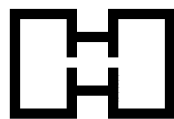


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HERALD HOLDINGS LIMITED

興利集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code : 00114)

Annual Results Announcement for the year ended 31 March 2019

The Board of Directors (the “Board”) 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 2019, together with the comparative figures for the previous year and selected explanatory information, as follows:

Consolidated statement of profit or loss

For the year ended 31 March 2019

		2019 HK\$'000	2018 HK\$'000
	Note		
Revenue	3 & 4	952,465	1,271,606
Cost of sales		<u>(812,201)</u>	<u>(1,017,383)</u>
Gross profit		140,264	254,223
Other revenue	5	6,204	4,101
Other net income	5	30,761	16,445
Selling expenses		(21,006)	(27,800)
Administrative expenses		(204,059)	(264,555)
Gain on disposal of non-current assets classified as held for sale	6(c)	21,609	-
Valuation (losses)/gains on investment properties		(87)	1,745
Impairment losses on property, plant and equipment		<u>-</u>	<u>(10,267)</u>
Loss from operations		(26,314)	(26,108)
Finance costs	6(a)	<u>(2,331)</u>	<u>(2,444)</u>
Loss before taxation	6	(28,645)	(28,552)
Income tax	7	<u>516</u>	<u>(1,340)</u>
Loss for the year		<u>(28,129)</u>	<u>(29,892)</u>
Attributable to:			
Equity shareholders of the Company		(26,158)	(26,754)
Non-controlling interests		<u>(1,971)</u>	<u>(3,138)</u>
Loss for the year		<u>(28,129)</u>	<u>(29,892)</u>
Loss per share			
Basic (HK cents)	9(a)	<u>(4.33)</u>	<u>(4.43)</u>
Diluted (HK cents)	9(b)	<u>(4.33)</u>	<u>(4.43)</u>

Details of dividends payable to equity shareholders of the Company are set out in note 8.

Consolidated statement of profit or loss and other comprehensive income
For the year ended 31 March 2019

	Note	2019 HK\$'000	2018 HK\$'000
Loss for the year		(28,129)	(29,892)
Other comprehensive income for the year			
<i>Item that will not be reclassified to profit or loss:</i>			
Surplus on revaluation of land and buildings held for own use upon change of use to investment properties (net of tax effect of HK\$16,260,000 (2018:HK\$Nil))		25,988	-
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong (no tax effect)		<u>(22,205)</u>	<u>35,743</u>
Total comprehensive income for the year		<u>(24,346)</u>	<u>5,851</u>
Attributable to:			
Equity shareholders of the Company		(21,982)	8,383
Non-controlling interests		<u>(2,364)</u>	<u>(2,532)</u>
Total comprehensive income for the year		<u>(24,346)</u>	<u>5,851</u>

Consolidated statement of financial position
At 31 March 2019

	Note	2019 HK\$'000	2018 HK\$'000
Non-current assets			
Investment properties		57,769	14,639
Other property, plant and equipment		292,439	340,749
Interests in leasehold land held for own use under operating leases		3,562	3,686
		<u>353,770</u>	<u>359,074</u>
Intangible assets		1,124	1,897
Interest in a joint venture		-	-
Other financial assets		2,300	10,232
Deferred tax assets		24,519	31,115
		<u>381,713</u>	<u>402,318</u>
Current assets			
Trading securities		84,814	147,905
Inventories		174,555	225,505
Trade and other receivables	10	122,628	155,226
Pledged bank balances		464	244
Cash and cash equivalents		186,606	142,099
Current tax recoverable		4,162	4,321
		<u>573,229</u>	<u>675,300</u>
Non-current assets classified as held for sale	6(c)	-	1,125
		<u>573,229</u>	<u>676,425</u>
Current liabilities			
Trade and other payables and contract liabilities	11	158,291	186,304
Bank loans		40,243	107,282
Current tax payable		16,093	8,642
		<u>214,627</u>	<u>302,228</u>
Net current assets		<u>358,602</u>	<u>374,197</u>
Total assets less current liabilities		<u>740,315</u>	<u>776,515</u>

	Note	2019 HK\$'000	2018 HK\$'000
Non-current liabilities			
Deferred tax liabilities		20,465	6,641
Provision for long service payments		1,411	3,022
		<u>21,876</u>	<u>9,663</u>
NET ASSETS		<u>718,439</u>	<u>766,852</u>
CAPITAL AND RESERVES			
Share capital		47,150	47,150
Reserves		<u>661,601</u>	<u>707,650</u>
Total equity attributable to equity shareholders of the Company		708,751	754,800
Non-controlling interests		<u>9,688</u>	<u>12,052</u>
TOTAL EQUITY		<u>718,439</u>	<u>766,852</u>

Notes:

1. Basis of preparation

The consolidated results set out in this announcement do not constitute the Group's annual financial statements for the year ended 31 March 2019 but are extracted from those financial statements.

The annual financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Stock Exchange")("Listing Rules").

The measurement basis used in the preparation of the financial statements is the historical cost basis except that investment properties, equity investments classified as other financial assets, and financial instruments classified as trading securities are stated at their fair value.

Non-current assets classified as held for sale are stated at the lower of carrying amount and fair value less costs to sell.

2. Changes in accounting policies

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

- (i) HKFRS 9, *Financial instruments*
- (ii) HKFRS 15, *Revenue from contracts with customers*

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

- (i) HKFRS 9, *Financial instruments*

HKFRS 9 replaces HKAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied HKFRS 9 retrospectively to items that existed at 1 April 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 April 2018. Therefore, comparative information continues to be reported under HKAS 39.

The following table summarises the impact of transition to HKFRS 9 on retained profits at 1 April 2018.

	HK\$'000
Retained profits	
Remeasurement of other financial assets now measured at fair value through profit or loss ("FVPL")	<u>(5,932)</u>
Net decrease in retained profits at 1 April 2018	<u><u>(5,932)</u></u>

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

a. Classification of financial assets and financial liabilities

HKFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income ("FVOCI") and at FVPL. These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

The following table shows the original measurement category for the Group's other financial assets under HKAS 39 and reconciles the carrying amounts of those financial assets determined in accordance with HKAS 39

to those determined in accordance with HKFRS 9.

	HKAS 39 carrying amount at 31 March 2018 HK\$'000	Reclassifi- cation HK\$'000	Remeasure- ment HK\$'000	HKFRS 9 carrying amount at 1 April 2018 HK\$'000
Financial assets classified as available-for-sale under HKAS 39 (note)	10,232	(10,232)	-	-
Financial assets carried at FVPL				
Other financial assets (note)	-	10,232	(5,932)	4,300

Note: Certain equity investments held by the Group for long term strategic purposes have been classified as financial assets carried at FVPL under HKFRS 9. Before the adoption of HKFRS 9, these investments were measured at cost less impairment losses.

The measurement categories for all financial liabilities remain the same. The carrying amounts for all financial liabilities at 1 April 2018 have not been impacted by the initial application of HKFRS 9.

b. Credit losses

The new impairment model in HKFRS 9 replaces the “incurred loss” model in HKAS 39 with the “expected credit loss” model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure either a 12-month expected credit loss or a lifetime expected credit loss, depending on the asset and the facts and circumstances. Application of the expected credit loss model results in earlier recognition of credit losses. Adoption of expected credit loss model had no material impact on the results and financial position of the Group.

c. Transition

Changes in accounting policies resulting from the adoption of HKFRS 9 have been applied retrospectively, except as described below:

- Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of HKFRS 9 are recognised in retained profits and reserves as at 1 April 2018. Accordingly, the information presented for 2018 continues to be reported under HKAS 39 and thus may not be comparable with the current period.
- The following assessment has been made on the basis of the facts and circumstances that existed at 1 April 2018 (the date of initial

application of HKFRS 9 by the Group):

- the determination of the business model within which a financial asset is held.
- If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime expected credit loss has been recognised for that financial instrument.

(ii) *HKFRS 15, Revenue from contracts with customers*

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction contracts*, which specified the accounting for construction contracts.

Under HKAS 18, revenue from sale of goods was generally recognised when the risks and rewards of ownership passed to the customers. Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. Adoption of the new revenue standard does not have significant impact on how it recognises revenue from sale of goods.

The Group has elected to use the cumulative effect transition method and has recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 April 2018. Therefore, comparative information has not been restated and continues to be reported under HKASs 11 and 18. As allowed by HKFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 April 2018.

Presentation of contract liabilities

Under HKFRS 15, a contract liability, rather than a payable, is recognised when a customer pays non-refundable consideration, or is contractually required to pay non-refundable consideration and the amount is already due, before the Group recognises the related revenue.

To reflect these changes in presentation, the Group has reclassified forward sales deposits amounting to HK\$21,990,000 from trade and other payables to contract liabilities at 1 April 2018.

3. Revenue

The principal activities of the Group are the manufacture, sale and distribution of toys, computer products, housewares, clocks, watches and electronic and gift products.

Disaggregation of revenue from contracts with customers by major product lines is as follows:

	2019 HK\$'000	2018 HK\$'000
Revenue from sale of goods within the scope of HKFRS 15		
Disaggregated by major product lines		
– Toys	548,063	775,465
– Computer products	172,814	188,775
– Housewares	78,852	122,484
– Timepieces	152,736	184,882
	<u>952,465</u>	<u>1,271,606</u>

Disaggregation of revenue from contracts with customers by geographic markets is disclosed in note 4(c).

The Group's customer base includes one (2018: one) customer with whom transactions have exceeded 10% of the Group's revenue. During the year, revenue from sales of toys to this customer amounted to approximately HK\$383,700,000 (2018: HK\$569,700,000). For both years, the sales arose mainly in the North America geographical region in which the toys division is active.

The Group has applied practical expedient in paragraph 121 of HKFRS 15 to exempt the disclosure of revenue expected to be recognised in the future arising from contracts with customers in existence at the reporting date to its revenue from sales of goods as the performance obligation is part of a contract that has an original expected duration of one year or less.

4. 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 sale and distribution of clocks, watches, and electronic and gift products.
Investments	:	The investment in debt and equity securities and managed funds.
Others	:	The leasing of properties to Group companies and third parties to generate rental income and to gain from the appreciation in the properties' values in the long term.

(a) Segment results, assets and liabilities

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 years ended 31 March 2019 and 2018 is set out below:

	2019						
	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	548,063	172,814	78,852	152,736	-	-	952,465
Inter-segment revenue	611	-	-	-	-	4,246	4,857
Reportable segment revenue	548,674	172,814	78,852	152,736	-	4,246	957,322
Reportable segment (loss)/profit (note)	(54)	(12,684)	(18,683)	(5,199)	(3,060)	29,623	(10,057)
Interest income	42	10	62	54	178	2	348
Interest expense	(1,487)	-	-	-	-	(189)	(1,676)
Depreciation and amortisation for the year	(20,378)	(4,133)	(934)	(1,399)	-	(3,269)	(30,113)
Reportable segment assets	359,688	143,958	70,914	117,505	87,578	111,797	891,440
Additions to non-current segment assets during the year	391	650	392	373	-	-	1,806
Reportable segment liabilities	99,391	23,439	26,891	23,489	-	6,506	179,716

Note: During the year ended 31 March 2019, a property classified as non-current assets held for sale under toys segment was disposed and a gain on disposal of HK\$21,609,000 was recognised (see note 6(c)) and included in segment result above.

During the year ended 31 March 2019, a property under others segment was disposed and a gain on disposal of HK\$30,178,000 was recognised and included in segment result above.

	2018						
	Toys HK\$'000	Computer products HK\$'000	Housewares HK\$'000	Timepieces HK\$'000	Investments HK\$'000	Others HK\$'000	Total HK\$'000
Revenue from external customers	775,465	188,775	122,484	184,882	-	-	1,271,606
Inter-segment revenue	1,348	-	-	-	-	4,277	5,625
Reportable segment revenue	776,813	188,775	122,484	184,882	-	4,277	1,277,231
Reportable segment profit/(loss)	5,809	6,155	(20,318)	(23,554)	12,732	(295)	(19,471)
Interest income	58	7	62	19	445	-	591
Interest expense	(1,651)	-	-	-	-	(227)	(1,878)
Depreciation and amortisation for the year	(19,252)	(4,362)	(2,233)	(1,083)	-	(4,185)	(31,115)
Impairment loss on property, plant and equipment	-	-	(10,267)	-	-	-	(10,267)
Reportable segment assets	415,838	149,743	102,687	119,196	148,149	75,439	1,011,052
Additions to non-current segment assets during the year	30,121	1,212	1,929	834	-	1,608	35,704
Reportable segment liabilities	177,619	29,344	34,649	25,930	-	8,937	276,479

(b) **Reconciliations of reportable segment revenue, loss, interest income, interest expense, assets and liabilities**

	2019 HK\$'000	2018 HK\$'000
Revenue		
Reportable segment revenue	957,322	1,277,231
Elimination of inter-segment revenue	<u>(4,857)</u>	<u>(5,625)</u>
Consolidated revenue	<u>952,465</u>	<u>1,271,606</u>
Loss		
Reportable segment loss	(10,057)	(19,471)
Unallocated corporate expenses	<u>(18,588)</u>	<u>(9,081)</u>
Consolidated loss before taxation	<u>(28,645)</u>	<u>(28,552)</u>
Interest income		
Reportable segment interest income	348	591
Unallocated corporate interest income	<u>592</u>	<u>765</u>
Consolidated interest income	<u>940</u>	<u>1,356</u>
Interest expense		
Reportable segment interest expense	1,676	1,878
Unallocated corporate interest expense	<u>655</u>	<u>566</u>
Consolidated interest expense	<u>2,331</u>	<u>2,444</u>
Assets		
Reportable segment assets	891,440	1,011,052
Elimination of inter-segment receivables	<u>(19,018)</u>	<u>(23,996)</u>
	872,422	987,056
Current tax recoverable	4,162	4,321
Deferred tax assets	24,519	31,115
Unallocated corporate assets	<u>53,839</u>	<u>56,251</u>
Consolidated total assets	<u>954,942</u>	<u>1,078,743</u>
Liabilities		
Reportable segment liabilities	179,716	276,479
Elimination of inter-segment payables	<u>(19,018)</u>	<u>(23,996)</u>
	160,698	252,483
Current tax payable	16,093	8,642
Deferred tax liabilities	20,465	6,641
Unallocated corporate liabilities	<u>39,247</u>	<u>44,125</u>
Consolidated total liabilities	<u>236,503</u>	<u>311,891</u>

(c) Geographic information

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's investment properties, other property, plant and equipment, interests in leasehold land held for own use under operating leases, intangible assets and interest in a joint venture ("specified non-current assets"). The geographical location of customers is based on the location at which the goods were delivered. The geographical location of the specified non-current assets is based on the physical location of the assets in the case of investment properties, other property, plant and equipment and interests in leasehold land held for own use under operating leases, and based on the location of the operation in the case of intangible assets and interest in a joint venture.

	Revenue from external customers		Specified non-current assets	
	2019	2018	2019	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong (place of domicile)	98,624	107,071	81,792	85,628
North America	469,059	588,744	-	288
United Kingdom	153,931	232,753	21,721	24,094
Europe (excluding United Kingdom)	90,351	152,403	-	-
Asia (excluding Mainland China and Hong Kong)	29,031	44,864	-	-
Mainland China	65,332	76,167	251,381	250,961
Others	46,137	69,604	-	-
	853,841	1,164,535	273,102	275,343
	952,465	1,271,606	354,894	360,971

5. Other revenue and other net income

	2019 HK\$'000	2018 HK\$'000
Other revenue		
Interest income from deposits with banks	747	857
Interest income from trading securities	178	445
Interest income from debtors	15	54
Rental income	981	766
Dividend income from listed securities	1,814	1,299
Sales of scrap materials	1,657	335
Others	812	345
	<u>6,204</u>	<u>4,101</u>
Other net income		
Net gain/(loss) on disposal of property, plant and equipment	41,023	(856)
Net gain on disposal of intangible asset	709	-
Net foreign exchange (loss)/gain	(6,303)	7,967
Net realised and unrealised (losses)/gains on trading securities	(3,052)	10,988
Net unrealised losses on other financial assets	(2,000)	-
Impairment loss on other financial assets	-	(2,502)
Others	384	848
	<u>30,761</u>	<u>16,445</u>

6. Loss before taxation

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

	2019 HK\$'000	2018 HK\$'000
(a) Finance costs		
Interest on bank loans and other borrowings	<u>2,331</u>	<u>2,444</u>
(b) Other items		
Amortisation		
- land lease premium	124	123
- intangible assets	34	68
Cost of inventories	812,201	1,017,383
Depreciation	29,955	30,924
Impairment losses		
- other property, plant and equipment	-	10,267
- trade debtors	84	21,299
Reversal of impairment losses on trade debtors	(926)	-
Operating lease charges: minimum lease payments		
- land and buildings	9,173	10,633
- other assets	1,203	1,441
Rental receivable from investment properties less direct outgoings of HK\$78,000 (2018: HK\$84,000)	<u>(903)</u>	<u>(682)</u>

- (c) During the year ended 31 March 2019, the Group completed a sale and purchase agreement to dispose of a property located in Hong Kong and recognised a disposal gain of HK\$21,609,000. The property was presented as non-current assets classified as held for sale in the statement of financial statement at 31 March 2018.

7. Income tax

	2019 HK\$'000	2018 HK\$'000
Hong Kong Profits Tax	(13,701)	105
Taxation outside Hong Kong	9,013	7,481
Deferred tax	4,172	(6,246)
	<u>(516)</u>	<u>1,340</u>

The provision for Hong Kong Profits Tax for 2019 is calculated at 16.5% (2018: 16.5%) of the estimated assessable profits for the year.

Current tax in Hong Kong for 2019 included a tax credit of HK\$14,578,000 relating to a subsidiary incorporated in Hong Kong which reported its income as onshore sourced and taxable under Hong Kong Profits Tax and paid Hong Kong Profits Tax in prior years. After reviewing its operations, the subsidiary lodged a claim to the Inland Revenue Department of Hong Kong ("IRD") that 50% of its profits was not subject to Hong Kong Profits Tax for the years of assessment from 2010/11 to 2016/17. During the year ended 31 March 2019, the claim was reviewed and accepted by the IRD and a tax credit was recognised.

Taxation for subsidiaries outside Hong Kong is charged at the appropriate current rates of taxation ruling in the relevant tax jurisdictions. The Corporate Income Tax rate applicable to subsidiaries located in the People's Republic of China (the "PRC") is 25% (2018: 25%) for the current year. No provision has been made for subsidiaries located in the United Kingdom for the years ended 31 March 2019 and 2018 because either they sustained a loss for taxation purpose or their tax losses brought forward exceeded the estimated assessable profits for both years.

Current tax outside Hong Kong for the year ended 31 March 2018 included withholding tax of HK\$1,364,000 paid on dividend income from a subsidiary.

8. Dividends payable to equity shareholders of the Company attributable to the year

	2019 HK\$'000	2018 HK\$'000
Interim dividend declared and paid of HK\$Nil (2018: HK3 cents) per share	-	18,135
Final dividend proposed after the end of reporting period of HK3 cents (2018: HK3 cents) per share	18,135	18,135
	<u>18,135</u>	<u>36,270</u>

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

9. Loss per share

(a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to equity shareholders of the Company of HK\$26,158,000 (2018: HK\$26,754,000) and the weighted average number of shares of 604,491,000 (2018: 603,674,000) in issue during the year.

(b) Diluted loss per share

The calculation of diluted loss per share is based on the loss attributable to equity shareholders of the Company of HK\$26,158,000 (2018: HK\$26,754,000) and the weighted average number of shares of 604,491,000 (2018: 603,674,000).

There were no dilutive potential shares in existence during the years ended 31 March 2019 and 2018, and therefore diluted loss per share is the same as the basic loss per share for both the current and prior years.

10. Trade and other receivables

Included in trade and other receivables are trade debtors and bills receivable (based on the invoice date and net of loss allowance) with the following ageing analysis as of the end of the reporting period:

	At 31 March 2019 HK\$'000	At 31 March 2018 HK\$'000
Within 3 months	83,613	123,026
4 to 6 months	7,226	8,700
7 to 12 months	110	884
13 to 24 months	151	1,194
Trade debtors and bills receivable	91,100	133,804
Deposits, prepayments and other receivables	31,528	21,422
	<u>122,628</u>	<u>155,226</u>

Trade debtors and bills receivable are normally due within 90 days from the date of billing.

11. Trade and other payables and contract liabilities

Included in trade and other payables and contract liabilities are trade creditors and bills payable (based on the invoice date) with the following ageing analysis as of the end of the reporting period:

	At 31 March 2019 HK\$'000	At 1 April 2018 HK\$'000	At 31 March 2018 HK\$'000
Within 1 month	20,047	32,087	32,087
Over 1 month but within 3 months	7,709	3,709	3,709
Over 3 months	441	1,875	1,875
Trade creditors and bills payable	28,197	37,671	37,671
Accruals and other payables	111,785	126,643	148,633
	139,982	164,314	186,304
Contract liabilities			
- forward sales deposits	18,309	21,990	-
	158,291	186,304	186,304

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

12. Non-adjusting events after the reporting period

Subsequent to the end of the reporting period, the directors proposed a final dividend. Further details are disclosed in note 8.

BUSINESS REVIEW

The revenue of the Group for the year ended 31 March 2019 was HK\$952 million which was down 25% from HK\$1,272 million in the previous year. The decrease in the Group's revenue was mainly attributable to weak market conditions resulting from the ongoing trade tensions between China and the United States.

The Group recorded a net loss attributable to equity shareholders of HK\$26.2 million for the year ended 31 March 2019 as compared with a net loss of HK\$26.8 million a year earlier. The net loss for the year was primarily due to lower revenue and the loss attributable to equity shareholders of approximately HK\$15.4 million as a result of redundancy compensation payments. During the year under review, the Group disposed of two properties in Hong Kong for approximately HK\$55 million and recorded net gains of approximately HK\$51.8 million from the transactions. Detailed analysis of the operating results is set out in the following paragraphs.

Toys Division

The financial year under review was very challenging for the Toys Division. Amid concerns over the US-China trade war, the division's revenue for the year ended 31 March 2019 dropped 29% year-on-year from HK\$775 million to HK\$548 million. In addition, the price pressure resulting from severe competition among toy manufacturers has continued to erode the profit margin of the division. Despite a net gain of approximately HK\$21.6 million from the disposal of a property, the division sustained an operating loss of HK\$0.1 million for the year ended 31 March 2019 as compared with an operating profit of HK\$5.8 million a year earlier.

Computer Products Division

The Computer Products Division recorded satisfactory growth in the business of smart connected devices during the year under review. However, due to a weak demand for thin-film computer heads, the division stopped the production at the end of October 2018 and incurred a one-off redundancy compensation payments of approximately HK\$7.7 million. For the year ended 31 March 2019, the division saw its revenue decrease by 8% year-on-year from HK\$189 million to HK\$173 million and had an operating loss of HK\$12.7 million as compared with an operating profit of HK\$6.2 million in the previous year.

Housewares Division

As mentioned in the interim report, the Housewares Division terminated production at its joint venture factory in Zhuhai in July 2018 and recorded a loss attributable to equity shareholders of approximately HK\$7.7 million in relation to termination payments for workers. Following the factory closure, the division has only engaged in trading of cookware and tableware products. Compared to last year, the division's revenue for the year ended 31 March 2019 fell 35% from HK\$122 million to HK\$79 million, while its operating loss has shrunk from HK\$20.3 million to HK\$18.7 million.

Timepieces Division

The business environment for the Timepieces Division remained difficult and its revenue for the year ended 31 March 2019 was down 17% year-on-year from HK\$185 million to HK\$153 million. In February 2019, the division closed down its subsidiary in the United States as it was loss-making and had been a cash drain for the division in previous years. Nevertheless, with continuous efforts in streamlining the operation, the division returned to profitability in the second half of the financial year and brought down its full-year operating loss to HK\$5.2 million from HK\$23.6 million a year earlier.

Other Investments

For the year ended 31 March 2019, the Group recognised net realised and unrealised losses on trading securities of HK\$3.1 million (2018: net gains of HK\$11 million). The dividend and interest income on trading securities amounted to HK\$2 million for the year (2018: HK\$1.7 million). At 31 March 2019, the Group's trading securities amounted to HK\$85 million, a decrease of HK\$63 million from last year.

LIQUIDITY, FINANCIAL RESOURCES AND FUNDING

The Group continues to maintain its sound financial health. At the end of the financial year, the Group had a strong financial position with healthy liquidity. At 31 March 2019, the total assets amounted to HK\$955 million (2018: HK\$1,079 million) which were financed by current liabilities of HK\$215 million (2018: HK\$302 million), non-current liabilities of HK\$22 million (2018: HK\$10 million), non-controlling interests of HK\$10 million (2018: HK\$12 million) and equity attributable to the Company's equity shareholders of HK\$709 million (2018: HK\$755 million).

At 31 March 2019, the Group's cash balances aggregated to HK\$187 million, up from HK\$142 million a year ago. The current assets at 31 March 2019 amounted to HK\$573 million (2018: HK\$676 million). The inventories decreased from HK\$226 million to HK\$175 million while the trade and other receivables decreased from HK\$155 million to HK\$123 million. The trading securities at 31 March 2019 amounted to HK\$85 million (2018: HK\$148 million).

At 31 March 2019, the Group's current liabilities decreased to HK\$215 million from HK\$302 million last year. The bank loans amounted to HK\$40 million (2018: HK\$107 million) which included revolving loans of HK\$34 million (2018: HK\$98 million) and mortgage loan balances of HK\$6 million (2018: HK\$9 million). The mortgage loan balance of HK\$6 million is repayable by fixed monthly instalments with maturity date in August 2021. Certain trading securities and bank deposits amounting to HK\$81 million (2018: HK\$125 million), along with certain properties with a carrying amount of HK\$58 million (2018: HK\$61 million), were pledged to banks to secure banking facilities granted to the Group.

The Group monitors its capital structure on the basis of gearing ratio, which is calculated as a percentage of total liabilities over total assets. The gearing ratio of the Group as at 31 March 2019 was 25% (2018: 29%). At 31 March 2019, the Group's working capital ratio, an indicator of liquidity represented by a ratio between the current assets and the current liabilities, was 2.67 as compared to 2.24 last year. The quick ratio, another ratio that gauges the short-term liquidity and measured by trade debtors and bills receivable and cash and cash equivalent over current liabilities, increased to 1.29 from 0.91 in the previous year.

CONTINGENT LIABILITIES

As at 31 March 2019, the Group did not have any significant contingent liabilities.

FOREIGN EXCHANGE EXPOSURE

The Group is exposed to foreign exchange risks primarily through sales and purchases that are denominated in a foreign currency, such as Renminbi, United States dollars and Pound Sterling. Management monitors the Group's exposure to currency risk and will consider hedging significant foreign currency exposure should the need arise.

PROSPECTS AND GENERAL OUTLOOK

The management anticipates that the business of the Toys Division will improve in the new financial year with strong demand expected for toys related to two popular movies which will be released at the end of 2019. Nevertheless, labor shortages in Southern China and stiff competition among toy manufacturers continue to be major concerns for the division.

We are cautious about the business of the Computer Products Division amid uncertainty over the US-China trade war. In particular, a major customer has temporarily suspended shipments of certain products to the United States because of import tariffs imposed by the US Government. On a positive note, a newly-developed smart medical watch is under the process of CE and FDA application. Upon approval, it has potential to become an important product for the division.

As less than 5% of the revenue of both the Housewares and Timepieces Divisions are derived from the US market, the trade tensions will have little impact on their businesses. Meanwhile, with vigorous cost-cutting and restructuring measures, both divisions are in a better position to report improved operating results in the new financial year.

Despite the uncertain business environment, the management has confidence that the Group will weather the difficult trading conditions and remain competitive in the financial year ending 31 March 2020.

DIVIDEND

At the forthcoming Annual General Meeting to be held on 6 September 2019, the directors will recommend a final dividend of HK3 cents per share (2018: HK3 cents). As the Company did not declare an interim dividend (2018: HK3 cents), the dividend payment for the year of HK\$3 cents (2018: HK6 cents) would represent an annual return of 3.4% (2018: 5.2%) on the Company's average share price of HK\$0.88 (2018: HK\$1.15) in the year ended 31 March 2019.

The final dividend which will amount to HK\$18.1 million is calculated on the total number of shares in issue as at 27 June 2019, being the latest practicable date prior to the announcement of the results.

REGISTER OF MEMBERS

The Annual General Meeting is scheduled to be held on Friday, 6 September 2019. For determining the entitlement to attend and vote at the Annual General Meeting, the register of members of the Company will be closed from Monday, 2 September 2019 to Friday, 6 September 2019, both days inclusive, during which period no transfer of shares will be effected. In order to be able to attend and vote at the Annual General Meeting, shareholders should ensure that all transfers of shares, accompanied by the relevant share certificates, are lodged with the Company's share registrar in Hong Kong, Tricor Tengis Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong[#] for registration no later than 4:30 p.m. on Friday, 30 August 2019.

The proposed final dividend is subject to the passing of the ordinary resolution by the shareholders at the Annual General Meeting. The record date for entitlement to the proposed final dividend is Thursday, 19 September 2019. For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from Wednesday, 18 September 2019 to Thursday, 19 September 2019, both days inclusive, during which period no transfer of shares will be effected. In order to be qualified for the proposed final dividend, shareholders should ensure that all transfers of shares, accompanied by the relevant share certificates, are lodged with Tricor Tengis Limited for registration no later than 4:30 p.m. on Tuesday, 17 September 2019. The payment of final dividend, if approved at the Annual General Meeting, will be made on Wednesday, 9 October 2019.

EMPLOYEES

As at 31 March 2019, the number of employees of the Group was approximately 162 in Hong Kong, 3,194 in Mainland China and 53 in Europe. The Group ensures that its employee's remuneration packages are competitive. Employees are rewarded based on their performance and experience and the prevailing industry practice. Total staff costs for the year amounted to HK\$348,391,000 (2018: HK\$455,753,000).

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 year ended 31 March 2019.

AUDIT COMMITTEE

The audit committee reports to the board and currently comprises three independent non-executive directors, namely Dr Ng Tze Kin, David, being the chairman, Mr Lie-A-Cheong Tai Chong, David and Mr Yeh Man Chun, Kent. The audit committee meets with Group's senior management and external auditors regularly to discuss audit matters. The audit committee also reviews the effectiveness of the risk management and internal control systems. The annual results of the Group have been reviewed by the audit committee of the Company.

REMUNERATION COMMITTEE

The Company has established a remuneration committee which currently comprises two independent non-executive directors, namely Dr Ng Tze Kin, David, being the chairman, and Mr Yeh Man Chun, Kent and one executive director, namely Mr Shum Kam Hung. The terms of reference of the remuneration committee have been included on the Company's website.

NOMINATION COMMITTEE

The nomination committee consists of two executive directors, namely Mr Robert Dorfman, being the chairman, and Dr Cheung Tsang Kay, Stan and three independent non-executive directors, namely Mr Lie-A-Cheong Tai Chong, David, Mr Yeh Man Chun, Kent and Dr Ng Tze Kin, David. The primary roles of the nomination committee are to determine the policy for the nomination of directors, to review the structure, size and composition of the Board and to make recommendations to the Board on the appointment or re-appointment of directors.

CORPORATE GOVERNANCE

The Company has complied with the code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules throughout the year ended 31 March 2019 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 OF SECURITIES TRANSACTIONS

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 for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. 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.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This announcement is published on the Stock Exchange's website (www.hkex.com.hk) and the Company's website (www.heraldgroup.com.hk). The 2019 annual report containing all the information required by the Listing Rules will be dispatched to the shareholders and published on the Stock Exchange's website and the Company's website in due course.

By Order of the Board
Robert Dorfman
Chairman

Hong Kong, 28 June 2019

As at the date of this announcement, the Board of Directors of the Company comprises Mr Robert Dorfman, Mr Shum Kam Hung and Dr Cheung Tsang Kay, Stan as executive directors; and Mr Lie-A-Cheong Tai Chong, David, Mr Yeh Man Chun, Kent and Dr Ng Tze Kin, David as independent non-executive directors.

**For identification only*

#Tricor Tengis Limited will relocate to Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong on 11 July 2019.