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## HERALD HOLDINGS LIMITED

興利集團有限公司\*

(Incorporated in Bermuda with limited liability)

(Stock Code : 00114)

### INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2019

#### 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 2019, together with the comparative figures for the corresponding period in 2018, as follows:

#### Consolidated statement of profit or loss – Unaudited

*For the six months ended 30 September 2019*

		Six months ended 30 September	
	Note	2019 HK\$'000	2018 HK\$'000 (Note)
<b>Revenue</b>	3	<b>590,957</b>	526,133
Cost of sales		<b>(470,841)</b>	(457,160)
<b>Gross profit</b>		<b>120,116</b>	68,973
Other revenue		<b>3,485</b>	3,188
Other net loss		<b>(7,549)</b>	(9,764)
Selling expenses		<b>(8,983)</b>	(10,918)
Administrative expenses		<b>(105,742)</b>	(112,369)
Gain on disposal of non-current assets classified as held for sale	4(c)	<b>-</b>	21,609
<b>Profit/(loss) from operations</b>		<b>1,327</b>	(39,281)
Finance cost	4(a)	<b>(1,396)</b>	(1,296)
<b>Loss before taxation</b>	4	<b>(69)</b>	(40,577)
Income tax	5	<b>(7,662)</b>	(3,129)
<b>Loss for the period</b>		<b>(7,731)</b>	(43,706)

**Consolidated statement of profit or loss – Unaudited (Continued)***For the six months ended 30 September 2019*

		<b>Six months ended</b>	
		<b>30 September</b>	
		<b>2019</b>	<b>2018</b>
	<i>Note</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
			<b>(Note)</b>
<b>Attributable to:</b>			
Equity shareholders of the Company		<b>(6,107)</b>	(41,718)
Non-controlling interests		<b><u>(1,624)</u></b>	<u>(1,988)</u>
<b>Loss for the period</b>		<b><u>(7,731)</u></b>	<u>(43,706)</u>
<b>Loss per share</b>	<b>7</b>		
Basic (HK cents)		<b><u>(1.01)</u></b>	<u>(6.90)</u>
Diluted (HK cents)		<b><u>(1.01)</u></b>	<u>(6.90)</u>

Note: The Group has initially applied HKFRS 16 at 1 April 2019 using the modified retrospective approach. Under the approach, comparative information is not restated. See note 2.

Details of dividends payable to equity shareholders of the Company are set out in note 6.

**Consolidated statement of profit or loss and other comprehensive income - Unaudited***For the six months ended 30 September 2019*

	<b>Six months ended 30 September</b>	
	<b>2019</b>	<b>2018</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
		<b>(Note)</b>
<b>Loss for the period</b>	<b>(7,731)</b>	<b>(43,706)</b>
<b>Other comprehensive income for the period</b>		
<i>Items 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><b>(19,633)</b></u>	<u><b>(29,549)</b></u>
<b>Total comprehensive income for the period</b>	<u><b>(27,364)</b></u>	<u><b>(73,255)</b></u>
<b>Attributable to:</b>		
Equity shareholders of the Company	<b>(25,607)</b>	<b>(70,674)</b>
Non-controlling interests	<u><b>(1,757)</b></u>	<u><b>(2,581)</b></u>
<b>Total comprehensive income for the period</b>	<u><b>(27,364)</b></u>	<u><b>(73,255)</b></u>

Note: The Group has initially applied HKFRS 16 at 1 April 2019 using the modified retrospective approach. Under the approach, comparative information is not restated. See note 2.

# Consolidated statement of financial position - Unaudited

At 30 September 2019

		As at 30 September 2019 HK\$'000	As at 31 March 2019 HK\$'000 (Note)
	Note		
<b>Non-current assets</b>			
Investment properties	8	54,897	57,769
Other property, plant and equipment	8	276,459	292,439
Interests in leasehold land held for own use under operating leases	8	3,500	3,562
		<u>334,856</u>	<u>353,770</u>
Intangible assets		1,107	1,124
Other financial assets		2,300	2,300
Deferred tax assets		19,008	24,519
		<u>357,271</u>	<u>381,713</u>
<b>Current assets</b>			
Trading securities		80,483	84,814
Inventories		170,518	174,555
Trade and other receivables	9	224,969	122,628
Pledged bank balances		1,256	464
Cash and cash equivalents		156,813	186,606
Current tax recoverable		1,584	4,162
		<u>635,623</u>	<u>573,229</u>
Non-current assets classified as held for sale	11(b)	903	-
		<u>636,526</u>	<u>573,229</u>
<b>Current liabilities</b>			
Trade and other payables and contract liabilities	10	222,729	158,291
Bank loans		36,607	40,243
Lease liabilities	2(c)	3,555	-
Current tax payable		15,723	16,093
Dividends payable to equity shareholders of the Company		18,135	-
		<u>296,749</u>	<u>214,627</u>
<b>Net current assets</b>		<u>339,777</u>	<u>358,602</u>
<b>Total assets less current liabilities</b>		<u>697,048</u>	<u>740,315</u>

**Consolidated statement of financial position – Unaudited (Continued)***At 30 September 2019*

		As at 30 September 2019 HK\$'000	As at 31 March 2019 HK\$'000 (Note)
	<i>Note</i>		
<b>Non-current liabilities</b>			
Lease liabilities	2(c)	3,888	-
Deferred tax liabilities		19,458	20,465
Provision for long service payments		1,124	1,411
		<u>24,470</u>	<u>21,876</u>
<b>NET ASSETS</b>		<u>672,578</u>	<u>718,439</u>
<b>CAPITAL AND RESERVES</b>			
Share capital		47,150	47,150
Reserves		617,859	661,601
<b>Total equity attributable to equity shareholders of the Company</b>		665,009	708,751
<b>Non-controlling interests</b>		7,569	9,688
<b>TOTAL EQUITY</b>		<u>672,578</u>	<u>718,439</u>

Note: The Group has initially applied HKFRS 16 at 1 April 2019 using the modified retrospective approach. Under the approach, comparative information is not restated. See note 2.

**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 29 November 2019.

The interim financial results have been prepared in accordance with the same accounting policies adopted in the 2018/2019 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2019/2020 annual financial statements. Details of these changes in accounting policies are set out in note 2.

The preparation of the 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 2019 that is included in the interim financial results as comparative 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 2019 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 28 June 2019.

## **2. CHANGES IN ACCOUNTING POLICIES**

The HKICPA has issued a new HKFRS, HKFRS 16, *Leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16, *Leases*, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

### **HKFRS 16, *Leases***

HKFRS 16 replaces HKAS 17, *Leases*, and the related interpretations, HK(IFRIC) 4, *Determining whether an arrangement contains a lease*, HK(SIC) 15, *Operating leases – incentives*, and HK(SIC) 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

The Group has initially applied HKFRS 16 as from 1 April 2019. The Group has elected to use the modified retrospective approach and there is no impact to the opening balance of equity at 1 April 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

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

#### **(a) Changes in the accounting policies**

##### **(i) *New definition of a lease***

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 April 2019. For contracts entered into before 1 April 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases.

Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

**(ii) *Lessee accounting***

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets. As far as the Group is concerned, these newly capitalised leases are primarily in relation to land and buildings.

When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognized on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received.

The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

**(iii) Leasehold investment property**

Under HKFRS 16, the Group is required to account for all leasehold properties as investment properties when these properties are held to earn rental income and/or for capital appreciation (“leasehold investment properties”). The adoption of HKFRS 16 does not have a significant impact on the Group’s financial statements as the Group previously elected to apply HKAS 40, Investment properties, to account for all of its leasehold properties that were held for investment purposes as at 31 March 2019. Consequentially, these leasehold investment properties continue to be carried at fair value.

**(b) Transitional impact**

At the date of transition to HKFRS 16 (i.e. 1 April 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 April 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 4.76%.

To ease the transition to HKFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

- (i) the Group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 March 2020;
- (ii) when measuring the lease liabilities at the date of initial application of HKFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment); and
- (iii) when measuring the right-of-use assets at the date of initial application of HKFRS 16, the Group relied on the previous assessment for onerous contract provisions as at 31 March 2019 as an alternative to performing an impairment review.

The following table reconciles the operating lease commitments as at 31 March 2019 to the opening balance for lease liabilities recognised as at 1 April 2019:

	<b>At 1 April 2019 HK\$’000</b>
Operating lease commitments as at 31 March 2019	14,548
Less: short-term leases and other leases with remaining lease term ending on or before 31 March 2020	<u>(4,385)</u>
	10,163
Less: total future interest expenses	<u>(657)</u>
Total lease liabilities recognised at 1 April 2019	<u><u>9,506</u></u>



The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments to that lease recognised in the consolidated statement of financial position at 31 March 2019.

The Group presents right-of-use assets that do not meet the definition of investment property in “other property, plant and equipment” and presents lease liabilities separately in the consolidated statement of financial position.

The following table summarises the impacts of the adoption of HKFRS 16 on the Group’s consolidated statement of financial position:

	Carrying Amount at 31 March 2019 HK\$’000	Capitalisation of operating lease contracts HK\$’000	Carrying Amount at 1 April 2019 HK\$’000
Other property, plant and equipment	292,439	12,058	<b>304,497</b>
<b>Non-current assets</b>	<b>381,713</b>	<b>12,058</b>	<b>393,771</b>
Trade and other receivables	122,628	(2,552)	<b>120,076</b>
<b>Current assets</b>	<b>573,229</b>	<b>(2,552)</b>	<b>570,677</b>
Lease liabilities (current)	-	3,949	<b>3,949</b>
<b>Current liabilities</b>	<b>214,627</b>	<b>3,949</b>	<b>218,576</b>
<b>Net current assets</b>	<b>358,602</b>	<b>(6,501)</b>	<b>352,101</b>
<b>Total assets less current liabilities</b>	<b>740,315</b>	<b>5,557</b>	<b>745,872</b>
Lease liabilities (non-current)	-	5,557	<b>5,557</b>
<b>Non-current liabilities</b>	<b>21,876</b>	<b>5,557</b>	<b>27,433</b>
<b>Net assets</b>	<b>718,439</b>	<b>-</b>	<b>718,439</b>

The analysis of the net book value of the Group’s right-of-use assets by class of underlying asset at the end of the reporting period and at the date of transition to HKFRS 16 is as follows:

	At 30 September 2019 HK\$’000	At 1 April 2019 HK\$’000
Included in “Other property, plant and equipment”:		
Land and buildings held for own use, carried at depreciated cost	<b>8,040</b>	10,450
Other items of plant and equipment, carried at depreciated cost	<u><b>1,251</b></u>	<u>1,608</u>
	<u><b>9,291</b></u>	<u>12,058</u>

**(c) Lease liabilities**

The remaining contractual maturities of the Group's lease liabilities at the end of the reporting period and at the date of transition to HKFRS 16 are as follows:

	At 30 September 2019		At 1 April 2019	
	Present value of the minimum lease payments HK\$'000	Total minimum lease payments HK\$'000	Present value of the minimum lease payments HK\$'000	Total minimum lease payments HK\$'000
Within 1 year	3,555	3,701	3,949	4,046
After 1 year but within 2 years	2,957	3,142	3,680	3,942
After 2 years but within 5 years	931	1,045	1,742	2,026
After 5 years	-	-	135	149
	3,888	4,187	5,557	6,117
	7,443	7,888	9,506	10,163
Less: total future interest expenses		(445)		(657)
		7,443		9,506

**(d) Impact on the financial result, segment results and cash flows of the Group**

After the initial recognition of right-of-use assets and lease liabilities as at 1 April 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a positive impact on the reported profit from operations in the Group's consolidated statement of profit or loss, as compared to the results if HKAS 17 had been applied during the year.

In the cash flow statement, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element. These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under HKAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under HKAS 17. Although total cash flows are unaffected, the adoption of HKFRS 16 therefore results in a significant change in presentation of cash flows within the cash flow statement.

### 3. REVENUE AND 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) Disaggregation of revenue**

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

	<b>Six months ended 30 September</b>	
	<b>2019</b>	<b>2018</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Revenue from sales of goods within the scope of HKFRS 15</b>		
Disaggregated by major product lines		
- Toys	<b>445,144</b>	310,923
- Computer Products	<b>51,925</b>	108,497
- Housewares	<b>31,957</b>	36,650
- Timepieces	<b>61,931</b>	70,063
	<b>590,957</b>	526,133
	<b>Six months ended 30 September</b>	
	<b>2019</b>	<b>2018</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Disaggregated by geographical location of customers		
- Hong Kong (place of domicile)	<b>28,931</b>	40,439
- North America	<b>323,037</b>	293,796
- United Kingdom	<b>83,572</b>	66,723
- Europe (excluding United Kingdom)	<b>63,805</b>	53,479
- Asia (excluding Mainland China and Hong Kong)	<b>19,658</b>	15,122
- Mainland China	<b>36,608</b>	30,445
- Others	<b>35,346</b>	26,129
	<b>562,026</b>	485,694
	<b>590,957</b>	526,133

**(b) Information about profit or loss, assets and liabilities**

Disaggregation of revenue and 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 six months ended 30 September 2019 and 2018 is set out below.

Six months ended 30 September 2019							
	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 customer	445,144	51,925	31,957	61,931	-	-	590,957
Inter-segment revenue	-	-	-	-	-	1,525	1,525
Reportable segment revenue	445,144	51,925	31,957	61,931	-	1,525	592,482
Reportable segment profit/(loss)	33,767	(12,591)	(3,635)	(853)	(2,803)	(870)	13,015

As at 30 September 2019							
	Toys HK\$'000	Computer products HK\$'000	Housewares HK\$'000	Timepieces HK\$'000	Investments HK\$'000	Others HK\$'000	Total HK\$'000
Reportable segment assets	448,972	131,555	66,086	105,769	81,739	106,968	941,089
Reportable segment liabilities	169,900	23,673	28,191	27,598	-	8,157	257,519

Six months ended 30 September 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 customer	310,923	108,497	36,650	70,063	-	-	526,133
Inter-segment revenue	-	-	-	-	-	2,106	2,106
Reportable segment revenue	310,923	108,497	36,650	70,063	-	2,106	528,239
Reportable segment profit/(loss)	11,062	(6,465)	(15,110)	(13,163)	(3,452)	(358)	(27,486)

As at 31 March 2019							
	Toys HK\$'000	Computer products HK\$'000	Housewares HK\$'000	Timepieces HK\$'000	Investments HK\$'000	Others HK\$'000	Total HK\$'000
Reportable segment assets	359,688	143,958	70,914	117,505	87,578	111,797	891,440
Reportable segment liabilities	99,391	23,439	26,891	23,489	-	6,506	179,716

(c) **Reconciliations of reportable segment revenue, profit/(loss), assets and liabilities**

	<b>Six months ended 30 September</b>	
	<b>2019</b>	<b>2018</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Revenue</b>		
Reportable segment revenue	<b>592,482</b>	528,239
Elimination of inter-segment revenue	<b>(1,525)</b>	(2,106)
Consolidated revenue	<b>590,957</b>	526,133

	<b>Six months ended 30 September</b>	
	<b>2019</b>	<b>2018</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Profit/(loss)</b>		
Reportable segment profit/(loss)	<b>13,015</b>	(27,486)
Unallocated corporate income and expenses	<b>(13,084)</b>	(13,091)
Consolidated loss before taxation	<b>(69)</b>	(40,577)

	<b>At 30 September</b>	<b>At 31 March</b>
	<b>2019</b>	<b>2019</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Assets</b>		
Reportable segment assets	<b>941,089</b>	891,440
Elimination of inter-segment receivables	<b>(19,000)</b>	(19,018)
	<b>922,089</b>	872,422
Current tax recoverable	<b>1,584</b>	4,162
Deferred tax assets	<b>19,008</b>	24,519
Unallocated corporate assets	<b>51,116</b>	53,839
Consolidated total assets	<b>993,797</b>	954,942

	<b>At 30 September</b>	<b>At 31 March</b>
	<b>2019</b>	<b>2019</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Liabilities</b>		
Reportable segment liabilities	<b>257,519</b>	179,716
Elimination of inter-segment payables	<b>(19,000)</b>	(19,018)
	<b>238,519</b>	160,698
Current tax payable	<b>15,723</b>	16,093
Deferred tax liabilities	<b>19,458</b>	20,465
Dividends payable to equity shareholders of the Company	<b>18,135</b>	-
Unallocated corporate liabilities	<b>29,384</b>	39,247
Consolidated total liabilities	<b>321,219</b>	236,503

#### 4. LOSS BEFORE TAXATION

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

	Six months ended 30 September	
	2019	2018
	HK\$'000	HK\$'000
<b>(a) Finance cost</b>		
Interest on bank loans and other borrowings	1,240	1,296
Interest on lease liabilities	156	-
	<u>1,396</u>	<u>1,296</u>
<b>(b) Other items</b>		
Depreciation		
- owned property, plant and equipment	15,790	14,691
- right-of-use assets	2,527	-
Amortisation of land lease premium	62	62
Net gain on disposal of other property, plant and equipment	(1,201)	(439)
Net realised and unrealised losses on trading securities	4,390	5,119
Staff costs	222,693	200,941
(Reversal of impairment loss)/impairment loss on trade debtors	(1,441)	120
Interest income from		
- trading securities	(93)	(89)
- deposits with banks	(505)	(393)
- debtors	(59)	(15)
Rental income	(1,002)	(438)
Dividend income	<u>(1,494)</u>	<u>(1,578)</u>
<b>(c)</b>		
During the six months ended 30 September 2018, 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.		

#### 5. INCOME TAX

	Six months ended 30 September	
	2019	2018
	HK\$'000	HK\$'000
Current tax - Hong Kong Profits Tax	2,777	463
Current tax - Outside Hong Kong	(625)	1,236
Deferred tax	<u>5,510</u>	<u>1,430</u>
	<u>7,662</u>	<u>3,129</u>

The provision for Hong Kong Profits Tax is calculated by applying the estimated annual effective tax rate of 16.5% (2018: 16.5%) to the six months ended 30 September 2019. Taxation for subsidiaries outside Hong Kong is similarly calculated using the estimated annual effective rates of taxation that are expected to be applicable in the relevant countries.



## 6. DIVIDENDS

### (a) Dividends payable to equity shareholders attributable to the interim period

	Six months ended 30 September	
	2019	2018
	HK\$'000	HK\$'000
Interim dividend declared and paid after the interim period of HK2 cents per share (2018: Nil)	<u>12,090</u>	<u>-</u>

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

### (b) Dividends payable to equity shareholders attributable to the previous financial year, approved but not yet paid during the interim period

	Six months ended 30 September	
	2019	2018
	HK\$'000	HK\$'000
Final dividend in respect of the previous financial year, approved but not yet paid during the interim period of HK3 cents per share (2018: HK3 cents per share)	<u>18,135</u>	<u>18,135</u>

## 7. 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\$6,107,000 (2018: HK\$41,718,000) and the weighted average number of shares of 604,491,000 (2018: 604,491,000) in issue during the period.

### (b) Diluted loss per share

The calculation of diluted loss per share for the period ended 30 September 2019 is based on the loss attributable to equity shareholders of the Company of HK\$6,107,000 (2018: HK\$41,718,000) and the weighted average number of shares of 604,491,000 (2018: 604,491,000).

Diluted loss per share for the periods ended 30 September 2019 and 2018 are same as the basic loss per share as the share options outstanding during the periods had an anti-dilutive effect on the basic loss per share.

## 8. INVESTMENT PROPERTIES, OTHER PROPERTY, PLANT AND EQUIPMENT AND LEASEHOLD LAND

### (a) Right-of-use assets

As discussed in note 2, the Group has initially applied HKFRS 16 using the modified retrospective method and adjusted the opening balances at 1 April 2019 to recognise the right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17.

During the period ended 30 September 2019, the Group entered into a new lease agreement and therefore recognised the additions to right-of-use assets of HK\$181,000.

### (b) Acquisitions and disposal of owned assets

During the period ended 30 September 2019, the Group acquired items of other property, plant and equipment with an aggregate cost of HK\$1,845,000 (2018: HK\$3,375,000).

Items of other property, plant and equipment with a net book value of HK\$16,000 (2018: HK\$2,106,000) were disposed of during the period ended 30 September 2019, resulting in a net gain on disposal of HK\$1,201,000 (2018: HK\$439,000).

## 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 end of the reporting period:

	At 30 September 2019 HK\$'000	At 31 March 2019 HK\$'000
<b>By date of invoice</b>		
Within 3 months	203,520	83,613
4 to 6 months	2,454	7,226
7 to 12 months	89	110
13 to 24 months	-	151
Trade debtors and bills receivable	206,063	91,100
Deposits, prepayments and other receivables	18,906	31,528
	<b>224,969</b>	<b>122,628</b>

The credit terms given to the customers vary and are generally based on the financial strengths of individual customers. Trade debtors and bills receivable are normally due within 90 days from the date of billing. All of the trade and other receivables are expected to be recovered or recognised as expenses within one year.

## 10. TRADE AND OTHER PAYABLES AND CONTRACT LIABILITIES

Included in trade and other payables and contract liabilities are trade creditors and bills payable with the following ageing analysis as of the end of the reporting period:

	At 30 September 2019 HK\$'000	At 31 March 2019 HK\$'000
<b>By date of invoice</b>		
Within 1 month	19,591	20,047
Over 1 month but within 3 months	16,293	7,709
Over 3 months	361	441
Trade creditors and bills payable	36,245	28,197
Accruals and other payables	152,802	111,785
Contract liabilities - forward sale deposits	33,682	18,309
	<u>222,729</u>	<u>158,291</u>

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

## 11. NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

- (a) Subsequent to the end of the reporting period, the directors proposed an interim dividend. Further details are disclosed in note 6.
- (b) During the period ended 30 September 2019, the Group entered into a provisional sale and purchase agreement with a third party, pursuant to which the Group agreed to dispose of a property at a consideration of HK\$30,650,000. The property is located in Hong Kong within the Others segment with a carrying amount of HK\$903,000. Accordingly, the property is presented as non-current assets held for sale in the consolidated statement of financial position. The disposal was completed subsequent to the end of the reporting period.

## BUSINESS REVIEW

The Group's revenue for the six months ended 30 September 2019 amounted to HK\$591 million which was up 12% from HK\$526 million in the corresponding period last year. The Group reported a net loss attributable to the equity shareholders of HK\$6.1 million for the period under review as compared with a net loss of HK\$41.7 million a year earlier. The decrease in net loss was primarily attributable to better-than-expected results of the Toys Division and tight control over operating expenses. Further analysis of the operating results is set out in the following paragraphs.

The Toys Division performed well in the first half of the fiscal year. It is most encouraging that the division was able to complete all the production as scheduled despite labor shortages in Southern China. Driven by the strong sales of toys related to several popular movies, the division's revenue for the period rose 43% year-on-year from HK\$311 million to HK\$445 million and its first-half operating profit surged to HK\$33.8 million from HK\$11.1 million a year earlier.

The performance of the Computer Products Division was disappointing with a 52% drop in first-half revenue to HK\$52 million from HK\$108 million a year earlier. In particular, the sales of smart connected devices for the period shrank by 58% year-on-year to HK\$21 million. Because of the lower revenue, the division saw its half-yearly operating loss increase to HK\$12.6 million from HK\$6.5 million a year ago.

For the six months ended 30 September 2019, the revenue of the Housewares Division fell 13% year-on-year from HK\$37 million to HK\$32 million as the division now only engages in trading activities. Compared with the same period last year, the division's operating loss declined from HK\$15.1 million to HK\$3.6 million as a result of cost savings achieved from the closure of its joint venture factory in Zhuhai and the absence of termination payments for workers.

Amid a difficult retail environment, the Timepieces Division saw its half-yearly revenue drop by 11% to HK\$62 million from HK\$70 million in the previous year. With stringent measures taken to control operating costs, the division's operating loss decreased to HK\$0.9 million from HK\$13.2 million a year earlier.

The Group recorded net realised and unrealised losses on trading securities of HK\$4.4 million for the period under review as compared with losses of HK\$5.1 million a year ago. At 30 September 2019, the Group's trading securities decreased to HK\$80 million from HK\$85 million as at the beginning of the fiscal year.

## **PROSPECTS AND GENERAL OUTLOOK**

Due to seasonal factors, the business of the Toys Division will slow down in the second half of the fiscal year. The Management also anticipates that the difficult business environment facing the Computer Products Division will continue amid uncertainty over the US-China trade war. Nevertheless, the division has several smart connected products under development that have good business potential. Meanwhile, with cost-cutting and restructuring measures, the Management expects that the Timepieces and Housewares Divisions will remain competitive in the second half of the fiscal year.

## **LIQUIDITY, FINANCIAL RESOURCES AND FUNDING**

The Group continued to exercise prudence in managing its financial resources. As in the past, the Group maintains a sound liquidity position. At 30 September 2019, the Group's cash balances aggregated to HK\$158 million (at 31 March 2019: HK\$187 million).

At the end of September 2019, the Group's current assets amounted to HK\$637 million (at 31 March 2019: HK\$573 million) which included inventories of HK\$171 million (at 31 March 2019: HK\$175 million), trade and other receivables of HK\$225 million (at 31 March 2019: HK\$123 million) and trading securities of HK\$80 million (at 31 March 2019: HK\$85 million).

At 30 September 2019, the Group's current liabilities increased to HK\$297 million from HK\$215 million as at the beginning of the fiscal year. The bank loans amounted to HK\$37 million (at 31 March 2019: HK\$40 million) which included revolving loans of HK\$32 million (at 31 March 2019: HK\$34 million) and mortgage loan balance of HK\$5 million (at 31 March 2019: HK\$6 million). The mortgage loan balance of HK\$5 million is repayable by fixed monthly instalments with maturity date in August 2021. Certain trading securities and bank deposits amounting to HK\$78 million (at 31 March 2019: HK\$81 million), along with certain properties with a carrying amount of HK\$56 million (at 31 March 2019: HK\$58 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 30 September 2019 was 32% (at 31 March 2019: 25%). At 30 September 2019, the Group's working capital ratio, an indicator of liquidity represented by a ratio between the current assets and the current liabilities, was 2.14 as compared to 2.67 at 31 March 2019. The quick ratio, another ratio that gauges the short term liquidity and measured by trade debtors and bills receivable and cash and cash equivalents over current liabilities, decreased to 1.22 from 1.29 at 31 March 2019.

## **CONTINGENT LIABILITIES**

As at 30 September 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. From time to time, the Group takes out foreign exchange contracts to hedge against its foreign exchange exposure.

## **DIVIDEND**

The Directors have declared an interim dividend of HK2 cents per share (2018: Nil). The total amount of dividend payment of HK\$12 million (2018: Nil) was based on the total number of shares in issue as at 28 November 2019, being the latest practicable date prior to the announcement of the interim results. The dividend will be paid on Thursday, 16 January 2020 to shareholders registered in the Register of Members on Monday, 6 January 2020.

## **CLOSURE OF REGISTER OF MEMBERS**

For determining the entitlement to the interim dividend, the Register of Members of the Company will be closed from Friday, 3 January 2020 to Monday, 6 January 2020, both days inclusive, during which period no transfer of shares will be effected. In order to be qualified for the interim dividend, 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Thursday, 2 January 2020.

## **EMPLOYEES**

As at 30 September 2019, the number of employees of the Group was 157 (2018: 175) in Hong Kong, 3,937 (2018: 3,068) in the Mainland China and 53 (2018: 56) in Europe. Total staff costs for the period under review amounted to HK\$222,693,000 (2018: HK\$200,941,000). 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 2019.

## **AUDIT COMMITTEE**

The audit committee reports to the board of directors 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 the 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 interim results of the Group have been reviewed by the audit committee of the Company.

## **REMUNERATION COMMITTEE**

The remuneration committee 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 throughout the six months ended 30 September 2019 with the code provisions of the Corporate Governance Code (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 for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to 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 INTERIM RESULTS AND INTERIM REPORT**

This announcement is published on the Stock Exchange's website ([www.hkex.com.hk](http://www.hkex.com.hk)) and the Company's website ([www.heraldgroup.com.hk](http://www.heraldgroup.com.hk)). The interim report of the Company for the six months ended 30 September 2019 containing all the information required by the Listing Rules will be dispatched to the shareholders and published on the same websites in due course.

By order of the Board  
**Robert Dorfman**  
*Chairman*

Hong Kong, 29 November 2019

*As at the date of this announcement, the Board of Directors of the Company comprises the following directors:*

*Executive Directors:*

*Mr Robert Dorfman*

*Mr Shum Kam Hung ACIS, CPA*

*Dr Cheung Tsang Kay Stan PhD, Hon LLD, Hon DBA, JP*

*Independent Non-executive Directors:*

*Mr Lie-A-Cheong Tai Chong David SBS, OM, JP*

*Mr Yeh Man Chun Kent*

*Dr Ng Tze Kin David EdD, CA(AUST.), FCPA*

*\*For identification only*