



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 2008

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 2008, together with the comparative figures for the corresponding period in 2007, as follows:

Consolidated Income Statement – Unaudited

For the six months ended 30 September 2008

		Six months ended 30 September	
	Note	2008 HK\$'000	2007 HK\$'000
Turnover	2	979,034	824,143
Cost of sales		<u>(767,889)</u>	<u>(637,802)</u>
Gross profit		211,145	186,341
Other revenue		11,522	13,603
Other net (loss)/income		(11,157)	2,263
Selling expenses		(26,898)	(28,591)
Administrative expenses		(124,647)	(105,539)
Valuation losses on investment properties		<u>(1,700)</u>	<u>-</u>
Profit from operations	2	58,265	68,077
Finance costs		(24)	(645)
Share of profit of jointly controlled entity		<u>134</u>	<u>283</u>
Profit before taxation	3	58,375	67,715
Income tax	4	<u>(13,009)</u>	<u>(9,985)</u>
Profit for the period		<u>45,366</u>	<u>57,730</u>
Attributable to:			
Equity shareholders of the Company		47,735	57,994
Minority interests		<u>(2,369)</u>	<u>(264)</u>
Profit for the period		<u>45,366</u>	<u>57,730</u>
Interim dividends		<u>18,153</u>	<u>18,228</u>
Interim dividends per share		<u>3 cents</u>	<u>3 cents</u>
Earnings per share	5		
- Basic and diluted		<u>7.87 cents</u>	<u>9.54 cents</u>

Consolidated Balance Sheet - Unaudited

At 30 September 2008

	Note	As at 30 September 2008 HK\$'000	As at 31 March 2008 HK\$'000
Non-current assets			
Fixed assets			
- Property, plant and equipment		192,969	187,984
- Investment properties		33,240	34,940
- Interests in leasehold land held for own use under operating leases		5,866	6,007
		<u>232,075</u>	<u>228,931</u>
Club membership		1,990	1,990
Interest in jointly controlled entity		2,208	2,345
Other financial assets		4,680	4,680
Deferred tax assets		5,284	4,879
		<u>246,237</u>	<u>242,825</u>
Current assets			
Trading securities		118,556	68,929
Inventories		200,285	173,443
Trade and other receivables	6	322,555	204,247
Current tax recoverable		1,444	1,444
Pledged bank balances		66,378	107,220
Cash and cash equivalents		142,044	191,774
		<u>851,262</u>	<u>747,057</u>
Current liabilities			
Trade and other payables	7	272,973	183,787
Current tax payable		21,619	10,331
		<u>294,592</u>	<u>194,118</u>
Net current assets		<u>556,670</u>	<u>552,939</u>
Total assets less current liabilities		<u>802,907</u>	<u>795,764</u>
Non-current liabilities			
Deferred tax liabilities		150	386
Provision for long service payments		2,414	2,528
		<u>2,564</u>	<u>2,914</u>
NET ASSETS		<u>800,343</u>	<u>792,850</u>
CAPITAL AND RESERVES			
Share capital		47,272	47,349
Reserves		727,640	716,391
Total equity attributable to equity shareholders of the Company		<u>774,912</u>	<u>763,740</u>
Minority interests		<u>25,431</u>	<u>29,110</u>
TOTAL EQUITY		<u>800,343</u>	<u>792,850</u>

NOTES:

1. Basis of preparation and accounting policies

The 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 34, Interim financial reporting, issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). It was authorised for issuance on 12 December 2008.

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 2008.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Interpretations that are first effective or available for early adoption for the current accounting period of the Group. There have been no significant changes to the accounting policies applied in the interim financial report as a result of these developments. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

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 2008

	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	659,499	92,400	81,108	140,552	-	5,475	-	979,034
Other revenue from external customers	2,111	-	2,889	817	4,353	888	-	11,058
Inter-segment revenue	-	-	-	-	-	1,489	(1,489)	-
Total	<u>661,610</u>	<u>92,400</u>	<u>83,997</u>	<u>141,369</u>	<u>4,353</u>	<u>7,852</u>	<u>(1,489)</u>	<u>990,092</u>
Segment result	58,371	5,348	(11,350)	17,159	(4,522)	544		65,550
Unallocated operating income and expenses								(7,285)
Profit from operations								58,265
Finance costs								(24)
Share of profit of jointly controlled entity	-	-	134	-	-	-		134
Income tax								(13,009)
Profit for the period								<u>45,366</u>

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>

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	
	2008	2007
	HK\$'000	HK\$'000
Europe		
United Kingdom	254,297	283,938
Other countries	106,178	76,100
North America	493,503	385,800
Asia		
Hong Kong	54,712	29,835
Mainland China	4,639	3,720
Other countries	25,337	11,347
Others	40,368	33,403
	<u>979,034</u>	<u>824,143</u>

3. Profit before taxation

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

	Six months ended	
	30 September	
	2008	2007
	HK\$'000	HK\$'000
Interest on borrowings	24	645
Depreciation	13,834	14,195
Amortisation of land lease premium	163	155
Net loss on disposal of fixed assets	21	-
Net realised and unrealised losses/(gains) on trading securities	8,005	(5,497)
Staff costs	206,663	159,927
Interest income		
- trading securities	(1,558)	(2,936)
- deposits with banks	(1,328)	(3,734)
Rental income	(2,109)	(1,802)
Dividend income	(1,868)	(871)
Share of jointly controlled entity's taxation	55	91

4. Income tax

	Six months ended 30 September	
	2008	2007
	HK\$'000	HK\$'000
Hong Kong Profits Tax	13,417	9,215
Taxation outside Hong Kong	475	2,051
Deferred taxation	(883)	(1,281)
	<u>13,009</u>	<u>9,985</u>

Provision for Hong Kong Profits Tax is calculated at 16.5% (2007: 17.5%) of the estimated assessable profits for the six months ended 30 September 2008. 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 equity shareholders of the Company of HK\$47,735,000 (2007: HK\$57,994,000) and the weighted average number of shares of 606,792,000 (2007: 607,591,000) in issue during the period.

There were no dilutive potential shares in existence during the periods ended 30 September 2008 and 2007, 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 allowance for doubtful debts) with the following ageing analysis as of the balance sheet date:

	At 30 September 2008 HK\$'000	At 31 March 2008 HK\$'000
Current	157,462	98,193
Less than 1 month past due	87,657	40,809
1 to 3 months past due	21,237	17,502
More than 3 months but less than 12 months past due	<u>1,930</u>	<u>412</u>
Trade debtors and bills receivable	268,286	156,916
Deposits, prepayments and other receivables	46,250	41,686
Derivative financial instruments	<u>8,019</u>	<u>5,645</u>
	<u>322,555</u>	<u>204,247</u>

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 2008 HK\$'000	At 31 March 2008 HK\$'000
By date of invoice		
Within 1 month	61,593	46,349
Over 1 month but within 3 months	46,199	13,583
Over 3 months	786	1,193
Trade creditors and bills payable	108,578	61,125
Accruals and other payables	163,097	120,082
Derivative financial instruments	1,298	2,580
	<u>272,973</u>	<u>183,787</u>

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

8. Post balance sheet event

In November 2008, a well-known retailer in the United Kingdom went into administration. The Group's exposure to default risk of this customer at the end of November 2008 was approximately HK\$17.2 million, comprising accounts receivable of HK\$10.2 million and inventories of HK\$7 million, of which HK\$6.7 million was covered by a provision for bad debts specifically made in the accounts for the six months ended 30 September 2008.

BUSINESS REVIEW

The Group's turnover for the six months to 30 September 2008 amounted to HK\$979 million, representing an increase of HK\$155 million or 18.8% as compared with the corresponding period in the previous year. The increase in the Group's turnover came from the Toy and Gift Division and, to a lesser extent, the Computer Head Division. The profit attributable to shareholders for the same period was HK\$47.7 million, down HK\$10.3 million or 17.8% from the profit of HK\$58 million in the same period a year earlier. The decrease in the net profit was primarily due to an operating loss of HK\$11.4 million in the Houseware Division and net realised and unrealised losses of HK\$8 million on trading securities.

In the first half of the fiscal year, the turnover of the Toy and Gift Division increased by HK\$182 million or 38.2% from HK\$477 million to HK\$659 million. The increase was due to the strong sales of toys related to a popular movie and other toy products. Because of a larger volume of sales, the operating profit of the division increased by HK\$33.1 million or 130.8% from HK\$25.3 million to HK\$58.4 million. The problem of rising material and labour costs continued to put pressure on the division. Despite these negative factors, the division managed to remain competitive and maintain its profit margin for the period. Moreover, the division was able to fulfill the shipping requirements of its customer orders even with a surge of sales volume in the second quarter of the fiscal year. In September 2008, the management decided to wind up a joint venture factory in Shenzhen due to rising costs to run a factory in the area. The joint venture is now in the process of liquidation.

Driven by the strong sales of motor actuator assemblies, the turnover of the Computer Head Division for the six months ended 30 September 2008 increased by HK\$13 million or 16.5% to HK\$92 million when compared with the sales of HK\$79 million in the same period last year. The operating profit of the division slightly decreased to HK\$5.3 million due to higher operating expenses. The division planned to move its existing factory in Nan Shan, Zhuhai to the newly acquired premises in Nan Pin, Zhuhai in December 2008.

The difficult market conditions that affected the Houseware Division in the previous year continued to exist in the period under review. The sales of the division in the first half of the fiscal year were HK\$81 million, representing a decrease of 16.5% from the sales of HK\$97 million in the corresponding period last year. In comparison with an operating profit of HK\$4.1 million in the first half of the previous year, the division recorded a half-yearly operating loss of HK\$11.4 million for the current period. The loss of the division was attributable to higher material and labour costs and a provision for bad debts of HK\$6.7 million in relation to a customer which went into administration as disclosed under the “Post Balance Sheet Event” in notes to the accounts.

The turnover of the Timepiece Division for the six months ended 30 September 2008 decreased by 12.4% from HK\$161 million to HK\$141 million as compared with the same period last year. In contrast, the half-yearly operating profit of the division decreased by only 4.4% from HK\$18 million to HK\$17.2 million as the division was able to increase its profit margin through a different product mix.

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 2008 the Group’s net cash surplus was HK\$208 million which was lower than the HK\$299 million at 31 March 2008. During the period under review, the Group used HK\$30 million to finance investing activities and HK\$30.3 million to pay the final dividend for the year ended 31 March 2008.

The Group’s current assets position as at 30 September 2008 was HK\$851 million compared to HK\$747 million as at 31 March 2008. The trade and other receivables increased to HK\$323 million from HK\$204 million. The Group’s current liabilities increased from HK\$194 million to HK\$295 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 2008 amounted to HK\$119 million compared to HK\$69 million as at 31 March 2008. Trading securities and bank deposits totalling HK\$185 million (At 31 March 2008: HK\$176 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 2.89 compared to 3.17 at 30 September 2007. 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 1.39 from 1.67 at 30 September 2007.

PROSPECTS AND GENERAL OUTLOOK

The global economy has been badly hurt by the recent financial tsunami, with the United Kingdom already in a recession and the United States on the brink of a recession. The global retail markets are weak due to the bad sentiments of consumers hobbled by job losses and sinking home values. It is generally believed that there might be a drop in retail sales during the coming Christmas. However, it is difficult to predict how it might affect the Group’s results for the fiscal year.

In October 2008, the value of sterling and other major currencies fell significantly against the US dollar. The value of sterling against the US dollar fell 23% to 1.5346 at the end of November 2008 as compared with that of 1.9853 at 31 March 2008. The Group's sales to the United Kingdom constituted approximately 26% of the Group's turnover in the six months ended 30 September 2008. A decline in the value of sterling will negatively affect the Group's results for the second half of the fiscal year and thereafter.

The financial tsunami has also brought about global stock market volatility. The Hang Seng Index dropped 23% to close at 13,888 at the end of November 2008 from two months ago. As a consequence of the battered stock market, the Group suffered a loss of approximately HK\$19 million for its investments in trading securities in the same period. As at 30 November 2008, the Group's investments in trading securities, which included certain listed equity securities, unlisted equity/currency linked notes and managed funds, amounted to HK\$76 million.

In addition, we are mindful that further bankruptcies or receiverships among our customers are a possibility and we are monitoring credit risk with diligence.

Despite the above-mentioned concerns, the Group has a strong balance sheet with no bank borrowings. While it is anticipated that the Group's sales might decrease in 2009, the overall order positions at the end of November 2008 were better than those at the same time in the previous year. Meanwhile, the management is confident that the Group will weather the market difficulties in 2009.

CONTINGENT LIABILITIES

As at 30 September 2008, the Group did not have any significant contingent liabilities.

FOREIGN EXCHANGE EXPOSURE

During the period under review, approximately 16% 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 (2007: HK3 cents). The total amount of dividend payment of HK\$18,153,000 (2007: HK\$18,228,000) was based on the total number of shares in issue as at 11 December 2008 being the latest practicable date prior to the announcement of the interim results. Dividend will be payable on 19 January 2009 to shareholders registered in the Register of Members on 9 January 2009.

REGISTER OF MEMBERS

The Register of Members will be closed from 8 January 2009 to 9 January 2009, 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 7 January 2009 in order that they may receive their dividend entitlement.

EMPLOYEES

As at 30 September 2008, the number of employees of the Group was 234 (2007: 222) in Hong Kong, 10,802 (2007: 9,291) in the Mainland China and 114 (2007: 102) in Europe. Total staff costs for the period under review amounted to HK\$206,663,000 (2007: HK\$159,927,000). 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

During the six months ended 30 September 2008, the Company repurchased a total of 985,000 of its own shares on the Stock Exchange at an aggregate consideration of HK\$794,250 before expenses, all of which were then cancelled. The premium paid and the expenses directly attributable to the repurchase were charged against share premium in accordance with the Bermuda Companies Act 1981. Details of the shares repurchased are as follows:

Month of repurchase	Number of shares repurchased	Highest price paid per share HK\$	Lowest price paid per share HK\$	Total paid HK\$
June 2008	315,000	0.93	0.90	287,250
September 2008	670,000	0.80	0.73	507,000
	<u>985,000</u>			<u>794,250</u>

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 of the Group have been reviewed by the audit committee of the Company.

REMUNERATION COMMITTEE

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 2008 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 to 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 2008 containing all the information required by 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
Chairman

Hong Kong, 12 December 2008

As at the date of this announcement, the Board of Directors of the Company comprises the following directors:

Executive Directors:

Dr Cheung Tsang Kay Stan PhD, Hon LLD, Hon DBA, JP

Mr Robert Dorfman

Mr Thong Yeung Sum Michael FCCA, CPA

Mr George Bloch

Mr Chang Dong Song

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*