



HERALD HOLDINGS LIMITED

興利集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code : 00114)

PRESS RELEASE

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	
	2008	2007
	HK\$'000	HK\$'000
Turnover	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	58,265	68,077
Finance costs	(24)	(645)
Share of profit of jointly controlled entity	<u>134</u>	<u>283</u>
Profit before taxation	58,375	67,715
Income tax	<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		
- Basic and diluted	<u>7.87 cents</u>	<u>9.54 cents</u>

Consolidated Balance Sheet - Unaudited

At 30 September 2008

	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	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	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>

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.

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.

Herald Holdings Limited
Hong Kong, 12 December 2008

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**For identification only*