

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 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
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	(2)	519,734	479,063
Cost of sales		(412,234)	(368,557)
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		(67,675)	(70,461)
Profit from operations	(2)	24,553	22,946
Finance cost		(54)	(262)
Share of profit of a jointly controlled entity		403	304
Profit from ordinary activities before taxation	(3)	24,902	22,988
Taxation	(4)	(903)	(5,441)
Profit from ordinary activities after taxation		23,999	17,547
Minority interests		(1,423)	(134)
Profit attributable to shareholders		22,576	17,413
Interim dividends		9,228	6,199
Interim dividends per share		1.50 cents	1 cent
Earnings per share	(5)		
– Basic		3.67 cents	2.80 cents

Condensed Consolidated Balance Sheet – Unaudited

At 30 September 2003

		30 September 2003 HK\$'000	31 March 2003 HK\$'000
	Note		
Non-current assets			
Fixed assets	(6)	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	(7)	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	(8)	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	(9)	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	(18,754)	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	(36,458)	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	<u>123,024</u>	<u>169,849</u>
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	(223)	(1,378)
	<u>123,024</u>	<u>169,849</u>

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	<u>26,258</u>	<u>246,962</u>	<u>(6,805)</u>	<u>135,716</u>	<u>402,131</u>
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	<u>27,195</u>	<u>265,466</u>	<u>(10,029)</u>	<u>99,991</u>	<u>382,623</u>

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 ("HKSA").

These condensed interim accounts should be read in conjunction with the annual accounts for the year ended 31 March 2003.

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 2003 except that the Group has changed its accounting policy following its adoption of SSAP 12 (Revised) "Income Taxes" issued by the HKSA which is effective for accounting periods commencing on or after 1 January 2003.

SSAP 12 (Revised) principally prescribes the accounting treatment and disclosures for deferred tax. In prior years, deferred tax was provided using the income statement liability method on all significant timing differences to the extent it was probable that the liability would crystallize in the foreseeable future. A deferred tax asset is not recognized until its realization is assured beyond reasonable doubt. SSAP 12 (Revised) requires the adoption of the balance sheet liability method, whereby deferred tax is recognized in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. The adoption of SSAP 12 (Revised) has had no material effect on the results for the current or prior accounting periods.

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/(loss) for the period by business segment is as follows:

Business segments:

	2003						
	Toy and gift products	Computer heads	Housewares	Timepieces	Others	Inter- segment elimination	Consolidation
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	267,202	67,555	84,355	99,302	1,320	–	519,734
Other revenue	750	89	1,001	266	1,013	–	3,119
Inter-segment revenue	–	–	–	–	1,841	(1,841)	–
Total	<u>267,952</u>	<u>67,644</u>	<u>85,356</u>	<u>99,568</u>	<u>4,174</u>	<u>(1,841)</u>	<u>522,853</u>
Segment result	9,282	729	9,888	4,067	(78)		23,888
Inter-segment transactions	<u>(727)</u>	<u>(627)</u>	<u>–</u>	<u>(487)</u>	<u>1,841</u>		<u>–</u>
Contribution from operations	8,555	102	9,888	3,580	1,763		23,888
Unallocated operating income and expenses							<u>665</u>
Profit from operations							24,553
Finance cost							(54)
Share of profit of a jointly controlled entity	–	–	403	–	–		403
Taxation							(903)
Minority interests							<u>(1,423)</u>
Profit attributable to shareholders							<u>22,576</u>

	Toy and gift products <i>HK\$ '000</i>	Computer heads <i>HK\$ '000</i>	Housewares <i>HK\$ '000</i>	Timepieces <i>HK\$ '000</i>	Others <i>HK\$ '000</i>	Inter- segment elimination <i>HK\$ '000</i>	Consolidation <i>HK\$ '000</i>
Turnover	272,523	53,942	81,438	69,289	1,871	–	479,063
Other revenue	833	43	1,412	224	825	–	3,337
Inter-segment revenue	–	–	–	–	3,706	(3,706)	–
Total	<u>273,356</u>	<u>53,985</u>	<u>82,850</u>	<u>69,513</u>	<u>6,402</u>	<u>(3,706)</u>	<u>482,400</u>
Segment result	31,991	(10,958)	8,200	(5,959)	707		23,981
Inter-segment transactions	<u>(2,082)</u>	<u>(626)</u>	<u>–</u>	<u>(998)</u>	<u>3,706</u>		<u>–</u>
Contribution from operations	29,909	(11,584)	8,200	(6,957)	4,413		23,981
Unallocated operating income and expenses							<u>(1,035)</u>
Profit from operations							22,946
Finance cost							(262)
Share of profit of a jointly controlled entity	–	–	304	–	–		304
Taxation							(5,441)
Minority interests							<u>(134)</u>
Profit attributable to shareholders							<u>17,413</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	
	2003	2002
	HK\$'000	HK\$'000
Europe		
United Kingdom	175,068	135,094
Other countries	45,952	27,670
North America	265,241	259,221
Asia		
Hong Kong	13,273	24,086
The PRC	3,104	1,526
Other countries	8,692	17,822
Others	8,404	13,644
	519,734	479,063

3. Profit from ordinary activities before taxation

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

	Six months ended	
	30 September	
	2003	2002
	HK\$'000	HK\$'000
Interest on borrowings	54	262
Depreciation	12,249	12,037
Net loss on disposal of fixed assets	56	71
Net realised and unrealised (gains)/losses		
on other securities	(1,457)	1,475
Staff costs	87,634	81,615
Interest income	(518)	(439)
Rental income	(1,366)	(1,303)

4. Taxation

	Six months ended 30 September	
	2003	2002
	HK\$'000	HK\$'000
Hong Kong profits tax	160	5,103
Overseas taxation	1,517	270
Deferred taxation	(869)	—
	<hr/>	<hr/>
	808	5,373
Share of a jointly controlled entity's taxation	95	68
	<hr/>	<hr/>
Taxation charge	<u>903</u>	<u>5,441</u>

The provision for Hong Kong Profits Tax is calculated at 17.5% (2002: 16%) of the estimated assessable profits for the six months ended 30 September 2003. 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\$22,576,000 (2002: HK\$17,413,000) and on 615,574,000 (2002: 622,583,000) 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 2003 and 2002.

6. Fixed assets

The movements of fixed assets of the Group were:

	HK\$'000
Net book value as at 1 April 2003	184,787
Additions	4,504
Disposals	(280)
Depreciation	(12,249)
Exchange difference	451
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Net book value as at 30 September 2003	<u>177,213</u>

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:

	30 September 2003 HK\$'000	31 March 2003 HK\$'000
Within 1 month	106,571	51,510
2 – 3 months	31,702	17,877
Over 3 months	279	574
	<hr/>	<hr/>
Trade debtors and bills receivable	138,552	69,961
Other receivables	27,242	24,939
	<hr/>	<hr/>
	165,794	94,900
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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 trade creditors and bills payable with the following ageing analysis:

	30 September 2003 HK\$'000	31 March 2003 HK\$'000
Within 1 month	44,705	26,126
2 – 3 months	22,744	14,621
Over 3 months	2,377	2,190
	<hr/>	<hr/>
Trade creditors and bills payable	69,826	42,937
Accruals and other payables	49,046	46,326
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	118,872	89,263
	<hr/>	<hr/>

9. Share capital

	Number of shares '000	Amount HK\$'000
<i>Authorised:</i>		
Shares of US\$0.01 each	1,000,000	78,000
<i>Issued and fully paid:</i>		
Shares of US\$0.01 each		
At 1 April 2003	616,671	48,100
Shares repurchased and cancelled	(1,445)	(112)
At 30 September 2003	615,226	47,988

10. Commitments

At 30 September 2003, the total future minimum lease payments of the group under non-cancellable operating leases are payable as follows:

	30 September 2003		31 March 2003	
	Land and Buildings HK\$'000	Others HK\$'000	Land and Buildings HK\$'000	Others HK\$'000
Within 1 year	4,318	687	5,765	712
After 1 year but within 5 years	11,773	626	11,950	541
After 5 years	16,297	—	16,568	—
	32,388	1,313	34,283	1,253

11. Contingent liabilities

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

12. Comparative figures

Certain comparative figures have been reclassified to conform with the current period's presentation.

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.

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 p.m. on 7 January 2004 in order that they may receive their dividend entitlement.

SHARE OPTION SCHEME

The old share option scheme adopted by the Company on 30 September 1992 expired on 29 September 2002. All share options granted under the old share option scheme have either been exercised, lapsed or cancelled and there are no outstanding share options granted under the old share option scheme.

At the special general meeting of the Company held on 18 September 2003, an ordinary resolution was passed approving the adoption of a new share option scheme which complied with Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules").

No share options have been granted since the adoption of the new share option scheme.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES

As at 30 September 2003, the beneficial interests of the directors of the Company and their associates in the shares of the Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Long Positions in Shares of the Company

(Shares of US\$0.01 each of the Company)

Directors	Capacity	Personal Interests	Number of shares			Other Interests (Note)	Total	Percentage of total Issued Shares
			Family Interests	Corporate Interests				
G. Bloch	Beneficial owner, interest of spouse and interest of controlled corporation	150,000	8,091,500	1,250,000		–	9,491,500	1.54%
D.S. Chang	Beneficial owner, Interest of spouse and founder of a trust	10,040,000	21,654,879	–	75,498,356		107,193,235	17.42%
S.T.K. Cheung	Beneficial owner and beneficiary of a trust	35,542,808	–	–	75,498,356		111,041,164	18.05%
R. Dorfman	Beneficial owner	46,470,000	–	–	–		46,470,000	7.55%
M.Y.S. Thong	Beneficial owner	11,383,308	–	–	–		11,383,308	1.85%

Save as disclosed above, during the period ended 30 September 2003, none of the directors or chief executives of the Company nor their spouses or children under 18 years of age were granted, or had exercised any rights to subscribe for any equity or debt securities of the Company or its associated corporation.

As at 30 September 2003, no short positions were recorded in the register required to be kept under section 352 of the SFO.

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 2003. Mr. D.S. Chang, being the founder of the trust, is also deemed to be interested in these shares.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES

As at 30 September 2003, the following shareholders were interested in 5 per cent. or more of the issued share capital of the Company according to the register of interests required to be kept by the Company under section 336 of the SFO:

Long Position in Shares of the Company

Shareholders	Capacity	Shares held	Percentage of total issued shares
Goldfinch Investments Ltd ("GIL")	Beneficial owner	69,728,356	11.33%
HSBC International Trustee Ltd ("HIT")	Trustee	75,698,356	12.30%
Gershon Dorfman	Beneficial owner	37,605,799	6.11%

GIL is a company owned by a family trust which owned an aggregate of 75,498,356 shares in the Company at 30 September 2003 as noted under "Directors' interests and short positions 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. In addition, HIT had a further interest of 200,000 shares in the Company at 30 September 2003.

EMPLOYEES

At 30 September 2003, the number of employees of the Group was approximately 200 in Hong Kong, 5,970 in the People's Republic of China and 110 in Europe. 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

During the six months ended 30 September 2003, the Company repurchased a total of 1,445,000 of its shares on the Stock Exchange, 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:

Month of repurchase	Number of shares	Price per share		Aggregate Price HK\$
		Highest	Lowest	
		HK\$	HK\$	
April 2003	575,000	0.260	0.245	146,000
May 2003	470,000	0.290	0.260	126,000
June 2003	400,000	0.385	0.385	155,000
	<u>1,445,000</u>			<u>427,000</u>

AUDIT COMMITTEE

The audit committee comprises two independent non-executive directors 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 2003, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

By Order of the Board

George Bloch

Chairman

Hong Kong, 18 December 2003