



HERALD HOLDINGS LIMITED

興利集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code : 00114)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2007

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 2007, together with the comparative figures for the corresponding period in 2006, as follows:

Consolidated Income Statement – Unaudited

For the six months ended 30 September 2007

		Six months ended 30 September	
	Note	2007 HK\$'000	2006 HK\$'000
Turnover	2	824,143	744,878
Cost of sales		<u>(637,802)</u>	<u>(593,273)</u>
Gross profit		186,341	151,605
Other revenue		13,603	10,683
Other net income		2,263	10,526
Selling expenses		(28,591)	(26,443)
Administrative expenses		<u>(105,539)</u>	<u>(94,455)</u>
Profit from operations	2	68,077	51,916
Finance costs		(645)	(39)
Share of profit of jointly controlled entity		<u>283</u>	<u>220</u>
Profit before taxation	3	67,715	52,097
Income tax	4	<u>(9,985)</u>	<u>(3,761)</u>
Profit for the period		<u>57,730</u>	<u>48,336</u>
Attributable to:			
Equity shareholders of the Company		57,994	47,743
Minority interests		<u>(264)</u>	<u>593</u>
Profit for the period		<u>57,730</u>	<u>48,336</u>
Interim dividends		<u>18,228</u>	<u>18,418</u>
Interim dividends per share		<u>3 cents</u>	<u>3 cents</u>
Earnings per share	5		
- Basic and diluted		<u>9.54 cents</u>	<u>7.78 cents</u>

Consolidated Balance Sheet - Unaudited

At 30 September 2007

	Note	As at 30 September 2007 HK\$'000	As at 31 March 2007 HK\$'000
Non-current assets			
Fixed assets			
- Property, plant and equipment		149,674	153,418
- Investment properties		21,900	21,900
- Interests in leasehold land held for own use under operating leases		6,090	6,204
		177,664	181,522
Club membership		1,820	1,820
Interest in jointly controlled entity		2,060	1,998
Interest in associate		4,680	-
Deferred tax assets		8,108	6,128
		194,332	191,468
Current assets			
Other financial assets		2,000	2,000
Trading securities		140,005	95,774
Inventories		187,443	180,629
Trade and other receivables	6	290,540	179,958
Current tax recoverable		981	1,566
Pledged bank balances		15,708	37,122
Cash and cash equivalents		173,555	203,163
		810,232	700,212
Current liabilities			
Trade and other payables	7	240,917	171,959
Current tax payable		14,727	7,637
		255,644	179,596
Net current assets			
		554,588	520,616
Total assets less current liabilities			
		748,920	712,084
Non-current liabilities			
Deferred tax liabilities		1,530	826
Provision for long service payments		2,474	2,600
		4,004	3,426
NET ASSETS			
		744,916	708,658
CAPITAL AND RESERVES			
Share capital		47,392	47,392
Reserves		668,277	631,169
Total equity attributable to equity shareholders of the Company			
		715,669	678,561
Minority interests			
		29,247	30,097
TOTAL EQUITY			
		744,916	708,658

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 authorised for issuance on 14 December 2007.

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 2007. Following the Group’s acquisition of an interest in an associate in September 2007, the Group has also applied the following accounting policies for associate and goodwill.

(a) Associate

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group’s share of the associate’s net assets. The consolidated income statement includes the Group’s share of the post-acquisition, post-tax results of the associates for the period, including any impairment loss on goodwill relating to the investment in associates recognised for the period.

When the Group’s share of losses exceeds its interest in the associate, the Group’s interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the Group’s interest in the associate is the carrying amount of the investment under the equity method together with the Group’s long-term interests that in substance form part of the Group’s net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group’s interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

(b) Goodwill

Goodwill represents the excess of the cost of an investment in an associate over the Group’s interest in the net fair value of the acquiree’s identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is tested annually for impairment. The carrying amount of goodwill is included in the carrying amount of the interest in the associate.

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of an investment in an associate is recognised immediately in profit or loss.

In the current period, the Group has applied, for the first time, certain new standards, amendments and interpretations issued by the HKICPA, which are effective for accounting periods beginning on or after 1 January 2007. 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 assumptions 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 information

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.
Investments	:	The investment in equity securities, structured products and managed funds.
Others	:	The leasing of properties to generate rental income and other distribution activities.

Six months ended 30 September 2007

	Toy and gift products <i>HK\$'000</i>	Computer heads <i>HK\$'000</i>	Housewares <i>HK\$'000</i>	Timepieces <i>HK\$'000</i>	Investments <i>HK\$'000</i>	Others <i>HK\$'000</i>	Inter- segment elimination <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Revenue from external customers	477,266	78,528	97,011	161,196	-	10,142	-	824,143
Other revenue from external customers	1,213	-	3,496	473	3,807	881	-	9,870
Inter-segment revenue	-	-	-	-	-	1,489	(1,489)	-
Total	<u>478,479</u>	<u>78,528</u>	<u>100,507</u>	<u>161,669</u>	<u>3,807</u>	<u>12,512</u>	<u>(1,489)</u>	<u>834,013</u>
Segment result	25,289	5,472	4,082	18,017	9,195	3,631		65,686
Unallocated operating income and expenses								2,391
Profit from operations								68,077
Finance costs								(645)
Share of profit of jointly controlled entity	-	-	283	-	-	-		283
Income tax								(9,985)
Profit for the period								<u>57,730</u>

Six months ended 30 September 2006

	Toy and gift products <i>HK\$ '000</i>	Computer heads <i>HK\$ '000</i>	Housewares <i>HK\$ '000</i>	Timepieces <i>HK\$ '000</i>	Investments <i>HK\$ '000</i>	Others <i>HK\$ '000</i>	Inter- segment elimination <i>HK\$ '000</i>	Consolidated <i>HK\$ '000</i>
Revenue from external customers	418,339	76,518	115,659	125,909	-	8,453	-	744,878
Other revenue from external customers	1,327	-	2,535	510	2,552	796	-	7,720
Inter-segment revenue	-	-	-	-	-	1,489	(1,489)	-
Total	<u>419,666</u>	<u>76,518</u>	<u>118,194</u>	<u>126,419</u>	<u>2,552</u>	<u>10,738</u>	<u>(1,489)</u>	<u>752,598</u>
Segment result	19,612	7,299	2,609	6,693	7,678	1,142		45,033
Unallocated operating income and expenses								6,883
Profit from operations								51,916
Finance costs								(39)
Share of profit of jointly controlled entity	-	-	220	-	-	-		220
Income tax								(3,761)
Profit for the period								<u>48,336</u>

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	
	2007	2006
	HK\$'000	HK\$'000
Europe		
United Kingdom	283,938	259,873
Other countries	76,100	71,232
North America	385,800	336,868
Asia		
Hong Kong	29,835	24,586
Mainland China	3,720	4,450
Other countries	11,347	22,143
Others	33,403	25,726
	<u>824,143</u>	<u>744,878</u>

3. Profit before taxation

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

	Six months ended	
	30 September	
	2007	2006
	HK\$'000	HK\$'000
Interest on borrowings	645	39
Depreciation	14,195	13,920
Amortisation of land lease premium	155	149
Net loss on disposal of fixed assets	-	139
Net realised and unrealised gains on trading securities	(5,497)	(5,126)
Staff costs	159,927	136,027
Interest income		
- trading securities	(2,936)	(1,073)
- deposits with banks	(3,734)	(2,963)
Rental income	(1,802)	(1,692)
Dividend income	(871)	(1,479)
Share of jointly controlled entity's taxation	91	89

4. Income tax

	Six months ended 30 September	
	2007	2006
	HK\$'000	HK\$'000
Hong Kong Profits Tax	9,215	7,713
Taxation outside Hong Kong	2,051	329
Deferred taxation	(1,281)	(4,281)
	<u>9,985</u>	<u>3,761</u>

Provision for Hong Kong Profits Tax is calculated at 17.5% (2006: 17.5%) of the estimated assessable profits for the six months ended 30 September 2007. 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\$57,994,000 (2006: HK\$47,743,000) and the weighted average number of shares of 607,591,000 (2006: 613,926,000) in issue during the period.

There were no dilutive potential shares in existence during the periods ended 30 September 2007 and 2006, therefore diluted earnings per share is the 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 2007 HK\$'000	At 31 March 2007 HK\$'000
By date of invoice		
Within 1 month	176,131	84,731
Over 1 month but within 3 months	74,854	51,484
Over 3 months	<u>2,530</u>	<u>10,152</u>
Trade debtors and bills receivable	253,515	146,367
Deposits, prepayments and other receivables	<u>37,025</u>	<u>33,591</u>
	<u>290,540</u>	<u>179,958</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 2007 HK\$'000	At 31 March 2007 HK\$'000
By date of invoice		
Within 1 month	61,485	41,922
Over 1 month but within 3 months	34,699	22,443
Over 3 months	1,721	2,194
Trade creditors and bills payable	97,905	66,559
Accruals and other payables	143,012	105,400
	<u>240,917</u>	<u>171,959</u>

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

8. Post balance sheet event

Herald Datanetics Limited, an indirect wholly-owned subsidiary of the Company, by way of public auction, acquired certain properties in Zhuhai at a price of approximately HK\$35,901,000 on 7 December 2007.

BUSINESS REVIEW

The Group's turnover for the six months to 30 September 2007 amounted to HK\$824 million, representing an increase of HK\$79 million or 10.6% as compared with the corresponding period in the previous year. The profit attributable to shareholders for the same period was HK\$58 million, up 21.5% or HK\$10.3 million from the profit of HK\$47.7 million in the same period a year earlier.

Driven by the strong sales of toys related to a popular movie, the growth of the Toy and Gift Division continued in the six months ended 30 September 2007. The turnover increased by HK\$59 million or 14.1% to HK\$477 million from HK\$418 million. The overall operating environment facing the toy manufacturers in China continued to be very challenging. The shortage of labour and electricity issues remain the major problem for the division. During the period under review, the toy industry was also perturbed by several major product recalls by some large toy companies in the USA. As a consequence, both toy importers and manufacturers realise that tighter and stronger controls and procedures are needed to ensure that their products are safe. The division has always considered product safety of the utmost importance. The products are tested both externally by independent bodies and internally by the division's own chemical laboratory. Despite these unfavourable market conditions, the division reported a net operating profit of HK\$25.3 million, up 29.1% from HK\$19.6 million. The better profit was mainly attributed to the increase in sales activities.

As with the Toy and Gift Division, the Timepiece Division also achieved a satisfactory result in the first half of the fiscal year. For the first six months, the sales of the division were HK\$161 million, representing a 28% growth over the sales of HK\$126 million in the previous first half. As the UK is the primary market for the division, the continued depreciation of the US dollar versus the sterling positively impacted the results of the division. The operating profit of the division increased by HK\$11.3 million or 168.7% from HK\$6.7 million to HK\$18 million.

Compared to the same period last year, the sales of the Computer Head Division edged upwards by 2.6% from HK\$77 million to HK\$79 million in the six months ended 30 September 2007. The business of the thin film computer heads recorded a steady growth of 9.6%, offsetting the loss of sales arising from the continual decline of the business of the ferrite computer heads. The division had an operating profit of HK\$5.5 million, down from HK\$7.3 million in the prior year.

For the period under review, the turnover of the Houseware Division declined by 16.1% to HK\$97 million. This is mainly due to the substantial decrease of the stainless steel cookware business which has become unprofitable as a result of the rapid increase in the price of stainless steel. On the other hand, the price of aluminium was relatively stable in the first half. Thus the division achieved a better profit margin from the aluminium cookware business which accounted for 77 % of the total sales of the division. As a result, the division reported a better half-yearly operating profit of HK\$4.1 million as compared to last year.

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 2007 the Group's net cash surplus was HK\$189 million which was lower than the HK\$240 million at 31 March 2007. During the period under review, the Group used HK\$4.7 million to acquire a 28% interest in an associate, HK\$17.3 million to finance other investing activities and HK\$27.3 million to pay the final dividend for the year ended 31 March 2007.

The Group's current assets position as at 30 September 2007 was HK\$810 million compared to HK\$700 million as at 31 March 2007. The trade and other receivables increased to HK\$291 million from HK\$180 million. The Group's current liabilities increased from HK\$180 million to HK\$256 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 2007 amounted to HK\$140 million compared to HK\$96 million as at 31 March 2007. Trading securities and bank deposits totalling HK\$140 million (At 31 March 2007: HK\$116 million) are pledged to banks 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 3.17 compared to 2.78 at 30 September 2006. The quick ratio, another ratio that gauges the short-term liquidity of a Company measured by trade receivables, and cash and cash equivalents over the current liabilities, decreased to 1.67 from 1.72 at 30 September 2006.

PROSPECTS AND GENERAL OUTLOOK

The Group has achieved satisfactory growth in the first half. However, the management anticipates that the growth may not be sustained in the second half, as the order positions for the third quarter of the current fiscal year are weaker than the same quarter last year. As a result, the management is concerned that the results for the whole fiscal year may be impacted by a more difficult second half.

CONTINGENT LIABILITIES

As at 30 September 2007, 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 (2006: HK3 cents). The total amount of dividend payment of HK\$18,228,000 (2006: HK\$18,418,000) was based on the total number of shares in issue as at 13 December 2007 being the latest practicable date prior to the announcement of the interim results. Dividend will be payable on 21 January 2008 to shareholders registered in the Register of Members on 10 January 2008.

REGISTER OF MEMBERS

The Register of Members will be closed from 9 January 2008 to 10 January 2008, both days inclusive. Shareholders should ensure that all transfers accompanied by relevant share certificates are lodged with the Company's Registrars, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong for registration not later than 4:00 pm on 8 January 2008 in order that they may receive their dividend entitlement.

EMPLOYEES

At 30 September 2007, the number of employees of the Group was 222 (2006: 215) in Hong Kong, 9,291 (2006: 8,982) in the Mainland China and 102 (2006: 103) in Europe. Total staff costs for the period under review amounted to HK\$159,927,000 (2006: HK\$136,027,000). 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 2007.

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 the 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

The Company has complied throughout the six months ended 30 September 2007 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 RESULTS AND INTERIM REPORT

This announcement is published on the Stock Exchange's website (www.hkex.com.hk) and the Company's website (www.heraldgroup.com.hk). The interim report of the Company for the six months ended 30 September 2007 containing all the information required by Appendix 16 of the Listing Rules will be dispatched to shareholders and published on the same websites in due course.

By Order of the Board
Cheung Tsang Kay Stan
Managing Director

Hong Kong, 14 December 2007

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

**For identification only*