



HERALD HOLDINGS LIMITED

興利集團有限公司*

(Incorporated in Bermuda with limited liability)
(Stock Code : 00114)

PRESS RELEASE

Annual Results Announcement for the year ended 31 March 2012

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 2012, together with the comparative figures for the previous year and selected explanatory information, as follows:

Consolidated income statement

For the year ended 31 March 2012

| | 2012 HK\$'000 | 2011 HK\$'000 |
|---|----------------------|-----------------------|
| Turnover | 1,399,582 | 1,623,525 |
| Cost of sales | <u>(1,072,058)</u> | <u>(1,233,584)</u> |
| Gross profit | 327,524 | 389,941 |
| Other revenue | 19,358 | 19,407 |
| Other net (loss)/income | (15,185) | 9,317 |
| Selling expenses | (38,695) | (38,545) |
| Administrative expenses | (257,325) | (264,424) |
| Valuation gains on investment properties | 620 | 21,884 |
| Impairment losses on property, plant and equipment | (832) | (1,237) |
| Impairment losses on intangible assets | <u>-</u> | <u>(1,697)</u> |
| Profit from operations | 35,465 | 134,646 |
| Share of profit less loss of an associate | (732) | 617 |
| Share of profits less losses of jointly controlled entities | <u>(1,837)</u> | <u>95</u> |
| Profit before taxation | 32,896 | 135,358 |
| Income tax | <u>(15,686)</u> | <u>(22,258)</u> |
| Profit for the year | <u>17,210</u> | <u>113,100</u> |
| Attributable to: | | |
| Equity shareholders of the Company | 21,967 | 111,215 |
| Non-controlling interests | <u>(4,757)</u> | <u>1,885</u> |
| Profit for the year | <u>17,210</u> | <u>113,100</u> |
| Earnings per share | | |
| Basic and diluted | <u>3.65 cents</u> | <u>18.46 cents</u> |

Consolidated statement of comprehensive income
For the year ended 31 March 2012

| | 2012 HK\$'000 | 2011 HK\$'000 |
|---|--------------------------------|-----------------------|
| Profit for the year | 17,210 | 113,100 |
| Other comprehensive income for the year | | |
| Exchange differences on translation of financial statements of subsidiaries outside Hong Kong (no tax effect) | <u>5,041</u> | <u>7,362</u> |
| Total comprehensive income for the year | <u><u>22,251</u></u> | <u><u>120,462</u></u> |
| Attributable to: | | |
| Equity shareholders of the Company | 26,501 | 118,101 |
| Non-controlling interests | <u>(4,250)</u> | <u>2,361</u> |
| Total comprehensive income for the year | <u><u>22,251</u></u> | <u><u>120,462</u></u> |

Consolidated balance sheet
At 31 March 2012

| | Note | 2012 HK\$'000 | 2011 HK\$'000 |
|--|-------------|--------------------------|--------------------------|
| Non-current assets | | | |
| Fixed assets | | | |
| - Property, plant and equipment | | 205,896 | 194,887 |
| - Investment properties | | 5,900 | 54,000 |
| - Interests in leasehold land held for own use under operating leases | | 4,743 | 5,069 |
| | | 216,539 | 253,956 |
| Intangible assets | | 1,860 | 1,860 |
| Interest in an associate | | 2,048 | 3,082 |
| Interest in jointly controlled entities | | 11,207 | 10,935 |
| Other financial assets | | 10,920 | 4,680 |
| Deposits for purchase of property, plant and equipment | | 6,291 | - |
| Deferred tax assets | | 10,761 | 10,086 |
| | | 259,626 | 284,599 |
| Current assets | | | |
| Trading securities | | 161,883 | 156,242 |
| Inventories | | 215,928 | 188,656 |
| Trade and other receivables | 10 | 214,996 | 183,708 |
| Current tax recoverable | | 3,339 | 5,457 |
| Pledged bank balances | | 36,343 | 49,593 |
| Cash and cash equivalents | | 242,441 | 299,641 |
| | | 874,930 | 883,297 |
| Current liabilities | | | |
| Trade and other payables | 11 | 214,172 | 206,746 |
| Current tax payable | | 8,084 | 16,063 |
| | | 222,256 | 222,809 |
| Net current assets | | 652,674 | 660,488 |
| Total assets less current liabilities | | 912,300 | 945,087 |

| | Note | 2012 HK\$'000 | 2011 HK\$'000 |
|--|------|-----------------------|-----------------------|
| Non-current liabilities | | | |
| Deferred tax liabilities | | 247 | 248 |
| Provision for long service payments | | 3,657 | 3,007 |
| | | <u>3,904</u> | <u>3,255</u> |
| NET ASSETS | | <u>908,396</u> | <u>941,832</u> |
| CAPITAL AND RESERVES | | | |
| Share capital | | 46,994 | 46,994 |
| Reserves | | <u>843,035</u> | <u>870,758</u> |
| Total equity attributable to equity shareholders of the Company | | 890,029 | 917,752 |
| Non-controlling interests | | <u>18,367</u> | <u>24,080</u> |
| TOTAL EQUITY | | <u>908,396</u> | <u>941,832</u> |

REVIEW OF OPERATIONS

The turnover of the Group for the year ended 31 March 2012 was HK\$1,400 million which was HK\$224 million or 14% down from the previous year. The decrease in the Group's turnover was mainly due to the weak market conditions resulting from the global economic uncertainty. The net profit attributable to the equity shareholders of the Company was HK\$22 million, representing a decline of 80% from the profit of HK\$111 million last year. Detailed analysis of the operating results is set out in the following paragraphs.

Toys Division

The trading environment in the toy industry has been difficult and the market depressed. Both sales volume and profit margin of the Toys Division dropped significantly amid severe competition among the toy manufacturers and rising costs of production. The turnover for the year was down by 16% to HK\$640 million and the operating profit of HK\$26 million represents a decrease of HK\$46 million or 64% as compared to last year.

Computer Products Division

The Computer Products Division continued to record encouraging results. Although the turnover decreased by HK\$30 million or 9% to HK\$297 million, the operating profit increased to HK\$53 million from HK\$49 million last year. The increased profitability was principally attributable to increased production efficiency.

Housewares Division

As with the Toys Division, the Housewares Division experienced a tough trading environment with stiff competition and rising production costs. The turnover of the Division, which amounted to HK\$130 million, was down by HK\$25 million or 16% from last year. The Division sustained an operating loss of HK\$29 million compared to a loss of HK\$11 million in the previous year.

As mentioned in the interim report, Herald Metal Products Company Limited, a 56.67% subsidiary of the Division, has been put into liquidation as the escalating costs of operation in Shanghai became prohibitive for the business to continue. The Division recorded a loss of \$5.5 million in connection with the liquidation. The Division will now move all manufacturing activities to its existing facilities in Zhuhai.

Furthermore, as part of the reorganization, the Division also disposed of its entire 40% interest in Ningbo Herald Metal Products Company Limited in December 2011, giving rise to a gain of HK\$1.2 million.

Timepieces Division

The performance of the Timepieces Division showed some improvement over the previous year. Although sales for the year were down by HK\$42 million or 11% to HK\$331 million, the operating loss has shrunk to HK\$4 million from HK\$11 million a year earlier. The improvement has been achieved by the Division's efforts in developing new markets and expanding its client base.

Other Investments

The Group recorded a small gain of HK\$0.6 million (2011: HK\$22 million) on the revaluation of the investment properties for the year ended 31 March 2012. However, net realised and unrealised losses amounting to HK\$13 million (2011: gains of HK\$6 million) were incurred on trading securities. The dividend and interest income on trading securities for the year amounted to HK\$5 million (2011: HK\$5 million). As at 31 March 2012, the Group's trading securities amounted to HK\$162 million, an increase of HK\$6 million over last year.

In April 2012, the Group acquired a property at Wong Chuk Hang at a consideration of HK\$36 million for use by the Computer Products Division. The purchase which will be financed by internal funding and bank borrowings is due to be completed in July 2012.

FINANCIAL POSITION

The Group continues to maintain its sound financial position. At the end of the financial year, the Group had a strong balance sheet with healthy liquidity. As at 31 March 2012, the Group had total assets of HK\$1,134 million (2011: HK\$1,168 million) which were financed by current liabilities of HK\$222 million (2011: HK\$223 million), non-current liabilities of HK\$4 million (2011: HK\$3 million), non-controlling interests of HK\$18 million (2011: HK\$24 million) and equity attributable to the Company's equity shareholders of HK\$890 million (2011: HK\$918 million).

As at 31 March 2012, the Group's cash balances aggregated to HK\$279 million, down from HK\$349 million a year ago. The Group's current assets as at 31 March 2012 amounted to HK\$875 million compared to HK\$883 million as at 31 March 2011. The inventories increased to HK\$216 million from HK\$189 million while the trade and other receivables increased to HK\$215 million from HK\$184 million. The trading securities as at 31 March 2012 amounted to HK\$162 million (2011: HK\$156 million).

The Group's current liabilities decreased to HK\$222 million from HK\$223 million at 31 March 2012. As in the previous year, the Group had no bank borrowings or any long-term borrowings at 31 March 2012. Certain trading securities and bank deposits amounting to HK\$179 million (2011: HK\$187 million) are pledged to banks to secure banking facilities granted to the Group. As at 31 March 2012, the working capital ratio, an indicator of liquidity represented by a ratio between the current assets and the current liabilities, was 3.94 as compared to 3.96 in the last year. The quick ratio, another ratio that gauges the short-term liquidity and measured by trade debtors and cash and cash equivalents over current liabilities, decreased to 1.84 from 2.01 in the last year.

PROSPECT AND GENERAL OUTLOOK

The Toys Division will continue to experience the pressure of a competitive trading environment and tight profit margin. Nevertheless, it is hoped that the Division's performance will sustain in the year ending 31 March 2013. On the other hand, the Computer Products Division remains optimistic about the prospect of the thin-film computer heads although the smart thermostats may struggle to do well as the market may not recover in the year ending 31 March 2013. The Housewares Division will experience similar difficulties as the Toys Division in terms of trading conditions and profit margin. However, it is anticipated that following the reorganization, the loss will be reduced in the current financial year. Meanwhile, the Timepieces Division, which has successfully introduced new brands to the markets and expanded customer base, is well positioned to record improved results notwithstanding the fact that the United Kingdom which is one of the major markets has gone into recession.

As the global market has not fully recovered, the year ending 31 March 2013 will remain challenging for the Group. However, the Group will continue to take measures to improve operating efficiency and adapt to market changes to ensure that it remains competitive. Management is confident that the Group's core business activities will be profitable in the year ending 31 March 2013.

DIVIDEND

At the forthcoming Annual General Meeting to be held on 3 September 2012, the Directors will recommend a final dividend of HK6 cents (2011: HK6 cents) per share. Together with the interim dividend of HK3 cents (2011: HK3 cents), the dividend for the year of HK9 cents (2011: HK9 cents) would represent an annual return of 8.7% (2011: 7.7%) on the Company's average share price of HK\$1.03 (2011: HK\$1.17) in the year ended 31 March 2012.

The final dividend will amount to HK\$36,149,000 and is calculated based on the total number of shares in issue as at 28 June 2012, being the latest practicable date prior to the announcement of the results.

CLOSURE OF REGISTER OF MEMBERS

The Annual General Meeting is scheduled on Monday, 3 September 2012. For determining the entitlement to attend and vote at the Annual General Meeting, the register of members of the Company will be closed from Friday, 31 August 2012 to Monday, 3 September 2012, 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, at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong for registration no later than 4.30 p.m. on Thursday, 30 August 2012.

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 Monday, 10 September 2012. For determining the entitlement to the proposed final dividend, the register of the members of the Company will be closed from Friday, 7 September 2012 to Monday, 10 September 2012, 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 Thursday, 6 September 2012. The payment of final dividend, if approved at the Annual General Meeting, will be made on Friday, 28 September 2012.

Herald Holdings Limited
Hong Kong, 29 June 2012

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|-------------------|--------------------|-----------|
| Contract Person : | Mr. Robert Dorfman | 2522 6181 |
| | Mr. Tang King Hung | 2522 6181 |

**For identification only*