



# 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 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

	2020 HK\$'000	2019 HK\$'000 (Note)
<b>Revenue</b>	<b>1,011,870</b>	952,465
Cost of sales	<u>(800,071)</u>	<u>(812,201)</u>
<b>Gross profit</b>	<b>211,799</b>	140,264
Other revenue	7,654	6,204
Other net income	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	-	21,609
Valuation gains/(losses) on investment properties	<u>427</u>	<u>(87)</u>
<b>Profit/(loss) from operations</b>	<b>23,879</b>	(26,314)
Finance costs	<u>(2,116)</u>	<u>(2,331)</u>
<b>Profit/(loss) before taxation</b>	<b>21,763</b>	(28,645)
Income tax	<u>(14,387)</u>	<u>516</u>
<b>Profit/(loss) for the year</b>	<b><u>7,376</u></b>	<b><u>(28,129)</u></b>
<b>Attributable to:</b>		
Equity shareholders of the Company	8,798	(26,158)
Non-controlling interests	<u>(1,422)</u>	<u>(1,971)</u>
<b>Profit/(loss) for the year</b>	<b><u>7,376</u></b>	<b><u>(28,129)</u></b>
<b>Earnings/(loss) per share</b>		
Basic (HK cents)	<u>1.46</u>	<u>(4.33)</u>
Diluted (HK cents)	<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.

**Consolidated statement of profit or loss and other comprehensive income**  
**For the year ended 31 March 2020**

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

**Consolidated statement of financial position**  
**At 31 March 2020**

	<b>2020</b> <b>HKS'000</b>	2019 HKS'000 (Note)
<b>Non-current assets</b>		
Investment properties	55,181	57,769
Other property, plant and equipment	<u>272,233</u>	<u>296,001</u>
	<b>327,414</b>	<b>353,770</b>
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>
	<u><b>345,242</b></u>	<u><b>381,713</b></u>
<b>Current assets</b>		
Trading securities	74,829	84,814
Inventories	148,834	174,555
Trade and other receivables	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>
	<u><b>530,983</b></u>	<u><b>573,229</b></u>
<b>Current liabilities</b>		
Trade and other payables and contract liabilities	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>
	<u><b>173,460</b></u>	<u><b>214,627</b></u>
<b>Net current assets</b>	<u><b>357,523</b></u>	<u><b>358,602</b></u>
<b>Total assets less current liabilities</b>	<u><b>702,765</b></u>	<u><b>740,315</b></u>

	2020 HK\$'000	2019 HK\$'000 (Note)
<b>Non-current liabilities</b>		
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>
<b>NET ASSETS</b>	<u>679,855</u>	<u>718,439</u>
<b>CAPITAL AND RESERVES</b>		
Share capital	47,150	47,150
Reserves	<u>625,286</u>	<u>661,601</u>
<b>Total equity attributable to equity shareholders of the Company</b>	<b>672,436</b>	708,751
<b>Non-controlling interests</b>	<u>7,419</u>	<u>9,688</u>
<b>TOTAL EQUITY</b>	<u><b>679,855</b></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.

## 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.

## **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.

Herald Holdings Limited

Hong Kong, 29 June 2020

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*\*For identification only*