

## RESULTS

The Board of Directors of Herald Holdings Limited (the "Company") announces that the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2000 are as follows:

### Consolidated Profit and Loss Account – Unaudited

For the six months ended 30 September 2000

		<b>Six months ended 30 September</b>	
	<b>Note</b>	<b>2000 HK\$'000</b>	<b>1999 HK\$'000</b>
<b>Turnover</b>	<b>2</b>	<b>498,887</b>	<b>509,116</b>
Cost of sales		<u>(384,002)</u>	<u>(376,993)</u>
Gross profit		<b>114,885</b>	<b>132,123</b>
Other revenue		<b>4,166</b>	<b>3,788</b>
Other net losses		<b>(3,685)</b>	<b>(4,391)</b>
Selling expenses		<b>(12,437)</b>	<b>(12,651)</b>
Administrative expenses		<u><b>(89,556)</b></u>	<u><b>(95,700)</b></u>
Profit from operations	<b>2</b>	<b>13,373</b>	<b>23,169</b>
Finance cost	<b>3</b>	<b>(828)</b>	<b>(691)</b>
Share of profit/(loss) of an associate		<u><b>335</b></u>	<u><b>(155)</b></u>
<b>Profit from ordinary activities before taxation</b>	<b>3</b>	<b>12,880</b>	<b>22,323</b>
Taxation	<b>4</b>	<u><b>(3,822)</b></u>	<u><b>(5,184)</b></u>
<b>Profit from ordinary activities after taxation</b>		<b>9,058</b>	<b>17,139</b>
Minority interests		<u><b>(1,003)</b></u>	<u><b>(4,420)</b></u>
<b>Profit attributable to shareholders</b>		<u><b>8,055</b></u>	<u><b>12,719</b></u>
<b>Interim dividends</b>		<u><b>6,252</b></u>	<u><b>6,432</b></u>
<b>Interim dividends per share</b>		<u><b>1 cent</b></u>	<u><b>1 cent</b></u>
<b>Earnings per share</b>	<b>5</b>		
–basic		<u><b>1.29 cents</b></u>	<u><b>1.96 cents</b></u>

## Consolidated Balance Sheet – Unaudited

At 30 September 2000

	Note	30 September 2000 HK\$'000	31 March 2000 HK\$'000
<b>Non-current assets</b>			
Fixed assets		245,409	250,051
Interest in an associate		1,524	1,204
Other non-current financial assets		14,849	7,519
		<u>261,782</u>	<u>258,774</u>
<b>Current assets</b>			
Inventories	6	164,438	123,278
Trade and other receivables	7	184,590	99,396
Cash at bank and in hand		64,259	159,453
		<u>413,287</u>	<u>382,127</u>
<b>Current liabilities</b>			
Bank loans and overdrafts		15,383	5,770
Trade and other payables	8	165,684	121,487
Taxation		5,453	2,652
Interim dividend payable		6,252	–
Proposed final dividend		–	18,756
		<u>192,772</u>	<u>148,665</u>
<b>Net current assets</b>		<u>220,515</u>	<u>233,462</u>
<b>Total assets less current liabilities</b>		<u>482,297</u>	<u>492,236</u>
<b>Non-current liabilities</b>			
Deferred taxation		(744)	(687)
Minority interests		(23,045)	(27,143)
		<u>(23,789)</u>	<u>(27,830)</u>
<b>NET ASSETS</b>		<u>458,508</u>	<u>464,406</u>
<b>CAPITAL AND RESERVES</b>			
Share capital	9	48,766	49,566
Reserves	10	409,742	414,840
		<u>458,508</u>	<u>464,406</u>



**Consolidated Statement of Recognised Gains and Losses – Unaudited**  
*For the six months ended 30 September 2000*

	<i>Note</i>	Six months ended 30 September 2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Exchange difference on translation of the accounts of foreign entities	10	(2,641)	—
<b>Net loss not recognised in the profit and loss account</b>		<b>(2,641)</b>	<b>—</b>
Net profit for the period		<b>8,055</b>	12,719
<b>Total recognised gains</b>		<b>5,414</b>	<b>12,719</b>

**Condensed Consolidated Cash Flow Statement – Unaudited**  
*For the six months ended 30 September 2000*

	<i>HK\$'000</i>
Net cash outflow from operating activities	(56,930)
Net cash outflow from returns on investments and servicing of finance	(18,388)
Tax paid	(870)
Net cash outflow from investing activities	(21,987)
Net cash outflow before financing	(98,175)
Net cash outflow from financing	(5,059)
Decrease in cash and cash equivalents	(103,234)
Effect of foreign exchange rates	(1,573)
Cash and cash equivalents at 1 April 2000	153,683
Cash and cash equivalents at 30 September 2000	<b>48,876</b>
<b>Analysis of the balances of cash and cash equivalents</b>	
Cash at bank and in hand	64,259
Bank loans and overdrafts	(15,383)
	<b>48,876</b>

## Notes on the unaudited interim financial report

### 1. Basis of preparation

The interim financial report has been prepared in accordance with the requirements of the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited, including compliance with the Statement of Standard Accounting Practice 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants except that comparative figures for the cash flow statement have not been prepared as the company has taken advantage of the transitional provisions set out in the Main Board Listing Rules.

The same accounting policies adopted in the 1999/2000 annual accounts have been applied to the interim financial report.

The presentation and classification of items in the financial statements have been changed due to the adoption of the requirements of certain new Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants. Certain comparative figures have been reclassified to conform with the current period's presentation.

### 2. Segmental information

The analysis of the principal activities and geographical location of the operations of the Group during the financial period are as follows:

	Group turnover Six months ended 30 September		Profit from operations Six months ended 30 September	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Principal activities</b>				
Electronic products	251,041	273,313	1,024	9,492
Non-electronic products	239,963	229,997	15,867	16,333
Non-manufacturing	7,883	5,806	(3,518)	(2,656)
	<u>498,887</u>	<u>509,116</u>	<u>13,373</u>	<u>23,169</u>
			Group turnover Six months ended 30 September	
			2000	1999
			HK\$'000	HK\$'000
<b>Geographical locations of operations</b>				
Europe				
United Kingdom			133,964	166,501
Other countries			79,974	88,045
North America			216,149	196,623
Asia			32,813	41,608
Other			35,987	16,339
			<u>498,887</u>	<u>509,116</u>



### 3. Profit from ordinary activities before taxation

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

	<b>Six months ended 30 September</b>	
	<b>2000</b>	<b>1999</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Interest on borrowings	<b>828</b>	691
Depreciation	<b>13,845</b>	14,195
Net loss/(gain) on sale of fixed assets	<b>650</b>	(55)
	<b><u>          </u></b>	<b><u>          </u></b>

### 4. Taxation

	<b>Six months ended 30 September</b>	
	<b>2000</b>	<b>1999</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Hong Kong taxation	<b>2,749</b>	4,949
Overseas taxation	<b>924</b>	235
Deferred taxation	<b>57</b>	—
Share of an associate's taxation	<b>92</b>	—
	<b><u>          </u></b>	<b><u>          </u></b>
	<b><u>3,822</u></b>	<b><u>5,184</u></b>

The provision for Hong Kong Profits Tax is calculated at 16% (1999: 16%) of the estimated assessable profits for the six months ended 30 September 2000. 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 profit attributable to shareholders of HK\$8,055,000 (1999: HK\$12,719,000) and the weighted average of 626,447,000 shares (1999: 647,951,000 shares) in issue during the period.

There were no dilutive potential shares in existence during the periods ended 30 September 2000 and 1999.

### 6. Inventories

The amount of inventories carried at net realisable value is HK\$12,034,000 (at 31 March 2000: HK\$13,047,000).

## Notes on the unaudited interim financial report (continued)

### 7. Trade and other receivables

Included in trade and other receivables are debtors and bills receivable (net of provisions for bad and doubtful debts) with the following ageing analysis:

	At 30 September 2000 HK\$'000	At 31 March 2000 HK\$'000
Within 1 month	124,709	55,696
2 – 3 months	30,532	17,561
Over 3 months	6,997	3,800
	<u>162,238</u>	<u>77,057</u>
Deposits, prepayments and other debtors	22,352	22,339
	<u>184,590</u>	<u>99,396</u>

The credit terms given to the customers vary and are generally based on the financial strengths of individual customers. In order to effectively manage the credit risks associated with trade receivables, credit evaluations of customers are performed periodically.

### 8. Trade and other payables

Included in trade and other payables are creditors and bills payable with the following ageing analysis:

	At 30 September 2000 HK\$'000	At 31 March 2000 HK\$'000
Within 1 month	65,937	39,109
2 – 3 months	31,808	8,420
Over 3 months	2,908	488
	<u>100,653</u>	<u>48,017</u>
Accrued expenses and other payables	65,031	73,470
	<u>165,684</u>	<u>121,487</u>

## 9. Share capital

	Number of shares '000	Amount HK\$'000
<b>Issued and fully paid:</b>		
At 1 April 2000	635,461	49,566
Shares repurchased and cancelled	(10,260)	(800)
	<u>625,201</u>	<u>48,766</u>
At 30 September 2000	<u>625,201</u>	<u>48,766</u>

## 10. Reserves

	Share premium HK\$'000	Capital reserve HK\$'000	Contributed surplus HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 April 2000	31,958	5,885	87,205	(5,636)	295,428	414,840
Premium paid on repurchase of shares	(4,260)	-	-	-	-	(4,260)
Exchange difference on consolidation	-	-	-	(2,641)	-	(2,641)
Profit for the period	-	-	-	-	8,055	8,055
Dividends	-	-	(6,252)	-	-	(6,252)
At 30 September 2000	<u>27,698</u>	<u>5,885</u>	<u>80,953</u>	<u>(8,277)</u>	<u>303,483</u>	<u>409,742</u>

## BUSINESS REVIEW

The Group's turnover and profit attributable to shareholders for the six months to 30 September 2000 amounted to HK\$498,887,000 and HK\$8,055,000 respectively. These represent a decrease of 2% and 37% as compared with the corresponding period in the previous year.

During the period under review, the Group's gross profit was adversely affected by the prevailing weakness of sterling and euro, of which approximately 30% of the Group's turnover was denominated. Furthermore, in order to be competitive in the market place, the Group reduced the overall profit margins of its product lines. The Group's gross profit margin, expressed as a percentage of sales, was 23% for the six months under review, compared to 26% for the same period a year earlier. The reduction in gross profit margin was the major factor that accounted for the decrease in the gross profit and the net profit for the first six months.

### Toys

In the first half of the financial year, the toy division performed well. However, throughout the period, the toy division experienced great difficulties as the toy industry as a whole suffered from the world-wide shortage of electronic components. It is most encouraging that the division has successfully finished all the production schedules as planned and ended the period with a 7% increase in turnover over the same period last year.

### Computer Heads

The computer head division's performance in the first half was not satisfactory. Despite a 7% growth in turnover compared to the same period last year, the division had a net loss of HK\$2.6 million. This is primarily attributed to extra high costs associated with the development of the new half inch high capacity computer tape heads which the management anticipates to be of high demand in 2001. Commencing from April 2000 the division adopted a Vendor Managed Inventory Programme ("VMI") for a major customer. Previously, invoices were issued at the time the products were shipped from Hong Kong. Under the new programme, the division keeps the products in a warehouse in the USA and sales are not recognised until the customer draws the heads from the warehouse. As a result, the division has to keep a higher level of inventory which consequently ties up more working capital.





At the end of June 2000, the Group increased its holdings in the computer head division from 86% to 90% by acquiring additional shares in Herald Datanetetics Limited from the minority shareholders. The total consideration for the additional interests was approximately HK\$3.3 million.

### **Houseware**

The sales of the houseware division in the first six months were similar to those of the same period last year. The sales in the UK market had a 15% increase which was offset by decreases of sales in Japan and the USA. The division has successfully developed a range of stainless steel cookware which initially has received very positive response from the buyers.

### **Timepieces**

The turnover of the timepiece division in the first half decreased by 13% compared with the same period a year earlier. The business in the UK which accounted for 53% of the division's turnover in the current period under review experienced a difficult time due to weak sterling. Though "Pokemon" timepiece products performed very well in both France and Germany, they could not make up the shortfall in the UK.

### **Investment**

In April 2000 the Group invested US\$1 million in UTM Systems, a company in Seattle, Washington, USA which specialises in e-commerce security solutions. Its main product is UTMmachine™ which provides a combined hardware-software solution to the security problems for e-commerce transactions on internet. The computer head division is secured as the supplier of this product. To date, the product has received positive response from some major institutions in the financial markets.

## **FINANCIAL POSITION**

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As in the past, the Group continued to sustain a good liquidity position without any long term debt funding. At 30 September 2000, the Group had a net cash surplus of HK\$49 million compared to HK\$154 million at 31 March 2000. The decrease of the net cash surplus was mainly due to the seasonality of the Group's business. Historically, at the end of September more working capital is needed for the higher level of inventory and trade receivables. In addition, the implementation of the VMI as mentioned above has lengthened the cash flow cycle of the computer head business. The toy division also requires more cash flow for a higher level of inventory particularly electronic components of which prices and delivery are volatile and unstable.

## **PROSPECTS AND GENERAL OUTLOOK**

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The directors are of the opinion that the overall situation in the second half of the current fiscal year is quite difficult. The business of the houseware division and the timepiece division in the UK will remain soft due to the continuing weakness of the sterling. As a seasonal pattern, the toy division's business has slowed down from the end of November. Meanwhile, the computer head division is ramping up its production output on the new half inch high capacity heads. Much effort is also being made to improve the yield of this product. It is expected that the production of the new heads will be more steady in early 2001 and, hence, enable the division to return to profitability.

## **DIVIDENDS**

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The Directors have declared an interim dividend of 1 cent per share (1999: 1 cent). The total amount of dividend payment of HK\$6,252,000 was based on the total number of shares in issue as at 18 December 2000 being the latest practicable date prior to the announcement of the interim results. Dividend will be payable on 18 January 2001 to shareholders registered in the Register of Members on 9 January 2001.

## REGISTER OF MEMBERS

The Register of Members will be closed from 5 January 2001 to 9 January 2001, both days inclusive. Shareholders should ensure that all transfers accompanied by relevant share certificates are lodged with the Company's Registrars, Tengis Limited at 4th Floor, Hutchison House, 10 Harcourt Road, Hong Kong for registration not later than 4:00 pm on 4 January 2001 in order that they may receive their dividend entitlement.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the period was the Company or any of its subsidiaries a party to any arrangement to enable the directors or chief executive of the Company or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

## DIRECTORS' INTERESTS IN SHARES

The Directors who held office at 30 September 2000 had the following beneficial interests in the issued share capital of the Company and a subsidiary (within the meaning of the Securities (Disclosure of Interests) Ordinance) at that date as recorded in the register of directors' share interests:

	Number of Shares				Total
	Personal Interests	Family Interests	Corporate Interests	Other Interests (Note)	
<b>Herald Holdings Limited</b> (Shares of US\$0.01 each)					
G. Bloch	150,000	8,091,500	1,250,000	–	9,491,500
D.S. Chang	10,040,000	21,654,879	–	–	31,694,879
S.T.K. Cheung	35,542,808	–	–	75,498,356	111,041,164
M.Y.S. Thong	11,233,308	–	–	–	11,233,308
R. Dorfman	40,470,000	–	–	–	40,470,000

## DIRECTORS' INTERESTS IN SHARES *(continued)*

### Herald Datanetics Limited

(Shares of HK\$10 each)

D.S. Chang	–	29,000	–	–	29,000
S.T.K. Cheung	26,500	–	–	–	26,500
M.Y.S. Thong	7,500	–	–	–	7,500
R. Dorfman	19,750	–	–	–	19,750

*Note: Dr. S.T.K. Cheung is the beneficiary of a family trust which owned 75,498,356 shares in the Company at 30 September 2000.*

## SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

The Company has been notified of the following interests in the Company's issued shares at 30 September 2000 amounting to 10 per cent or more of the shares in issue:

	Shares held	Percentage of total issued shares
Goldfinch Investments Limited ("GIL")	69,728,356	11.15%
HSBC International Trustee Limited ("HIT")	75,698,356	12.11%
HSBC Holdings B.V. ("HHBV")	90,650,856	14.50%
HSBC Holdings plc ("HH")	90,650,856	14.50%
HSBC Finance (Netherlands) Limited ("HFNL")	90,650,856	14.50%
HSBC Investment Bank Holdings B.V. ("HIB")	90,650,856	14.50%

GIL is a company owned by a family trust which owned an aggregate of 75,498,356 shares in the Company at 30 September 2000 as noted under "Directors' interests in shares", comprising 69,728,356 shares held by GIL and 5,770,000 shares held by the trust itself. HIT, the trustee for the trust, was deemed to be interested in the 75,498,356 shares held by the trust. HHBV, HH, HFNL and HIB were all deemed to be interested in these shares due to their direct or indirect holdings in the shares of HIT. In addition, HHBV, HH, HFNL and HIB had a further interest of 15,152,500 shares and HIT had a further interest of 200,000 in the Company at 30 September 2000.

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

During the period, the Company repurchased a total of 10,260,000 of its shares on The Stock Exchange of Hong Kong Limited, all of which were then cancelled. The premium paid on repurchase was charged against share premium in accordance with the Companies Act 1981 of Bermuda (as amended). Details of the shares repurchased are as follows:

<b>Month of repurchase</b>	<b>Number of shares '000</b>	<b>Price per share</b>		<b>Aggregate price HK\$'000</b>
		<b>Highest HK\$</b>	<b>Lowest HK\$</b>	
April 2000	6,635	0.550	0.450	3,480
May 2000	3,625	0.445	0.400	1,579
	<u>10,260</u>			<u>5,059</u>

## **COMPLIANCE WITH THE CODE OF BEST PRACTICE**

None of the Directors is aware of information that would reasonably indicate that the Company is not, or was not, for any part of the accounting period for the six months ended 30 September 2000, in compliance with the Code of Best Practice set out by The Stock Exchange of Hong Kong Limited in Appendix 14 of the Listing Rules. In compliance with the Code of Best Practice, the Company has established an Audit Committee with written terms of reference.

By Order of the Board

**George Bloch**

*Chairman*

Hong Kong, 19 December 2000

*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)*