



# 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 2008

The Board of Directors of Herald Holdings Limited (the “Company”) presents the audited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the year ended 31 March 2008, together with the comparative figures for the previous year, as follows:

### Consolidated income statement

For the year ended 31 March 2008

	2008 HK\$'000	2007 HK\$'000
<b>Turnover</b>	<b>1,554,006</b>	1,550,091
Cost of sales	<u>(1,181,352)</u>	<u>(1,204,819)</u>
<b>Gross profit</b>	<b>372,654</b>	345,272
Other revenue	26,494	22,363
Other net (loss)/income	(395)	16,313
Selling expenses	(50,826)	(59,301)
Administrative expenses	(217,500)	(209,003)
Valuation gains on investment properties	13,040	5,150
Write back of impairment losses on property, plant and equipment	-	1,630
Write back of impairment losses on club membership	<u>170</u>	<u>160</u>
<b>Profit from operations</b>	<b>143,637</b>	122,584
Finance costs	(123)	(342)
Share of profit of jointly controlled entity	<u>425</u>	<u>201</u>
<b>Profit before taxation</b>	<b>143,939</b>	122,443
Income tax	<u>(25,811)</u>	<u>(13,775)</u>
<b>Profit for the year</b>	<b><u>118,128</u></b>	<u>108,668</u>
<b>Attributable to:</b>		
Equity shareholders of the Company	117,946	111,120
Minority interests	<u>182</u>	<u>(2,452)</u>
<b>Profit for the year</b>	<b><u>118,128</u></b>	<u>108,668</u>
<b>Dividends payable to equity shareholders of the Company attributable to the year</b>	<b><u>48,564</u></b>	<u>45,744</u>
<b>Earnings per share</b>		
- Basic and diluted	<b><u>19.41 cents</u></b>	<u>18.14 cents</u>

**Consolidated Balance Sheet**  
**At 31 March 2008**

	2008 HK\$'000	2007 HK\$'000
<b>Non-current assets</b>		
Fixed assets		
- Property, plant and equipment	187,984	153,418
- Investment properties	34,940	21,900
- Interests in leasehold land held for own use under operating leases	<u>6,007</u>	<u>6,204</u>
	228,931	181,522
Club membership	1,990	1,820
Interest in jointly controlled entity	2,345	1,998
Other financial assets	4,680	-
Deferred tax assets	<u>4,879</u>	<u>6,128</u>
	<u>242,825</u>	<u>191,468</u>
<b>Current assets</b>		
Other financial assets	-	2,000
Trading securities	68,929	95,774
Inventories	173,443	180,629
Trade and other receivables	204,247	179,958
Current tax recoverable	1,444	1,566
Pledged bank balances	107,220	37,122
Cash and cash equivalents	<u>191,774</u>	<u>203,163</u>
	<u>747,057</u>	<u>700,212</u>
<b>Current liabilities</b>		
Trade and other payables	183,787	171,959
Current tax payable	<u>10,331</u>	<u>7,637</u>
	<u>194,118</u>	<u>179,596</u>
<b>Net current assets</b>	<u>552,939</u>	<u>520,616</u>
<b>Total assets less current liabilities</b>	<u>795,764</u>	<u>712,084</u>
<b>Non-current liabilities</b>		
Deferred tax liabilities	386	826
Provision for long service payments	<u>2,528</u>	<u>2,600</u>
	<u>2,914</u>	<u>3,426</u>
<b>NET ASSETS</b>	<u>792,850</u>	<u>708,658</u>
<b>CAPITAL AND RESERVES</b>		
Share capital	47,349	47,392
Reserves	<u>716,391</u>	<u>631,169</u>
<b>Total equity attributable to equity shareholders of the Company</b>	763,740	678,561
<b>Minority interests</b>	<u>29,110</u>	<u>30,097</u>
<b>TOTAL EQUITY</b>	<u>792,850</u>	<u>708,658</u>

## **REVIEW OF OPERATIONS**

The group achieved favourable results in the financial year under review. The turnover of the group for the year ended 31 March 2008 was HK\$1,554 million which was virtually flat as compared to the turnover of the previous year. The net profit attributable to the equity shareholders of the company was HK\$117.9 million, representing an increase of 6.1% from the net profit of HK\$111.1 million in the earlier year.

The net profit for the year included a gain of HK\$13 million (2007: HK\$5.2 million) relating to revaluation of investment properties. Excluding this item, the adjusted net profit of the group in the year under review was HK\$104.9 million, compared to the adjusted net profit of HK\$105.9 million in the prior year.

### ***Toy and Gift Division***

The whole toy industry faced a very challenging environment in 2007. In addition to the prolonged appreciation of Renminbi, shortages of labour and the rise of wage rates have continued to put pressure on the cost of production for manufacturers in China. Furthermore, the massive toy recalls by some major toy companies in the United States have raised the whole industry's concerns about product safety. To deal with this issue, the Toy and Gift Division has strengthened its testing and quality control measures to ensure that its products fulfil the more stringent safety requirements. Facing these extremely difficult operating conditions, the division succeeded in recording a growth in both its turnover and net operating profit. For the year under review, the turnover of the division increased by 4% or HK\$33 million from HK\$829 million to HK\$862 million and the operating profit increased by HK\$17.7 million from HK\$35.7 million to HK\$53.4 million.

### ***Timepiece Division***

For the year ended 31 March 2008, the turnover of the Timepiece Division decreased by 4.2% or HK\$14 million to HK\$319 million. Much of this was due to a decrease in sales of jewellery watches to a major UK customer. Despite the decline in sales volume, the division's operating profit for the year increased by 4.1% from HK\$41.2 million to HK\$42.9 million. This is largely due to product mix. In general, the brands that performed well in the year have better margins. During the year under review, the division's watch distribution business performed well. Watches that the division currently distributes in the UK market include "Skagen", "Gant" and "Porsche Design".

### ***Computer Head Division***

The business of the Computer Head Division remained stable in the fiscal year 2008. Compared to last year, the division's turnover increased slightly by 6.4% from HK\$156 million to HK\$166 million. During the year under review, the business of thin-film computer heads increased by 11.6% to HK\$125 million. However, the sales of ferrite computer heads declined. For the full year, the operating profit of the division amounted to HK\$18.7 million, representing an increase of HK\$4.3 million as compared to the operating profit in the prior year. To cope with future expansion plans, the division acquired in December 2007 properties at Nan Pin, Zhuhai for HK\$36.4 million. The properties comprise 33,000 sq.m. of land and 11,858 sq.m. of premises. The division plans to move the existing factory in Nan Shan, Zhuhai to the newly acquired premises by the end of this year.

### ***Houseware Division***

The adverse market conditions that the Houseware Division experienced in the previous year continued in the year under review. For the year ended 31 March 2008, the sales of the division decreased by 10% or HK\$21 million to HK\$189 million from HK\$210 million a year earlier. The decrease was largely due to the decline of the sales of stainless steel cookware which has become unprofitable due to the rise of price of stainless steel. On the other hand, the price of aluminium stabilised in the fiscal year 2008 and the business of aluminium cookware improved. The division's customers include major retailers in the United States and the UK. In February 2008, the division was awarded the "Home Supplier of the Year 2007" from Sainsbury's, the division's largest customer in the UK. During the year under review, the division had an operating profit of HK\$2.5 million compared to an operating loss of HK\$4.7 million in the previous year.

### ***Investment Income***

During the year under review, the group had net realised and unrealised losses on trading securities of HK\$1.5 million (2007: Gains of HK\$8.6 million) and dividend income and interest income on trading securities of HK\$7.3 million (2007: HK\$4.1 million). Compared to last year, the group's trading securities at 31 March 2008 decreased by HK\$26.9 million from HK\$95.8 million to HK\$68.9 million.

## **FINANCIAL POSITION**

The Group has maintained its sound financial position. At the end of the financial year, the Group had a strong balance sheet with a healthy liquidity position. As at 31 March 2008, the Group had total assets of HK\$990 million (2007: HK\$892 million) which were financed by current liabilities of HK\$194 million (2007: HK\$180 million), non-current liabilities of HK\$3 million (2007: HK\$3 million), minority interests of HK\$29 million (2007: HK\$30 million) and equity attributable to the company's equity shareholders of HK\$764 million (2007: HK\$679 million).

At 31 March 2008, the Group's cash balances aggregated to HK\$299 million which increased from HK\$240 million in last year's balance sheet. The Group's current assets position as at 31 March 2008 was HK\$747 million compared to HK\$700 million as at 31 March 2007. The inventories decreased to HK\$173 million from HK\$181 million while the trade and other receivables increased to HK\$204 million from HK\$180 million. During the year, the Group acquired certain listed equity securities, unlisted equity/currency linked notes and managed funds and other equity contracts which are held for trading. The Group's trading financial assets as at 31 March 2008 amounted to HK\$69 million (2007: HK\$96 million).

The Group's current liabilities increased from HK\$180 million to HK\$194 million primarily due to increase in trade and other payables.

Like last year, the Group had no bank borrowings at 31 March 2008. Furthermore, the Group has no long-term borrowings. Trading financial assets and bank deposits of HK\$176 million (2007: HK\$116 million) are pledged to banks to secure banking facilities granted to a subsidiary of the Company. As at 31 March 2008, the working capital ratio, an indicator of a company's liquidity represented by a ratio between the current assets over the current liabilities, was 3.85 compared to 3.90 last year. The quick ratio, another ratio that gauges the short-term liquidity of a company measured by trade debtors, and cash and cash equivalents over the current liabilities, decreases to 1.80 from 1.95.

## **PROSPECT AND GENERAL OUTLOOK**

The management anticipates that the business of the Toy and Gift Division will continue to be robust in the new financial year. Projections from our customers indicate that the business for the first half of the new financial year may exceed that of the preceding year. However, the management has concerns over the problem of shortage of workers and the negative impact of the newly implemented Labour Contract Law in China, which may trigger labour disputes.

In the new fiscal year the thin-film computer tape heads will remain the major products of the Computer Head Division. The management believes that the growth of this business can be sustained. In addition, the division currently produces half-height motor actuator assemblies for an important customer. Meanwhile, the division is undergoing the same customer's reliability test for the full-height motor actuator assemblies. It is expected the latter will boost the division's turnover in the second half.

Due to the sluggishness of both the North American and European retail markets, the business environment of both the cookware business and the timepiece division remains very challenging in the new financial year. As at the beginning of the new fiscal year, their order positions were weaker as compared to the level a year earlier. Despite the adverse economic environment, the management has confidence that both divisions would remain profitable in the new financial year.

## **DIVIDENDS**

At the forthcoming Annual General Meeting to be held on 19 September 2008, the Directors will recommend a final dividend of HK5 cents per share (2007: HK4.5 cents). Together with the interim dividend of HK3 cents (2007: HK3 cents), the dividend for the year of HK8 cents (2007: HK7.5 cents) would represent an annual return of 8.1 % (2007: 10.1%) on the Company's average share price of HK99 cents (2007: HK74 cents) in the year ended 31 March 2008.

The total final dividend will amount to HK\$30,336,000 and is calculated based on the total number of shares in issue as at 10 July 2008 being the latest practicable date prior to the announcement of the results. Dividend will be payable on 30 September 2008 to shareholders registered in the Register of Members on 19 September 2008.

## **REGISTER OF MEMBERS**

The Register of Members will be closed from 17 September 2008 to 19 September 2008, both days inclusive, during which period no transfer of shares will be effected. Shareholders should ensure that all transfers accompanied by relevant share certificates are lodged with the Company's Registrars, Tricor Tengis Limited at 26/F Tesbury Centre, 28 Queen's Road East, Hong Kong for registration not later than 4:00 p.m. on 16 September 2008 in order that they may receive their dividend entitlement.

Herald Holdings Limited  
Hong Kong, 11 July 2008

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