



HERALD HOLDINGS LIMITED

興利集團有限公司*

(Incorporated in Bermuda with limited liability)
(Stock Code : 00114)

PRESS RELEASE

Annual Results Announcement for the year ended 31 March 2011

The Board of Directors (the “Board”) of Herald Holdings Limited (the “Company”) presents the consolidated results of the Company and its subsidiaries (collectively the “Group”) for the year ended 31 March 2011, together with the comparative figures for the previous year and selected explanatory information, as follows:

Consolidated income statement

For the year ended 31 March 2011

| | 2011 HK\$'000 | 2010 HK\$'000 |
|---|---------------------------|-----------------------|
| Turnover | 1,623,525 | 1,465,997 |
| Cost of sales | <u>(1,233,584)</u> | <u>(1,070,762)</u> |
| Gross profit | 389,941 | 395,235 |
| Other revenue | 19,407 | 18,141 |
| Other net income | 9,317 | 28,393 |
| Selling expenses | (38,545) | (38,888) |
| Administrative expenses | (264,424) | (226,222) |
| Valuation gains on investment properties | 21,884 | 3,060 |
| Impairment losses on property, plant and Equipment | (1,237) | (1,378) |
| Impairment losses on intangible assets | <u>(1,697)</u> | <u>-</u> |
| Profit from operations | 134,646 | 178,341 |
| Finance costs | - | (23) |
| Share of profit less loss of associate | 617 | 904 |
| Share of profits of jointly controlled entities | <u>95</u> | <u>765</u> |
| Profit before taxation | 135,358 | 179,987 |
| Income tax | <u>(22,258)</u> | <u>(30,987)</u> |
| Profit for the year | <u>113,100</u> | <u>149,000</u> |
| Attributable to: | | |
| Equity shareholders of the Company | 111,215 | 147,110 |
| Non-controlling interests | <u>1,885</u> | <u>1,890</u> |
| Profit for the year | <u>113,100</u> | <u>149,000</u> |
| Earnings per share | | |
| Basic and diluted | <u>18.46 cents</u> | <u>24.42 cents</u> |

Consolidated statement of comprehensive income
For the year ended 31 March 2011

| | 2011 HK\$'000 | 2010 HK\$'000 |
|--|-----------------------|-----------------------|
| Profit for the year | 113,100 | 149,000 |
| Other comprehensive income for the year | | |
| Exchange differences on translation of financial statements of overseas subsidiaries (no tax effect) | <u>7,362</u> | <u>5,939</u> |
| Total comprehensive income for the year | <u>120,462</u> | <u>154,939</u> |
| Attributable to: | | |
| Equity shareholders of the Company | 118,101 | 153,013 |
| Non-controlling interests | <u>2,361</u> | <u>1,926</u> |
| Total comprehensive income for the year | <u>120,462</u> | <u>154,939</u> |

Consolidated balance sheet
At 31 March 2011

| | 2011 HK\$'000 | 2010 HK\$'000 |
|--|------------------|------------------|
| Non-current assets | | |
| Fixed assets | | |
| - Property, plant and equipment | 194,887 | 200,548 |
| - Investment properties | 54,000 | 33,760 |
| - Interests in leasehold land held for own use under operating leases | 5,069 | 5,376 |
| | <u>253,956</u> | <u>239,684</u> |
| Intangible assets | 1,860 | 6,861 |
| Interest in associate | 3,082 | 2,629 |
| Interest in jointly controlled entities | 10,935 | 5,405 |
| Other financial assets | 4,680 | 4,680 |
| Deferred tax assets | 10,086 | 8,815 |
| | <u>284,599</u> | <u>268,074</u> |
| Current assets | | |
| Trading securities | 156,242 | 116,480 |
| Inventories | 188,656 | 159,193 |
| Trade and other receivables | 183,708 | 167,238 |
| Current tax recoverable | 5,457 | 2,760 |
| Pledged bank balances | 49,593 | 57,015 |
| Cash and cash equivalents | 299,641 | 311,745 |
| | <u>883,297</u> | <u>814,431</u> |
| Current liabilities | | |
| Trade and other payables | 206,746 | 183,579 |
| Current tax payable | 16,063 | 18,278 |
| | <u>222,809</u> | <u>201,857</u> |
| Net current assets | <u>660,488</u> | <u>612,574</u> |
| Total assets less current liabilities | <u>945,087</u> | <u>880,648</u> |
| Non-current liabilities | | |
| Deferred tax liabilities | 248 | 333 |
| Provision for long service payment | 3,007 | 3,362 |
| | <u>3,255</u> | <u>3,695</u> |
| NET ASSETS | <u>941,832</u> | <u>876,953</u> |
| CAPITAL AND RESERVES | | |
| Share capital | 46,994 | 46,994 |
| Reserves | 870,758 | 806,881 |
| Total equity attributable to equity shareholders of the Company | <u>917,752</u> | <u>853,875</u> |
| Non-controlling interests | <u>24,080</u> | <u>23,078</u> |
| TOTAL EQUITY | <u>941,832</u> | <u>876,953</u> |

REVIEW OF OPERATIONS

The turnover of the Group for the year ended 31 March 2011 was HK\$1,624 million which was HK\$158 million or 11% higher than that in the previous year. The increase in the Group's turnover mainly came from the Computer products and the Timepieces Divisions. The net profit attributable to the equity shareholders of the Company was HK\$111 million, representing a decline of 24% from the profit of HK\$147 million in the previous year. Detailed analysis of the operating results is set out in the following paragraphs.

Toys Division

The turnover of the Toys Division increased by 3% over the previous year to HK\$767 million and the operating profit for the year ended 31 March 2011 which amounted to HK\$72 million represents a decrease of HK\$69 million or 49% as compared to last year mainly because as mentioned in the interim report, the Division has lost the benefit of the savings in material costs that contributed to the exceptional performance in the first half of the previous financial year. Nevertheless, management is pleased to note that the second half of the financial year has improved over the previous corresponding period.

Computer products Division

The performance of the Computer products Division continued to be encouraging. The turnover increased by HK\$95 million or 41% to HK\$327 million mainly due to an increase in the sales of the thin-film computer heads and the newly-developed product, the smart thermostats which commenced at the beginning of the year under review. The operating profit was HK\$49 million, compared with HK\$24 million in the previous year. The increased profitability was principally attributable to the increased business volume.

Housewares Division

The Housewares Division experienced a tough trading environment with stiff competition and rising material costs. The turnover of the Division, which amounted to HK\$156 million, decreased by HK\$22 million or 12% from last year. The Division sustained an operating loss of HK\$11 million compared to a profit of HK\$11 million in the previous year.

Timepieces Division

The performance of the Timepieces Division continued to improve in the second half of the financial year as the markets continued to recover. Sales for the whole year increased by HK\$65 million or 21% to HK\$374 million and the operating loss has shrunk to HK\$11 million from HK\$19 million a year earlier.

Other Investments

The Group recorded a gain of HK\$22 million (2010: HK\$3 million) on revaluation of investment properties for the year ended 31 March 2011. In addition, the net realised and unrealised gains on trading securities amounted to HK\$6 million (2010: HK\$24 million). The dividend and interest income on trading securities for the year amounted to HK\$5 million (2010: HK\$4 million). As at 31 March 2011, the Group's trading securities amounted to HK\$156 million, an increase of HK\$40 million over 31 March 2010.

FINANCIAL POSITION

The Group continues to maintain its sound financial position. At the end of the financial year, the Group had a strong balance sheet with healthy liquidity. As at 31 March 2011, the Group had total assets of HK\$1,168 million (2010: HK\$1,083 million) which were financed by current liabilities of HK\$223 million (2010: HK\$202 million), non-current liabilities of HK\$3 million (2010: HK\$4 million), non-controlling interests of HK\$24 million (2010: HK\$23 million) and equity attributable to the Company's equity shareholders of HK\$918 million (2010: HK\$854 million).

As at 31 March 2011, the Group's cash balances aggregated to HK\$349 million, down from HK\$369 million a year ago. The Group's current assets as at 31 March 2011 amounted to HK\$883 million compared to HK\$814 million as at 31 March 2010. The inventories increased to HK\$189 million from HK\$159 million while the trade and other receivables increased to HK\$184 million from HK\$167 million. The trading financial assets as at 31 March 2011 amounted to HK\$156 million (2010: HK\$116 million).

The Group's current liabilities increased from HK\$202 million to HK\$223 million at 31 March 2011. As in the previous year, the Group had no bank borrowings or any long-term borrowings at 31 March 2011. Certain trading financial assets and bank deposits amounting to HK\$187 million (2010: HK\$140 million) are pledged to banks to secure banking facilities granted to the Group. As at 31 March 2011, the working capital ratio, an indicator of liquidity represented by a ratio between the current assets and the current liabilities, was 3.96 as compared to 4.03 in the last year. The quick ratio, another ratio that gauges the short-term liquidity and measured by trade debtors and cash and cash equivalents over current liabilities, decreased to 2.01 from 2.17 in the last year.

PROSPECT AND GENERAL OUTLOOK

While the business volume of the Toys Division in the year ending 31 March 2012 may be maintained at a similar level as the year before, the profit margin will suffer from rising labour costs and material prices, and appreciation of Renminbi. On the other hand, management is hopeful about the prospects of the smart thermostats and anticipates that the Computer products Division will continue to record a satisfactory performance. However, the Housewares Division will experience similar difficulties as the Toys Division and coupled with severe competition, the division will struggle to show a profit in the financial year ending 31 March 2012. Meanwhile, the Timepieces Division, which will continue to develop and introduce new brands to the market and expand customer base, is expected to report an improved result in the financial year ending 31 March 2012.

The current financial year remains to be challenging for the Group. Management is concerned about the pressure on the profit margins brought about by the rising labour costs and material prices, and appreciation of Renminbi. However, the Group has taken measures to improve operating efficiency, develop new markets and expand its customer base to ensure that it will remain competitive. Despite the difficult trading environment, management is hopeful that the Group's overall performance will continue to be satisfactory in the year ending 31 March 2012.

DIVIDENDS

At the forthcoming Annual General Meeting to be held on Monday, 19 September 2011, the Directors will recommend a final dividend of HK6 cents (2010: HK6 cents) per share. Together with the interim dividend of HK3 cents (2010: HK3 cents), the dividend for the year of HK9 cents (2010: HK9 cents) would represent an annual return of 7.7% (2010: 10.7%) on the Company's average share price of HK\$1.17 (2010: HK84 cents) in the year ended 31 March 2011.

The final dividend will amount to HK\$ 36,149,000 and is calculated based on the total number of shares in issue as at 28 June 2011, being the latest practicable date prior to the announcement of the results.

CLOSURE OF REGISTER OF MEMBERS

The Annual General Meeting is scheduled on Monday, 19 September 2011. For determining the entitlement to attend and vote at the Annual General Meeting, the register of members of the Company will be closed from Friday, 16 September 2011 to Monday, 19 September 2011, both days inclusive, during which period no transfer of shares will be effected. In order to be able to attend and vote at the Annual General Meeting, shareholders should ensure that all transfers of shares, accompanied by the relevant share certificates, are lodged with the Company's share registrar in Hong Kong, Tricor Tengis Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Thursday, 15 September 2011.

The proposed final dividend is subject to the passing of the ordinary resolution by the shareholders at the Annual General Meeting. The record date for entitlement to the proposed final dividend is on Monday, 26 September 2011. For determining the entitlement to the proposed final dividend, the register of the members of the Company will be closed from Friday, 23 September 2011 to Monday, 26 September 2011, both days inclusive, during which period no transfer of shares will be effected. In order to be qualified for the proposed final dividend, shareholders should ensure that all transfers of shares, accompanied by the relevant share certificates, are lodged with Tricor Tengis Limited, for registration no later than 4:30 p.m. on Thursday, 22 September 2011. The payment of final dividend, if approved at the Annual General Meeting, will be made on Monday, 10 October 2011.

Herald Holdings Limited
Hong Kong, 29 June 2011

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| Contact Person : | Mr. Robert Dorfman | 2522 6181 |
| | Mr. Tang King Hung | 2522 6181 |

**For identification only*