



HERALD HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code : 00114)

Interim Results for the six months ended 30 September 2005

PRESS RELEASE

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 2005, together with the comparative figures for the corresponding period in 2004, as follows:

RESULTS

Condensed Consolidated Income Statement – Unaudited

For the six months ended 30 September 2005

	Six months ended 30 September	
	2005	2004
	HK\$'000	HK\$'000 (restated)
Turnover	738,468	680,819
Cost of sales	<u>(569,693)</u>	<u>(528,819)</u>
Gross profit	168,775	152,000
Other revenue	5,139	3,563
Other net (loss)/income	(549)	101
Distribution costs	(27,796)	(25,703)
Administrative expenses	<u>(92,580)</u>	<u>(85,927)</u>
Profit from operations	52,989	44,034
Finance costs	(20)	(115)
Share of profit of a jointly controlled entity	<u>381</u>	<u>84</u>
Profit before taxation	53,350	44,003
Income tax	<u>(7,014)</u>	<u>(9,265)</u>
Profit after taxation	<u>46,336</u>	<u>34,738</u>
Attributable to:		
Equity holders of the Company	43,326	35,660
Minority interests	<u>3,010</u>	<u>(922)</u>
	<u>46,336</u>	<u>34,738</u>
Interim dividends	<u>15,348</u>	<u>12,279</u>
Interim dividends per share	<u>2.5 cents</u>	<u>2 cents</u>
Earnings per share		
- Basic	<u>7.06 cents</u>	<u>5.81 cents</u>

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:

	Turnover		Contribution to profit	
	Six months ended		from operations	
	30 September		Six months ended	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(restated)		(restated)
Business segments:				
Toy and gift products	394,323	319,022	26,288	6,420
Computer heads	76,241	58,023	9,310	2,452
Housewares	123,505	106,439	6,283	6,340
Timepieces	128,975	180,494	9,033	26,487
Others	15,424	16,841	3,477	3,739
	<u>738,468</u>	<u>680,819</u>	<u>54,391</u>	<u>45,438</u>
Unallocated operating income and expenses			<u>(1,402)</u>	<u>(1,404)</u>
Profit from operations			<u>52,989</u>	<u>44,034</u>

An analysis of the Group's turnover for the period by geographical segment is as follows:

	Turnover	
	Six months ended	
	30 September	
	2005	2004
	HK\$'000	HK\$'000
Geographical segments:		
Europe		
United Kingdom	249,438	334,677
Other countries	52,561	60,912
North America	374,653	238,255
Asia		
Hong Kong	32,001	17,280
The PRC	6,728	4,846
Other countries	7,133	9,192
Others	15,954	15,657
	<u>738,468</u>	<u>680,819</u>

BUSINESS REVIEW

The Group's turnover for the six months to 30 September 2005 amounted to HK\$738 million, 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\$ 43.3 million, up 21.3% from the profit of HK\$35.7 million in the same period a year

earlier. The improvements in the Group's turnover and net profit were predominantly due to the better results from the Toy and Gift Division.

During the period under review, the turnover of the Toy and Gift Division increased by 24% from HK\$319 million to HK\$394 million. The increase was, to a large extent, driven by the continued strong sales of toys related to the "Star Wars" brand. Due to a larger volume of sales, the operating profit of the Division increased by more than 3 times to HK\$26.3 million as compared to HK\$6.4 million in the same period in 2004. Like all other factories in the Pearl River Delta, the Division's factories suffered from severe shortages of labour and electricity. In addition, the factories were forced to raise wages of their workers by approximately 28% to 30% as compared to the wage level last year. We are pleased that the Division overcame these difficulties and achieved substantially better results over the first half last year.

Thin-film and ferrite computer tape heads remained the principal products of the Computer Head Division. For the six months ended 30 September 2005, the Division had a turnover of HK\$76 million, an increase of HK\$18 million or 31% from HK\$58 million last year. Sales of the thin-film tape heads increased by 9% while the sales of the ferrite heads doubled. The Division had a half-year operating profit of HK\$9.3 million, compared to HK\$2.5 million in the prior year.

The business of the Houseware Division remained stable in the six months ended 30 September 2005. The half-yearly sales of the Division amounted to HK\$124 million, representing an increase of 17% over the corresponding period last year. Pilot Housewares, the Division's distribution operation in the UK, experienced a tough time and saw a 22% decline in sales in local currency. On the other hand, the Division's business in the USA market recorded a very favourable growth of 53%, which more than made up the loss in sales in the UK. The Division's profit from operations amounted to HK\$6.3 million, slightly lower than the previous year's level.

The UK is the largest market for the Timepiece Division, accounting for approximately 82% of the total sales of the Division in the first six months of the fiscal year. Retail sales in the UK have suffered a decline in 2005. Retailers like Littlewood's Index stores and Allders have either cut down the number of their stores or ceased operations. As some of these retailers were important customers of the Division, the half-yearly sales of the Division decreased by 28% to HK\$129 million as compared to last year. The operating profit was HK\$9 million, down from last year's HK\$26.5 million.

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 2005 the Group's net cash surplus was HK\$222 million which was slightly lower than the HK\$223 million at 31 March 2005. During the period under review, the Group generated HK\$77.9 million cash flow from its operating activities and used HK\$27.6 million to pay the final dividend for the year ended 31 March 2005 and HK\$46.8 million to purchase other financial assets which included listed shares and equity linked deposits.

The Group's current assets position as at 30 September 2005 was HK\$599 million compared to HK\$567 million as at 31 March 2005. The trade and other receivables increased to HK\$220 million from HK\$174 million. The increases were in line with the

growth of the Group's sales activities. The Group's current liabilities increased from HK\$166 million to HK\$223 million primarily due to increase in trade and other payables. The working capital ratio, an indicator of a Company's liquidity represented by the ratio between current assets over current liabilities, was 2.69 compared to 3.41 at 31 March 2005. 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 the current liabilities, decreased to 1.87 from 2.21 at 31 March 2005.

PROSPECTS AND GENERAL OUTLOOK

This year, the Group has achieved satisfactory results in the first half. However, the Management foresees that the overall operating conditions in the second half will be less favourable. The order positions of the Group have slowed down in October 2005. The Toy and Gift Division usually performs better in the first half than the second half. Last year was considered to be exceptional due to the strong sales of the "Star Wars" toys. Notwithstanding that there are some positive signs that UK retail sales are gradually improving, the Management believes that the Timepiece Division may not perform in the second half as well as last year. On the other hand, both the businesses of the Computer Head Division and the Houseware Division will remain stable in the second half.

DIVIDENDS

The Directors have declared an interim dividend of HK2.5 cents per share (2004: HK2 cents). The total amount of dividend payment of HK\$15,348,000 was based on the total number of shares in issue as at 15 December 2005 being the latest practicable date prior to the announcement of the interim results. Dividend will be payable on 20 January 2006 to shareholders registered in the Register of Members on 11 January 2006.

REGISTER OF MEMBERS

The Register of Members will be closed from 10 January 2006 to 11 January 2006, both days inclusive. Shareholders should ensure that all transfers accompanied by relevant share certificates are lodged with the Company's Registrars, Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:00 pm on 9 January 2006 in order that they may receive their dividend entitlement. Shareholders should be aware that the Company's Registrars will be relocated to the above address with effect from 3 January 2006 and prior to that date, its address is G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.

Herald Holdings Limited
Hong Kong, 16 December 2005

Contact Person: Mr. Robert Dorfman 2522 6181
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**For identification only*