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HERALD HOLDINGS LIMITED

興利集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code : 00114)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2018

RESULTS

The Board of Directors (the “Board”) of Herald Holdings Limited (the “Company”) presents the unaudited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 September 2018, together with the comparative figures for the corresponding period in 2017, as follows:

Consolidated statement of profit or loss – Unaudited

For the six months ended 30 September 2018

		Six months ended 30 September	
		2018	2017
	Note	HK\$'000	HK\$'000
Revenue	3	526,133	741,552
Cost of sales		<u>(457,160)</u>	<u>(576,420)</u>
Gross profit		68,973	165,132
Other revenue		3,188	3,745
Other net (loss)/income		(9,764)	12,162
Selling expenses		(10,918)	(17,082)
Administrative expenses		(112,369)	(139,223)
Gain on disposal of non-current assets classified as held for sale	4(c)	<u>21,609</u>	-
(Loss)/profit from operations		(39,281)	24,734
Finance cost	4(a)	<u>(1,296)</u>	<u>(1,167)</u>
(Loss)/profit before taxation	4	(40,577)	23,567
Income tax	5	<u>(3,129)</u>	<u>(8,523)</u>
(Loss)/profit for the period		<u>(43,706)</u>	<u>15,044</u>

Consolidated statement of profit or loss – Unaudited (Continued)*For the six months ended 30 September 2018*

		Six months ended	
		30 September	
	<i>Note</i>	2018	2017
		HK\$'000	HK\$'000
Attributable to:			
Equity shareholders of the Company		(41,718)	16,830
Non-controlling interests		<u>(1,988)</u>	<u>(1,786)</u>
(Loss)/profit for the period		<u>(43,706)</u>	<u>15,044</u>
(Loss)/earnings per share			
Basic (HK cents)	7	<u>(6.90)</u>	<u>2.79</u>
Diluted (HK cents)		<u>(6.90)</u>	<u>2.79</u>

Consolidated statement of profit or loss and other comprehensive income - Unaudited*For the six months ended 30 September 2018*

	Six months ended 30 September	
	2018	2017
	HK\$'000	HK\$'000
(Loss)/profit for the period	(43,706)	15,044
Other comprehensive income for the period		
<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)	<u>(29,549)</u>	<u>13,671</u>
Total comprehensive income for the period	<u>(73,255)</u>	<u>28,715</u>
Attributable to:		
Equity shareholders of the Company	(70,674)	30,264
Non-controlling interests	<u>(2,581)</u>	<u>(1,549)</u>
Total comprehensive income for the period	<u>(73,255)</u>	<u>28,715</u>

Consolidated statement of financial position - Unaudited

At 30 September 2018

	<i>Note</i>	As at 30 September 2018 HK\$'000	As at 31 March 2018 HK\$'000
Non-current assets			
Investment properties	8	14,258	14,639
Other property, plant and equipment	8	308,410	340,749
Interests in leasehold land held for own use under operating leases	8	3,624	3,686
		<u>326,292</u>	359,074
Intangible assets		1,141	1,897
Other financial assets	2(b)	4,300	10,232
Deferred tax assets		29,685	31,115
		<u>361,418</u>	402,318
Current assets			
Trading securities		82,623	147,905
Inventories		179,328	225,505
Trade and other receivables	9	168,907	155,226
Pledged bank balances		431	244
Cash and cash equivalents		118,845	142,099
Current tax recoverable		4,143	4,321
		<u>554,277</u>	675,300
Non-current assets classified as held for sale	4(c)	-	1,125
		<u>554,277</u>	676,425
Current liabilities			
Trade and other payables	10	166,067	186,304
Bank loans		44,293	107,282
Current tax payable		8,196	8,642
Dividends payable to equity shareholders of the Company		18,135	-
		<u>236,691</u>	302,228
Net current assets		<u>317,586</u>	374,197
Total assets less current liabilities		<u>679,004</u>	776,515

Consolidated statement of financial position – Unaudited (Continued)

At 30 September 2018

	<i>Note</i>	As at 30 September 2018 HK\$'000	As at 31 March 2018 HK\$'000
Non-current liabilities			
Deferred tax liabilities		6,631	6,641
Provision for long service payments		2,843	3,022
		<u>9,474</u>	<u>9,663</u>
NET ASSETS		<u>669,530</u>	<u>766,852</u>
CAPITAL AND RESERVES			
Share capital		47,150	47,150
Reserves		612,909	707,650
Total equity attributable to equity shareholders of the Company		<u>660,059</u>	754,800
Non-controlling interests		<u>9,471</u>	<u>12,052</u>
TOTAL EQUITY		<u>669,530</u>	<u>766,852</u>

NOTES:

1. BASIS OF PREPARATION

The interim financial results have been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), including compliance with Hong Kong Accounting Standard (“HKAS”) 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). It was authorised for issue on 29 November 2018.

The interim financial results have been prepared in accordance with the same accounting policies adopted in the 2017/2018 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2018/2019 annual financial statements. Details of these changes in accounting policies are set out in note 2.

The preparation of the interim financial results in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The interim financial results are unaudited, but have been reviewed by the Company’s audit committee.

The financial information relating to the financial year ended 31 March 2018 that is included in the interim financial results as comparative information does not constitute the Company’s statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 March 2018 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 28 June 2018.

2. CHANGES IN ACCOUNTING POLICIES

(a) Overview

The HKICPA has issued a number of new Hong Kong Financial Reporting Standards (“HKFRSs”) and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group:

- HKFRS 9, *Financial instruments*
- HKFRS 15, *Revenue from contracts with customers*

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

The adoption of HKFRS 15 had no material impact on the Group’s financial position and performance during the relevant periods. The Group has been impacted by HKFRS 9 in relation to classification and measurement of financial assets and measurement of credit losses. Details of the changes in accounting policies are discussed in note 2(b) for HKFRS 9. Other than that, none of these developments has had a material effect on how the Group’s results and financial position for the current or prior periods have been prepared or presented.

(b) HKFRS 9, *Financial instruments*

HKFRS 9 replaces HKAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied HKFRS 9 retrospectively to items that existed at 1 April 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 April 2018. Therefore, comparative information continues to be reported under HKAS 39.

The following table summarises the impact of transition to HKFRS 9 on retained profit at 1 April 2018.

	HK\$’000
Retained profit	
Remeasurement of other financial assets now measured at FVPL	(5,932)
Net decrease in retained profit at 1 April 2018	<u>(5,932)</u>

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

(i) *Classification of financial assets and liabilities*

HKFRS 9 categories financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income (“FVOCI”) and at fair value through profit or loss (“FVPL”). These supersede HKAS 39’s categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model

under which the financial asset is managed and its contractual cash flow characteristics.

Non-equity investments held by the Group are classified into one of the following measurement categories:

- amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method;
- FVOCI - recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss; or
- FVPL, if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained profits. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI (non-recycling), are recognised in profit or loss as other income.

The following table shows the original measurement categories for each class of the Group's financial assets under HKAS 39 and reconciles the carrying amounts of those financial assets determined in accordance with HKAS 39 to those determined in accordance with HKFRS 9.

	HKAS 39 carrying amount at 31 March 2018 HK\$'000	Reclassification HK\$'000	Remeasurement HK\$'000	HKFRS 9 carrying amount at 1 April 2018 HK\$'000
Financial assets classified as available-for-sale under HKAS 39 (note)	10,232	(10,232)	-	-
Financial assets carried at FVPL				
Other financial assets (note)	-	10,232	(5,932)	4,300

Note : Certain equity investments held by the Group for long term strategic purposes have been classified as financial assets carried at FVPL under HKFRS 9. Before the adoption of HKFRS 9, these investments were measured at cost less impairment losses.

The measurement categories for all financial liabilities remain the same.

(ii) Credit losses

The new impairment model in HKFRS 9 replaces the “incurred loss” model in HKAS 39 with an “expected credit loss” model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure either a 12-month expected loss or a lifetime expected credit loss, depending on the asset and the facts and circumstances. Application of the expected credit loss model results in earlier recognition of credit losses. Adoption of the expected credit loss model had no material impact on the results and financial position of the Group.

(c) HKFRS 15, Revenue from contracts with customers

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction contracts*, which specified the accounting for construction contracts.

Under HKAS 18, revenue from sale of goods is generally recognised when the risks and rewards of ownership have passed to the customers. Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. Adoption of the new revenue standard does not have significant impact on how it recognises revenue from sale of goods.

3. REVENUE AND 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.

(b) Information about profit or loss, assets and liabilities

Disaggregation of revenue and 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 six months ended 30 September 2018 and 2017 is set out below.

	Six months ended 30 September 2018						
	Toys	Computer	Housewares	Timepieces	Investments	Others	Total
	HK\$'000	products	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		HK\$'000					
Revenue from external customer	310,923	108,497	36,650	70,063	-	-	526,133
Inter-segment revenue	-	-	-	-	-	2,106	2,106
Reportable segment revenue	310,923	108,497	36,650	70,063	-	2,106	528,239
Reportable segment profit/(loss)	11,062	(6,465)	(15,110)	(13,163)	(3,452)	(358)	(27,486)

	As at 30 September 2018						
	Toys	Computer	Housewares	Timepieces	Investments	Others	Total
	HK\$'000	products	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		HK\$'000					
Reportable segment assets	352,621	135,230	82,254	112,819	83,054	72,549	838,527
Reportable segment liabilities	120,789	22,099	31,091	26,697	-	7,776	208,452

Six months ended 30 September 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 customer	502,023	88,209	59,505	91,815	-	-	741,552
Inter-segment revenue	-	-	-	-	-	1,892	1,892
Reportable segment revenue	502,023	88,209	59,505	91,815	-	1,892	743,444
Reportable segment profit/(loss)	40,942	(1,721)	(1,160)	(21,147)	9,844	(496)	26,262

As at 31 March 2018

	Toys HK\$'000	Computer products HK\$'000	Housewares HK\$'000	Timepieces HK\$'000	Investments HK\$'000	Others HK\$'000	Total HK\$'000
Reportable segment assets	415,838	149,743	102,687	119,196	148,149	75,439	1,011,052
Reportable segment liabilities	177,619	29,344	34,649	25,930	-	8,937	276,479

(c) **Reconciliations of reportable segment revenue, (loss)/profit, assets and liabilities**

	Six months ended 30 September	
	2018	2017
	HK\$'000	HK\$'000
Revenue		
Reportable segment revenue	528,239	743,444
Elimination of segment revenue	(2,106)	(1,892)
Consolidated revenue	526,133	741,552

	Six months ended 30 September	
	2018	2017
	HK\$'000	HK\$'000
(Loss)/profit		
Reportable segment (loss)/profit	(27,486)	26,262
Unallocated corporate income and expenses	(13,091)	(2,695)
Consolidated (loss)/profit before taxation	(40,577)	23,567

	At 30 September	At 31 March
	2018	2018
	HK\$'000	HK\$'000
Assets		
Reportable segment assets	838,527	1,011,052
Elimination of inter-segment receivables	(19,000)	(23,996)
	819,527	987,056
Current tax recoverable	4,143	4,321
Deferred tax assets	29,685	31,115
Unallocated corporate assets	62,340	56,251
Consolidated total assets	915,695	1,078,743

	At 30 September	At 31 March
	2018	2018
	HK\$'000	HK\$'000
Liabilities		
Reportable segment liabilities	208,452	276,479
Elimination of inter-segment payables	(19,000)	(23,996)
	189,452	252,483
Current tax payable	8,196	8,642
Deferred tax liabilities	6,631	6,641
Dividends payable to equity shareholders of the Company	18,135	-
Unallocated corporate liabilities	23,751	44,125
Consolidated total liabilities	246,165	311,891

4. (LOSS)/PROFIT BEFORE TAXATION

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

	Six months ended 30 September	
	2018	2017
	HK\$'000	HK\$'000
(a) Finance cost		
Interest on bank loans and other borrowings	<u>1,296</u>	<u>1,167</u>
(b) Other items		
Depreciation	14,691	16,975
Amortisation of land lease premium	62	62
Net (gain)/loss on disposal of other property, plant and equipment	(439)	39
Net realised and unrealised losses/(gains) on trading securities	5,119	(8,314)
Staff costs	200,941	257,764
Impairment loss on trade debtors	120	5,000
Interest income from		
- trading securities	(89)	(356)
- deposits with banks	(393)	(447)
- debtors	(15)	(10)
Rental income	(438)	(333)
Dividend income	<u>(1,578)</u>	<u>(1,174)</u>

(c) During the six months ended 30 September 2018, 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.

5. INCOME TAX

	Six months ended 30 September	
	2018	2017
	HK\$'000	HK\$'000
Current tax - Hong Kong Profits Tax	463	7,221
Current tax - Outside Hong Kong	1,236	1,402
Deferred tax	<u>1,430</u>	<u>(100)</u>
	<u>3,129</u>	<u>8,523</u>

The provision for Hong Kong Profits Tax is calculated by applying the estimated annual effective tax rate of 16.5% (2017: 16.5%) to the six months ended 30 September 2018. Taxation for subsidiaries outside Hong Kong is similarly calculated using the estimated annual effective rates of taxation that are expected to be applicable in the relevant countries.

6. DIVIDENDS

(a) Dividends payable to equity shareholders attributable to the interim period

	Six months ended 30 September	
	2018	2017
	HK\$'000	HK\$'000
Interim dividend declared and paid after the interim period: Nil (2017: HK3 cents per share)	-	18,135

(b) Dividends payable to equity shareholders attributable to the previous financial year, approved but not yet paid during the interim period

	Six months ended 30 September	
	2018	2017
	HK\$'000	HK\$'000
Final dividend in respect of the previous financial year, approved but not yet paid during the interim period: HK3 cents per shares (2017: HK4 cents per share)	18,135	24,180

7. (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\$41,718,000 (2017: profit of HK\$16,830,000) and the weighted average number of shares of 604,491,000 (2017: 602,862,000) in issue during the period.

(b) Diluted (loss)/earnings per share

The calculation of diluted (loss)/earnings per share for the period ended 30 September 2018 is based on the loss attributable to equity shareholders of the Company of HK\$41,718,000 (2017: profit of HK\$16,830,000) and the weighted average number of shares of 604,491,000 (2017: 603,784,000), calculated as follows:

	Weighted average number of shares (diluted)	
	2018	2017
	'000	'000
Weighted average number of shares at 30 September	604,491	602,862
Effect of deemed issue of shares under the Company's share option scheme for nil consideration	-	922
Weighted average number of shares (diluted) at 30 September	604,491	603,784

The diluted loss per share for the period ended 30 September 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 period.

8. INVESTMENT PROPERTIES, OTHER PROPERTY, PLANT AND EQUIPMENT AND LEASEHOLD LAND

The movements during the period are:

	Investment properties HK\$'000	Other property, plant and equipment HK\$'000	Interests in leasehold land held for own use under operating leases HK\$'000	Total HK\$'000
Net book value as at 1 April 2018	14,639	340,749	3,686	359,074
Additions	-	3,375	-	3,375
Disposals	-	(2,106)	-	(2,106)
Depreciation and amortisation	-	(14,691)	(62)	(14,753)
Exchange adjustments	(381)	(18,917)	-	(19,298)
Net book value as at 30 September 2018	14,258	308,410	3,624	326,292

9. TRADE AND OTHER RECEIVABLES

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

	At 30 September 2018 HK\$'000	At 31 March 2018 HK\$'000
By date of invoice		
Within 3 months	146,197	123,026
4 to 6 months	2,515	8,700
7 to 12 months	1,004	884
13 to 24 months	198	1,194
Trade debtors and bills receivable	149,914	133,804
Deposits, prepayments and other receivables	18,993	21,422
	168,907	155,226

The credit terms given to the customers vary and are generally based on the financial strengths of individual customers. 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 with the following ageing analysis as of the end of the reporting period:

	At 30 September 2018 HK\$'000	At 31 March 2018 HK\$'000
By date of invoice		
Within 1 month	23,418	32,087
Over 1 month but within 3 months	13,976	3,709
Over 3 months	2,363	1,875
Trade creditors and bills payable	39,757	37,671
Accruals and other payables	126,310	148,633
	166,067	186,304

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.

BUSINESS REVIEW

The Group's revenue for the six months ended 30 September 2018 amounted to HK\$526 million which was down 29% from HK\$742 million in the corresponding period last year. The Group reported a net loss attributable to the equity shareholders of HK\$41.7 million for the period under review as compared with a net profit of HK\$16.8 million a year earlier. The net loss was mainly due to lower revenue, the loss attributable to equity shareholders of approximately HK\$15.4 million as a result of redundancy compensation payments and net realized and unrealized losses on trading securities of \$5.1 million. Further analysis of the operating results is set out in the following paragraphs.

In the first half of the fiscal year, the Toys Division experienced the most difficult trading environment in recent years. Both sales volume and profit margin dropped significantly amid concerns over the US-China trade war. For the period under review, the division's revenue dropped 38% year-on-year from HK\$502 million to HK\$311 million. In August 2018, the division completed a sale and purchase agreement to dispose of a property in Hong Kong for approximately HK\$23 million and recorded a net gain of approximately HK\$21.6 million from the transaction (the "Disposal Gain"). Taking into account the Disposal Gain, the first-half operating profit of the division was HK\$11.1 million as compared with an operating profit of HK\$40.9 million a year earlier.

Driven by the strong sales of smart connected devices, the revenue of the Computer Products Division for the six months ended 30 September grew 23% year-on-year from HK\$88 million to HK\$108 million. However, due to a weak demand for thin-film computer heads, the division stopped producing them at the end of October 2018 and incurred a loss of approximately HK\$7.7 million from redundancy compensation payments. Together with the redundancy costs, the division saw its half-yearly operating loss increase to HK\$6.5 million from HK\$1.7 million a year ago.

Due to rising operating costs in Zhuhai, the Housewares Division terminated production at its joint venture factory there in July 2018 and recorded a loss attributable to equity shareholders of approximately HK\$7.7 million in relation to termination payments for workers. Compared with the

same period last year, the division's first-half revenue dropped 38% from HK\$60 million to HK\$37 million, while its operating loss increased from HK\$1.2 million to HK\$15.1 million.

The business of the Timepieces Division was impacted by a difficult trading environment and its revenue for the six months ended 30 September 2018 was down 24% year-on-year from HK\$92 million to HK\$70 million. With stringent measures taken to control operating costs, the division's half-yearly operating loss decreased to HK\$13.2 million from HK\$21.1 million a year earlier.

In the midst of volatile stock markets, the Group recorded net realized and unrealized losses on trading securities of HK\$5.1 million for the period under review as compared with gains of HK\$8.3 million a year ago. At 30 September 2018, the Group's trading securities decreased to HK\$83 million from HK\$148 million as at the beginning of the fiscal year.

PROSPECTS AND GENERAL OUTLOOK

The bankruptcy of a leading toy retailer in the United States continues to wreak havoc in the toy industry as our customers struggle to find new partners to sell their products. Furthermore, the business of the Computer Products Division will be negatively affected by the loss of revenue from the computer head business. Nevertheless, the division has several smart connected products under development that have good potential to create new revenue streams. Meanwhile, with vigorous cost-cutting and restructuring measures, the management hopes that the Timepieces and Housewares Divisions will be able to report improved operating results in the second half of the fiscal year.

LIQUIDITY, FINANCIAL RESOURCES AND FUNDING

The Group continued to exercise prudence in managing its financial resources. As in the past, the Group maintains a sound liquidity position. At 30 September 2018, the Group's cash balances aggregated to HK\$119 million (at 31 March 2018: HK\$142 million).

At the end of September 2018, the Group's current assets amounted to HK\$554 million (at 31 March 2018: HK\$676 million) which included inventories of HK\$179 million (at 31 March 2018: HK\$226 million), trade and other receivables of HK\$169 million (at 31 March 2018: HK\$155 million) and trading securities of HK\$83 million (at 31 March 2018: HK\$148 million).

At 30 September 2018, the Group's current liabilities decreased to HK\$237 million from HK\$302 million as at the beginning of the fiscal year. The bank loans amounted to HK\$44 million (at 31 March 2018: HK\$107 million) which included revolving loans of HK\$37 million (at 31 March 2018: HK\$98 million) and mortgage loan balance of HK\$7 million (at 31 March 2018: HK\$9 million). The mortgage loan balance of HK\$7 million is repayable by fixed monthly instalments with maturity date in August 2021. Certain trading securities and bank deposits amounting to HK\$79 million (at 31 March 2018: HK\$125 million), along with certain properties with a carrying amount of HK\$60 million (at 31 March 2018: HK\$ 61 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 30 September 2018 was 27% (at 31 March 2018: 29%). At 30 September 2018, the Group's working capital ratio, an indicator of liquidity represented by a ratio between the current assets and the current liabilities, was 2.34 as compared to 2.24 at 31 March 2018. The quick ratio, another ratio that gauges the short term liquidity and measured by trade debtors and bills receivable and cash and cash equivalents over current liabilities, increased to 1.14 from 0.91 at 31 March 2018.

CONTINGENT LIABILITIES

As at 30 September 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.

DIVIDEND

The Directors have resolved not to declare an interim dividend for the six months ended 30 September 2018 (six months ended 30 September 2017: HK3 cents per share).

EMPLOYEES

As at 30 September 2018, the number of employees of the Group was 175 (2017: 217) in Hong Kong, 3,068 (2017: 5,321) in the Mainland China and 56 (2017: 72) in Europe. Total staff costs for the period under review amounted to HK\$200,941,000 (2017: HK\$257,764,000). The Group ensures that its employees' remuneration packages are competitive. Employees are rewarded based on their performance and experience and the prevailing industry practice.

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 six months ended 30 September 2018.

AUDIT COMMITTEE

The audit committee reports to the board of directors 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 the 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 interim results of the Group have been reviewed by the audit committee of the Company.

REMUNERATION COMMITTEE

The remuneration committee 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 throughout the six months ended 30 September 2018 with the code provisions of the Corporate Governance Code (the “CG Code”) as set out in Appendix 14 to the Listing Rules 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

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 to 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 INTERIM RESULTS AND INTERIM 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 interim report of the Company for the six months ended 30 September 2018 containing all the information required by the Listing Rules will be dispatched to the shareholders and published on the same websites in due course.

By order of the Board
Robert Dorfman
Chairman

Hong Kong, 29 November 2018

As at the date of this announcement, the Board of Directors of the Company comprises the following directors:

Executive Directors:

Mr Robert Dorfman

Mr Shum Kam Hung ACIS, CPA

Dr Cheung Tsang Kay Stan PhD, Hon LLD, Hon DBA, JP

Independent Non-executive Directors:

Mr Lie-A-Cheong Tai Chong David SBS, OM, JP

Mr Yeh Man Chun Kent

Dr Ng Tze Kin David EdD, CA(AUST.), FCPA

**For identification only*