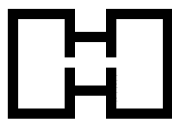


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HERALD HOLDINGS LIMITED

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 2020

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 2020, 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 2020

	Note	2020 HK\$'000	2019 HK\$'000 (Note)
Revenue	3 & 4	1,011,870	952,465
Cost of sales		<u>(800,071)</u>	<u>(812,201)</u>
Gross profit		211,799	140,264
Other revenue	5	7,654	6,204
Other net income	5	17,161	30,761
Selling expenses		(15,294)	(21,006)
Administrative expenses		(197,868)	(204,059)
Gain on disposal of non-current assets classified as held for sale	6(c)	-	21,609
Valuation gains/(losses) on investment properties		<u>427</u>	<u>(87)</u>
Profit/(loss) from operations		23,879	(26,314)
Finance costs	6(a)	<u>(2,116)</u>	<u>(2,331)</u>
Profit/(loss) before taxation	6	21,763	(28,645)
Income tax	7	<u>(14,387)</u>	<u>516</u>
Profit/(loss) for the year		<u>7,376</u>	<u>(28,129)</u>
Attributable to:			
Equity shareholders of the Company		8,798	(26,158)
Non-controlling interests		<u>(1,422)</u>	<u>(1,971)</u>
Profit/(loss) for the year		<u>7,376</u>	<u>(28,129)</u>
Earnings/(loss) per share			
Basic (HK cents)	9(a)	<u>1.46</u>	<u>(4.33)</u>
Diluted (HK cents)	9(b)	<u>1.46</u>	<u>(4.33)</u>

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

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 2020

	Note	2020 HK\$'000	2019 HK\$'000 (Note)
Profit/(loss) for the year		<u>7,376</u>	<u>(28,129)</u>
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\$Nil (2019: HK\$16,260,000))		-	25,988
<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)		(15,330)	(22,205)
Reclassification of accumulated exchange differences to profit or loss upon deregistration of a subsidiary (no tax effect)		<u>348</u>	<u>-</u>
Other comprehensive income for the year		<u>(14,982)</u>	<u>3,783</u>
Total comprehensive income for the year		<u>(7,606)</u>	<u>(24,346)</u>
Attributable to:			
Equity shareholders of the Company		(6,090)	(21,982)
Non-controlling interests		<u>(1,516)</u>	<u>(2,364)</u>
Total comprehensive income for the year		<u>(7,606)</u>	<u>(24,346)</u>

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

Consolidated statement of financial position
At 31 March 2020

	Note	2020 HK\$'000	2019 HK\$'000 (Note)
Non-current assets			
Investment properties		55,181	57,769
Other property, plant and equipment		<u>272,233</u>	<u>296,001</u>
		327,414	353,770
Intangible assets		1,090	1,124
Interest in a joint venture		-	-
Other financial assets		2,300	2,300
Deferred tax assets		<u>14,438</u>	<u>24,519</u>
		345,242	381,713
Current assets			
Trading securities		74,829	84,814
Inventories		148,834	174,555
Trade and other receivables	10	116,144	122,628
Pledged bank balances		1,020	464
Cash and cash equivalents		189,971	186,606
Current tax recoverable		<u>185</u>	<u>4,162</u>
		530,983	573,229
Current liabilities			
Trade and other payables and contract liabilities	11	141,686	158,291
Bank loans		3,668	40,243
Lease liabilities		5,303	-
Current tax payable		<u>22,803</u>	<u>16,093</u>
		173,460	214,627
Net current assets		357,523	358,602
Total assets less current liabilities		702,765	740,315

	Note	2020 HK\$'000	2019 HK\$'000 (Note)
Non-current liabilities			
Lease liabilities		4,772	-
Deferred tax liabilities		16,805	20,465
Provision for long service payments		1,333	1,411
		<u>22,910</u>	<u>21,876</u>
NET ASSETS		<u>679,855</u>	<u>718,439</u>
CAPITAL AND RESERVES			
Share capital		47,150	47,150
Reserves		<u>625,286</u>	<u>661,601</u>
Total equity attributable to equity shareholders of the Company		672,436	708,751
Non-controlling interests		<u>7,419</u>	<u>9,688</u>
TOTAL EQUITY		<u>679,855</u>	<u>718,439</u>

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

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 2020 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 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.

HKFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

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. 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.

b. Lessee accounting and transitional impact

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 which are exempt. As far as the Group is concerned, these newly capitalised leases are primarily in relation to property, plant and equipment.

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; and
- (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).

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:

	1 April 2019 HK\$'000
Operating lease commitments 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 relating to that lease recognised in the consolidated statement of financial position at 31 March 2019.

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
Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16:			
Other property, plant and equipment	292,439	12,058	304,497
Non-current assets	381,713	12,058	393,771
Trade and other receivables	122,628	(2,552)	120,076
Current assets	573,229	(2,552)	570,677
Lease liabilities (current)	-	3,949	3,949
Current liabilities	214,627	3,949	218,576
Net current assets	358,602	(6,501)	352,101
Total assets less current liabilities	740,315	5,557	745,872
Lease liabilities (non-current)	-	5,557	5,557
Non-current liabilities	21,876	5,557	27,433
Net assets	718,439	-	718,439

c. *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 results 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.

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:

	2020 HK\$'000	2019 HK\$'000
Revenue from sale of goods within the scope of HKFRS 15		
Disaggregated by major product lines		
– Toys	708,594	548,063
– Computer products	108,772	172,814
– Housewares	65,628	78,852
– Timepieces	128,876	152,736
	<u>1,011,870</u>	<u>952,465</u>

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

The Group's customer base includes one (2019: 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\$547,900,000 (2019: HK\$383,700,000). 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 2020 and 2019 is set out below:

	2020						
	Computer Toys HK\$'000	products HK\$'000	Housewares HK\$'000	Timepieces HK\$'000	Investments HK\$'000	Others HK\$'000	Total HK\$'000
Revenue from external customers	708,594	108,772	65,628	128,876	-	-	1,011,870
Inter-segment revenue	683	-	-	-	-	2,540	3,223
Reportable segment revenue	709,277	108,772	65,628	128,876	-	2,540	1,015,093
Reportable segment profit/(loss) (note)	38,069	(6,572)	(9,457)	3,891	(8,691)	27,813	45,053
Interest income	85	238	8	53	178	3	565
Interest expense	(1,171)	(19)	-	(93)	-	(139)	(1,422)
Depreciation and amortisation for the year (note)	(18,308)	(4,030)	(859)	(3,207)	-	(5,150)	(31,554)
Reportable segment assets	361,176	125,369	58,591	98,417	78,149	105,239	826,941
Additions to non-current segment assets during the year	3,278	578	161	792	-	4,559	9,368
Reportable segment liabilities	102,185	11,931	26,498	21,955	-	4,102	166,671

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

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 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 2020, a property under others segment was disposed and a gain on disposal of HK\$29,442,000 (2019: HK\$30,178,000) was recognised and included in segment result above.

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

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

	2020 HK\$'000	2019 HK\$'000
Revenue		
Reportable segment revenue	1,015,093	957,322
Elimination of inter-segment revenue	<u>(3,223)</u>	<u>(4,857)</u>
Consolidated revenue	<u>1,011,870</u>	<u>952,465</u>
Profit/(loss)		
Reportable segment profit/(loss)	45,053	(10,057)
Unallocated corporate expenses	<u>(23,290)</u>	<u>(18,588)</u>
Consolidated profit/(loss) before taxation	<u>21,763</u>	<u>(28,645)</u>
Interest income		
Reportable segment interest income	565	348
Unallocated corporate interest income	<u>846</u>	<u>592</u>
Consolidated interest income	<u>1,411</u>	<u>940</u>
Interest expense		
Reportable segment interest expense	1,422	1,676
Unallocated corporate interest expense	<u>694</u>	<u>655</u>
Consolidated interest expense	<u>2,116</u>	<u>2,331</u>
Assets		
Reportable segment assets	826,941	891,440
Elimination of inter-segment receivables	<u>(19,313)</u>	<u>(19,018)</u>
	807,628	872,422
Current tax recoverable	185	4,162
Deferred tax assets	14,438	24,519
Unallocated corporate assets	<u>53,974</u>	<u>53,839</u>
Consolidated total assets	<u>876,225</u>	<u>954,942</u>
Liabilities		
Reportable segment liabilities	166,671	179,716
Elimination of inter-segment payables	<u>(19,313)</u>	<u>(19,018)</u>
	147,358	160,698
Current tax payable	22,803	16,093
Deferred tax liabilities	16,805	20,465
Unallocated corporate liabilities	<u>9,404</u>	<u>39,247</u>
Consolidated total liabilities	<u>196,370</u>	<u>236,503</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, 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 and other property, plant and equipment 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	
	2020	2019	2020	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Note)
Hong Kong (place of domicile)	77,948	98,624	79,458	81,792
North America	495,639	469,059	-	-
United Kingdom	169,007	153,931	22,265	21,721
Europe (excluding United Kingdom)	110,271	90,351	-	-
Asia (excluding Mainland China and Hong Kong)	36,758	29,031	-	-
Mainland China	66,211	65,332	226,781	251,381
Others	56,036	46,137	-	-
	933,922	853,841	249,046	273,102
	1,011,870	952,465	328,504	354,894

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

5. Other revenue and other net income

	2020 HK\$'000	2019 HK\$'000
Other revenue		
Interest income from deposits with banks	1,129	747
Interest income from trading securities	178	178
Interest income from debtors	104	15
Rental income	2,444	981
Dividend income from listed securities	1,955	1,814
Sales of scrap materials	1,054	1,657
Others	790	812
	<u>7,654</u>	<u>6,204</u>
Other net income		
Net gain on disposal of property, plant and equipment	31,034	41,023
Net gain on disposal of intangible asset	-	709
Net foreign exchange loss	(2,231)	(6,303)
Net realised and unrealised losses on trading securities	(10,824)	(3,052)
Net unrealised losses on other financial assets	-	(2,000)
Net loss on deregistration of a subsidiary	(348)	-
Others	(470)	384
	<u>17,161</u>	<u>30,761</u>

6. Profit/(loss) before taxation

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

	2020 HK\$'000	2019 HK\$'000 (Note)
(a) Finance costs		
Interest on bank loans and other borrowings	1,673	2,331
Interest on lease liabilities	443	-
	<u>2,116</u>	<u>2,331</u>
(b) Other items		
Amortisation on intangible assets	34	34
Cost of inventories	800,071	812,201
Depreciation		
- owned property, plant and equipment	18,924	30,079
- right-of-use assets	12,596	-
Reversal of impairment losses on trade debtors	(2,764)	(842)
Total minimum lease payments for leases previously classified as operating lease under HKAS 17		
- land and buildings	-	9,173
- other assets	-	1,203
Rental receivable from investment properties less direct outgoings of HK\$51,000 (2019: HK\$78,000)	<u>(2,393)</u>	<u>(903)</u>

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

- (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 position at 31 March 2018.

7. Income tax

	2020 HK\$'000	2019 HK\$'000
Hong Kong Profits Tax	3,795	(13,701)
Taxation outside Hong Kong	4,187	9,013
Deferred tax	6,405	4,172
	<u>14,387</u>	<u>(516)</u>

The provision for Hong Kong Profits Tax for 2020 is calculated at 16.5% (2019: 16.5%) of the estimated assessable profits for the year, except for a subsidiary of the Group which is a qualifying corporation under the two-tier profits tax regime.

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% (2019: 25%) for the current year. No provision has been made for subsidiaries located in the United Kingdom for the years ended 31 March 2020 and 2019 because either they sustained a loss for taxation purpose or their tax losses brought forward exceeded the estimated assessable profits for both years.

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

	2020 HK\$'000	2019 HK\$'000
Interim dividend declared and paid of HK2 cents (2019: Nil) per share	12,090	-
Final dividend proposed after the end of reporting period of HK3 cents (2019: HK3 cents) per share	18,135	18,135
	<u>30,225</u>	<u>18,135</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. Earnings/(loss) per share

(a) Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the profit attributable to equity shareholders of the Company of HK\$8,798,000 (2019: loss of HK\$26,158,000) and the weighted average number of shares of 604,491,000 (2019: 604,491,000) in issue during the year.

(b) Diluted earnings/(loss) per share

The calculation of diluted earnings/(loss) per share is based on the profit attributable to equity shareholders of the Company of HK\$8,798,000 (2019: loss of HK\$26,158,000) and the weighted average number of shares of 604,491,000 (2019: 604,491,000).

Diluted earnings/(loss) per share for the years ended 31 March 2020 and 2019 are the same as the basic earnings/(loss) per share as the share options outstanding during the year had an anti-dilutive effect on the basic earnings/(loss) per share.

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 2020 HK\$'000	At 1 April 2019 HK\$'000	At 31 March 2019 HK\$'000
Within 3 months	86,942	83,613	83,613
4 to 6 months	6,683	7,226	7,226
7 to 12 months	290	110	110
13 to 24 months	12	151	151
Trade debtors and bills receivable	93,927	91,100	91,100
Deposits, prepayments and other receivables (note)	22,217	28,976	31,528
	<u>116,144</u>	<u>120,076</u>	<u>122,628</u>

Note: On the date of transition to HKFRS 16, prepaid lease payments of HK\$2,552,000 previously included in "Deposits, prepayments and other receivables" were adjusted to right-of-use assets recognised at 1 April 2019. See note 2.

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 2020 HK\$'000	At 31 March 2019 HK\$'000
Within 1 month	14,936	20,047
Over 1 month but within 3 months	5,173	7,709
Over 3 months	2,314	441
	<hr/>	<hr/>
Trade creditors and bills payable	22,423	28,197
Accruals and other payables	114,230	111,785
	<hr/>	<hr/>
	136,653	139,982
Contract liabilities		
- forward sales deposits	5,033	18,309
	<hr/>	<hr/>
	141,686	158,291

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 2020 was HK\$1,012 million which was up 6% from HK\$952 million in the previous year. The Group recorded a net profit attributable to equity shareholders of HK\$8.8 million as compared with a net loss of HK\$26.2 million a year earlier. During the year under review, the Group disposed of a property in Hong Kong for approximately HK\$31 million and recorded a net gain of approximately HK\$29.4 million from the transaction. Detailed analysis of the operating results is set out in the following paragraphs.

Toys Division

The Toys Division finished the financial year with a satisfactory result. Bolstered by the strong sales of toys related to several popular movies, the revenue of the division for the year ended 31 March 2020 surged 29% to HK\$709 million from HK\$548 million in the previous year. Despite labour shortages in Southern China, the division was able to complete all the production as scheduled. Because of higher revenue, the division recorded an operating profit of HK\$38.1 million as compared with an operating loss of HK\$0.1 million a year earlier.

Computer Products Division

The business of the Computer Products Division weakened in the financial year under review with its revenue shrinking by 37% year-on-year to HK\$109 million. The decrease was mainly due to the decline in the sales of smart connected devices amid uncertainty over the US-China trade war. Nevertheless, with continuous efforts in streamlining the operation and the absence of redundancy compensation payments of approximately HK\$7.7 million, the division brought down its full-year operating loss to HK\$6.6 million from HK\$12.7 million last year.

Housewares Division

Compared to last year, the revenue of the Housewares Division for the year ended 31 March 2020 fell 17% year-on-year from HK\$79 million to HK\$66 million, while its operating loss has shrunk from HK\$18.7 million to HK\$9.5 million. As the division suffered losses over the past few years and the outlook for the division is not very promising, the management has decided to discontinue its business at the end of March 2021 and make a provision of approximately HK\$3.5 million in relation to termination payments for employees.

Timepieces Division

We are pleased to report the Timepieces Division returned to profitability in the financial year under review. The improvement was mainly attributable to stringent measures taken to control operating costs. Although its revenue for the year ended 31 March 2020 decreased by 16% year-on-year from HK\$153 million to HK\$129 million, the division recorded an operating profit of HK\$3.9 million as compared with an operating loss of HK\$5.2 million in the previous year.

Other investments

For the year ended 31 March 2020, the Group recognised net realised and unrealised losses on trading securities of HK\$10.8 million (2019: HK\$3.1 million). The dividend and interest income on trading securities amounted to HK\$2.1 million for the year (2019: HK\$2 million). At 31 March 2020, the Group's trading securities amounted to HK\$75 million, a decrease of HK\$10 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 2020, the total assets amounted to HK\$876 million (2019: HK\$955 million) which were financed by current liabilities of HK\$173 million (2019: HK\$215 million), non-current liabilities of HK\$23 million (2019: HK\$22 million), non-controlling interests of HK\$7 million (2019: HK\$10 million) and equity attributable to the Company's equity shareholders of HK\$672 million (2019: HK\$709 million).

At 31 March 2020, the Group's cash balances aggregated to HK\$191 million, up from HK\$187 million a year ago. The current assets at 31 March 2020 amounted to HK\$531 million (2019: HK\$573 million). The inventories decreased from HK\$175 million to HK\$149 million while the trade and other receivables decreased from HK\$123 million to HK\$116 million. The trading securities at 31 March 2020 amounted to HK\$75 million (2019: HK\$85 million).

At 31 March 2020, the Group's current liabilities decreased to HK\$173 million from HK\$215 million last year. The bank loans amounted to HK\$4 million (2019: HK\$40 million) which included revolving loans of HK\$Nil (2019: HK\$34 million) and mortgage loan balance of HK\$4 million (2019: HK\$6 million). The mortgage loan balance of HK\$4 million is repayable by fixed monthly instalments with maturity date in August 2021. Certain trading securities and bank deposits amounting to HK\$72 million (2019: HK\$81 million), along with certain properties with a carrying amount of HK\$55 million (2019: HK\$58 million), were also 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 2020 was 22% (2019: 25%). At 31 March 2020, the Group's working capital ratio, an indicator of liquidity represented by a ratio between the current assets and the current liabilities, was 3.06 as compared to 2.67 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 1.64 from 1.29 in the previous year.

CONTINGENT LIABILITIES

As at 31 March 2020, 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 arises.

PROSPECT AND GENERAL OUTLOOK

Since early 2020, the outbreak of the coronavirus has significantly impacted businesses worldwide. In particular, rising unemployment and a slump in global demand have pushed many countries into recession. Amid adverse economic conditions, we anticipate that 2020 will be a challenging year for the Group.

As indicated by the current order position, the business of the Toys Division will remain robust in the first half of the new financial year. However, several customers have cancelled orders and postponed shipments of certain products due to the impact of coronavirus-led lockdowns. The management is also concerned that the demand for toys might decrease in view of the global economic slowdown.

The outlook for the Computer Products Division is not very encouraging due to a weak order position. Nevertheless, the management is optimistic about the prospects of a newly-developed smart medical device which is under the process of CE and FDA application. In response to the outbreak of the coronavirus, the division has set up a production line in Zhuhai, the PRC to make disposable face masks.

The retail trading conditions in the UK have become very tough since the coronavirus crisis began. Several well-known retailers have either cut down the number of their stores or ceased operations. As the UK is the major market for the Timepieces and Housewares Divisions, the businesses of both divisions are expected to be difficult in 2020.

Despite the challenging business environment, the management is confident that the Group will weather the impact of the coronavirus and strive to achieve a solid result in the financial year ending 31 March 2021.

DIVIDEND

At the forthcoming Annual General Meeting to be held on 18 September 2020, the directors will recommend a final dividend of HK3 cents per share (2019: HK3 cents). Together with the interim dividend of HK2 cents (2019: Nil), the dividend payment for the year of HK5 cents (2019: HK3 cents) would represent an annual return of 7.4% (2019: 3.4%) on the Company's average share price of HK\$0.68 (2019: HK\$0.88) in the year ended 31 March 2020.

The final dividend which will amount to HK\$18.1 million is calculated on the total number of shares in issue as at 26 June 2020, 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, 18 September 2020. 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, 14 September 2020 to Friday, 18 September 2020, 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Friday, 11 September 2020.

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 Wednesday, 30 September 2020. For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from Tuesday, 29 September 2020 to Wednesday, 30 September 2020, 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 Monday, 28 September 2020. The payment of final dividend, if approved at the Annual General Meeting, will be made on Friday, 16 October 2020.

EMPLOYEES

As at 31 March 2020, the number of employees of the Group was approximately 155 in Hong Kong, 3,950 in Mainland China and 51 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\$363,655,000 (2019: HK\$348,391,000).

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 2020.

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 2020 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 2020 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, 29 June 2020

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*