



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 2009

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	
	2009	2008
	HK\$'000	HK\$'000
Turnover	908,023	979,034
Cost of sales	(649,353)	(767,889)
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	-	(1,700)
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	309	-
Profit before taxation	164,281	58,375
Income tax	(34,202)	(13,009)
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	130,079	45,366
Interim dividends	18,075	18,153
Interim dividends per share	3 cents	3 cents
Earnings per share		
- Basic and diluted	21.47 cents	7.87 cents

Consolidated Balance Sheet - Unaudited

At 30 September 2009

	As at 30 September 2009 HK\$'000	As at 31 March 2009 HK\$'000
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	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	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	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

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.

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.

Herald Holdings Limited
Hong Kong, 18 December 2009

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**For identification only*