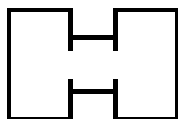


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HERALD HOLDINGS LIMITED

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 2009

RESULTS

The Board of Directors (the “Board”) 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 2009, together with the comparative figures for the corresponding period in 2008, as follows:

Consolidated Income Statement – Unaudited

For the six months ended 30 September 2009

| | | Six months ended 30 September | |
|--|------|----------------------------------|------------------|
| | Note | 2009 HK\$'000 | 2008 HK\$'000 |
| Turnover | 3 | 908,023 | 979,034 |
| Cost of sales | | <u>(649,353)</u> | <u>(767,889)</u> |
| Gross profit | | 258,670 | 211,145 |
| Other revenue | | 8,786 | 11,522 |
| Other net income/(loss) | | 32,403 | (11,157) |
| Selling expenses | | (22,612) | (26,898) |
| Administrative expenses | | (113,706) | (124,647) |
| Valuation losses on investment properties | | <u>-</u> | <u>(1,700)</u> |
| Profit from operations | | 163,541 | 58,265 |
| Finance costs | | (2) | (24) |
| Share of profit of jointly controlled entity | | 433 | 134 |
| Share of profit of associate | | <u>309</u> | <u>-</u> |
| Profit before taxation | 4 | 164,281 | 58,375 |
| Income tax | 5 | <u>(34,202)</u> | <u>(13,009)</u> |
| Profit for the period | | 130,079 | 45,366 |

| | | | |
|------------------------------------|---|---------------------------|--------------------------|
| Attributable to: | | | |
| Equity shareholders of the Company | | 129,375 | 47,735 |
| Minority interests | | 704 | (2,369) |
| Profit for the period | | <u>130,079</u> | <u>45,366</u> |
| Interim dividends | | <u>18,075</u> | <u>18,153</u> |
| Interim dividends per share | | <u>3 cents</u> | <u>3 cents</u> |
| Earnings per share | 6 | | |
| - Basic and diluted | | <u>21.47 cents</u> | <u>7.87 cents</u> |

Consolidated Statement of Comprehensive Income - Unaudited*For the six months ended 30 September 2009*

| | Six months ended 30 September | |
|---|--------------------------------------|-----------------------|
| | 2009 | 2008 |
| | HK\$'000 | HK\$'000 |
| Profit for the period | 130,079 | 45,366 |
| Other comprehensive income for the period | | |
| Exchange differences on translation of the financial statements of subsidiaries outside Hong Kong | <u>6,142</u> | <u>(4,961)</u> |
| Total comprehensive income for the period | <u>136,221</u> | <u>40,405</u> |
| Attributable to: | | |
| Equity shareholders of the company | 135,587 | 42,305 |
| Minority interests | <u>634</u> | <u>(1,900)</u> |
| Total comprehensive income for the period | <u>136,221</u> | <u>40,405</u> |

Consolidated Balance Sheet - Unaudited

At 30 September 2009

| | | As at 30 September 2009 HK\$'000 | As at 31 March 2009 HK\$'000 |
|--|------|--|------------------------------------|
| | Note | | |
| Non-current assets | | | |
| Fixed assets | | | |
| - Property, plant and equipment | | 207,440 | 194,837 |
| - Investment properties | | 30,700 | 30,700 |
| - Interests in leasehold land held for own use under operating leases | | 5,538 | 5,702 |
| | | 243,678 | 231,239 |
| Club membership | | 1,860 | 1,860 |
| Interest in jointly controlled entity | | 2,377 | 2,398 |
| Interest in associate | 7 | 3,410 | - |
| Other financial assets | | 4,680 | 4,680 |
| Deferred tax assets | | 2,853 | 6,895 |
| | | 258,858 | 247,072 |
| Current assets | | | |
| Trading securities | | 135,616 | 61,703 |
| Inventories | | 163,233 | 187,119 |
| Trade and other receivables | 8 | 287,726 | 150,328 |
| Current tax recoverable | | 1,434 | 1,564 |
| Pledged bank balances | | 46,955 | 81,394 |
| Cash and cash equivalents | | 290,848 | 244,271 |
| | | 925,812 | 726,379 |
| Current liabilities | | | |
| Trade and other payables | 9 | 255,537 | 179,094 |
| Current tax payable | | 48,381 | 19,025 |
| | | 303,918 | 198,119 |
| Net current assets | | 621,894 | 528,260 |
| Total assets less current liabilities | | 880,752 | 775,332 |
| Non-current liabilities | | | |
| Deferred tax liabilities | | 270 | 515 |
| Provision for long service payments | | 4,097 | 4,035 |
| | | 4,367 | 4,550 |
| NET ASSETS | | 876,385 | 770,782 |
| CAPITAL AND RESERVES | | | |
| Share capital | | 46,994 | 46,994 |
| Reserves | | 807,531 | 702,068 |
| Total equity attributable to equity shareholders of the Company | | 854,525 | 749,062 |
| Minority interests | | 21,860 | 21,720 |
| TOTAL EQUITY | | 876,385 | 770,782 |

NOTES:

1. BASIS OF PREPARATION

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 (“HKAS”) 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). It was authorised for issue on 18 December 2009.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2008/09 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2009/10 annual financial statements. Details of these changes in accounting policies are set out in note 2.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, 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 Company’s audit committee.

The financial information relating to the financial year ended 31 March 2009 that is included in the interim financial report as being previously reported information does not constitute the Company’s statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 March 2009 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 10 July 2009.

2. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued one new HKFRS, a number of amendments to HKFRSs and new interpretations that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group’s financial statements:

- HKFRS 8, *Operating segments*
- HKAS 1(revised 2007), *Presentation of financial statements*
- Improvements to HKFRSs (2008)
- Amendments to HKAS 27, *Consolidated and separate financial statements – cost of an investment in a subsidiary, jointly controlled entity or associate*
- Amendments to HKFRS 7, *Financial instruments: Disclosures – improving disclosures about financial instruments*

The adoption of Improvements to HKFRSs (2008) and Amendments to HKAS 27 do not have a significant impact on the Group’s results of operations and financial position. In addition, the Amendments to HKFRS 7 do not contain any additional disclosure requirements specifically applicable to the interim financial report. The impact of the remainder of these developments on the interim financial report is as follows:

- HKFRS 8 requires segment disclosure to be based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters. This contrasts with the presentation of segment information in prior years which was based on a disaggregation of the Group's financial statements into segments based on related products and services and on geographical areas. The adoption of HKFRS 8 has resulted in the presentation of segment information in a manner that is more consistent with internal reporting provided to the Group's most senior executive management, and has resulted in additional reportable segments being identified and presented (see note 3). As this is the first period in which the Group has presented segment information in accordance with HKFRS 8, additional explanation has been included in the interim financial report which explains the basis of preparation of the information. Corresponding amounts have also been provided on a basis consistent with the revised segment information.
- As a result of the adoption of HKAS 1(revised 2007), details of changes in equity during the period arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expenses are presented in the consolidated income statement, if they are recognised as part of profit or loss for the period, or otherwise in a new primary statement, the consolidated statement of comprehensive income. The new format for the consolidated statement of comprehensive income and the consolidated statement of changes in equity has been adopted in this interim financial report and corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.

Following the Group's acquisition of an interest in an associate in June 2009, the Group has also applied the following accounting policies for associate and goodwill:

- 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 and any impairment loss relating to the investment. The Group's share of the post-acquisition, post-tax results of the associates and any impairment losses for the period are recognised in the consolidated income statement, whereas the Group's share of the post-acquisition, post-tax items of the associates' other comprehensive income is recognised in the consolidated statement of comprehensive income.

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 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.

- 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 associate's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. The carrying amount of goodwill is included in the carrying amount of the interest in the associate and the investment as a whole is tested for impairment whenever there is objective evidence of impairment.

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

On disposal of an associate during the period, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

3. SEGMENT REPORTING

The Group manages its businesses by divisions, which are organised by business lines. On first-time adoption of HKFRS 8, *Operating segments* and in a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified the following six reportable segments.

| | |
|-------------------|---|
| Toy | : The manufacture, sale and distribution of toy products. |
| Computer products | : The manufacture and sale of computer products. |
| Housewares | : The manufacture, sale and distribution of housewares. |
| Timepieces | : The manufacture, sale and distribution of clocks, watches and electronic and gift products. |
| Investments | : The investment in equity securities, structured products and managed funds. |
| Others | : The leasing of properties to generate rental income. |

The application of HKFRS 8 has resulted in a redesignation of the Group's reportable segments, but has not changed the measurement basis of segment results or segment assets. As compared to the segment information reported in the 2008/09 annual financial statements, the sale and distribution of gift products and other distribution activities previously classified under the "Toy and gift products" and "Others" segments have been reclassified into the "Timepieces" segment.

- (a) Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the period is set out below.

| Six months ended 30 September 2009 | | | | | | | |
|---|----------------|----------------------|----------------|----------------|----------------|---------------|------------------|
| | Toy | Computer products | Housewares | Timepieces | Investments | Others | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Revenue from external customers | 564,498 | 94,202 | 91,963 | 157,360 | - | - | 908,023 |
| Inter-segment revenue | - | - | - | - | - | - | - |
| Reportable segment revenue | 564,498 | 94,202 | 91,963 | 157,360 | - | - | 908,023 |
| Reportable segment profit/(loss) | 126,164 | 6,798 | 8,297 | (5,525) | 27,888 | 2,111 | 165,733 |
| As at 30 September 2009 | | | | | | | |
| | Toy | Computer products | Housewares | Timepieces | Investments | Others | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Reportable segment assets | 473,719 | 141,649 | 122,689 | 162,686 | 182,571 | 47,114 | 1,130,428 |
| Reportable segment liabilities | 159,822 | 25,331 | 42,313 | 48,046 | - | 434 | 275,946 |

| Six months ended 30 September 2008 | | | | | | | |
|---|-----------------|----------------------------------|------------------------|------------------------|-------------------------|--------------------|-------------------|
| | Toy HK\$'000 | Computer products HK\$'000 | Housewares HK\$'000 | Timepieces HK\$'000 | Investments HK\$'000 | Others HK\$'000 | Total HK\$'000 |
| Revenue from external customers | 569,331 | 92,400 | 81,108 | 236,195 | - | - | 979,034 |
| Inter-segment revenue | - | - | - | - | - | - | - |
| Reportable segment revenue | 569,331 | 92,400 | 81,108 | 236,195 | - | - | 979,034 |
| Reportable segment profit/(loss) | 50,907 | 5,348 | (11,350) | 25,351 | (4,522) | (184) | 65,550 |

| As at 31 March 2009 | | | | | | | |
|---------------------------------------|-----------------|----------------------------------|------------------------|------------------------|-------------------------|--------------------|-------------------|
| | Toy HK\$'000 | Computer products HK\$'000 | Housewares HK\$'000 | Timepieces HK\$'000 | Investments HK\$'000 | Others HK\$'000 | Total HK\$'000 |
| Reportable segment assets | 381,346 | 127,303 | 108,872 | 134,257 | 141,737 | 46,576 | 940,091 |
| Reportable segment liabilities | 107,315 | 18,559 | 36,854 | 36,382 | - | 415 | 199,525 |

(b) Reconciliations of reportable segment profit, assets and liabilities

| | Six months ended 30 September | |
|--|-------------------------------------|---------------------------------|
| | 2009 HK\$'000 | 2008 HK\$'000 |
| Profit | | |
| Reportable segment profit | 165,733 | 65,550 |
| Finance costs | (2) | (24) |
| Share of profit of jointly controlled entity | 433 | 134 |
| Share of profit of associate | 309 | - |
| Unallocated corporate income and expenses | <u>(2,192)</u> | <u>(7,285)</u> |
| Consolidated profit before taxation | <u>164,281</u> | <u>58,375</u> |
| | | |
| | At 30 September 2009 HK\$'000 | At 31 March 2009 HK\$'000 |
| | | |
| Assets | | |
| Reportable segment assets | 1,130,428 | 940,091 |
| Elimination of inter-segment receivables | <u>(20,527)</u> | <u>(19,446)</u> |
| | 1,109,901 | 920,645 |
| Interest in jointly controlled entity | 2,377 | 2,398 |
| Interest in associate | 3,410 | - |
| Deferred tax assets | 2,853 | 6,895 |
| Current tax recoverable | 1,434 | 1,564 |
| Unallocated corporate assets | <u>64,695</u> | <u>41,949</u> |
| Consolidated total assets | <u>1,184,670</u> | <u>973,451</u> |
| | | |
| | At 30 September 2009 HK\$'000 | At 31 March 2009 HK\$'000 |
| | | |
| Liabilities | | |
| Reportable segment liabilities | 275,946 | 199,525 |
| Elimination of inter-segment payables | <u>(20,527)</u> | <u>(19,446)</u> |
| | 255,419 | 180,079 |
| Current tax payable | 48,381 | 19,025 |
| Deferred tax liabilities | 270 | 515 |
| Unallocated corporate liabilities | <u>4,215</u> | <u>3,050</u> |
| Consolidated total liabilities | <u>308,285</u> | <u>202,669</u> |

4. Profit before taxation

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

| | Six months ended 30 September | |
|--|--|-----------------|
| | 2009 | 2008 |
| | HK\$'000 | HK\$'000 |
| Interest on borrowings | 2 | 24 |
| Depreciation | 13,178 | 13,834 |
| Amortisation of land lease premium | 164 | 163 |
| Net loss on disposal of fixed assets | 855 | 21 |
| Net realised and unrealised (gains)/losses on trading securities | (25,047) | 8,005 |
| Staff costs | 200,741 | 206,663 |
| Interest income | | |
| - trading securities | (1,354) | (1,558) |
| - deposits with banks | (321) | (1,328) |
| - other loans | (89) | - |
| Rental income | (2,163) | (2,109) |
| Dividend income | (1,443) | (1,868) |
| Share of jointly controlled entity's taxation | 160 | 55 |

5. Income tax

| | Six months ended 30 September | |
|----------------------------|--|-----------------|
| | 2009 | 2008 |
| | HK\$'000 | HK\$'000 |
| Hong Kong Profits Tax | 29,040 | 13,417 |
| Taxation outside Hong Kong | 1,302 | 475 |
| Deferred taxation | 3,860 | (883) |
| | 34,202 | 13,009 |

Provision for Hong Kong Profits Tax is calculated at 16.5% (2008: 16.5%) of the estimated assessable profits for the six months ended 30 September 2009. Taxation for subsidiaries outside Hong Kong is charged at the appropriate current rates of taxation ruling in the relevant tax jurisdictions.

6. Earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of HK\$129,375,000 (2008: HK\$47,735,000) and the weighted average number of shares of 602,490,000 (2008: 606,792,000) in issue during the period.

There were no dilutive potential shares in existence during the periods ended 30 September 2009 and 2008, therefore diluted earnings per share is the same as the basic earnings per share for both the current and prior periods.

7. Interest in associate

| | At 30 September 2009 HK\$'000 | At 31 March 2009 HK\$'000 |
|---------------------------|-------------------------------------|---------------------------------|
| Shares of net assets | 867 | - |
| Goodwill | 1,303 | - |
| Amount due from associate | 1,240 | - |
| | <u>3,410</u> | <u>-</u> |

The Group acquired a 30% interest in Firerock International Limited at a consideration of GBP150,000 in June 2009. Details of the Group's interest in the associate are as follows:

| Name of associate | Form of business structure | Place of establishment and operation | Particulars of registered capital | Percentage of equity held by the subsidiary | Principal activity |
|--------------------------------|----------------------------|--------------------------------------|-----------------------------------|---|--------------------|
| Firerock International Limited | Incorporated | United Kingdom | Registered capital of GBP1,000 | 30% | Trading of watches |

8. 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 2009 HK\$'000 | At 31 March 2009 HK\$'000 |
|---|-------------------------------------|---------------------------------|
| Current | 154,104 | 82,747 |
| Less than 1 month past due | 84,155 | 28,351 |
| 1 to 3 months past due | 6,826 | 5,879 |
| More than 3 months but less than 12 months past due | 377 | 707 |
| Trade debtors and bills receivable | 245,462 | 117,684 |
| Deposits, prepayments and other receivables | 41,281 | 30,935 |
| Derivative financial instruments | 983 | 1,709 |
| | <u>287,726</u> | <u>150,328</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.

9. 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 2009 HK\$'000 | At 31 March 2009 HK\$'000 |
|-----------------------------------|-------------------------------------|---------------------------------|
| By date of invoice | | |
| Within 1 month | 53,310 | 44,606 |
| Over 1 month but within 3 months | 25,429 | 13,447 |
| Over 3 months | 1,085 | 1,728 |
| Trade creditors and bills payable | 79,824 | 59,781 |
| Accruals and other payables | 175,713 | 118,027 |
| Derivative financial instruments | - | 1,286 |
| | <u>255,537</u> | <u>179,094</u> |

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

10. COMPARATIVE FIGURES

As a result of the application of HKAS 1 (revised 2007), *Presentation of financial statements*, and HKFRS 8, *Operating segments*, certain comparative figures have been adjusted to conform to current period's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2009.

BUSINESS REVIEW

The Group's turnover for the six months ended 30 September 2009 amounted to HK\$908 million, representing a decline of HK\$71 million or 7.3% as compared with the corresponding period in the previous year. The profit attributable to shareholders for the same period was HK\$129.4 million, up HK\$81.7 million or 171.3% from the profit of HK\$47.7 million in the same period a year earlier. The increase in the net profit was mainly attributable to net realised and unrealised gains of HK\$25 million on trading securities, the turnaround of the Houseware Division and better-than-expected results of the Toy Division.

The Toy Division performed well in the first half of the fiscal year. The division's turnover for the period was HK\$564 million, a slight decrease from HK\$569 million in the prior year, whereas its half-yearly operating profit surged 147.9% to HK\$126.2 million from HK\$50.9 million a year earlier. One positive effect of the economic downturn was a general reduction of material prices which improved the gross profit margin of the division. In addition, a more stable supply of electricity and labour in the PRC increased the production efficiency of the division. During the period under review, the division started the process of transforming its contract processing factory in Dongguan, PRC to a Wholly-owned Foreign Investment Enterprise – "Dongguan Herald Toys Co., Ltd.". The transformation is in line with the PRC government policies that encourage foreign investors to transform and upgrade their processing operations in the PRC.

Due to the uncertain economic environment, the business of the Computer Products Division was sluggish at the beginning of the fiscal year. However, the sales of thin-film computer heads quickly rebounded and, for the whole period under review, increased by 3% to HK\$68 million as compared with the corresponding period in 2008. On the other hand, the sales of motor actuator assemblies gained 20% over the same period in 2008. On a year-on-year comparison, the turnover of the

division in the first half of the fiscal year edged upwards by 2% to HK\$94 million while its half-yearly operating profit increased by 27.1% to HK\$6.8 million.

Pilot Housewares, the Houseware Division's distribution operation in the UK, experienced tough times in 2009 as it lost the business from one of its major customers which went into administration in November 2008. Nevertheless, the division recorded a satisfactory business growth with other major customers in the UK and the US. For the period under review, the turnover of the division rose 13.4% year-over-year to HK\$92 million. The increased turnover and the appreciation of pound sterling had a positive effect on the results of the division. In comparison with an operating loss of HK\$11.4 million in the last interim period, the division had an operating profit of HK\$8.3 million for the six months ended 30 September 2009.

The business of the Timepiece Division was badly affected by a weak consumer market, particularly in the UK which is a major market for the division. Several of its brands performed below expectations. The division saw its turnover drop by 33.4% to HK\$157 million from HK\$236 million a year earlier. Despite stringent measures taken to control operating costs, the division suffered an operating loss of HK\$5.5 million for the period under review as compared to an operating profit of HK\$25.4 million for the corresponding period in 2008.

As a result of the rebound in global stock markets, the Group had net realised and unrealised gains of HK\$25 million on trading securities as compared to net losses of HK\$8 million in the same period last year. As at 30 September 2009, the Group's trading securities increased to HK\$135.6 million from HK\$61.7 million at the beginning of the fiscal 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 2009 the Group's net cash surplus was HK\$338 million which was higher than the HK\$326 million at 31 March 2009. During the period under review, the Group used HK\$38 million to finance investing activities and HK\$30.1 million to pay the final dividend for the year ended 31 March 2009.

The Group's current assets position as at 30 September 2009 was HK\$926 million compared to HK\$726 million as at 31 March 2009. The trade and other receivables increased to HK\$288 million from HK\$150 million. The Group's current liabilities increased from HK\$198 million to HK\$304 million primarily due to the 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 2009 amounted to HK\$136 million compared to HK\$62 million as at 31 March 2009. Trading securities and bank deposits totalling HK\$169 million (At 31 March 2009: HK\$138 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 3.05 compared to 2.89 at 30 September 2008. 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, increased to 1.76 from 1.39 at 30 September 2008.

PROSPECTS AND GENERAL OUTLOOK

Due to the cut-throat competition among toy manufacturers, the management anticipates that both sales volume and profit margin of the Toy Division are likely to deteriorate in the second half of the fiscal year. On the other hand, the businesses of the Computer Products Division and the Houseware Division remain stable. However, the uncertainty in aluminum prices continues to be a matter of concern for the Houseware Division. Meanwhile, the management is aware of the

challenging times ahead for the Timepiece Division amid weak consumer spending and is working on licensing new brands to increase sales of the division.

Despite the favorable results in the first half of the fiscal year, the turnover of the Group in October and November 2009 dropped 22% over the same period in 2008. In addition, the overall orders at the end of November 2009 fell 31% from those at the same time in the previous year. With the decline of both sales and orders on hand, the management has some concerns about the results of the Group in the second half of the fiscal year.

CONTINGENT LIABILITIES

As at 30 September 2009, the Group did not have any significant contingent liabilities.

FOREIGN EXCHANGE EXPOSURE

During the period under review, approximately 8% 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 (2008: HK3 cents). The total amount of dividend payment of HK\$18,075,000 (2008: HK\$18,153,000) was based on the total number of shares in issue as at 17 December 2009 being the latest practicable date prior to the announcement of the interim results. Dividend will be payable on 19 January 2010 to shareholders registered in the Register of Members on 6 January 2010.

REGISTER OF MEMBERS

The Register of Members will be closed from 5 January 2010 to 6 January 2010, 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 4 January 2010 in order that they may receive their dividend entitlement.

EMPLOYEES

As at 30 September 2009, the number of employees of the Group was 242 (2008: 234) in Hong Kong, 8,923 (2008: 10,802) in the Mainland China and 106 (2008: 114) in Europe. Total staff costs for the period under review amounted to HK\$200,741,000 (2008: HK\$206,663,000). 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 2009.

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 has 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 2009 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 2009 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, 18 December 2009

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 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*