



HERALD HOLDINGS LIMITED

興利集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code : 00114)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2006

RESULTS

The Board of Directors of Herald Holdings Limited (the “Company”) presents the unaudited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 September 2006, together with the comparative figures for the corresponding period in 2005, as follows:

Consolidated Income Statement – Unaudited

For the six months ended 30 September 2006

		Six months ended 30 September	
	Note	2006 HK\$'000	2005 HK\$'000
Turnover	2	744,878	738,468
Cost of sales		<u>(593,273)</u>	<u>(569,693)</u>
Gross profit		151,605	168,775
Other revenue		10,683	5,139
Other net income/(loss)		10,526	(549)
Selling expenses		(26,443)	(27,796)
Administrative expenses		<u>(94,455)</u>	<u>(92,580)</u>
Profit from operations	2	51,916	52,989
Finance costs		(39)	(20)
Share of profit of jointly controlled entity		<u>220</u>	<u>381</u>
Profit before taxation	3	52,097	53,350
Income tax	4	<u>(3,761)</u>	<u>(7,014)</u>
Profit for the period		<u>48,336</u>	<u>46,336</u>
Attributable to:			
Equity shareholders of the Company		47,743	43,326
Minority interests		<u>593</u>	<u>3,010</u>
Profit for the period		<u>48,336</u>	<u>46,336</u>
Interim dividends		<u>18,418</u>	<u>15,348</u>
Interim dividends per share		<u>3 cents</u>	<u>2.5 cents</u>
Earnings per share	5		
- Basic and diluted		<u>7.78 cents</u>	<u>7.06 cents</u>

Consolidated Balance Sheet - Unaudited*At 30 September 2006*

	Note	As at 30 September 2006 HK\$'000	As at 31 March 2006 HK\$'000
Non-current assets			
Fixed assets			
- Investment properties		16,750	16,750
- Other property, plant and equipment		149,268	154,848
- Interests in leasehold land held for own use under operating leases		6,319	6,468
		<u>172,337</u>	<u>178,066</u>
Club membership		1,660	1,660
Interest in jointly controlled entity		1,965	2,150
Other financial assets		2,000	2,000
Deferred tax assets		9,777	5,249
		<u>187,739</u>	<u>189,125</u>
Current assets			
Trading securities		58,218	59,917
Inventories		185,209	140,459
Trade and other receivables	6	308,308	131,657
Current tax recoverable		109	2,932
Cash and cash equivalents		197,803	239,395
		<u>749,647</u>	<u>574,360</u>
Current liabilities			
Trade and other payables	7	262,959	121,003
Current tax payable		6,451	2,728
		<u>269,410</u>	<u>123,731</u>
Net current assets		<u>480,237</u>	<u>450,629</u>
Total assets less current liabilities		<u>667,976</u>	<u>639,754</u>
Non-current liabilities			
Deferred tax liabilities		1,948	1,642
Provision for long service payments		2,799	2,799
		<u>4,747</u>	<u>4,441</u>
NET ASSETS		<u>663,229</u>	<u>635,313</u>
CAPITAL AND RESERVES			
Share capital		47,886	47,886
Reserves		582,639	554,423
Total equity attributable to equity shareholders of the Company		<u>630,525</u>	<u>602,309</u>
Minority interests		32,704	33,004
TOTAL EQUITY		<u>663,229</u>	<u>635,313</u>

NOTES:

1. Basis of preparation and accounting policies

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), including compliance with Hong Kong Accounting Standard (“HKAS”) 34, Interim financial reporting, issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). It was authorized for issuance on 15 December 2006.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the annual financial statements for the year ended 31 March 2006, except for the adoption of certain new standards, amendments and interpretations issued by the HKICPA, which are effective for accounting periods beginning on or after 1 January 2006. The adoption of the new standards, amendments and interpretations had no material effect on the Group’s results of operation and financial position.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgments, estimates and assumption that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The interim financial report is unaudited, but has been reviewed by the audit committee of the Company.

2. Segment reporting

Segment information is presented in respect of the Group’s business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group’s internal financial reporting.

Business segments

The Group comprises the following main business segments:

Toy and gift products	:	The manufacture, sale and distribution of toy and gift products.
Computer heads	:	The manufacture and sale of computer heads.
Housewares	:	The manufacture, sale and distribution of housewares.
Timepieces	:	The manufacture, sale and distribution of clocks, watches and electronics products.
Others	:	The leasing of properties to generate rental income and other distribution activities.

Geographical segments:

The Group's business is managed on a worldwide basis, but participates mainly in three principal economic environments. North America is a major market for the toy and gift division, the computer head division and the houseware division. Europe is a major market for the timepiece division and the houseware division and to a lesser extent the toy and gift division and the computer head division. In Asia, the Group's manufacturing activities are carried out in the Mainland China.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers.

	Turnover	
	Six months ended	
	30 September	
	2006	2005
	HK\$'000	HK\$'000
Europe		
United Kingdom	259,873	249,438
Other countries	71,232	52,561
North America	336,868	374,653
Asia		
Hong Kong	24,586	32,001
Mainland China	4,450	6,728
Other countries	22,143	7,133
Others	25,726	15,954
	<u>744,878</u>	<u>738,468</u>

3. Profit before taxation

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

	Six months ended	
	30 September	
	2006	2005
	HK\$'000	HK\$'000
Interest on borrowings	39	20
Depreciation	13,920	13,249
Amortisation of land lease premium	149	149
Net loss/(gain) on disposal of fixed assets	139	(72)
Net realised and unrealised gains on trading securities	(5,126)	(82)
Staff costs	136,027	122,357
Interest income	(4,036)	(1,999)
Rental income	(1,692)	(1,541)
Dividend income	(1,479)	(35)
Share of jointly controlled entity's taxation	89	108

4. Income tax

	Six months ended 30 September	
	2006	2005
	HK\$'000	HK\$'000
Hong Kong Profits Tax	7,713	6,652
Taxation outside Hong Kong	329	913
Deferred taxation	<u>(4,281)</u>	<u>(551)</u>
	<u>3,761</u>	<u>7,014</u>

Provision for Hong Kong Profits Tax is calculated at 17.5% (2005: 17.5%) of the estimated assessable profits for the six months ended 30 September 2006. Taxation for subsidiaries outside Hong Kong is charged at the appropriate current rates of taxation ruling in the relevant tax jurisdictions.

5. Earnings per share

The calculation of basic earnings per share is based on the profit attributable to the equity shareholders of the Company of HK\$47,743,000 (2005: HK\$43,326,000) and the weighted average number of shares of 613,926,000 (2005: 613,926,000) in issue during the period.

There were no dilutive potential shares in existence during the periods ended 30 September 2006 and 2005, therefore diluted earnings per share are same as the basic earnings per share for both the current and prior periods.

6. Trade and other receivables

Included in trade and other receivables are trade debtors and bills receivable (net of impairment losses for bad and doubtful debts) with the following ageing analysis as of the balance sheet date:

	At 30 September 2006	At 31 March 2006
	HK\$'000	HK\$'000
By date of invoice		
Within 1 month	189,024	66,721
Over 1 month but within 3 months	72,434	33,601
Over 3 months	<u>5,011</u>	<u>1,429</u>
Trade debtors and bills receivable	266,469	101,751
Deposits, prepayments and other receivables	<u>41,839</u>	<u>29,906</u>
	<u>308,308</u>	<u>131,657</u>

All of the trade and other receivables are expected to be recovered within one year. 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.

7. Trade and other payables

Included in trade and other payables are trade creditors and bills payable with the following ageing analysis as of the balance sheet date:

	At 30 September 2006 HK\$'000	At 31 March 2006 HK\$'000
By date of invoice		
Within 1 month	84,009	35,070
Over 1 month but within 3 months	44,438	9,535
Over 3 months	1,832	689
	<hr/>	<hr/>
Trade creditors and bills payable	130,279	45,294
Accruals and other payables	132,680	75,709
	<hr/>	<hr/>
	262,959	121,003

All of the trade and other payables are expected to be settled within one year.

8. 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 2006 amounted to HK\$745 million, representing a slight increase of 0.9% as compared with the corresponding period in the previous year. The profit attributable to shareholders for the same period was HK\$47.7 million, up 10.2% or HK\$4.4 million from the profit of HK\$43.3 million in the same period a year earlier.

The six months under review was a very challenging period for the Group. Due to rising labour and material costs as well as the appreciation of the Renminbi, the gross profit percentage for the period declined by 2.5% to 20.4% from 22.9%. Though the Group's turnover was level with last year, the gross profit for the period fell by 10.2% or HK\$17.2 million from HK\$168.8 million to HK\$151.6 million. For the first half of the fiscal year, the Group's other revenue was HK\$10.7 million and the other net income was HK\$10.5 million. For the same period last year, the Group had other revenue of HK\$5.1 million and other net loss of HK\$0.5 million. The increase of the other revenue was as a result of higher interest rates. The increase in the net income for the period under review was primarily due to better investment gains arising from the Group's listed and unlisted trading securities and a gain of HK\$3.4 million relating to the write back of an investment of a jointly controlled entity which is in voluntary liquidation. The additional profits arising from the other revenue and the net income, which together totaled HK\$16.6 million, made up the decrease of the gross profit as mentioned above and helped the Group to achieve a higher net profit in the six months to 30 September 2006 as compared with the net profit for the same period a year ago.

During the period under review, the turnover of the Toy and Gift Division increased by 6.1% from HK\$394 million to HK\$418 million. The sales of toys related to the "Star Wars" brand as well as other toy categories remained very strong in the first half of the fiscal year. The problems of shortages of labour and electricity supply continue to affect all toy factories in the Pearl River Delta region. Last year, the Dongguan authorities raised the minimum wage by 27.5%. This year, with effect from September 2006, the minimum wage in Dongguan has further been increased by 20% to

RMB690 per month. Largely due to the increase in wages, the gross profit percentage of the division for the first six months of the year was reduced by 2% to 17%. Despite these adverse market conditions, the division is pleased to see that it fulfilled on time all shipment schedules of its customers. The operating profit of the division for the period was HK\$19.6 million compared to an operating profit of HK\$25.5 million in the corresponding period in 2005.

The turnover of the Timepiece Division edged downward by 2.3% from HK\$129 million to HK\$126 million. During the period under review the RoHS directive, a new regulation in the EU restricting electrical and electronic equipment that contains certain hazardous substances, came in force. The additional costs incurred to comply with the directive as well as rising wage level forced the division's suppliers to increase their prices. This has reduced the gross profit margin of the division. For the first half of the fiscal year, the division had an operating profit of HK\$6.7 million, down from the first half operating profit of HK\$8.9 million in the prior year.

The business of the Computer Head Division remained stable in the six months ended 30 September 2006. The sales for the first half were HK\$76.5 million which were virtually flat as compared with the same period last year. The business of the computer ferrite heads started to decline. However, the business of the computer thin-film heads grew by 10.8% and made up for the loss of turnover from the ferrite heads. The division had a half-yearly operating profit of HK\$7.3 million, down from HK\$9.1 million in the prior year.

Largely due to the weakness of the UK market, the sales of the Houseware Division decreased by 6.3% from HK\$123.5 million to HK\$115.7 million. The increases of prices of aluminium and stainless steel continued to have a negative impact on the results of the division. On a year-on-year comparison, the operating profit of the division for the first half under review declined from HK\$6.1 million to HK\$2.6 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 2006 the Group's net cash surplus was HK\$198 million which was lower than the HK\$239 million at 31 March 2006. During the period under review, the Group used HK\$22.4 million to finance its operating activities and HK\$24.6 million to pay the final dividend for the year ended 31 March 2006.

The Group's current assets position as at 30 September 2006 was HK\$750 million compared to HK\$574 million as at 31 March 2006. The trade and other receivables increased to HK\$308 million from HK\$132 million. The Group's current liabilities increased from HK\$124 million to HK\$269 million primarily due to increase in trade and other payables. The increase in trade and other receivables as well as the increase in trade and other payables reflect the seasonality of the Group's sales activities. The Group's trading securities as at 30 September 2006 amounted to HK\$58 million compared to HK\$60 million as at 31 March 2006. Trading securities and bank deposits totalling HK\$64 million (At 31 March 2006: HK\$37 million) are pledged to a bank to secure banking facilities granted to a subsidiary of the Company. The working capital ratio, an indicator of a Company's liquidity represented by the ratio between current assets over current liabilities, was 2.78 compared to 2.69 at 30 September 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 1.72 from 1.87 at 30 September 2005.

PROSPECTS AND GENERAL OUTLOOK

The Group has achieved satisfactory results in the first half. As the order positions for the third quarter of the current fiscal year remain very strong, the management expects that turnover for the

second half will show some growth. However, the gross profit of the Group will continue to be squeezed by higher wages and higher material costs. Despite these negative factors, the management is confident that the Group will continue to achieve a satisfactory result for the shareholders in the second half of the financial year.

CONTINGENT LIABILITIES

As at 30 September 2006, the Group did not have any significant contingent liabilities.

FOREIGN EXCHANGE EXPOSURE

During the period under review, approximately 23% 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.

DIVIDENDS

The Directors have declared an interim dividend of HK3 cents per share (2005: HK2.5 cents). The total amount of dividend payment of HK\$18,418,000 (2005: HK\$15,348,000) was based on the total number of shares in issue as at 14 December 2006 being the latest practicable date prior to the announcement of the interim results. Dividend will be payable on 24 January 2007 to shareholders registered in the Register of Members on 11 January 2007.

REGISTER OF MEMBERS

The Register of Members will be closed from 10 January 2007 to 11 January 2007, 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, Hong Kong for registration not later than 4:00 pm on 9 January 2007 in order that they may receive their dividend entitlement.

EMPLOYEES

At 30 September 2006, the number of employees of the Group was 215 (2005: 208) in Hong Kong, 8,982 (2005: 7,975) in the Mainland China and 103 (2005: 107) in Europe. Total staff costs for the period under review amounted to HK\$136,027,000 (2005: HK\$122,357,000). 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, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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 2006.

AUDIT COMMITTEE

The audit committee reports to the board of directors and currently comprises three independent non-executive directors, namely Mr. Tang King Hung, being the chairman, Mr. David Tai Chong Lie-A-Cheong and Mr. Yeh Man Chun Kent. The audit committee meets with Group's senior management and external auditors regularly to discuss audit matters. The audit committee also reviews the effectiveness of the internal control systems. The interim report has been reviewed by the audit committee of the Company.

REMUNERATION COMMITTEE

The Company established a remuneration committee on 16 March 2005. The remuneration committee comprises two independent non-executive directors, namely Mr. Tang King Hung, being

the Chairman, and Mr. Yeh Man Chun Kent and one executive director, namely Mr. Thong Yeung Sum Michael. The terms of reference of the remuneration committee have been included on the Company's website.

CORPORATE GOVERNANCE PRACTICES

The Company has complied throughout the six months ended 30 September 2006 with the code provisions of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Listing Rules except that the independent non-executive directors are not appointed for a specific term, which deviates from the code provision A.4.1. However, the independent non-executive directors are subject to retirement from office by rotation under the requirements of the Bye-laws of the Company. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the CG Code.

MODEL CODE

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standards of the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. Having made specific enquiry of the Company's directors, all directors confirmed that they have complied with the required standards set out in the Model Code and the Company's code of conduct regarding directors' securities transactions.

PUBLICATION OF INTERIM REPORT ON THE STOCK EXCHANGE'S WEBSITE

The interim report of the Company for the six months ended 30 September 2006 containing all the information required by Appendix 16 of the Listing Rules will be dispatched to shareholders and published on the Stock Exchange's website in due course.

By Order of the Board
George Bloch
Chairman

Hong Kong, 15 December 2006

As at the date of this announcement, 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. Tang King Hung ACA, FCCA, ACIS, CPA
Mr. David Tai Chong Lie-A-Cheong JP
Mr. Yeh Man Chun Kent

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

**For identification only*