

## BUSINESS REVIEW

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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

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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

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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

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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

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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      |                     |                        |                              |             |
|----------------------------------|-----------------------|---------------------|------------------------|------------------------------|-------------|
|                                  | Personal<br>Interests | Family<br>Interests | Corporate<br>Interests | Other<br>Interests<br>(Note) | Total       |
| <b>Herald Holdings Limited</b>   |                       |                     |                        |                              |             |
| (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  |
| <b>Herald Datanetics Limited</b> |                       |                     |                        |                              |             |
| (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<br>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**

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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**

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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**

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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](http://www.irasia.com/listco/hk/herald) and [www.heraldgroup.com.hk](http://www.heraldgroup.com.hk)*