



# HERALD HOLDINGS LIMITED

## 興利集團有限公司\*

(Incorporated in Bermuda with limited liability)

(Stock Code : 00114)

### INTERIM RESULTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2006

### PRESS RELEASE

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

**Consolidated Balance Sheet - Unaudited***At 30 September 2006*

	As at 30 September 2006 HK\$'000	As at 31 March 2006 HK\$'000
<b>Non-current assets</b>		
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>	178,066
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>	189,125
<b>Current assets</b>		
Trading securities	58,218	59,917
Inventories	185,209	140,459
Trade and other receivables	308,308	131,657
Current tax recoverable	109	2,932
Cash and cash equivalents	197,803	239,395
	<u>749,647</u>	574,360
<b>Current liabilities</b>		
Trade and other payables	262,959	121,003
Current tax payable	6,451	2,728
	<u>269,410</u>	123,731
<b>Net current assets</b>	<u>480,237</u>	450,629
<b>Total assets less current liabilities</b>	<u>667,976</u>	639,754
<b>Non-current liabilities</b>		
Deferred tax liabilities	1,948	1,642
Provision for long service payments	2,799	2,799
	<u>4,747</u>	4,441
<b>NET ASSETS</b>	<u>663,229</u>	635,313
<b>CAPITAL AND RESERVES</b>		
Share capital	47,886	47,886
Reserves	582,639	554,423
<b>Total equity attributable to equity shareholders of the Company</b>	<u>630,525</u>	602,309
Minority interests	32,704	33,004
<b>TOTAL EQUITY</b>	<u>663,229</u>	635,313

## **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

