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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)

2021 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, 2021, together with the comparative figures for the corresponding period in 2020.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30th June, 2021

		Six months ended 30th June,	
		2021	2020
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Unaudited)
Revenue	4	484,463	389,611
Cost of sales		(297,367)	(271,818)
Gross profit		187,096	117,793
Other income		3,047	3,639
Other gains or losses		(3,472)	(2,591)
Distribution and selling costs		(63,313)	(65,526)
Administrative expenses		(76,698)	(78,874)
Research and development costs		(11,143)	(10,225)
Finance costs		(2,261)	(2,972)
Profit (loss) before tax		33,256	(38,756)
Income tax expense	5	(144)	(139)
Profit (loss) for the period	6	33,112	(38,895)

* *For identification purpose only*

		Six months ended 30th June,	
		2021	2020
	<i>Notes</i>	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Other comprehensive income (expense):			
Item that may be reclassified subsequently to profit or loss:			
Currency translation differences		<u>(4,314)</u>	<u>(5,514)</u>
Total comprehensive income (expense) income for the period, net of tax		<u>28,798</u>	<u>(44,409)</u>
Profit (loss) for the period attributable to:			
Owners of the Company		33,337	(37,108)
Non-controlling interests		<u>(225)</u>	<u>(1,787)</u>
		33,112	(38,895)
Total comprehensive income (expense) for the period attributable to:			
Owners of the Company		29,023	(42,622)
Non-controlling interests		<u>(225)</u>	<u>(1,787)</u>
		<u>28,798</u>	<u>(44,409)</u>
Earnings (loss) per share attributable to owners of the Company for the period (expressed in HK cents per share)			
Basic earnings (loss) per share	8	<u>4</u>	<u>(5)</u>
Diluted earnings (loss) per share	8	<u>4</u>	<u>(5)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30th June, 2021

	<i>Notes</i>	30th June, 2021	31st December, 2020
		HK\$'000	HK\$'000
		(Unaudited)	(Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	9	193,569	190,026
Intangible assets		112,560	113,053
Deferred tax assets		24,783	24,780
Deposits paid	10	4,002	25,065
Right-of-use assets		<u>261,525</u>	<u>270,009</u>
		596,439	622,933
Current assets			
Inventories		305,382	303,919
Trade and other receivables and prepayments	10	247,881	290,140
Tax recoverable		2,917	2,651
Cash and cash equivalents		<u>212,720</u>	<u>154,699</u>
		768,900	751,409
Total assets		<u>1,365,339</u>	<u>1,374,342</u>
EQUITY			
Capital and reserves			
Share capital	12	75,620	75,620
Reserves		<u>1,044,538</u>	<u>1,045,763</u>
Equity attributable to owners of the Company		1,120,158	1,121,383
Non-controlling interests		<u>(5,968)</u>	<u>(5,743)</u>
Total equity		<u>1,114,190</u>	<u>1,115,640</u>

		30th June, 2021	31st December, 2020
	<i>Notes</i>	HK\$'000	HK\$'000
		(Unaudited)	(Audited)
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities		971	964
Lease liabilities		59,976	63,607
		<u>60,947</u>	<u>64,571</u>
Current liabilities			
Trade and other payables and accruals	<i>11</i>	152,972	147,423
Lease liabilities		18,187	19,215
Amount due to a director		950	–
Contract liabilities		5,571	9,622
Tax payable		1,983	5,244
Bank borrowings		10,539	12,627
		<u>190,202</u>	<u>194,131</u>
Total liabilities		<u>251,149</u>	<u>258,702</u>
Total equity and liabilities		<u>1,365,339</u>	<u>1,374,342</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30th June, 2021

1. GENERAL INFORMATION

The principal activity of Matrix Holdings Limited (the “**Company**”) is an 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 26th August, 2021. 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, 2021 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. 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, 2021 are the same as those presented in the Group’s annual financial statements for the year ended 31st December, 2020, 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, 2021 for the preparation of the Group's condensed consolidated financial statements:

Amendment to HKFRS 16	Covid-19-Related Rent Concessions
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2

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.

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, 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, 2021 (unaudited)

	Reportable segments						Total reportable segments HK\$'000	Other locations HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
	The United States HK\$'000	Europe HK\$'000	Canada HK\$'000	South America HK\$'000	Australia and New Zealand HK\$'000	Mexico HK\$'000				
Revenue										
External sales	355,022	49,324	49,061	4,271	16,120	2,759	476,557	7,906	-	484,463
Results										
Segment profit (loss)	86,588	3,953	6,345	1,102	493	(118)	98,363	2,010	-	100,373
Unallocated income, gains and losses										371
Unallocated expenses										(65,227)
Finance costs										(2,261)
Profit before tax										<u>33,256</u>
Other segment information:										
Depreciation and amortization	<u>25,902</u>	<u>1,826</u>	<u>1,725</u>	<u>158</u>	<u>621</u>	<u>100</u>	<u>30,332</u>	<u>291</u>	<u>868</u>	<u>31,491</u>

For the six months ended 30th June, 2020 (unaudited)

	Reportable segments						Total reportable segments HK\$'000	Other locations HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
	The United States HK\$'000	Europe HK\$'000	Canada HK\$'000	South America HK\$'000	Australia and New Zealand HK\$'000	Mexico HK\$'000				
Revenue										
External sales	297,664	31,830	33,220	2,078	12,736	8,215	385,743	3,868	-	389,611
Results										
Segment profit (loss)	18,226	(1,070)	6,848	(96)	6,967	(1,160)	29,715	(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	<u>28,551</u>	<u>1,998</u>	<u>1,859</u>	<u>123</u>	<u>744</u>	<u>481</u>	<u>33,756</u>	<u>225</u>	<u>1,181</u>	<u>35,162</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, 2021 (Unaudited)	Reportable segments						Total reportable segments HK\$'000	Other locations HK\$'000	Consolidated HK\$'000
	The United States HK\$'000	Europe HK\$'000	Canada HK\$'000	South America HK\$'000	Australia and New Zealand HK\$'000	Mexico HK\$'000			
ASSETS									
Segment assets	343,269	51,839	44,985	3,927	20,668	3,265	467,953	38,528	506,481
Property, plant and equipment									193,569
Intangible assets									112,560
Deferred tax assets									24,783
Right-of-use assets									261,525
Unallocated corporate assets									266,421
Total assets									<u>1,365,339</u>
LIABILITIES									
Segment liabilities	90,358	13,442	7,042	592	4,039	383	115,856	2,882	118,738
Deferred tax liabilities									971
Bank borrowings									10,539
Amount due to a director									950
Lease liabilities									78,163
Unallocated corporate liabilities									41,788
Total liabilities									<u>251,149</u>

At 31st December, 2020 (Audited)	Reportable segments						Total reportable segments HK\$'000	Other locations HK\$'000	Consolidated HK\$'000
	The United States HK\$'000	Europe HK\$'000	Canada HK\$'000	South America HK\$'000	Australia and New Zealand HK\$'000	Mexico HK\$'000			
ASSETS									
Segment assets	426,098	42,153	38,131	2,856	22,680	7,181	539,099	24,874	563,973
Property, plant and equipment									190,026
Intangible assets									113,053
Deferred tax assets									24,780
Right-of-use assets									270,009
Unallocated corporate assets									212,501
Total assets									<u>1,374,342</u>
LIABILITIES									
Segment liabilities	90,702	8,282	6,126	447	3,526	876	109,959	2,627	112,586
Deferred tax liabilities									964
Bank borrowings									12,627
Lease liabilities									82,822
Unallocated corporate liabilities									49,703
Total liabilities									<u>258,702</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,	
	2021 <i>HK\$'000</i> (Unaudited)	2020 <i>HK\$'000</i> (Unaudited)
Toys	461,211	368,714
Lighting products	23,252	20,897
	484,463	389,611

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, 2021 <i>HK\$'000</i> (Unaudited)	31st December, 2020 <i>HK\$'000</i> (Audited)
	Hong Kong	3,947
Vietnam	329,981	356,311
The United States	49,806	55,703
The PRC	41,432	42,381
Europe	9,099	9,818
Other countries	24,831	11,973
	459,096	485,100

Information about major customers

For the period ended 30th June, 2021, there are 2 customers (2020: 2 customers) in the United States with revenue contributing to approximately 41.5% and 18.9% (2020: 43.6% and 20.5%) of the total revenue of the Group. There is no other single customer contributing over 10% of the total revenue of the Group.

5. INCOME TAX EXPENSE

	Six months ended 30th June,	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Current tax:		
Hong Kong	68	64
Other jurisdictions	76	75
	<hr/>	<hr/>
Income tax expense	144	139

- 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 HK\$2,000,000 will be taxed at 16.5%.
- The applicable tax rates for subsidiaries operate in Vietnam is 10.0% to 20.0% for the period ended 30th June, 2021 (2020: 10.0% to 20.0%).
- The applicable US enterprise income tax rate for subsidiaries operate in the United States is 21% (2020: 21%) for the period.

6. PROFIT (LOSS) 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,	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Auditor's remuneration	2,661	2,836
Depreciation of property, plant and equipment	17,039	17,907
Depreciation of right-of-use assets	13,639	13,969
Short-term lease expenses	2,497	3,060
Amortisation of intangible assets	813	3,286
Net exchange loss	3,747	2,680
	<hr/>	<hr/>

7. DIVIDEND

A dividend of HK\$30,248,000 that relates to the year ended 31st December, 2020 was paid in May, 2021 (2020: HK\$22,686,000).

On 26th August, 2021, the board of directors has resolved to declare an interim dividend of HK2.0 cents per share (2020: HK1.5 cents per share), which is payable on 21st September, 2021 to shareholders who are on the register at 13th September, 2021. 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, 2021.

8. EARNINGS (LOSS) PER SHARE

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

	Six months ended 30th June,	
	2021 <i>HK\$'000</i> (Unaudited)	2020 <i>HK\$'000</i> (Unaudited)
Earnings (loss)		
Profit (loss) attributable to owners of the Company	<u>33,337</u>	<u>(37,108)</u>
	<i>'000</i>	<i>'000</i>
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	756,203	756,203
Effect of dilutive ordinary shares:		
Share options	<u>–</u>	<u>724</u>
Weighted average number of ordinary shares in issue (thousands)	<u>756,203</u>	<u>756,927</u>
	<i>HK cents</i>	<i>HK cents</i>
Basic earnings (loss) per share	<u>4</u>	<u>(5)</u>
Diluted earnings (loss) per share	<u>4</u>	<u>(5)</u>

9. PROPERTY, PLANT AND EQUIPMENT

	(Unaudited) <i>HK\$'000</i>
Six months ended 30th June, 2021	
Net book value as at 1st January, 2021	190,026
Additions	19,983
Depreciation	(17,039)
Disposals	(12)
Exchange realignment	<u>611</u>
Net book value as at 30th June, 2021	<u>193,569</u>

(Unaudited)
HK\$'000

Six months ended 30th June, 2020

Net book value as at 1st January, 2020	177,248
Additions	16,448
Depreciation	(17,907)
Disposals	(2)
Exchange realignment	(1,481)
	<u>174,306</u>
Net book value as at 30th June, 2020	<u>174,306</u>

10. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	30th June, 2021 HK\$'000 (Unaudited)	31st December, 2020 HK\$'000 (Audited)
Trade receivables – contract with customers	166,928	239,516
Less: allowance for credit losses	(4,691)	(6,516)
	<u>162,237</u>	<u>233,000</u>
Other receivables, deposits and prepayments	89,646	82,205
	<u>251,883</u>	<u>315,205</u>
Less: Non-current deposits paid	(4,002)	(25,065)
	<u>247,881</u>	<u>290,140</u>

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, 2021 HK\$'000 (Unaudited)	31st December, 2020 HK\$'000 (Audited)
0–60 days	110,566	175,995
61–90 days	29,768	31,579
More than 90 days	21,903	25,426
	<u>162,237</u>	<u>233,000</u>

11. TRADE AND OTHER PAYABLES AND ACCRUALS

	30th June, 2021 HK\$'000 (Unaudited)	31st December, 2020 HK\$'000 (Audited)
Trade payables	67,185	57,175
Other payables and accruals	85,787	90,248
	<u>152,972</u>	<u>147,423</u>

At 30th June, 2021 and 31st December, 2020, the ageing analysis of the trade payables based on invoice date was as follows:

	30th June, 2021 HK\$'000 (Unaudited)	31st December, 2020 HK\$'000 (Audited)
0–60 days	56,516	37,841
61–90 days	1,474	5,501
More than 90 days	9,195	13,833
	<u>67,185</u>	<u>57,175</u>

12. SHARE CAPITAL

	Ordinary shares of HK\$0.1 each Number of shares (in thousands)	Share capital HK\$'000
Ordinary shares, issued and fully paid: At 1st January, 2021 and 30th June, 2021	<u>756,203</u>	<u>75,620</u>
At 1st January, 2020 and 30th June, 2020	<u>756,203</u>	<u>75,620</u>

The total authorised number of ordinary shares is 1,000 million shares (2020: 1,000 million shares) with a par value of HK\$0.1 per share (2020: HK\$0.1 per share). All issued shares are fully paid.

13. CAPITAL COMMITMENTS

As at 30th June, 2021, the capital commitments contracted but not provided for in the condensed consolidated interim financial information of the Group were HK\$7,759,000 (31st December, 2020: HK\$8,214,000).

14. 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. Hasbro Group has agreed, without prejudice to any claim, to allow the Group to continue to perform pursuant to the license agreement until a court resolution, settlement or the termination of the license by its terms which will occur in the future. Both parties involved are currently engaged in a mediation.

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 consolidated financial statements for the year ended 31st December, 2020 in respect of these matters. During the period ended 30th June, 2021 in the opinion of the director of the Group that there are no update in the status and therefore no further provision is considered required to be made in the condensed consolidated financial statements for the period in respect of these matters.

15. EVENT AFTER THE END OF THE REPORTING PERIOD

On 27 July 2021 (after trading hours), the transferor entered into a master capital transfer agreement with the transferee, an indirect wholly-owned subsidiary of the Company, in respect of the acquisition, pursuant to which the transferor conditionally agreed to sell and the transferee conditionally agreed to acquire the entire equity interests in a target company, for a total cash consideration of VND356,950,000,000 (equivalent to approximately HK\$120,439,000). Details of which are further disclosed in the announcement of the Company published by the Company on the website of The Stock Exchange of Hong Kong Limited on 27 July 2021.

MANAGEMENT DISCUSSION & ANALYSIS

For the six months ended 30th June, 2021, the Group's consolidated revenue increased by approximately HK\$94,852,000 or 24.3% to approximately HK\$484,463,000 from approximately HK\$389,611,000 for the corresponding period of last year. The profit attributable to owners of the Company amounted to approximately HK\$33,337,000, representing an increase of 189.8% as compared with the loss of approximately HK\$37,108,000 for the corresponding period of last year.

The Group's overall turnover for the first half of 2021 increased as a result of gradual economic recovery after the introduction of vaccines in early 2021 and rapid increase in inoculation, the governments of most countries have relaxed social distancing control measures to encourage the economic activities. As the Group continues to manage expenses prudently, marketing, selling and distribution costs, administrative expenses decreased slightly compared to the same period last year despite the increase in turnover. In this connection, the Group recorded a profit as compared with the same period last year when a loss was recorded as a result of the novel coronavirus disease ("COVID-19").

The Group has taken measures to develop business and at the same time improve efficiency and strengthen cost control to minimize the impact of the COVID-19 pandemic 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, 2021, the US continued to be the largest customer market of the Group, which accounted for approximately 73.3% of the Group's total revenue (2020: 76.4%). The other significant customer markets for the Group included Europe, Canada and Australia, which accounted for approximately 10.2% (2020: 8.2%), 10.1% (2020: 8.5%) and 3.3% (2020: 3.3%) of the Group's total revenue respectively.

FINANCIAL REVIEW

Revenue

Revenue of the period recorded approximately HK\$484,463,000, increased by 24.3% from last period as economic recovery after the outbreak of COVID-19.

Gross Profit

The Group's gross profit for the period increased by approximately 58.8% to approximately HK\$187,096,000 due to the increase of sales.

Distribution and selling costs

Distribution and selling costs decreased by approximately 3.4% to approximately HK\$63,313,000 for the period. The decrease in distribution and selling costs was mainly attributable to the decrease in sales and marketing costs.

Administrative expenses

Administrative expenses of the period decreased by approximately 2.8% to approximately HK\$76,698,000, 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 during the period.

Other gains or losses

Other gains or losses of the period increased by approximately 34.0% to approximately of other losses HK\$3,472,000. The increase in other gains or losses was mainly due to increase in exchange loss during the period.

Finance costs and income tax

Finance costs of the period decreased by approximately 23.9% to approximately HK\$2,261,000 as compared to last period due to decrease in the interest of bank borrowings and finance lease liabilities. Income tax expense of this period recorded approximately HK\$144,000 due to the increase in current tax expense.

Research and development cost

Research and development (R&D) cost increased by approximately 9.0% to approximately HK\$11,143,000 for the period as more 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 14.6% to approximately HK\$247,881,000 as compared to last year, mainly due to the faster collection of debts.

Trade and other payables and accruals

Trade and other payables and accruals of the period increased by approximately 3.8% to approximately HK\$152,972,000 as compared to last year, mainly due to the increase in purchases.

Current ratio

The current ratio of the period was higher than last year which resulted mainly from the increase in cash and cash equivalents during the period.

Quick ratio

The quick ratio of the period was higher than last year which resulted mainly from the increase in cash and cash equivalents 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, 2021, the Group had cash and cash equivalents of approximately HK\$212,720,000 (31st December, 2020: HK\$154,699,000). As at 30th June, 2021, the Group obtained banking facilities in a total of approximately HK\$70,000,000 (31st December, 2020: HK\$70,000,000), which was mainly supported by corporate guarantee.

As at 30th June, 2021, the Group had bank borrowings of HK\$10,539,000 (31st December, 2020: HK\$12,627,000).

The Group's gearing ratio, representing the total debt divided by equity attributable to owners of the Company, was 0.9% (31st December, 2020: 1.1%) due to the settlement of the bank borrowings during the period.

During the period, net cash generated from operating activities amounted to approximately HK\$120,916,000 (31st December, 2020: HK\$120,241,000). 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\$19,983,000 (31st December, 2020: HK\$53,599,000) 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, 2021, the Group had total assets of approximately HK\$1,365,339,000 (31st December, 2020: HK\$1,374,342,000), total liabilities of approximately HK\$251,149,000 (31st December, 2020: HK\$258,702,000) and equity attributable to owners of the Company of approximately HK\$1,120,158,000 (31st December, 2020: HK\$1,121,383,000). The net assets of the Group decreased by 0.1% to approximately HK\$1,114,190,000 as at 30th June, 2021 (31st December, 2020: HK\$1,115,640,000).

Event after the end of the reporting period

On 27 July 2021 (after trading hours), the transferor entered into a master capital transfer agreement with the transferee, an indirect wholly-owned subsidiary of the Company, in respect of the acquisition, pursuant to which the transferor conditionally agreed to sell and the transferee conditionally agreed to acquire the entire equity interests in a target company, for a total cash consideration of VND356,950,000,000 (equivalent to approximately HK\$120,439,000). Details of which are further disclosed in the announcement of the Company published by the Company on the website of The Stock Exchange of Hong Kong Limited on 27 July 2021.

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

With the introduction of vaccines in early 2021 and rapid increase in inoculation, the governments of the United States and most European countries have relaxed social distancing control measures to encourage the economic activities. The inauguration of Biden's government also eliminated the uncertainty of the USA presidential election on the political and economic environment to a large extent. Economic prospect and consumer sentiments were improved which led to increase in the Group's turnover in the first half of 2021. However, with the fast-spreading of Delta variant in the globe recently, the road of economic recovery has become uncertain again.

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. With well-diversified distribution network and geographical market segments, the Group remains vigilant to changes in the worldwide as well as regional economic environment and reacts swiftly to cope with the changes. At the same time, the Group continues to control costs and maintain good customer relationship to strengthen its products and inventory management, thereby enhancing its competitiveness and mitigating operational risks.

Manufacturing operations

The Group operates four plants at its main production site in Vietnam. We strive to improve production efficiency of our plants through automation and training of high-skilled workers. Lower labor cost and other operational cost in Vietnam give the Group competitive advantages over its market competitors whose major production plants are located in higher cost regions.

While the production schedules and plans of our suppliers have been affected by the pandemic, most suppliers have gradually resumed their operation by following the recommendations or restrictions of local governments. The Group mitigates the impact brought about by the pandemic by working closely with its suppliers, optimizing its production technology and capacity, expanding its product and customer portfolios, simplifying its business processes and prudently managing its operating costs.

Segment Performance

The United States, Canada and Europe are major markets of the Group's products. With high vaccine coverage in these areas, the social distancing restrictive measures have been largely relaxed. Customers are more positive about the economic prospect and there is growth momentum in placing orders. The Group continues to maintain a strong business relationship with its major customers and at the same time make every effort in new business development.

The Group continues to adopt the proven strategy of its established brands. A number of "CAT" 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 and their sales have been satisfactory. The Group has been actively launching new marketing campaigns for new toy products of brands such as "CAT" and "Fart Ninjas" and "Bright Fairy Friends".

The United States ("US")

The US remains a major export market of the Group's products. Our turnover increased by HK\$57,358,000 or 19.3% to HK\$355,022,000 in the first half of this year from HK\$297,664,000 for the corresponding period of last year. There was an increase in sales of both the Original Equipment Manufacturing ("OEM") and the Original Design Manufacturing ("ODM") businesses, resulting in an increase in the overall revenue.

In light of the decrease in COVID-19 reported cases, the US government has relaxed social distancing control measures and economic activities have been rebounded in the first half of this year. The US Federal Reserve continued their quantitative easing measures. The sales of toy car products "CAT" and girl role play product have increased significantly. However, sales of "Gazillion® Bubbles" outdoor products decreased. 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, Amazon and Marmaxx Group.

Europe

Our turnover in Europe increased by HK\$17,494,000 or 55.0% to HK\$49,324,000 for the first half of this year from HK\$31,830,000 for the corresponding period of last year.

With more people fully vaccinated, the European governments relaxed gathering and social distancing measures. Economic activities in the markets, especially, the UK, have been mostly resumed and customer sentiments have been improved. The sales of girl role play products and toy car products “CAT” products, increased. Our sales in UK, Switzerland, Poland, Belgium, Germany, Denmark, France, Finland, Spain, Italy, Russia, Ireland, Slovenia and Malta recorded an increase though the turnover in Estonia and Croatia recorded a decrease. The significant increase in the UK market contributed to an overall increase in turnover for the first half of the year. The Group will continue its efforts to maintain existing distributors and clients.

Canada

Our turnover in the Canadian market increased by HK\$15,841,000 or 47.7% to HK\$49,061,000 in the first half of this year from HK\$33,220,000 for the corresponding period of last year.

The Group recorded an increase in turnover in the Canadian market in the first half of the year due to surge in the sale of “Gazillion” brand products and toy car product “CAT”, increasing consumer demand for outdoor and backyard products amid the COVID-19 pandemic as well as ever-expanding of customer base in 2021. The Group will make efforts to maintain its existing distributors and clients, such as Wal-Mart.

Mexico

Our turnover in the Mexican market decreased by HK\$5,456,000 or 66.4% to HK\$2,759,000 in the first half of this year from HK\$8,215,000 for the corresponding period of last year.

Business has been suffering amid lockdowns and business closures during the recent COVID-19 outbreak in the country. The sales in toy car products “CAT” and “Gazillion” outdoor products decreased while the sale in boy toy series “Fart Ninjas” products increased. Overall, the turnover decreased in the first half of this year.

Australia and New Zealand

Our turnovers in the Australia and New Zealand markets increased by HK\$3,384,000 or 26.6% to HK\$16,120,000 in the first half of this year from HK\$12,736,000 for the corresponding period of last year.

Due to the increase in the sales of “CAT” products and “Gazillion” outdoor products, as well as introduction of “BRIGHT FAIRY FRIENDS” in the first half, the sales in Australian and New Zealand market increased. The Group will continue its efforts to maintain existing distributors and clients such as Big W.

South America

Our turnover in the South America market increased by HK\$2,193,000 or 105.5% to HK\$4,271,000 in the first half of this year from HK\$2,078,000 for the corresponding period of last year.

South American countries responded differently to the impact of the COVID-19. The Group recorded an increase in sales in Panama, Argentina, Chile, Honduras, Guatemala, Bolivia and Peru in the first half of the year, but a decrease in sales in Costa Rica and Uruguay. Overall, the South America market recorded an increase in turnover in 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 principles of Reducing, Recycling and Reusing, the Group encourages green office practices such as double-sided printing and copying, setting up recycling bins, promoting usage of recycled paper and reducing energy consumption by switching off lightings and electrical appliances when not in use, and will consider implementing further eco-friendly measures and practices which become an integral part of the Group's operation and 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 Group 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 acknowledges that employees, customers and business partners are crucial to its sustainable growth. The Group is hence committed to building up close and caring relationship with its employees, providing excellent service to its customers and enhancing partnership with its business partners.

PROSPECTS

With high vaccine coverage in the United States and most European countries, the governments have relaxed social distancing control measures and economic activities have been resumed to a large extent. The new United States President Joe Biden adopts expansionary fiscal policy to boost economic growth. This will like to bring a growth momentum in the second half of 2021. However, with the fast-spreading of Delta variant in the globe recently, the road of economic recovery has become uncertain again.

The Group will continue to adopt a prudent strategy, focus on higher-profit products, diversify product portfolio, and further strengthen its online distribution channels so as to meet the growing needs of customers. 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 to 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, 2021, the Group had a total of approximately 6,000 (31st December, 2020: 6,000) employees in Hong Kong, the PRC, Vietnam, Australia, Canada, the US, 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 HK2.0 cents (2020: HK1.5 cents) in cash per share for the six months ended 30th June, 2021, payable to shareholders whose names appear on the Register of Members of the Company on 13th September, 2021.

The record date for the purpose of determining the shareholders which are entitled to dividend is 13th September, 2021. 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 13th September, 2021. The interim dividend will be paid on or around 21st September, 2021.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the six months ended 30th June, 2021, 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 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 2021 annual general meeting ("AGM") due to the impact of COVID-19. Except the chairman of the Board, two executive directors and one independent non-executive director, all other members of the Board had attended the 2021 AGM and one of them had been nominated as chairman of the AGM. The Company consider that the presence is sufficient for (i) answering questions from and (ii) effective communication with the shareholders of the Company present at the 2021 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 18th September, 2020 (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, 2021 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 2021 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 and Ms. Yip Hiu Har, as executive Directors and Dr. Loke Yu alias Loke Hoi Lam, Mr. Mak Shiu Chung, Godfrey and Mr. Heng Victor Ja Wei, independent non-executive Directors.

By Order of the Board
Cheng Yung Pun
Chairman

Hong Kong, 26th August, 2021