



# 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 2016

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 2016, 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 2016

	2016 HK\$'000	2015 HK\$'000
<b>Revenue</b>	<b>1,528,985</b>	1,265,104
Cost of sales	<u>(1,164,142)</u>	<u>(973,082)</u>
<b>Gross profit</b>	<b>364,843</b>	292,022
Other revenue	<b>10,460</b>	12,169
Other net (loss)/gain	<b>(5,263)</b>	2,985
Selling expenses	<b>(30,692)</b>	(39,807)
Administrative expenses	<b>(278,187)</b>	(246,579)
Valuation gains on investment properties	<b>785</b>	940
Impairment losses on property, plant and equipment	<u><b>(13,916)</b></u>	<u>(71)</u>
<b>Profit from operations</b>	<b>48,030</b>	21,659
Finance cost	<b>(192)</b>	(347)
Share of loss of an associate	<u>-</u>	<u>(311)</u>
<b>Profit before taxation</b>	<b>47,838</b>	21,001
Income tax	<u><b>(9,590)</b></u>	<u>(4,685)</u>
<b>Profit for the year</b>	<u><b>38,248</b></u>	<u>16,316</u>
<b>Attributable to:</b>		
Equity shareholders of the Company	<b>39,024</b>	16,222
Non-controlling interests	<u><b>(776)</b></u>	<u>94</u>
<b>Profit for the year</b>	<u><b>38,248</b></u>	<u>16,316</u>
<b>Earnings per share</b>		
Basic	<u><b>HK6.48 cents</b></u>	<u>HK2.69 cents</u>
Diluted	<u><b>HK6.48 cents</b></u>	<u>HK2.69 cents</u>

**Consolidated statement of profit or loss and other comprehensive income**  
**For the year ended 31 March 2016**

	2016 HK\$'000	2015 HK\$'000
<b>Profit for the year</b>	<b>38,248</b>	16,316
<b>Other comprehensive income for the year</b>		
<i>Items 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 (no tax effect)	1,662	-
<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>(10,216)</u>	<u>(525)</u>
<b>Total comprehensive income for the year</b>	<b><u>29,694</u></b>	<b><u>15,791</u></b>
<b>Attributable to:</b>		
Equity shareholders of the Company	30,749	15,690
Non-controlling interests	<u>(1,055)</u>	<u>101</u>
<b>Total comprehensive income for the year</b>	<b><u>29,694</u></b>	<b><u>15,791</u></b>

**Consolidated statement of financial position**  
**At 31 March 2016**

	2016 HK\$'000	2015 HK\$'000
<b>Non-current assets</b>		
Investment properties	12,777	6,980
Other property, plant and equipment	268,715	267,389
Interests in leasehold land held for own use under operating leases	<u>3,933</u>	<u>4,057</u>
	<b>285,425</b>	278,426
Intangible assets	2,033	1,860
Interest in an associate	-	-
Interests in joint ventures	-	-
Other financial assets	11,340	18,040
Deferred tax assets	<u>21,402</u>	<u>13,037</u>
	<b>320,200</b>	311,363
<b>Current assets</b>		
Trading securities	142,704	169,990
Inventories	200,963	188,059
Trade and other receivables	219,145	190,142
Pledged bank balances	3,806	5,060
Cash and cash equivalents	176,042	172,171
Current tax recoverable	<u>31</u>	<u>-</u>
	<b>742,691</b>	725,422
<b>Non-current assets classified as held for sale</b>	<u>2,210</u>	<u>-</u>
	<b>744,901</b>	725,422
<b>Current liabilities</b>		
Trade and other payables	215,344	178,417
Bank loan	4,989	8,612
Current tax payable	<u>16,900</u>	<u>9,082</u>
	<b>237,233</b>	196,111
<b>Net current assets</b>	<u>507,668</u>	<u>529,311</u>
<b>Total assets less current liabilities</b>	<u>827,868</u>	<u>840,674</u>

	2016 HK\$'000	2015 HK\$'000
<b>Non-current liabilities</b>		
Deferred tax liabilities	238	147
Provision for long service payments	3,279	3,380
	<u>3,517</u>	<u>3,527</u>
<b>NET ASSETS</b>	<u><b>824,351</b></u>	<u>837,147</u>
<b>CAPITAL AND RESERVES</b>		
Share capital	46,994	46,994
Reserves	759,811	771,237
	<u>806,805</u>	<u>818,231</u>
<b>Total equity attributable to equity shareholders of the Company</b>	<b>806,805</b>	818,231
<b>Non-controlling interests</b>	<u>17,546</u>	<u>18,916</u>
<b>TOTAL EQUITY</b>	<u><b>824,351</b></u>	<u>837,147</u>

## BUSINESS REVIEW

The revenue of the Group for the year ended 31 March 2016 was HK\$1,529 million which was up 21% from HK\$1,265 million in the previous year. The increase in the Group's revenue mainly came from the Toys Division. The net profit attributable to the equity shareholders of the company was HK\$39.0 million, representing an increase of 141% from HK\$16.2 million a year earlier.

The net profit for the year included impairment losses on property, plant and equipment of HK\$13.9 million (2015: HK\$0.1 million) and valuation gains on investment properties of HK\$0.8 million (2015: HK\$0.9 million). Excluding these items, the adjusted net profit of the Group for the year under review was HK\$52.1 million (2015: HK\$15.4 million). 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 2016 surged 61% to HK\$909 million from HK\$564 million in the previous year. Because of higher revenue, the operating profit of the division soared to HK\$52.3 million from HK\$8.7 million a year earlier. In January 2016, Herald Metal and Plastic Works Limited, the operating company of the division, was presented the "2015 Partner of the Year Award" by Hasbro Inc., a major customer of the division.

### Computer Products Division

During the year under review, the sales of thin-film computer heads shrank by one-third from last year. However, the shipments of the newly-developed product, the smart connected devices, were enough to make up for the decline in the tape head business. Compared to last year, the division's revenue increased by 4% from HK\$217 million to HK\$227 million, while its operating profit grew 24% from HK\$11.3 million to HK\$14.0 million.

### **Housewares Division**

Due to a fire accident at our Zhuhai factory in May 2015 that caused a suspension of production for five weeks, the revenue of the Housewares Division for the year ended 31 March 2016 fell 22% year-on-year from HK\$165 million to HK\$129 million. After taking into account the net loss attributable to the fire accident of approximately HK\$4.5 million, the division recorded an operating loss of HK\$4.9 million as compared with an operating profit of HK\$0.6 million last year.

### **Timepieces Division**

The sales of the Timepieces Division were dampened by weak consumer sentiment. The division saw its revenue drop by 17% year-on-year to HK\$264 million from HK\$319 million in the previous year. Nevertheless, thanks to a net gain of HK\$13.8 million from the disposal of its properties in the United Kingdom, the division's operating profit increased to HK\$18.3 million from HK\$7.0 million a year earlier.

### **Other Investments**

For the year ended 31 March 2016, the Group recognised net realised and unrealised losses on trading securities of HK\$11.4 million (2015: gains of HK\$8.7 million) and impairment losses on other financial assets of HK\$6.7 million (2015: nil). The dividend and interest income on trading securities amounted to HK\$3.1 million for the year (2015: HK\$3.5 million). At 31 March 2016, the Group's trading securities amounted to HK\$143 million, a decrease of HK\$27 million from last year.

On 31 March 2016 and 25 May 2016, a non-wholly owned subsidiary of the company entered into agreements to dispose of its properties in Shenzhen for approximately HK\$283 million. The details of the transactions were set out in the announcement dated 31 March 2016 and circular dated 29 April 2016 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)).

## **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 2016, the total assets amounted to HK\$1,065 million (2015: HK\$1,037 million) which were financed by current liabilities of HK\$237 million (2015: HK\$196 million) including a mortgage loan of HK\$5 million (2015: HK\$9 million), non-current liabilities of HK\$4 million (2015: HK\$4 million), non-controlling interests of HK\$18 million (2015: HK\$19 million) and equity attributable to the company's equity shareholders of HK\$807 million (2015: HK\$818 million).

At 31 March 2016, the Group's cash balances aggregated to HK\$180 million, up from HK\$177 million a year ago. The current assets at 31 March 2016 amounted to HK\$745 million (2015: HK\$725 million). The inventories increased from HK\$188 million to HK\$201 million and the trade and other receivables increased from HK\$190 million to HK\$219 million. The trading securities at 31 March 2016 amounted to HK\$143 million (2015: HK\$170 million).

At 31 March 2016, the Group's current liabilities increased to HK\$237 million from HK\$196 million last year. Certain trading securities and bank deposits amounting to HK\$128 million (2015: HK\$155 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 2016 was 23% (2015: 19%). At 31 March 2016, the Group's working capital ratio, an indicator of liquidity represented by a ratio between the current assets and the current liabilities, was 3.14 as compared to 3.70 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 1.53 from 1.71 in the previous year.

## **PROSPECTS AND GENERAL OUTLOOK**

As indicated by the current order position, the business of the Toys Division will slow down in the first half of the financial year ending 31 March 2017. Nevertheless, the division will strive to achieve cost savings through improved operating efficiency. To increase production capacity, the division has started construction of a factory building with a total floor area of approximately 150,000 square feet in Dongguan, China.

The outlook for the tape head business is not encouraging. However, it is anticipated that this slowdown will be offset by the increase in demand for both thermostats and smart connected devices.

Amid a weak retail environment, the businesses of the Housewares and Timepieces Divisions continue to be challenging. As the United Kingdom is the major market of these divisions, our gross margins might be negatively affected by weak Pound Sterling. Nonetheless, the divisions are exploring opportunities to increase revenue and implementing measures to cut costs.

We are fortunate to own two well-respected trademarks that have a global presence: "Ingersoll" for timepieces and "Chefmate" for cookware. As part of our strategic plan, we intend to actively pursue distribution of our products in the China market, utilising these two brands. We are confident that over the next few years, we should be able to build a meaningful presence for these brands in China.

Despite the uncertain economic environment, the management remains optimistic about the Group's business prospects in the financial year ending 31 March 2017.

## **DIVIDEND**

At the forthcoming Annual General Meeting to be held on 19 September 2016, the directors will recommend a final dividend of HK5 cents per share (2015: HK4 cents). Together with the interim dividend of HK3 cents (2015: HK3 cents), the dividend payment for the year of HK8 cents (2015: HK7 cents) would represent an annual return of 8.0% (2015: 7.4%) on the company's average share price of HK\$1.00 (2015: HK\$0.94) in the year ended 31 March 2016.

The final dividend which will amount to HK\$30 million is calculated on the total number of shares in issue as at 28 June 2016, 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 Monday, 19 September 2016. For determining the entitlement to attend and vote at the Annual General Meeting, the register of members of the company will be closed from Wednesday, 14 September 2016 to Monday, 19 September 2016, 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 Tuesday, 13 September 2016.

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, 28 September 2016. For determining the entitlement to the proposed final dividend, the register of members of the company will be closed from Tuesday, 27 September 2016 to Wednesday, 28 September 2016, 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, 26 September 2016. The payment of final dividend, if approved at the Annual General Meeting, will be made on Friday, 14 October 2016.

Herald Holdings Limited  
Hong Kong, 29 June 2016

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*\*For identification only*