



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 2018

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 2018, 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 2018

	2018 HK\$'000	2017 HK\$'000
Revenue	1,271,606	1,095,026
Cost of sales	(1,017,383)	(851,391)
Gross profit	254,223	243,635
Other revenue	4,101	7,795
Other net income/(loss)	16,445	(10,087)
Selling expenses	(27,800)	(31,399)
Administrative expenses	(264,555)	(258,398)
Gain on disposal of non-current assets classified as held for sale	-	250,515
Valuation gains on investment properties	1,745	180
Impairment losses on property, plant and equipment	(10,267)	-
(Loss)/profit from operations	(26,108)	202,241
Finance costs	(2,444)	(667)
(Loss)/profit before taxation	(28,552)	201,574
Income tax	(1,340)	(81,668)
(Loss)/profit for the year	(29,892)	119,906
Attributable to:		
Equity shareholders of the Company	(26,754)	50,115
Non-controlling interests	(3,138)	69,791
(Loss)/profit for the year	(29,892)	119,906
(Loss)/earnings per share		
Basic (HK cents)	(4.43)	8.32
Diluted (HK cents)	(4.43)	8.31

Consolidated statement of profit or loss and other comprehensive income
For the year ended 31 March 2018

	2018 HK\$'000	2017 HK\$'000
(Loss)/profit for the year	(29,892)	119,906
Other comprehensive income for the year		
<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)	35,743	(17,425)
Reclassification of accumulated exchange differences to profit or loss upon deregistration of a subsidiary (no tax effect)	<u>-</u>	<u>1,202</u>
Total comprehensive income for the year	<u>5,851</u>	<u>103,683</u>
Attributable to:		
Equity shareholders of the Company	8,383	34,212
Non-controlling interests	<u>(2,532)</u>	<u>69,471</u>
Total comprehensive income for the year	<u><u>5,851</u></u>	<u><u>103,683</u></u>

Consolidated statement of financial position
At 31 March 2018

	2018 HK\$'000	2017 HK\$'000
Non-current assets		
Investment properties	14,639	12,300
Other property, plant and equipment	340,749	321,302
Interests in leasehold land held for own use under operating leases	<u>3,686</u>	<u>3,809</u>
	359,074	337,411
Intangible assets	1,897	1,965
Interest in a joint venture	-	-
Other financial assets	10,232	12,734
Deposits for purchase of property, plant and equipment	-	7,007
Deferred tax assets	<u>31,115</u>	<u>25,276</u>
	<u>402,318</u>	<u>384,393</u>
Current assets		
Trading securities	147,905	133,972
Inventories	225,505	182,770
Trade and other receivables	155,226	173,494
Pledged bank balances	244	14,636
Cash and cash equivalents	142,099	182,068
Current tax recoverable	<u>4,321</u>	<u>4,247</u>
	675,300	691,187
Non-current assets classified as held for sale	<u>1,125</u>	<u>-</u>
	<u>676,425</u>	<u>691,187</u>
Current liabilities		
Trade and other payables	186,304	204,744
Bank loans	107,282	54,404
Current tax payable	<u>8,642</u>	<u>4,983</u>
	<u>302,228</u>	<u>264,131</u>
Net current assets	<u>374,197</u>	<u>427,056</u>
Total assets less current liabilities	<u>776,515</u>	<u>811,449</u>

	2018 HK\$'000	2017 HK\$'000
Non-current liabilities		
Deferred tax liabilities	6,641	7,032
Provision for long service payments	<u>3,022</u>	<u>3,041</u>
	<u>9,663</u>	<u>10,073</u>
NET ASSETS	<u><u>766,852</u></u>	<u><u>801,376</u></u>
CAPITAL AND RESERVES		
Share capital	47,150	46,994
Reserves	<u>707,650</u>	<u>739,798</u>
Total equity attributable to equity shareholders of the Company	754,800	786,792
Non-controlling interests	<u>12,052</u>	<u>14,584</u>
TOTAL EQUITY	<u><u>766,852</u></u>	<u><u>801,376</u></u>

BUSINESS REVIEW

The revenue of the Group for the year ended 31 March 2018 was HK\$1,272 million which was up 16% from HK\$1,095 million in the previous year. The Group recorded a net loss attributable to the equity shareholders of the Company amounting to HK\$26.8 million as compared with a net profit of HK\$50.1 million a year earlier. The net loss for the year included an allowance for doubtful debt of HK\$21 million for a Toys Division customer and impairment losses of HK\$10.3 million on plant and equipment. Detailed analysis of the operating results is set out in the following paragraphs.

Toys Division

Bolstered by the strong sales of toys related to a popular movie, the revenue of the Toys Division for the year ended 31 March 2018 surged 37% year-on-year from HK\$564 million to HK\$775 million. However, a major customer was adversely affected by the bankruptcy of a leading toy retailer in the United States and has gone into liquidation. As the debt recovery is in question, the management decided to recognise an allowance for doubtful debt of HK\$21 million for this customer. Coupled with the absence of the net gain on disposal of properties in Shenzhen attributable to the equity shareholders of approximately HK\$106.4 million last year, the operating profit of the division dropped significantly to HK\$5.8 million from HK\$270.8 million a year earlier.

Computer Products Division

After suffering a significant loss in the last financial year, we are pleased to report that the Computer Products Division has returned to profitability. The division saw its revenue for the year ended 31 March 2018 rise 9% year-on-year from HK\$174 million to HK\$189 million mainly due to an increase in the sales of thin-film computer heads and motor actuator assemblies. For the year under review, the division had an operating profit of HK\$6.2 million as compared with an operating loss of HK\$46.1 million in the previous year.

Housewares Division

The Housewares division experienced a tough trading environment with stiff competition and rising material costs. The division's revenue for the year ended 31 March 2018 dropped 13% to HK\$122 million from HK\$141 million a year earlier. At the end of the financial year, the division carried out an assessment of the recoverable amount of certain plant and equipment and, as a result, recognised impairment losses of HK\$10.3 million on plant and equipment. As compared with the last financial year, the division's operating loss increased from HK\$0.3 million to HK\$20.3 million.

Timepieces Division

The performance of the Timepieces Division remained unsatisfactory and its revenue for the year ended 31 March 2018 was down 15% year-on-year from HK\$217 million to HK\$185 million. With escalating operating costs in Shanghai, the division terminated production at its joint venture factory there in July 2017. In addition, the division's subsidiary in the United States did not perform well and suffered a loss of HK\$4 million. Together with lower revenue, the division's operating loss increased to HK\$23.6 million from HK\$5.7 million in the previous year.

Other Investments

For the year ended 31 March 2018, the Group recognised net realised and unrealised gains on trading securities of HK\$11 million (2017: HK\$10.6 million). The dividend and interest income on trading securities amounted to HK\$1.7 million for the year (2017: HK\$2.7 million). At 31 March 2018, the Group's trading securities amounted to HK\$148 million, an increase of HK\$14 million from last year.

Subsequent to the end of the reporting period, a wholly owned subsidiary of the Company entered into a provisional sale and purchase agreement to dispose of a property in Hong Kong for approximately HK\$23 million (the "Disposal"). It is estimated that the Group will realise a net gain of approximately HK\$21.5 million from the Disposal upon completion on or before 20 August 2018.

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 2018, the total assets amounted to HK\$1,079 million (2017: HK\$1,076 million) which were financed by current liabilities of HK\$302 million (2017: HK\$264 million), non-current liabilities of HK\$10 million (2017: HK\$10 million), non-controlling interests of HK\$12 million (2017: HK\$15 million) and equity attributable to the Company's equity shareholders of HK\$755 million (2017: HK\$787 million).

At 31 March 2018, the Group's cash balances aggregated to HK\$142 million, down from HK\$197 million a year ago. The current assets at 31 March 2018 amounted to HK\$676 million (2017: HK\$691 million). The inventories increased from HK\$183 million to HK\$226 million while the trade and other receivables decreased from HK\$173 million to HK\$155 million. The trading securities at 31 March 2018 amounted to HK\$148 million (2017: HK\$134 million).

At 31 March 2018, the Group's current liabilities increased to HK\$302 million from HK\$264 million last year. The bank loans amounted to HK\$107 million (2017: HK\$54 million) which included revolving loans of HK\$98 million (2017: HK\$42 million) and mortgage loan balances of HK\$9 million (2017: HK\$12 million). The mortgage loan balance of HK\$9 million is repayable by fixed monthly instalments with maturity date in August 2021. Certain trading securities and bank deposits amounting to HK\$125 million (2017: HK\$127 million), along with certain properties with a carrying amount of HK\$61 million (2017: HK\$64 million), were pledged to banks to secure banking facilities granted to the Group.

The Group monitors its capital structure on the basis of gearing ratio, which is calculated as a percentage of total liabilities over total assets. The gearing ratio of the Group as at 31 March 2018 was 29% (2017: 25%). At 31 March 2018, the Group's working capital ratio, an indicator of liquidity represented by a ratio between the current assets and the current liabilities, was 2.24 as compared to 2.62 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, decreased to 0.91 from 1.24 in the previous year.

PROSPECTS AND GENERAL OUTLOOK

The bankruptcy of a leading toy retailer in the United States is a big blow to the toy industry and has negatively affected the business of the Toys Division. The management is also concerned about labour shortages in Southern China and stiff competition among toy manufacturers. Amid these difficult market conditions, the division is taking steps to streamline its operations and cut costs.

Due to a weak demand for thin-film computer heads, the Computer Products Division will stop producing them in the current financial year. Nevertheless, the sales of smart connected devices are expected to pick up, which could partly make up for the loss of revenue from the computer head business.

As indicated by the current order position, the new financial year will continue to be very challenging for both the Timepieces and Housewares Divisions. To strengthen our presence in North America, we have recently appointed a renowned watch company as the sole distributor of one of our watch brands in the United States and Canada.

In view of the difficult trading environment, the management is cautious about the Group's business prospects in the financial year ending 31 March 2019.

DIVIDEND

At the forthcoming Annual General Meeting to be held on 21 September 2018, the directors will recommend a final dividend of HK3 cents per share (2017: HK4 cents). Together with the interim dividend of HK3 cents (2017: HK4 cents), the dividend payment for the year of HK6 cents (2017: HK8 cents) would represent an annual return of 5.2% (2017: 7.3%) on the Company's average share price of HK\$1.15 (2017: HK\$1.09) in the year ended 31 March 2018.

The final dividend which will amount to HK\$18.1 million is calculated on the total number of shares in issue as at 27 June 2018, 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, 21 September 2018. 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, 17 September 2018 to Friday, 21 September 2018, both days inclusive, during which period no transfer of shares will be effected. In order to be able to attend and vote at the Annual General Meeting, shareholders should ensure that all transfers of shares, accompanied by the relevant share certificates, are lodged with the Company's share registrar in Hong Kong, Tricor Tengis Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Friday, 14 September 2018.

The proposed final dividend is subject to the passing of the ordinary resolution by the shareholders at the Annual General Meeting. The record date for entitlement to the proposed final dividend is Thursday, 4 October 2018. For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from Wednesday, 3 October 2018 to Thursday, 4 October 2018, both days inclusive, during which period no transfer of shares will be effected. In order to be qualified for the proposed final dividend, shareholders should ensure that all transfers of shares, accompanied by the relevant share certificates, are lodged with Tricor Tengis Limited for registration no later than 4:30 p.m. on Tuesday, 2 October 2018. The payment of final dividend, if approved at the Annual General Meeting, will be made on Tuesday, 16 October 2018.

Herald Holdings Limited
Hong Kong, 28 June 2018

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**For identification only*