	2,119	(2,322)
Selling expenses	(20,510)	(18,114)
Administrative expenses	<u>(67,675)</u>	<u>(70,461)</u>
Profit from operations	24,553	22,946
Finance cost	(54)	(262)
Share of profit of a jointly controlled entity	<u>403</u>	<u>304</u>
Profit from ordinary activities before taxation	24,902	22,988
Taxation	<u>(903)</u>	<u>(5,441)</u>
Profit from ordinary activities after taxation	23,999	17,547
Minority interests	<u>(1,423)</u>	<u>(134)</u>
Profit attributable to shareholders	<u>22,576</u>	<u>17,413</u>
Interim dividends	<u>9,228</u>	<u>6,199</u>
Interim dividends per share	<u>1.50 cents</u>	<u>1 cent</u>
Earnings per share		
- Basic	<u>3.67 cents</u>	<u>2.80 cents</u>

Condensed Consolidated Balance Sheet - Unaudited*At 30 September 2003*

	30 September 2003 HK\$'000	31 March 2003 HK\$'000
Non-current assets		
Fixed assets	177,213	184,787
Interest in a jointly controlled entity	1,951	1,698
Other non-current financial assets	8,235	6,777
	<u>187,399</u>	<u>193,262</u>
Current assets		
Inventories	129,402	117,559
Trade and other receivables	165,794	94,900
Cash and cash equivalents	123,247	160,104
	<u>418,443</u>	<u>372,563</u>
Current liabilities		
Bank loans and overdrafts	223	918
Trade and other payables	118,872	89,263
Taxation	5,123	3,852
	<u>124,218</u>	<u>94,033</u>
Net current assets	<u>294,225</u>	<u>278,530</u>
Total assets less current liabilities	<u>481,624</u>	<u>471,792</u>
Non-current liabilities		
Deferred taxation	(698)	(1,559)
Provision for long service payments	(4,363)	(4,364)
	<u>(5,061)</u>	<u>(5,923)</u>
Minority interests	<u>(26,444)</u>	<u>(26,340)</u>
NET ASSETS	<u>450,119</u>	<u>439,529</u>
CAPITAL AND RESERVES		
Share capital	47,988	48,100
Reserves	402,131	391,429
	<u>450,119</u>	<u>439,529</u>

Condensed Consolidated Cash Flow Statement – Unaudited*For the six months ended 30 September 2003*

	Six months ended	
	30 September	
	2003	2002
	HK\$'000	HK\$'000
Net cash (outflow)/inflow from operating activities	(18,755)	57,989
Net cash outflow from investing activities	(3,745)	(7,885)
Net cash outflow from financing activities	(13,959)	(9,525)
(Decrease)/increase in cash and cash equivalents	(36,459)	40,579
Cash and cash equivalents at 1 April	159,186	128,665
Effect of foreign exchange rate changes	296	605
Cash and cash equivalents at 30 September	123,023	169,849
Analysis of the balances of cash and cash equivalents		
Cash at bank and in hand	123,247	171,227
Short term bank loans and overdrafts	(224)	(1,378)
	123,023	169,849

Condensed Consolidated Statement of Changes in Equity - Unaudited*For the six months ended 30 September 2003*

	Share premium HK\$'000	Contributed surplus HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 April 2003	26,571	259,267	(7,549)	113,140	391,429
Exchange difference on consolidation	-	-	744	-	744
Premium paid on repurchase of shares	(313)	-	-	-	(313)
Final dividend paid in respect of the previous year	-	(12,305)	-	-	(12,305)
Profit for the period	-	-	-	22,576	22,576
At 30 September 2003	26,258	246,962	(6,805)	135,716	402,131
At 1 April 2002					
- As previously reported	27,586	271,692	(10,605)	83,503	372,176
- Prior period adjustment in respect of short-term employee benefits	-	-	-	(925)	(925)
As restated	27,586	271,692	(10,605)	82,578	371,251
Exchange difference on consolidation	-	-	576	-	576
Premium paid on repurchase of shares	(391)	-	-	-	(391)
Final dividend paid in respect of the previous year	-	(6,226)	-	-	(6,226)
Profit for the period	-	-	-	17,413	17,413
At 30 September 2002	27,195	265,466	(10,029)	99,991	382,623

BUSINESS REVIEW

The Group's turnover for the six months to 30 September 2003 amounted to HK\$519,734,000, representing an increase of 8.5% as compared with the corresponding period in the previous year. The profit attributable to shareholders for the same period was HK\$22,576,000, up 29.7% from the profit of HK\$17,413,000 in the same period a year earlier.

During the period under review, the economy of Hong Kong was badly hurt by the outbreak of SARS. To various extents, this had a negative impact on the production of the Group's factories in Guangdong as it was very difficult to hire new workers, most of whom come from other provinces.

The turnover of the toy and gift division for the six months ended 30 September 2003 accounted for 51% of the Group's turnover. Compared with the same period last year, the turnover of the division decreased by 2%. During the period under review, the division faced very tough market conditions. Though the division was able to maintain the turnover at a similar level to last year, it lowered its profit margins in order to be competitive to secure its market share. Due to the outbreak of SARS as mentioned earlier, the division experienced a severe problem of shortage of workers, resulting in late delivery of certain products to buyers. After the release of the prohibition in early June, the division was able to increase its work force within a very short time so as to ship its products on time. However, this was achieved with a substantial increase of labour costs. At the same time, the gross profit margins have also been aggravated by increases of plastic material and operational costs in mainland China.

To cope with the increased business, the toy and gift division obtained an additional premise of approximately 67,000 sq. ft. in Dongguan, Guangdong. Furthermore, the division has also begun the building of another new premise of about 60,000 sq. ft.

The computer head division showed improvement. For the first half, the turnover of the division increased by 25% over the turnover in the year-ago period. After suffering a significant loss in last financial year, we are pleased to see that the division broke even in the period under review. During the first six-month period, the division continued to focus on research and development of the new generation computer tape heads to keep abreast of the technological changes in the data storage industry.

As with the computer head division, the timepiece division also had an impressive 43% growth in sales in the first half of the financial year. The division now no longer suffers from its loss-making operations in Germany which was closed down in January 2003. As approximately 84% of the sales of the division came from the UK market, the division enjoyed better gross profit margins due to favourable exchange rate from the sterling. For the first half, the division had a profit from operation of HK\$3.6 million, compared to a loss from operation of HK\$7 million in the same period a year ago.

The houseware division performance in the first half remained stable. The turnover for the first half had a moderate 4% growth as compared to the turnover of the same half last year. Pilot, the division's operation in the UK, had a decline of 9% in sales as denominated in domestic currency as compared to the sales in the year-ago period. The shortfall was made up partially by favourable exchange rates of sterling and partially by an increase of sales to the US market.

FINANCIAL POSITION

The Group continues to exercise prudence in the management of its working capital. As in the past, the Group maintains a good liquidity position without any long term debt funding. At 30 September 2003, the Group's net cash surplus was HK\$123 million which was HK\$36 million lower than the HK\$159 million at 31 March 2003. In comparing the levels at 30 September 2003 and the same day last year, the net cash surplus decreased by HK\$47 million. The decrease of the net cash surplus was due to the payment of the final dividend and higher levels of stock and trade receivables in line with the increases in the businesses of the computer head division and the timepiece division. As at 30 September 2003, the working capital ratio, an indicator of a company's liquidity represented by the ratio between current assets over current liabilities, was 3.37 compared to 3.96 at 31 March 2003. 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 stood at a healthy level of 2.11, compared to 2.45 at 31 March 2003.

CONTINGENT LIABILITIES

As at 30 September 2003, the Group did not have any significant contingent liabilities.

FOREIGN EXCHANGE EXPOSURE

During the period under review, approximately 27% of the Group's turnover is 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 management remains optimistic about the overall performance of the Group for the whole year. Due to lower gross profit margins, the toy and gift division will contribute less to the profits of the Group as compared to the previous year. Last year, the results of both the computer head division and the timepiece division were not satisfactory. Barring any unforeseen circumstances, their results for this year will have satisfactory improvements. In particular, the management anticipates that the timepiece division will make a more significant contribution to the profits of the Group in the second half due to strong sales in the U.K. market and the absence of losses arising from the closure of its German operation. The business of the houseware division will continue to be stable in the second half of the year.

DIVIDENDS

The Directors have declared an interim dividend of HK1.50 cents per share (2002: HK1 cent). The total amount of dividend payment of HK\$9,228,000 was based on the total number of shares in issue as at 17 December 2003 being the latest practicable date prior to the announcement of the interim results. Dividend will be payable on 16 January 2004 to shareholders registered in the Register of Members on 9 January 2004.

REGISTER OF MEMBERS

The Register of Members will be closed from 8 January 2004 to 9 January 2004, both days inclusive. 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 pm on 7 January 2004 in order that they may receive their dividend entitlement.

Herald Holdings Limited
Hong Kong, 18 December 2003

Contact Person : Mr. Robert Dorfman Tel : 2522 6181
 Mr. Michael Thong Tel : 2726 5565

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