



Herald Holdings Limited

Stock Code : 00114

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INTERIM REPORT

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Cheung Tsang Kay Stan PhD,
Hon LLD, Hon DBA, JP *Chairman*
Robert Dorfman *Vice Chairman*
Thong Yeung Sum Michael FCCA, CPA
Managing Director
Chang Dong Song

INDEPENDENT NON-EXECUTIVE DIRECTORS

Tang King Hung ACA, FCCA, ACIS, CPA
David Tai Chong Lie-A-Cheong JP
Yeh Man Chun Kent

SECRETARY

Shum Kam Hung ACIS, CPA

PRINCIPAL BANKERS

China Construction Bank (Asia)
Corporation Limited
The Hong Kong and Shanghai Banking
Corporation Limited
Fubon Bank (Hong Kong) Limited
Bank of America, N.A.

AUDITORS

KPMG
Certified Public Accountants

SOLICITORS

Stephenson Harwood & Lo

PRINCIPAL OFFICE

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Tower Two, Lippo Centre
89 Queensway
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REGISTERED OFFICE

Clarendon House
2 Church Street
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PRINCIPAL REGISTRARS

Butterfield Fulcrum Group
(Bermuda) Limited
Rosebank Centre
14 Bermudiana Road
Pembroke
Bermuda

HONG KONG SHARE REGISTRARS

Tricor Tengis Limited
26/F., Tesbury Centre
28 Queen's Road East
Hong Kong

COMPANY'S WEBSITE

<http://www.heraldgroup.com.hk>

RESULTS

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	
	Note	2009 HK\$'000	2008 HK\$'000
Turnover	3	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	4	164,281	58,375
Income tax	5	(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	6		
– Basic and diluted		21.47 cents	7.87 cents

Consolidated Statement of Comprehensive Income – Unaudited*For the six months ended 30 September 2009*

	Six months ended 30 September	
	2009 HK\$'000	2008 HK\$'000
Profit for the period	130,079	45,366
Other comprehensive income for the period		
Exchange differences on translation of the financial statements of subsidiaries outside Hong Kong	6,142	(4,961)
Total comprehensive income for the period	136,221	40,405
Attributable to:		
Equity shareholders of the company	135,587	42,305
Minority interests	634	(1,900)
Total comprehensive income for the period	136,221	40,405

Consolidated Balance Sheet – Unaudited

At 30 September 2009

	Note	As at 30 September 2009 HK\$'000	As at 31 March 2009 HK\$'000
Non-current assets			
Fixed assets	7		
– 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	8	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	9	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	10	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

Consolidated Balance Sheet – Unaudited (Continued)*At 30 September 2009*

	As at 30 September 2009 HK\$'000	As at 31 March 2009 HK\$'000
<i>Note</i>		
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

Condensed Consolidated Statement of Changes in Equity – Unaudited*For the six months ended 30 September 2009*

	Attributable to equity shareholders of the Company								
	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	Exchange reserve HK\$'000	PRC		Total	Minority interests HK\$'000	Total equity HK\$'000
					statutory reserves HK\$'000	Retained Profits HK\$'000			
At 1 April 2009	46,994	18,737	53,687	7,985	8,910	612,749	749,062	21,720	770,782
Changes in equity for the six months ended 30 September 2009:									
Transfer between reserves	-	-	-	-	94	(94)	-	-	-
Dividend paid	-	-	-	-	-	(30,124)	(30,124)	(494)	(30,618)
Total comprehensive income for the period	-	-	-	6,212	-	129,375	135,587	634	136,221
At 30 September 2009	46,994	18,737	53,687	14,197	9,004	711,906	854,525	21,860	876,385

Condensed Consolidated Statement of Changes in Equity – Unaudited (Continued)*For the six months ended 30 September 2009*

	Attributable to equity shareholders of the Company								
	Share capital	Share premium	Contributed surplus	Exchange reserve	PRC statutory reserves	Retained Profits	Total	Minority interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2008	47,349	21,152	75,532	25,363	7,163	587,181	763,740	29,110	792,850
Changes in equity for the six months ended 30 September 2008:									
Transfer between reserves	-	-	-	-	424	(424)	-	-	-
Dividend paid	-	-	(21,845)	-	-	(8,491)	(30,336)	(1,779)	(32,115)
Purchase of own shares:									
– par value paid	(77)	-	-	-	-	-	(77)	-	(77)
– premium paid	-	(720)	-	-	-	-	(720)	-	(720)
Total comprehensive income for the period	-	-	-	(5,430)	-	47,735	42,305	(1,900)	40,405
At 30 September 2008	47,272	20,432	53,687	19,933	7,587	626,001	774,912	25,431	800,343

Condensed Consolidated Cash Flow Statement – Unaudited*For the six months ended 30 September 2009*

	Six months ended 30 September	
	2009 HK\$'000	2008 HK\$'000
Net cash inflow from operating activities	113,396	11,083
Net cash outflow from investing activities	(38,340)	(30,312)
Net cash outflow from financing activities	(30,621)	(32,935)
Increase/(decrease) in cash and cash equivalents	44,435	(52,164)
Cash and cash equivalents at 1 April	244,271	191,774
Effect of foreign exchange rates changes	2,142	2,434
Cash and cash equivalents at 30 September	290,848	142,044

NOTES:

1. BASIS OF PREPARATION

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), including compliance with Hong Kong Accounting Standard ("HKAS") 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). It was authorised for issue on 18 December 2009.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2008/09 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2009/10 annual financial statements. Details of these changes in accounting policies are set out in note 2.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The interim financial report is unaudited, but has been reviewed by the Company's audit committee.

The financial information relating to the financial year ended 31 March 2009 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 March 2009 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 10 July 2009.

2. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued one new HKFRS, a number of amendments to HKFRSs and new interpretations that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

- HKFRS 8, *Operating segments*
- HKAS 1(revised 2007), *Presentation of financial statements*
- Improvements to HKFRSs (2008)
- Amendments to HKAS 27, *Consolidated and separate financial statements – cost of an investment in a subsidiary, jointly controlled entity or associate*
- Amendments to HKFRS 7, *Financial instruments: Disclosures – improving disclosures about financial instruments*

The adoption of Improvements to HKFRSs (2008) and Amendments to HKAS 27 do not have a significant impact on the Group's results of operations and financial position. In addition, the Amendments to HKFRS 7 do not contain any additional disclosure requirements specifically applicable to the interim financial report. The impact of the remainder of these developments on the interim financial report is as follows:

- HKFRS 8 requires segment disclosure to be based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters. This contrasts with the presentation of segment information in prior years which was based on a disaggregation of the Group's financial statements into segments based on related products and services and on geographical areas. The adoption of HKFRS 8 has resulted in the presentation of segment information in a manner that is more consistent with internal reporting provided to the Group's most senior executive management, and has resulted in additional reportable segments being identified and presented (see note 3). As this is the first period in which the Group has presented segment information in accordance with HKFRS 8, additional explanation has been included in the interim financial report which explains the basis of preparation of the information. Corresponding amounts have also been provided on a basis consistent with the revised segment information.
- As a result of the adoption of HKAS 1(revised 2007), details of changes in equity during the period arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expenses are presented in the consolidated income statement, if they are recognised as part of profit or loss for the period, or otherwise in a new primary statement, the consolidated statement of comprehensive income. The new format for the consolidated statement of comprehensive income and the consolidated statement of changes in equity has been adopted in this interim financial report and corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.

Following the Group's acquisition of an interest in an associate in June 2009, the Group has also applied the following accounting policies for associate and goodwill:

– **Associate**

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's net assets and any impairment loss relating to the investment. The Group's share of the post-acquisition, post-tax results of the associates and any impairment losses for the period are recognised in the consolidated income statement, whereas the Group's share of the post-acquisition, post-tax items of the associates' other comprehensive income is recognised in the consolidated statement of comprehensive income.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long term interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

– **Goodwill**

Goodwill represents the excess of the cost of an investment in an associate over the Group's interest in the net fair value of the associate's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. The carrying amount of goodwill is included in the carrying amount of the interest in the associate and the investment as a whole is tested for impairment whenever there is objective evidence of impairment.

Any excess of the Group's interest in the net fair value of the associate's identifiable assets, liabilities and contingent liabilities over the cost of an investment in an associate is recognised immediately in profit or loss.

On disposal of an associate during the period, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

3. SEGMENT REPORTING

The Group manages its businesses by divisions, which are organised by business lines. On first-time adoption of HKFRS 8, *Operating segments* and in a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified the following six reportable segments.

Toy	:	The manufacture, sale and distribution of toy products.
Computer products	:	The manufacture and sale of computer products.
Housewares	:	The manufacture, sale and distribution of housewares.
Timepieces	:	The manufacture, sale and distribution of clocks, watches, and electronic and gift products.
Investments	:	The investment in equity securities, structured products and managed funds.
Others	:	The leasing of properties to generate rental income.

The application of HKFRS 8 has resulted in a redesignation of the Group's reportable segments, but has not changed the measurement basis of segment results or segment assets. As compared to the segment information reported in the 2008/09 annual financial statements, the sale and distribution of gift products and other distribution activities previously classified under the "Toy and gift products" and "Others" segments have been reclassified into the "Timepieces" segment.

- (a) Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the period is set out below.

	Six months ended 30 September 2009						
	Computer						Total
	Toy	products	Housewares	Timepieces	Investments	Others	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from external customers	564,498	94,202	91,963	157,360	-	-	908,023
Inter-segment revenue	-	-	-	-	-	-	-
Reportable segment revenue	564,498	94,202	91,963	157,360	-	-	908,023
Reportable segment profit/(loss)	126,164	6,798	8,297	(5,525)	27,888	2,111	165,733

		As at 30 September 2009						
		Computer						Total
		Toy	products	Housewares	Timepieces	Investments	Others	Total
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Reportable	segment assets	473,719	141,649	122,689	162,686	182,571	47,114	1,130,428
Reportable segment	liabilities	159,822	25,331	42,313	48,046	–	434	275,946
		Six months ended 30 September 2008						
		Computer						Total
		Toy	products	Housewares	Timepieces	Investments	Others	Total
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from	external customers	569,331	92,400	81,108	236,195	–	–	979,034
Inter-segment	revenue	–	–	–	–	–	–	–
Reportable	segment revenue	569,331	92,400	81,108	236,195	–	–	979,034
Reportable segment	profit/(loss)	50,907	5,348	(11,350)	25,351	(4,522)	(184)	65,550
		As at 31 March 2009						
		Computer						Total
		Toy	products	Housewares	Timepieces	Investments	Others	Total
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Reportable	segment assets	381,346	127,303	108,872	134,257	141,737	46,576	940,091
Reportable segment	liabilities	107,315	18,559	36,854	36,382	–	415	199,525

(b) Reconciliations of reportable segment profit, assets and liabilities

	Six months ended 30 September	
	2009	2008
	HK\$'000	HK\$'000
Profit		
Reportable segment profit	165,733	65,550
Finance costs	(2)	(24)
Share of profit of jointly controlled entity	433	134
Share of profit of associate	309	–
Unallocated corporate income and expenses	(2,192)	(7,285)
	164,281	58,375
Assets		
	At 30 September 2009 HK\$'000	At 31 March 2009 HK\$'000
Reportable segment assets	1,130,428	940,091
Elimination of inter-segment receivables	(20,527)	(19,446)
	1,109,901	920,645
Interest in jointly controlled entity	2,377	2,398
Interest in associate	3,410	–
Deferred tax assets	2,853	6,895
Current tax recoverable	1,434	1,564
Unallocated corporate assets	64,695	41,949
	1,184,670	973,451

	At 30 September 2009 HK\$'000	At 31 March 2009 HK\$'000
Liabilities		
Reportable segment liabilities	275,946	199,525
Elimination of inter-segment payables	(20,527)	(19,446)
	255,419	180,079
Current tax payable	48,381	19,025
Deferred tax liabilities	270	515
Unallocated corporate liabilities	4,215	3,050
	308,285	202,669
Consolidated total liabilities	308,285	202,669

4. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

	Six months ended 30 September	
	2009 HK\$'000	2008 HK\$'000
Interest on borrowings	2	24
Depreciation	13,178	13,834
Amortisation of land lease premium	164	163
Net loss on disposal of fixed assets	855	21
Net realised and unrealised (gains)/losses on trading securities	(25,047)	8,005
Staff costs	200,741	206,663
Interest income		
– trading securities	(1,354)	(1,558)
– deposits with banks	(321)	(1,328)
– other loans	(89)	–
Rental income	(2,163)	(2,109)
Dividend income	(1,443)	(1,868)
Share of jointly controlled entity's taxation	160	55

5. INCOME TAX

	Six months ended 30 September	
	2009 HK\$'000	2008 HK\$'000
Hong Kong Profits Tax	29,040	13,417
Taxation outside Hong Kong	1,302	475
Deferred taxation	3,860	(883)
	34,202	13,009

Provision for Hong Kong Profits Tax is calculated at 16.5% (2008: 16.5%) of the estimated assessable profits for the six months ended 30 September 2009. Taxation for subsidiaries outside Hong Kong is charged at the appropriate current rates of taxation ruling in the relevant tax jurisdictions.

6. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of HK\$129,375,000 (2008: HK\$47,735,000) and the weighted average number of shares of 602,490,000 (2008: 606,792,000) in issue during the period.

There were no dilutive potential shares in existence during the periods ended 30 September 2009 and 2008, therefore diluted earnings per share is the same as the basic earnings per share for both the current and prior periods.

7. FIXED ASSETS

The movements of fixed assets of the Group during the period are:

	Property, plant and equipment HK\$'000	Investment properties HK\$'000	Interests in leasehold land held for own use under operating leases HK\$'000	Total HK\$'000
Net book value as at				
1 April 2009	194,837	30,700	5,702	231,239
Additions	26,221	-	-	26,221
Disposals	(1,365)	-	-	(1,365)
Depreciation/amortisation	(13,178)	-	(164)	(13,342)
Exchange adjustments	925	-	-	925
Net book value as at 30 September 2009	207,440	30,700	5,538	243,678

8. INTEREST IN ASSOCIATE

	At 30 September 2009 HK\$'000	At 31 March 2009 HK\$'000
Shares of net assets	867	–
Goodwill	1,303	–
Amount due from associate	1,240	–
	3,410	–

The Group acquired a 30% interest in Firerock International Limited at a consideration of GBP150,000 in June 2009. Details of the Group's interest in the associate are as follows:

Name of associate	Form of business structure	Place of establishment and operation	Particulars of registered capital	Percentage of equity held by the subsidiary	Principal activity
Firerock International Limited	Incorporated	United Kingdom	Registered capital of GBP1,000	30%	Trading of watches

9. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables are trade debtors and bills receivable (net of allowance for doubtful debts) with the following ageing analysis as of the balance sheet date:

	At 30 September 2009 HK\$'000	At 31 March 2009 HK\$'000
Current	154,104	82,747
Less than 1 month past due	84,155	28,351
1 to 3 months past due	6,826	5,879
More than 3 months but less than 12 months past due	377	707
Trade debtors and bills receivable	245,462	117,684
Deposits, prepayments and other receivables	41,281	30,935
Derivative financial instruments	983	1,709
	287,726	150,328

The credit terms given to the customers vary and are generally based on the financial strengths of individual customers. In order to effectively manage the credit risks associated with trade receivables, credit evaluations of customers are performed periodically.

10. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade creditors and bills payable with the following ageing analysis as of the balance sheet date:

	At 30 September 2009 HK\$'000	At 31 March 2009 HK\$'000
By date of invoice		
Within 1 month	53,310	44,606
Over 1 month but within 3 months	25,429	13,447
Over 3 months	1,085	1,728
Trade creditors and bills payable	79,824	59,781
Accruals and other payables	175,713	118,027
Derivative financial instruments	–	1,286
	255,537	179,094

All of the trade and other payables are expected to be settled or recognised as income within one year.

11. SHARE CAPITAL

	Number of shares '000	Amount HK\$'000
Authorised:		
Shares of US\$0.01 each	1,000,000	78,000
Issued and fully paid:		
At 1 April 2009 and 30 September 2009	602,490	46,994

12. COMMITMENTS

At 30 September 2009, the total future minimum lease payments of the Group under non-cancellable operating leases are payable as follows:

	At 30 September 2009		At 31 March 2009	
	Land and buildings HK\$'000	Others HK\$'000	Land and buildings HK\$'000	Others HK\$'000
Within 1 year	8,941	736	6,018	1,825
After 1 year but within 5 years	9,824	2,513	11,516	1,928
After 5 years	2,654	–	3,159	–
	21,419	3,249	20,693	3,753

13. MATERIAL RELATED PARTY TRANSACTIONS**Key management personnel remuneration**

Remuneration for key management personnel, including amounts paid to the Company's directors, is as follows:

	Six months ended 30 September	
	2009 HK\$'000	2008 HK\$'000
Short-term employee benefits	12,167	13,680
Post-employment benefits	710	794
	12,877	14,474

14. COMPARATIVE FIGURES

As a result of the application of HKAS 1 (revised 2007), *Presentation of financial statements*, and HKFRS 8, *Operating segments*, certain comparative figures have been adjusted to conform to current period's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2009.

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.

CONTINGENT LIABILITIES

As at 30 September 2009, the Group did not have any significant contingent liabilities.

FOREIGN EXCHANGE EXPOSURE

During the period under review, approximately 8% of the Group's turnover is denominated in sterling. From time to time, the Group enters forward foreign exchange contracts to hedge its foreign exchange exposure.

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.

SHARE OPTION SCHEME

The Company adopted a share option scheme on 18 September 2003. No share options have been granted since its adoption.

Apart from the foregoing, at no time during the six months ended 30 September 2009 was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 September 2009, the beneficial interests of the directors of the Company and their associates in the shares of the Company, its subsidiaries and other associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules ("Model Code") were as follows:

Interests in issued shares

(Shares of US\$0.01 each of the Company)

Directors	Number of shares			Total	Percentage of total issued shares
	Personal interests	Interests of spouse	Other interests		
D S Chang	–	21,654,879	85,538,356 (Note (i))	107,193,235	17.79%
S T K Cheung	1,897,500	950,000	120,993,664 (Note (i) & (ii))	123,841,164	20.55%
R Dorfman	46,470,000	–	–	46,470,000	7.71%
M Y S Thong	12,383,308	–	–	12,383,308	2.06%

Notes:

- (i) Dr S T K Cheung and Mr D S Chang are the beneficiaries of a family trust which owned 85,538,356 shares.
- (ii) Dr S T K Cheung is the beneficiary of a separate family trust which owned 35,455,308 shares.

Apart from the foregoing, none of the directors of the Company, any of their spouses or children under eighteen years of age has interests or short positions in the shares, underlying shares or debentures of the Company, any of its subsidiaries or other associated corporations, as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSON'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

Other than the interests disclosed in the section "Directors' interests and short positions in shares, underlying shares and debentures" in respect of directors, the following shareholders were interested in 5% or more of the issued share capital of the Company as at 30 September 2009 according to the register of interests required to be kept by the Company under section 336 of the SFO.

Interests in issued shares

(Shares of US\$0.01 each of the Company)

	Note	Number of Shares				Total	Percentage of total Issued shares
		Personal interests	Interests of spouse	Corporate interests	Other interests		
Substantial Shareholders							
Chan Him Wee	(i)	21,654,879	85,538,356	-	-	107,193,235	17.79%
Ng Yiu Chi Eleanor	(ii)	950,000	122,891,164	-	-	123,841,164	20.55%
Goldfinch Investments Ltd ("GIL")	(iii)	69,728,356	-	-	-	69,728,356	11.57%
HSBC International Trustee Ltd ("HIT")	(iii)	-	-	-	120,993,664	120,993,664	20.08%
Other persons							
Sheri Tillman Dorfman	(iv)	-	46,470,000	-	-	46,470,000	7.71%
Gershon Dorfman		37,740,799	-	-	-	37,740,799	6.26%
Lydia Dorfman	(v)	-	37,740,799	-	-	37,740,799	6.26%
Moral Excel Holdings Ltd ("MEH")	(iii)	35,455,308	-	-	-	35,455,308	5.88%
Commerzbank Ag ("Comm")	(vi)	-	-	35,960,000	-	35,960,000	5.97%
Dresdner Bank VPV NV ("DVPV")	(vi)	-	-	-	35,960,000	35,960,000	5.97%

Notes:

- (i) The entire interests in shares of 107,193,235 are duplicated by those disclosed under Mr D S Chang, the spouse of Ms Chan Him Wee, in the section "Directors' interests and short positions in shares, underlying shares and debentures".
- (ii) The entire interests in shares of 123,841,164 are duplicated by those disclosed under Dr S T K Cheung, the spouse of Ms Ng Yiu Chi Eleanor, in the section "Directors' interests and short positions in shares, underlying shares and debentures".
- (iii) GIL is a company owned by a family trust which owned an aggregate of 85,538,356 shares in the Company as noted in the section "Directors' interests and short positions in shares, underlying shares and debentures", comprising 69,728,356 shares held by GIL and 15,810,000 shares held by the trust itself. MEH is another company owned by a separate family trust which owned 35,455,308 shares. HIT, the trustee of these trusts, is deemed to be interested in the 120,993,664 shares held by these trusts.
- (iv) These interests in shares are duplicated by those disclosed under Mr R Dorfman, the spouse of Mrs Sheri Tillman Dorfman, in the section "Directors' interests and short positions in shares, underlying shares and debentures".
- (v) These interests in shares are duplicated by those beneficially owned by Mr Gershon Dorfman.
- (vi) These interests were held by DVPV, an investment manager. Comm, being the parent company of DVPV, was deemed to have the interests.

Apart from the foregoing, no other interests required to be recorded in the register kept under section 336 of the SFO have been notified to the Company.

EMPLOYEES

As at 30 September 2009, the number of employees of the Group was 242 (2008: 234) in Hong Kong, 8,923 (2008: 10,802) in the Mainland China and 106 (2008: 114) in Europe. Total staff costs for the period under review amounted to HK\$200,741,000 (2008: HK\$206,663,000). The Group ensures that its employees' remuneration packages are competitive. Employees are rewarded based on their performance and experience and the prevailing industry practice.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 September 2009.

AUDIT COMMITTEE

The audit committee reports to the board of directors and currently comprises three independent non-executive directors, namely Mr Tang King Hung, being the chairman, Mr David Tai Chong Lie-A-Cheong and Mr Yeh Man Chun Kent. The audit committee meets with the Group's senior management and external auditors regularly to discuss audit matters. The audit committee also reviews the effectiveness of the internal control systems. The interim report of the Group has been reviewed by the audit committee of the Company.

REMUNERATION COMMITTEE

The remuneration committee comprises two independent non-executive directors, namely Mr Tang King Hung, being the Chairman, and Mr Yeh Man Chun Kent and one executive director, namely Mr Thong Yeung Sum Michael. The terms of reference of the remuneration committee have been included on the Company's website.

CORPORATE GOVERNANCE

The Company has complied throughout the six months ended 30 September 2009 with the code provisions of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Listing Rules except that the independent non-executive directors are not appointed for a specific term, which deviates from the code provision A.4.1. However, the independent non-executive directors are subject to retirement from office by rotation under the requirements of the Bye-laws of the Company. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the CG Code.

MODEL CODE

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standards of the Model Code. Having made specific enquiry of the Company's directors, all directors confirmed that they have complied with the required standards set out in the Model Code and the Company's code of conduct regarding directors' securities transactions.

By Order of the Board
Cheung Tsang Kay Stan
Chairman

Hong Kong, 18 December 2009