



# 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 2019

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 2019, 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 2019

	2019 HK\$'000	2018 HK\$'000
<b>Revenue</b>	<b>952,465</b>	1,271,606
Cost of sales	<u>(812,201)</u>	<u>(1,017,383)</u>
<b>Gross profit</b>	<b>140,264</b>	254,223
Other revenue	<b>6,204</b>	4,101
Other net income	<b>30,761</b>	16,445
Selling expenses	<b>(21,006)</b>	(27,800)
Administrative expenses	<b>(204,059)</b>	(264,555)
Gain on disposal of non-current assets classified as held for sale	<b>21,609</b>	-
Valuation (losses)/gains on investment properties	<b>(87)</b>	1,745
Impairment losses on property, plant and equipment	<u>-</u>	<u>(10,267)</u>
<b>Loss from operations</b>	<b>(26,314)</b>	(26,108)
Finance costs	<u>(2,331)</u>	<u>(2,444)</u>
<b>Loss before taxation</b>	<b>(28,645)</b>	(28,552)
Income tax	<u>516</u>	<u>(1,340)</u>
<b>Loss for the year</b>	<b>(28,129)</b>	(29,892)
<b>Attributable to:</b>		
Equity shareholders of the Company	<b>(26,158)</b>	(26,754)
Non-controlling interests	<u>(1,971)</u>	<u>(3,138)</u>
<b>Loss for the year</b>	<b>(28,129)</b>	(29,892)
<b>Loss per share</b>		
Basic (HK cents)	<u>(4.33)</u>	<u>(4.43)</u>
Diluted (HK cents)	<u>(4.33)</u>	<u>(4.43)</u>

**Consolidated statement of profit or loss and other comprehensive income**  
**For the year ended 31 March 2019**

	2019 HK\$'000	2018 HK\$'000
<b>Loss for the year</b>	<b>(28,129)</b>	<b>(29,892)</b>
<b>Other comprehensive income for the year</b>		
<i>Item that will not be reclassified to profit or loss:</i>		
Surplus on revaluation of land and buildings held for own use upon change of use to investment properties (net of tax effect of HK\$16,260,000 (2018:HK\$Nil))	25,988	-
<i>Item 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>(22,205)</u>	<u>35,743</u>
<b>Total comprehensive income for the year</b>	<b><u>(24,346)</u></b>	<b><u>5,851</u></b>
<b>Attributable to:</b>		
Equity shareholders of the Company	(21,982)	8,383
Non-controlling interests	<u>(2,364)</u>	<u>(2,532)</u>
<b>Total comprehensive income for the year</b>	<b><u>(24,346)</u></b>	<b><u>5,851</u></b>

## Consolidated statement of financial position

At 31 March 2019

	2019 HK\$'000	2018 HK\$'000
<b>Non-current assets</b>		
Investment properties	57,769	14,639
Other property, plant and equipment	292,439	340,749
Interests in leasehold land held for own use under operating leases	<u>3,562</u>	<u>3,686</u>
	353,770	359,074
Intangible assets	1,124	1,897
Interest in a joint venture	-	-
Other financial assets	2,300	10,232
Deferred tax assets	<u>24,519</u>	<u>31,115</u>
	<u>381,713</u>	<u>402,318</u>
<b>Current assets</b>		
Trading securities	84,814	147,905
Inventories	174,555	225,505
Trade and other receivables	122,628	155,226
Pledged bank balances	464	244
Cash and cash equivalents	186,606	142,099
Current tax recoverable	<u>4,162</u>	<u>4,321</u>
	573,229	675,300
<b>Non-current assets classified as held for sale</b>	<u>-</u>	<u>1,125</u>
	<u>573,229</u>	<u>676,425</u>
<b>Current liabilities</b>		
Trade and other payables and contract liabilities	158,291	186,304
Bank loans	40,243	107,282
Current tax payable	<u>16,093</u>	<u>8,642</u>
	<u>214,627</u>	<u>302,228</u>
<b>Net current assets</b>	<u>358,602</u>	<u>374,197</u>
<b>Total assets less current liabilities</b>	<u>740,315</u>	<u>776,515</u>

	2019 HK\$'000	2018 HK\$'000
<b>Non-current liabilities</b>		
Deferred tax liabilities	20,465	6,641
Provision for long service payments	1,411	3,022
	<u>21,876</u>	<u>9,663</u>
<b>NET ASSETS</b>	<u>718,439</u>	<u>766,852</u>
<b>CAPITAL AND RESERVES</b>		
Share capital	47,150	47,150
Reserves	<u>661,601</u>	<u>707,650</u>
<b>Total equity attributable to equity shareholders of the Company</b>	<b>708,751</b>	754,800
<b>Non-controlling interests</b>	<u>9,688</u>	<u>12,052</u>
<b>TOTAL EQUITY</b>	<u>718,439</u>	<u>766,852</u>

## BUSINESS REVIEW

The revenue of the Group for the year ended 31 March 2019 was HK\$952 million which was down 25% from HK\$1,272 million in the previous year. The decrease in the Group's revenue was mainly attributable to weak market conditions resulting from the ongoing trade tensions between China and the United States.

The Group recorded a net loss attributable to equity shareholders of HK\$26.2 million for the year ended 31 March 2019 as compared with a net loss of HK\$26.8 million a year earlier. The net loss for the year was primarily due to lower revenue and the loss attributable to equity shareholders of approximately HK\$15.4 million as a result of redundancy compensation payments. During the year under review, the Group disposed of two properties in Hong Kong for approximately HK\$55 million and recorded net gains of approximately HK\$51.8 million from the transactions. Detailed analysis of the operating results is set out in the following paragraphs.

### Toys Division

The financial year under review was very challenging for the Toys Division. Amid concerns over the US-China trade war, the division's revenue for the year ended 31 March 2019 dropped 29% year-on-year from HK\$775 million to HK\$548 million. In addition, the price pressure resulting from severe competition among toy manufacturers has continued to erode the profit margin of the division. Despite a net gain of approximately HK\$21.6 million from the disposal of a property, the division sustained an operating loss of HK\$0.1 million for the year ended 31 March 2019 as compared with an operating profit of HK\$5.8 million a year earlier.

### **Computer Products Division**

The Computer Products Division recorded satisfactory growth in the business of smart connected devices during the year under review. However, due to a weak demand for thin-film computer heads, the division stopped the production at the end of October 2018 and incurred a one-off redundancy compensation payments of approximately HK\$7.7 million. For the year ended 31 March 2019, the division saw its revenue decrease by 8% year-on-year from HK\$189 million to HK\$173 million and had an operating loss of HK\$12.7 million as compared with an operating profit of HK\$6.2 million in the previous year.

### **Housewares Division**

As mentioned in the interim report, the Housewares Division terminated production at its joint venture factory in Zhuhai in July 2018 and recorded a loss attributable to equity shareholders of approximately HK\$7.7 million in relation to termination payments for workers. Following the factory closure, the division has only engaged in trading of cookware and tableware products. Compared to last year, the division's revenue for the year ended 31 March 2019 fell 35% from HK\$122 million to HK\$79 million, while its operating loss has shrunk from HK\$20.3 million to HK\$18.7 million.

### **Timepieces Division**

The business environment for the Timepieces Division remained difficult and its revenue for the year ended 31 March 2019 was down 17% year-on-year from HK\$185 million to HK\$153 million. In February 2019, the division closed down its subsidiary in the United States as it was loss-making and had been a cash drain for the division in previous years. Nevertheless, with continuous efforts in streamlining the operation, the division returned to profitability in the second half of the financial year and brought down its full-year operating loss to HK\$5.2 million from HK\$23.6 million a year earlier.

### **Other Investments**

For the year ended 31 March 2019, the Group recognised net realised and unrealised losses on trading securities of HK\$3.1 million (2018: net gains of HK\$11 million). The dividend and interest income on trading securities amounted to HK\$2 million for the year (2018: HK\$1.7 million). At 31 March 2019, the Group's trading securities amounted to HK\$85 million, a decrease of HK\$63 million from last year.

## **LIQUIDITY, FINANCIAL RESOURCES AND FUNDING**

The Group continues to maintain its sound financial health. At the end of the financial year, the Group had a strong financial position with healthy liquidity. At 31 March 2019, the total assets amounted to HK\$955 million (2018: HK\$1,079 million) which were financed by current liabilities of HK\$215 million (2018: HK\$302 million), non-current liabilities of HK\$22 million (2018: HK\$10 million), non-controlling interests of HK\$10 million (2018: HK\$12 million) and equity attributable to the Company's equity shareholders of HK\$709 million (2018: HK\$755 million).

At 31 March 2019, the Group's cash balances aggregated to HK\$187 million, up from HK\$142 million a year ago. The current assets at 31 March 2019 amounted to HK\$573 million (2018: HK\$676 million). The inventories decreased from HK\$226 million to HK\$175 million while the trade and other receivables decreased from HK\$155 million to HK\$123 million. The trading securities at 31 March 2019 amounted to HK\$85 million (2018: HK\$148 million).

At 31 March 2019, the Group's current liabilities decreased to HK\$215 million from HK\$302 million last year. The bank loans amounted to HK\$40 million (2018: HK\$107 million) which included revolving loans of HK\$34 million (2018: HK\$98 million) and mortgage loan balances of HK\$6 million (2018: HK\$9 million). The mortgage loan balance of HK\$6 million is repayable by fixed monthly instalments with maturity date in August 2021. Certain trading securities and bank deposits amounting to HK\$81 million (2018: HK\$125 million), along with certain properties with a carrying amount of HK\$58 million (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 31 March 2019 was 25% (2018: 29%). At 31 March 2019, the Group's working capital ratio, an indicator of liquidity represented by a ratio between the current assets and the current liabilities, was 2.67 as compared to 2.24 last year. The quick ratio, another ratio that gauges the short-term liquidity and measured by trade debtors and bills receivable and cash and cash equivalent over current liabilities, increased to 1.29 from 0.91 in the previous year.

## **PROSPECTS AND GENERAL OUTLOOK**

The management anticipates that the business of the Toys Division will improve in the new financial year with strong demand expected for toys related to two popular movies which will be released at the end of 2019. Nevertheless, labor shortages in Southern China and stiff competition among toy manufacturers continue to be major concerns for the division.

We are cautious about the business of the Computer Products Division amid uncertainty over the US-China trade war. In particular, a major customer has temporarily suspended shipments of certain products to the United States because of import tariffs imposed by the US Government. On a positive note, a newly-developed smart medical watch is under the process of CE and FDA application. Upon approval, it has potential to become an important product for the division.

As less than 5% of the revenue of both the Housewares and Timepieces Divisions are derived from the US market, the trade tensions will have little impact on their businesses. Meanwhile, with vigorous cost-cutting and restructuring measures, both divisions are in a better position to report improved operating results in the new financial year.

Despite the uncertain business environment, the management has confidence that the Group will weather the difficult trading conditions and remain competitive in the financial year ending 31 March 2020.

## **DIVIDEND**

At the forthcoming Annual General Meeting to be held on 6 September 2019, the directors will recommend a final dividend of HK3 cents per share (2018: HK3 cents). As the Company did not declare an interim dividend (2018: HK3 cents), the dividend payment for the year of HK\$3 cents (2018: HK6 cents) would represent an annual return of 3.4% (2018: 5.2%) on the Company's average share price of HK\$0.88 (2018: HK\$1.15) in the year ended 31 March 2019.

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 2019, 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, 6 September 2019. 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, 2 September 2019 to Friday, 6 September 2019, 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<sup>#</sup> for registration no later than 4:30 p.m. on Friday, 30 August 2019.

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, 19 September 2019. For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from Wednesday, 18 September 2019 to Thursday, 19 September 2019, 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, 17 September 2019. The payment of final dividend, if approved at the Annual General Meeting, will be made on Wednesday, 9 October 2019.

Herald Holdings Limited

Hong Kong, 28 June 2019

Contact Person : Mr Robert Dorfman 2522 6181

Mr. Shum Kam Hung 2726 8111

*\*For identification only*

*<sup>#</sup>Tricor Tengis Limited will relocate to Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong on 11 July 2019.*