

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

	Note	Six months ended 30 September	
		2004 HK\$'000	2003 HK\$'000
Turnover	(2)	680,819	519,734
Cost of sales		(528,819)	(412,234)
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		(85,927)	(67,675)
Profit from operations	(2)	44,034	24,553
Finance costs		(115)	(54)
Share of profit of a jointly controlled entity		134	403
Profit from ordinary activities before taxation	(3)	44,053	24,902
Income tax	(4)	(9,315)	(903)
Profit from ordinary activities after taxation		34,738	23,999
Minority interests		922	(1,423)
Profit attributable to shareholders		35,660	22,576
Interim dividends		12,279	9,228
Interim dividends per share		2 cents	1.50 cents
Earnings per share	(5)		
– Basic		5.81 cents	3.67 cents

Condensed Consolidated Balance Sheet – Unaudited

At 30 September 2004

	Note	30 September 2004 HK\$'000	31 March 2004 HK\$'000
Non-current assets			
Fixed assets	(6)	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
		<u>188,545</u>	<u>193,871</u>
Current assets			
Inventories		160,238	142,505
Trade and other receivables	(7)	260,857	139,248
Cash and cash equivalents		129,603	172,330
		<u>550,698</u>	<u>454,083</u>
Current liabilities			
Bank loans and overdrafts – unsecured		2,225	–
Trade and other payables	(8)	185,918	118,067
Current tax payable		9,543	2,756
		<u>197,686</u>	<u>120,823</u>
Net current assets		<u>353,012</u>	<u>333,260</u>
Total assets less current liabilities		<u>541,557</u>	<u>527,131</u>
Non-current liabilities			
Deferred tax liabilities		(2,768)	(2,450)
Provision for long service payments		(3,577)	(3,675)
		<u>(6,345)</u>	<u>(6,125)</u>
Minority interests		<u>(25,473)</u>	<u>(27,532)</u>
NET ASSETS		<u>509,739</u>	<u>493,474</u>
CAPITAL AND RESERVES			
Share capital	(9)	47,886	47,886
Reserves		461,853	445,588
		<u>509,739</u>	<u>493,474</u>

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

	Six months ended	
	30 September	
	2004	2003
	HK\$'000	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

Condensed Consolidated Statement of Changes in Equity – Unaudited

For the six months ended 30 September 2004

	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 2004	25,720	237,734	(737)	182,871	445,588
Exchange difference on consolidation	–	–	(977)	–	(977)
Final dividend approved in respect of the previous year	–	(18,418)	–	–	(18,418)
Profit for the period	–	–	–	35,660	35,660
At 30 September 2004	25,720	219,316	(1,714)	218,531	461,853
At 1 April 2003					
– As previously reported	26,571	259,267	(7,549)	113,140	391,429
– Prior period adjustment in respect of deferred tax (<i>Note</i>)	–	–	–	7,791	7,791
As restated	26,571	259,267	(7,549)	120,931	399,220
Exchange difference on consolidation	–	–	744	–	744
Premium paid on repurchase of shares	(313)	–	–	–	(313)
Final dividend approved in respect of the previous year	–	(12,305)	–	–	(12,305)
Profit for the period	–	–	–	22,576	22,576
At 30 September 2003	26,258	246,962	(6,805)	143,507	409,922

Note: In order to comply with the Statement of Standard Accounting Practice 12 (revised) “Income taxes” issued by the Hong Kong Institute of Certified Public Accountants, the Group adopted a new policy for deferred tax with effect from 1 April 2003. As a result of the adoption of this accounting policy, the opening balance of retained profits in 2003 has been adjusted for the amount relating to prior period.

Notes to Condensed Interim Accounts

1. Basis of preparation and accounting policies

These unaudited consolidated condensed interim accounts are prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Statement of Standard Accounting Practice 25 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

These condensed interim accounts should be read in conjunction with the annual accounts for the year ended 31 March 2004.

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 2004.

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 for the period by business segment is as follows:

Business segments:

	2004						
	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	319,022	58,023	106,439	197,335	-	-	680,819
Other revenue	1,534	106	892	226	805	-	3,563
Inter-segment revenue	-	-	-	-	1,489	(1,489)	-
Total	320,556	58,129	107,331	197,561	2,294	(1,489)	684,382
Segment result	6,529	2,452	6,340	28,469	1,648	-	45,438
Unallocated operating income and expenses							(1,404)
Profit from operations							44,034
Finance costs							(115)
Share of profit of a jointly controlled entity	-	-	134	-	-	-	134
Income tax							(9,315)
Minority interests							922
Profit attributable to shareholders							<u>35,660</u>

	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	267,952	67,644	85,356	99,568	4,174	(1,841)	522,853
Segment result	8,555	102	9,888	3,580	1,763		23,888
Unallocated operating income and expenses							665
Profit from operations							24,553
Finance costs							(54)
Share of profit of a jointly controlled entity	-	-	403	-	-		403
Income tax							(903)
Minority interests							(1,423)
Profit attributable to shareholders							<u>22,576</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	
	2004	2003
	HK\$'000	HK\$'000
Europe		
United Kingdom	334,677	175,068
Other countries	60,912	45,952
North America	238,255	265,241
Asia		
Hong Kong	17,280	13,273
The PRC	4,846	3,104
Other countries	9,192	8,692
Others	15,657	8,404
	680,819	519,734

3. Profit from ordinary activities before taxation

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

	Six months ended	
	30 September	
	2004	2003
	HK\$'000	HK\$'000
Interest on borrowings	115	54
Depreciation	15,751	12,249
Net loss on disposal of fixed assets	143	56
Net realised and unrealised losses/(gains) on other securities	717	(1,457)
Staff costs	102,709	87,634
Interest income	(695)	(518)
Rental income	(1,485)	(1,366)

4. Income tax

	Six months ended 30 September	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong profits tax	4,126	160
Overseas taxation	4,770	1,517
Deferred taxation	369	(869)
	9,265	808
Share of a jointly controlled entity's taxation	50	95
	9,315	903

The provision for Hong Kong Profits Tax is calculated at 17.5% (2003: 17.5%) of the estimated assessable profits for the six months ended 30 September 2004. 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\$35,660,000 (2003: HK\$22,576,000) and on 613,926,000 (2003: 615,574,000) 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 2004 and 2003.

6. Fixed assets

The movements of fixed assets of the Group were:

	<i>HK\$'000</i>
Net book value as at 1 April 2004	178,138
Additions	12,661
Disposals	(962)
Depreciation	(15,751)
Exchange difference	(228)
Net book value as at 30 September 2004	173,858

7. Trade and other receivables

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

	At 30 September 2004 <i>HK\$'000</i>	At 31 March 2004 <i>HK\$'000</i>
By date of invoice		
Within 1 month	182,622	69,862
2-3 months	49,964	24,722
Over 3 months	820	2,751
Trade debtors and bills receivable	233,406	97,335
Other receivables	27,451	41,913
	260,857	139,248

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:

	At 30 September 2004 HK\$'000	At 31 March 2004 HK\$'000
By date of invoice		
Within 1 month	78,994	42,579
2-3 months	27,329	14,254
Over 3 months	1,738	974
Trade creditors and bills payable	108,061	57,807
Accruals and other payables	77,857	60,260
	185,918	118,067

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 2004 and 30 September 2004	613,926	47,886

10. Commitments

At 30 September 2004, the total future minimum lease payments of the group under non-cancellable operating leases are payable as follows:

	30 September 2004		31 March 2004	
	Land and		Land and	
	Buildings	Others	Buildings	Others
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within 1 year	4,110	1,475	6,860	1,422
After 1 year but within 5 years	12,393	1,646	14,364	1,950
After 5 years	14,925	–	17,146	–
	31,428	3,121	38,370	3,372

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\$127 million 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.

SHARE OPTION SCHEME

The Company adopted a new share option scheme on 18 September 2003. No share options have been granted since its adoption.

Apart from the foregoing, at no time during the six months ended 30 September 2004 was the Company or any of its subsidiaries a party to any arrangement to enable the directors 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 AND SHORT POSITIONS IN SHARES

As at 30 September 2004, 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 of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"), were as follows:

Long positions in Shares of the Company

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

Directors	Capacity	Number of shares				Total	Percentage of total Issued shares
		Personal interests	Family interests	Corporate interests	Other interests		
G. Bloch	Beneficial owner, interest of spouse and interests of controlled corporations	150,000	8,091,500	1,250,000 (Note (i))	–	9,491,500	1.55%
D.S. Chang	Beneficial owner, interest of spouse and founder of a trust	10,040,000	21,654,879	–	75,498,356 (Note (ii))	107,193,235	17.46%
S.T.K. Cheung	Beneficial owner, interest of spouse, interest of controlled corporation and beneficiary of a trust	35,542,808	950,000	50,000 (Note (ii))	75,498,356 (Note (ii))	112,041,164	18.25%
R.Dorfman	Beneficial owner	46,470,000	–	–	–	46,470,000	7.57%
M.Y.S. Thong	Beneficial owner	11,383,308	–	–	–	11,383,308	1.85%

Notes:

- (i) Mr. G. Bloch and his associates are beneficial shareholders of 100% and 58% of the issued capital of Anglo Tex Limited and Herald International Limited which owned 1,000,000 shares and 250,000 shares respectively in the Company at 30 September 2004.
- (ii) Dr. S.T.K. Cheung is the beneficiary of a family trust which owned 75,498,356 shares in the Company at 30 September 2004. Mr. D.S. Chang, being the founder of the trust, is also deemed to be interested in these shares. In addition, Dr. S.T. K. Cheung and his associates are beneficial shareholders of 100% of the issued capital of Money Plus Enterprises Limited which owned 50,000 shares in the Company.

As at 30 September 2004, no short positions were recorded in the register required to be kept under section 352 of the SFO.

Apart from the foregoing, none of the directors of the Company or any of their spouses or children under eighteen years of age has interests or short positions in the shares, underlying shares or debentures of the Company and any of its subsidiaries, as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES

As at 30 September 2004, other than the interests disclosed above in respect of directors, 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 positions in Shares of the Company

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

Shareholders	Capacity	Shares held	Percentage of total issued shares
Goldfinch Investments Ltd ("GIL")	Beneficial owner	69,728,356	11.36%
HSBC International Trustee Ltd ("HIT")	Trustee	75,698,356	12.33%
Gershon Dorfman	Beneficial owner	37,605,799	6.13%

GIL is a company owned by a family trust which owned an aggregate of 75,498,356 shares in the Company at 30 September 2004 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 of 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 2004.

As at 30 September 2004, no short positions were recorded in the register required to be kept under section 336 of the SFO.

Apart from the foregoing, no other interests required to be recorded in the register kept under section 336 of the SFO have been notified to the Company.

EMPLOYEES

At 30 September 2004, the number of employees of the Group was 200 (2003: 200) in Hong Kong, 6,927 (2003: 5,970) in the People's Republic of China and 119 (2003: 110) in Europe. Total staff costs for the period under review amounted to HK\$102,709,000 (2003: HK\$87,634,000). 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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 September 2004.

AUDIT COMMITTEE

Mr. Tang King Hung has been appointed as an independent non-executive director and a member of the audit committee of the Company with effect from 28 September 2004. The current audit committee comprises three independent non-executive directors, Mr. Denis Campbell Bray, Mr. Tsao Kwang Yung Peter and Mr. Tang King Hung 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 2004, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

MODEL CODE

The Company adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in the Model Code. Having made specific enquiry of all directors, all directors confirmed that they had complied with the required standard set out in the Model Code and the Company's code of conduct regarding directors' securities transactions during the period.

By Order of the Board

George Bloch

Chairman

Hong Kong, 17 December 2004

As at the date of this report, the Board comprises the following directors:

Executive Directors:

Mr. George Bloch

Dr. Cheung Tsang Kay Stan PhD, Hon LLD, Hon DBA, JP

Mr. Chang Dong Song

Mr. Robert Dorfman

Mr. Thong Yeung Sum Michael FCCA, CPA

Independent Non-executive Directors:

Mr. Denis Campbell Bray CMG, CVO, JP

Mr. Tsao Kwang Yung Peter CBE, CPM

Mr. Tang King Hung ACA, CPA, ACIS