



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 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

	2017 HK\$'000	2016 HK\$'000
Revenue	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	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	<u>(667)</u>	<u>(192)</u>
Profit before taxation	201,574	47,838
Income tax	<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	<u>HK8.32 cents</u>	<u>HK6.48 cents</u>
Diluted	<u>HK8.31 cents</u>	<u>HK6.48 cents</u>

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

	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

	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>
	<u>384,393</u>	<u>320,200</u>
Current assets		
Trading securities	133,972	142,704
Inventories	182,770	200,963
Trade and other receivables	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	<u>-</u>	<u>2,210</u>
	<u>691,187</u>	<u>744,901</u>
Current liabilities		
Trade and other payables	204,744	215,344
Bank loans	54,404	4,989
Current tax payable	<u>4,983</u>	<u>16,900</u>
	<u>264,131</u>	<u>237,233</u>
Net current assets	<u>427,056</u>	<u>507,668</u>
Total assets less current liabilities	<u>811,449</u>	<u>827,868</u>

	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	<u>14,584</u>	<u>17,546</u>
TOTAL EQUITY	<u>801,376</u>	<u>824,351</u>

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.

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.

Herald Holdings Limited
Hong Kong, 29 June 2017

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**For identification only*