



# HERALD HOLDINGS LIMITED

興利集團有限公司\*

(Incorporated in Bermuda with limited liability)

(Stock Code : 00114)

Press Release

## Annual Results for the year ended 31 March 2007

The Board of Directors 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 2007, together with the comparative figures for the previous year, as follows:

### Consolidated income statement

For the year ended 31 March 2007

	2007 HK\$'000	2006 HK\$'000
<b>Turnover</b>	<b>1,550,091</b>	1,325,686
Cost of sales	<u>(1,204,819)</u>	<u>(1,000,531)</u>
<b>Gross profit</b>	<b>345,272</b>	325,155
Other revenue	22,363	13,468
Other net income	16,313	2,212
Selling expenses	(59,301)	(57,766)
Administrative expenses	(209,003)	(189,789)
Valuation gains on investment properties	5,150	2,140
Write back of impairment losses on property, plant and equipment	1,630	9,294
Write back of impairment losses on club Membership	<u>160</u>	<u>60</u>
<b>Profit from operations</b>	<b>122,584</b>	104,774
Finance costs	(342)	(145)
Share of profit of jointly controlled entity	<u>201</u>	<u>494</u>
<b>Profit before taxation</b>	<b>122,443</b>	105,123
Income tax	<u>(13,775)</u>	<u>(14,392)</u>
<b>Profit for the year</b>	<b>108,668</b>	90,731
<b>Attributable to:</b>		
Equity shareholders of the Company	111,120	86,290
Minority interests	<u>(2,452)</u>	<u>4,441</u>
<b>Profit for the year</b>	<b>108,668</b>	90,731
<b>Dividends payable to equity shareholders of the Company attributable to the year</b>	<b>45,744</b>	39,906
<b>Earnings per share</b>		
- Basic and diluted	<u>18.14 cents</u>	<u>14.06 cents</u>

**Consolidated Balance Sheet**  
At 31 March 2007

	2007 HK\$'000	2006 HK\$'000
<b>Non-current assets</b>		
Fixed assets		
- Property, plant and equipment	153,418	154,848
- Investment properties	21,900	16,750
- Interests in leasehold land held for own use under operating leases	<u>6,204</u>	<u>6,468</u>
	181,522	178,066
Club membership	1,820	1,660
Interest in jointly controlled entity	1,998	2,150
Other financial assets	-	2,000
Deferred tax assets	<u>6,128</u>	<u>5,249</u>
	<u>191,468</u>	<u>189,125</u>
<b>Current assets</b>		
Other financial assets	2,000	-
Trading securities	95,774	59,917
Inventories	180,629	140,459
Trade and other receivables	179,958	131,657
Current tax recoverable	1,566	2,932
Pledged bank balances	37,122	-
Cash and cash equivalents	<u>203,163</u>	<u>239,395</u>
	<u>700,212</u>	<u>574,360</u>
<b>Current liabilities</b>		
Trade and other payables	171,959	121,003
Current tax payable	<u>7,637</u>	<u>2,728</u>
	<u>179,596</u>	<u>123,731</u>
<b>Net current assets</b>	<u>520,616</u>	<u>450,629</u>
<b>Total assets less current liabilities</b>	<u>712,084</u>	<u>639,754</u>
<b>Non-current liabilities</b>		
Deferred tax liabilities	826	1,642
Provision for long service payments	<u>2,600</u>	<u>2,799</u>
	<u>3,426</u>	<u>4,441</u>
<b>NET ASSETS</b>	<u>708,658</u>	<u>635,313</u>
<b>CAPITAL AND RESERVES</b>		
Share capital	47,392	47,886
Reserves	<u>631,169</u>	<u>554,423</u>
<b>Total equity attributable to equity shareholders of the Company</b>	<u>678,561</u>	<u>602,309</u>
<b>Minority interests</b>	<u>30,097</u>	<u>33,004</u>
<b>TOTAL EQUITY</b>	<u>708,658</u>	<u>635,313</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 2007 was HK\$1,550 million which was HK\$224 million or 17% above the turnover of HK\$1,326 million in the previous year. This was a record annual turnover for the Group. The net profit attributable to the equity shareholders of the company was HK\$111.1 million, representing an impressive increase of 29% from the net profit of HK\$86.3 million in the previous year.

The net profit for the year included a write-back of impairment losses on properties of HK\$1.6 million (2006: HK\$9.3 million) and revaluation gain on investment properties of HK\$5.2 million (2006: HK\$2.1 million).

### **Toy and Gift Division**

During the year under review, the turnover of the Toy and Gift Division increased by 28% or HK\$182 million from HK\$647 million to HK\$829 million. The division performed very strongly in the second half of the fiscal year and recorded a 62% or HK\$158 million increase in turnover as compared to the same half in 2006. For the whole year, the division had an operating profit of HK\$35.7 million, up 24% from the profit of HK\$28.9 million in fiscal year 2006. Despite a satisfactory improvement in the operating profit, the toy industry continued to be very tough. The gross profit margin for fiscal 2007 decreased by 2.6% as compared to fiscal 2006. As mentioned in the interim report, the increase in wages, the appreciation of Renminbi, and shortages of labour and electricity supply are the major factors that contributed to the decrease in the gross profit margin. To better serve our customers and to alleviate the pressure arising from insufficient production facilities during peak months, the division's factory in Dongguan acquired additional premises of 18,200 square meters in the fourth quarter of fiscal year 2007. This has increased the production capacity of the division by approximately 20%. By the end of fiscal year 2007, the newly installed assembly lines had commenced production.

### ***Timepiece Division***

The turnover of the Timepiece Division edged downward in the first half of fiscal 2007. As with the Toy and Gift Division, the division performed strongly in the second half. The turnover for the full year increased by 34% or HK\$84 million to HK\$333 million. Largely due to increased turnover, the division's operating profit substantially increased by 93% or HK\$19.9 million to HK\$41.2 million. The division has built the core of its business around the use of strong recognisable brands in the UK and other markets. The brands that have performed well include Ingersoll, Playboy, Bench, Skagen and Ted Baker.

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

The business of the Computer Head Division weakened in fiscal year 2007. Compared to last year, the division's turnover decreased slightly by 1% to HK\$156 million. The decrease was mainly due to the decline in the sales of ferrite heads to a US customer which shrank by two-thirds from last year. Starting from the second quarter of fiscal year 2007, the division started to build for an important customer motor actuator assemblies, key assemblies for thin-film tape head drives. Sales from this product, together with the increase of sales of thin-film heads mostly made up the loss of sales of ferrite heads. For the full year, the operating profit of the division declined from HK\$25.5 million to HK\$14.4 million, largely due to price reductions and increases in administrative expenses.

### ***Houseware Division***

The adverse market conditions that the Houseware Division experienced in the previous year continued to deteriorate in the year under review. The upward trend of aluminium prices continued in fiscal year 2007. Price of stainless steel surged at a more drastic pace. In comparison with the prior year, stainless steel prices by the end of March 2007 almost doubled. Due to strong competition, the division could only adjust its selling prices to recover a portion of these increased material costs. As a result, many product lines of the division became non-profitable or have very low profit margins. For the year ended 31 March 2007, the sales of the division decreased by 12% or HK\$29 million to HK\$210 million from HK\$240 million a year earlier. During the year under review, the division suffered an operating loss of HK\$4.7 million compared to an operating profit of HK\$12.4 million in the previous year.

### ***Investment Income***

During the year under review, the Group had net realised and unrealised gains on trading securities of HK\$8.6 million (2006: HK\$1.2 million) and dividend and interest income on trading securities of HK\$4.1 million (2006: HK\$1.1 million). Compared to last year, the Group's Trading Securities at 31 March 2007 increased from HK\$60 million to HK\$96 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 2007, the Group had total assets of HK\$892 million (2006: HK\$763 million) which were financed by current liabilities of HK\$180 million (2006: HK\$124 million), non-current liabilities of HK\$3 million (2006: HK\$4 million), minority interests of HK\$30 million (2006: HK\$33 million) and equity attributable to the company's equity shareholders of HK\$679 million (2006: HK\$602 million).

At 31 March 2007, the Group's cash balances aggregated to HK\$240 million which increased slightly from HK\$239 million in last year's balance sheet. The Group's current assets position as at 31 March 2007 was HK\$700 million compared to HK\$574 million as at 31 March 2006. The inventories increased to HK\$181 million from HK\$140 million and the trade and other receivables increased to HK\$180 million from HK\$132 million. The increases were mainly due to the increase of the Group's sales activities. During the year, the Group acquired certain listed equity securities, unlisted equity/currency linked notes and other equity contracts which are held for trading. The Group's trading financial assets as at 31 March 2007 amounted to HK\$96 million (2006: HK\$60 million).

The Group's current liabilities increased from HK\$124 million to HK\$180 million primarily due to increase in trade and other payables.

Like last year, the Group had no bank borrowings at 31 March 2007. Furthermore, the Group has no long-term borrowings. Trading financial assets and bank deposits of HK\$116 million (2006: HK\$37 million) are pledged to banks to secure banking facilities granted to a subsidiary of the Company. As at 31 March 2007, the working capital ratio, an indicator of a company's liquidity represented by a ratio between the current assets over the current liabilities, was 3.9 compared to 4.64 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 1.95 from 2.76.

## **PROSPECTS AND GENERAL OUTLOOK**

The management is cautiously optimistic on the general outlook of the businesses of the Group. While the overall order positions of the Group for the first half of the new financial year remain strong, management has some concerns going forward. The reduction of the VAT rebate on goods exported from China will have some impact on margins that may not be fully recoverable from adjustments to pricing. In addition, the Pearl River Delta region in which some of our factories operate continues to experience both shortages of labour and shortages of electricity. The high cost of raw materials also remains a matter of some concern.

## **DIVIDENDS**

At the forthcoming Annual General Meeting to be held on 18 September 2007, the Directors will recommend a final dividend of HK4.5 cents per share (2006: HK4 cents). Together with the interim dividend of HK3 cents (2006: HK2.5 cents), the dividend for the year of HK7.5 cents (2006: HK6.5 cents) would represent an annual return of 10.1% on the Company's average share price of HK74 cents in the year ended 31 March 2007.

The total final dividend will amount to HK\$27,342,000 and is calculated based on the total number of shares in issue as at 12 July 2007 being the latest practicable date prior to the announcement of the results. Dividend will be payable on 28 September 2007 to shareholders registered in the Register of Members on 18 September 2007.

## **REGISTER OF MEMBERS**

The Register of Members will be closed from 13 September 2007 to 18 September 2007, 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, Tengis Limited at 26/F Tesbury Centre, 28 Queen's Road East, Hong Kong for registration not later than 4:00 p.m. on 12 September 2007 in order that they may receive their dividend entitlement.

Herald Holdings Limited  
Hong Kong, 13 July 2007

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