



Herald Holdings Limited

Stock Code : 00114



2010 / 11
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
 Tang King Hung ACA, FCCA, ACIS, CPA

NON-EXECUTIVE DIRECTOR

Chang Dong Song *Honorary Chairman*

INDEPENDENT NON-EXECUTIVE DIRECTORS

David Tai Chong Lie-A-Cheong SBS, OM, JP
 Yeh Man Chun Kent
 Ng Tze Kin David CA(AUST.), FCPA

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

3110, 31/F.,
 Tower Two, Lippo Centre
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 Hong Kong

REGISTERED OFFICE

Clarendon House
 2 Church Street
 Hamilton HM 11
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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 2010, together with the comparative figures for the corresponding period in 2009, as follows:

Consolidated Income Statement – Unaudited

For the six months ended 30 September 2010

		Six months ended 30 September	
	<i>Note</i>	2010 HK\$'000	2009 HK\$'000
Turnover	3	937,216	908,023
Cost of sales		(720,220)	(649,353)
Gross profit		216,996	258,670
Other revenue		8,653	8,786
Other net income		5,167	32,403
Selling expenses		(25,792)	(22,612)
Administrative expenses		(119,343)	(113,706)
Profit from operations		85,681	163,541
Finance costs		–	(2)
Share of (losses)/profits of jointly controlled entities		(274)	433
Share of profit of associate		142	309
Profit before taxation	4	85,549	164,281
Income tax	5	(23,063)	(34,202)
Profit for the period		62,486	130,079
Attributable to:			
Equity shareholders of the Company		61,291	129,375
Non-controlling interests		1,195	704
Profit for the period		62,486	130,079
Interim dividends		18,075	18,075
Interim dividends per share		3 cents	3 cents
Earnings per share	6		
– Basic and diluted		10.17 cents	21.47 cents

Consolidated Statement of Comprehensive Income – Unaudited*For the six months ended 30 September 2010*

	Six months ended 30 September	
	2010 HK\$'000	2009 HK\$'000
Profit for the period	62,486	130,079
Other comprehensive income for the period		
Exchange differences on translation of the financial statements of overseas subsidiaries (no tax effect)	2,841	6,142
Total comprehensive income for the period	65,327	136,221
Attributable to:		
Equity shareholders of the company	63,958	135,587
Non-controlling interests	1,369	634
Total comprehensive income for the period	65,327	136,221

Consolidated Balance Sheet – Unaudited

At 30 September 2010

	Note	As at 30 September 2010 HK\$'000	As at 31 March 2010 HK\$'000
Non-current assets			
Fixed assets	7		
– Property, plant and equipment		198,263	200,548
– Investment properties		33,760	33,760
– Interests in leasehold land held for own use under operating leases		5,223	5,376
		237,246	239,684
Intangible assets		7,036	6,861
Interest in jointly controlled entities		6,588	5,405
Interest in associate		2,869	2,629
Other financial assets		4,680	4,680
Deferred tax assets		6,270	8,815
		264,689	268,074
Current assets			
Trading securities		165,039	116,480
Inventories		203,792	159,193
Trade and other receivables	8	308,271	167,238
Current tax recoverable		2,166	2,760
Pledged bank balances		32,489	57,015
Cash and cash equivalents		235,943	311,745
		947,700	814,431
Current liabilities			
Trade and other payables	9	272,491	183,579
Current tax payable		31,718	18,278
		304,209	201,857
Net current assets		643,491	612,574
Total assets less current liabilities		908,180	880,648

Consolidated Balance Sheet – Unaudited (Continued)*At 30 September 2010*

	Note	As at 30 September 2010 HK\$'000	As at 31 March 2010 HK\$'000
Non-current liabilities			
Deferred tax liabilities		277	333
Provision for long service payment		3,072	3,362
		3,349	3,695
NET ASSETS			
		904,831	876,953
CAPITAL AND RESERVES			
Share capital	10	46,994	46,994
Reserves		834,690	806,881
Total equity attributable to equity shareholders of the Company		881,684	853,875
Non-controlling interests		23,147	23,078
TOTAL EQUITY		904,831	876,953

Condensed Consolidated Statement of Changes in Equity – Unaudited*For the six months ended 30 September 2010*

	Attributable to equity shareholders of the Company								
	Share capital	Share premium	Contributed surplus	Exchange reserve	PRC statutory reserve	Retained profits	Total	Non-controlling interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2010	46,994	18,737	53,687	13,888	9,060	711,509	853,875	23,078	876,953
Changes in equity for the six months ended 30 September 2010:									
Transfer between reserves	-	-	-	-	546	(546)	-	-	-
Dividend paid	-	-	-	-	-	(36,149)	(36,149)	(1,300)	(37,449)
Total comprehensive income for the period	-	-	-	2,667	-	61,291	63,958	1,369	65,327
At 30 September 2010	46,994	18,737	53,687	16,555	9,606	736,105	881,684	23,147	904,831

Condensed Consolidated Statement of Changes in Equity – Unaudited (Continued)*For the six months ended 30 September 2010*

	Attributable to equity shareholders of the Company							Non-controlling interests	Total equity
	Share capital	Share premium	Contributed surplus	Exchange reserve	PRC statutory reserve	Retained profits	Total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	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 Cash Flow Statement – Unaudited*For the six months ended 30 September 2010*

	Six months ended 30 September	
	2010 HK\$'000	2009 HK\$'000
Net cash (outflow)/inflow from operating activities	(10,149)	113,396
Net cash outflow from investing activities	(29,317)	(38,340)
Net cash outflow from financing activities	(37,449)	(30,621)
(Decrease)/increase in cash and cash equivalents	(76,915)	44,435
Cash and cash equivalents at 1 April	311,745	244,271
Effect of foreign exchange rates changes	1,113	2,142
Cash and cash equivalents at 30 September	235,943	290,848

NOTES:

1. BASIS OF PREPARATION

The interim financial results have 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 30 November 2010.

The interim financial results have been prepared in accordance with the same accounting policies adopted in the 2009/2010 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2010/2011 annual financial statements. Details of these changes in accounting policies are set out in note 2.

The preparation of interim financial results 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 results are unaudited, but have been reviewed by the Company's audit committee.

The financial information relating to the financial year ended 31 March 2010 that is included in the interim financial results 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 2010 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 2 July 2010.

2. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued two revised Hong Kong Financial Reporting Standards ("HKFRSs"), a number of amendments to HKFRSs and one new interpretation 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 3 (revised 2008), *Business combinations*
- Amendments to HKAS 27, *Consolidated and separate financial statements*
- Improvements to HKFRSs (2009)

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

The above developments resulted in changes in accounting policy but none of these changes in policy have a material impact on the results of the current or comparative periods. Further details of these changes in accounting policy are as follows:

- (a) As a result of the adoption of HKFRS 3 (revised 2008), any business combination acquired on or after 1 April 2010 will be recognised in accordance with the new requirements and detailed guidance contained in HKFRS 3 (revised 2008). These include the following changes in accounting policies:
- Transaction costs that the Group incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees, will be expensed as incurred, whereas previously they were accounted for as part of the cost of the business combination and therefore impacted the amount of goodwill recognised.
 - If the Group holds interests in the acquiree immediately prior to obtaining control, these interests will be treated as if disposed of and re-acquired at fair value on the date of obtaining control. Previously, the step-up approach would have been applied, whereby goodwill was computed as if accumulated at each stage of the acquisition.
 - Contingent consideration will be measured at fair value at the acquisition date. Any subsequent changes in the measurement of that contingent consideration will be recognised in profit or loss, unless they arise from obtaining additional information about facts and circumstances that existed at the acquisition date within 12 months from the date of acquisition (in which case they will be recognised as an adjustment to the cost of the business combination). Previously, contingent consideration was recognised at the acquisition date only if payment of the contingent consideration was probable and it could be measured reliably. All subsequent changes in the measurement of contingent consideration and from its settlement were previously recognised as an adjustment to the cost of the business combination and therefore impacted the amount of goodwill recognised.
 - If the acquiree has accumulated tax losses or other temporary deductible differences and these fail to meet the recognition criteria for deferred tax assets at the date of acquisition, then any subsequent recognition of these assets will be recognised in profit or loss, rather than as an adjustment to goodwill as was previously the policy.
 - In addition to the Group's existing policy of measuring the non-controlling interests (previously known as the "minority interests") in the acquiree at the non-controlling interest's proportionate share of the acquiree's net identifiable assets, in future the Group may elect, on a transaction by transaction basis, to measure the non-controlling interest at fair value.

In accordance with the transitional provisions in HKFRS 3 (revised 2008), these new accounting policies will be applied prospectively to any business combinations in the current or future periods. The new policy in respect of recognition in the movement of deferred tax assets will also be applied prospectively to accumulated tax losses and other temporary deductible differences acquired in previous business combinations. No adjustments have been made to the carrying values of assets and liabilities that arose from business combinations whose acquisition dates preceded the application of this revised standard.

- (b) As a result of the adoption of HKAS 27 (amended 2008), the following changes in policies will be applied as from 1 April 2010:
- If the Group acquires an additional interest in a non-wholly owned subsidiary, the transaction will be accounted for as a transaction with equity shareholders (the non-controlling interests) in their capacity as owners and therefore no goodwill will be recognised as a result of such transactions. Similarly, if the Group disposes of part of its interest in a subsidiary but still retains control, this transaction will also be accounted for as a transaction with equity shareholders (the non-controlling interests) in their capacity as owners and therefore no profit or loss will be recognised as a result of such transactions. Previously the Group treated such transactions as step-up transactions and partial disposals, respectively.
 - If the Group loses control of a subsidiary, the transaction will be accounted for as a disposal of the entire interest in that subsidiary, with any remaining interest retained by the Group being recognised at fair value as if re-acquired. Previously such transactions were treated as partial disposals.

In accordance with the transitional provisions in HKAS 27, these new accounting policies will be applied prospectively to transactions in current or future periods and therefore previous periods have not been restated.

- (c) In order to be consistent with the above amendments to HKFRS 3 and HKAS 27, and as a result of amendments to HKAS 28, *Investments in associates*, and HKAS 31, *Interests in joint ventures*, the following policies will be applied as from 1 April 2010:
- If the Group holds interests in the acquiree immediately prior to obtaining significant influence or joint control, these interests will be treated as if disposed of and re-acquired at fair value on the date of obtaining significant influence or joint control. Previously, the step-up approach would have been applied, whereby goodwill was computed as if accumulated at each stage of the acquisition.
 - If the Group loses significant influence or joint control, the transaction will be accounted for as a disposal of the entire interest in that investee, with any remaining interest being recognised at fair value as if re-acquired. Previously such transactions were treated as partial disposals.

Consistent with the transitional provisions in HKFRS 3 and HKAS 27, these new accounting policies will be applied prospectively to transactions in current or future periods and therefore previous periods have not been restated.

Other changes in accounting policies which are relevant to the Group's financial statements are as follows:

- As a result of the amendments to HKAS 27, as from 1 April 2010 any losses incurred by a non-wholly owned subsidiary will be allocated between the controlling and non-controlling interests in proportion to their interests in that entity, even if this results in a deficit balance within consolidated equity being attributed to the non-controlling interests. Previously, if the allocation of losses to the non-controlling interests would have resulted in a deficit balance, the losses were only allocated to the non-controlling interests if the non-controlling interests were under a binding obligation to make good the losses. In accordance with the transitional provisions in HKAS 27, this new accounting policy is being applied prospectively and therefore previous periods have not been restated.
- As a result of the amendment to HKAS 17, *Leases*, arising from the "Improvements to HKFRSs (2009)" omnibus standard, the Group has re-evaluated the classification of its interests in leasehold land as to whether, in the Group's judgement, the lease transfers significantly all the risks and rewards of ownership of the land such that the Group is in a position economically similar to that of a purchaser. The Group has concluded that the classification of such leases as operating leases continues to be appropriate.

3. SEGMENT REPORTING

The Group manages its businesses by divisions, which are organised by business lines. 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 presented the following six reportable segments. No operating segments have been aggregated to form the following reportable segments.

Toys	:	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.

- (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 2010						
	Computer						Total
	Toys	products	Housewares	Timepieces	Investments	Others	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from external customers	491,718	161,616	82,666	201,216	-	-	937,216
Inter-segment revenue	-	-	-	-	-	-	-
Reportable segment revenue	491,718	161,616	82,666	201,216	-	-	937,216
Reportable segment profit	49,571	27,588	1,202	1,161	3,976	1,368	84,866
	As at 30 September 2010						
	Computer						Total
	Toys	products	Housewares	Timepieces	Investments	Others	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Reportable segment assets	390,311	191,436	123,043	217,470	197,528	48,128	1,167,916
Reportable segment liabilities	149,499	39,215	37,145	65,619	-	414	291,892

	Six months ended 30 September 2009						Total HK\$'000
	Computer	Housewares	Timepieces	Investments	Others	Total	
	Toys products 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 31 March 2010						Total HK\$'000
	Computer	Housewares	Timepieces	Investments	Others	Total	
	Toys products HK\$'000						
Reportable segment assets	330,538	170,793	121,577	162,380	173,495	48,050	1,006,833
Reportable segment liabilities	96,680	39,541	32,515	32,743	-	301	201,780

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

	Six months ended 30 September	
	2010 HK\$'000	2009 HK\$'000
Profit		
Reportable segment profit	84,866	165,733
Finance costs	-	(2)
Share of (losses)/profits of jointly controlled entities	(274)	433
Share of profit of associate	142	309
Unallocated corporate income and expenses	815	(2,192)
Consolidated profit before taxation	85,549	164,281

	At 30 September 2010 HK\$'000	At 31 March 2010 HK\$'000
Assets		
Reportable segment assets	1,167,916	1,006,833
Elimination of inter-segment receivables	(20,533)	(19,416)
	1,147,383	987,417
Interest in jointly controlled entities	6,588	5,405
Interest in associate	2,869	2,629
Deferred tax assets	6,270	8,815
Current tax recoverable	2,166	2,760
Unallocated corporate assets	47,113	75,479
Consolidated total assets	1,212,389	1,082,505
Liabilities		
Reportable segment liabilities	291,892	201,780
Elimination of inter-segment payables	(20,533)	(19,416)
	271,359	182,364
Current tax payable	31,718	18,278
Deferred tax liabilities	277	333
Unallocated corporate liabilities	4,204	4,577
Consolidated total liabilities	307,558	205,552

(c) Geographic information

The following table sets out information about the geographical location of the Group's revenue from external customers. The geographical location of customers is based on the location at which the goods are delivered.

	Six months ended 30 September	
	2010 HK\$'000	2009 HK\$'000
Revenue from external customers		
Hong Kong (place of domicile)	92,119	43,287
North America	441,137	552,541
United Kingdom	216,380	169,019
Europe (excluding United Kingdom)	118,405	89,984
Asia (excluding Mainland China and Hong Kong)	36,204	28,067
Mainland China	3,291	3,161
Others	29,680	21,964
	845,097	864,736
	937,216	908,023

4. PROFIT BEFORE TAXATION

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

	Six months ended 30 September	
	2010 HK\$'000	2009 HK\$'000
Interest on borrowings	–	2
Depreciation	14,983	13,178
Amortisation of land lease premium	165	164
Net (gains)/losses on disposal of fixed assets	(369)	855
Net realised and unrealised gains on trading securities	(1,366)	(25,047)
Staff costs	216,420	200,741
Interest income		
– trading securities	(1,282)	(1,354)
– deposits with banks	(433)	(321)
– other loans	(92)	(89)
Rental income	(1,732)	(2,163)
Dividend income	(1,263)	(1,443)
Share of jointly controlled entities' taxation	100	160

5. INCOME TAX

	Six months ended 30 September	
	2010 HK\$'000	2009 HK\$'000
Hong Kong Profits Tax	14,708	29,040
Taxation outside Hong Kong	5,867	1,302
Deferred taxation	2,488	3,860
	23,063	34,202

Provision for Hong Kong Profits Tax is calculated at 16.5% (2009: 16.5%) of the estimated assessable profits for the six months ended 30 September 2010. 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\$61,291,000 (2009: HK\$129,375,000) and the weighted average number of shares of 602,491,000 (2009: 602,491,000) in issue during the period.

There were no dilutive potential shares in existence during the periods ended 30 September 2010 and 2009, 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 2010	200,548	33,760	5,376	239,684
Additions	10,983	–	–	10,983
Disposals	(229)	–	–	(229)
Depreciation/amortisation	(14,983)	–	(165)	(15,148)
Exchange adjustments	1,944	–	12	1,956
Net book value as at 30 September 2010	198,263	33,760	5,223	237,246

8. 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 2010 HK\$'000	At 31 March 2010 HK\$'000
Current	173,713	92,336
Less than 1 month past due	79,155	27,793
1 to 3 months past due	4,988	3,982
More than 3 months but less than 12 months past due	4,923	1,337
Trade debtors and bills receivable	262,779	125,448
Deposits, prepayments and other receivables	45,492	40,765
Derivative financial instruments	–	1,025
	308,271	167,238

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.

9. 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 2010 HK\$'000	At 31 March 2010 HK\$'000
By date of invoice		
Within 1 month	53,483	44,709
Over 1 month but within 3 months	45,615	6,335
Over 3 months	3,025	1,913
Trade creditors and bills payable	102,123	52,957
Accruals and other payables	169,805	130,622
Derivative financial instruments	563	–
	272,491	183,579

All of the trade and other payables including receipts in advance from customers are expected to be settled or recognised as income within one year.

10. 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 2010 and 30 September 2010	602,491	46,994

11. COMMITMENTS

At 30 September 2010, the total future minimum lease payments of the Group under non-cancellable operating leases are payable as follows:

	At 30 September 2010		At 31 March 2010	
	Land and buildings HK\$'000	Others HK\$'000	Land and buildings HK\$'000	Others HK\$'000
Within 1 year	7,408	1,636	6,593	1,384
After 1 year but within 5 years	10,492	1,936	10,743	1,073
After 5 years	867	–	1,686	–
	18,767	3,572	19,022	2,457

12. 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	
	2010 HK\$'000	2009 HK\$'000
Short-term employee benefits	13,683	12,167
Post-employment benefits	763	710
	14,446	12,877

BUSINESS REVIEW

The Group's turnover for the 6 months ended 30 September 2010 amounted to HK\$937 million, representing an increase of HK\$29 million or 3% compared to the same period last year. However, the profit attributable to shareholders for the same period was HK\$61.3 million, down HK\$68.1 million or 52.6% from HK\$129.4 million in the same period a year earlier. The decrease in profit was mainly attributable to the significant decrease both in the net realized and unrealized gains on trading securities and the profit margin of the Toys Division.

During the period, the Toys Division has lost the benefit of the savings in material cost that contributed to the exceptional performance in the corresponding period in 2009. Coupled with a decrease of 13% in turnover from HK\$564 million in the previous year to HK\$492 million and a general reduction in profit margin amid stiff competition among the toy manufacturers, the operating profit dropped significantly from HK\$126.2 million a year ago to HK\$49.6 million.

The Computer Products Division continued to record encouraging results. The turnover for the period amounted to HK\$162 million, up 72% from HK\$94 million in 2009, due to the increased sales in the thin-film computer heads and shipments of the newly-developed product, the smart thermostats, and the profit was HK\$27.6 million, compared to HK\$6.8 million in the previous corresponding period.

The business of the Housewares Division remained stable during the first half of the financial year. The turnover was HK\$83 million, down 10% from HK\$92 million in 2009. The profit amounted to HK\$1.2 million compared to HK\$8.3 million a year ago mainly because the aluminium price has not been moving in favour of the Division.

The performance of the Timepieces Division for the 6 months ended 30 September 2010 has improved over last year. The turnover increased to HK\$201 million from HK\$157 million in the same period of the previous year with profit of HK\$1.2 million compared to an operating loss of HK\$5.5 million last year.

As the global investment market has improved modestly in these 6 months, the Group had net realized and unrealized gains on trading securities of HK\$1.4 million for the period compared to gains of HK\$25 million in the same period last year. At 30 September 2010, the Group's trading securities increased to HK\$165 million from HK\$116 million as at the beginning of the financial year.

FINANCIAL POSITION

The Group continues to exercise prudence in managing its financial resources. As in the past, the Group maintains a good liquidity position without any long term debt funding. At 30 September 2010, the Group's net cash surplus was HK\$268 million (at 31 March 2010: HK\$369 million). During the period under review, the Group used HK\$29 million to finance investing activities and HK\$36 million to pay the final dividend for the year ended 31 March 2010.

The Group's current assets position as at 30 September 2010 was HK\$948 million (at 31 March 2010: HK\$814 million). The trade and other receivables amounted to HK\$308 million (at 31 March 2010: HK\$167 million) and current liabilities HK\$304 million (at 31 March 2010: HK\$202 million). The trading securities increased to HK\$165 million from HK\$116 million as at the beginning of the financial year. Trading securities and bank deposits totalling HK\$179 million (at 31 March 2010: HK\$140 million) are pledged to the banks to secure banking facilities granted to the Group.

At 30 September 2010, the Group's working capital ratio, an indicator of liquidity represented by a ratio between the current assets and the current liabilities, was 3.12 compared to 3.05 at 30 September 2009. The quick ratio, another ratio that gauges the short-term liquidity and measured by trade debtors and cash and cash equivalents over current liabilities, decreased to 1.64 from 1.76 at 30 September 2009.

PROSPECTS AND GENERAL OUTLOOK

Although the Toys Division will continue to experience severe competition from other toy manufacturers, the management anticipates that it will remain profitable in the second half of the financial year. On the other hand, with the current level of orders, the Computer Products Division is expected to sustain growth both in sales volume and profitability. However, the operating results of the Housewares Division will likely suffer due to the expected increase in aluminium price. Meanwhile, the management believes that the business of the Timepieces Division will continue to recover and that the performance for the year ending 31 March 2011 will improve over last year.

The management is concerned about the uncertainty of the global economy, and its impacts on the Group's business activities. In addition, the issues of appreciation of Renminbi and shortage of workers in China are also matters of concern. Nevertheless, based on the information currently available, the management is confident that the Group will be profitable in the second half of the fiscal year.

CONTINGENT LIABILITIES

As at 30 September 2010, the Group did not have any significant contingent liabilities.

FOREIGN EXCHANGE EXPOSURE

The Group is exposed to foreign exchange primarily through sales and purchases that are denominated in a foreign currency, such as United States Dollars and Pound Sterling. From time to time, the Group takes out foreign exchange contracts to hedge against its foreign exchange exposure.

DIVIDENDS

The Directors have declared an interim dividend of HK3 cents per share (2009: HK3 cents). The total amount of dividend payment of HK\$18,075,000 (2009: HK\$18,075,000) was based on the total number of shares in issue as at 29 November 2010, being the latest practicable date prior to the announcement of the interim results. Dividend will be payable on 31 December 2010 to shareholders registered in the Register of Members on 21 December 2010.

REGISTER OF MEMBERS

The Register of Members will be closed from 20 December 2010 to 21 December 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 17 December 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 2010 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' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 September 2010, the interests and short positions of directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under 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				Percentage of total issued shares
	Personal interests	Interests of spouse	Other interests	Total	
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.

All the interests stated above represent long positions.

Saved as disclosed above, none of the directors or chief executives of the Company, any of their spouses or children under eighteen years of age had any interests or short positions in the shares, underlying shares or debentures of the Company or its 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 PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

Other than the interests disclosed in the section "Directors' and chief executives' 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 2010 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	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%

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' and chief executives' 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' and chief executives' 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' and chief executives' interest 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' and chief executives' interests and short positions in shares, underlying shares and debentures".
- (v) These interests in shares are duplicated by those beneficially owned Mr Gershon Dorfman.

All the interests stated above represent long positions.

Save as disclosed above, 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 2010, the number of employees of the Group was 244 (2009: 242) in Hong Kong, 7,710 (2009: 8,923) in the Mainland China and 111 (2009: 106) in Europe. Total staff costs for the period under review amounted to HK\$216,420,000 (2009: HK\$200,741,000). 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 2010.

AUDIT COMMITTEE

The audit committee reports to the board of directors and currently comprises three independent non-executive directors, namely Mr Ng Tze Kin David, 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 Ng Tze Kin David, 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 2010 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 non-executive director and independent non-executive directors are not appointed for a specific term, which deviates from the code provision A.4.1. However, the non-executive director and 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, 30 November 2010

Herald Holdings Limited