



HERALD HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

Interim Results for the six months ended 30 September 2004

PRESS RELEASE

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

Condensed Consolidated Balance Sheet - Unaudited*At 30 September 2004*

	30 September 2004 HK\$'000	31 March 2004 HK\$'000
Non-current assets		
Fixed assets	173,858	178,138
Interest in a jointly controlled entity	1,698	1,984
Other non-current financial assets	8,549	9,265
Deferred tax assets	4,440	4,484
	188,545	193,871
Current assets		
Inventories	160,238	142,505
Trade and other receivables	260,857	139,248
Cash and cash equivalents	129,603	172,330
	550,698	454,083
Current liabilities		
Bank loans and overdrafts – unsecured	2,225	-
Trade and other payables	185,918	118,067
Current tax payable	9,543	2,756
	197,686	120,823
Net current assets	353,012	333,260
Total assets less current liabilities	541,557	527,131
Non-current liabilities		
Deferred tax liabilities	(2,768)	(2,450)
Provision for long service payments	(3,577)	(3,675)
	(6,345)	(6,125)
Minority interests	(25,473)	(27,532)
NET ASSETS	509,739	493,474
CAPITAL AND RESERVES		
Share capital	47,886	47,886
Reserves	461,853	445,588
	509,739	493,474

Condensed Consolidated Cash Flow Statement – Unaudited*For the six months ended 30 September 2004*

	Six months ended 30 September 2004	
	HK\$'000	2003 HK\$'000
Net cash outflow from operating activities	(14,081)	(18,754)
Net cash outflow from investing activities	(10,748)	(3,745)
Net cash outflow from financing activities	(19,672)	(13,959)
Decrease in cash and cash equivalents	(44,501)	(36,458)
Cash and cash equivalents at 1 April	172,330	159,186
Effect of foreign exchange rates changes	(451)	296
Cash and cash equivalents at 30 September	127,378	123,024

Analysis of the balances of cash and cash equivalents

Cash at bank and in hand	129,603	123,247
Short term bank loans and overdrafts	(2,225)	(223)
	127,378	123,024

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\$127million 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.

Herald Holdings Ltd

Hong Kong, 17 December 2004

Contact Person :	Mr. Robert Dorfman	Tel : 2522 6181
	Mr. Michael Thong	Tel : 2726 8111

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