

# MATRIX

Matrix Holdings Limited  
美力時集團有限公司

(Incorporated in Bermuda with limited liability)  
Stock Code : 1005



Interim Report  
**2017**

## ***Our Mission***

- **Enhance customer satisfaction** through delivery of high quality products that meet **world safety standard**
- Be a **socially responsible employer** by providing **safe and pleasant** working environment to workers
- Be **environmentally responsible** in all its manufacturing processes through **recycling** and **adherence** to international environmental protection laws
- Optimise shareholders' return by pursuing **business growth, diversification** and **productivity enhancement**

## Corporate Information

### BOARD OF DIRECTORS

#### *Executive Directors*

Cheng Yung Pun (*Chairman*)

Cheng King Cheung

Leung Hong Tai

Tsang Chung Wa

Tse Kam Wah

Yu Sui Chuen

#### *Independent Non-executive Directors*

Loke Yu alias Loke Hoi Lam

Mak Shiu Chung, Godfrey

Wan Hing Pui

Heng Victor Ja Wei

### AUDIT COMMITTEE & REMUNERATION COMMITTEE

Loke Yu alias Loke Hoi Lam (*Chairman*)

Mak Shiu Chung, Godfrey

Wan Hing Pui

Heng Victor Ja Wei

### NOMINATION COMMITTEE

Cheng Yung Pun (*Chairman*)

Loke Yu alias Loke Hoi Lam

Mak Shiu Chung, Godfrey

Wan Hing Pui

Heng Victor Ja Wei

### COMPANY SECRETARY

Lai Mei Fong

### AUDITOR

Deloitte Touche Tohmatsu

35/F, One Pacific Place

88 Queensway, Admiralty Hong Kong

### REGISTERED OFFICE

Canon's Court

22 Victoria Street

Hamilton HM12

Bermuda

### SHARE REGISTRAR

MUFG Fund Services (Bermuda) Limited

The Belvedere Building

69 Pitts Bay Road

Pembroke HM08

Bermuda

### BRANCH SHARE REGISTRAR IN HONG KONG

Tricor Secretaries Limited

Level 22, Hopewell Centre

183 Queen's Road East

Hong Kong

### PRINCIPAL PLACE OF BUSINESS

Suite Nos. 223-231

2nd Floor, Tsim Sha Tsui Centre

66 Mody Road

Tsim Sha Tsui East

Kowloon, Hong Kong

### PRINCIPAL BANKERS

Bank of China, Macau Branch

DBS Bank (Hong Kong) Limited

### WEBSITE

[www.irasia.com/listco/hk/matrix/index.htm](http://www.irasia.com/listco/hk/matrix/index.htm)

### STOCK CODE

1005 (Main Board of The Stock Exchange of  
Hong Kong Limited)

## Result Highlights

<b>FINANCIAL HIGHLIGHTS</b>			
	<b>Six months ended 30th June,</b>		
	<b>2017</b>	2016	Changes
Revenue ( <i>HK\$'000</i> )	<b>664,787</b>	590,679	12.5%
Profit attributable to owners of the Company ( <i>HK\$'000</i> )	<b>46,184</b>	50,690	(8.9%)
Basic earnings per share ( <i>HK cents</i> )	<b>6</b>	7	(14.3%)
Interim dividend, declared ( <i>HK cents</i> )	<b>4.5</b>	4.5	–
Gross profit margin ratio (%)	<b>31.5%</b>	33.7%	(2.2%)

The board (the "Board") of directors (the "Directors") of Matrix Holdings Limited (the "Company") announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30th June, 2017, together with the comparative figures for the corresponding period in 2016.

The Group's consolidated revenue for the six months ended 30th June, 2017 increased by HK\$74,108,000 or 12.5% to HK\$664,787,000 from HK\$590,679,000 for the corresponding period of last year. The profit attributable to the owners of the Company decreased by HK\$4,506,000 or 8.9% to HK\$46,184,000 as compared with the profit of HK\$50,690,000 for the corresponding period of last year.

Benefiting from the increase of orders from a major customer of Original Equipment Manufacturing ("OEM") business in the US, our Group has recorded an increase of revenue for the period under review. In the same period, with a view to enhancing the market share, the Group has implemented strategic acquisition plans to enrich its businesses and has acquired new product intellectual properties to improve the product diversification for customer and design ability, thus accelerating the sales growth of original brand products. Our strategy that achieves long-term and diversified development through the synergistic effect created by diversified product portfolio has served its purpose for broadening income sources and customer levels. The acquisition of British company by the Group increased sales volume of lighting product in the European market. Overall speaking, the increase of revenue from OEM business and outdoor products under Original Design Manufacturing ("ODM") business has offset the decrease of revenue from toy cars product, plush products and girls' role playing products under ODM business caused by the slower sales growth. As the result of the above, the Group has recorded an increase for its overall turnover.

The Group's administrative expenses recorded an increase and the Group's profit recorded a decrease as compared with the corresponding period last year.

For the six months ended 30th June, 2017, the US continued to be the largest customer market of the Group, accounted for approximately 87.5% of the Group's total turnover (2016: 90.4%). The other significant customer markets for the Group included Europe, Canada and Australia, which accounted for approximately 6.6% (2016: 1.8%), 3.5% (2016: 4.4%) and 1.4% (2016: 1.7%) of the Group's total turnover respectively.

# Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30th June, 2017

		<b>Six months ended 30th June,</b>	
		<b>2017</b>	2016
		<b>HK\$'000</b>	HK\$'000
	<i>Note</i>	<b>(Unaudited)</b>	(Unaudited)
Revenue	4	<b>664,787</b>	590,679
Cost of sales		<b>(455,098)</b>	(391,390)
Gross profit		<b>209,689</b>	199,289
Other income		<b>940</b>	268
Distribution and selling costs		<b>(57,042)</b>	(62,214)
Administrative expenses		<b>(98,786)</b>	(73,535)
Other losses		<b>(808)</b>	(2,826)
Research and development costs		<b>(8,766)</b>	(9,929)
Finance costs		<b>(22)</b>	(5)
Profit before taxation		<b>45,205</b>	51,048
Income tax expense	5	<b>(68)</b>	(358)
Profit for the period	6	<b>45,137</b>	50,690
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Currency translation differences		<b>(2,423)</b>	3,889
Total comprehensive income for the period, net of tax		<b>42,714</b>	54,579
Profit/(loss) for the period attributable to owners of the Company		<b>46,184</b>	50,690
Non-controlling interests		<b>(1,047)</b>	–
		<b>45,137</b>	50,690
Total comprehensive income/(expense) for the period attributable to owners of the Company		<b>43,761</b>	54,579
Non-controlling interests		<b>(1,047)</b>	–
		<b>42,714</b>	54,579
Earnings per share for the period attributable to owners of the Company (expressed in HK cents per share)			
Basic	8	<b>6</b>	7
Diluted	8	<b>6</b>	7

The notes on pages 7 to 24 form an integral part of this condensed consolidated financial information.

# Condensed Consolidated Statement of Financial Position

At 30th June, 2017

		30th June, 2017 HK\$'000 (Unaudited)	31st December, 2016 HK\$'000 (Audited)
	Note		
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	9	171,723	136,339
Leasehold land and land use rights	10	12,596	12,837
Intangible assets	11	116,117	96,822
Deferred tax assets		6,224	6,220
Other non-current assets		193,315	186,000
		<b>499,975</b>	438,218
<b>Current assets</b>			
Inventories		339,468	324,838
Trade and other receivables and prepayments	12	240,386	275,841
Tax recoverable		2,420	18
Pledged bank deposit		136	136
Cash and cash equivalents		112,559	143,381
		<b>694,969</b>	744,214
<b>Total assets</b>		<b>1,194,944</b>	1,182,432
<b>EQUITY</b>			
<b>Capital and reserves</b>			
Share capital	14	75,620	75,620
Reserves		895,389	904,562
Equity attributable to owners of the Company		971,009	980,182
Non-controlling interests		8,012	–
<b>Total equity</b>		<b>979,021</b>	980,182
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Obligation under finance leases		2,188	–
Deferred tax liabilities		1,262	663
		<b>3,450</b>	663
<b>Current liabilities</b>			
Trade and other payables and accruals	13	197,972	191,687
Tax payable		782	8,537
Obligation under finance leases		1,718	–
Bank borrowings	15	12,001	1,363
		<b>212,473</b>	201,587
<b>Total liabilities</b>		<b>215,923</b>	202,250
<b>Total equity and liabilities</b>		<b>1,194,944</b>	1,182,432

The notes on pages 7 to 24 form an integral part of this condensed consolidated financial information.

# Condensed Consolidated Statement of Changes in Equity

For the six months ended 30th June, 2017

	(Unaudited) Attributable to owners of the Company							Non- controlling interests HK\$'000	Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Shareholders' contribution HK\$'000 (Note a)	Other reserves HK\$'000 (Note b)	Translation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000		
Balance at 1st January, 2017	75,620	189,090	21,028	(150)	(45,034)	739,628	980,182	-	980,182
Profit for the period	-	-	-	-	-	46,184	46,184	(1,047)	45,137
<b>Other comprehensive income</b>									
Currency translation differences	-	-	-	-	(2,423)	-	(2,423)	-	(2,423)
Total other comprehensive income	-	-	-	-	(2,423)	-	(2,423)	-	(2,423)
<b>Total comprehensive income</b>	-	-	-	-	(2,423)	46,184	43,761	(1,047)	42,714
Acquisition of subsidiaries (note 17)	-	-	-	-	-	-	-	9,059	9,059
Dividends paid (note 7)	-	-	-	-	-	(52,934)	(52,934)	-	(52,934)
	-	-	-	-	-	(52,934)	(52,934)	9,059	(43,875)
<b>Balance at 30th June, 2017</b>	<b>75,620</b>	<b>189,090</b>	<b>21,028</b>	<b>(150)</b>	<b>(47,457)</b>	<b>732,878</b>	<b>971,009</b>	<b>8,012</b>	<b>979,021</b>

	(Unaudited) Attributable to owners of the Company							Non- controlling interests HK\$'000	Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Shareholders' contribution HK\$'000 (Note a)	Other reserves HK\$'000 (Note b)	Translation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000		
Balance at 1st January, 2016	75,620	189,090	21,028	(150)	(49,993)	749,310	984,905	-	984,905
Profit for the period	-	-	-	-	-	50,690	50,690	-	50,690
<b>Other comprehensive income</b>									
Currency translation differences	-	-	-	-	3,889	-	3,889	-	3,889
Total other comprehensive income	-	-	-	-	3,889	-	3,889	-	3,889
<b>Total comprehensive income</b>	-	-	-	-	3,889	50,690	54,579	-	54,579
Dividends paid (note 7)	-	-	-	-	-	(98,306)	(98,306)	-	(98,306)
	-	-	-	-	-	(98,306)	(98,306)	-	(98,306)
<b>Balance at 30th June, 2016</b>	<b>75,620</b>	<b>189,090</b>	<b>21,028</b>	<b>(150)</b>	<b>(46,104)</b>	<b>701,694</b>	<b>941,178</b>	<b>-</b>	<b>941,178</b>

Notes:

- The shareholders' contribution represented the deemed contribution arising from the loan from ultimate holding company which is non-current and interest-free.
- Other reserves mainly comprise statutory reserve in People's Republic of China (the "PRC") and Macau legal reserve.

The notes on pages 7 to 24 form an integral part of this condensed consolidated financial information.

# Condensed Consolidated Statement of Cash Flows

For the six months ended 30th June, 2017

	Six months ended 30th June,	
	2017	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(Unaudited)</b>	(Unaudited)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
NET CASH GENERATED FROM OPERATING ACTIVITIES	<b>85,318</b>	137,314
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	<b>(29,835)</b>	(5,155)
Proceeds from disposal of property, plant and equipment	<b>30</b>	–
Interest received	<b>19</b>	10
Net cash outflow from acquisition of subsidiaries	<b>(21,427)</b>	–
Payment for the purchase of patents	<b>(7,315)</b>	–
Payment for the purchase of other non-current assets	<b>(7,315)</b>	–
NET CASH USED IN INVESTING ACTIVITIES	<b>(65,843)</b>	(5,145)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Dividends paid	<b>(52,934)</b>	(98,306)
Repayments of bank borrowings	<b>(1,165)</b>	(34)
Repayments of obligation under finance leases	<b>(175)</b>	–
New bank borrowings raised	<b>3,977</b>	–
NET CASH USED IN FINANCING ACTIVITIES	<b>(50,297)</b>	(98,340)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	<b>(30,822)</b>	33,829
CASH AND CASH EQUIVALENTS AT 1ST JANUARY	<b>143,381</b>	129,652
CASH AND CASH EQUIVALENTS AT 30TH JUNE	<b>112,559</b>	163,481

The notes on pages 7 to 24 form an integral part of this condensed consolidated financial information.

# Notes to the Condensed Consolidated Financial Information

For the six months ended 30th June, 2017

## 1. GENERAL INFORMATION

The principal activity of Matrix Holdings Limited (the "Company") is investment holding.

The Company and its subsidiaries (collectively referred to as the "Group"), are principally engaged in the manufacturing and trading of toys and lighting products.

The Company is an exempted limited liability company incorporated in Bermuda. The address of its registered office is Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda.

The Company is listed on The Stock Exchange of Hong Kong Limited.

This condensed consolidated interim financial information is presented in thousands of Hong Kong dollar (HK\$'000), unless otherwise stated.

This condensed consolidated interim financial information was approved for issue on 24th August, 2017.

This condensed consolidated interim financial information has not been audited.

## 2. BASIS OF PREPARATION

The unaudited condensed consolidated interim financial information for the six months ended 30th June, 2017 has been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The unaudited condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31st December, 2016, which have been prepared in accordance with Hong Kong Financial Reporting Standard ("HKFRS").

## 3. PRINCIPAL ACCOUNTING POLICIES

The accounting policies applied to this condensed consolidated interim financial information are consistent with those of the annual financial statements for the year ended 31st December, 2016 as described in those annual financial statements except that income tax is accrued using the tax rate that would be applicable to expected total annual earnings.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

# Notes to the Condensed Consolidated Financial Information (Continued)

For the six months ended 30th June, 2017

## 3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

- (a) The following amendments to standards and annual improvements are mandatory for the first time for the financial year beginning 1st January, 2017:

Amendments to HKAS 7	Disclosure initiative
Amendments to HKAS 12	Recognition of deferred tax assets for unrealised losses
Amendments to HKFRS 12	As part of the annual improvements to HKFRSs 2014 – 2016 cycle

The Group has adopted amendments to these standards and the adoption of these standards did not have significant impacts on the Group's results and financial position.

There are no other new standards or amendments to standards that are effective for the first time for this interim period that could be expected to have a material impact on the Group.

- (b) The following new standards, amendments to standards and annual improvement have been issued but are not effective for the financial year beginning 1st January, 2017 and have not been early adopted by the Group:

		<b>Effective for accounting period beginning on or after</b>
HKFRS 9	Financial instruments	1st January, 2018
HKFRS 15	Revenue from contracts with customers and the related amendments	1st January, 2018
HKFRS 16	Leases	1st January, 2019
HK(IFRIC)-Int 22	Foreign currency transactions and advance consideration	1st January, 2018
HK(IFRIC)-Int 23	Uncertainty over income tax treatments	1st January, 2019
Amendments to HKFRS 2	Classification and measurement of share-based payment	1st January, 2018
Amendments to HKFRS 4	Applying HKFRS 9 Financial instruments with HKFRS 4 Insurance contracts	1st January, 2018
Amendments to HKFRS 10 and HKAS 28	Sales or contribution of assets between an investor and its associate or joint venture	To be determined by HKICPA
Amendments to HKAS 40	Transfers of investment property	1st January, 2018
Amendments to HKFRSs	Annual improvements to HKFRSs 2014-2016 cycle except for amendments to HKFRS 12	1st January, 2018

# Notes to the Condensed Consolidated Financial Information (Continued)

*For the six months ended 30th June, 2017*

## **3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)**

The directors of the Company are in the process of assessing the financial impact of the adoption of the above new standards, amendments to standards and annual improvement. The directors of the Company will adopt the new standards, amendments to standards and annual improvement when they become effective.

## **4. SEGMENT INFORMATION**

The chief operating decision-makers ("CODM") has been identified as the Executive Directors. Reportable segments are reported in a manner consistent with internal reports of the Group that are regularly reviewed by CODM in order to assess performance and allocate resources. The CODM assess the performance of the reportable segments based on the profit or loss generated.

Therefore, the Group's operating segments under HKFRS 8 are the United States, Europe, Mexico, Canada, South America, Australia and New Zealand and other locations.

CODM assesses the performance of the operating segments based on segment results. Finance income and costs, corporate income and expenses are not included in the results for each operating segment that is reviewed by the CODM. Other information provided to the CODM is measured in a manner consistent with that in the condensed consolidated financial information.

Assets of reportable segments exclude property, plant and equipment, intangible assets, deferred tax assets and corporate assets, all of which are managed on a central basis. Liabilities of reportable segments exclude current and deferred tax liabilities, bank borrowings and other corporate liabilities. These are part of the reconciliation to total assets and liabilities of the condensed consolidated statement of financial position.

The revenue from external parties, assets and liabilities, reported to the CODM is measured in a manner consistent with that in the condensed consolidated statement of profit or loss and other comprehensive income and financial position.

There are two main businesses of the Group, including toys and lighting business. CODM did not consider the lighting business as separate segment for the period and it is not material to the Group.

# Notes to the Condensed Consolidated Financial Information (Continued)

For the six months ended 30th June, 2017

## 4. SEGMENT INFORMATION (CONTINUED)

### Segment revenue and results

The following is an analysis of the Group's revenue and results for the period by operating segment:

#### For the six months ended 30th June, 2017 (unaudited)

	The United States HK\$'000	Europe HK\$'000	Canada HK\$'000	South America HK\$'000	Australia and New Zealand HK\$'000	Mexico HK\$'000	Other locations HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
<b>Revenue</b>									
External sales	581,971	44,135	23,574	2,187	9,511	1,461	1,948	-	664,787
<b>Results</b>									
Segment profit/(loss)	118,756	774	2,387	171	(1,110)	96	(1,343)	-	119,731
Unallocated income									19
Unallocated expenses									(74,523)
Finance costs									(22)
Profit before taxation									45,205
Other segment information: Depreciation and amortisation	14,304	2,577	514	88	245	51	42	1,113	18,934

#### For the six months ended 30th June, 2016 (unaudited)

	The United States HK\$'000	Europe HK\$'000	Canada HK\$'000	South America HK\$'000	Australia and New Zealand HK\$'000	Mexico HK\$'000	Other locations HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
<b>Revenue</b>									
External sales	533,974	10,431	25,968	3,566	10,324	1,709	4,707	-	590,679
<b>Results</b>									
Segment profit/(loss)	104,556	(1,967)	3,109	506	(4)	243	(785)	-	105,658
Unallocated income									18
Unallocated expenses									(54,623)
Finance costs									(5)
Profit before taxation									51,048
Other segment information: Depreciation and amortisation	13,844	270	673	92	268	44	122	2,948	18,261

*Note:* Other locations include the PRC (including Hong Kong), Korea, Asia Pacific, Saudi Arabia and others. These locations are considered by the CODM as one operating segment.

Segment profit/(loss) represents the profit/(loss) before taxation earned by each segment without allocation of investment income, other non-operating income, central administration costs and finance costs. This is the measure reported to the CODM, for the purposes of resource allocation and performance assessment.

# Notes to the Condensed Consolidated Financial Information (Continued)

For the six months ended 30th June, 2017

## 4. SEGMENT INFORMATION (CONTINUED)

### Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by operating segment for the period under review.

At 30th June, 2017 (Unaudited)	The United States HK\$'000	Europe HK\$'000	Canada HK\$'000	South America HK\$'000	Australia and New Zealand HK\$'000	Mexico HK\$'000	Other locations HK\$'000	Consolidated HK\$'000
<b>ASSETS</b>								
Segment assets	413,965	49,971	21,992	1,733	8,738	1,056	82,398	579,853
Property, plant and equipment								171,723
Leasehold land and land use rights								12,596
Unallocated and other corporate assets								430,772
Total assets								1,194,944
<b>LIABILITIES</b>								
Segment liabilities	93,294	14,546	3,492	324	1,767	216	10,233	123,872
Unallocated and other corporate liabilities								92,051
Total liabilities								215,923

At 30th June, 2016 (Unaudited)	The United States HK\$'000	Europe HK\$'000	Canada HK\$'000	South America HK\$'000	Australia and New Zealand HK\$'000	Mexico HK\$'000	Other locations HK\$'000	Consolidated HK\$'000
<b>ASSETS</b>								
Segment assets	339,439	21,391	24,441	2,983	14,550	1,442	62,423	466,669
Property, plant and equipment								137,006
Leasehold land and land use rights								13,078
Unallocated and other corporate assets								455,730
Total assets								1,072,483
<b>LIABILITIES</b>								
Segment liabilities	53,272	1,062	2,230	306	1,215	147	19,609	77,841
Unallocated and other corporate liabilities								53,464
Total liabilities								131,305

For the purpose of monitoring segment performances and allocating resources between segments, only inventories, trade receivables and certain other receivables are allocated to segment assets, and only trade payables and certain other payables and accruals are allocated to segment liabilities.

### Other segment information

No analysis of capital expenditures, depreciation, amortisation of leasehold land and land use rights and amortisation of intangible assets is disclosed for both periods as these items are neither included in segment assets nor segment results and are not reviewed by the CODM regularly.

# Notes to the Condensed Consolidated Financial Information (Continued)

For the six months ended 30th June, 2017

## 4. SEGMENT INFORMATION (CONTINUED)

### Revenue from major products

	Six months ended 30th June,	
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Toys	631,378	579,582
Lighting products	33,409	11,097
	<b>664,787</b>	590,679

### Geographical information

The Group's operations are located in Hong Kong, Vietnam, the United States, the PRC, Europe and other countries.

The Group's information about its non-current assets by geographical location of the assets is detailed below:

	30th June, 2017 HK\$'000 (Unaudited)	31st December, 2016 HK\$'000 (Audited)
Hong Kong	1,636	1,900
Vietnam	96,261	82,462
The United States	16,478	13,575
The PRC	236,182	236,250
Europe	21,117	786
Other countries	5,960	203
	<b>377,634</b>	335,176

### Information about major customers

For the period ended 30th June, 2017, there are 2 customers (2016: 2 customers) in the United States with revenue contributing to approximately 61.4% and 13.7% (2016: 55.6% and 21.4%), respectively, of the total revenue of the Group. There is no other single customer contributing over 10% of the total revenue of the Group.

# Notes to the Condensed Consolidated Financial Information (Continued)

For the six months ended 30th June, 2017

## 5. INCOME TAX EXPENSE

	Six months ended 30th June,	
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Current tax:		
Hong Kong	238	100
Other jurisdictions	1,358	792
	<b>1,596</b>	892
Over-provision in prior years		
Other jurisdictions	(1,528)	(534)
	<b>(1,528)</b>	(534)
Income tax expense	<b>68</b>	358

- (i) Hong Kong profits tax has been provided for at the rate of 16.5% (2016: 16.5%) on the estimated assessable profit for the period. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.
- (ii) The applicable tax rates for subsidiaries operate in Vietnam is 10.0% to 20.0% for the period ended 30th June, 2017 (2016: 7.5% to 20.0%).
- (iii) The applicable US enterprise income tax rate for subsidiaries operate in the United States of America is 34% (2016: 34%) since the date of operation.

## 6. PROFIT FOR THE PERIOD

Certain expenses included in cost of sales, distribution and selling costs, administrative expenses, research and development costs and other losses are analysed as follows:

	Six months ended 30th June,	
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Auditor's remuneration	2,906	2,720
Depreciation of property, plant and equipment	18,018	18,021
Operating lease rental in respect of buildings	13,551	11,973
Amortisation of leasehold land and land use rights	241	240
Amortisation of intangible assets	675	–
Net exchange loss	808	2,826

# Notes to the Condensed Consolidated Financial Information (Continued)

For the six months ended 30th June, 2017

## 7. DIVIDEND

A dividend of HK\$52,934,000 that relates to the year ended 31st December, 2016 was paid in May 2017 (2016: HK\$98,306,000).

On 24th August, 2017, the board of directors has resolved to declare an interim dividend of HK4.5 cents per share (2016: HK4.5 cents per share), which is payable on 28th September, 2017 to shareholders who are on the register at 11th September, 2017. This interim dividend has not been recognised as a liability in this interim financial information. It will be recognised in shareholders' equity in the year ending 31st December, 2017.

## 8. EARNINGS PER SHARE

### (a) Basic

Basic earnings per share attributable to owners of the Company is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the period.

	Six months ended 30th June,	
	2017 (Unaudited)	2016 (Unaudited)
Profit attributable to owners of the Company (HK\$'000)	46,184	50,690
Weighted average number of ordinary shares in issue (thousands)	756,203	756,203
Basic earnings per share attributable to equity holders of the Company (HK cents)	6	7

### (b) Diluted

Dilutive earnings per share for the six months ended 30th June, 2016 was of the same amount as the basic earnings per share as there were no potential dilutive ordinary shares outstanding during the period.

The computation of diluted earnings per share for the six months ended 30th June, 2017 did not assume the exercise of the Company's options because the exercise price of these options was higher than the average market price for shares for current interim period.

# Notes to the Condensed Consolidated Financial Information (Continued)

For the six months ended 30th June, 2017

## 9. PROPERTY, PLANT AND EQUIPMENT

	(Unaudited) HK\$'000
<b>Six months ended 30th June, 2017</b>	
<b>Net book value as at 1st January, 2017</b>	<b>136,339</b>
Additions	29,835
Acquisition of subsidiaries (note 17)	21,348
Depreciation	(18,018)
Disposals	(162)
Exchange realignment	2,381
<b>Net book value as at 30th June, 2017</b>	<b>171,723</b>
(Unaudited) HK\$'000	
<b>Six months ended 30th June, 2016</b>	
Net book value as at 1st January, 2016	149,442
Additions	5,155
Depreciation	(18,021)
Exchange realignment	430
Net book value as at 30th June, 2016	137,006

## 10. LEASEHOLD LAND AND LAND USE RIGHTS

	(Unaudited) HK\$'000
<b>Six months ended 30th June, 2017</b>	
<b>Net book value as at 1st January, 2017</b>	<b>12,837</b>
Amortisation	(241)
<b>Net book value as at 30th June, 2017</b>	<b>12,596</b>
(Unaudited) HK\$'000	
<b>Six months ended 30th June, 2016</b>	
Net book value as at 1st January, 2016	13,318
Amortisation	(240)
Net book value as at 30th June, 2016	13,078

# Notes to the Condensed Consolidated Financial Information (Continued)

For the six months ended 30th June, 2017

## 11. INTANGIBLE ASSETS

	(Unaudited) HK\$'000
<b>Net book value as at 1st January, 2016 and 2017</b>	<b>96,822</b>
Additions	7,315
Acquisition of subsidiaries (note 17)	12,190
Amortisation	(675)
Exchange realignment	465
<b>Net book value as at 30th June, 2017</b>	<b>116,117</b>

## 12. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	30th June, 2017 HK\$'000 (Unaudited)	31st December, 2016 HK\$'000 (Audited)
Trade receivables	155,736	217,472
Less: allowance for doubtful debts	(3,569)	(5,113)
	<b>152,167</b>	212,359
Other receivables, deposits and prepayments	88,219	63,482
	<b>240,386</b>	275,841

The Group allows a credit period of 14 to 90 days to its trade customers. An ageing analysis of trade receivables is as follows:

	30th June, 2017 HK\$'000 (Unaudited)	31st December, 2016 HK\$'000 (Audited)
0 – 60 days	109,738	170,310
61 – 90 days	34,970	36,134
> 90 days	7,459	5,915
	<b>152,167</b>	212,359

## Notes to the Condensed Consolidated Financial Information (Continued)

For the six months ended 30th June, 2017

### 13. TRADE AND OTHER PAYABLES AND ACCRUALS

	<b>30th June, 2017 HK\$'000 (Unaudited)</b>	31st December, 2016 HK\$'000 (Audited)
Trade payables	98,483	86,137
Other payables and accruals	99,489	105,550
	<b>197,972</b>	191,687

At 30th June, 2017 and 31st December, 2016, the ageing analysis of the trade payables based on invoice date was as follows:

	<b>30th June, 2017 HK\$'000 (Unaudited)</b>	31st December, 2016 HK\$'000 (Audited)
0 – 60 days	62,160	55,110
61 – 90 days	14,798	16,042
> 90 days	21,525	14,985
	<b>98,483</b>	86,137

### 14. SHARE CAPITAL

	<b>Ordinary shares of HK\$0.1 each Number of shares (in thousands)</b>	<b>Share capital HK\$'000</b>
Ordinary shares, issued and fully paid:		
<b>At 1st January, 2017 and 30th June, 2017</b>	<b>756,203</b>	<b>75,620</b>
At 1st January, 2016 and 30th June, 2016	756,203	75,620

The total authorised number of ordinary shares is 1,000 million shares (2016: 1,000 million shares) with a par value of HK\$0.1 per share (2016: HK\$0.1 per share). All issued shares are fully paid.

# Notes to the Condensed Consolidated Financial Information (Continued)

For the six months ended 30th June, 2017

## 15. BANK BORROWINGS

	<b>30th June, 2017</b>	31st December, 2016
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Audited)
Secured	<b>12,001</b>	1,363

At 30th June, 2017, the Group's bank borrowings of HK\$11,967,000 were denominated in British Pounds ("GBP") and repayable within three months. The carrying value of the bank borrowings approximated its fair value.

Movements in bank borrowings are analysed as follows:

	<b>(Unaudited)</b> <b>HK\$'000</b>
<b>Six months ended 30th June, 2017</b>	
Opening balance as at 1st January, 2017	<b>1,363</b>
Acquisition of subsidiaries ( <i>note 17</i> )	<b>7,826</b>
Drawdown of bank borrowings	<b>3,977</b>
Repayment of bank borrowings	<b>(1,165)</b>
<b>Closing balance as at 30th June, 2017</b>	<b>12,001</b>

	(Unaudited) HK\$'000
Six months ended 30th June, 2016	
Opening balance as at 1st January, 2016	138
Repayment of bank borrowings	(34)
Closing balance as at 30th June, 2016	104

As at 30th June, 2017, the effective interest rate of the bank borrowings was 4.2% (31st December, 2016: 4.9%) per annum.

As at 30th June, 2017, a subsidiary of the Company provided floating charge on certain of its assets including property, plant and equipment, trade receivables and inventories which approximated to HK\$154,805,000 (31st December, 2016: HK\$229,000,000) to a bank for banking facilities with credit limit of HK\$33,150,000 (31st December, 2016: HK\$33,150,000) granted to it.

# Notes to the Condensed Consolidated Financial Information (Continued)

For the six months ended 30th June, 2017

## 16. CAPITAL COMMITMENTS AND OPERATING LEASE COMMITMENTS

As at 30th June, 2017, the capital commitments contracted but not provided for in the condensed consolidated interim financial information of the Group were HK\$26,101,000 (31st December, 2016: HK\$10,795,000).

As at 30th June, 2017, the operating lease commitments of the Group were HK\$55,474,000 (31st December, 2016: HK\$52,502,000).

## 17. ACQUISITION OF SUBSIDIARIES

### (a) Acquisition of Fern-Howard Limited

On 16th January 2017, the Group acquired a 65% interest in Fern-Howard Limited from an independent third party. The consideration of the transaction was HK\$26,261,000 and settled in cash. Fern-Howard Limited is principally engaged in the design, manufacture, marketing and distribution of energy efficient lighting products.

<b>Consideration transferred</b>	<b>(Unaudited) HK\$'000</b>
<b>Cash</b>	<b>26,261</b>
<b>Assets and liabilities recognised at the date of acquisition</b>	<b>(Unaudited) HK\$'000</b>
<b>Current assets</b>	
Cash and cash equivalents	6,247
Trade and other receivables	16,779
Inventories	10,620
<b>Non-current assets</b>	
Property, plant and equipment	20,467
Intangible assets	12,190
<b>Current liabilities</b>	
Trade and other payables	(19,613)
Bank loan	(6,804)
Obligation under finance leases	(1,636)
<b>Non-current liabilities</b>	
Obligation under finance leases	(2,552)
Deferred tax liabilities	(378)
	<b>35,320</b>

# Notes to the Condensed Consolidated Financial Information (Continued)

For the six months ended 30th June, 2017

## 17. ACQUISITION OF SUBSIDIARIES (CONTINUED)

### (a) Acquisition of Fern-Howard Limited (Continued)

The initial accounting for the above acquisition has been determined provisionally, awaiting the result of professional valuation in relation to the intangible assets.

The receivables acquired (which principally comprised trade receivables) with a fair value of HK\$16,139,000 at the date of acquisition had gross contractual amounts of HK\$16,139,000. The best estimate at acquisition date of the contractual cash flows not expected to be collected amounted to HK\$Nil.

#### *Non-controlling interests*

The non-controlling interests (35%) in Fern-Howard Limited recognised at the acquisition date was measured by reference to the proportionate share of recognised amounts of net assets of Fern-Howard Limited and amounted to HK\$9,059,000.

	<b>(Unaudited)</b> <b>HK\$'000</b>
Consideration transferred	26,261
Plus: non-controlling interests	9,059
Less: recognised amount of identifiable net assets acquired (100%)	(35,320)
	–

<b>Net cash outflow arising on acquisition</b>	<b>(Unaudited)</b> <b>HK\$'000</b>
Net consideration paid in cash	20,014

# Notes to the Condensed Consolidated Financial Information (Continued)

For the six months ended 30th June, 2017

## 17. ACQUISITION OF SUBSIDIARIES (CONTINUED)

### (a) Acquisition of Fern-Howard Limited (Continued)

#### *Impact of acquisition on the results of the Group*

Included in the profit for the interim period is a loss of HK\$2,991,000 attributable from Fern-Howard Limited. Revenue for the interim period includes HK\$27,827,000 is attributable from Fern-Howard Limited.

Had the acquisition of Fern-Howard Limited been effected at the beginning of the interim period, the total amount of revenue of the Group for the six months ended 30th June 2017 would have been HK\$671,471,000, and the amount of the profit for the interim period would have been HK\$44,303,000. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at the beginning of the interim period, nor is it intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group had Fern-Howard Limited been acquired at the beginning of the interim period, the Group calculated depreciation and amortization of plant and equipment based on the recognised amounts of plant and equipment at the date of the acquisition.

# Notes to the Condensed Consolidated Financial Information (Continued)

For the six months ended 30th June, 2017

## 17. ACQUISITION OF SUBSIDIARIES (CONTINUED)

### (b) Acquisition of 3LED Electronics Company Limited ("3LED")

On 5th April 2017, the Group acquired a 100% interest in 3LED from independent third parties. The consideration of the transaction was HK\$1,438,000 and settled in cash. 3LED is principally engaged in the development of high-end LED products.

	<b>(Unaudited)</b> <b>HK\$'000</b>
<b>Consideration transferred</b>	
<b>Cash</b>	<b>1,438</b>
<hr/>	
	<b>(Unaudited)</b> <b>HK\$'000</b>
<b>Assets and liabilities recognised at the date of acquisition</b>	
<b>Current assets</b>	
Cash and cash equivalents	25
Trade and other receivables	4,203
Inventories	1,664
<b>Non-current assets</b>	
Property, plant and equipment	881
<b>Current liabilities</b>	
Trade and other payables	(3,938)
Bank loan	(1,022)
	<b>1,813</b>

# Notes to the Condensed Consolidated Financial Information (Continued)

For the six months ended 30th June, 2017

## 17. ACQUISITION OF SUBSIDIARIES (CONTINUED)

### (b) Acquisition of 3LED Electronics Company Limited ("3LED") (Continued)

The initial accounting for the above acquisition has been determined provisionally and subject to change.

The receivables acquired (which principally comprised trade receivables) with a fair value of HK\$4,203,000 at the date of acquisition had gross contractual amounts of HK\$4,203,000. The best estimate at acquisition date of the contractual cash flows not expected to be collected amounted to HK\$Nil.

<b>Bargain purchase arising on acquisition</b>	<b>(Unaudited) HK\$'000</b>
Consideration transferred	1,438
Less: recognised amount of identifiable net assets acquired (100%)	(1,813)
Bargain purchase	375

  

<b>Net cash outflow arising on acquisition</b>	<b>(Unaudited) HK\$'000</b>
Net consideration paid in cash	1,413

#### ***Impact of acquisition on the results of the Group***

Included in the profit for the interim period is a loss of HK\$971,000 attributable from 3LED. Had the acquisition of 3LED been effected at the beginning of the interim period, the total amount of the profit for the interim period would have been HK\$44,113,000. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at the beginning of the interim period, nor is it intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group had 3LED been acquired at the beginning of the interim period, the directors calculated depreciation and amortization of plant and equipment based on the recognised amounts of plant and equipment at the date of the acquisition.

# Notes to the Condensed Consolidated Financial Information (Continued)

For the six months ended 30th June, 2017

## 18. RELATED-PARTY TRANSACTIONS

The Group is controlled by Smart Forest Limited (incorporated in the British Virgin Islands (“BVI”)), which owns 72.02% of the Company’s shares. The remaining 27.98% of the shares are widely held. The ultimate parent of the Group is Smart Forest Limited (incorporated in BVI). The ultimate controlling party of the Group is Mr. Cheng Yung Pun.

There is no disposal of interest to related party for the period ended 30th June, 2017.

In addition to those disclosed in these interim financial information, there were no related party transactions that the Group entered during the period. The remunerations of directors and other members of key management in respect of the period are as follows:

	Six months ended 30th June,	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Salaries and other short-term employee benefits	13,078	7,604

## Interim Dividend

The Directors had resolved to declare an interim dividend of HK4.5 cents (2016: HK4.5 cents) in cash per share for the six months ended 30th June, 2017, payable to shareholders whose names appear on the Register of Members of the Company on 11th September, 2017.

The record date for the purpose of determining the shareholders which are entitled to dividend is 11th September, 2017. In order to qualify for the interim dividend, all transfers and relevant share certificates must be lodged with the Company's Branch Share Registrar in Hong Kong, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:00 p.m. on 11th September, 2017. The interim dividend will be paid on or around 28th September, 2017.

## Management Discussion & Analysis

### FINANCIAL REVIEW

#### Revenue

Benefiting from the increase in orders from a major customer of its OEM business in the US, the revenue for the period was improved.

#### Gross profit

The Group's gross profit increased to approximately HK\$209,689,000 as at 30th June, 2017 due to the increase in revenue. The increase in primary raw material and labor costs has offset the decrease in other overhead costs.

#### Distribution and selling costs

Distribution and selling costs decreased to approximately HK\$57,042,000 as at 30th June, 2017. The decrease in distribution and selling costs was mainly attributable to the decrease in royalty fee and advertising costs.

#### Administrative expenses

Administrative expenses mainly consisted of office staff salaries, rent and rates of offices, depreciation of property, plant and equipment and other administrative expenses. The total expenses increased by approximately HK\$25,251,000 compared to same period last year was attributable to salaries and related expenses and professional fee.

#### Finance costs and income tax

Finance costs of the period was approximately HK\$22,000 and income tax expense of this period decreased to approximately HK\$68,000 as compared to last corresponding period.

#### Research and development cost

Research and development cost decreased by approximately HK\$1,163,000 as less lighting and creative toys products development incurred.

#### Trade and other receivables and prepayments

Trade and other receivables and prepayments decreased by approximately HK\$35,455,000 to approximately HK\$240,386,000 for this period as compared to last year, which was resulted from our product mix of terms of credit.

## Management Discussion & Analysis (Continued)

### FINANCIAL REVIEW (CONTINUED)

#### Trade and other payables and accruals

Trade and other payables and accruals increased by approximately HK\$6,285,000 to approximately HK\$197,972,000 for this period as compared to last year, which was mainly due to the acquisition of subsidiaries during the period.

#### Quick ratio

During the period, the quick ratio decreased, mainly due to acquisition of subsidiaries during the period.

#### Current ratio

During the period, the current ratio decreased, mainly due to acquisition of subsidiaries during the period.

#### Financial position and cash flows review

The Group's cash flow position was healthy and the loan borrowing was maintained at a minimum level.

#### Liquidity and financial resources

As at 30th June, 2017, the Group had cash and cash equivalents of approximately HK\$112,559,000 (31st December, 2016: HK\$143,381,000) and pledged bank deposit of approximately HK\$136,000 (31st December, 2016: HK\$136,000) secured for bank loans. As at 30th June, 2017, the Group obtained banking facilities in a total of approximately HK\$177,615,000 (31st December, 2016: HK\$151,200,000), which was mainly supported by corporate guarantee and was secured with floating charge on certain assets of the Group.

As at 30th June, 2017, the Group had bank borrowings of approximately HK\$12,001,000 (31st December, 2016: HK\$1,363,000). The Group's gearing ratio, representing the total debt divided by equity attributable to owners of the Company, was 1.40% (31st December, 2016: 0.01%).

During the period, net cash generated from operating activities amounted to approximately HK\$85,318,000 (31st December, 2016: HK\$169,374,000). The Group has maintained an adequate level of cash flows for its business operations and capital expenditures.

#### Capital expenditure and commitments

During the period, the Group acquired property, plant and equipment at a cost of approximately HK\$29,835,000 (31st December, 2016: HK\$25,218,000) to further enhance and upgrade the production capacity.

These capital expenditures were financed primarily by cash flow generated from operations.

#### Financial position and cash flows review

The Group's cash flows were relatively sufficient, while the Group has acquired subsidiaries which increased the bank borrowing balance.

#### Assets and liabilities

At 30th June, 2017, the Group had total assets of approximately HK\$1,194,944,000 (31st December, 2016: HK\$1,182,432,000), total liabilities of approximately HK\$215,923,000 (31st December, 2016: HK\$202,250,000) and equity attributable to owners of the Company of approximately HK\$971,009,000 (31st December, 2016: HK\$980,182,000). The net assets of the Group decreased by 0.1% to approximately HK\$979,021,000 as at 30th June, 2017 (31st December, 2016: HK\$980,182,000).

## Management Discussion & Analysis (Continued)

### FINANCIAL REVIEW (CONTINUED)

#### Exchange rate risk

Several subsidiaries of the Company have foreign currency sales, which expose the Group to foreign currency risk. Certain bank balances, trade receivables and trade payables of the Group are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

#### BUSINESS REVIEW

Considering the volatile market condition, the Group's result for the period under review was still stable. Though, the unforeseen outcome of Brexit referendum, the Group continued to strengthen its core business development proactively through establishing sales channels, developing self-own brand products and seeking new sale opportunities globally and other approaches. The Group also actively introduced new sales programs to its products of various brands, such as the "Tonka" series toy car products under authorized licensing brands, "Gazillion® Bubbles" and other outdoor products under self-owned brand and products under the girls role-playing line as well as other new products like "Positively Perfect" under girls role-playing product line and "Luna Petunia" under plush category. The Group's sale of outdoor game products that includes "Gazillion® Bubbles" and other series recorded increase, which has offset the decrease of sale of toy car product under authorized licensing brands, plush product and girls role-playing product caused by decline. Thus, the Group's overall revenue increased. The Group has made efforts to optimise its procurement strategy to further improve the production process, with an aim to reduce resource waste and lower relevant costs and control distribution and selling costs and administrative expenses.

#### Manufacturing operation

The Group maintains its main production base in Vietnam, where the production structure in manufacturing industry keeps increasing. With an aim to achieve greater economies of scale in support of long term development and enhancement of production capacity, as well as to achieve sustainable growth by more cost efficient methods through resources consolidation, the Group's plants in Vietnam proceeded expansion and integration, so as to improve resources allocation and offset the increasing production costs. On the other hand, the Group acquired a Taiwan company to enhance the technology of research and development and continued to invest in automation and facilities, thereby improving production efficiency.

The Group adopted more effective methods and techniques to maintain product quality and safety, and paid close attention to and monitored the changes in safety standards and regulations in different markets to ensure compliance with the new requirements, such as the implementation of the Consumer Product Safety Improvement Act by the US government. In addition to fulfilling the safety requirements for toys of governments, the Group will continue to produce high quality products with competitive prices, increase product value, and thus increase revenue.

#### Segment performance

In business development, OEM based business has become an established platform that helps consolidate stable income, and the partnership with the world's top toy companies also produces growth impetus. Thanks to the remaining positive impacts of continuous recovery, together with European Union's ("EU") improving employment, easing credit as well as sustainable financial budget and foreign debt, the short-term growth prospect of most highly indebted EU countries also seem to take a favourable turn. The Group's two pronged strategy has proven effective in maintaining growth in both the scale of business and profitability. Despite the intensive competition in the US market, and the unsustainable sales growth momentum in other markets (e.g. Asia) as a result of the Brexit, negative economic environment and weak currency, the overall sales particularly in the US market remained satisfactory due to the products of "Gazillion® Bubbles", "Tonka" and girls role-playing and the continuous presence among large retailers.

## Management Discussion & Analysis (Continued)

### BUSINESS REVIEW (CONTINUED)

#### *The United States ("US")*

The US was still a major export market for the Group's products. Our turnover increased by HK\$47,997,000 or 9.0% to HK\$581,971,000 in the first half of this year from HK\$533,974,000 for the corresponding period last year. The growth of the OEM business offset the decrease in the sales of the ODM business. The overall turnover recorded an increase.

The US economy continues remaining stable. Factors such as lower unemployment rate and higher salaries have contributed to keep private consumption. Meanwhile, moderate inflation and improved financial position of families, companies and banks helped to create better economic performance. Given that stronger US dollar, further increase of interest rate, domestic and foreign political environment, continued tensions of geopolitical situation in Eastern Europe and the Middle East and other factors would still bring adverse effect, mass-market retailers placed less orders to the Group, which led to a decrease in the sales of toy cars, plush toys and girls role-playing products of ODM business. However, the increase in orders of outdoor play like "Gazillion® Bubbles" products have offset the decrease in the sales of these products. Coupled with that the increase of sales of OEM products have offset the impact from the slight decrease of sales in the ODM business this period due to the annual expansion, the total turnover in the US market still recorded an increase. The Group will strive to maintain authorised licensing business for major brands, enrich other product lines and retain existing distributors and clients like Wal-Mart, Target, Toys "R" US and Amazon.

#### *Europe*

Our turnover in European market increased by HK\$33,704,000 or 323.1% to HK\$44,135,000 in the first half of this year from HK\$10,431,000 for the corresponding period last year.

Supported by favorable factors such as softening of crude oil prices, weakening Euro as well as easier monetary policies and financial stance adopted by the European Central Bank, the GDP of EU has witnessed a sustainable growth, since the consumption expenditure was picking up after years of austerity measures and the good financing condition helped to stimulate investment. However, major downside risks still existed, namely, the concussion from high unemployment rate, deflationary pressure, deleverage measures and the Brexit as well as unstable geopolitical conditions. The Brexit procedures officially commenced in March 2017 and there would be a long period of uncertainty.

The sales of the Group in the UK and Ireland increased as compared to last year despite of decelerated economic growth in the UK. As "Tonka" products are now marketable in Europe, and the Group focused on the orders of "Tonka" products, plush products and the outdoor products of its self-own brands such as "Gazillion® Bubbles", their orders also increased. Benefiting from the increased products orders from several major clients in UK, Netherlands and Poland, the decrease in the turnover recorded in Denmark, Ukraine and Italy has been offset. The sales of lighting products in Europe recorded an increase due to the acquisition of a lighting company in UK. Generally, our total turnover in the European market recorded an increase. The Group will continue to devote itself to maintaining existing distributors and clients such as Argos, Tesco and Costco.

## Management Discussion & Analysis (Continued)

### BUSINESS REVIEW (CONTINUED)

#### *Canada*

Our turnover in the Canadian market decreased by HK\$2,394,000 or 9.2% to HK\$23,574,000 in the first half of this year from HK\$25,968,000 for the corresponding period last year.

Despite the softening of crude oil price, due to Canada's sound banking and financial systems and the favourable impact of weakening Canadian dollar, export in non-commodity related industries has kept growing, which offered support to its domestic enterprises and consumers. However, with the end of quantitative easing policy in the US, the uncertain global financial market remains the biggest headwinds for Canada to achieve economic growth. In general, Canada remains the second largest market of the Group following the US. To a certain extent, the sales of mass market retailers of the Group in respect of outdoor game products continued increasing, which offset the decrease in the sales of toy cars, plush products and girls role-playing products in ODM business. However, as a whole, the total turnover of the Canadian market recorded a decrease. The Group will make efforts to maintain its existing distributors and clients, such as Wal-Mart and Toys "R" US.

#### *Mexico*

Our turnover in the Mexican market decreased by HK\$248,000 or 14.5% to HK\$1,461,000 in the first half of this year from HK\$1,709,000 for the corresponding period last year.

Given the close relationship between Mexico and the US, Mexico has benefited from the continuous recovery of the US economy. Mexico's economy was bolstered by the recovery of the domestic construction industry and various market structural reforms, including allowing private enterprises to enter the energy industry and reducing the barriers for SMEs to get loans from financial institutions as well as an American economy that is in good shape. However, overall, due to the decrease of our ODM product orders, our total revenue in the Mexican market recorded a decrease.

#### *Australia and New Zealand*

Our turnover in the Australian and New Zealand markets decreased by HK\$813,000 or 7.9% to HK\$9,511,000 in the first half of this year from HK\$10,324,000 for the corresponding period last year.

Last year, the Australian economy was supported by steady internal demand and public spending, which helped it maintain modest growth. Policy rate is still under downward pressure during the year. Last year, as both the unemployment rate and overall labor market remained stable in Australia, retail sales increased monthly. Due to the decrease in the Group's turnover in the New Zealand market and the impact of decreased sales of lighting products, a decrease was recorded in the total turnover in the Australian and New Zealand markets. The Group will continue its efforts to maintain its existing distributors and clients such as Big W etc.

#### *South America*

Our turnover in South American market decreased by HK\$1,379,000 or 38.7% to HK\$2,187,000 in the first half of this year from HK\$3,566,000 for the corresponding period last year.

The consumption in Chile was hit by unfavorable global commodity prices and the weak customer and investor confidence. Capital outflows, currency plunge and other factors in Argentina have constituted the obstacles for Argentina's economy in recent years. The Group recorded sales decrease in Chile, Panama and Argentina, while sales increased in Bolivia, Honduras, Colombia, Peru and Guatemala. However, overall, due to the decline of ODM product orders, the turnover of the South American market decreased as a whole.

## ENVIRONMENTAL PROTECTION

The Group believes that maintaining a healthy and harmonious relationship with its stakeholders and fulfilling its social responsibilities to the community is essential for building and preserving the value of the Group. Adhering to the principle of Reducing, Recycling and Reusing, the Group encourages green office practices such as double-sided printing and copying, setting up recycling bins, promoting using recycled paper and reducing energy consumption by switching off lightings and electrical appliances, and will consider implementing further eco-friendly measures and practices in the operation of the Group's businesses.

## COMPLIANCE WITH LAWS AND REGULATIONS

Compliance procedures are in place to ensure adherence to applicable laws, rules and regulations in particular, those have significant impact on the Group. The Board and internal audit function team delegated by the Board monitor the Group's policies and practices on compliance with legal and regulatory requirements and such policies are regularly reviewed. Any changes in the applicable laws, rules and regulations are brought to the attention of relevant employees and relevant operation units from time to time. In accordance with the requirements of the laws, regulations and related policies in Hong Kong, the PRC, Vietnam and other relevant jurisdictions, the Company provides and maintains statutory benefits for its staff, including but not limited to mandatory provident fund, basic medical insurance, labour insurance, etc. Staff is entitled to statutory holidays. The Group has registered its products, domain name and trademarks in Hong Kong, the PRC and other relevant jurisdictions and takes all appropriate actions to protect and enforce its intellectual property rights.

## RELATIONSHIP WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group has recognised that employees, customers and business partners are crucial to its sustainable growth. The Group is hence committed to build up close and caring relationship with our employees, provide exceptional service to our customers and enhance partnership with our business partners.

## PROSPECTS

The market is expecting pressure to be brought by the potential rise of the US interest rate, while it is expected that the US economy growth will pick up steadily, which in turn will stimulate its domestic consumption. The Group expects the US economy will continue growing, from which our OEM business will benefit, and our global sales will record an increase, especially in the British market. The Group is expanding its licensed toy portfolio and has launched several new authorized toy brands, "Luna Petunia" and "Positively Perfect" and will actively promote its new products to new retailers and enrich its other product lines. We anticipate the penetration rate with retailers in Britain, the other places in Europe and Canada will increase, and our success with the US and international customers will benefit the overall sales. We will continue maintaining the relationship with our existing distributors and customers including Walmart, Walgreens, Target, Toys "R" US and Smyths Toys Superstore. The Group has successfully renewed and entered into agreements with renowned toy car license holders to develop toy products under the brands of "DC Superfriends" and "Space Racers".

## PROSPECTS (Continued)

The Group will pay close attention to the new developments of the market condition. Under such a background, the Group will continue adopting the two-pronged approach which means to ensure a steady growth of our core business and at the same time to improve our production capacity on a timely manner so as to provide quality products at competitive prices, and leveraging on the close relationship with our existing customers to develop new markets for further growth potential and broaden our customer base. In view of the above, the Group will continue developing this category with potential and make it an additional contributor to our growth in near future. We will continue proactively seeking for and exploring other investment and business opportunities and assess potential acquisition and merger opportunities when they arise in order to broaden our asset and income bases and achieve sustainable development in the long run. The Group believes that diversified investments will be in the interest of the Group and the Shareholders as a whole and will create returns for the Shareholders. The Group will adopt a prudent and cautious approach in identifying investment opportunities in order to achieve a steady improvement of our Group's long-term performance.

## NUMBER OF EMPLOYEES AND REMUNERATION POLICIES

As at 30th June, 2017, the Group had a total of approximately 14,400 (31st December, 2016: 15,000) employees in Hong Kong, Macau, the PRC, Vietnam, Australia, Canada, the US, Taiwan and Europe. The Group provides its employees with competitive remuneration packages commensurate to the level of pay established by the market trend in comparable businesses. A share option scheme was adopted for selected participants (including full-time employees) as incentives or rewards for their contributions to the business and operation of the Group. A mandatory provident fund scheme and respective local retirement scheme also had been set up by our Group.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY SPECIFIED UNDERTAKING OF THE COMPANY OR ANY OTHER ASSOCIATED CORPORATION

As at 30th June, 2017, the interests and short positions of the Directors and chief executives and their respective associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or which were otherwise required to be notified to the Company and the Stock Exchange, pursuant to the Model Code for Securities Transactions by Directors of the Listing Companies were as follows:

### LONG POSITIONS IN ORDINARY SHARES OF THE COMPANY

#### Ordinary Shares of HK\$0.10 each of the Company

Name of Director/chief executive officer		Personal Interests	Family Interests (Note 1)	Corporate Interests (Note 2)	Other Interests	Total	% of the issued share capital of the Company
Cheng Yung Pun (Director)	Long position	-	-	544,611,569	-	544,611,569	72.02%
Cheng King Cheung (Director)	Long position	1,968,000	-	-	-	1,968,000	0.26%
Leung Hong Tai (Director)	Long position	4,594,000	1,450,000	-	-	6,044,000	0.80%
Tsang Chung Wa (Director)	Long position	4,108,251	-	-	-	4,108,251	0.54%
Tse Kam Wah (Director)	Long position	4,200,000	-	-	-	4,200,000	0.56%
Yu Sui Chuen (Director)	Long position	340,000	-	-	-	340,000	0.04%
Chen Wei Qing (Chief Executive Officer)	Long position	3,980,000	-	-	-	3,980,000	0.53%

Notes:

- (1) Shares are held by Ip Yi Mei, spouse of Mr. Leung Hong Tai, Director of the Company.
- (2) The shares are held by Smart Forest Limited ("Smart Forest"), a company incorporated in the British Virgin Islands. The entire issued share capital of Smart forest is wholly owned by Mr. Cheng Yung Pun.

# DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY SPECIFIED UNDERTAKING OF THE COMPANY OR ANY OTHER ASSOCIATED CORPORATION (Continued)

## SHARE OPTION

	Option type	Number of underlying shares attached to the share options				Outstanding at end of period	Exercise price HK\$	Exercise period
		Outstanding at beginning of period	Granted during the period	Exercised during the period	Lapsed during the period			
Employees	2017a	-	24,000,000 (Note 1)	-	-	24,000,000	3.138	6th August 2017 to 6th August 2020
	2017b	-	2,600,000 (Note 2)	-	-	2,600,000	3.050	13th August 2017 to 13th August 2020
Total Employees		-	26,600,000	-	-	26,600,000		

### Notes:

- (1) The 24,000,000 underlying shares (representing approximately 3.17% of issued share capital of the Company) in respect of share options were granted on 8th May, 2017 pursuant to the Company's share option scheme.
- (2) The 2,600,000 underlying shares (representing approximately 0.34% of issued share capital of the Company) in respect of share options were granted on 15th May, 2017 pursuant to the Company's share option scheme.

The closing prices of the Company's shares on 8th May, 2017 and 15th May, 2017, the dates of grant of the options type of 2017a and 2017b were HK\$3.05 and HK\$2.95 respectively.

Details of specific category of share options are as follows:

Option Type	Date of grant	Vesting period	Exercise period	Exercise price
2017a	8th May, 2017	90 days	6th August 2017 to 6th August 2020	HK\$3.138
2017b	15th May, 2017	90 days	13th August 2017 to 13th August 2020	HK\$3.050

During the six months ended 30th June, 2017, the options carry right to subscribe for a total of 26,600,000 shares had been granted on 8th May, 2017 and 15th May, 2017, respectively.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY SPECIFIED UNDERTAKING OF THE COMPANY OR ANY OTHER ASSOCIATED CORPORATION (Continued)

### SHARE OPTION (CONTINUED)

The fair value was calculated using the Black-Scholes pricing model. The inputs into the model are as follows:

Option Type	2017a	2017b
Weighted average share price	HK\$3.138	HK\$3.050
Exercise price	HK\$3.138	HK\$3.050
Expected volatility	77%	77%
Expected life	3 years	3 years
Risk-free rate	0.951%	0.849%
Expected dividend yield	5.74%	5.93%

Expected volatility was determined by using the historical volatility of the Company's share price over the previous three years.

Because the Black-Scholes pricing model requires the input of highly subjective assumptions, including the volatility of share price, changes in subjective input assumptions can materially affect the fair value estimate.

The fair value of services received under an equity-settled share-based payment arrangement is determined by reference to the fair value of share options granted at the grant date and is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve). Details of the accounting policy for equity-settled share-based payment transactions are set out in the Group's financial statements for the period ended 30th June, 2017.

Other than as disclosed above, none of the directors, chief executives nor their respective associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 30th June, 2017.

## ARRANGEMENTS TO PURCHASE SHARES AND DEBENTURES

Other than as disclosed in the section "Directors and Chief Executives' Interests and Short Positions in Shares, Underlying shares and Debentures of the Company or any specified undertaking of the Company or any other associated corporation", at no time during the year was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries, was a party to any arrangements to enable the directors of the Company and their associates to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## SUBSTANTIAL SHAREHOLDERS

As at 30th June, 2017, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following shareholders had notified the Company of relevant interests and short positions in the issued share capital of the Company:

### LONG POSITIONS IN ORDINARY SHARES OF THE COMPANY

#### Ordinary Shares of HK\$0.10 each of the Company

<b>Name of shareholder</b>	<b>Capacity</b>	<b>Number of issued ordinary shares held</b>	<b>Percentage of the issued share capital of the Company</b>
Smart Forest ( <i>Note</i> )	Beneficial owner	544,611,569	72.02%

*Note:* Smart Forest, a company incorporated in the British Virgin Islands which is wholly owned by Mr. Cheng Yung Pun, director of the Company.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 30th June, 2017.

## SHARE OPTION SCHEME

A share option scheme of the Company was adopted on 4th May, 2012 (the "2012 Share Option Scheme"). The key terms of the 2012 share option scheme had been summarised in our 2016 Annual Report published in March 2017.

As at 30th June, 2017, the total number of shares available for issue of option under the 2012 Share Option Scheme was 45,264,731 shares (after the 2012 Share Option Scheme adopted on 2012 annual general meeting held on 4th May, 2012 and grant of share options), which representing 6.00% of the issued share capital of the Company.

During the six months ended 30th June, 2017, options which have been granted and carry rights to subscribe for 26,600,000 shares, representing 3.51% (31st December 2016: nil) of the shares in issue at that date, remain outstanding.

Options may be exercised at any time from for the period beginning 90 days after the date of grant of the option and ending three years thereafter.

Save as disclosed above, no share options remain outstanding and are granted, exercised, cancelled or lapsed during the period under review.

## PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the six months ended 30th June, 2017, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares.

## COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE (THE “CG CODE”)

The Board has adopted the corporate governance code (the “CG Code”) and amended it from time to time, which is based on the principles set out in Appendix 14 (the “HKEx Code”) to the Listing Rules on the Stock Exchange.

None of the directors of the Company is aware of information that would reasonably indicate the Company is not or was not for any part of the period under review, in compliance with the HKEx Code and CG Code except for the deviations from code provisions A.4.1 and E.1.2 which are explained as follows:

- i) under the code provision A.4.1 that none of the existing non-executive directors of the Company is appointed for a specific term. However, as all the non-executive directors of the Company (including independent non-executive) are subject to retirement provision under the Company’s Bye-laws, 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 HKEx Code and CG Code as well;
- ii) under the code provision E.1.2, Mr. Cheng Yung Pun, the chairman of the Board and the Nomination Committee was unable to attend the 2017 AGM due to conflicting business schedules. The Chairman of the Audit and Remuneration Committees and their two members and two executive directors had attended the 2017 AGM and one of them had been nominated as chairman of the AGM. The Company considers that the presence is sufficient for (i) answering questions from and (ii) effective communication with the shareholders of the Company present at the 2017 AGM.

## OTHER INFORMATION OF DIRECTOR

In the last three years, Dr. Loke Yu alias Loke Hoi Lam, independent non-executive Director (“INED”) of the Company, was appointed as INED of Tianhe Chemicals Group Limited (a company listed on the Stock Exchange) with effect from 20th June, 2014, INED of Lamtex Holdings Limited (formerly known as China New Energy Power Group Limited and a company listed on the Stock Exchange) with effect from 28th July, 2015, INED of Forebase International Holdings Limited (a company listed on the Stock Exchange) with effect from 18th April, 2016, INED of Hang Sang (Siu Po) International Holding Company Limited (a company listed on the Stock Exchange) with effect from 17th May, 2016 and INED of Hong Kong Resources Holdings Company Limited (a company listed on the Stock Exchange) with effect from 31st May 2017. Dr. Loke was also appointed as INED of Mega Medical Technology Limited (formerly known as Wing Tai Investment Holdings Limited and Wing Lee Holdings Limited and a company listed on the Stock Exchange) with effect from 20th June, 2014; however, he has resigned on 11th January, 2017.

In addition, in the last three years, Mr. Heng Victor Ja Wei, INED of the Company, was appointed as INED of SCUD Group Limited (a company listed on the Stock Exchange) with effect from 1st September, 2016 and as INED of Daohe Global Group Limited (a company listed on the Stock Exchange) with effect from 11th August, 2016; however, he has resigned on 11th January, 2017. Mr. Mak Shiu Chung, Godfrey, INED of the Company, resigned as the Co-Chairman and executive Director of Grand Ocean Advanced Resources Company Limited (formerly known as DeTeam Company Limited and a company listed on the Stock Exchange) with effect from 5th February, 2015.

The director’s emolument (including any provident fund contribution, bonus payment, whether fixed or discretionary in nature or any sum receivables as director’s fee or remuneration) of the executive director, Mr. Arnold Edward Rubin (resigned on 1st March, 2017), was changed to HK\$8,203,000 in 2017. The annual director’s fee of the INEDs namely Dr. Loke Yu alias Loke Hoi Lam, Mr. Mak Shiu Chung, Godfrey, Mr. Wan Hing Pui and Mr. Heng Victor Ja Wei, had been adjusted to HK\$100,000, with effect from 1st January, 2017.

Save as disclosed above, there is no information required to be disclosed pursuant to the Rule 13.51(B)(1) of the Listing Rules.

## COMPLIANCE WITH THE MODEL CODE SET OUT IN APPENDIX 10 OF THE LISTING RULES

The Company has adopted and amended from time to time a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard set out in Appendix 10 Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Listing Rules. Having made specific enquiry of all the directors, all the directors confirmed that they have complied with the required standard set out in the Model Code and the code of conduct regarding securities transactions by directors adopted by the Company.

## BOARD COMMITTEES

The Nomination Committee comprises the Company's Chairman, Mr. Cheng Yung Pun and four INEDs, namely Dr. Loke Yu alias Loke Hoi Lam, Mr. Mak Shiu Chung, Godfrey, Mr. Wan Hing Pui and Mr. Heng Victor Ja Wei, appointed by the Board and meets at least once a year. The Audit Committee comprises the said INEDs who have extensive experience in financial matters and meet at least twice a year. The Remuneration Committee also comprises the said INEDs meets at least once a year. All Committees have adopted terms of reference (containing the minimum prescribed duties) that are in line with the HKEx Code and CG Code.

## OTHER REQUIRED DISCLOSURE PURSUANT TO RULE 13.18 OF THE LISTING RULES

With regard to the renewed facilities of up to an aggregate extent of HK\$50,000,000 previously granted to two indirect wholly-owned subsidiaries of the Company by a Bank in Macau (the "Bank-MO"), the renewed facility letters were provided by the Bank-MO on 7th March, 2017 regarding the renewal of the facilities for one year further (the "renewed facilities"). The terms and conditions of the facility letters for the renewed facilities including, inter alia, a condition to the effect that Mr. Cheng Yung Pun (a controlling shareholder of the Company) should maintain not less than 51% of shareholding (whether directly or indirectly) of the Company, remain unchanged. A breach of the above condition will constitute an event of default under the renewed facilities. If any significant change on the above condition occurs, the Bank-MO can request to adjust or terminate the renewed facilities.

Regarding the facilities of up to an aggregate extent of HK\$70,000,000 granted to the three indirect wholly-owned subsidiaries of the Company by a bank in Hong Kong (the "Bank-HK"), the Company has received three facility letters in which the terms and conditions of two of the facilities letters included, inter alia, a condition to the effect that Mr. Cheng Yung Pun (a controlling shareholder of the Company) should maintain not less than 51% of shareholding (whether directly or indirectly) of the Company. If a breach of the above condition that will constitute an event of default under the revised facilities, the Bank-HK will discuss for remedy actions including obtaining waiver for the breach or seeking for any viable solutions or alternatives. Nevertheless, the revised facilities will be uncommitted lines and the Bank-HK reserves the right to request repayment on demand.

## REVIEW OF INTERIM RESULTS

The unaudited interim results for the six months ended 30th June, 2017 have been reviewed by the Audit Committee, who are of the opinion that these interim results comply with applicable accounting standard and legal requirements, and that adequate disclosures have been made.

By Order of the Board

**Cheng Yung Pun**

*Chairman*

Hong Kong, 24th August, 2017