

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 2002, together with the comparative figures for the corresponding period in 2001, as follows:

CONSOLIDATED PROFIT AND LOSS ACCOUNT – UNAUDITED

For the six months ended 30 September 2002

	Note	Six months ended 30 September	
		2002 HK\$'000	2001 HK\$'000
Turnover	(2)	479,063	449,178
Cost of sales		(368,557)	(366,465)
Gross profit		110,506	82,713
Other revenue		3,337	3,620
Other net (loss)/income		(7,427)	3,546
Selling expenses		(18,114)	(16,895)
Administrative expenses		(65,356)	(73,998)
Profit/(loss) from operations	(2)	22,946	(1,014)
Finance cost		(262)	(262)
Share of profit of a jointly controlled entity		304	159
Profit/(loss) from ordinary activities before taxation	(3)	22,988	(1,117)
Taxation	(4)	(5,441)	(2,167)
Profit/(loss) from ordinary activities after taxation		17,547	(3,284)
Minority interests		(134)	(653)
Profit/(loss) attributable to shareholders		17,413	(3,937)
Interim dividends		6,199	—
Interim dividends per share		1 cent	—
Earnings/(loss) per share	(5)	2.80 cents	(0.63 cents)
– Basic		2.80 cents	(0.63 cents)

CONSOLIDATED BALANCE SHEET – UNAUDITED*At 30 September 2002*

		30 September 2002	31 March 2002
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets			
Fixed assets	(6)	179,531	184,516
Interest in a jointly controlled entity		1,610	1,759
Other non-current financial assets		7,161	6,046
		188,302	192,321
Current assets			
Inventories		115,208	112,659
Trade and other receivables	(7)	117,439	121,231
Cash and cash equivalents		171,227	131,081
		403,874	364,971
Current liabilities			
Bank loans and overdrafts		1,378	3,345
Trade and other payables	(8)	127,034	106,812
Taxation		7,334	2,249
		135,746	112,406
Net current assets		268,128	252,565
Total assets less current liabilities		456,430	444,886
Non-current liabilities			
Deferred taxation		(879)	(844)
Provision for long service payments		(6,388)	(5,340)
		(7,267)	(6,184)
Minority interests		(17,211)	(17,853)
NET ASSETS		431,952	420,849
CAPITAL AND RESERVES			
Share capital	(9)	48,404	48,673
Reserves		383,548	372,176
		431,952	420,849

CONDENSED CONSOLIDATED CASH FLOW STATEMENT – UNAUDITED*For the six months ended 30 September 2002*

	Six months ended 30 September	
	2002	2001
	HK\$'000	HK\$'000
Net cash from operating activities	58,832	1,419
Net cash used in investing activities	(8,728)	(6,876)
Net cash used in financing	(9,525)	(2,165)
Increase/(decrease) in cash and cash equivalents	40,579	(7,622)
Cash and cash equivalents at 1 April	128,665	90,333
Effect of foreign exchange rate changes	605	101
Cash and cash equivalents at 30 September	<u>169,849</u>	<u>82,812</u>
Analysis of the balances of cash and cash equivalents		
Cash at bank and in hand	171,227	89,769
Short term bank loans and overdrafts	(1,378)	(6,957)
	<u>169,849</u>	<u>82,812</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – UNAUDITED*For the six months ended 30 September 2002*

	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2002	27,586	271,692	(10,605)	83,503	372,176
Exchange difference on consolidation	–	–	576	–	576
Premium paid on repurchase of shares	(391)	–	–	–	(391)
Final dividend paid in respect of 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>100,916</u>	<u>383,548</u>
At 1 April 2001					
– as previously reported	27,699	271,692	(9,161)	119,247	409,477
– opening balance adjustment in respect of long service payments	–	–	–	(3,328)	(3,328)
– As restated	27,699	271,692	(9,161)	115,919	406,149
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>271,692</u>	<u>(7,920)</u>	<u>111,982</u>	<u>403,453</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 Statements of Standard Accounting Practices ("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 2002.

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 2002 except that the Group has changed certain of its accounting policies following its adoption of the following Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after 1 January 2002:

SSAP 1 (revised) :	Presentation of financial statements
SSAP 11 (revised) :	Foreign currency translation
SSAP 15 (revised) :	Cash flow statements
SSAP 25 (revised) :	Interim financial reporting
SSAP 34 :	Employee benefits

There is no material impact to the financial results and the financial position of the Group by the adoption of the new or revised SSAPs mentioned above.

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 segments and geographical segments is as follows:

Business segments:

	2002						
	Toy and gift products HK\$'000	Computer heads HK\$'000	Housewares HK\$'000	Timepieces HK\$'000	Others HK\$'000	Inter- segment elimination HK\$'000	Con- solidation HK\$'000
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	-	-	-	-	1,583	(1,583)	-
Total	<u>273,356</u>	<u>53,985</u>	<u>82,850</u>	<u>69,513</u>	<u>4,279</u>	<u>(1,583)</u>	<u>482,400</u>
Segment result	30,498	(10,958)	8,200	(6,589)	2,830		23,981
Inter-segment transactions	(589)	(626)	-	(368)	1,583		-
Contribution from operations	29,909	(11,584)	8,200	(6,957)	4,413		23,981
Unallocated operating income and expenses							(1,035)
Profit from operations							22,946
Finance cost							(262)
Share of profit of a jointly controlled entity	-	-	304	-	-		304
Taxation							(5,441)
Minority interests							(134)
Profit attributable to shareholders							<u>17,413</u>

	2001						
	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>	Con- solidation <i>HK\$'000</i>
Turnover	219,122	102,199	53,377	71,930	2,550	–	449,178
Other revenue	510	118	2,058	203	731	–	3,620
Inter-segment revenue	–	–	118	–	2,467	(2,585)	–
Total	<u>219,632</u>	<u>102,317</u>	<u>55,553</u>	<u>72,133</u>	<u>5,748</u>	<u>(2,585)</u>	<u>452,798</u>
Segment result	11,894	(1,055)	(1,929)	(9,220)	(140)		(450)
Inter-segment transactions	<u>(1,009)</u>	<u>(1,134)</u>	<u>118</u>	<u>(442)</u>	<u>2,467</u>		<u>–</u>
Contribution from operations	10,885	(2,189)	(1,811)	(9,662)	2,327		(450)
Unallocated operating income and expenses							<u>(564)</u>
Loss from operations							(1,014)
Finance cost							(262)
Share of profit of a jointly controlled entity	–	–	159	–	–		159
Taxation							(2,167)
Minority interests							<u>(653)</u>
Loss attributable to shareholders							<u><u>(3,937)</u></u>

Geographical segments:

	Turnover		Contribution to profit/ (loss) from operations	
	Six months ended		Six months ended	
	30 September		30 September	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Europe				
United Kingdom	135,094	114,940	2,256	(7,662)
Other countries	27,670	38,323	(1,045)	(2,401)
North America	259,221	196,210	16,679	8,869
Asia				
Hong Kong	24,086	10,074	2,223	(637)
The PRC	1,526	1,782	640	516
Other countries	17,822	74,653	489	(635)
Others	13,644	13,196	1,704	936
	<u>479,063</u>	<u>449,178</u>	<u>22,946</u>	<u>(1,014)</u>

3. Profit/(loss) from ordinary activities before taxation

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

	Six months ended	
	30 September	
	2002	2001
	HK\$'000	HK\$'000
Interest on borrowings	262	262
Depreciation	12,037	13,263
Net loss on disposal of fixed assets	71	—
Net realised and unrealised losses/(gains) on other securities	<u>1,475</u>	<u>(257)</u>

4. Taxation

	Six months ended 30 September	
	2002	2001
	HK\$'000	HK\$'000
Hong Kong profits tax	5,103	2,312
Overseas taxation	270	(64)
Deferred taxation	—	(117)
	5,373	2,131
Share of a jointly controlled entity's taxation	68	36
Taxation charge	<u>5,441</u>	<u>2,167</u>

The provision for Hong Kong Profits Tax is calculated at 16% (2001: 16%) of the estimated assessable profits for the six months ended 30 September 2002. Taxation for overseas subsidiaries is similarly charged at the appropriate current rates of taxation ruling in the relevant countries.

5. Earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the net profit attributable to ordinary shareholders of HK\$17,413,000 (2001: net loss of HK\$3,937,000) and on 622,583,000 (2001: 625,201,000) 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 2002 and 2001.

6. Fixed assets

The movements of fixed assets of the Group were:

	HK\$'000
Net book value as at 1 April 2002	184,516
Additions	6,156
Disposals	(89)
Depreciation	(12,037)
Exchange difference	985
Net book value as at 30 September 2002	<u>179,531</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 2002 HK\$'000	31 March 2002 HK\$'000
Within 1 month	83,344	71,411
2 – 3 months	16,854	24,053
Over 3 months	1,595	8,964
Trade debtors and bills receivable	101,793	104,428
Other receivable	15,646	16,803
	117,439	121,231

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:

	30 September 2002 HK\$'000	31 March 2002 HK\$'000
Within 1 month	41,243	34,048
2 – 3 months	21,397	13,660
Over 3 months	2,792	1,147
Trade creditors and bills payable	65,432	48,855
Accruals and other payables	61,602	57,957
	127,034	106,812

9. Share capital

	Number of shares '000	Amount HK\$'000
Authorised:		
Shares of US\$0.01 each	1,000,000	78,000
Issued and fully paid:		
Shares of US\$0.01 each		
At 1 April 2002	624,011	48,673
Shares repurchased and cancelled	(3,450)	(269)
At 30 September 2002	620,561	48,404

10. Commitments

At 30 September 2002, the Group had total future aggregate minimum lease payments under non-cancellable operating leases as follows:

	30 September 2002		31 March 2002	
	Land and Buildings HK\$'000	Other HK\$'000	Land and Buildings HK\$'000	Other HK\$'000
Within one year	5,079	993	7,039	1,011
In the second to fifth year inclusive	8,449	646	9,720	1,110
After the fifth year	16,870	23	16,379	22
	30,398	1,662	33,138	2,143

11. Contingent liabilities

As at 30 September 2002 and 31 March 2002, the Group did not have 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 2002 amounted to HK\$479,063,000, representing an increase of 6.7% as compared with the corresponding period in the previous year. The profit attributable to shareholders for the same period was HK\$17,413,000 as compared to a loss of HK\$3,937,000 in the half year a year earlier.

Despite the general global economic downturn, the turnover of the Toy and Gift Division for the six months ended 30 September 2002 had a substantial year on year increase of 24%. The strong sales of action figures toys related to the movie "Star Wars : Episode II – Attack of the Clones" continued during the whole period under review. To cope with the growth in business, the division demonstrated that it has successfully reduced its production lead-time through various measures to strengthen its management in material and production controls. Furthermore, the division has also been successful in establishing business with some new toy customers which also contributed to the increase in sales during the period under review.

The houseware division had a satisfactory result during the half-year period under review. For the six months ended 30 September 2002, the division's sales increased by 53% over the corresponding period in 2001. Sales of aluminium cookware grew by 43%. Similarly the stainless steel cookware also recorded a 107% growth in sales. Geographically, the sales in the UK market grew by 16% as compared to the same period last year while sales to the US market grew significantly by five fold due to sales to a new customer.

For the first half, the Computer Head Division had a loss of HK\$10 million primarily due to a drastic decline of 47% in sales when compared to the same period last year. The decrease in sales was due to the loss of a major customer in ferrite tape head business. Although sales in thin-film tape heads had a favourable growth of 86% compared to the previous year's half-year, the additional sales were not enough to make up the loss of sales in the ferrite tape heads.

In the first six months of the year under review, the business of the timepiece division remained stagnant. The division recorded a half-year loss of HK\$8 million compared to a loss of HK\$10 million in the same six months last year. The improvement was partly due to the closure of the loss-making French operation and more favourable gross profit margins resulting from a stronger British Sterling to the US dollar.

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 2002, the Group's net cash surplus further increased to HK\$170 million which was HK\$42 million higher than the HK\$128 million at 31 March 2002. In comparing the levels at 30 September 2002 and the same day last year, the net cash surplus more than doubled. As at 30 September 2002, the working capital ratio, an indicator of a company's liquidity represented by the ratio between current assets over current liabilities, was 2.98 compared to 3.25 at 31 March 2002. 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 2.01, a healthy level similar to that at 31 March 2002.

FOREIGN EXCHANGE EXPOSURE

During the period under review, approximately 23% of the Group's turnover is denominated in sterling and euro. From time to time, the Group enters forward foreign exchange contracts to hedge its foreign exchange exposure.

PROSPECTS AND GENERAL OUTLOOK

The management anticipates that the worldwide economy will remain weak in the second half of the current fiscal year. There are conflicting indications as to whether the world economy will bottom out in 2003. The business of the toy and gift division and the houseware division will perform well in the third quarter of the current financial year. However, due to their seasonal nature, both divisions' businesses will slow down in the fourth quarter. Furthermore, in the second half, the computer head division may still continue to be adversely affected by the low technology spending and the timepiece division will still face difficult market conditions. However, the management remains hopeful that the Group can weather the uncertain market conditions and maintain profitability in the second half of the year.

DIVIDENDS

The Directors have declared an interim dividend of HK1 cent per share (2001: Nil). The total amount of dividend payment of HK\$6,199,000 was based on the total number of shares in issue as at 17 December 2002 being the latest practicable date prior to the announcement of the interim results. Dividend will be payable on 17 January 2003 to shareholders registered in the Register of Members on 10 January 2003.

REGISTER OF MEMBERS

The Register of Members will be closed from 9 January 2003 to 10 January 2003, 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 8 January 2003 in order that they may receive their dividend entitlement.

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 2002 had the following beneficial interests in the issued share capital of the Company (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)				
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

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 2002.

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 2002 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	11.24%
HSBC International Trustee Limited ("HIT")	75,698,356	12.20%
HSBC Europe (Netherlands) BV ("HEN")	75,698,356	12.20%
HSBC Europe BV ("HEBV")	75,698,356	12.20%
Griffin International Limited ("GRIFFIN")	75,698,356	12.20%
Midcorp Limited ("MCL")	75,698,356	12.20%
HSBC Bank plc ("HBP")	75,698,356	12.20%
HSBC Holdings plc ("HHP")	75,698,356	12.20%

GIL is a company owned by a family trust which owned an aggregate of 75,498,356 shares in the Company at 30 September 2002 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. HEN, HEBV, GRIFFIN, MCL, HBP and HHP were all deemed to be interested in these shares due to their direct or indirect holdings in the shares of HIT. In addition, HIT, HEN, HEBV, GRIFFIN, MCL, HBP and HHP had a further interest of 200,000 shares in the Company at 30 September 2002.

EMPLOYEES

At 30 September 2002, the number of employees of the Group was approximately 200 in Hong Kong, 4,130 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 2002, the Company repurchased a total of 3,450,000 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:

Month of repurchase	Number of shares '000	Price per share		Aggregate Price HK\$'000
		Highest HK\$	Lowest HK\$	
April 2002	80	0.190	0.190	16
May 2002	565	0.220	0.225	127
June 2002	765	0.210	0.215	165
July 2002	360	0.190	0.190	69
August 2002	800	0.163	0.166	133
September 2002	880	0.170	0.172	151
	<u>3,450</u>			<u>661</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 2002, 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.

By Order of the Board

George Bloch

Chairman

Hong Kong, 18 December 2002