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HERALD HOLDINGS LIMITED

興利集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code : 00114)

Annual Results Announcement for the year ended 31 March 2017

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 2017, 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 2017

	Note	2017 HK\$'000	2016 HK\$'000
Revenue	3 & 4	1,095,026	1,528,985
Cost of sales		<u>(851,391)</u>	<u>(1,164,142)</u>
Gross profit		243,635	364,843
Other revenue		7,795	10,460
Other net loss		(10,087)	(5,263)
Selling expenses		(31,399)	(30,692)
Administrative expenses		(258,398)	(278,187)
Gain on disposal of non-current assets classified as held for sale	5(c)	250,515	-
Valuation gains on investment properties		180	785
Impairment losses on property, plant and equipment		-	<u>(13,916)</u>
Profit from operations		202,241	48,030
Finance costs	5(a)	<u>(667)</u>	<u>(192)</u>
Profit before taxation	5	201,574	47,838
Income tax	6(a)	<u>(81,668)</u>	<u>(9,590)</u>
Profit for the year		119,906	38,248
Attributable to:			
Equity shareholders of the Company		50,115	39,024
Non-controlling interests		<u>69,791</u>	<u>(776)</u>
Profit for the year		119,906	38,248
Earnings per share			
Basic	8(a)	<u>HK8.32 cents</u>	<u>HK6.48 cents</u>
Diluted	8(b)	<u>HK8.31 cents</u>	<u>HK6.48 cents</u>

Details of dividends payable to equity shareholders of the Company are set out in note 7.

Consolidated statement of profit or loss and other comprehensive income
For the year ended 31 March 2017

	Note	2017 HK\$'000	2016 HK\$'000
Profit for the year		119,906	38,248
Other comprehensive income for the year			
<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)		(17,425)	(10,216)
Reclassification of accumulated exchange differences to profit or loss upon deregistration of a subsidiary (no tax effect)		<u>1,202</u>	<u>-</u>
Total comprehensive income for the year		<u>103,683</u>	<u>29,694</u>
Attributable to:			
Equity shareholders of the Company		34,212	30,749
Non-controlling interests		<u>69,471</u>	<u>(1,055)</u>
Total comprehensive income for the year		<u>103,683</u>	<u>29,694</u>

Consolidated statement of financial position
At 31 March 2017

	Note	2017 HK\$'000	2016 HK\$'000
Non-current assets			
Investment properties		12,300	12,777
Other property, plant and equipment		321,302	268,715
Interests in leasehold land held for own use under operating leases		<u>3,809</u>	<u>3,933</u>
		337,411	285,425
Intangible assets		1,965	2,033
Interest in a joint venture		-	-
Other financial assets		12,734	11,340
Deposits for purchase of property, plant and equipment		7,007	-
Deferred tax assets		<u>25,276</u>	<u>21,402</u>
		384,393	320,200
Current assets			
Trading securities		133,972	142,704
Inventories		182,770	200,963
Trade and other receivables	9	173,494	219,145
Pledged bank balances		14,636	3,806
Cash and cash equivalents		182,068	176,042
Current tax recoverable		<u>4,247</u>	<u>31</u>
		691,187	742,691
Non-current assets classified as held for sale	5(c)	<u>-</u>	<u>2,210</u>
		691,187	744,901
Current liabilities			
Trade and other payables	10	204,744	215,344
Bank loans		54,404	4,989
Current tax payable		<u>4,983</u>	<u>16,900</u>
		264,131	237,233
Net current assets		<u>427,056</u>	<u>507,668</u>
Total assets less current liabilities		811,449	827,868

	Note	2017 HK\$'000	2016 HK\$'000
Non-current liabilities			
Deferred tax liabilities		7,032	238
Provision for long service payments		3,041	3,279
		<u>10,073</u>	<u>3,517</u>
NET ASSETS		<u>801,376</u>	<u>824,351</u>
CAPITAL AND RESERVES			
Share capital		46,994	46,994
Reserves		739,798	759,811
Total equity attributable to equity shareholders of the Company		786,792	806,805
Non-controlling interests		14,584	17,546
TOTAL EQUITY		<u>801,376</u>	<u>824,351</u>

Notes:

1. Basis of preparation

The consolidated results set out in this announcement do not constitute the Group's annual financial statements for the year ended 31 March 2017 but are extracted from those financial statements.

The annual financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Stock Exchange")("Listing Rules").

The measurement basis used in the preparation of the financial statements is the historical cost basis except that investment properties and financial instruments classified as trading securities are stated at their fair value.

Non-current assets classified as held for sale are stated at the lower of carrying amount and fair value less costs to sell.

2. Changes in accounting policies

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented.

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

3. Revenue

The principal activities of the Group are the manufacture, sale and distribution of toys, computer products, housewares, clocks, watches and electronic and gift products.

The Group's customer base is diversified and includes only one (2016: one) customer with whom transactions have exceeded 10% of the Group's revenue. During the year, revenue from sales of toys to this customer amounted to approximately HK\$385,860,000 (2016: HK\$698,360,000). For both years, the sales arose mainly in the North America geographical region in which the toys division is active.

4. 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.

(a) **Segment results, assets and liabilities**

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 years ended 31 March 2017 and 2016 is set out below:

	2017						
	Toys	Computer products	Housewares	Timepieces	Investments	Others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from external customers	563,771	173,792	140,953	216,510	-	-	1,095,026
Inter-segment revenue	-	-	-	-	-	3,580	3,580
Reportable segment revenue	563,771	173,792	140,953	216,510	-	3,580	1,098,606
Reportable segment profit/(loss)	270,816	(46,098)	(260)	(5,738)	13,315	(1,574)	230,461
Interest income	603	1,209	22	28	1,189	-	3,051
Interest expense	(274)	-	-	-	-	(256)	(530)
Depreciation and amortisation for the year	(15,240)	(5,387)	(2,650)	(1,825)	-	(4,008)	(29,110)
Reportable segment assets	362,630	130,670	114,657	123,229	148,608	77,633	957,427
Additions to non-current segment assets during the year	54,908	4,308	5,882	1,128	-	34,080	100,306
Reportable segment liabilities	153,587	17,186	39,548	28,551	-	12,387	251,259

2016

	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 customers	908,585	226,681	129,426	264,293	-	-	1,528,985
Inter-segment revenue	-	-	-	-	-	3,365	3,365
Reportable segment revenue	908,585	226,681	129,426	264,293	-	3,365	1,532,350
Reportable segment profit/(loss)	52,345	13,954	(4,914)	18,342	(8,336)	(829)	70,562
Interest income	250	1,350	12	97	1,473	-	3,182
Interest expense	-	-	-	-	-	(192)	(192)
Depreciation and amortisation for the year	(14,653)	(5,306)	(2,818)	(2,390)	-	(2,328)	(27,495)
Impairment losses on property, plant and equipment	(13,916)	-	-	-	-	-	(13,916)
Reportable segment assets	376,224	195,452	111,612	149,475	146,510	47,484	1,026,757
Additions to non-current segment assets during the year	42,397	6,992	3,177	4,860	-	15	57,441
Reportable segment liabilities	140,559	26,208	33,648	32,532	-	6,357	239,304

(b) **Reconciliations of reportable segment revenue, profit, interest income, interest expense, assets and liabilities**

	2017 HK\$'000	2016 HK\$'000
Revenue		
Reportable segment revenue	1,098,606	1,532,350
Elimination of inter-segment revenue	<u>(3,580)</u>	<u>(3,365)</u>
Consolidated revenue	<u><u>1,095,026</u></u>	<u><u>1,528,985</u></u>
Profit		
Reportable segment profit	230,461	70,562
Unallocated corporate expenses	<u>(28,887)</u>	<u>(22,724)</u>
Consolidated profit before taxation	<u><u>201,574</u></u>	<u><u>47,838</u></u>
Interest income		
Reportable segment interest income	3,051	3,182
Unallocated corporate interest income	<u>142</u>	<u>42</u>
Consolidated interest income	<u><u>3,193</u></u>	<u><u>3,224</u></u>
Interest expense		
Reportable segment interest expense	530	192
Unallocated corporate interest expense	<u>137</u>	<u>-</u>
Consolidated interest expense	<u><u>667</u></u>	<u><u>192</u></u>
Assets		
Reportable segment assets	957,427	1,026,757
Elimination of inter-segment receivables	<u>(19,000)</u>	<u>(20,276)</u>
	938,427	1,006,481
Current tax recoverable	4,247	31
Deferred tax assets	25,276	21,402
Unallocated corporate assets	<u>107,630</u>	<u>37,187</u>
Consolidated total assets	<u><u>1,075,580</u></u>	<u><u>1,065,101</u></u>
Liabilities		
Reportable segment liabilities	251,259	239,304
Elimination of inter-segment payables	<u>(19,000)</u>	<u>(20,276)</u>
	232,259	219,028
Current tax payable	4,983	16,900
Deferred tax liabilities	7,032	238
Unallocated corporate liabilities	<u>29,930</u>	<u>4,584</u>
Consolidated total liabilities	<u><u>274,204</u></u>	<u><u>240,750</u></u>

(c) **Geographical information**

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's investment properties, other property, plant and equipment, interests in leasehold land held for own use under operating leases, intangible assets, deposits for purchase of property, plant and equipment and interest in a joint venture ("specified non-current assets"). The geographical location of customers is based on the location at which the goods were delivered. The geographical location of the specified non-current assets is based on the physical location of the assets, in the case of investment properties, other property, plant and equipment, interests in leasehold land held for own use under operating leases and deposits for purchase of property, plant and equipment, the location of the operation to which they are allocated, in the case of intangible assets, and the location of operations, in the case of interest in a joint venture.

	Revenue from external customers		Specified non-current assets	
	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000
Hong Kong (place of domicile)	84,496	100,605	90,359	65,663
North America	479,138	688,735	3	4
United Kingdom	236,780	272,044	21,952	25,550
Europe (excluding United Kingdom)	130,257	232,667	-	-
Asia (excluding Mainland China and Hong Kong)	52,399	65,222	-	-
Mainland China	65,702	66,442	234,069	196,241
Others	46,254	103,270	-	-
	1,010,530	1,428,380	256,024	221,795
	1,095,026	1,528,985	346,383	287,458

5. Profit before taxation

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

	2017 HK\$'000	2016 HK\$'000
(a) Finance cost		
Interest on bank loans and other borrowings	<u>667</u>	<u>192</u>
(b) Other items		
Depreciation	28,918	27,354
Amortisation		
- land lease premium	124	124
- intangible assets	68	17
Net loss/(gain) on disposal of property, plant and equipment	271	(11,810)
Net realised and unrealised (gains)/losses on trading securities	(10,585)	11,416
Interest income from		
- deposits with banks	(804)	(420)
- trading securities	(1,189)	(1,473)
- a trade debtor	(1,200)	(1,331)
Rental income	(826)	(1,004)
Dividend income from listed securities	(1,540)	(1,603)
Impairment losses on		
- other property, plant and equipment	-	13,916
- trade debtors	30,812	15,459
- other financial assets	4,265	6,700
Reversal of impairment losses on trade debtors	<u>(11,174)</u>	<u>-</u>
(c) The Group recognised a pre-tax gain of HK\$250,515,000 on disposal of properties in Shenzhen (the "Disposal") after deducting stamp duty, value added taxes, surcharges and professional fees. The Land Appreciation Tax and Corporate Income Tax in relation to the Disposal amounted to approximately HK\$15,475,000 and HK\$57,725,000 respectively, where both of which were recognised as income tax expenses as set out in note 6.		

6. Income tax

	2017 HK\$'000	2016 HK\$'000
Hong Kong Profits Tax	3,798	14,684
Taxation outside Hong Kong	59,452	3,173
Land Appreciation Tax	15,475	-
Deferred tax	<u>2,943</u>	<u>(8,267)</u>
	<u>81,668</u>	<u>9,590</u>

The provision for Hong Kong Profits Tax for 2017 is calculated at 16.5% (2016: 16.5%) of the estimated assessable profits for the year.

Taxation for subsidiaries outside Hong Kong is charged at the appropriate current rates of taxation ruling in the relevant tax jurisdictions. The Corporate Income Tax rate applicable to subsidiaries located in the People's Republic of China (the "PRC") is 25% (2016: 25%) for the current year. No provision has been made for subsidiaries located in the United Kingdom for the years ended 31 March 2017 and 2016 because either they sustained a loss for taxation purpose or their tax losses brought forward exceeded the estimated assessable profits for both years.

Land Appreciation Tax is levied on the appreciation of land value in respect of the Disposal.

7. Dividends payable to equity shareholders of the Company attributable to the year

	2017 HK\$'000	2016 HK\$'000
Interim dividend declared and paid of HK4 cents (2016: HK3 cents) per share	24,100	18,075
Final dividend proposed after the end of reporting period of HK4 cents (2016: HK5 cents) per share	<u>24,100</u>	<u>30,125</u>
	<u>48,200</u>	<u>48,200</u>

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

8. Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of HK\$50,115,000 (2016: HK\$39,024,000) and the weighted average number of shares of 602,491,000 (2016: 602,491,000) in issue during the year.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to equity shareholders of the Company of HK\$50,115,000 (2016: HK\$39,024,000) and the weighted average number of shares of 603,152,000 (2016: 602,671,000), calculated as follows:

	Weighted average number of shares (diluted)	
	2017 HK\$'000	2016 HK\$'000
Weighted average number of shares at 31 March	602,491	602,491
Effect of deemed issue of shares under the Company's share option scheme for nil consideration	<u>661</u>	<u>180</u>
Weighted average number of shares (diluted) at 31 March	<u>603,152</u>	<u>602,671</u>

9. Trade and other receivables

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

	At 31 March 2017 HK\$'000	At 31 March 2016 HK\$'000
Within 3 months	132,601	147,392
4 to 6 months	10,130	11,821
7 to 12 months	2,064	14,192
13 to 24 months	13	12,971
	<hr/>	<hr/>
Trade debtors and bills receivable	144,808	186,376
Deposits, prepayments and other receivables	28,686	32,769
	<hr/>	<hr/>
	173,494	219,145

Trade debtors and bills receivable are normally due within 90 days from the date of billing. No trade debtors (2016: HK\$12,782,000) are expected to be recovered after more than one year. 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 (based on the invoice date) with the following ageing analysis as of the end of the reporting period:

	At 31 March 2017 HK\$'000	At 31 March 2016 HK\$'000
Within 1 month	34,303	42,127
Over 1 month but within 3 months	9,553	7,967
Over 3 months	1,328	1,642
	<hr/>	<hr/>
Trade creditors and bills payable	45,184	51,736
Accruals and other payables	159,560	163,608
	<hr/>	<hr/>
	204,744	215,344

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.

11. Non-adjusting events after the reporting period

Subsequent to the end of the reporting period, the directors proposed a final dividend. Further details are disclosed in note 7.

BUSINESS REVIEW

The revenue of the Group for the year ended 31 March 2017 was HK\$1,095 million which was down 28% from HK\$1,529 million in the previous year. The decrease in the Group's revenue mainly came from the Toys Division and, to a lesser extent, the Computer Products and Timepieces Divisions. The net profit attributable to the equity shareholders of the Company was HK\$50.1 million, representing an increase of 28% from HK\$39.0 million a year earlier.

The above-mentioned net profit included a net gain on disposal of properties in Shenzhen (the "Disposal") attributable to the equity shareholders of approximately HK\$106.4 million. Excluding this item, the adjusted net loss attributable to the equity shareholders of the Company for the year under review was HK\$56.3 million. Detailed analysis of the operating results is set out in the following paragraphs.

Toys Division

The Toys Division performed well in the year ended 31 March 2016 due to the strong sales of toys related to a popular movie. However, such strong momentum could not continue in the financial year ended 31 March 2017 and the division's revenue for the full year dropped 38% year-on-year from HK\$909 million to HK\$564 million. Nonetheless, with the gain on the Disposal, the operating profit of the division soared to HK\$270.8 million from HK\$52.3 million a year earlier. In March 2017, the division completed the construction of a factory building in Dongguan at a cost of HK\$23 million. The new factory building has a total floor area of approximately 150,000 square feet, which has boosted the production capacity of the division.

Computer Products Division

The Computer Products Division experienced a tough trading environment with weak demand for thin-film computer heads. As compared with the last financial year, the division's revenue dropped 23% from HK\$227 million to HK\$174 million. At the end of 2016, a major customer failed to make payments on its obligations to the division. As the recovery is in question, the management has decided to recognise an allowance for doubtful debt of HK\$30 million for this customer and legal action is being taken. Coupled with a decline in revenue, the division sustained an operating loss of HK\$46.1 million as compared with an operating profit of HK\$14.0 million in the previous year.

Housewares Division

Following a fire accident at our Zhuhai factory that caused a suspension of production for five weeks in 2015, the Housewares Division saw its revenue for the year ended 31 March 2017 rise 9% year-on-year from HK\$129 million to HK\$141 million. For the year under review, the division's operating loss has shrunk to HK\$0.3 million from HK\$4.9 million a year earlier. Higher operating loss in the previous year was mainly due to a net loss attributable to the fire accident of approximately HK\$4.5 million.

Timepieces Division

The performance of the Timepieces Division remained unsatisfactory amid weak consumer sentiment. The division's revenue for the year ended 31 March 2017 decreased by 18% year-on-year from HK\$264 million to HK\$217 million. With lower revenue and the absence of a net gain of HK\$13.8 million from the disposal of properties last year, the division recorded an operating loss of HK\$5.7 million as compared with an operating profit of HK\$18.3 million in the previous year.

Other Investments

For the year ended 31 March 2017, the Group recognised net realised and unrealised gains on trading securities of HK\$10.6 million (2016: losses of HK\$11.4 million) and impairment losses on other financial assets of HK\$4.3 million (2016: HK\$6.7 million). The dividend and interest income on trading securities amounted to HK\$2.7 million for the year (2016: HK\$3.1 million). At 31 March 2017, the Group's trading securities amounted to HK\$134 million, a decrease of HK\$9 million from last year.

During the year under review, the Group acquired a property in Wong Chuk Hang at a cost of HK\$34 million for use by the Computer Products Division. The acquisition was financed partly by internal funding and partly by a mortgage loan of HK\$12.4 million, repayable over 5 years and secured by the property.

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 2017, the total assets amounted to HK\$1,076 million (2016: HK\$1,065 million) which were financed by current liabilities of HK\$264 million (2016: HK\$237 million), non-current liabilities of HK\$10 million (2016: HK\$4 million), non-controlling interests of HK\$15 million (2016: HK\$18 million) and equity attributable to the Company's equity shareholders of HK\$787 million (2016: HK\$807 million).

At 31 March 2017, the Group's cash balances aggregated to HK\$197 million, up from HK\$180 million a year ago. The current assets at 31 March 2017 amounted to HK\$691 million (2016: HK\$745 million). The inventories decreased from HK\$201 million to HK\$183 million and the trade and other receivables decreased from HK\$219 million to HK\$173 million. The trading securities at 31 March 2017 amounted to HK\$134 million (2016: HK\$143 million).

At 31 March 2017, the Group's current liabilities increased to HK\$264 million from HK\$237 million last year. The bank loans amounted to HK\$54 million (2016: HK\$5 million) which included revolving loans of HK\$42 million (2016: Nil) and mortgage loan balances of HK\$12 million (2016: HK\$5 million), the latter of which were secured by two (2016: one) of the Group's properties with a carrying value of HK\$64 million (2016: HK\$33 million). The mortgage loan balances of HK\$11 million and HK\$1 million are repayable by fixed monthly instalments with maturity date in August 2021 and July 2017 respectively. Certain trading securities and bank deposits amounting to HK\$127 million (2016: HK\$128 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 2017 was 25% (2016: 23%). At 31 March 2017, the Group's working capital ratio, an indicator of liquidity represented by a ratio between the current assets and the current liabilities, was 2.62 as compared to 3.14 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 equivalents over current liabilities, decreased to 1.24 from 1.53 in the previous year.

CONTINGENT LIABILITIES

As at 31 March 2017, 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.

PROSPECTS AND GENERAL OUTLOOK

The Toys Division started the new financial year with a strong order position. Projections from our customers indicate that the business of the division for the year ending 31 March 2018 will be better than that a year earlier. However, labour shortages in Southern China continue to be a major concern for the division.

The outlook for the Computer Products Division appears positive for the year ending 31 March 2018 as the sales of thin film computer heads are expected to pick up. Meanwhile, the management is optimistic about the prospects of smart connected devices.

Both the Housewares and Timepieces Divisions continue to face a challenging retail environment. Nevertheless, as these divisions are putting more effort into boosting sales and cutting costs, the management expects that their performance in the new financial year will improve over last year.

The Group's overall orders at the end of May 2017 surged 23% from those at the same time in 2016. With stronger orders on hand, the management remains optimistic about the results of the Group for the year ending 31 March 2018.

DIVIDEND

At the forthcoming Annual General Meeting to be held on 15 September 2017, the directors will recommend a final dividend of HK4 cents per share (2016: HK5 cents). Together with the interim dividend of HK4 cents (2016: HK3 cents), the dividend payment for the year of HK8 cents (2016: HK8 cents) would represent an annual return of 7.3% (2016: 8.0%) on the Company's average share price of HK\$1.09 (2015: HK\$1.00) in the year ended 31 March 2017.

The final dividend which will amount to HK\$24.1 million is calculated on the total number of shares in issue as at 28 June 2017, 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, 15 September 2017. 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, 11 September 2017 to Friday, 15 September 2017, 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 Friday, 8 September 2017.

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, 27 September 2017. For determining the

entitlement to the proposed final dividend, the register of members of the Company will be closed from Tuesday, 26 September 2017 to Wednesday, 27 September 2017, 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, 25 September 2017. The payment of final dividend, if approved at the Annual General Meeting, will be made on Friday, 13 October 2017.

EMPLOYEES

As at 31 March 2017, the number of employees of the Group was approximately 221 in Hong Kong, 4,973 in Mainland China and 76 in Europe. The Group ensures that its employee's remuneration packages are competitive. Employees are rewarded based on their performance and experience and the prevailing industry practice. Total staff costs for the year amounted to HK\$390,297,000 (2016: HK\$525,557,000).

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 year ended 31 March 2017.

AUDIT COMMITTEE

The audit committee reports to the Board and currently comprises three independent non-executive directors, namely Mr 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 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 annual results of the Group have been reviewed by the audit committee of the Company.

REMUNERATION COMMITTEE

The Company has established a remuneration committee which currently comprises two independent non-executive directors, namely Mr 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 Mr 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 with the code provisions of the Corporate Governance Code (the “CG Code”) as set out in Appendix 14 to the Listing Rules throughout the year ended 31 March 2017 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 OF SECURITIES TRANSACTIONS

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 of 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 ANNUAL RESULTS AND ANNUAL 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 2017 annual report containing all the information required by the Listing Rules will be dispatched to the shareholders and published on the Stock Exchange’s website and the Company’s website in due course.

By Order of the Board
Robert Dorfman
Chairman

Hong Kong, 29 June 2017

As at the date of this announcement, the Board of Directors of the Company comprises Messrs. Robert Dorfman, Shum Kam Hung and Cheung Tsang Kay, Stan as executive directors; and Messrs. Lie-A-Cheong Tai Chong, David, Yeh Man Chun, Kent and Ng Tze Kin, David as independent non-executive directors.

**For identification only*