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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)

2022 INTERIM RESULTS ANNOUNCEMENT

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		
	2022	2021	% Change
Revenue (<i>HK\$'000</i>)	577,164	484,463	19.1%
EBITDA (<i>HK\$'000</i>) ⁽¹⁾	105,703	67,008	57.7%
Profit attributable to owners of the Company (<i>HK\$'000</i>)	71,997	33,337	116.0%
Basic earnings per share (<i>HK cents</i>)	10	4	150.0%
Interim dividend, declared (<i>HK cents</i>)	4.0	2.0	100.0%
Gross profit margin ratio (%)	41.6%	38.6%	7.8%

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 30 June 2022, together with the comparative figures for the corresponding period in 2021.

Note 1: EBITDA represents the EBITDA of the Company and subsidiary companies. EBITDA is defined as earnings before interest, taxation, depreciation and amortisation. Information concerning EBITDA has been included in the Group's financial information. The Group considers EBITDA to be an important performance measure which is used in the Group's internal financial and management reporting to monitor business performance. EBITDA is not a measure of cash liquidity or financial performance under HKFRS and the EBITDA measures used by the Group may not be comparable to other similarly titled measures of other companies. EBITDA should not necessarily be construed as an alternative to cash flows or results from operations as determined in accordance with HKFRS.

* For identification purpose only

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2022

		Six months ended 30 June	
		2022	2021
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Unaudited)
Revenue	4	577,164	484,463
Cost of sales		(337,289)	(297,367)
Gross profit		239,875	187,096
Other income		6,476	3,047
Other gains or losses		(6,853)	(3,472)
Distribution and selling costs		(77,516)	(63,313)
Administrative expenses		(77,749)	(76,698)
Research and development costs		(10,461)	(11,143)
Finance costs		(2,272)	(2,261)
Profit before tax		71,500	33,256
Income tax expense	5	(223)	(144)
Profit for the period	6	71,277	33,112
Other comprehensive income for the period, net of tax			
Item that may be reclassified to profit or loss: Exchange differences on translating foreign operations		(10,091)	(4,314)
Total comprehensive income for the period, net of tax		61,186	28,798

		Six months ended 30 June	
		2022	2021
	<i>Notes</i>	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Profit for the period attributable to:			
Owners of the Company		71,997	33,337
Non-controlling interests		(720)	(225)
		<hr/>	<hr/>
		71,277	33,112
Total comprehensive income for the period attributable to:			
Owners of the Company		61,906	29,023
Non-controlling interests		(720)	(225)
		<hr/>	<hr/>
		61,186	28,798
		<hr/>	<hr/>
Earnings per share attributable to owners of the Company for the period (expressed in HK cents per share)			
Basic earnings per share	8	<hr/> 10 <hr/>	<hr/> 4 <hr/>
Diluted earnings per share	8	<hr/> 10 <hr/>	<hr/> 4 <hr/>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2022

	<i>Notes</i>	30 June 2022 HK\$'000 (Unaudited)	31 December 2021 HK\$'000 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment		171,472	176,148
Right-of-use assets		246,164	258,463
Intangible assets		103,710	104,685
Deposits	9	124,218	126,116
Deferred tax assets		26,070	26,087
		671,634	691,499
Current assets			
Inventories		305,187	328,671
Trade receivables	9	136,053	185,482
Prepayment, deposits and other receivables	9	26,802	43,899
Current tax assets		3,603	2,515
Bank and cash balances		229,574	164,076
		701,219	724,643
Current liabilities			
Trade payables	10	57,621	71,961
Accruals and other payables	10	74,558	96,497
Contract liabilities		3,901	6,708
Amount due to a director		2,073	8,302
Bank borrowings		6,933	7,911
Lease liabilities		17,051	17,074
Current tax liabilities		14,983	18,971
		177,120	227,424
Net current assets		524,099	497,219
Total assets less current liabilities		1,195,733	1,188,718

	30 June 2022	31 December 2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Non-current liabilities		
Lease liabilities	51,744	60,491
Deferred tax liabilities	1,007	1,059
	<u>52,751</u>	<u>61,550</u>
NET ASSETS	<u>1,142,982</u>	<u>1,127,168</u>
Capital and reserves		
Share capital	75,620	75,620
Reserves	1,074,280	1,057,746
	<u>1,149,900</u>	<u>1,133,366</u>
Equity attributable to owners of the Company	(6,918)	(6,198)
Non-controlling interests	<u>1,142,982</u>	<u>1,127,168</u>
TOTAL EQUITY	<u>1,142,982</u>	<u>1,127,168</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

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 25 August 2022. This condensed consolidated financial statements have not been audited.

2. BASIS OF PREPARATION

The condensed consolidated financial statements for the six months ended 30 June 2022 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 30 June 2022 are the same as those presented in the Group’s annual financial statements for the year ended 31 December 2021, 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 1 January 2022 for the preparation of the Group's condensed consolidated financial statements:

Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendment to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018-2020

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 30 June 2022 (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	452,631	44,285	43,449	7,634	16,945	4,412	569,356	7,808	-	577,164
Results										
Segment profit	129,431	2,069	6,289	2,265	192	46	140,292	2,310	-	142,602
Unallocated other income										4,393
Unallocated expenses										(73,223)
Finance costs										(2,272)
Profit before tax										<u>71,500</u>
Other segment information:										
Depreciation and amortization	<u>22,951</u>	<u>1,218</u>	<u>1,004</u>	<u>184</u>	<u>598</u>	<u>106</u>	<u>26,061</u>	<u>188</u>	<u>5,682</u>	<u>31,931</u>

For the six months ended 30 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 other income										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>

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 30 June 2022 (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	343,761	38,344	35,226	5,740	16,284	3,775	443,130	17,589	460,719
Property, plant and equipment									171,472
Intangible assets									103,710
Deferred tax assets									26,070
Right-of-use assets									246,164
Unallocated corporate assets									364,718
Total assets									<u>1,372,853</u>
LIABILITIES									
Segment liabilities	79,360	8,297	4,338	762	4,174	440	97,371	2,328	99,699
Deferred tax liabilities									1,007
Bank borrowings									6,933
Lease liabilities									68,795
Unallocated corporate liabilities									53,437
Total liabilities									<u>229,871</u>
At 31 December 2021 (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	430,548	28,680	32,676	3,570	16,523	4,161	516,158	28,994	545,152
Property, plant and equipment									176,148
Intangible assets									104,685
Deferred tax assets									26,087
Right-of-use assets									258,463
Unallocated corporate assets									305,607
Total assets									<u>1,416,142</u>
LIABILITIES									
Segment liabilities	105,298	9,507	6,765	802	4,594	850	127,816	2,996	130,812
Deferred tax liabilities									1,059
Bank borrowings									7,911
Lease liabilities									77,565
Unallocated corporate liabilities									71,627
Total liabilities									<u>288,974</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 30 June	
	2022 <i>HK\$'000</i> (Unaudited)	2021 <i>HK\$'000</i> (Unaudited)
Toys	566,174	461,211
Lighting products	10,990	23,252
	<u>577,164</u>	<u>484,463</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:

	30 June 2022 <i>HK\$'000</i> (Unaudited)	31 December 2021 <i>HK\$'000</i> (Audited)
	Hong Kong	3,626
Vietnam	442,266	448,967
The United States	35,476	42,481
The PRC	39,495	40,549
Europe	6,252	7,629
Other countries	14,739	16,096
	<u>541,854</u>	<u>560,727</u>

Information about major customers

For the six months ended 30 June 2022, there are 2 customers (2021: 2 customers) in the United States with revenue contributing to approximately 46.7% and 16.5% (2021: 41.5% and 18.9%) 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 30 June	
	2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)
Current tax:		
Hong Kong	–	68
Other jurisdictions	223	76
	<hr/>	<hr/>
Income tax expense	223	144
	<hr/>	<hr/>

- 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 six months ended 30 June 2022 (2021: 10.0% to 20.0%).
- The applicable US enterprise income tax rate for subsidiaries operate in the United States is 21% (2021: 21%) for the period.

6. PROFIT FOR THE PERIOD

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

	Six months ended 30 June	
	2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)
Auditor's remuneration	2,767	2,661
Depreciation of property, plant and equipment	20,420	17,039
Depreciation of right-of-use assets	11,511	13,639
Short-term lease expenses	3,199	2,497
Amortisation of intangible assets	–	813
Net exchange loss	6,468	3,747
	<hr/>	<hr/>

7. DIVIDEND

A dividend of HK\$45,372,000 that relates to the year ended 31 December 2021 was paid in June 2022 (2021: HK\$30,248,000).

On 25 August 2022, the board of directors has resolved to declare an interim dividend of HK4.0 cents per share (2021: HK2.0 cents per share), which is payable on 22 September 2022 to shareholders who are on the register at 13 September 2022. 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 31 December 2022.

8. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2022 <i>HK\$'000</i> (Unaudited)	2021 <i>HK\$'000</i> (Unaudited)
Earnings		
Profit attributable to owners of the Company	<u>71,997</u>	<u>33,337</u>
	<i>'000</i>	<i>'000</i>
Number of shares		
Weighted average number of ordinary shares in issue (thousands)	<u>756,203</u>	<u>756,203</u>
	<i>HK cents</i>	<i>HK cents</i>
Basic earnings per share	<u>10</u>	<u>4</u>
Diluted earnings per share	<u>10</u>	<u>4</u>

For the six months ended 30 June 2022 and 2021, no diluted loss per share was presented as the Company did not have any diluted potential ordinary shares.

9. TRADE RECEIVABLES, PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June	31 December
	2022 <i>HK\$'000</i> (Unaudited)	2021 <i>HK\$'000</i> (Audited)
Trade receivables – contract with customers	140,619	190,079
Less: allowance for credit losses	<u>(4,566)</u>	<u>(4,597)</u>
	136,053	185,482
Other receivables, deposits and prepayments	<u>151,020</u>	<u>170,015</u>
	287,073	355,497
Less: Non-current deposits paid	<u>124,218</u>	<u>(126,116)</u>
	<u>162,855</u>	<u>229,381</u>

The Group allows a credit period of 14 to 90 days to its trade customers. At 30 June 2022 and 31 December 2021, the ageing analysis of trade receivables based on the invoice date, and net of allowance is as follows:

	30 June 2022 HK\$'000 (Unaudited)	31 December 2021 HK\$'000 (Audited)
0–60 days	98,476	143,159
61–90 days	27,549	26,667
More than 90 days	10,028	15,656
	<u>136,053</u>	<u>185,482</u>

10. TRADE PAYABLES, ACCRUALS AND OTHER PAYABLES

	30 June 2022 HK\$'000 (Unaudited)	31 December 2021 HK\$'000 (Audited)
Trade payables	57,621	71,961
Other payables and accruals	74,558	96,497
	<u>132,179</u>	<u>168,458</u>

At 30 June 2022 and 31 December 2021, the ageing analysis of the trade payables based on invoice date was as follows:

	30 June 2022 HK\$'000 (Unaudited)	31 December 2021 HK\$'000 (Audited)
0–60 days	34,681	36,639
61–90 days	9,906	21,179
More than 90 days	13,034	14,143
	<u>57,621</u>	<u>71,961</u>

11. CAPITAL COMMITMENTS

As at 30 June 2022, the capital commitments contracted but not provided for in the condensed consolidated interim financial information of the Group were HK\$5,594,000 (31 December 2021: HK\$5,705,000).

12. 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\$860,000, 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 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.

During the year 31 December 2021, the Group and Hasbro Group reached a memorandum of understanding, which stipulated that the Group pay US\$3,000,000 for full release of all claims, with the exception of the remaining open claims of approximately US\$5,240,000 (approximately US\$6,100,000 less US\$860,000 already paid by the Group). The open claims will be submitted to a neutral auditor, whose decision shall be final and binding. It is in the opinion of the directors of the Company, after seeking legal advices, as the audit process is on-going, it is too early to provide an evaluation of the likelihood of an unfavourable outcome for any estimate of a range of potential loss from the open claims. As such no further provision for the remaining claim is considered required to be made in the consolidated financial statements for the year ended 31 December 2021 in respect of these matters. During the six months ended 30 June 2022, in the opinion of the directors of the Company 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.

MANAGEMENT DISCUSSION & ANALYSIS

For the six months ended 30 June 2022, the Group's consolidated revenue increased by approximately HK\$92,701,000 or 19.1% to approximately HK\$577,164,000 from approximately HK\$484,463,000 for the corresponding period of last year. The profit attributable to owners of the Company amounted to approximately HK\$71,997,000, representing an increase of 116.0% as compared with the profit of approximately HK\$33,337,000 for the corresponding period of last year.

The Group's overall turnover in the first half of 2022 increased as a result of gradual economic recovery in the United States, South America, Australia and New Zealand markets. However, the outbreak of the Russia-Ukraine war brought negative impact to the economy worldwide, in particular, the European market.

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 30 June 2022, the US continued to be the largest customer market of the Group, which accounted for approximately 78.4% of the Group's total revenue (2021: 73.3%). The other significant customer markets for the Group included Europe, Canada and Australia, which accounted for approximately 7.7% (2021: 10.2%), 7.5% (2021: 10.1%) and 2.9% (2021: 3.3%) of the Group's total revenue respectively.

FINANCIAL REVIEW

Revenue

Revenue of the period recorded approximately HK\$577,164,000, increased by 19.1% from last period as the Group strived to mitigate the negative impact caused by the outbreak of COVID-19.

Gross Profit

The Group's gross profit for the period increased by approximately 28.2% to approximately HK\$239,875,000 due to the increase of sales.

Distribution and selling costs

Distribution and selling costs increased by approximately 22.4% to approximately HK\$77,516,000 for the period. The increase was mainly attributable to the increase in royalty expenses and sales and marketing costs.

Administrative expenses

Administrative expenses of the period increased by approximately 1.4% to approximately HK\$77,749,000, which mainly consisted of office staff salaries, rent and rates of offices, depreciation of property, plant and equipment and other administrative expenses. The increase resulted mainly from increase in depreciation of property, plant and equipment during the period.

Finance costs and income tax

Finance costs of the period increased by approximately 0.5% to approximately HK\$2,272,000 as compared to last period due to increase in the interest of finance lease liabilities. Income tax expense of this period recorded approximately HK\$223,000 due to the increase in current tax expense.

Research and development cost

Research and development (R&D) cost decreased by approximately 6.1% to approximately HK\$10,461,000 for the period as less resources were allocated to conduct R&D for toys product during the period.

Trade receivables, prepayment, deposits and other receivables

Trade receivables of the period decreased by approximately 26.6% to approximately HK\$136,053,000 as compared to last year, mainly due to the faster collection of debts. Prepayment, deposit and other receivables decreased by approximately 11.2% to approximately HK\$151,020,000, due to decrease in deposit paid for purchases.

Trade payables, accruals and other payables

Trade payables of the period decreased by approximately 19.9% to approximately HK\$57,621,000 as compared to last year, mainly due to the faster repayment of liabilities. Accruals and other payables decreased by approximately 22.7% to approximately HK\$74,558,000, due to decrease in accrued employee benefit expenses and other payables and accruals.

Current ratio

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

Quick ratio

The quick ratio of the period was higher than last year which resulted mainly from the increase in bank and cash balances 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 30 June 2022, the Group had bank and cash balances of approximately HK\$229,574,000 (31 December 2021: HK\$164,076,000). As at 30 June 2022, the Group obtained banking facilities in a total of approximately HK\$70,000,000 (31 December 2021: HK\$70,000,000), which was mainly supported by corporate guarantee.

As at 30 June 2022, the Group had bank borrowings of HK\$6,933,000 (31 December 2021: HK\$7,911,000).

The Group's gearing ratio, representing the total debt divided by equity attributable to owners of the Company, was 0.6% (31 December 2021: 0.7%) due to the settlement of the bank borrowings during the period.

During the period, net cash generated from operating activities amounted to approximately HK\$147,559,000 (31 December 2021: HK\$207,747,000). 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\$18,935,000 (31 December 2021: HK\$32,699,000) to further enhance and upgrade the production capacity. These capital expenditures were financed primarily by cash flow generated from operations.

Assets and liabilities

At 30 June 2022, the Group had total assets of approximately HK\$1,372,853,000 (31 December 2021: HK\$1,416,142,000), total liabilities of approximately HK\$229,871,000 (31 December 2021: HK\$288,974,000) and equity attributable to owners of the Company of approximately HK\$1,149,900,000 (31 December 2021: HK\$1,133,366,000). The net assets of the Group increased by 1.4% to approximately HK\$1,142,982,000 as at 30 June 2022 (31 December 2021: HK\$1,127,168,000).

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

The economy of the United States and Europe have recovered gradually from the pandemic in the first half of 2022 but the bounce back in demand has stressed supply chains and caused inflation to rise sharply. Besides, the outbreak of Russia-Ukraine war has caused stress in the supply of energy and food worldwide and further boosted the inflation rate. It is expected that the central banks of the United States and Europe will tighten the monetary policy to curb inflation, thereby hindering economic recovery.

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 continue to improve production efficiency of our plants through automation and enhancing skill of 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.

Whilst the production schedules and supply chain logistics of our suppliers have been affected by the pandemic, most suppliers have adapted to the Covid. 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. The performance of these markets varied during the reporting period, due to the different pace of economic recovery as well as the impact of the Russia-Ukraine political tension. The Group adopted a cautious approach and continues to maintain a strong business relationship with its major customers and at the same time make every effort in new business development to diversify geographical risk.

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 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\$97,609,000 or 27.5% to HK\$452,631,000 in the first half of this year from HK\$355,022,000 for the corresponding period of last year.

The US economy has recovered quickly from the pandemic in the first half of 2022. Customers were more positive about the economic prospect and there was growth momentum in placing orders. The increase in turnover was mainly driven by the increase in sales of toy car products “CAT” and “ROCKET LEAGUE”, outdoor products “Gazillion® Bubbles” and boys product “FART NINJAS”. However, sales of girl role play products decreased. The Group would continue to maintain its authorised licensing business of major brands, enrich other product lines and retain existing distributors and clients, including Wal-Mart, Amazon and Marmaxx Group.

Europe

Our turnover in Europe decreased by HK\$5,039,000 or 10.2% to HK\$44,285,000 for the first half of this year from HK\$49,324,000 for the corresponding period of last year.

The tension of the Russia-Ukraine relationship brought adverse impact on the European markets and affected customer sentiments. Besides, central banks of the European governments had tightened their monetary policies to curb the rising inflation. The sales of toy car products “CAT” products and outdoor products “Gazillion® Bubbles” increased. However, the sales of girl role play products decreased. Our sales in Spain, France, Ireland, Italy, Switzerland, Poland, Portugal, Greece, Slovenia, Germany, Denmark, Lithuania and Hungary recorded an increase though the turnover in UK, Netherlands, Malta, Finland, Belgium and Sweden recorded a decrease. An overall decrease 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 decreased by HK\$5,612,000 or 11.4% to HK\$43,449,000 in the first half of this year from HK\$49,061,000 for the corresponding period of last year.

The Group recorded a decrease in turnover in the Canadian market in the first half of the year due to decrease in the sales of girl role play products. The Group will make efforts to maintain its existing distributors and clients, such as Costco Wholesale (Canada) and Wal-Mart.

Mexico

Our turnover in the Mexican market increased by HK\$1,653,000 or 59.9% to HK\$4,412,000 in the first half of this year from HK\$2,759,000 for the corresponding period of last year.

Sales regained momentum in the Mexican market in the first half of 2022. The sales in toy car products “CAT” and “Gazillion” outdoor products increased. As such, the turnover increased in the first half of this year.

Australia and New Zealand

Our turnovers in the Australia and New Zealand markets increased by HK\$825,000 or 5.1% to HK\$16,945,000 in the first half of this year from HK\$16,120,000 for the corresponding period of last year.

Due to the increase in the sales of “CAT” products and “Gazillion” outdoor products, 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\$3,363,000 or 78.7% to HK\$7,634,000 in the first half of this year from HK\$4,271,000 for the corresponding period of last year.

The Group recorded an increase in sales in Panama, Chile, Honduras, Ecuador, Peru, Costa Rica and Uruguay and Dominican Republic in the first half of the year, but a decrease in sales in Argentina, Guatemala and Bolivia. 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

The outbreak of Russia-Ukraine war has caused stress in the supply chain of energy and food worldwide. If the tension could not be resolved in the near term, it may further affect the global supply chain and lead to higher cost of raw materials. In addition, in view of the persistent high inflation rate, the governments of the United States and European countries may implement further contractive measures with a view to tackling inflation. 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 “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 30 June 2022, the Group had a total of approximately 4,900 (31 December 2021: 5,600) employees in Hong Kong, Macau, the PRC, Vietnam, Australia, the US, Canada, 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 HK4.0 cents (2021: HK2.0 cents) in cash per share for the six months ended 30 June 2022, payable to shareholders whose names appear on the Register of Members of the Company on 13 September 2022.

The record date for the purpose of determining the shareholders which are entitled to dividend is 13 September 2022. 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 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration not later than 4:00 p.m. on 13 September 2022. The interim dividend will be paid on or around 22 September 2022.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the six months ended 30 June 2022, 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 deviation from code provision B.2.4(a). Under the code provision B.2.4(a), where all the independent non-executive directors ("**INEDs**") of an issuer have served more than nine years on the board, the issuer should disclose the length of tenure of each existing INED on a named basis in the circular to shareholders and/or explanatory statement accompanying the notice of the annual general meeting. While the Company has disclosed in circular dated 14 April 2022 (the "**Circular**") that Dr. Loke Yu alias Loke Hoi Lam ("**Dr Loke**") and Mr. Mak Shiu Chung, Godfrey ("**Mr. Mak**"), the two INEDs who were subject to re-election, have served more than 9 years and stipulated the commencement date of their appointments and provided reasons why they were suitable for re-election, we did not explicitly specify the length of tenure of each existing INED due to different interpretation of the requirements of this code provision. As at the date of the Circular, Dr. Loke Yu has served as INED of the Company for 17 years and 7 months, Mr. Mak has served as INED of the Company for 21 years and 11 months, Mr. Heng Victor Ja Wei has served as INED of the Company for 9 years and 4 months.

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 18 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 30 June 2022 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 2022 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, 25 August 2022