



HERALD HOLDINGS LIMITED

興利集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code : 00114)

PRESS RELEASE

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2018

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
	HK\$'000	HK\$'000
Revenue	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	<u>21,609</u>	<u>-</u>
(Loss)/profit from operations	(39,281)	24,734
Finance cost	<u>(1,296)</u>	<u>(1,167)</u>
(Loss)/profit before taxation	(40,577)	23,567
Income tax	<u>(3,129)</u>	<u>(8,523)</u>
(Loss)/profit for the period	<u>(43,706)</u>	<u>15,044</u>
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)	<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*

	As at 30 September 2018 HK\$'000	As at 31 March 2018 HK\$'000
Non-current assets		
Investment properties	14,258	14,639
Other property, plant and equipment	308,410	340,749
Interests in leasehold land held for own use under operating leases	3,624	3,686
	<u>326,292</u>	359,074
Intangible assets	1,141	1,897
Other financial assets	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	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	-	1,125
	<u>554,277</u>	676,425
Current liabilities		
Trade and other payables	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

	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	660,059	754,800
Non-controlling interests	<u>9,471</u>	<u>12,052</u>
TOTAL EQUITY	<u>669,530</u>	<u>766,852</u>

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.

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).

Herald Holdings Limited
Hong Kong, 29 November 2018

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*For identification only