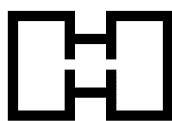


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## HERALD HOLDINGS LIMITED

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 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

	Note	2018 HK\$'000	2017 HK\$'000
<b>Revenue</b>	3 & 4	<b>1,271,606</b>	1,095,026
Cost of sales		<b>(1,017,383)</b>	(851,391)
<b>Gross profit</b>		<b>254,223</b>	243,635
Other revenue		<b>4,101</b>	7,795
Other net income/(loss)		<b>16,445</b>	(10,087)
Selling expenses		<b>(27,800)</b>	(31,399)
Administrative expenses		<b>(264,555)</b>	(258,398)
Gain on disposal of non-current assets classified as held for sale	5(c)	-	250,515
Valuation gains on investment properties		<b>1,745</b>	180
Impairment losses on property, plant and equipment		<b>(10,267)</b>	-
<b>(Loss)/profit from operations</b>		<b>(26,108)</b>	202,241
Finance costs	5(a)	<b>(2,444)</b>	(667)
<b>(Loss)/profit before taxation</b>	5	<b>(28,552)</b>	201,574
Income tax	6	<b>(1,340)</b>	(81,668)
<b>(Loss)/profit for the year</b>		<b>(29,892)</b>	119,906
<b>Attributable to:</b>			
Equity shareholders of the Company		<b>(26,754)</b>	50,115
Non-controlling interests		<b>(3,138)</b>	69,791
<b>(Loss)/profit for the year</b>		<b>(29,892)</b>	119,906
<b>(Loss)/earnings per share</b>			
Basic (HK cents)	8(a)	<b>(4.43)</b>	8.32
Diluted (HK cents)	8(b)	<b>(4.43)</b>	8.31

Details of dividends payable to equity shareholders of the Company are set out in note 7.

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

	Note	2018 HK\$'000	2017 HK\$'000
<b>(Loss)/profit for the year</b>		<b>(29,892)</b>	119,906
<b>Other comprehensive income for the year</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)		<b>35,743</b>	(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>
<b>Total comprehensive income for the year</b>		<b><u>5,851</u></b>	<b><u>103,683</u></b>
<b>Attributable to:</b>			
Equity shareholders of the Company		<b>8,383</b>	34,212
Non-controlling interests		<b><u>(2,532)</u></b>	<u>69,471</u>
<b>Total comprehensive income for the year</b>		<b><u>5,851</u></b>	<b><u>103,683</u></b>

**Consolidated statement of financial position**  
**At 31 March 2018**

	Note	2018 HK\$'000	2017 HK\$'000
<b>Non-current assets</b>			
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>
		<b>359,074</b>	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>
		<b>402,318</b>	384,393
<b>Current assets</b>			
Trading securities		147,905	133,972
Inventories		225,505	182,770
Trade and other receivables	9	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>
		<b>675,300</b>	691,187
<b>Non-current assets classified as held for sale</b>	11(b)	<u>1,125</u>	<u>-</u>
		<b>676,425</b>	691,187
<b>Current liabilities</b>			
Trade and other payables	10	186,304	204,744
Bank loans		107,282	54,404
Current tax payable		<u>8,642</u>	<u>4,983</u>
		<b>302,228</b>	264,131
<b>Net current assets</b>		<u>374,197</u>	<u>427,056</u>
<b>Total assets less current liabilities</b>		<u>776,515</u>	<u>811,449</u>

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

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 2018 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 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 several amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these impact on the accounting policies of the Group.

The Group has not applied any new standard or interpretation that is not yet effective for current accounting period.

## **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.

The Group's customer base is diversified and includes only one (2017: 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\$569,700,000 (2017: HK\$385,860,000). For both years, the sales arose mainly in the North America geographical region in which the toys division is active.

## **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 manufacture, 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 2018 and 2017 is set out below:

	2018						Total HK\$'000
	Computer Toys HK\$'000	Computer products HK\$'000	Housewares HK\$'000	Timepieces HK\$'000	Investments HK\$'000	Others HK\$'000	
Revenue from external customers	775,465	188,775	122,484	184,882	-	-	1,271,606
Inter-segment revenue	1,348	-	-	-	-	4,277	5,625
<b>Reportable segment revenue</b>	<b>776,813</b>	<b>188,775</b>	<b>122,484</b>	<b>184,882</b>	<b>-</b>	<b>4,277</b>	<b>1,277,231</b>
<b>Reportable segment profit/(loss)</b>	<b>5,809</b>	<b>6,155</b>	<b>(20,318)</b>	<b>(23,554)</b>	<b>12,732</b>	<b>(295)</b>	<b>(19,471)</b>
Interest income	58	7	62	19	445	-	591
Interest expense	(1,651)	-	-	-	-	(227)	(1,878)
Depreciation and amortisation for the year	(19,252)	(4,362)	(2,233)	(1,083)	-	(4,185)	(31,115)
Impairment loss on property, plant and equipment	-	-	(10,267)	-	-	-	(10,267)
<b>Reportable segment assets</b>	<b>415,838</b>	<b>149,743</b>	<b>102,687</b>	<b>119,196</b>	<b>148,149</b>	<b>75,439</b>	<b>1,011,052</b>
Additions to non-current segment assets during the year	30,121	1,212	1,929	834	-	1,608	35,704
<b>Reportable segment liabilities</b>	<b>177,619</b>	<b>29,344</b>	<b>34,649</b>	<b>25,930</b>	<b>-</b>	<b>8,937</b>	<b>276,479</b>

## 2017

	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	563,771	173,792	140,953	216,510	-	-	1,095,026
Inter-segment revenue	-	-	-	-	-	3,580	3,580
<b>Reportable segment revenue</b>	<b>563,771</b>	<b>173,792</b>	<b>140,953</b>	<b>216,510</b>	<b>-</b>	<b>3,580</b>	<b>1,098,606</b>
<b>Reportable segment profit/(loss)</b>	<b>270,816</b>	<b>(46,098)</b>	<b>(260)</b>	<b>(5,738)</b>	<b>13,315</b>	<b>(1,574)</b>	<b>230,461</b>
Interest income	603	1,209	22	28	1,189	-	3,051
Interest expense	(274)	-	-	-	-	(256)	(530)
Depreciation and amortisation for the year	(15,240)	(5,387)	(2,650)	(1,825)	-	(4,008)	(29,110)
<b>Reportable segment assets</b>	<b>362,630</b>	<b>130,670</b>	<b>114,657</b>	<b>123,229</b>	<b>148,608</b>	<b>77,633</b>	<b>957,427</b>
Additions to non-current segment assets during the year	54,908	4,308	5,882	1,128	-	34,080	100,306
<b>Reportable segment liabilities</b>	<b>153,587</b>	<b>17,186</b>	<b>39,548</b>	<b>28,551</b>	<b>-</b>	<b>12,387</b>	<b>251,259</b>

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

	2018 HK\$'000	2017 HK\$'000
<b>Revenue</b>		
Reportable segment revenue	1,277,231	1,098,606
Elimination of inter-segment revenue	<u>(5,625)</u>	<u>(3,580)</u>
Consolidated revenue	<u><u>1,271,606</u></u>	<u><u>1,095,026</u></u>
<b>(Loss)/profit</b>		
Reportable segment (loss)/profit	(19,471)	230,461
Unallocated corporate expenses	<u>(9,081)</u>	<u>(28,887)</u>
Consolidated (loss)/profit before taxation	<u><u>(28,552)</u></u>	<u><u>201,574</u></u>
<b>Interest income</b>		
Reportable segment interest income	591	3,051
Unallocated corporate interest income	<u>765</u>	<u>142</u>
Consolidated interest income	<u><u>1,356</u></u>	<u><u>3,193</u></u>
<b>Interest expense</b>		
Reportable segment interest expense	1,878	530
Unallocated corporate interest expense	<u>566</u>	<u>137</u>
Consolidated interest expense	<u><u>2,444</u></u>	<u><u>667</u></u>
<b>Assets</b>		
Reportable segment assets	1,011,052	957,427
Elimination of inter-segment receivables	<u>(23,996)</u>	<u>(19,000)</u>
	<b>987,056</b>	938,427
Current tax recoverable	4,321	4,247
Deferred tax assets	31,115	25,276
Unallocated corporate assets	<u>56,251</u>	<u>107,630</u>
Consolidated total assets	<u><u>1,078,743</u></u>	<u><u>1,075,580</u></u>
<b>Liabilities</b>		
Reportable segment liabilities	276,479	251,259
Elimination of inter-segment payables	<u>(23,996)</u>	<u>(19,000)</u>
	<b>252,483</b>	232,259
Current tax payable	8,642	4,983
Deferred tax liabilities	6,641	7,032
Unallocated corporate liabilities	<u>44,125</u>	<u>29,930</u>
Consolidated total liabilities	<u><u>311,891</u></u>	<u><u>274,204</u></u>



(c) **Geographical 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, interests in leasehold land held for own use under operating leases, intangible assets, deposits for purchase of property, plant and equipment 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, other property, plant and equipment, interests in leasehold land held for own use under operating leases and deposits for purchase of property, plant and equipment, the location of the operation to which they are allocated, in the case of intangible assets, and the location of operations, in the case of interest in a joint venture.

	Revenue from external customers		Specified non-current assets	
	2018 HK\$'000	2017 HK\$'000	2018 HK\$'000	2017 HK\$'000
Hong Kong (place of domicile)	<b>107,071</b>	84,496	<b>85,628</b>	90,359
North America	<b>588,744</b>	479,138	<b>288</b>	3
United Kingdom	<b>232,753</b>	236,780	<b>24,094</b>	21,952
Europe (excluding United Kingdom)	<b>152,403</b>	130,257	-	-
Asia (excluding Mainland China and Hong Kong)	<b>44,864</b>	52,399	-	-
Mainland China	<b>76,167</b>	65,702	<b>250,961</b>	234,069
Others	<b>69,604</b>	46,254	-	-
	<b>1,164,535</b>	1,010,530	<b>275,343</b>	256,024
	<b>1,271,606</b>	1,095,026	<b>360,971</b>	346,383

## 5. (Loss)/profit before taxation

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

	2018 HK\$'000	2017 HK\$'000
<b>(a) Finance costs</b>		
Interest on bank loans and other borrowings	<u>2,444</u>	<u>667</u>
<b>(b) Other items</b>		
Depreciation	30,924	28,918
Amortisation		
- land lease premium	123	124
- intangible assets	68	68
Net loss on disposal of property, plant and equipment	856	271
Net realised and unrealised gains on trading securities	(10,988)	(10,585)
Interest income from		
- deposits with banks	(857)	(804)
- trading securities	(445)	(1,189)
- trade debtors	(54)	(1,200)
Rental income	(766)	(826)
Dividend income from listed securities	(1,299)	(1,540)
Impairment losses on		
- other property, plant and equipment	10,267	-
- trade debtors	21,299	30,812
- other financial assets	2,502	4,265
Reversal of impairment losses on trade debtors	<u>-</u>	<u>(11,174)</u>

- (c) During the year ended 31 March 2017, the Group recognised a pre-tax gain of HK\$250,515,000 on disposal of certain properties in Shenzhen after deducting stamp duty, value added taxes, surcharges and professional fees. The Land Appreciation Tax and Corporate Income Tax in relation to the Disposal amounted to approximately HK\$15,475,000 and HK\$57,725,000 respectively, where both of which were recognised as income tax expenses as set out in note 6.

## 6. Income tax

	2018 HK\$'000	2017 HK\$'000
Hong Kong Profits Tax	105	3,798
Taxation outside Hong Kong	7,481	59,452
Land Appreciation Tax	-	15,475
Deferred tax	<u>(6,246)</u>	<u>2,943</u>
	<u>1,340</u>	<u>81,668</u>

The provision for Hong Kong Profits Tax for 2018 is calculated at 16.5% (2017: 16.5%) of the estimated assessable profits for the year.

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% (2017: 25%) for the current year. No provision has been made for subsidiaries located in the United Kingdom for the years ended 31 March 2018 and 2017 because either they sustained a loss for taxation purpose or their tax losses brought forward exceeded the estimated assessable profits for both years.

Current tax outside Hong Kong for the year ended 31 March 2018 includes withholding tax of HK\$1,364,000 (2017: HK\$Nil) paid on dividend income from a subsidiary.

Land Appreciation Tax is levied on the appreciation of land value in respect of the disposal of certain properties in Shenzhen as set out in note 5(c).

**7. Dividends payable to equity shareholders of the Company attributable to the year**

	<b>2018</b>	2017
	<b>HK\$'000</b>	HK\$'000
Interim dividend declared and paid of HK3 cents (2017: HK4 cents) per share	<b>18,135</b>	24,100
Final dividend proposed after the end of reporting period of HK3 cents (2017: HK4 cents) per share	<b>18,135</b>	24,100
	<b><u>36,270</u></b>	<u>48,200</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.

**8. (Loss)/earnings per share**

**(a) Basic (loss)/earnings per share**

The calculation of basic (loss)/earnings per share is based on the loss attributable to equity shareholders of the Company of HK\$26,754,000 (2017: profit of HK\$50,115,000) and the weighted average number of shares of 603,674,000 (2017: 602,491,000) in issue during the year.

**(b) Diluted (loss)/earnings per share**

The calculation of diluted (loss)/earnings per share is based on the loss attributable to equity shareholders of the Company of HK\$26,754,000 (2017: profit of HK\$50,115,000) and the weighted average number of shares of 603,674,000 (2017: 603,152,000), calculated as follows:

	<b>Weighted average number of shares (diluted)</b>	
	<b>2018</b>	2017
	<b>'000</b>	'000
Weighted average number of shares at 31 March	<b>603,674</b>	602,491
Effect of deemed issue of shares under the Company's share option scheme for nil consideration	<b>-</b>	661
	<b><u>603,674</u></b>	<u>603,152</u>
Weighted average number of shares (diluted) at 31 March	<b><u>603,674</u></b>	<u>603,152</u>

The diluted loss per share for the year ended 31 March 2018 is the same as the basic loss per share because the effect of deemed issue of shares under the Company's share option scheme would result in a decrease in loss per share for the year.

## 9. Trade and other receivables

Included in trade and other receivables are trade debtors and bills receivable (based on the invoice date and net of allowance for doubtful debts) with the following ageing analysis as of the end of the reporting period:

	<b>At 31 March 2018 HK\$'000</b>	At 31 March 2017 HK\$'000
Within 3 months	<b>123,026</b>	132,601
4 to 6 months	<b>8,700</b>	10,130
7 to 12 months	<b>884</b>	2,064
13 to 24 months	<b>1,194</b>	13
Trade debtors and bills receivable	<b>133,804</b>	144,808
Deposits, prepayments and other receivables	<b>21,422</b>	28,686
	<b>155,226</b>	173,494

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

Included in trade and other payables are trade creditors and bills payable (based on the invoice date) with the following ageing analysis as of the end of the reporting period:

	<b>At 31 March 2018 HK\$'000</b>	At 31 March 2017 HK\$'000
Within 1 month	<b>32,087</b>	34,303
Over 1 month but within 3 months	<b>3,709</b>	9,553
Over 3 months	<b>1,875</b>	1,328
Trade creditors and bills payable	<b>37,671</b>	45,184
Accruals and other payables	<b>148,633</b>	159,560
	<b>186,304</b>	204,744

All of the trade and other payables including receipts in advance from customers 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 a final dividend. Further details are disclosed in note 7.
- (b) During the year ended 31 March 2018, the Group committed to a plan to sell a property with a carrying amount of HK\$1,125,000 located in Hong Kong within the Toys segment. Accordingly, the property is presented as non-current assets held for sale in the statement of financial position.

Subsequent to the end of the reporting period, the Group entered into a provisional sale and purchase agreement with a third party, pursuant to which the Group agreed to dispose of the property at a consideration of HK\$22,980,000. In the opinion of the directors, the disposal is expected to be completed within twelve months from the end of the reporting period.

## **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.

## **CONTINGENT LIABILITIES**

As at 31 March 2018, 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.

## **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.

## **EMPLOYEES**

As at 31 March 2018, the number of employees of the Group was approximately 209 in Hong Kong, 3,506 in Mainland China and 58 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\$455,753,000 (2017: HK\$390,297,000).

## **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 2018.

## **AUDIT COMMITTEE**

The audit committee reports to the Board and currently comprises three independent non-executive directors, namely Mr 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 Mr 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 Mr 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 2018 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](http://www.hkex.com.hk)) and the Company’s website ([www.heraldgroup.com.hk](http://www.heraldgroup.com.hk)). The 2018 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, 28 June 2018

*As at the date of this announcement, the Board of Directors of the Company comprises Messrs. Robert Dorfman, Shum Kam Hung and Cheung Tsang Kay, Stan as executive directors; and Messrs. Lie-A-Cheong Tai Chong, David, Yeh Man Chun, Kent and Ng Tze Kin, David as independent non-executive directors.*

*\*For identification only*