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**MATRIX**  
**MATRIX HOLDINGS LIMITED**  
**美力時集團有限公司\***  
*(Incorporated in Bermuda with limited liability)*  
**(Stock Code: 1005)**

**2020 INTERIM RESULTS ANNOUNCEMENT**

The board (the “**Board**”) of directors (the “**Directors**”) of Matrix Holdings Limited (the “**Company**”) hereby announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the “**Group**”) for the six months ended 30th June, 2020, together with the comparative figures for the corresponding period in 2019.

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

*For the six months ended 30th June, 2020*

	<i>Notes</i>	<b>Six months ended 30th June,</b>	
		<b>2020</b>	<b>2019</b>
		<b>HK\$'000</b>	<b>HK\$'000</b>
		<b>(Unaudited)</b>	<b>(Unaudited)</b>
Revenue	5	<b>389,611</b>	588,687
Cost of sales		<b>(271,818)</b>	(379,116)
Gross profit		<b>117,793</b>	209,571
Other income		<b>3,639</b>	13,323
Other gains or losses		<b>(2,591)</b>	78,389
Distribution and selling costs		<b>(65,526)</b>	(73,461)
Administrative expenses		<b>(78,874)</b>	(88,082)
Research and development costs		<b>(10,225)</b>	(13,700)
Finance costs		<b>(2,972)</b>	(3,675)
(Loss) profit before tax		<b>(38,756)</b>	122,365
Income tax expense	6	<b>(139)</b>	(291)
(Loss) profit for the period	7	<b>(38,895)</b>	122,074

\* *For identification purpose only*

		<b>Six months ended 30th June,</b>	
		<b>2020</b>	<b>2019</b>
	<i>Notes</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
		<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>Other comprehensive expense:</b>			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Currency translation differences		<u>(5,514)</u>	<u>(4,356)</u>
Total comprehensive (expense) income for the period, net of tax		<u>(44,409)</u>	<u>117,718</u>
<b>(Loss) profit for the period attributable to:</b>			
Owners of the Company		<b>(37,108)</b>	124,274
Non-controlling interests		<u>(1,787)</u>	<u>(2,200)</u>
		<b>(38,895)</b>	122,074
<b>Total comprehensive (expense) income for the period attributable to:</b>			
Owners of the Company		<b>(42,622)</b>	119,918
Non-controlling interests		<u>(1,787)</u>	<u>(2,200)</u>
		<u><b>(44,409)</b></u>	<u>117,718</u>
<b>(Loss) earnings per share attributable to owners of the Company for the period (expressed in HK cents per share)</b>			
Basic (loss) earnings per share	9	<u>(5)</u>	<u>16</u>
Diluted (loss) earnings per share	9	<u>(5)</u>	<u>16</u>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30th June, 2020

		30th June, 2020	31st December, 2019
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Audited)
<b>ASSETS</b>			
Non-current assets			
Property, plant and equipment	10	174,306	177,248
Intangible assets		116,419	118,720
Deferred tax assets		24,390	24,398
Deposits paid	11	28,122	25,711
Right-of-use assets		283,079	275,137
		<u>626,316</u>	<u>621,214</u>
Current assets			
Inventories		287,580	302,972
Trade and other receivables and prepayments	11	230,943	374,699
Tax recoverable		534	206
Cash and cash equivalents		160,594	133,832
		<u>679,651</u>	<u>811,709</u>
Total assets		<u>1,305,967</u>	<u>1,432,923</u>
<b>EQUITY</b>			
Capital and reserves			
Share capital	13	75,620	75,620
Reserves		1,004,038	1,069,346
Equity attributable to owners of the Company		1,079,658	1,144,966
Non-controlling interests		(4,933)	(3,146)
Total equity		<u>1,074,725</u>	<u>1,141,820</u>

		<b>30th June, 2020</b>	31st December, 2019
	<i>Notes</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
		<b>(Unaudited)</b>	<b>(Audited)</b>
<b>LIABILITIES</b>			
Non-current liabilities			
Deferred income tax liabilities		<b>885</b>	917
Lease liabilities		<b>73,878</b>	66,663
		<u><b>74,763</b></u>	<u>67,580</u>
Current liabilities			
Trade and other payables and accruals	<i>12</i>	<b>127,738</b>	165,579
Lease liabilities		<b>19,105</b>	13,403
Contract liabilities		<b>7,094</b>	13,036
Tax payable		<b>2,542</b>	8,475
Bank borrowings		–	23,030
		<u><b>156,479</b></u>	<u>223,523</u>
Total liabilities		<u><b>231,242</b></u>	<u>291,103</u>
Total equity and liabilities		<u><b>1,305,967</b></u>	<u>1,432,923</u>

## **NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

*For the six months ended 30th June, 2020*

### **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 Victoria Place, 5th Floor, 31 Victoria Street, Hamilton HM 10, Bermuda.

The Company has its primary listing on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

This condensed consolidated financial statements are presented in thousands of Hong Kong dollar (“**HK\$’000**”), unless otherwise stated.

This condensed consolidated financial statements were approved for issue on 27th August, 2020.

This condensed consolidated financial statements have not been audited.

### **2. BASIS OF PREPARATION**

The condensed consolidated financial statements for the six months ended 30th June, 2020 have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange.

### **3. SIGNIFICANT EVENTS AND TRANSACTIONS IN THE CURRENT INTERIM PERIOD**

The outbreak of COVID-19 and the subsequent quarantine measures as well as the travel restrictions imposed by many countries have had negative impacts to the global economy, business environment and directly and indirectly affect the operations of the Group. The Group has taken measures to the shift of labor for its manufacturing activities in first half of the year voluntarily in an effort to contain the spread of the pandemic. On the other hand, the local governments of different regions where the Company has business activities has announced some financial measures and supports for corporates to overcome the negative impact arising from the pandemic. Under this special condition of the period, the financial positions and performance of the Group were affected in different aspects, including decreased revenue, reduced production capacities, unproportionally decreased cost of sales due to fixed production overheads during alternative turns period, even though some local government subsidies relating to COVID-19 have been granted to respective local subsidiaries of the Group.

#### 4. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis.

Other than additional accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards (“**HKFRS**”) and application of certain accounting policies which became relevant to the Group, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30th June, 2020 are the same as those presented in the Group’s annual financial statements for the year ended 31st December, 2019.

The accounting policies applied to this condensed consolidated financial statements are consistent with those of the annual financial statements for the year ended 31st December, 2019 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.

##### **Application of amendments to HKFRSs**

In the current interim period, the Group has applied the Amendments to References to the Conceptual Framework in HKFRS standards, the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the annual period beginning on or after 1st January, 2020 for the preparation of the Group’s condensed consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

Except as described below, the application of the Amendments to References to the Conceptual Framework in HKFRS Standards and the amendments to HKFRSs in the current period has had no material impact on the Group’s financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

##### ***Impacts of application on Amendments to HKAS 1 and HKAS 8 “Definition of Material”***

The amendments provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.” The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments in the current period had no impact on the condensed consolidated financial statements.

### *Accounting policy newly applied by the Group*

The Group has applied the following accounting policy which became relevant to the Group in the current Interim period.

#### *Government grants*

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

Government grants relate to income that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable. Such grants are presented under “other income”.

## **5. 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, right-of-use assets, intangible assets, deferred tax assets and other 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.

## 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, 2020 (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	297,664	31,830	33,220	2,078	12,736	8,215	3,868	-	389,611
<b>Results</b>									
Segment profit (loss)	18,226	(1,070)	6,848	(96)	6,967	(1,160)	(232)	-	29,483
Unallocated income, gains and losses									830
Unallocated expenses									(66,097)
Finance costs									(2,972)
Loss before tax									<u>(38,756)</u>
Other segment information:									
Depreciation and amortisation	28,551	1,998	1,859	123	744	481	225	1,181	<u>35,162</u>

### For the six months ended 30th June, 2019 (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	486,056	53,218	28,281	2,418	11,939	3,321	3,454	-	588,687
<b>Results</b>									
Segment profit (loss)	115,328	(1,026)	3,338	299	(827)	(645)	354	-	116,821
Unallocated income, gains and losses									86,096
Unallocated expenses									(76,877)
Finance costs									(3,675)
Profit before tax									<u>122,365</u>
Other segment information:									
Depreciation and amortisation	36,336	2,941	2,103	185	861	254	257	1,801	<u>44,738</u>

*Note:* Other locations include the PRC, Hong Kong, Taiwan, Korea, other countries in Asia Pacific and others. These locations are considered by the CODM as one operating segment.



Segment profit (loss) represents the profit (loss) before tax 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.

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

At 30th June, 2020 (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	314,300	48,354	37,989	2,589	26,981	10,558	93,157	533,928
Property, plant and equipment								174,306
Right-of-use assets								283,079
Unallocated and other corporate assets								314,654
Total assets								<u>1,305,967</u>
<b>LIABILITIES</b>								
Segment liabilities	45,296	13,853	4,004	250	3,204	990	8,053	75,650
Lease liabilities								92,983
Unallocated and other corporate liabilities								62,609
Total liabilities								<u>231,242</u>
<b>ASSETS</b>								
At 31st December, 2019 (Audited)	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
Segment assets	444,382	63,071	41,427	7,117	27,694	5,359	114,332	703,382
Property, plant and equipment								177,248
Right-of-use assets								275,137
Unallocated and other corporate assets								277,156
Total assets								<u>1,432,923</u>
<b>LIABILITIES</b>								
Segment liabilities	70,718	19,792	3,674	735	3,487	538	28,614	127,558
Lease liabilities								80,066
Unallocated and other corporate liabilities								83,479
Total liabilities								<u>291,103</u>

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 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.

### Revenue from major products

	Six months ended 30th June,	
	2020 <i>HK\$'000</i> (Unaudited)	2019 <i>HK\$'000</i> (Unaudited)
Toys	368,714	549,410
Lighting products	20,897	39,277
	<u>389,611</u>	<u>588,687</u>

### 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, 2020 <i>HK\$'000</i> (Unaudited)	31st December, 2019 <i>HK\$'000</i> (Audited)
	Hong Kong	8,581
Vietnam	353,019	356,142
The United States	63,285	64,013
The PRC	43,734	44,749
Europe	15,447	10,697
Other countries	1,441	1,125
	<u>485,507</u>	<u>478,096</u>

### Information about major customers

For the period ended 30th June, 2020, there are 2 customers (2019: 2 customers) in the United States with revenue contributing to approximately 43.6% and 20.5% (2019: 54.0% and 16.1%) of the total revenue of the Group. There is no other single customer contributing over 10% of the total revenue of the Group.

## 6. INCOME TAX EXPENSE

	Six months ended 30th June,	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Current tax:		
Hong Kong	64	70
Other jurisdictions	75	2,575
	<u>139</u>	<u>2,645</u>
Over-provision in prior years		
Other jurisdictions	–	(2,354)
	<u>–</u>	<u>(2,354)</u>
Income tax expense	<u>139</u>	<u>291</u>

- (i) Pursuant to the Hong Kong Profits Tax rules; the first HK\$2,000,000 of profits will be taxed at 8.25% and profits above will be taxed at 16.5%.
- (ii) The applicable tax rates for subsidiaries operate in Vietnam is 10.0% to 20.0% for the period ended 30th June, 2020 (2019: 10.0% to 20.0%).
- (iii) The applicable US enterprise income tax rate for subsidiaries operate in the United States is 21% (2019: 21%) for the period.

## 7. (LOSS) 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,	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Auditor's remuneration	2,836	2,724
Depreciation of property, plant and equipment	17,907	21,189
Depreciation of right-of-use assets	13,969	11,161
Short-term lease expenses	3,060	3,566
Amortisation of intangible assets	3,286	12,388
Net exchange loss	2,680	8,748

## 8. DIVIDEND

A dividend of HK\$22,686,000 that relates to the year ended 31st December, 2019 was paid in June, 2020 (2019: HK\$37,810,000).

On 27th August, 2020, the board of directors has resolved to declare an interim dividend of HK1.5 cents per share (2019: HK5.5 cents per share), which is payable on 22nd September, 2020 to shareholders who are on the register at 14th September, 2020. 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, 2020.

## 9. (LOSS) EARNINGS PER SHARE

Basic and diluted (loss) earnings per share are calculated by dividing the (loss) profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the period.

	<b>Six months ended 30th June,</b>	
	<b>2020</b>	<b>2019</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>(Loss) earnings</b>		
(Loss) profit attributable to owners of the Company	<u>(37,108)</u>	<u>124,274</u>
	<i>'000</i>	<i>'000</i>
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of basic earnings per share	<b>756,203</b>	756,203
Effect of dilutive ordinary shares:		
Share options	<u>724</u>	<u>1,184</u>
Weighted average number of ordinary shares in issue (thousands)	<u><b>756,927</b></u>	<u>757,387</u>
	<i>HK cents</i>	<i>HK cents</i>
Basic (loss) earnings per share	<u><b>(5)</b></u>	<u>16</u>
Diluted (loss) earnings per share	<u><b>(5)</b></u>	<u>16</u>

## 10. PROPERTY, PLANT AND EQUIPMENT

	<b>(Unaudited)</b>
	<b>HK\$'000</b>
<b>Six months ended 30th June, 2020</b>	
<b>Net book value as at 1st January, 2020</b>	<b>177,248</b>
Additions	<b>16,448</b>
Depreciation	<b>(17,907)</b>
Disposals	<b>(2)</b>
Exchange realignment	<u><b>(1,481)</b></u>
<b>Net book value as at 30th June, 2020</b>	<u><b>174,306</b></u>

(Unaudited)  
HK\$'000

Six months ended 30th June, 2019

Net book value as at 1st January, 2019	171,255
Additions	38,099
Depreciation	(21,189)
Disposals	(811)
Adoption of HKFRS 16	(185)
Exchange realignment	(838)
	<hr/>
Net book value as at 30th June, 2019	<u>186,331</u>

#### 11. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	<b>30th June, 2020</b>	31st December, 2019
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Audited)
Trade receivables – contract with customers	<b>144,894</b>	290,564
<i>Less:</i> allowance for credit losses	<b>(5,305)</b>	(9,386)
	<hr/>	<hr/>
	<b>139,589</b>	281,178
Other receivables, deposits and prepayments	<b>119,476</b>	119,232
	<hr/>	<hr/>
	<b>259,065</b>	400,410
<i>Less:</i> Non-current deposits paid	<b>(28,122)</b>	(25,711)
	<hr/>	<hr/>
	<b>230,943</b>	374,699
	<hr/>	<hr/>

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

	<b>30th June, 2020</b>	31st December, 2019
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Audited)
0–60 days	<b>92,267</b>	182,647
61–90 days	<b>12,218</b>	43,714
More than 90 days	<b>35,104</b>	54,817
	<hr/>	<hr/>
	<b>139,589</b>	281,178
	<hr/>	<hr/>

## 12. TRADE AND OTHER PAYABLES AND ACCRUALS

	<b>30th June, 2020</b> <i>HK\$'000</i> (Unaudited)	31st December, 2019 <i>HK\$'000</i> (Audited)
Trade payables	<b>46,955</b>	69,021
Other payables and accruals	<b>80,783</b>	96,558
	<b>127,738</b>	165,579

At 30th June, 2020 and 31st December, 2019, the ageing analysis of the trade payables based on invoice date was as follows:

	<b>30th June, 2020</b> <i>HK\$'000</i> (Unaudited)	31st December, 2019 <i>HK\$'000</i> (Audited)
0–60 days	<b>30,511</b>	36,951
61–90 days	<b>4,713</b>	18,398
More than 90 days	<b>11,731</b>	13,672
	<b>46,955</b>	69,021

## 13. SHARE CAPITAL

	<b>Number of shares</b> <i>(in thousands)</i>	<b>Share capital</b> <i>HK\$'000</i>
Ordinary shares, issued and fully paid: At 1st January, 2020 and 30th June, 2020	<b>756,203</b>	<b>75,620</b>
At 1st January, 2019 and 30th June, 2019	756,203	75,620

The total authorised number of ordinary shares is 1,000 million shares (2019: 1,000 million shares) with a par value of HK\$0.1 per share (2019: HK\$0.1 per share). All issued shares are fully paid.

#### 14. ACQUISITION OF ASSETS THROUGH ACQUISITION OF A SUBSIDIARY

On 23rd May, 2019, the Group completed the acquisition of 100% equity interest in a subsidiary, Javi Investment Joint Stock Company from an independent third party for a cash consideration of VND561,400,000,000 (equivalent to approximately HK\$190,876,000). The principal assets of the subsidiary are leasehold land and land use rights. The assets acquired were as follows:

	31st January, 2019 HK\$'000
Leasehold land and land use rights	190,834
Cash and cash equivalents	2
Other receivables	40
	<hr/>
Net assets assumed	190,876
	<hr/>
Net cash outflow on acquisition:	
Deposit paid for acquisition of a subsidiary ( <i>Note</i> )	(37,916)
Consideration paid ( <i>Note</i> )	(143,417)
5% of consideration to be paid, included in other payable	(9,543)
Cash and cash equivalents acquired	2
	<hr/>
	(190,874)
	<hr/>

*Note:* As at 30th June, 2019, the Group has paid 95% of the consideration, amounting VND533,330,000,000 (equivalent to approximately HK\$181,333,000) in which a 20% deposit of VND112,280,000,000 (approximately equivalent to HK\$37,916,000) has been paid in 2018.

#### 15. CAPITAL COMMITMENTS

As at 30th June, 2020, the capital commitments contracted but not provided for in the condensed consolidated interim financial information of the Group were HK\$6,630,000 (31st December, 2019: HK\$4,917,000).

#### 16. CONTINGENT LIABILITIES

The Group has held a number of licenses from Hasbro, Inc. and Hasbro International (together referred to as “**Hasbro Group**”) to produce and distribute various products. During the year of 2018, Hasbro Group alleged that an audit of the Group’s records established that the Group owed Hasbro Group an amount of US\$10,061,000, inclusive of purported unpaid royalties, marketing expenses, interest and audit fees.

Upon receipt of the audit findings of Hasbro Group and completion of own investigation, the Group determined that Hasbro Group, at best, was owed approximately US\$863,000, which was promptly paid. Hasbro Group disputed the Group’s conclusion and issued a notice of termination of the remaining license agreement. The Group filed an action in the United States of America disputing Hasbro Group’s interpretation of the license agreement, denying Hasbro Group’s alleged right to terminate the license agreement, and alleged that Hasbro Group breached the license agreement by wrongfully attempting to terminate the license. Hasbro Group has filed a counterclaim, contending that the Group owes the amount alleged in the audit and the Group has violated Hasbro Group’s intellectual property rights.

The Group has sought legal advices and intends to vigorously contest Hasbro Group’s claim and as such no further provision is considered required to be made in the condensed consolidated financial statements for the six months ended 30th June, 2020 in respect of these matters.

## **MANAGEMENT DISCUSSION & ANALYSIS**

### **RESULTS**

For the six months ended 30th June, 2020, the Group's consolidated revenue decreased by approximately HK\$199,076,000 or 33.8% to approximately HK\$389,611,000 from approximately HK\$588,687,000 for the corresponding period of last year. The loss attributable to owners of the Company amounted to approximately HK\$37,108,000, representing a decrease of 129.9% as compared with the profit of approximately HK\$124,274,000 for the corresponding period of last year.

The Group's overall turnover for the first half of 2020 decreased as a result of the slowdown in global economic activities due to the outbreak of novel coronavirus disease (COVID-19), which caused customers to adjust purchase orders or delay the shipment of certain products. Compared to the same period last year, marketing, selling and distribution costs, administrative expenses and recurring operating expenses decreased. However, as the decrease in sales revenue led to a decrease in gross profit, the Company recorded a loss as compared with the same period last year's profit which included the one-off gain on derecognition of non-current assets of HK\$85,301,000.

The Group has taken measures to improve efficiency and strengthen cost control to minimize the impact of the COVID-19 epidemic on business operations. The Board of Directors believes that the overall financial position of the Group remains sound and robust.

For the six months ended 30th June, 2020, the US continued to be the largest customer market of the Group, which accounted for approximately 76.4% of the Group's total revenue (2019: 82.6%). The other significant customer markets for the Group included Europe, Canada and Australia, which accounted for approximately 8.2% (2019: 9.0%), 8.5% (2019: 4.8%) and 3.3% (2019: 2.0%) of the Group's total revenue respectively.

### **FINANCIAL REVIEW**

#### **Revenue**

Revenue of the period recorded approximately HK\$389,611,000, decreased by 33.8% from last period as affected by the outbreak of COVID-19.

#### **Gross Profit**

The Group's gross profit for the period decreased by approximately 43.8% to approximately HK\$117,793,000 due to the decrease of sales.

#### **Distribution and selling costs**

Distribution and selling costs decreased by approximately 10.8% to approximately HK\$65,526,000 for the period. The decrease in distribution and selling costs was mainly attributable to the decrease in advertising costs and royalties.



### **Administrative expenses**

Administrative expenses of the period decreased by approximately 10.5% to approximately HK\$78,874,000, which mainly consisted of office staff salaries, rent and rates of offices, depreciation of property, plant and equipment and other administrative expenses. The decrease resulted mainly from decrease in staff salaries and professional fees during the period.

### **Other gains or losses**

Other gains or losses of the period decreased by approximately 103.3% to approximately of other losses HK\$2,591,000. The decrease in other gains or losses was mainly due to there are one-time gain of HK\$85,301,000 on the transfer of the Right to Purchase for the residential properties in the PRC during the period 2019.

### **Finance costs and income tax**

Finance costs of the period decreased by approximately 19.1% to approximately HK\$2,972,000 as compared to last period due to decrease in the interest of bank borrowings and the loan from third parties. Income tax expense of this period recorded approximately HK\$139,000 due to the decrease in current tax expense.

### **Research and development cost**

Research and development (R&D) cost decreased by approximately 25.4% to approximately HK\$10,225,000 for the period as less resources were allocated to conduct R&D for toys product during the period.

### **Trade and other receivables and prepayments**

Trade and other receivables and prepayments of the period decreased by approximately 38.4% to approximately HK\$230,943,000 as compared to last year, mainly due to the decrease of sales.

### **Trade and other payables and accruals**

Trade and other payables and accruals of the period decreased by approximately 22.9% to approximately HK\$127,738,000 as compared to last year, mainly due to the decrease in purchases and other payables and accruals.

### **Current ratio**

The current ratio of the period was higher than last year which resulted mainly from the settlement of the bank borrowings during the period.

### **Quick ratio**

The quick ratio of the period was higher than last year which resulted mainly from the settlement of the bank borrowings during the period.

## **Financial position and cash flows review**

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

### **Liquidity and financial resources**

As at 30th June, 2020, the Group had cash and cash equivalents of approximately HK\$160,594,000 (31st December, 2019: HK\$133,832,000). As at 30th June, 2020, the Group obtained banking facilities in a total of approximately HK\$70,000,000 (31st December, 2019: HK\$70,000,000), which was mainly supported by corporate guarantee.

As at 30th June, 2020, the Group had bank borrowings of Nil (31st December, 2019: HK\$23,030,000).

The Group's gearing ratio, representing the total debt divided by equity attributable to owners of the Company, was Nil (31st December, 2019: 2.0%) due to the settlement of the bank borrowings during the period.

During the period, net cash generated from operating activities amounted to approximately HK\$101,732,000 (31st December, 2019: HK\$172,580,000). 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\$16,448,000 (31st December, 2019: HK\$48,217,000) to further enhance and upgrade the production capacity. These capital expenditures were financed primarily by cash flow generated from operations.

### **Assets and liabilities**

At 30th June, 2020, the Group had total assets of approximately HK\$1,305,967,000 (31st December, 2019: HK\$1,432,923,000), total liabilities of approximately HK\$231,242,000 (31st December, 2019: HK\$291,103,000) and equity attributable to owners of the Company of approximately HK\$1,079,658,000 (31st December, 2019: HK\$1,144,966,000). The net assets of the Group decreased by 5.9% to approximately HK\$1,074,725,000 as at 30th June, 2020 (31st December, 2019: HK\$1,141,820,000).

### **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**

For the world, the global economic order has become uncertain due to the tensions of the Sino-US trade war and the impact of Brexit. In view of the fact that Brexit was finally confirmed, political instability and uncertainties have been eliminated in many parts of Europe. With its production base in Vietnam, the Group strived to reduce and control costs and maintain closer contact with its customers to improve its products and inventory management, thereby mitigating its operational risks. In such context, there was no material negative impact on the performance of the Group in 2019. However, since the beginning of 2020, the global spread of COVID-19 and the subsequent outbreaks in Europe and North America led to the implementation of a series of preventive and control measures worldwide to minimize social contact. Consequently, major retailers in the United States and Europe adjusted orders or delayed their original shipping schedules. Notwithstanding, the Group is actively managing the related impacts.

The Group had distribution offices in USA, Canada, the United Kingdom, Australia, Mexico and France, and expanded its international presence by selling its products globally through mass market retailers. The Group continued to maintain the efficiency of its operations by adopting lean manufacturing methods for rigid cost control, streamlined logistics management and minimal inventory levels. The Group also continues to improve its brand and channel efficiency as well as operational efficiency, and continues to control selling and distribution costs and administrative expenses. In response to the current circumstances, the Group continues to diversify its portfolio and implement various measures to improve efficiency.

### **Manufacturing operations**

Currently, the Group operates a total of four plants at its main production base in Vietnam. Its production efficiency is further improved through automation. Our Vietnamese operation enjoys the advantage of lower cost compared to other companies whose production capacity is geographically restricted to China. Due to the epidemic, the production schedules and plans of our suppliers have been affected. Nevertheless, most suppliers have gradually resumed their operation by following the recommendations or restrictions of local governments as the epidemic further developed. The Group continues to work closely with the suppliers to mitigate the possible impact, continues to optimize its production technology and capacity, expand its product and customer portfolios, simplify its business processes, and prudently manage its operating costs, and continues to achieve its management localization and production automation, so as to maintain its competitiveness.

## **Segment Performance**

The Group continues to maintain a strong relationship with its major customers. Customers are waiting for economic recovery and meanwhile very cautious about placing orders. Focusing on overseas customers in the United States and Europe, the Group strives to reduce and control costs and maintain closer contact with customers for improved products and inventory management, and makes every effort to find new customers, so as to mitigate the impact of any abrupt change that may occur in operations. The Group continues to uphold and properly manage the stated strategy of its established brands. A number of “CAT” and “Fart Ninjas” new toy products were launched this year. Over the years, we have used the brand “Gazillion® Bubbles” to establish our own branded toys and related products, of which their sales were satisfactory. The Group has been actively producing new marketing campaigns for new toy products of brands such as “CAT”, “Fart Ninjas” and “Herodrive” and new brand “Bright Fairy Friends”.

### ***The United States (“US”)***

The US was still a major export market for the Group’s products. Our turnover decreased by HK\$188,392,000 or 38.8% to HK\$297,664,000 in the first half of this year from HK\$486,056,000 for the corresponding period of last year. There was a decrease in sales of the Original Equipment Manufacturing (“OEM”) business and Original Design Manufacturing (“ODM”) business, resulting in a decrease in the overall revenue.

Social distancing measures suppressed consumer spending, and large overseas mass market retail customers adjusted sales orders or delayed the shipment of certain products. The sales of the Group’s own brands, such as “Gazillion® Bubbles” outdoor products, increased in the first half of the year. However, sales for OEM products, ODM toy car products, girl role-playing products and lighting products decreased, resulting in a decrease in turnover for the first half of the year. The Group would strive to maintain its authorised licensing business for major brands, enrich other product lines and retain existing distributors and clients, including Wal-Mart, Costco, Amazon and Target.

### ***Europe***

Our turnover in Europe decreased by HK\$21,388,000 or 40.2% to HK\$31,830,000 for the first half of this year from HK\$53,218,000 for the corresponding period of last year.

European governments continue to implement timely and targeted epidemic control measures in order to shorten the impact of the epidemic. Nevertheless, consumer sentiments caused local customers to cut their procurement plans, leading to a decrease in a certain amount of sales orders from the customers in Europe. The sales of the Group’s own brands, such as “Gazillion® Bubbles” outdoor products and boy toy series “Fart Ninjas” products, increased. The sales of toy car products, girl series products and lighting products in the European market decreased. Our sales in Denmark, Estonia, Croatia, Slovenia, Germany and Ireland recorded an increase. Our turnover in Italy, Malta, Spain, UK and Portugal recorded a decrease. Overall, customer orders decreased, and the European market recorded a decrease in turnover for the first half of the year. The Group will continue its efforts to maintain existing distributors and clients such as Rexel UK Ltd.

### ***Canada***

Our turnover in the Canadian market increased by HK\$4,939,000 or 17.5% to HK\$33,220,000 in the first half of this year from HK\$28,281,000 for the corresponding period of last year.

Due to significantly better sell in “Gazillion<sup>®</sup> Bubbles” brand products at Walmart Canada as well as better than expected consumer demand for outdoor toy products due to the COVID-19 pandemic and due to expansion of the customer base in this year as compared with last year, the Group recorded an increase in turnover in the Canadian market for the first half of this year. The Group will make efforts to maintain its existing distributors and clients, such as Wal-Mart, Costco Canada and Toys“R”US.

### ***Mexico***

Our turnover in the Mexican market increased by HK\$4,894,000 or 147.4% to HK\$8,215,000 in the first half of this year from HK\$3,321,000 for the corresponding period of last year.

Due to significantly better sell in “CAT” branded vehicle products across all retailers compared to the brand carried in the past, the turnover of Mexican market recorded an increase for the first half of the year.

### ***Australia and New Zealand***

Our turnovers in the Australia and New Zealand markets increased by HK\$797,000 or 6.7% to HK\$12,736,000 in the first half of this year from HK\$11,939,000 for the corresponding period of last year.

Due to the successful introduction of “CAT” products in the first half, the sales in Australian and New Zealand market increased as the business generated at a new customer, Kmart Australia. The Group will continue its efforts to maintain existing distributors and clients such as Big W, Target and Kmart Australia.

### ***South America***

Our turnover in the South America market decreased by HK\$340,000 or 14.1% to HK\$2,078,000 in the first half of this year from HK\$2,418,000 for the corresponding period of last year.

South American countries responded differently to the impact of the COVID-19 on the global economy. Overall, the Group recorded an increase in sales in Argentina, Costa Rica, Guatemala, Peru and Uruguay for the first half of the year, but a decrease in sales in Panama, Honduras, Chile, Bolivia and Brazil. The South America market as a whole recorded a decrease in turnover for the first half of the year.

## **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**

Although the Sino-US trade war situation has become increasingly tense, the Group continues to receive orders from long-term customers in the European and American markets. However, the Group expects that orders and revenue in the second half of the year will be affected to some extent by the effectiveness of control measures against COVID-19. The Group will continue to adopt a prudent strategy, focus on higher-profit products, continue to seek portfolio diversification, in order to meet the growing needs of customers, and further strengthen its online distribution channels. The Group will also exercise stringent cost control to reduce manpower and improve profitability through higher levels of machine automation and improved process control technology, while expanding its production capacity.

The Group will continue to introduce a number of car toys under the well-known toy car brand “CAT”, and meanwhile enrich the product range of “Herodrive”, “Fart Ninjas” and “Bright Fairy Friends”, and actively promote its new products with other retailers. The Group will closely monitor its own development strategy and strive to develop a diversified portfolio for better income base, so as to create long-term and highest returns for shareholders.

## **NUMBER OF EMPLOYEES AND REMUNERATION POLICIES**

As at 30th June, 2020, the Group had a total of approximately 7,100 (31st December, 2019: 7,700) employees in Hong Kong, Macau, the PRC, Vietnam, Australia, Canada, the US, Taiwan, Mexico 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.

## **INTERIM DIVIDEND**

The Directors had resolved to declare an interim dividend of HK1.5 cents (2019: HK5.5 cents) in cash per share for the six months ended 30th June, 2020, payable to shareholders whose names appear on the Register of Members of the Company on 14th September, 2020.

The record date for the purpose of determining the shareholders which are entitled to dividend is 14th September, 2020. 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:00 p.m. on 14th September, 2020. The interim dividend will be paid on or around 22nd September, 2020.

## **PURCHASE, SALE OR REDEMPTION OF SECURITIES**

During the six months ended 30th June, 2020, 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:

- a) 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;
- b) 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 2020 annual general meeting ("AGM") due to the impact of COVID-19. Except the chairman of the Board and the two executive directors, all other members of the Board had attended the 2020 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 2020 AGM.

## **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.

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

The Company has received two revised facility letters with the same facility amount of the old facility, that is, in an aggregate not exceeding HK\$70,000,000, provided to three indirect wholly-owned subsidiaries effective on 4th December, 2019 (the "**revised facilities**" which are subject to annual review). All these two revised facility letters' terms and conditions 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. A breach of the above condition will constitute an event of default under the revised facilities. The Bank 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 reserves the right to request repayment on demand.



## **REVIEW OF INTERIM RESULTS**

The unaudited interim results for the six months ended 30th June, 2020 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.

## **PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT**

This results announcement is published on the website of Hong Kong Exchanges and Clearing Limited and the Company. The 2020 Interim Report of the Company will be dispatched to the shareholders of the Company as well as published on the website of the Hong Kong Exchanges and Clearing Limited and the Company in due course.

## **BOARD COMPOSITION**

As at the date of this announcement, the Board comprises Mr. Cheng Yung Pun, Mr. Cheng King Cheung, Mr. Tsang Chung Wa, Mr. Tse Kam Wah, Mr. Yu Sui Chuen and Ms. Yip Hiu Har, as executive Directors and Dr. Loke Yu alias Loke Hoi Lam, Mr. Mak Shiu Chung, Godfrey, Mr. Wan Hing Pui and Mr. Heng Victor Ja Wei, independent non-executive Directors.

By Order of the Board  
**Cheng Yung Pun**  
*Chairman*

Hong Kong, 27th August, 2020