



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 2022

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 2022, 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 2022

| | 2022 HK\$'000 | 2021 HK\$'000 |
|--|--------------------|------------------|
| Continuing operations | | |
| Revenue | 1,175,142 | 927,775 |
| Cost of sales | <u>(1,055,156)</u> | <u>(733,716)</u> |
| Gross profit | 119,986 | 194,059 |
| Other revenue | 11,861 | 5,117 |
| Other net (loss)/income | (5,915) | 18,233 |
| Selling expenses | (11,414) | (9,276) |
| Administrative expenses | (183,264) | (185,552) |
| Net valuation gains on investment properties | 4,203 | 1,912 |
| (Loss)/profit from operations | (64,543) | 24,493 |
| Finance costs | <u>(2,157)</u> | <u>(795)</u> |
| (Loss)/profit before taxation | (66,700) | 23,698 |
| Income tax | <u>7,511</u> | <u>(3,953)</u> |
| (Loss)/profit for the year from continuing operations | (59,189) | 19,745 |
| Discontinued operations | | |
| Profit for the year from discontinued operations | <u>-</u> | <u>14,002</u> |
| (Loss)/profit for the year | (59,189) | 33,747 |

| | 2022 HK\$'000 | 2021 HK\$'000 |
|---|------------------------|----------------------|
| Attributable to: | | |
| Equity shareholders of the Company | | |
| - (Loss)/profit for the year from continuing operations | (61,147) | 20,561 |
| - Profit for the year from discontinued operations | - | 13,360 |
| | <u>(61,147)</u> | <u>33,921</u> |
| Non-controlling interests | | |
| - Profit/(loss) for the year from continuing operations | 1,958 | (816) |
| - Profit for the year from discontinued operations | - | 642 |
| | <u>1,958</u> | <u>(174)</u> |
| (Loss)/profit for the year | <u>(59,189)</u> | <u>33,747</u> |
| (Loss)/earnings per share | | |
| Basic (HK cents) | | |
| - From continuing operations | (10.12) | 3.40 |
| - From discontinued operations | - | 2.21 |
| | <u>(10.12)</u> | <u>5.61</u> |
| Diluted (HK cents) | | |
| - From continuing operations | (10.12) | 3.40 |
| - From discontinued operations | - | 2.21 |
| | <u>(10.12)</u> | <u>5.61</u> |

Consolidated statement of profit or loss and other comprehensive income
For the year ended 31 March 2022

| | 2022 HK\$'000 | 2021 HK\$'000 |
|--|------------------|------------------|
| (Loss)/profit for the year | (59,189) | 33,747 |
| Other comprehensive income for the year | | |
| <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 (2021: net of tax effect of HK\$14,511,000) | - | 20,385 |
| <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) | 7,714 | 20,868 |
| Other comprehensive income for the year | 7,714 | 41,253 |
| Total comprehensive income for the year | (51,475) | 75,000 |
| Attributable to: | | |
| Equity shareholders of the Company | | |
| - From continuing operations | (53,476) | 43,058 |
| - From discontinued operations | - | 27,592 |
| | (53,476) | 70,650 |
| Non-controlling interests | | |
| - From continuing operations | 2,001 | (816) |
| - From discontinued operations | - | 5,166 |
| | 2,001 | 4,350 |
| Total comprehensive income for the year | (51,475) | 75,000 |

Consolidated statement of financial position

At 31 March 2022

| | 2022 HK\$'000 | 2021 HK\$'000 |
|---|------------------|------------------|
| Non-current assets | | |
| Investment properties | 109,147 | 101,526 |
| Other property, plant and equipment | 246,493 | 251,995 |
| | <u>355,640</u> | <u>353,521</u> |
| Intangible assets | 1,022 | 1,056 |
| Interest in a joint venture | - | - |
| Other financial assets | 4,250 | 2,300 |
| Deferred tax assets | 31,851 | 17,077 |
| | <u>392,763</u> | <u>373,954</u> |
| Current assets | | |
| Trading securities | 85,439 | 91,883 |
| Inventories | 254,866 | 146,120 |
| Trade and other receivables | 146,922 | 161,960 |
| Pledged bank balances | 990 | 2,359 |
| Cash and cash equivalents | 89,764 | 168,601 |
| Current tax recoverable | 1,719 | 3,469 |
| | <u>579,700</u> | <u>574,392</u> |
| Current liabilities | | |
| Trade and other payables and contract liabilities | 209,994 | 161,758 |
| Bank loans | 54,032 | 1,092 |
| Lease liabilities | 3,902 | 4,459 |
| Current tax payable | 26,131 | 21,012 |
| | <u>294,059</u> | <u>188,321</u> |
| Net current assets | <u>285,641</u> | <u>386,071</u> |
| Total assets less current liabilities | <u>678,404</u> | <u>760,025</u> |

| | 2022 HK\$'000 | 2021 HK\$'000 |
|--|------------------|------------------|
| Non-current liabilities | | |
| Lease liabilities | 8,354 | 5,501 |
| Deferred tax liabilities | 38,068 | 34,714 |
| Provision for long service payments | 1,142 | 1,225 |
| | <u>47,564</u> | <u>41,440</u> |
| NET ASSETS | <u>630,840</u> | 718,585 |
| CAPITAL AND RESERVES | | |
| Share capital | 47,150 | 47,150 |
| Reserves | 569,920 | 659,666 |
| Total equity attributable to equity shareholders of the Company | 617,070 | 706,816 |
| Non-controlling interests | <u>13,770</u> | 11,769 |
| TOTAL EQUITY | <u>630,840</u> | <u>718,585</u> |

BUSINESS REVIEW

The revenue of the Group for the year ended 31 March 2022 was HK\$1,175 million which was up 16% from HK\$1,012 million (including both continuing and discontinued operations) in the previous year. The Group recorded a net loss attributable to the equity shareholders of the Company amounting to HK\$61.1 million as compared with a net profit of HK\$33.9 million a year earlier. The net loss for the year was mainly due to challenges of a global shortage of shipping containers and electricity supply interruptions in Guangdong Province, rising material and labour costs as a result of disruptions in global supply chain and labour supply shortages, and net realised and unrealised losses on trading securities of HK\$6.6 million (2021: net gains of HK\$18.7 million). Detailed analysis of the operating results is set out in the following paragraphs.

Toys Division

Compared to last year, the revenue of the Toys Division for the year ended 31 March 2022 increased by 23% from HK\$686 million to HK\$845 million. Nevertheless, the division experienced a very difficult trading environment. A global shortage of shipping containers led to shipment delays and a significant backlog of orders in the first half of the financial year. In addition, production has been severely disrupted by anti-Covid measures and electricity supply interruptions in Dongguan where our factories are located. Together with surging material and labour costs and the inability to immediately transfer the cost increase to customers, the division suffered an operating loss of HK\$75.6 million for the year as compared with an operating profit of HK\$16.7 million a year earlier.

Computer Products Division

Due to the strong sales of smart connected devices and motor actuator assemblies, the revenue of the Computer Products Division for the year under review surged 45% to HK\$132 million from HK\$91 million a year earlier. However, a global shortage of electronic components has led to long lead times and shipment delays. With higher revenue, the division's operating loss has shrunk to HK\$0.7 million from HK\$11.3 million in the previous year.

Timepieces Division

The Timepieces Division finished the financial year with a very satisfactory result. Driven by online sales and promotion programmes, the revenue of the division for the year ended 31 March 2022 soared 32% year-on-year from HK\$151 million to HK\$199 million. Coupled with stringent measures taken to control operating costs, the division's operating profit for the year increased substantially to HK\$24.9 million from HK\$11.1 million last year.

Other Investments

For the year ended 31 March 2022, the Group recognised net realised and unrealised losses on trading securities of HK\$6.6 million (2021: gains of HK\$18.7 million). The dividend income on trading securities amounted to HK\$1.8 million for the year (2021: HK\$1.3 million). At 31 March 2022, the Group's trading securities amounted to HK\$85 million, a decrease of HK\$7 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 2022, the total assets amounted to HK\$972 million (2021: HK\$948 million) which were financed by current liabilities of HK\$294 million (2021: HK\$188 million), non-current liabilities of HK\$47 million (2021: HK\$41 million), non-controlling interests of HK\$14 million (2021: HK\$12 million) and equity attributable to the Company's equity shareholders of HK\$617 million (2021: HK\$707 million).

At 31 March 2022, the Group's cash balances aggregated to HK\$91 million, down from HK\$171 million a year ago. The current assets at 31 March 2022 amounted to HK\$580 million (2021: HK\$574 million). The inventories increased from HK\$146 million to HK\$255 million while the trade and other receivables decreased from HK\$162 million to HK\$147 million. The trading securities at 31 March 2022 amounted to HK\$85 million (2021: HK\$92 million).

At 31 March 2022, the Group's current liabilities increased to HK\$294 million from HK\$188 million last year. The bank loans amounted to HK\$54 million (2021: HK\$1 million) which included revolving loans of HK\$54 million (2021: Nil) and a mortgage loan balance of Nil (2021: HK\$1 million). The mortgage loan balance was repaid in fixed monthly instalments and matured in August 2021. Certain trading securities and bank deposits amounting to HK\$84 million (2021: HK\$92 million), along with certain properties with a carrying amount of HK\$49 million (2021: HK\$52 million), were also 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 2022 was 35% (2021: 24%). At 31 March 2022, the Group's working capital ratio, an indicator of liquidity represented by a ratio between the current assets and the current liabilities, was 1.97 as compared to 3.05 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 0.71 from 1.52 in the previous year.

PROSPECTS AND GENERAL OUTLOOK

Notwithstanding the disappointing results in the year ended 31 March 2022, the sales orders of the Toys Division at the end of May 2022 surged approximately 36% from those at the same time last year. Together with price increases and productivity improvement, the management is confident that the division will return to profitability in the first half of the new financial year. The outlook for the Computer Products Division appears positive. Smart connected devices will remain the major products of the division in the new financial year and the management believes that the growth of this business can be sustained. Meanwhile, with the benefit of strong online sales, the business of the Timepieces Division will remain robust. The division is also exploring opportunities to introduce new brands to the markets.

As more countries have adopted a "live with Covid" strategy by reopening borders and easing social distancing measures, it is expected that the global economy will continue to recover in 2022. However, there remains a lot of uncertainty around aggressive interest rate hikes, soaring inflation, geopolitical tensions and Covid-19 that might derail the global economic recovery. Despite the uncertain environment, the management is optimistic about the results of the Group in the financial year ending 31 March 2023.

DIVIDEND

At the forthcoming Annual General Meeting to be held on 16 September 2022, the directors will recommend a final dividend of HK3 cents per share (2021: HK3 cents). Together with the interim dividend of HK3 cents (2021: HK3 cents), the dividend payment for the year of HK6 cents (2021: HK6 cents) would represent an annual return of 10.0% (2021: 9.5%) on the Company's average share price of HK\$0.60 (2021: HK\$0.63) in the year ended 31 March 2022.

The final dividend which will amount to HK\$18.1 million is calculated on the total number of shares in issue as at 28 June 2022, 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, 16 September 2022. For determining the entitlement to attend and vote at the Annual General Meeting, the register of members of the Company will be closed from Tuesday, 13 September 2022 to Friday, 16 September 2022, 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong (if the transfer will be lodged before 15 August 2022), or 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong (if the transfer will be lodged on or after 15 August 2022) for registration no later than 4:30 p.m. on Friday, 9 September 2022.

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 2022. For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from Tuesday, 27 September 2022 to Wednesday, 28 September 2022, 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 2022. The payment of final dividend, if approved at the Annual General Meeting, will be made on Wednesday, 12 October 2022.

Herald Holdings Limited
Hong Kong, 29 June 2022

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|----------------|---|--------------------|-----------|
| Contact Person | : | Mr. Robert Dorfman | 2522 6181 |
| | | Mr. Shum Kam Hung | 2726 8111 |

**For identification only*