

#### **RESULTS**

The Board of Directors of Herald Holdings Limited (the "Company") presents the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 September 2006, together with the comparative figures for the corresponding period in 2005, as follows:

#### **Consolidated Income Statement – Unaudited**

For the six months ended 30 September 2006

For the six months ended 50 September 2000	Six months ended 30 September 2006 2005 HK\$'000 HK\$'000	
<b>Turnover</b> Cost of sales	744,878 (593,273)	738,468 (569,693)
Gross profit	151,605	168,775
Other revenue Other net income/(loss) Selling expenses Administrative expenses	10,683 10,526 (26,443) (94,455)	5,139 (549) (27,796) (92,580)
Profit from operations	51,916	52,989
Finance costs Share of profit of jointly controlled entity	( <b>39</b> ) 220	(20) 381
<b>Profit before taxation</b> Income tax	52,097 (3,761)	53,350 (7,014)
Profit for the period	48,336	46,336
Attributable to: Equity shareholders of the Company Minority interests	47,743 593	43,326 3,010
Profit for the period	48,336	46,336
Interim dividends	18,418	15,348
Interim dividends per share	3 cents	2.5 cents
Earnings per share - Basic and diluted	7.78 cents	7.06 cents

# **Consolidated Balance Sheet - Unaudited**

At 30 September 2006		
	As at 30 September 2006 HK\$'000	As at 31 March 2006 HK\$'000
Non-current assets		
Fixed assets		
- Investment properties	16,750	16,750
- Other property, plant and equipment	149,268	154,848
- Interests in leasehold land held for	( 210	C 1C0
own use under operating leases	6,319	6,468
	172,337	178,066
Club membership	1,660	1,660
Interest in jointly controlled entity	1,965	2,150
Other financial assets Deferred tax assets	2,000	2,000
Defended tax assets	9,777	5,249
	187,739	189,125
Current assets		
Trading securities	58,218	59,917
Inventories	185,209	140,459
Trade and other receivables	308,308	131,657
Current tax recoverable	109 197,803	2,932 239,395
Cash and cash equivalents		
	749,647	574,360
Current liabilities		121.002
Trade and other payables	262,959	121,003
Current tax payable	6,451	2,728
	269,410	123,731
Net current assets	480,237	450,629
Total assets less current liabilities	667,976	639,754
Non-current liabilities		
Deferred tax liabilities	1,948	1,642
Provision for long service payments	2,799	2,799
	4,747	4,441
NET ASSETS	663,229	635,313
		,
CAPITAL AND RESERVES		
Share capital	47,886	47,886
Reserves	582,639	554,423
Total equity attributable to equity		<b>600 200</b>
shareholders of the Company	630,525	602,309
Minority interests	32,704	33,004
TOTAL EQUITY	663,229	635,313

# **BUSINESS REVIEW**

The Group's turnover for the six months to 30 September 2006 amounted to HK\$745 million, representing a slight increase of 0.9% as compared with the corresponding period in the previous year. The profit attributable to shareholders for the same period was HK\$47.7 million, up 10.2% or HK\$4.4 million from the profit of HK\$43.3 million in the same period a year earlier.

The six months under review was a very challenging period for the Group. Due to rising labour and material costs as well as the appreciation of the Renminbi, the gross profit percentage for the period declined by 2.5% to 20.4% from 22.9%. Though the Group's turnover was level with last year, the gross profit for the period fell by 10.2% or HK\$17.2 million from HK\$168.8 million to HK\$151.6 million. For the first half of the fiscal year, the Group's other revenue was HK\$10.7 million and the other net income was HK\$10.5 million. For the same period last year, the Group had other revenue of HK\$5.1 million and other net loss of HK\$0.5 million. The increase of the other revenue was as a result of higher interest rates. The increase in the net income for the period under review was primarily due to better investment gains arising from the Group's listed and unlisted trading securities and a gain of HK\$3.4 million relating to the write back of an investment of a jointly controlled entity which is in voluntary liquidation. The additional profits arising from the other revenue and the net income, which together totaled HK\$16.6 million, made up the decrease of the gross profit as mentioned above and helped the Group to achieve a higher net profit in the six months to 30 September 2006 as compared with the net profit for the same period a year ago.

During the period under review, the turnover of the Toy and Gift Division increased by 6.1% from HK\$394 million to HK\$418 million. The sales of toys related to the "Star Wars" brand as well as other toy categories remained very strong in the first half of the fiscal year. The problems of shortages of labour and electricity supply continue to affect all toy factories in the Pearl River Delta region. Last year, the Dongguan authorities raised the minimum wage by 27.5%. This year, with effect from September 2006, the minimum wage in Dongguan has further been increased by 20% to RMB690 per month. Largely due to the increase in wages, the gross profit percentage of the division for the first six months of the year was reduced by 2% to 17%. Despite these adverse market conditions, the division is pleased to see that it fulfilled on time all shipment schedules of its customers. The operating profit of the division for the period was HK\$19.6 million compared to an operating profit of HK\$25.5 million in the corresponding period in 2005.

The turnover of the Timepiece Division edged downward by 2.3% from HK\$129 million to HK\$126 million. During the period under review the RoHs directive, a new regulation in the EU restricting electrical and electronic equipment that contains certain hazardous substances, came in force. The additional costs incurred to comply with the directive as well as rising wage level forced the division's suppliers to increase their prices. This has reduced the gross profit margin of the division. For the first half of the fiscal year, the division had an operating profit of HK\$6.7 million, down from the first half operating profit of HK\$8.9 million in the prior year.

The business of the Computer Head Division remained stable in the six months ended 30 September 2006. The sales for the first half were HK\$76.5 million which were virtually flat as compared with the same period last year. The business of the computer ferrite heads started to decline. However, the business of the computer thin-film heads grew by 10.8% and made up for the loss of turnover from the ferrite heads. The division had a half-yearly operating profit of HK\$7.3 million, down from HK\$9.1 million in the prior year.

Largely due to the weakness of the UK market, the sales of the Houseware Division decreased by 6.3% from HK\$123.5 million to HK\$115.7 million. The increases of prices of aluminium and stainless steel continued to have a negative impact on the results of the division. On a year-on-year

comparison, the operating profit of the division for the first half under review declined from HK\$6.1 million to HK\$2.6 million.

### 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 2006 the Group's net cash surplus was HK\$198 million which was lower than the HK\$239 million at 31 March 2006. During the period under review, the Group used HK\$22.4 million to finance its operating activities and HK\$24.6 million to pay the final dividend for the year ended 31 March 2006.

The Group's current assets position as at 30 September 2006 was HK\$750 million compared to HK\$574 million as at 31 March 2006. The trade and other receivables increased to HK\$308 million from HK\$132 million. The Group's current liabilities increased from HK\$124 million to HK\$269 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 2006 amounted to HK\$58 million compared to HK\$60 million as at 31 March 2006. Trading securities and bank deposits totalling HK\$64 million (At 31 March 2006: HK\$37 million) are pledged to a bank 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 2.78 compared to 2.69 at 30 September 2005. The quick ratio, another ratio that gauges the financial strength of a Company measured by trade debtors and cash at bank and in hand over the current liabilities, decreased to 1.72 from 1.87 at 30 September 2005.

# **PROSPECTS AND GENERAL OUTLOOK**

The Group has achieved satisfactory results in the first half. As the order positions for the third quarter of the current fiscal year remain very strong, the management expects that turnover for the second half will show some growth. However, the gross profit of the Group will continue to be squeezed by higher wages and higher material costs. Despite these negative factors, the management is confident that the Group will continue to achieve a satisfactory result for the shareholders in the second half of the financial year.

### **DIVIDENDS**

The Directors have declared an interim dividend of HK3 cents per share (2005: HK2.5 cents). The total amount of dividend payment of HK\$18,418,000 (2005: HK\$15,348,000) was based on the total number of shares in issue as at 14 December 2006 being the latest practicable date prior to the announcement of the interim results. Dividend will be payable on 24 January 2007 to shareholders registered in the Register of Members on 11 January 2007.

Herald Holdings Limited Hong Kong, 15 December 2006

Contact Person :	Mr. Robert Dorfman	2522 6181
	Mr. Michael Thong	2726 8111