

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 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	2	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		<u>(16,895)</u>	(20,218)
Administrative expenses		<u>(73,998)</u>	(81,775)
(Loss)/profit from operations	2	(1,014)	13,373
Finance cost		<u>(262)</u>	(828)
Share of profit of a jointly controlled entity		<u>159</u>	335
(Loss)/profit from ordinary activities before taxation	3	(1,117)	12,880
Taxation	4	<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	5		
– 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
	Note		
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	6	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	7	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)
		<u>455,547</u>	<u>458,243</u>
NET ASSETS		<u>455,547</u>	<u>458,243</u>
CAPITAL AND RESERVES			
Share capital	8	48,766	48,766
Reserves	9	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
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Exchange difference on translation of the accounts of foreign entities	9	<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	(6,876)	(21,987)
Net cash outflow before financing	(7,622)	(98,175)
Net cash outflow from financing	—	(5,059)
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	89,404	153,683
Cash and cash equivalents at 30 September	81,883	48,876
Analysis of the balances of cash and cash equivalents		
Cash at bank and in hand	89,769	64,259
Bank loans and overdrafts	(7,886)	(15,383)
	81,883	48,876

Notes to condensed interim accounts

1. Basis of preparation and accounting policies

These unaudited consolidated condensed interim accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants.

These condensed interim accounts should be read in conjunction with the annual accounts for the year ended 31 March 2001.

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 2001, except that the Group has changed certain of its accounting policies following its adoption of the following SSAPs issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after 1 January 2001:

SSAP 9 (revised):	Events after the balance sheet date
SSAP14 (revised):	Leases (effective for periods commencing on or after 1 July 2000)
SSAP 26:	Segment reporting
SSAP 28:	Provisions, contingent liabilities and contingent assets
SSAP 30:	Business combinations
SSAP 31:	Impairment of assets
SSAP 32:	Consolidated financial statements and accounting for investments in subsidiaries

The changes to the Group's accounting policies and the effect of adopting these new policies is set out below:

- (a) SSAP 9 (revised) : Events after the balance sheet date
In accordance with the revised SSAP 9, the Group no longer recognises dividends proposed or declared after the balance sheet date as a liability at the balance sheet date. The change in accounting policy has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

As detailed in note 9, contributed surplus at 1 April 2000 have increased by HK\$18,756,000 which is the reversal of the provision for the 1999/2000 proposed final dividend previously recorded as a liability as at 31 March 2000 although not declared until after balance sheet date.

- (b) SSAP 26 : Segment reporting
In note 2, the Group has disclosed segment revenue and results as defined under SSAP 26. In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format. Comparative information has been given.

(c) SSAP 30 : Business combinations

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions occurring on or after 1 April 2001 is included in intangible assets and is amortised using the straight-line method over its estimated useful life not exceeding 20 years. Goodwill on acquisitions that occurred prior to 1 April 2001 was written off against reserves. The Group has adopted the transitional provisions in SSAP 30 and such goodwill has not been retrospectively capitalised and amortised. However any impairment arising on such goodwill is accounted for in accordance with SSAP 31 "Impairment of assets".

The gain or loss on disposal of an entity includes the unamortised balance of goodwill relating to the entity disposed of or, for pre 1 April 2001 acquisitions, the related goodwill written off against reserves to the extent it has not previously been realised in the profit and loss account.

2. 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 30 September		Six months ended 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>	(450)	18,501
Unallocated costs			(564)	(5,128)
			<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>	<u>18,501</u>
Unallocated costs			<u>(564)</u>	<u>(5,128)</u>
			<u>(1,014)</u>	<u>13,373</u>

3. (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>

4. **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	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.

5. **(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.

6. **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 2001	At 31 March 2001
	HK\$'000	HK\$'000
Within 1 month	95,192	63,503
2 – 3 months	17,950	13,839
Over 3 months	5,529	4,546
	<u>118,671</u>	<u>81,888</u>
Trade debtors and bills receivable	118,671	81,888
Other receivables	16,271	24,072
	<u>134,942</u>	<u>105,960</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.

7. Trade and other payables

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

	At 30 September	At 31 March
	2001	2001
	HK\$'000	HK\$'000
Within 1 month	33,950	54,171
2 – 3 months	23,251	4,877
Over 3 months	4,071	1,887
	<hr/>	<hr/>
Trade creditors and bills payable	61,272	60,935
Accruals and other payables	50,848	51,684
	<hr/>	<hr/>
	112,120	112,619
	<hr/>	<hr/>

8. Share capital

	Number of shares	Amount
	'000	HK\$'000
Authorised:		
Shares of US\$0.01 each	1,000,000	78,000
	<hr/>	<hr/>
Issued and fully paid:		
Shares of US\$0.01 each		
At 1 April 2001 and 30 September 2001	625,201	48,766
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9. 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 as previously reported	31,958	5,885	87,205	(5,636)	295,428	414,840
Effect of adopting SSAP 9 (revised)	—	—	18,756	—	—	18,756
At 1 April 2000 as restated	31,958	5,885	105,961	(5,636)	295,428	433,596
1999/2000 final dividend paid	—	—	(18,756)	—	—	(18,756)
Exchange difference on consolidation	—	—	—	(3,525)	—	(3,525)
Premium paid on repurchase of shares	(4,259)	—	—	—	—	(4,259)
Profit for the year	—	—	—	—	8,673	8,673
2000/2001 interim dividend paid	—	—	(6,252)	—	—	(6,252)
At 31 March 2001	<u>27,699</u>	<u>5,885</u>	<u>80,953</u>	<u>(9,161)</u>	<u>304,101</u>	<u>409,477</u>
At 1 April 2001	27,699	5,885	80,953	(9,161)	304,101	409,477
Exchange difference on consolidation	—	—	—	1,241	—	1,241
Loss for the period	—	—	—	—	(3,937)	(3,937)
At 30 September 2001	<u>27,699</u>	<u>5,885</u>	<u>80,953</u>	<u>(7,920)</u>	<u>300,164</u>	<u>406,781</u>

10. Commitments

At 30 September 2001, the Group had total future aggregate minimum lease payments under non-cancellable operating leases as follows:

	30 September 2001		31 March 2001	
	Land and Buildings	Other	Land and Buildings	Other
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	5,684	819	5,064	384
In the second to fifth year inclusive	12,351	948	3,867	904
After the fifth year	16,518	—	2,935	11
	<u>34,553</u>	<u>1,767</u>	<u>11,866</u>	<u>1,299</u>

11. Contingent liabilities

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

12. Comparative figures

Certain comparative figures have been adjusted to conform with changes in presentation in the current period.

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.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURE

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 2001 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	Family	Corporate	Other	
	Interests	Interests	Interests	Interests (Note)	
Herald Holdings Limited					
(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
R. Dorfman	40,470,000	—	—	—	40,470,000
M.Y.S. Thong	10,233,308	—	—	—	10,233,308
Herald Datanetics Limited					
(Shares of HK\$10 each)					
D.S. Chang	—	29,000	—	—	29,000
S.T.K. Cheung	26,500	—	—	—	26,500
R. Dorfman	19,750	—	—	—	19,750
M.Y.S. Thong	7,500	—	—	—	7,500

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 2001.

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 2001 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	12.10%
HSBC Holdings B.V. ("HHBV")	90,650,856	14.49%
HSBC Holdings plc ("HH")	90,650,856	14.49%
HSBC Finance (Netherlands) ("HFN")	90,650,856	14.49%
HSBC Investment Bank Holdings B.V. ("HIB")	90,650,856	14.49%

GIL is a company owned by a family trust which owned an aggregate of 75,498,356 shares in the Company at 30 September 2001 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, HFN 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, HFN 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 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. 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, 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