



# HERALD HOLDINGS LIMITED

## 興利集團有限公司\*

(Incorporated in Bermuda with limited liability)

(Stock Code: 00114)

### INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2004

#### RESULTS

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 2004, together with the comparative figures for the corresponding period in 2003, as follows:

#### Condensed Consolidated Income Statement – Unaudited

For the six months ended 30 September 2004

		Six months ended 30 September	
	Note	2004 HK\$'000	2003 HK\$'000
<b>Turnover</b>	(2)	<b>680,819</b>	519,734
Cost of sales		<u>(528,819)</u>	<u>(412,234)</u>
Gross profit		<b>152,000</b>	107,500
Other revenue		<b>3,563</b>	3,119
Other net income		<b>101</b>	2,119
Selling expenses		<b>(25,703)</b>	(20,510)
Administrative expenses		<b>(85,927)</b>	(67,675)
Profit from operations	(2)	<b>44,034</b>	24,553
Finance costs		<b>(115)</b>	(54)
Share of profit of a jointly controlled entity		<b>134</b>	403
<b>Profit from ordinary activities before taxation</b>	(3)	<b>44,053</b>	24,902
Income tax	(4)	<b>(9,315)</b>	(903)
<b>Profit from ordinary activities after taxation</b>		<b>34,738</b>	23,999
Minority interests		<b>922</b>	(1,423)
<b>Profit attributable to shareholders</b>		<b>35,660</b>	22,576
<b>Interim dividends</b>		<b>12,279</b>	9,228
<b>Interim dividends per share</b>		<b>2 cents</b>	1.50 cents
<b>Earnings per share</b>	(5)		
– Basic		<b>5.81 cents</b>	3.67 cents

## NOTES TO CONDENSED INTERIM ACCOUNTS

### 1. Basis of preparation and accounting policies

These unaudited consolidated condensed interim accounts are prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

These condensed interim accounts should be read in conjunction with the annual accounts for the year ended 31 March 2004.

The accounting policies and methods of computation used in the preparation of these condensed interim accounts are consistent with those used in the annual accounts for the year ended 31 March 2004.

### 2. Segment 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 period by business segment is as follows:

#### *Business segments:*

	Turnover		Contribution to profit from operations	
	Six months ended 30 September		Six months ended 30 September	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Toy and gift products	319,022	267,202	6,529	8,555
Computer heads	58,023	67,555	2,452	102
Housewares	106,439	84,355	6,340	9,888
Timepieces	197,335	99,302	28,469	3,580
Others	–	1,320	1,648	1,763
	<u>680,819</u>	<u>519,734</u>	<u>45,438</u>	<u>23,888</u>
Unallocated operating income and expenses			<u>(1,404)</u>	<u>665</u>
Profit from operations			<u>44,034</u>	<u>24,553</u>

An analysis of the Group's turnover for the period by geographical segment is as follows:

#### *Geographical segments:*

	Turnover	
	Six months ended 30 September	
	2004	2003
	HK\$'000	HK\$'000
Europe		
United Kingdom	334,677	175,068
Other countries	60,912	45,952
North America	238,255	265,241
Asia		
Hong Kong	17,280	13,273
The PRC	4,846	3,104
Other countries	9,192	8,692
Others	15,657	8,404
	<u>680,819</u>	<u>519,734</u>

### 3. Profit from ordinary activities before taxation

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

	Six months ended 30 September	
	2004	2003
	HK\$'000	HK\$'000
Interest on borrowings	115	54
Depreciation	15,751	12,249
Net loss on disposal of fixed assets	143	56
Net realised and unrealised losses/(gains) on other securities	717	(1,457)
Staff costs	102,709	87,634
Interest income	(695)	(518)
Rental income	(1,485)	(1,366)
	<u>          </u>	<u>          </u>

### 4. Income Tax

	Six months ended 30 September	
	2004	2003
	HK\$'000	HK\$'000
Hong Kong profits tax	4,126	160
Overseas taxation	4,770	1,517
Deferred taxation	369	(869)
	<u>          </u>	<u>          </u>
	9,265	808
Share of a jointly controlled entity's taxation	50	95
	<u>          </u>	<u>          </u>
Taxation charge	<u>9,315</u>	<u>903</u>

The provision for Hong Kong Profits Tax is calculated at 17.5% (2003: 17.5%) of the estimated assessable profits for the six months ended 30 September 2004. Taxation for overseas subsidiaries is similarly charged at the appropriate current rates of taxation ruling in the relevant countries.

### 5. Earnings per share

The calculation of basic earnings per share is based on the net profit attributable to ordinary shareholders of HK\$35,660,000 (2003: HK\$22,576,000) and on 613,926,000 (2003: 615,574,000) 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 2004 and 2003.

### 6. Reserves

	Share premium	Contributed surplus	Exchange fluctuation reserve	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2004	25,720	237,734	(737)	182,871	445,588
Exchange difference on consolidation	–	–	(977)	–	(977)
Final dividend approved in respect of the previous year	–	(18,418)	–	–	(18,418)
Profit for the period	–	–	–	35,660	35,660
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
At 30 September 2004	<u>25,720</u>	<u>219,316</u>	<u>(1,714)</u>	<u>218,531</u>	<u>461,853</u>

At 1 April 2003

– As previously reported	26,571	259,267	(7,549)	113,140	391,429
– Prior period adjustment in respect of deferred tax ( <i>note</i> )	–	–	–	7,791	7,791
As restated	26,571	259,267	(7,549)	120,931	399,220
Exchange difference on consolidation	–	–	744	–	744
Premium paid on repurchase of shares	(313)	–	–	–	(313)
Final dividend approved in respect of the previous year	–	(12,305)	–	–	(12,305)
Profit for the period	–	–	–	22,576	22,576
At 30 September 2003	<u>26,258</u>	<u>246,962</u>	<u>(6,805)</u>	<u>143,507</u>	<u>409,922</u>

*Note:* In order to comply with the SSAP 12 (revised) “Income taxes” issued by the Hong Kong Institute of Certified Public Accountants, the Group adopted a new policy for deferred tax with effect from 1 April 2003. As a result of the adoption of this accounting policy, the opening balance of retained profits in 2003 has been adjusted for the amount relating to prior period.

## BUSINESS REVIEW

The Group’s turnover for the six months to 30 September 2004 amounted to HK\$681 million, representing an increase of 31% as compared with the corresponding period in the previous year. The profit attributable to shareholders for the same period was HK\$35.7 million, up 58% from the profit of HK\$22.6 million in the same period a year earlier. The strong growth in the Group’s turnover and net profit was primarily contributed by the significant improvement in the performance of the Timepiece Division.

The Timepiece Division continued to record remarkable growth after turning around in the last financial year. For the six-month period ended 30 September 2004, the Timepiece Division had a turnover of HK\$197 million, almost double from HK\$99 million in the same period a year earlier. The net profit of the division also substantially increased to HK\$23 million from HK\$3 million. The management is pleased to see that sales of most of the licensed brands and in-house brands performed well. For the first half, sales of brands such as Ingersoll, Head, Fila and Elle all doubled over the same period last year. In addition, products with new licenses acquired in 2003 also had satisfactory performances. Other than the UK market where the division has a very strong presence, new business opportunities are being developed in both Europe and Asia. Distribution arrangements are being made in these markets to sell the branded products of the division.

The turnover of the Houseware Division also experienced a satisfactory growth in the first half of the fiscal year. As compared to the same six months a year earlier, the turnover increased by 26% from HK\$84 million to HK\$106 million. The increase in sales was due to strong sales of stainless steel cookware which the division sources from outside manufacturers. In September 2004, the sales of stainless steel cookware were boosted by a large promotional program with a major general merchandise chain store in the USA. On the other hand, aluminum cookware business moderately decreased by 5%. The half-yearly profit of the division decreased by 15% as compared to the same six months last year. This is partly due to lower profit margins for stainless steel business and partly due to substantial increases of prices of aluminum and stainless steel.

In the first half of the financial year, the turnover of the Toy and Gift Division increased by 19% from HK\$267 million to HK\$319 million. The toy business was negatively impacted by the general shortage of labour and electricity in Guangdong province in the PRC. The labour shortage was particularly severe in the second quarter of the current fiscal year and the division's factories were not able to hire enough workers to cope with the business on hand during the peak sales months. Increases in the cost of plastic materials resulting from the sharp rise of oil prices also continued to hurt profitability. Despite the above-mentioned difficult situation, the division managed to remain profitable.

The main products of the Computer Head Division consist of thin film heads and ferrite heads for computer tape drives. During the first half of the year, the turnover of the division was HK\$58 million, a decrease of 15% from the turnover of HK\$68 million in the same period last year. The decrease was mainly due to a decline in the turnover of the thin film heads which accounted for about 78% (2003: 93%) of the total turnover. Starting from the end of 2003, the division ceased to build head frame actuator assemblies ("HFAA") for thin film heads. HFAA is a process which involves addition of heavy material costs but relatively little added value. The thin film heads shipped without HFAA resulted in a significant decrease in unit price per head. This is the main factor that accounted for the decline in sales. For the first half, the number of thin film heads built was actually 30% more than that for the same half year in 2003. At the same time, the business of the ferrite heads which accounted for about 22% (2003: 7%) of the total turnover of the period also had an impressive growth over the same period in 2003.

## **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 2004 the Group's net cash surplus was HK\$127 million which was HK\$45 million lower than the HK\$172 million at 31 March 2004. 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 increase in turnover of the Group. As at 30 September 2004, the working capital was HK\$353 million, representing an increase of HK\$20 million from HK\$333 million at 31 March 2004. The working capital ratio, an indicator of a company's liquidity represented by the ratio between current assets over current liabilities, was 2.79 compared to 3.76 at 31 March 2004. The quick ratio, another ratio that gauges the financial strength of a company measured by trade debtors and cash and cash equivalents over the current liabilities, decreased to 1.84 from 2.23 at 31 March 2004.

## **CONTINGENT LIABILITIES**

As at 30 September 2004, the Group did not have any significant contingent liabilities.

## **FOREIGN EXCHANGE EXPOSURE**

During the period under review, approximately 38% 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 is pleased to see that the Group entered the second half-year with a strong order position. The Timepiece Division is performing well in the third quarter, its most important sales season as it fulfills orders for the Christmas season. It is anticipated that the growth of sales and net profit of the division will sustain in the second half of the year. The business for both the Computer Head Division and the Houseware Division will remain stable in the second half-year. The management believes that the difficult business environment facing the toy industry will continue. The division will continue to experience very thin margins as there is no sign that the price of plastic materials will come down any times soon. Currently, the division is producing products relating to Star Wars: Episode III – Revenge of the Sith. The movie is scheduled to be released in the middle of 2005. With a healthy order position in the second half of the year which is customarily the slow season for the toy industry, the management believes that the division will weather the difficult situation.

## **DIVIDENDS**

The Directors have declared an interim dividend of HK2 cents per share (2003: HK1.50 cents). The total amount of dividend payment of HK\$12,279,000 was based on the total number of shares in issue as at 16 December 2004 being the latest practicable date prior to the announcement of the interim results. Dividend will be payable on 21 January 2005 to shareholders registered in the Register of Members on 11 January 2005.

## **REGISTER OF MEMBERS**

The Register of Members will be closed from 10 January 2005 to 11 January 2005, 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 2005 in order that they may receive their dividend entitlement.

## **EMPLOYEES**

At 30 September 2004, the number of employees of the Group was 200 (2003: 200) in Hong Kong, 6,927 (2003: 5,970) in the People's Republic of China and 119 (2003: 110) in Europe. Total staff costs for the period under review amounted to HK\$102,709,000 (2003: HK\$87,634,000). The Group ensures that its employees' remuneration packages are competitive. Employees are rewarded based on their performance and experience and the prevailing industry practice.

## **PURCHASE, SALES OR REDEMPTION OF SHARES IN THE COMPANY**

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 September 2004.

## **AUDIT COMMITTEE**

Mr. Tang King Hung has been appointed as an independent non-executive director and a member of the audit committee of the Company with effect from 28 September 2004. The current audit committee comprises three independent non-executive directors, Mr. Denis Campbell Bray, Mr. Tsao Kwang Yung Peter and Mr. Tang King Hung and reports to the board of directors. The audit committee meets with 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.

## **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 2004, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

## **MODEL CODE**

The Company adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code"). Having made specific enquiry of all directors, all directors confirmed that they had complied with the required standard set out in the Model Code and the Company's code of conduct regarding directors' securities transactions during the period.

## **PUBLICATION OF DETAILED INTERIM RESULTS ON THE STOCK EXCHANGE OF HONG KONG LIMITED'S WEBSITE**

All the information of the interim results of the Group for the six months ended 30 September 2004 required by paragraphs 46(1) to 46(6) of Appendix 16 of the Listing Rules in force prior to 31 March 2004, which remain applicable to interim results announcement in respect of accounting periods commencing before 1 July 2004 under the transitional arrangement, will be published on the Stock Exchange of Hong Kong Limited's website in due course.

By Order of the Board  
**George Bloch**  
*Chairman*

Hong Kong, 17 December 2004

As at the date of this announcement, the Board comprises the following directors:

*Executive Directors:*

Mr. George Bloch  
Dr. Cheung Tsang Kay Stan PhD, Hon LLD, Hon DBA, JP  
Mr. Chang Dong Song  
Mr. Robert Dorfman  
Mr. Thong Yeung Sum Michael FCCA, CPA

*Independent Non-executive Directors:*

Mr. Denis Campbell Bray CMG, CVO, JP  
Mr. Tsao Kwang Yung Peter CBE, CPM  
Mr. Tang King Hung ACA, CPA, ACIS

*This and other information about Herald Holdings Limited can be accessed via [www.irasia.com/listco/hk/herald](http://www.irasia.com/listco/hk/herald) and [www.heraldgroup.com.hk](http://www.heraldgroup.com.hk)*

\* *For identification only*