MATRIX

# Matrix Holdings Limited

美力時集團有限公司

(Incorporated in Bermuda with limited liability)

Stock Code : 1005

Funrise

VIRIBRIGHT LED LIGHT BULB

# Annual Report 2016

# *Our Mission*

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

# Content

# Corporate Profile

Danang City, Vietnam
– First Plant

Danang City, Vietnam
– Second Plant

MATRIX is a well-established manufacturer of plastic, die-cast and plush toys, with vertically integrated production process including mould making, manufacturing and design and a manufacturer of lighting products. Currently, the Group operates four plants in Vietnam. As at 31st December, 2016, the Group employed approximately 15,000 staff in Hong Kong, Macau, the PRC, Vietnam, Australia, the United States of America, Canada and Europe. The Shelcore and the Funrise Group, well-established toy companies in designing, manufacturing and selling plastic toys were merged into the Group since 2005 and 2007 respectively.

Danang City, Vietnam –
Third Plant



Vinh City, Vietnam
– Fourth Plant

## BOARD OF DIRECTORS

### Executive Directors

Cheng Yung Pun *(Chairman)*
Cheng King Cheung
Leung Hong Tai
Tsang Chung Wa
Tse Kam Wah
Yu Sui Chuen

### Independent Non-executive Directors

Loke Yu alias Loke Hoi Lam
Mak Shiu Chung, Godfrey
Wan Hing Pui
Heng Victor Ja Wei

## AUDIT COMMITTEE & REMUNERATION COMMITTEE

Loke Yu alias Loke Hoi Lam *(Chairman)*
Mak Shiu Chung, Godfrey
Wan Hing Pui
Heng Victor Ja Wei

## NOMINATION COMMITTEE

Cheng Yung Pun *(Chairman)*
Loke Yu alias Loke Hoi Lam
Mak Shiu Chung, Godfrey
Wan Hing Pui
Heng Victor Ja Wei

## COMPANY SECRETARY

Lai Mei Fong

## AUDITOR

PricewaterhouseCoopers
22nd Floor, Prince's Building, Central,
Hong Kong

## REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

## SHARE REGISTRAR

MUFG Fund Services (Bermuda) Limited
The Belvedere Building
69 Pitts Bay Road
Pembroke HM08
Bermuda

## BRANCH SHARE REGISTRAR IN HONG KONG

Tricor Secretaries Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

## PRINCIPAL PLACE OF BUSINESS

Suite Nos. 223-231
2nd Floor, Tsim Sha Tsui Centre
66 Mody Road
Tsim Sha Tsui East
Kowloon, Hong Kong

## PRINCIPAL BANKERS

Bank of China, Macau Branch
DBS Bank (Hong Kong) Limited

## WEBSITE

www.irasia.com/listco/hk/matrix/index.htm

## STOCK CODE

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

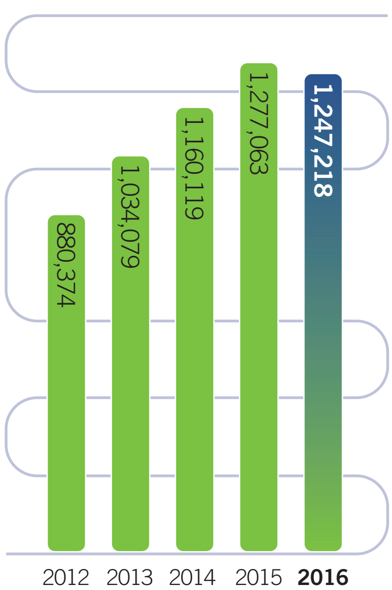
# Financial Highlights

Financial Highlights and Key Ratios as of the Year Ended 31st December:

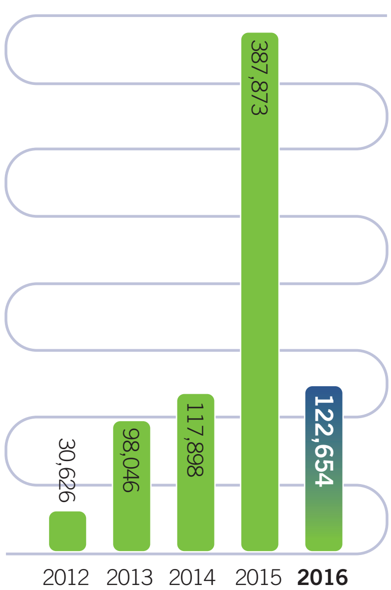
## CONSOLIDATED

| *(HK$'000, except where otherwise stated)* | 2016 | 2015 | % Change |
|---|---|---|---|
| Revenue | **1,247,218** | 1,277,063 | –2.3% |
| Gross profit | **449,285** | 470,830 | –4.6% |
| Profit for the year attributable to the owners of the Company | **122,654** | 387,873 | –68.4% |
| Earnings per share – Basic | **HK16 cents** | HK51 cents | –68.6% |
| Dividend per share | | | |
| Interim, paid | **HK4.5 cents** | HK4 cents | 12.5% |
| Final, proposed | **HK7 cents** | HK7 cents | – |
| Special, proposed | **–** | HK6 cents | N/A |
| Gross Profit Margin (%) | **36.0** | 36.9 | –2.4% |
| Net Profit Margin (%) | **9.8** | 30.4 | –67.8% |
| Gearing Ratio (%) | **0.14** | 0.01 | 1,300% |
| Current Ratio | **3.7** | 4.2 | –11.9% |
| Quick Ratio | **2.1** | 2.4 | –12.5% |

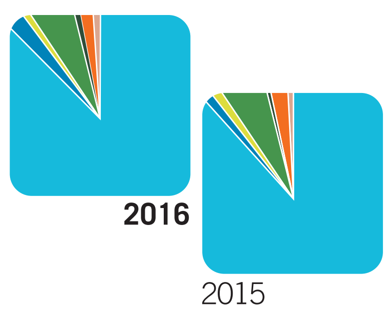
### TURNOVER




### PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

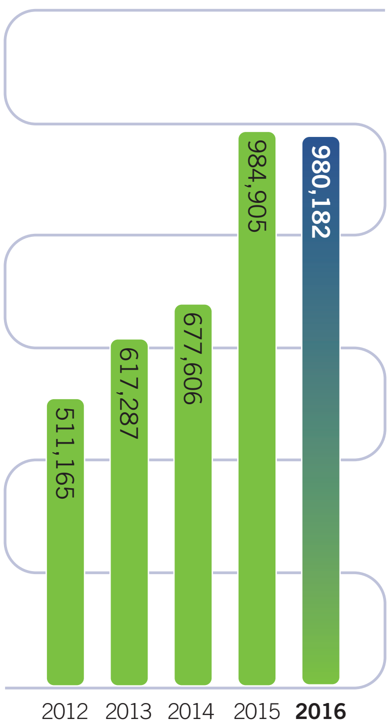



### TURNOVER BREAKDOWN BY MARKET

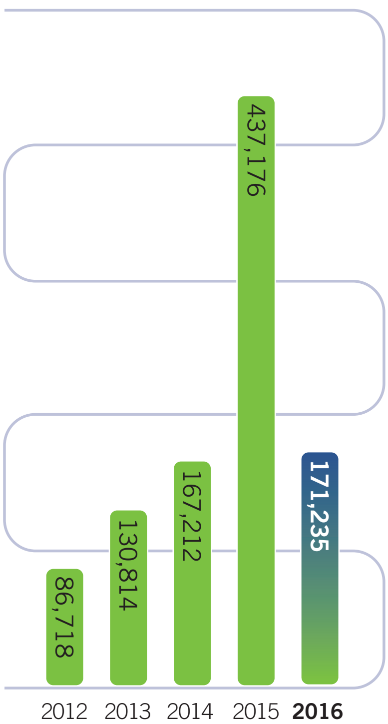



| | 2016 | 2015 |
|---|---|---|
| United States | 87.6% | 88.6% |
| Europe | 2.3% | 1.1% |
| Mexico | 0.8% | 1.0% |
| Canada | 5.6% | 5.5% |
| South America | 0.8% | 0.7% |
| Australia and New Zealand | 2.0% | 2.5% |
| Others | 0.9% | 0.6% |

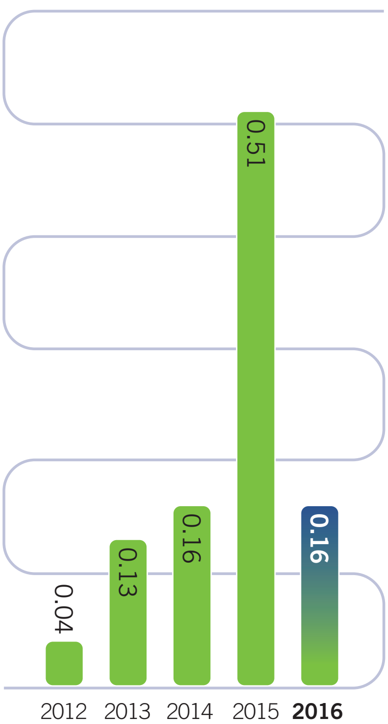
## NET ASSETS




## EBITDA




## BASIC EARNINGS PER SHARE




## DEFINITIONS

Gross Profit Margin (%) = $\frac{\text{Gross Profit}}{\text{Turnover}}$ x 100%

Net Profit Margin (%) = $\frac{\text{Profit attributable to owners of the Company}}{\text{Turnover}}$ x 100%

Gearing Ratio (%) = $\frac{\text{Total Debt}}{\text{Equity attributable to owners of the Company}}$ x 100%

Current Ratio = $\frac{\text{Current Assets}}{\text{Current Liabilities}}$

Quick Ratio = $\frac{\text{Current Assets excluding Inventories}}{\text{Current Liabilities}}$

# Chairman's Statement

To Our Shareholders,

I am pleased to present to our shareholders the annual report of Matrix Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the financial year ended 31st December, 2016.

During the year under review, the Group recorded a consolidated revenue of approximately HK$1,247,218,000, which decreased by approximately HK$29,845,000 or 2.3% as compared with approximately HK$1,277,063,000 of last year. The profit attributable to the owners of the Company decreased by approximately HK$265,219,000 or 68.4% to approximately HK$122,654,000 from approximately HK$387,873,000 of last year.

During the year under review, the global economy is in a state of uncertainty due to the Brexit and unstable growth of the global economy. Despite of the complex macroeconomic environment, the orders from a key client of original equipment manufacturing ("OEM") business kept increasing. And the original design manufacturing ("ODM") business grew at a slower pace in the second half of the year. The Group's overall turnover slightly decreased due to the slowing year-on-year growth of this business segment and the less than expected orders of 'girl role play' and plush toy.

In 2015, the Group recorded a one-off gain of HK$218,134,000 from selling a parcel of land combined with the plants and other buildings thereon in Shenzhen through disposal of the entire equity interests in an indirect wholly-owned subsidiary. However, the one-off gain was not generated during the year ended 31st December, 2016, thus the Group recorded a decrease in profit.

The Group strives to accelerate the sales growth of original brand products by implementing various strategic business plans to achieve growth through acquisitions. On the other hand, the acquisition of product's intellectual property not only improve the product diversification and design ability of the Group, but also broaden the income source and customer base of the Group. Such strategic objectives that cater to the long-term and diversified development of product

portfolio will be favorable to the Group's long-term operation and development and the achievement of synergic effect.

The Group continues to seek for strategic business opportunities to raise its turnover and earnings, so as to secure better return for our shareholders. Looking forward, the Group is confident on its ability to maintain a stable return riding on its satisfactory performance of the core business of toy manufacturing and the sound financial condition.

In conclusion, I would like to express my deepest gratitude to all of our stakeholders, including shareholders, customers, business partners and suppliers, for their continuous support in various aspects and for their confidence in the Group all these years. My sincere appreciation also goes to the management and all of our staff for their indispensable and enthusiastic contributions and their commitment to the Group.

**Cheng Yung Pun**
*Chairman*

Hong Kong, 16th March, 2017

# Management Discussion and Analysis

## RESULTS

As at 31st December, 2016, the Group's consolidated revenue decreased by approximately HK$29,845,000 or 2.3% to approximately HK$1,247,218,000 from HK$1,277,063,000 in the last year. The profit attributable to the owners of the Company decreased by approximately HK$265,219,000 or 68.4% to approximately HK$122,654,000 from approximately HK$387,873,000 of last year.

## DIVIDEND

During the year, the Company paid an interim dividend of HK4.5 cents in cash (2015: HK4 cents in cash) per share to the shareholders. The Directors have resolved to recommend the payment of a final dividend of HK7 cents (2015: a final dividend and special dividend of HK7 cents per share and HK6 cents per share respectively, totalling HK13 cents per share) per share for the year ended 31st December, 2016, payable to shareholders whose names appear on the Register of Members of the Company on 10th May, 2017. Together with the interim dividend paid of HK4.5 cents per share, the total dividend per share for the year is HK11.5 cents (2015: HK17 cents).

Subject to the approval of the shareholders at the forthcoming annual general meeting, the proposed final dividend will be paid on or about 18th May, 2017 in cash.

## FINANCIAL REVIEW

### Revenue

The year under review recorded a decrease in turnover by HK$29,845,000 to HK$1,247,218,000.

### Gross profit

The Group's gross profit decreased to approximately HK$449,285,000 as at 31st December, 2016 due to the decrease in sales.

### Distribution and selling costs

Distribution and selling costs increased to approximately HK$136,811,000 as at 31st December, 2016. The increase in distribution and selling costs was mainly attributable to the increase in advertising cost to promote the launch of the toys products.

### Administrative expenses

Administrative expenses mainly consisted of office staff salaries, rent and rates of offices, depreciation of property, plant and equipment and other administrative expenses. The total expenses increased was attributable to increase in salary and rental.

### Finance costs and income tax

Finance costs of this year decreased to approximately HK$22,000 as compared to last year, and income tax expense of this year increased to approximately HK$12,621,000 as compared to last year.

### Research and development cost

Research and development cost slightly decreased by approximately HK$1,550,000 or 6.7%.

## Trade and other receivables and prepayments

Trade and other receivables and prepayments increased by approximately HK$7,935,000 to approximately HK$275,841,000 for this year as compared to last year.

## Trade and other payables and accruals

Trade and other payables and accruals increased by approximately HK$31,234,000 to approximately HK$191,687,000 for this year as compared to last year, which was mainly due to the increase in other payables and accruals.

## Quick Ratio

During the year, the quick ratio was slightly lower than last year, but the liquidity still maintain at a healthy position.

## Current Ratio

During the year, the current ratio was slightly lower than last year.

## Financial position and cash flows review

The Group's cash flows were relatively sufficient, the Group has repaid most of the bank loans so as to reduce the borrowing interest burden.

## Liquidity and Financial Resources

As at 31st December, 2016, the Group had cash and cash equivalents of approximately HK$143,381,000 (2015: HK$129,652,000) and pledged bank deposit of approximately HK$136,000 (2015: HK$138,000) secured for bank loans. As at 31st December, 2016, the Group obtained banking facilities in a total of approximately HK$153,150,000 (2015: HK$151,200,000) of which HK$120,000,000 was supported by corporate guarantee and HK$33,150,000 was secured with floating charge on certain assets of the Group.

As at 31st December, 2016, the Group had bank borrowings of approximately HK$1,363,000 (2015: HK$138,000). The Group's gearing ratio, representing the total debt divided by equity attributable to owners of the Company, was 0.14% (2015: 0.01%).

During the year, net cash generated from operating activities amounted to approximately HK$169,374,000 (2015: HK$133,192,000). The Group has maintained an adequate level of cash flows for its business operations and capital expenditures.

## Capital Expenditure and Commitments

During the year, the Group acquired property, plant and equipment at a cost of approximately HK$25,218,000 (2015: HK$21,630,000) to further enhance and upgrade the production capacity. These capital expenditures were financed primarily by cash flow generated from operations.

## Assets and Liabilities

As at 31st December, 2016, the Group had total assets of approximately HK$1,182,432,000 (2015: HK$1,153,312,000), total liabilities of approximately HK$202,250,000 (2015: HK$168,407,000) and equity attributable to owners of the Company of approximately HK$980,182,000 (2015: HK$984,905,000). The net assets of the Group decreased by 0.5% to approximately HK$980,182,000 as at 31st December, 2016 (2015: HK$984,905,000).

## SIGNIFICANT INVESTMENT AND ACQUISITION

There was no significant investment and acquisition for the year ended 31st December, 2016.

## SIGNIFICANT DISPOSAL/IMPORTANT EVENT

There was no significant disposal/important corporate event for the year ended 31st December, 2016.

## SUBSEQUENT EVENT

In January 2017, the Group had acquired a company incorporated in the United Kingdom for the expansion of lighting business. In February 2017, the Group had entered into sales and purchase agreements to acquire a company incorporated in Taiwan and the patent rights for the expansion of lighting business.

## EXCHANGE RATE RISK

Several subsidiaries of the Company have foreign currency sales and purchases, which expose the Group to foreign currency risk. Certain bank balances, pledged bank deposit and trade and other receivables and prepayments, trade and other payable and accruals 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 arise.

## BUSINESS REVIEW

The Group's original equipment manufacturing ("OEM") and sales business continued to increase so as to drive revenues and remain increasing in business. The Group strategically broadened the range of toy types such as "Sing-a-ma-lings" and "Luna Petunia" products, and maintained long-term relations of cooperation with well-known global authorised licensing users and famous clients; at the same time, it sought for business opportunities, established and searched for more distribution channels, developed its own products and hunted for sales opportunities in the global market through toy promotion activities, so as to improve its profitability and strengthen the development of its core business. Through the present marketing plan for its brand products, the Group actively introduced sales plans for its authorised licensing business brand "Tonka", self-owned brand of "Gazillion ® Bubbles" outdoor products and other new products such as "Sing-a-ma-lings" and "Luna Petunia". So far, the revenue has increased driven by the OEM business, but the sales of plush toys of "girls role-playing" and "My Little Pony" decreased due to a slower growth. As a result, the overall revenue of the Group decreased slightly.

In 2015, through selling of the entire equity interests in an indirect wholly-owned subsidiary, we sold a parcel of land with the plants and other buildings erected thereon in Shenzhen, which gave rise to an one-off gain of HK$218,134,000 ("the one-off gain"). For the year ended 31st December, 2016, there were no such one-off gain. With the increase in direct labour costs and the slight decrease in revenue, the profit of the Group generally went down.

The Group continued to implement a number of strategic business plans, such as acquisition and expansion, so as to enhance the Original Brand Manufacturing development and expand its revenue sources and customer base. Thus, it enjoyed sharing of quality control, warehouse and distribution capacity to achieve synergies. Leveraging on its huge global distribution network and powerful market forces, the Group actively implemented business diversification, explored current and potential business synergies and seized growth opportunities, to strive to maintain and achieve long-term sales growth. It also continued to plan to strengthen the research and development ability for the development of new product series with high margin and improve the production line as well as the designs and features of products, in order to enhance the existing production quality and attract more customers, so that the profit was expected to improve in the coming year.

## Manufacturing operation

The Group had established four manufacturing plants in Vietnam, in order to stabilise rising production costs, integrate production facilities at proper time and achieve greater economic efficiency and higher operating efficiency for cost saving. In addition, the Group was devoted to the improvement of the overall production efficiency; on the one hand, it actively expanded the existing plants, and on the other hand continued the implementation of automatic production, so as to deal with order increase and provide diversified manufacturing services to customers; thus, it was able to benefit from economic of scale locally and lower production costs, and further enhance its competitive advantages. The Group also continued to optimise the production process and cost structure and provide customers with one-stop services, to meet changing market demands and improve its profitability. With multi-functional production lines and professional engineering experience, the Group had the ability to manufacture diversified products during production operations; it continued to maintain quality and safety by drawing lessons and utilising more effective methods and technologies, and closely monitor the changes in safety standards and regulations in different markets in order to meet new requirements.

## Segment performance

Amid the volatile economic environment, the unstable global economic growth, last year witnessed a strong rise of US toy retail sales year-on-year. Under the positive influence brought by the sustained recovery as well as employment improvement, credit easing, fiscal budget and debt remaining at an easily maintained level in the European Union ("EU") and most of the EU countries laden with debts gaining short-term growth prospects, the Group's two-prolonged strategy of business scale expansion and profitability enhancement paid off. In respect of business development, its OEM provided a mature platform helping to consolidate stable income and its cooperation with the world's leading toy companies and brought growth momentum.

As a leading designer, marketer and dealer of high-quality toys, the Group manufactured "Tonka", "My Little Pony", "Gazillion ® Bubbles", "Sing-a-ma-lings", "girls role-playing" and "Luna Petunia" products series and many other brands, to meet the needs of children of different ages. In respect of product portfolio, the Group continued to strategically expand toys series, in order to improve profitability. With its existing brand marketing plan, it actively explored new distribution channels and launched new sales plans for its products. These products were mainly distributed through mass market retailers all over the world. We continued to develop through distributors and point of sale in the United States, Canada, United Kingdom and Australia.

Outdoor game products series "Gazillion ® Bubbles" gained growth in sales, thus mitigating the impact of sales increase due to the slow-down of the growth "girls role-playing" products series and the plush products "My Little Pony". In addition, the Group focused more on quality and design in order to improve product value while fulfilling international regulations on toy safety.

## The United States ("US")

The US was still a major export market for the Group's toy products. Our turnover decreased by approximately HK$38,684,000 or 3.4% to approximately HK$1,092,870,000 this year from approximately HK$1,131,554,000 last year.

The US still enjoyed positive economic growth. The US Gross Domestic Product ("GDP") increased during the last two years. In the first quarter of 2016, the economic growth slowed down due to the decrease of non-residential fixed investment, slow-down of private consumption and decline in the spending of the federal government. However, the US economy regained momentum in the second half of 2016. At the same time, stable energy price, mild inflation, reduction in financial burden, better family, enterprise and bank financial situations, and improvement of the real estate market helped to create better economic performance. In the first quarter of 2016, unemployment rate in the US slightly rebounded, but further fell in the second half of 2016. Overall, the US economic growth in 2016 was almost the same as last year.

The sales of US market decreased due to sales to major customers of "girls role-playing" decrease and the sales of lighting products decreased, offsetting the growth of sales in "Gazillion ® Bubbles" outdoors products and OEM products. The sales of "Tonka" remained relatively stable. As a result, turnover of the market in the US decreased slightly. The Group will strive to maintain authorised licensing business for major brands, enrich other product lines and retain existing distributors and clients like Wal-Mart, Target and Toys "R" US.

## Canada

Our turnover in the Canadian market increased by approximately HK$336,000 or 0.5% to HK$70,577,000 this year from approximately HK$70,241,000 last year.

Despite of the end of quantitative easing program in the US, the uncertain prospects for global financial markets remained the obstacle to Canadian economic growth. However, its sound banking and financial systems, the US economy picking-up and commodity price rally, with the weakening of Canadian dollar continued to provide support to its domestic enterprises and consumers. In general, Canada's economy recorded a moderate growth.

Canada remains the second largest market of the Group following the US. The sales of mass market retailers in respect of "girls role-playing" products continued increasing, which offset the decrease in the sales of "Tonka" products. As a whole, with the increase in orders from main retailers, the increase in sales of "girls role-playing" products and domestic business in Canada, the total turnover of the Canada market recorded an increase. The Group will make efforts to maintain its existing distributors and clients, such as Wal-Mart, Toys "R" US and Costco.

## Europe

Our turnover in Europe increased by approximately HK$14,850,000 or 108.1% to approximately HK$28,587,000 this year from approximately HK$13,737,000 last year.

Supported by favorable factors such as stable oil prices, weakening Euro as well as easier monetary policies and financial stance adopted by the European Central Bank, the GDP of the EU is expected to witness a sustainable growth in 2016. Such factors will continue to play their roles since the consumption expenditure is picking up after years of austerity measures and the good financing condition help to stimulate investment. However, major downside risks exist, namely, the concussion from high unemployment rate, deflationary pressure, deleverage measures and the Brexit as well as unstable geopolitical conditions including continuous mutual sanction between the EU and Russia and refugees from the Middle East pouring into the Europe. Overall, the growth rate of the EU economy slightly fell in 2016.

The sales in the United Kingdom (the "UK") largely increased as compared to last year despite of decelerated economic growth in the UK. The sales of "Gazillion ® Bubbles" recorded the greatest growth rate. As "Tonka" products are now marketable in Europe, and the Group focused on the orders of such products and the outdoor products of its self-own brands such as "Gazillion ® Bubbles", their orders also increased significantly. Benefited from the increased orders from several main clients of "Tonka" products in Netherlands and Russia, our turnover in Netherlands, Russia and the UK recorded an increase, which offset the decreased turnover recorded in Denmark, Romania, Finland, Poland and France. The sales of lighting products kept flat. Generally, our total turnover in the European market recorded an increase. The Group will continue to devote itself to maintaining existing distributors and clients such as Argos, Tesco and Costco.

## Mexico

Our turnover in Mexico decreased by approximately HK$3,504,000 or 27.2% to approximately HK$9,387,000 this year from approximately HK$12,891,000 last year.

Given a close relationship between Mexico and the US, the Mexican economy has benefited from the continuous recovery of the US economy. Meanwhile, the economy was also bolstered by fresh growth incentives such as the recovery of its domestic construction industry and the structural reforms in markets. However, the government is expected to maintain the retrenchment policy because of the structural weakness in public finance. Overall, the demand for "Gazillion ® Bubbles" the outdoor products and "My Little Pony" plush products decreased, while the orders for "Tonka" and other products remained stable, and the sales of lighting products decreased. Our total turnover in the Mexican market recorded a decrease.

## Australia and New Zealand

Our turnover in the Australia and New Zealand markets decreased by approximately HK$7,711,000 or 23.7% to approximately HK$24,781,000 this year from approximately HK$32,492,000 last year.

In the Australian market, the overall labor market remained stable, the customer price index increased, and its economy maintains a moderate growth due to internal stable demands and support in public expenditure as well as the trend of diversified development. The New Zealand's economy increased in the third quarter over the same period of last year. However, our total turnover in the Australian and New Zealand's markets recorded a decrease since the sales of "Tonka" products which accounted for the largest proportion in that of Australia and New Zealand decreased, the sales of one mass market retailer decreased, and the order demand for lighting products decreased. The Group will continue its efforts to maintain its existing distributors and clients such as Big W and Target.

## South America

Our turnover in South America markets increased by approximately HK$373,000 or 4.1% to approximately HK$9,387,000 this year from HK$9,014,000 last year.

The South America grew slowly as the global economy was not stable, the commodity price falls, causes the mining industry investment to reduce, brings the resistance to the economic growth. The consumption and investment intention was also hit by the weak customer and investor confidence. However, in Chile with fresh growth incentives such as the continuous simulative measures implemented by the government and the increase of infrastructure and medical expenditure, and due to the pricing up of commodity prices, the economy was bolstered. Chile's growth is relatively optimistic with the implementation of the reform plan. Overall, our sales in Chile, Nicaragua, Guatemala, Honduras, Argentina, Paraguay and Colombia increased offset the decrease of our sales in Uruguay, Costa Rica, Ecuador and Peru. Though, the demand for "Gazillion ® Bubbles" outdoor products and "My Little Pony" plush products slowed down due to the extended European debt crisis and the economic uncertainties. Our total turnover in South America market recorded an increase.

## NUMBER OF EMPLOYEES AND REMUNERATION POLICIES

As at 31st December, 2016, the Group had a total of approximately 15,000 (2015: 14,600) employees in Hong Kong, Macau, the PRC, Vietnam, Australia, the US, Canada 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 by the Group 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 benefit schemes are also in place.

## ENVIRONMENTAL PROTECTION

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

## COMPLIANCE WITH LAWS AND REGULATIONS

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

## RELATIONSHIP WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

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

## PROSPECT

It is expected that the economic growth in the US market will be sustained, which is beneficial to the OEM business. However, the sales of plush products will decrease continually, while that of "Tonka" will increase in the next year. "Tonka" will still be the main product of the ODM business, and it is expected to record an increase in sales in the global market, especially the domestic distribution in the UK market. In addition, the enrichment of other product lines, active promotion of new products, i.e. "Luna Petunia" and "Sing-a-ma-lings" in other retailer's target stores, and the global success with clients in the US and the world, which is expected to contribute to the total turnover. The Group will continue to maintain the sales growth at its main existing distributors and clients such as Wal-Mart, Target and Toys "R" US.

Moreover, it is expected that the penetration ratio of every retailer in the UK, Canada and the Europe will increase, driven by new products lines "Luna Petunia", which will offset the decrease in plush product sales. Our sales of "girls role playing" products and "Gazillion ® Bubbles" in the Canada market is expected to increase, and the sales of "Tonka" and "Gazillion ® Bubbles" in the Australian market is expected to record a highest growth. Due to the expansion of distribution network, we expect the sales of "Gazillion ® Bubbles", "Tonka" and "Luna Petunia" in the Mexico market will increase and the sales in the European countries such as the UK, Russia, Germany and Chile will largely increase.

The Group will continue to develop its ODM brand business, and expand its distribution network and markets for its self-owned brand products, in order to cope with the ever-changing global markets. This can keep sustainable business development, explore more cooperation opportunities across regions and product categories, and promote sales growth. In response to the products of new specifications and in order to increase sales, new lighting products under the lighting brand business will be rolled out progressively, and the Group believes that the sales of the products of new specifications will improve accordingly. At present, in order to reduce production costs and meet market demands, numerous toy manufacturers move their production facilities to abroad, which led to continuous integration within the toy industry. As it happens, the Group, as a leader, will provide clients with products in a cost effective way with its strong production base built in Vietnam, which can help it obtain abundant orders in the market, thus further expanding its market share in the near future. The Group remains cautiously optimistic about its future.

Looking ahead, the Group's ultimate goal is to continue maintaining profitability and achieving cost efficiency. As such, we will closely monitor the Company's development strategy so as to maximise the return for our shareholders.

# Biographies of Directors and Senior Management

## EXECUTIVE DIRECTORS

### Mr. Cheng Yung Pun

Aged 65, was appointed Chairman of the Company in September 2000 and also the Chairman of the nomination committee of the Company. Mr. Cheng is responsible for the overall corporate policies and development strategies and monitoring the overall management of the Group. Mr. Cheng has in-depth knowledge and extensive experience in business operations in Greater. Mr. Cheng has more than 36 years' extensive experience in plastic toys manufacturing, property development and investment. Mr. Cheng is also a director of Smart Forest Limited (Mr. Cheng's wholly owned company) which owns share interest in the Company. He is the father of Mr. Cheng King Cheung, Executive Director of the Company.

### Mr. Yu Sui Chuen

Aged 61, was appointed Executive Director of the Company in September 2000. Mr. Yu holds a Higher Diploma in Business Administration major in Accounting. Mr. Yu has over 36 years' experience in finance management and administration of which nearly 10 years as a member of the management committee of a listed company. Mr. Yu is currently responsible for corporate finance, legal and taxation management and internal control of the Company.

### Mr. Cheng King Cheung

Aged 25, was appointed Executive Director of the Company in October 2013. Mr. Cheng holds a Bachelor's degree in Government from Franklin and Marshall College in Pennsylvania, USA. Mr. Cheng joined Funrise Inc. and Funrise Toys Limited ("the companies"), indirect wholly-owned subsidiaries of the Company, since 2010. He has about seven years' experience in sales and marketing of toys. He is currently a Chief Executive of the companies. He is the son of Mr. Cheng Yung Pun, the Chairman of the Company.

### Mr. Leung Hong Tai (former name known as Leung Mang Pong)

Aged 60, was appointed Executive Director in November 2009. He holds a Bachelor of Science Degree in Electronics and a Master of Science Degree in Digital Communication from University of Kent, England. He is a full member of Hong Kong Computer Society. He has over 27 years' experience in electronic and computing related subjects such as electronic hardware design, electronic printed circuit board development and production, LED and semi-conductor assembling machinery, information system development and implementation, computer networking, information security, equipment dimensioning and communication. His experience ranges from design, development to production of the electronic or toy related products. He joined the Group in 2003 and is currently responsible for the electronic design, development and production of the electronic related products.

### Mr. Tse Kam Wah

Aged 66, was appointed Executive Director of the Company in November 2009. Mr. Tse obtained a higher certificate in mechanical engineering from The Hong Kong Polytechnic University. He has over 29 years' experience in toy factory and production management. His experience ranges from managing all manufacturing activities of the corporations in the base outside Hong Kong, monitoring manufacturing process to product development. He has joined the Group over 18 years and is currently responsible for for production management.

### Mr. Tsang Chung Wa

Aged 53, was appointed as Executive Director of the Company in January 2011. He holds a Diploma in Management Studies awarded jointly by The Hong Kong Management Association and The Hong Kong Polytechnic University. He has over 28 years' experience in the operation, sales and production management of toy industry. His experience ranges from managing marketing activities of the corporations in the base outside Hong Kong to business development. He joined the Group over 16 years and is currently responsible for the marketing management and the related business management works.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

### Dr. Loke Yu alias Loke Hoi Lam

Aged 67, is an Independent Non-executive Director of the Company. He was appointed as an Independent Non-executive director in September 2004. He also serves as the Chairman of the audit committee, the remuneration committee and a member of the nomination committee of the Company. Dr. Loke has over 41 years of experience in accounting and auditing for private and public companies, financial consultancy and corporate management. He holds a Master of Business Administration degree from Universiti Teknologi Malaysia and a Doctor of Business Administration degree from University of South Australia. He is a Fellow of The Institute of Chartered Accountants in England and Wales; Hong Kong Institute of Certified Public Accountants, The Hong Kong Institute of Directors and Hong Kong Institute of Chartered Secretaries. Mr. Heng Victor Ja Wei, an Independent Non-Executive Director of the Company, is his nephew-in-law.

He is currently the company secretary of Minth Group Limited and serves as an independent non-executive Director of the following companies whose shares are listed on The Stock Exchange of Hong Kong Limited: V1 Group Limited (formerly known as Vodone Limited), China Beidahuang Industry Group Holdings Limited (formerly known as Sino Distillery Group Limited and Bio-Dynamic Group Limited), China Fire Safety Enterprise Group Limited, Winfair Investment Company Limited, SCUD Group Limited, Zhong An Real Estate Limited, Chiho-Tiande Group Limited, Tianjin Development Holdings Limited, China Household Holdings Limited, Tianhe Chemicals Group Limited, Lamtex Holdings Limited (formerly known as China New Energy Power Group Limited), Forebase International Holdings Limited and Hang Sang (Siu Po) International Holding Company Limited.

### Mr. Mak Shiu Chung, Godfrey

Aged 54, was appointed as an Independent Non-executive Director in May 2000 and is also a member of the audit committee, remuneration committee and nomination committee of the Company. Mr. Mak holds a Bachelor of Science degree in business studies from Bradford University School of Management, United Kingdom and a Master of Business Administration degree from the University of Wales, United Kingdom. He is a Member of the Hong Kong Securities Institute; a Member of The Chartered Institute of Marketing and an Associate of The Institute of Chartered Secretaries and Administrators. Mr. Mak has over 26 years of experiences in the field of corporate finance.

### Mr. Wan Hing Pui

Aged 86, was appointed as an Independent Non-executive Director in September 2004 and is also a member of the audit committee, the remuneration committee and the nomination committee of the Company. Mr. Wan has over 58 years of experiences in auditing, taxation and financial management consultancy services. He is an Associate Member of The Institute of Chartered Accountants in England and Wales and a Fellow of Hong Kong Institute of Certified Public Accountants. He is a sole proprietor of H.P. Wan & Co., a firm of Certified Public Accountants (Practising).

### Mr. Heng Victor Ja Wei

Aged 39, was appointed as an Independent Non-executive Director and a member of the audit committee, the remuneration committee and the nomination committee of the Company in December 2012. He is a partner of Morison Heng, Certified Public Accountants. Mr. Heng holds a Master of Science degree of the Imperial College of Science, Technology and Medicine, the University of London. He is a member of and holds a Certified Public Accountant (Practising) certificate issued by The Hong Kong Institute of Certified Public Accountants and a Fellow of The Association of Chartered Certified Accountants. He is a nephew-in-law of Dr. Loke Yu alias Loke Hoi Lam, an Independent Non-Executive Director of the Company. Mr. Heng serves as an independent non-executive director of China Fire Safety Enterprise Group Limited, Best Food Holding Company Limited (formerly known as Lee & Man Handbags Holding Limited), Lee & Man Chemical Company Limited and SCUD Group Limited and as Company Secretary of China Life Insurance Company Limited, whose shares are listed on the main board of the Stock Exchange.

## CHIEF EXECUTIVE OFFICER

### Mr. Chen Wei Qing

Aged 49, was appointed as Chief Executive Officer of the Company in May 2008. Mr. Chen is responsible for product development and manufacturing operations of the Group. He has above 28 years' extensive experience in product development and toys manufacturing.

# Corporate Governance Report

The board of directors (the "Board") of Matrix Holdings Limited (the "Company") has adopted the Company's corporate governance code (the "CG Code") to reflect the recent amendments on Appendix 14 (the "HKEx Code") of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Continuous efforts are made to review, apply and enhance the Group's procedures in light of changes in regulations and developments in best practices. Following sustained development of the Company, the Board and its executive management will continue to monitor the governance policies to ensure that such policies meet the general rules and standards. The Board is pleased to report compliance with the CG Code under the HKEx Code during the year ended 31st December, 2016, except where otherwise stated in section "Report of the Directors".

## A. DIRECTORS

### 1. The Board

The Board assumes responsibility for directing the Company and enhancing its value for shareholders in accordance with good corporate governance principles and has established relevant board committees to assist in discharging this responsibility.

The principal functions of the Board are to make decision on the strategic development of the Company; to oversee the management of the business and affairs of the Group; to supervise the management of the business and affairs with the objective of enhancing the Company and shareholders' value with the proper delegation of the power to the management of the Company and its subsidiaries for its day-to-day management and operation of the Group's businesses, implementation of the budgets and strategic plans and development of the organisation of the Company for implementing the Board's decision; to oversee and evaluate the conduct of the Group's businesses; to identify principal risks and ensure the implementation of appropriate measures and control systems; to review and approve important matters such as financial results and investments etc.; and to review the Company's policies and practices on corporate governance.

As at 31st December, 2016, at least one-third of the Company's board are Independent Non-executive Directors ("INED") of which the Board comprises eight executive directors, namely Mr. Cheng Yung Pun (Chairman), Mr. Arnold Edward Rubin (Vice-Chairman) (resigned on 1st March, 2017), Mr. Yu Sui Chuen, Ms. Cheng Wing See, Nathalie (resigned on 10th March, 2017), Mr. Cheng King Cheung, Mr. Leung Hong Tai, Mr. Tsang Chung Wa and Mr. Tse Kam Wah and four INEDs, namely Dr. Loke Yu alias Loke Hoi Lam, Mr. Mak Shiu Chung, Godfrey, Mr. Wan Hing Pui and Mr. Heng Victor Ja Wei (collectively the "Directors"). The INEDs required under Rule 3.10(1) of the Listing Rules who represent one third of the Board and include three with appropriate professional qualifications and accounting and related financial expertise required under Rule 3.10(2) of the Listing Rules.

In accordance with the Bye-laws, the CG Code of the Company, every Director should be subject to retirement by rotation at least once every three years. All Directors appointed as an additional Director or to fill a casual vacancy should be subject to election by shareholders at the first annual general meeting after their appointment and that one-third of the Directors should be subject to retirement and re-election every year. Despite Non-executive Directors (including independent non-executive) are not appointed for a specific term as stipulated by the HKEx Code Also, it is a deviation from code provisions 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 meet the intent of the relevant provision in the HKEx Code and CG Code and are no less exacting than those provisions as well, they are subject to retirement by rotation and re-election at the annual general meetings of the Company. As such, the Company considers that such provisions are sufficients of the HKEx Code.

The Directors who are subject to retirement and re-election at the 2017 Annual General Meeting are set out on page 44 of this Annual Report. The independence of the INED has been assessed in accordance with the applicable Listing Rules as each of the INED has provided an annual written confirmation of independence pursuant to the Listing Rules 3.13.

The Company considers that the INEDs continue to be independent in compliance with those independence criteria under the said rule and are capable to effectively exercise independent judgement up to and as at the date of this report.

The Directors' biographical details are listed in the section of "Biographies of Directors and Senior Management"in this report. Save as i) the resigned director, Ms. Cheng Wing See, Nathalie is the daughter of Mr. Cheng Yung Pun and the sister of Mr. Cheng King Cheung; and ii) Mr. Cheng King Cheung is a son of Mr. Cheng Yung Pun and a brother of the resigned director, Ms. Cheng Wing See, Nathalie, there is no financial, business, family or other material/relevant relationship between the Directors. The INEDs are expressly identified in all of the Company's publication such as circular, announcement or relevant corporate communications in which the names of Directors of the Company are disclosed. The Company considers that the Board has the necessary skills and experience appropriate for discharging their duties as Directors in the best interest of the Company and that the current board size as adequate for its present operations.

## 2. Chairman and Chief Executive Officer ("CEO")

The roles of the Chairman and the CEO of the Company are segregated and are not held by the same person and are governed by the Chairman Mandate and CEO Mandate (containing the minimum prescribed duties) and stated in the Company's own CG Code. The primary responsibility of the Chairman is to ensure smooth and effective functioning of the Board. His responsibilities are, inter alia, the leadership and effective running of the Board, ensuring that all key and appropriate issues are discussed by the Board in a timely and constructive manner and ensure that Directors receive adequate information, which must be complete and reliable, in a timely manner. The CEO is delegated with the authority and his principal responsibilities are, inter alia, running the Group's business, and implementation of the Group's strategy in achieving the overall commercial objectives. Currently, Mr. Cheng Yung Pun is the Chairman and Mr. Chen Wei Qing is the CEO of the Company.

## 3. Board Meetings and Access of Information

The Board conducts meeting on a regular basis and on an ad hoc basis, as required by business needs. The Bye-laws of the Company allow board meetings to be conducted by way of telephone or video conference. Members of the Board receive information before the meetings about developments in the Company's business.

During the year under review, the Board held eight board meetings (including some meetings held by video or telephone conference) in which Mr. Yu Sui Chuen, Dr. Loke Yu alias Loke Hoi Lam and Mr. Heng Victor Ja Wei had attended all the board meetings; Mr. Cheng Yung Pun, Mr. Leung Hong Tai, Mr. Tse Kam Wah, Mr. Mak Shiu Chung, Godfrey and Ms. Cheng Wing See, Nathalie (resigned on 10th March, 2017) had attended seven board meetings; Mr. Wan Hing Pui had attended six board meetings; Mr. Arnold Edward Rubin (resigned on 1st March, 2017) and Mr. Cheng King Cheung had attended five board meetings; Mr. Tsang Chung Wa had attended four board meetings.

In the said board meetings, sufficient fourteen-day notices for regular board meetings and notice in reasonable days for non-regular board meetings were given to all Directors. Board papers are circulated prior to board meetings in a timely manner in which sufficient information was supplied by the management to the Board to enable it to make informed decisions, which are made in the best interests of the Company.

All Directors have access to the advice and services of the company secretary and upon reasonable request, independent professional advice in appropriate circumstances at the Company's expense, if any.

## 4. Directors' Securities Transactions

The Company has adopted its code for securities transactions by directors of listed issuers as the code of conduct governing directors' securities transactions in compliance with Appendix 10 to the Listing Rules (the "Model Code").

All Directors of the Company during the year, following specific enquiry by the Company, have confirmed that they have complied with the required standard set out in the Company's own code and the amended Model Code throughout the year.

## 5. Directors' Continuous Training and Development Programme

Pursuant to the HKEx Code, all Directors should participate the continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the board remains informed and relevant. The Company has introduced the development programme for Directors. Each of the Directors keeps abreast of his/her responsibilities as a Director of the Company and of its conduct, and business activities and development. All Directors are updated from time to time with development in the laws and regulations applicable to the Company.

During the year ended 31st December, 2016, all Directors of the Company namely, Mr. Cheng Yung Pun, Mr. Arnold Edward Rubin (resigned on 1st March, 2017), Mr. Yu Sui Chuen, Ms. Cheng Wing See, Nathalie (resigned on 10th March, 2017), Mr. Cheng King Cheung, Mr. Leung Hong Tai, Mr. Tsang Chung Wa, Mr. Tse Kam Wah, Dr. Loke Yu alias Loke Hoi Lam, Mr. Mak Shiu Chung, Godfrey, Mr. Wan Hing Pui and Mr. Heng Victor Ja Wei received regular updates on the Group's business, operations and corporate governance matters. Materials on new or changes to salient laws and regulations applicable to the Group were provided to the Directors. They also attended regulatory update sessions on relevant topics. All Directors are requested to provide the Company with their respective training record pursuant to the CG Code.

## B. DIRECTORS' REMUNERATION

### 1. Remuneration Committee ("RC")

The principal role and functions of RC include, inter alia, reviewing the Board on the remuneration policy and structure for the remuneration of Directors and senior management, the specific remuneration packages of all executive Directors and senior management, including benefits in kind, pension rights and compensation payment, including any compensation payable for loss or termination of their office or appointment, as well as to make recommendation to the Board as described under Code B.1.2(c)(ii) of the HKEx Code. The RC consults the Chairman and/or CEO about their proposal relating to the remuneration of other executive Directors and has access to professional advice where necessary. No Directors and executives can determine his own remuneration. The overriding objective of the remuneration policy is to ensure that the Company is able to attract, retain, and motivate a high-calibre team which is essential to the success of the Company. Detailed terms of reference of the RC are accessible on the website of the Company and the Hong Kong Exchanges and Clearing Limited ("HKEx").

#### *Membership and attendance:*

The RC comprises Dr. Loke Yu alias Loke Hoi Lam as chairman, Mr. Mak Shiu Chung, Godfrey, Mr. Wan Hing Pui and Mr. Heng Victor Ja Wei. For the year ended 31st December, 2016, all members of the RC had attended the RC meeting.

#### *Work done during the year*

- reviewed its remuneration policy for Directors and senior management;
- reviewed the remuneration packages of executive Directors and senior management for the year 2016; and
- recommended to the Board the executive Directors' fees for the year ended 31st December, 2016 for proposing to shareholders for approval.

### 2. Level and Make-up of Remuneration

The Group's remuneration policy for executive Directors and senior management is linked to performance, service seniority and experience, which are reviewed from time to time to align with market/industry practices.

Details of the remuneration of the Directors for the year ended 31st December, 2016 are provided in note 10 to the Consolidated Financial Statements in this annual report.

## C. DIRECTORS' NOMINATION

### 1. Nomination Committee ("NC")

The NC shall report back to the Board in writing on their decisions or recommendations within a reasonable time after such decisions or recommendations are made, unless there is legal or regulatory restriction on the Committee to do so. Its role and functions shall be the review of the structure, size and composition (including the skills, knowledge, experience) of the board at least annually and make recommendations on any proposed changes to the board to complement the Company's corporate strategy; identify individuals suitably qualified to become board members and select or make recommendations to the board on the selection of individuals nominated for directorships; assess the independence of INEDs; make recommendations to the board on the appointment or re-appointment of directors and succession planning for directors, in particular the chairman and the chief executive. Where vacancies on the Board exist or an additional Director is considered necessary, the chairman of the NC will identify suitable candidates and propose the appointment of such candidates to the Board for consideration and the NC will take into account the qualification, in particular any qualification as required in the Listing Rules, ability, working experience, leadership and professional ethics etc. of the candidates and approved if such appointment considered suitable. The NC also considers the existing human resources policy in recruitment of new senior staff, to certain circumstance, is applicable to nomination of a new Director. The overriding objective of the nomination policy is to ensure that the Company is able to nominate a right person to be director which is essential to the success of the Company. Detailed terms of reference of the NC are accessible on the website of the Company and the HKEx.

NC's principal role is to review the Board's size, structure and composition to ensure that the Board has and by reviewing the Board's size, structure and composition, the Board will also consider a balance of ages, talents expertise, skills, experience, independent, knowledge and gender appropriate according to the Company's Board Diversity Policy.

#### *Membership and attendance:*

The NC comprises Mr. Cheng Yung Pun as chairman, Dr. Loke Yu alias Loke Hoi Lam, Mr. Mak Shiu Chung, Godfrey, Mr. Wan Hing Pui and Mr. Heng Victor Ja Wei. For the year ended 31st December, 2016, all members (except the chairman) of NC had attended the meeting.

#### *Work done during the year*

- reviewed the structure, size and composition of the Board, and is of the view that there is an appropriate and diverse mix of skills and experience;

- reviewed the independence of INEDs of the Company and confirmed that all INEDs are considered independent;

- reviewed the profile and performance of Directors who will stand for re-election at Annual General meeting and confirmed that all those Directors are suitable to stand for re-election; and

- reviewed and assessed the composition of the Board.

## 2. Implementation of Board Diversity policy

- The policy concerning diversity of the board includes a mechanism on how NC oversees the conduct of the annual review of the effectiveness of the Board. In reviewing and assessing the composition of the Board, the NC will consider the benefits of all aspects of diversity, including without limitation, those described above, in order to maintain an appropriate range and balance of talents, skills, experience and background on the Board. In recommending candidates for appointment to the Board, the NC will consider candidates on merit against objective criteria and with due regard for the benefits of diversity on the Board. In overseeing the conduct of the annual review of the effectiveness of the Board, the NC will consider the balance of ages, talents, skills, experience, independence, knowledge and gender on the Board and the diversity representation of the Board.

- The NC will discuss and agree annually all measurable objectives for achieving diversity on the Board and recommended them to the Board for adoption. It will also review annually the progress on achieving those objectives. At any given time, the Board may seek to improve one or more aspects of its diversity and measure progress accordingly.

# D. ACCOUNTABILITY AND AUDIT

## 1. Audit Committee ("AC")

The principal role and functions of the AC are, inter alia, to review the appointment of the external auditor on an annual basis including a review of the audit scope and approval of the audit fees; to ensure continuing auditor objectivity and to safeguard independence of the Company's auditors; to meet the external auditor to discuss issues and reservations (if any) arising from the interim review and final audit, and any matters the auditor suggests to discuss; to review the Group's internal control system; to review the annual and interim report and quarterly result (if any) prior to approval by the Board in accordance with the accounting policies and practices and relevant accounting standards, the Listing Rules and the legal requirements; to serve as a focal point for communication between other Directors and the external auditor in respect of the duties relating to financial and other reporting, internal controls, external audit, and such other matters as the Board determines from time to time; to consider major findings of internal review and management's response and ensure proper arrangement in place for the fair and independent review of such concerns and appropriate follow up action; to devise a framework for the type and authorisation of non-audit services provided by the external auditor. Detailed terms of reference of the AC are accessible on the website of the Company and the HKEx.

Three AC members are qualified accountants. None of the AC members are members of the former or existing auditor of the Company.

### *Membership and attendance:*

The AC comprises Dr. Loke Yu alias Loke Hoi Lam as chairman, Mr. Mak Shiu Chung, Godfrey, Mr. Wan Hing Pui and Mr. Heng Victor Ja Wei. For the year ended 31st December, 2016, all members (except Mr. Mak Shiu Chung, Godfrey) had attended all the meetings. The finance director and the group financial controller are normal attendees of the AC meetings. Where appropriate, representatives of the external auditors are invited to attend the AC meetings to present significant audit and accounting matters which they noted in the course of their audit.

### *Work done during the year*

- carried out interim and final financial review;
- reviewed interim and annual reports before submission to the Board in accordance with the accounting policies and practices, relevant accounting standards, the Listing Rules and the legal requirements;
- reviewed the external auditor's engagement letter; to discuss issues during the audits of external auditor. The external auditor and the senior executives are invited to attend the meeting for annual financial statements;
- reviewed the nature and scope of external audit and approved the external audit fee;
- reviewed the interim financial report, interim results announcement, the annual accounts and the annual results announcement in accordance with the accounting policies and practices and relevant accounting standards, the Listing Rules and the legal requirements;
- reviewed continuing auditor objectivity and to safeguard independence of the Company's auditors;
- met the external auditor to discuss issues and reservations (if any) arising from the interim review and final audit, and any matters the auditor suggests to discuss;
- reviewed the Group's internal control system;
- served as a focal point for communication between other Directors and the external auditor in respect of the duties relating to financial and other reporting, internal controls, external audit, and such other matters as the Board determines from time to time;
- considered major findings of internal review and management's response and ensure proper arrangement in place for the fair and independent review of such concerns and appropriate follow up action;
- devised a framework for the type and authorisation of non-audit services provided by the external auditor.

## 2. Financial Reporting

The financial statements of the Company for the year ended 31st December, 2016 have been reviewed by the AC and audited by the external auditor, Messrs. PricewaterhouseCoopers. The Directors acknowledge their responsibility for preparing the financial statements of the Group and presenting a balanced, clear and comprehensive assessment of the Group's performance and prospects. They are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The Board approves the financial statements after taking into account specific accounting matters. The Board is satisfied that appropriate accounting policies have been used in preparing the financial statements, consistently applied and complied with the relevant accounting standards. Directors ensure the preparation of the financial statements of the Group is in accordance with statutory requirements and applicable accounting standards and also ensure the publication of the financial statements of the Group in a timely manner.

The Listing Rules require listed companies to prepare annual financial statements which shall provide a true and fair view of the state of affairs of the companies and of the results of their operations and cash flows.

The Board is responsible for ensuring the maintenance of proper accounting records of the Group. It has also acknowledged its responsibility for preparing the financial statements in a timely manner.

A statement of the auditor about their reporting responsibilities is included in the Independent Auditor's Report on pages 52 to 57 of this annual report.

## 3. Internal Control

The directors are responsible for maintaining and reviewing the effectiveness of the Group's internal controls including material financial, operational and compliance controls, risk management functions and particularly the adequacy of resources, staff qualifications and experience, training programs and budget of the Group's accounting and financial reporting function.

The Audit Committee has, at a regularly scheduled meeting throughout the year, received a report from Group Internal Audit on the results of their activities during the preceding period and reported to the Board, including any significant matters pertaining to the adequacy and effectiveness of internal controls including, but not limited to any indications of failings or material weaknesses in those controls.

The Board and Audit Committee accordingly have conducted a review of its risk management and internal control systems on (a) whether the Company has an internal audit function; (b) how often the risk management and internal control systems are reviewed, and where the Company has not conducted a review during the year, an explanation why not; and (c) a statement that a review of the effectiveness of the risk management and internal control systems has been conducted and whether the Company considers them effective and adequate. They also reviewed the effectiveness of the system of internal control of the Group including the relevant financial, operational and compliance controls and risk management procedures and has delegated to the management the implementation of such systems of internal controls.

Appropriate control procedures have been designed to ensure that assets are safeguarded against improper use or disposal, relevant rules and regulations are adhered to and complied with, reliable financial and accounting records are maintained in accordance with relevant accounting standards and regulatory reporting requirements, and key risks that may impact on the Group's performance are appropriately identified and managed. Such procedures are designed to manage, rather than eliminate, the risk of failure to achieve business objectives. These procedures can only provide reasonable, and not absolute, assurance against material errors, losses and fraud.

### *Parties involved in internal control function: – chief audit executive*

The Group's chief audit executive with accounting experience and qualification, serve the Board in the Group to overseeing the Group's financial reporting procedure internal controls and compliance with the accounting-related requirements under the Listing Rules. Notwithstanding, the Board considers the adequacy of resources, qualifications and experience of staff of the Company's accounting and financing reporting function and their training programmes and budget.

### *Internal Control Committee*

An Internal Control Committee comprises members of the management which was established for conducting a review of the internal control of the Group which cover the material controls including financial, operational and compliance controls and risk management functions. Procedures have been set up for safeguarding assets against unauthorised use or disposition, controlling over capital expenditure, maintaining proper accounting records and ensuring the reliability of financial information used for business and publication etc. Also, an internal audit function team was established in responsible for review the internal audit and risk management of the Company's and its subsidiaries. The management throughout the Group maintains and monitors the internal control system on an ongoing basis.

The directors have reviewed the need for an internal audit function and are of the view that in light of the size, nature and complexity of the business of the Group, it would be more cost effective to set up an inhouse internal audit function team to perform internal audit functions for the Group. As the Group uses internal resources to comply with internal audit function, an inhouse internal audit function team was set up in 2015. The Audit Committee has identified the main risks in the Group and that the internal audit function team designed an internal audit program and will emphasise on the review of the risks according to the Risk Management plan. Nevertheless, the directors will continue to review at least annually the need for an internal audit function.

### *Internal audit function team*

The Internal Audit function team comprises 3 members. It reviews and monitors dealings of the Group to ensure that all dealings with these entities are conducted on an arm's-length basis.

The Internal Audit function team reviews significant aspects of risk management for the Group companies and makes recommendations to the Audit Committee and other committees (as the case may be) if necessary, including amongst other things, the appropriate mitigation. The Audit Committee of the Company has established and oversees a whistleblower policy and a set of comprehensive procedures whereby employees, customers, suppliers and other concerned parties have the right and the ability to report any actual or suspected occurrence of improper conduct involving the Company, and for such matters to be investigated and dealt with efficiently in an appropriate and transparent manner. The Chairman of the Audit Committee has designated the team leader of internal audit function team to receive on his behalf any such reports, to oversee the conduct of subsequent investigations, and to provide information, including recommendations, arising from any investigation to him for consideration by the Audit Committee. The Company has adopted policies and procedures for assessing and, where prudent, improving the effectiveness of its internal controls and risk management functions to personally certify that such matters are appropriate and functioning effectively in the belief that this will enhance the corporate governance of the Company.

The Group's internal audit function team provides independent assurance to the Board and executive management on the adequacy and effectiveness of internal controls for the Group. The team leader of internal audit function team reports directly to the Chairman of the Audit Committee under adoption of a risk-and-control-based audit approach. The annual work plan of Group Internal Audit covers major activities and processes of the Group's operations, businesses and service units. During 2016, the Group internal audit function team conducted selective reviews of the effectiveness of the Group's system of internal controls over financial, operational, compliance controls and risk management functions on taxation and liquidity risk and management, inventory management, production and safety management, property, plant and equipment management and product license risk, significant client contracting risk and market risk management. The Audit Committee and the Board were not aware of any areas of concern that would have a material impact on the Company's financial position or results of operations and considered the internal control systems to be generally effective and adequate including the adequacy of resources, staff qualifications and experience, training programs and budget of the Group's accounting and financial reporting function.

### 4. Auditors' Remuneration

During the year under review, the fees paid or payable to the auditor of the Company, Messrs. PricewaterhouseCoopers, Hong Kong, were approximately HK$2,800,000 and HK$68,000 for statutory audit services rendered and non-audit services rendered (including disbursement fees) to the Group respectively.

Remuneration paid to other auditors for audit and non-audit services rendered to overseas subsidiaries was approximately HK$2,818,000.

## E. CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the following corporate governance duties as required under the HKEx Code:

- to develop and review the Company's policies and practices on corporate governance;
- to review and monitor the training and continuous professional development of Directors and senior management;
- to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- to review and Company's compliance with the HKEx Code and disclosure in the Corporate Governance Report.

During the year, the Board considered the following corporate governance matters:

- reviewed the corporate governance duties under the HKEx Code; and
- review the compliance with the HKEx Code.

## F. INVESTOR RELATIONS

### 1. Communication with investors

During the year under review, the Group has proactively enhanced its corporate transparency and communications with its shareholders and the potential investors through its mandatory interim and final reports. Through the timely distribution of press releases, the Group has also kept the public abreast of its latest developments.

During the year under review, there are no changes to the Company's bye-laws.

## 2. Annual General Meeting ("AGM")

The AGM provides a useful forum for shareholders to exchange views with the Board. The Chairman as well as chairman of the Committees and their members is pleased to answer shareholders' questions.

Separate resolutions are proposed at general meetings on each substantially separate issue, including the re-election of individual Directors particularly the INED – Mr. Mak Shiu Chung, Godfrey (to be re-elected at the 2017 AGM) as he is being an INED for more than 9 years.

The circular to shareholders dispatched together with the annual report includes relevant details of proposed resolutions, including biographies of each candidates standing for re-election. In order to comply with the Listing Rules and CG Code as well, the forthcoming AGM will be held with voting by way of a poll and that all shareholders will be given a notice for 20 clear business day or 21 days (whichever is later). The results of the poll in general meetings from time to time will be published on website of the Company and HKEx.

All directors (except the executive directors, Mr. Arnold Edward Rubin (resigned on 1st March, 2017), Mr. Cheng King Cheung, Mr. Tsang Chung Wa and Mr. Leung Hong Tai and the independent non-executive director, Dr. Loke Yu alias Loke Hoi Lam) had attended the 2016 AGM of the Company held on 5th May, 2016.

## 3. Rights and Procedures for Shareholders to Convene Shareholders' Meetings, make enquiries and putting forward proposals at the Shareholders' Meetings

### *i) the procedures for the way in which shareholders can convene an extraordinary general meeting:*

Pursuant to the Company's bye-laws, a special general meeting shall be convened on the written requisitionist of any 2 or more members holding at the date of the deposit of the requisition in aggregate not less than one-tenth of such of the paid up capital of the Company as at the date of the deposit carries the right of voting at general meetings of the Company. Such requisition must state the objects of the special general meeting and must be signed by the requisitionists and deposited at the office. If the Directors do not within 21 days from the date of the deposit of such requisition proceed duly to convene a special general meeting, the requisitionists themselves or any of them representing more than one half of the total voting rights of all of them may convene the special general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Directors, and all reasonable expenses incurred by the requisitionists as a result of the failure of the Directors to convene such a meeting shall be reimbursed to them by the Company.

### *ii) Make Enquiries:*

In accordance with the Company's Shareholders' Communication Policy, the Shareholders direct their questions about their shareholdings to the Company's Branch Share Registrar in Hong Kong, Tricor Secretaries Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong (the "Branch Share Registrar") or the Customer Service Hotline of the Branch Share Registrar at (852) 2980-1333 from 9:00 a.m. to 5:00 p.m. Monday to Friday (excluding Hong Kong public holidays) or by email at matrix1005-ecom@hk.tricorglobal.com.

Shareholders may at any time make a request for the Company's information to the extent such information is publicly available. Shareholders shall make a request to the Branch's Share Registrar for the designated email addresses and enquiry lines of the Company in order to enable them to make any query in respect of the Company.

### *iii) Put forward proposals:*

Pursuant to the Company's bye-laws, notice in writing by any 2 or more shareholders entitled to attend and vote at the meeting holding at the date of the deposit of the notice in aggregate not less than one-tenth of such of the paid up capital of the Company (not being the person to be proposed) for which such notice is given of his intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected shall have been given to the Company at least 7 days before the date of the general meeting appointed for such election. The period for lodgment of the notice required under this Bye-Law shall commence no earlier than the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven (7) days prior to the date of such general meeting.

# Environmental, Social and Governance Report

## SCOPE AND REPORTING PERIOD

### Report Compilation Basis

This Report is prepared with reference to Environmental, Social and Governance ("ESG") Reporting Guide as described in Appendix 27 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules").

### Scope of Reporting

The Group is engaged in the toy manufacturing business for international brand customers and lighting products manufacturing directly to consumers or through sub-distributors on wholesale basis. This Report covers the relevant policies and performance of the said manufacturing businesses of the Group.

### Reporting Period

The information published in this ESG report covers the period from 1st January, 2016 to 31st December, 2016.

### Stakeholder Engagement and Materiality

In order to identify the most significant aspects for the Group to report on for this ESG report, key stakeholders including shareholders, employees and management have been involved to discuss and to review areas of attention which will help the business meets its potential growth and be prepared for future challenges.

## A. ENVIRONMENTAL

The Group's manufacturing business is closely related to environmental protection and the usage of natural resources. The Group has established a set of management policies, mechanisms and measures on environmental protection and natural resources conservation to help ensure the sustainable development and operation of the Group. The Group strives to have the efficiency in the usage of energy, water and materials and also complies with relevant local environmental regulations and international general practices, with an aim to reduce the use of natural resources and protect the environment. The actions taken are aligned with international standards. These include greenhouse gas emission inspections, reduction, classification and recycling of wastes, and consultations on energy conservation and carbon reduction in factories with high energy consumption levels. Type of emissions the Group for production plant operations in Vietnam has involved was mainly unleaded petroleum, liquefied petroleum (LPG), diesel oil, electricity, water, hazardous waste and non-hazardous waste.

# B. SOCIAL

## EMPLOYMENT AND LABOUR PRACTICES

### *EMPLOYMENT*

The Group had a total number of 15,000 staff (2015: 14,600) in Hong Kong, Macau, the PRC, Vietnam etc. of which 13,900 factory employees as of 31st December, 2016 (2015: 13,690), in which 100% was working as full time staff.

The Group offers competitive remuneration, promotional opportunity, compensation and benefit packages to attract and retains talents. Salaries are reviewed and adjusted based on performance appraisals and the market trend. Employees in the Group are entitled to year-end bonus, mandatory provident fund, medical insurance, various types of paid leave in addition to annual leave, sick leave and maternity leave, etc.

The Group regularly reviews factory employee handbook which outlines the Group's key messages, policies, procedures, promotion channel, compensation and benefits, occupational health and safety and complaint.

### *HEALTH & SAFETY*

Due to the industrial business nature, recruitment and staff retention has continued to be a challenge in the reporting period. The Group commits to ensure safe and healthy working environment for factory employees and to inspire and strengthens workforce regardless of their age, gender and ethnical backgrounds. With the aging population being a long-term demographic trend, the Group has a sustainable workforce in this perspective.

The Group regularly reviews the factory employees' health and safety procedure to safeguard factory employees' well-being. Briefing, training, news and tips are provided to factory employee to raise their awareness and to refresh their knowledge and practices on using plant equipment.

## B. SOCIAL (Continued)

### EMPLOYMENT AND LABOUR PRACTICES (Continued)

#### *HEALTH & SAFETY (Continued)*

The total days lost due to work injury in Vietnam has decreased in this reporting period. Due to the turnover rate comparatively lower than last year, the number of newly joined workers reduced and thus the injury rate reduced. The management will continue their effort in strengthening the Group's occupational health and safety performance.

#### *DEVELOPMENT AND TRAINING*

Comprehensive professional training are provided to factory employees to deliver top services to our customers. All newly hired factory employees are required by policy to attend factory employee orientation and to familiarise with the Group's purpose, vision and aspiration, mission, core values, business goals and overview and how factory employee plays a vital role in the business.

To enhance our talents specified orientation and internal training have also been provided according to their respective job areas and employment level. Training's topics range from knowledge of products, equipment procedure and refreshing courses, to interpersonal and management skills were included.

The Group actively engages and motivates factory employees through various communication channels. The regular factory employee updated on staff promotion, internal staff award and recognitions in all brands, corporate news and activities. The Group also organised annual dinner and festival-related celebration, etc. to nourish a greater sense of belonging and to provide enhanced communication channels between senior management and general staff. The Group believes having better transparent governance and investing efforts, factory employees, is the key to success of a sustainable business.

#### *LABOR STANDARD*

No child nor forced labour in the Group's operations in the reporting period. It is in compliance with the Employment Ordinance, Vietnam in terms of employment management.

The recruitment process is strictly abided by the guidelines of the Group's personnel department. Every job applicant is required to fill in their information in a recruitment questionnaire, which is checked by personnel department to ensure information's accuracy. This also allows the Group to hire suitable candidate in accordance with the job requirements and candidates' expectations.

## B. SOCIAL (Continued)

### EMPLOYMENT AND LABOUR PRACTICES (Continued)

#### *LABOR STANDARD (Continued)*

Equal opportunities are given to factory employees in respect of recruitment, training and development, job advancement, and compensation and benefits. The factory employees are not discriminated against or deprived of such opportunities on the basis of gender, ethnic background, religion, colour, sexual orientation, age, marital status, family status, retirement, disability, pregnancy or any other discrimination prohibited by applicable law. The Group also appreciates the importance of cultural diversity in its development, and employs factory employees in a wide range of ages, genders, and ethnicities.

### OPERATING PRACTICES

#### *SUPPLY CHAIN MANAGEMENT*

A strict tendering process is also in place to provide a fair and transparent platform for securing the best supplier for procurement of all equipment, products and services. The request for tender is included in the annual budgeting process and prepared by responsible departments which abide by the Group's Quality Assurance Policy.

#### *PRODUCT RESPONSIBILITY*

To provide top quality services to customers, the Group carefully sourced its products and equipment with standardised procurement procedure and policies. The Group's procurement policy and its comprehensive procurement management systems help screening out undesirable products in the aspects of raw materials and ingredients selection, product formulation, product packaging, quality management system in factories, transportation, etc.

Suppliers for products, packaging, materials range from PRC and Southeast Asian countries. They are selected based upon rational and clear criteria, such as production process, quality management system, regulatory requirement compliance, operating capacity, sample availability for testing, packaging, management's commitment, training policy and procedure, price, delivery assurance, and product recall policy, so as to procure superior goods and services from the most competitive sources. Additional information such as testing report is used to evaluate the suppliers in order to have the best selected providers. The Group also monitors the overall performance of selected suppliers by conducting vendor audits with documented reports to substantiate the selection and on-going cooperation.

The Group continues its commitment to consumer safety and protection by having product recall procedures and policy in place.

## B. SOCIAL (Continued)

### EMPLOYMENT AND LABOUR PRACTICES (Continued)

#### *ANTI-CORRUPTION*

The Group commits to manage all business without undue influence and has regarded honesty, integrity, and fairness as its core values. All directors and factory employees are required to strictly follow the Code of Conduct and Group's policy to prevent potential bribery, extortion, fraud and money laundering.

### COMMUNITY

#### *COMMUNITY INVESTMENT*

This year marked our continuous effort on trade union movement in the society. Trade Union of Danang Industrial & Export processing Zone in Vietnam plants have excellent achievement in Trade Union movement and establishing powerful Trade Union Organization. The Group proudly received various awards namely "Award of people's Committee ministry of Da Nang City to Keyhinge Toys" have Good performance in safety and clean labor and prevent fire in year 2015", "Award from Trade Union of Danang to Union of Keyhinge/ Matrix on have excellent achievement in labor movement good and establishing powerful Trade Union Organization in 2016" and "Award from Customs Department to the shipping Dept of Keyhinge/Matrix: have excellent achievement in understanding Customs Codes Contest in 2016". The Group has been working closely with various stakeholders and community.

### FUTURE DIRECTIONS FROM THE GROUP

The Group will continue actively sourcing energy-saving appliances, equipment and materials with careful selection and review of suppliers and their origins. Opportunities to provide more training and development in terms of raising staff's awareness on environmental and social impacts from the business will also be considered. The Group also recognises the trend and possibilities with applying digital technologies in daily operations and marketing strategy, therefore resource use and promotional tools in the coming year will be adapted to make the businesses more transformative, sustainable, as well as having greater capability to attractive future talents.

# Report of the Directors

The Directors of the Company have pleasure in presenting their annual report together with the audited consolidated financial statements of the Company for the year ended 31st December, 2016.

## PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding.

The principal activities of its subsidiaries are manufacturing and trading of toys and lighting products. The activities of its principal subsidiaries are set out in note 31 to the consolidated financial statements. An analysis of the Group's performance for the year by operating segment is set out in note 5 to the consolidated financial statements.

## MAJOR CUSTOMERS AND SUPPLIERS

The five largest customers of the Group together accounted for approximately 81.6% of the Group's turnover, with the largest customer accounted for approximately 42.2%. The aggregate purchases attributable to the Group's five largest suppliers were approximately 31.3% of total purchases of the Group, with the largest supplier accounted for approximately 10.7%.

At no time during the year did any Director, any associate of a Director, or any shareholder, which to the knowledge of the Directors owned more than 5% of the Company's share capital, have any beneficial interests in these customers or suppliers.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2016 are set out in the consolidated statement of comprehensive income on page 58.

During the year, the Company has paid 2015 final dividend and special dividend of HK7 cents per share and HK6 cents per share respectively, totalling HK13 cents per share and the Directors have declared 2016 interim dividend of HK4.5 cents per share. Both 2015 final dividend and 2016 interim dividend were paid by cash. The total cash dividend paid during the year was approximately HK$ 132,336,000.

The Directors now recommend the payment of a final dividend of HK7 cents per share amounting to approximately HK$52,934,000, to the shareholders on the register of members on 10th May, 2017 payable in cash. The remaining retained profits in the Company amounted to approximately HK$53,929,000.

## SHARE ISSUED IN THE YEAR

Details of the shares issued in the year ended 31st December, 2016 are set out in note 21 to the consolidated financial statements.

## PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the listed shares of the Company.

## DISTRIBUTION RESERVES

Distribution reserves of the Company at 31st December, 2016, calculated under the Companies Act 1981 of Bermuda (as amended), amounted to approximately HK$106,863,000 (2015: HK$143,484,000).

The contributed surplus of the Company represents the difference between the nominal amount of the share capital issued by the Company and the book value of the underlying consolidated net tangible assets of subsidiaries acquired as a result of a group reorganisation.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

(a) it is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

## DEBENTURES/EQUITY LINKED AGREEMENTS

No debentures or equity linked agreements were issued during the year.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws and there was no restriction against such rights under the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## MANAGEMENT CONTRACTS

During the year, no contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed.

## FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 120.

## DIRECTORS

The Directors of the Company during the year and up to the date of this report are:

### Executive Directors:

Cheng Yung Pun *(Chairman)*
Cheng King Cheung
Leung Hong Tai
Tsang Chung Wa
Tse Kam Wah
Yu Sui Chuen
Arnold Edward Rubin *(Vice Chairman) (resigned on 1st March, 2017)*
Cheng Wing See, Nathalie *(resigned on 10th March, 2017)*

### Independent non-executive Directors:

Loke Yu alias Loke Hoi Lam
Mak Shiu Chung, Godfrey
Wan Hing Pui
Heng Victor Ja Wei

## OTHER INFORMATION OF DIRECTORS

In the last three years, Dr. Loke Yu alias Loke Hoi Lam, independent non-executive Director ("INED") of the Company, was appointed as INED of China Household Holdings Limited (a company listed on the Stock Exchange) with effect from 9th August, 2013, INED of Tianhe Chemicals Group Limited (a company listed on the Stock Exchange) with effect from 20th June, 2014, INED of Lamtex Holdings Limited (formerly known as China New Energy Power Group Limited) (a company listed on the Stock Exchange) with effect from 28th July, 2015, INED of Forebase International Holdings Limited (a company listed on the Stock Exchange) with effect from 18th April, 2016, and INED of Hang Sang (Siu Po) International Holding Company Limited (a company listed on the Stock Exchange) with effect from 17th May, 2016. Dr. Loke was appointed as INED of Mega Medical Technology Limited (formerly known as Wing Tai Investment Holdings Limited and Wing Lee Holdings Limited and a company listed on the Stock Exchange) with effect from 20th June, 2014; however, he has resigned on 11th January, 2017.

In addition, in the last three years, Mr. Heng Victor Ja Wei, INED of the Company, was appointed as Company Secretary of China Life Insurance Company Limited (a company listed on the Stock Exchange) with effect from 25th April, 2013, INED of SCUD Group Limited (a company listed on the Stock Exchange) with effect from 1st September, 2016 and as INED of Daohe Global Group Limited (a company listed on the Stock Exchange) with effect from 11th August, 2016; however, he has resigned on 11th January, 2017. Mr. Mak Shiu Chung, Godfrey, INED of the Company, resigned as the Co-Chairman and executive Director of Grand Ocean Advanced Resources Company Limited (formerly known as DeTeam Company Limited and a company listed on the Stock Exchange) with effect from 5th February, 2015.

The annual amounts of directors' emoluments (including any provident fund contribution, bonus payment, whether fixed or discretionary in nature or any sum receivable as Director's fee or remuneration) of the executive directors, Mr. Tse Kam Wah, Mr. Leung Hong Tai, Mr. Cheng King Cheung, and the chief executive, Mr. Chen Wei Qing were changed to HK$1,548,000, HK$1,549,000, HK$1,925,000 and HK$1,407,000 respectively in 2016.

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

## OTHER INFORMATION OF DIRECTORS (Continued)

### Directors' and chief executive's emoluments

The emoluments paid or payable to each of the twelve (2015: twelve) Directors and one (2015: one) chief executive are as follows:

| Name | Fees HK$'000 | Salary HK$'000 | Employer's contribution to a retirement benefit scheme HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| **Executive Directors** | | | | |
| Cheng Yung Pun | – | 1,118 | – | 1,118 |
| Yu Sui Chuen | – | 1,587 | 64 | 1,651 |
| Cheng Wing See, Nathalie *(resigned on 10th March, 2017)* | – | 695 | 18 | 713 |
| Arnold Edward Rubin *(resigned on 1st March, 2017)* | – | 5,008 | 103 | 5,111 |
| Tse Kam Wah | – | 1,530 | 18 | 1,548 |
| Leung Hong Tai | – | 1,531 | 18 | 1,549 |
| Tsang Chung Wa | – | 1,180 | 18 | 1,198 |
| Cheng King Cheung | – | 1,833 | 92 | 1,925 |
| **Independent non-executive Directors** | | | | |
| Loke Yu alias Loke Hoi Lam | 85 | – | – | 85 |
| Mak Shiu Chung, Godfrey | 85 | – | – | 85 |
| Wan Hing Pui | 85 | – | – | 85 |
| Heng Ja Wei, Victor | 85 | – | – | 85 |
| **Chief Executive** | | | | |
| Chen Wei Qing ("Mr. Chen") | – | 1,389 | 18 | 1,407 |
| | 340 | 15,871 | 349 | 16,560 |

## DIRECTORS' SERVICE CONTRACTS

In accordance with the clause 99 of the Bye-laws of the Company, Mr. Cheng Yung Pun, Mr. Tse Kam Wah, Mr. Cheng King Cheung, Mr. Mak Shiu Chung, Godfrey, retire and, being eligible, offers themselves for re-election at the forthcoming annual general meeting. Separate resolution will be proposed at 2017 annual general meeting for the re-election of Mr. Mak Shiu Chung, Godfrey as being an INED for more than 9 years.

The term of office of each independent non-executive Director is the period up to his retirement by rotation in accordance with the Company's Bye-laws.

None of the Directors being proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

The Company has received from each of the independent non-executive Directors, the annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules on the Stock Exchange. The Company considers all of the independent non-executive Directors are independent.

## DIRECTORS'/CONTROLLING SHAREHOLDERS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS THAT ARE SIGNIFICANT IN RELATION TO THE COMPANY'S BUSINESS

Details of related party transactions during the year are set out in note 30 to the consolidated financial statements.

Save as disclosed above, no other transactions, arrangements and contracts of significance in relation to the Group's business to which the Company's subsidiaries, fellow subsidiaries or its parent company was a party and in which a director of the Company and directors' connected party had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors have any interests in competing business to the Group.

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

As at 31st December, 2016, the interests and short positions of the Directors and chief executives and their respective associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or which were otherwise required to be notified to the Company and the Stock Exchange, pursuant to the Model Code for Securities Transactions by Directors of the Listing Companies were as follows:

### Long Positions in Ordinary Shares of the Company

***Ordinary Shares of HK$0.10 each of the Company***

| Name of Director/ chief executive officer | | Personal Interests | Family Interests *(Note 2)* | Corporate Interests *(Note 1)* | Other Interests | Total | % of the issued share capital of the Company |
|---|---|---|---|---|---|---|---|
| Cheng Yung Pun *(Director)* | Long position | – | – | 544,611,569 | – | 544,611,569 | 72.02% |
| Arnold Edward Rubin *(Director)* (resigned on 1st March, 2017) | Long position | 72,000 | – | – | – | 72,000 | 0.01% |
| Cheng Wing See, Nathalie *(Director)* (resigned on 10th March, 2017) | Long position | 723,230 | – | – | – | 723,230 | 0.10% |
| Cheng King Cheung *(Director)* | Long position | 1,968,000 | – | – | – | 1,968,000 | 0.26% |
| Leung Hong Tai *(Director)* | Long position | 4,594,000 | 1,500,000 | – | – | 6,094,000 | 0.81% |
| Tsang Chung Wa *(Director)* | Long position | 4,108,251 | – | – | – | 4,108,251 | 0.54% |
| Tse Kam Wah *(Director)* | Long position | 4,200,000 | – | – | – | 4,200,000 | 0.56% |
| Yu Sui Chuen *(Director)* | Long position | 440,000 | – | – | – | 440,000 | 0.06% |
| Chen Wei Qing *(Chief Executive Officer)* | Long position | 3,980,000 | – | – | – | 3,980,000 | 0.53% |

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

### Long Positions in Ordinary Shares of the Company (Continued)

#### *Ordinary Shares of HK$0.10 each of the Company (Continued)*

*Notes:*

(1) The shares are held by Smart Forest Limited ("Smart Forest"), a company incorporated in the British Virgin Islands. The entire issued share capital of Smart forest is wholly owned by Mr. Cheng Yung Pun.

(2) Shares are held by Ip Yi Mei, spouse of Mr. Leung Hong Tai, Director of the Company.

#### *Share Option*

During the year ended 31st December, 2016, no options were exercised.

There was no option granted during the year ended 31st December, 2016 and 2015.

Save as disclosed above, none of the Directors, chief executives nor their respective associates had any interests or short positions in any shares, underlying shares or debentures of the Company any specified or undertaking of the Company or any other associate corporation as at 31st December, 2016.

## ARRANGEMENTS TO PURCHASE SHARES AND DEBENTURES

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

## SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2016, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following shareholders had notified the Company of relevant interests and short positions in the issued share capital of the Company:

## SUBSTANTIAL SHAREHOLDERS (Continued)

### Long Positions in Ordinary Shares of the Company

***Ordinary Shares of HK$0.10 each of the Company***

| Name of shareholder | Capacity | Number of issued ordinary shares held | Percentage of the issued share capital of the Company |
|---|---|---|---|
| Smart Forest *(Note 1)* | Beneficial owner | 544,611,569 | 72.02% |

*Note:*

(1) Smart Forest, a company incorporated in the British Virgin Island which is wholly owned by Mr. Cheng Yung Pun, director of the Company.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31st December, 2016.

## SHARE OPTION SCHEME

The key terms of the share option scheme of the Company adopted on 4th May, 2012 (the "2012 Share Option Scheme") are summarised herein below:

(i) The purpose of the 2012 Share Option Scheme is to enable the Company to grant options to selected eligible participants as incentives and rewards for their contribution to the Company or its subsidiaries;

(ii) The eligible participants of the 2012 Share Option Scheme include any full-time employees, executives or officers, directors of the Company or any of the subsidiaries and any suppliers, consultants, agents or advisers who have contributed to the Group;

(iii) As at 31st December, 2016, the total number of shares available for issue of option under the 2012 Share Option Scheme was 71,864,731 shares which representing 9.5% of the issued share capital of the Company;

## SHARE OPTION SCHEME (Continued)

(iv) The maximum number of Shares which may be issued upon exercise of all options to be granted under the 2012 Share Option Scheme and any other share option scheme(s) of the Company must not exceed 10% of the Shares in issue ("2012 Scheme Limit") as at the date approving the adoption of 2012 Share Option Scheme in the 2012 AGM. Options lapsed in accordance with the terms of such share option scheme(s) will not be counted for the purpose of the 10% limit, unless approval from the Company's shareholders has been obtained for refreshing the 2012 Scheme Limit provided that such limit as refreshed shall not exceed 10% of the Shares in issue as at the date of such shareholders' approval. Notwithstanding the foregoing, the Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2012 Share Option Scheme and any other share option scheme(s) of the Company at any time shall not exceed 30% of the Shares in issue from time to time. No options may be granted under any scheme(s) of the Company or any of its subsidiaries if this will result in the 30% limit being exceeded;

(v) The maximum number of Shares which may be issued upon exercise of all options to be granted under the 2012 Share Option Scheme and any other share option scheme(s) of the Company (including both exercised and outstanding options) to each Eligible participant in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue as at the date of grant. Any further grant of options in excess of this 1% limit shall be subject to the issue of a circular by the Company and the approval of the Shareholders in general meeting with such eligible participant and his associates abstaining from voting. Any grant of options to a substantial Shareholder (as defined in the Listing Rules) of the Company or any the independent non-executive Director or their respective associates which result in the number of Shares issued and to be issued upon exercise of options already granted and to be granted (including options exercised, cancelled and outstanding) to such person under this Scheme and the other schemes in the 12-month period up to and including the date of offer of such grant (a) representing in aggregate over 0.1% of the Shares in issue on the date of offer; and (b) having an aggregate value, based on the closing price of the Shares as stated in the daily quotation sheets of the Stock Exchange on each date of offer, in excess of HK$5 million, such further grant of options shall be subject to the approval of the Shareholders of the Company in general meeting on a poll at which all connected persons (as defined in the Listing Rules) of the Company shall abstain from voting in favour at such general meeting;

(vi) There is no general requirement that an option must be held for any minimum period before it can be exercised but the Board is empowered to impose at its discretion any such minimum period at the time of grant of any particular option. The period during which an option may be exercised will be determined by the Board at its absolute discretion, save that no option may be exercised more than 10 years after it has been granted. The Board has the discretion to require a particular grantee to achieve certain performance targets specified at the time of grant before any option granted under the 2012 Share Option Scheme can be exercised. There is no specific performance targets stipulated under the terms of the 2012 Share Option Scheme;

## SHARE OPTION SCHEME (Continued)

(vii) An offer for the grant of options must be accepted within 28 days after the option is offered to the relevant Grantee. The amount payable to the Company on acceptance of the offer of the grant of an option is HK$1.00 which is non-refundable;

(viii) The subscription price payable upon exercising any particular option granted under the Scheme is determined based on a formula: P = N x Ep, where "P" is the subscription price; "N" is the number of shares to be subscribed; and "Ep" is the exercise price for a Share in respect of any particular option granted under the 2012 Share Option Scheme (which shall be payable upon exercise of the option) shall be such price as the Board in its absolute discretion shall determine, save that such price will not be less than the highest of (a) the closing price of the Shares as stated in the daily quotation sheets of the Stock Exchange on the date of offer, which must be a business day (and for this purpose shall be taken to be the date of the Board meeting at which the Board proposes to grant the options); (b) the average closing price of the Shares as stated in the daily quotation sheets of the Stock Exchange for the 5 Business Days immediately preceding the date of offer; and (c) the nominal value of a Share, and as adjusted pursuant to the clauses of the 2012 Share Option Scheme; and

(ix) The life of the Scheme is until the tenth anniversary of the adoption date of the Scheme.

During the year under review, no options carry rights to subscribe for shares had been exercised. As at 31st December, 2016 as at the latest practicable date prior to the issue of the annual report, no options have been granted, remained outstanding carry rights to subscribe, exercised, cancelled or lapsed (31st December, 2015: nil share).

The details of the share options were disclosed in the Section "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company or any specified undertaking of the Company or any other associated corporation".

## EMOLUMENT POLICY

A Remuneration Committee is set up for reviewing the Group's emolument policy and structure for all remuneration of the directors and senior management of the Group, having regard to the Group's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as incentive to directors and eligible employees, details of the scheme is set out as "Share Option Scheme" above.

## COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE (THE "CG CODE")

The Board has adopted a new 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, A.6.7 and E.1.2 which are explained as follows:

i) under the code provision A.4.1 that none of the existing non-executive directors of the Company is appointed for a specific term. However, as all the non-executive directors of the Company (including independent non-executive) are subject to retirement provision under the Company's Bye-laws, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the HKEx Code and CG Code as well;

ii) under the code provision A.6.7, Dr. Loke Yu alias Loke Hoi Lam, independent non-executive director was unable to attend the annual general meeting of the Company held on 5th May, 2016 (the"2016 AGM") due to his conflicting business schedule;

iii) under the code provision E.1.2, Dr. Loke Yu alias Loke Hoi Lam, the chairman of the Audit and Remuneration Committees was unable to attend the 2016 AGM due to conflicting business schedules. All other members of the Audit and Remuneration Committees had attended the 2016 AGM. The Company considers that the presence is sufficient for (i) answering questions from and (ii) effective communication with the shareholders of the Company present at the 2016 AGM.

## SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, it is confirmed that there is sufficient public float of at least 25% of the Company's issued shares at the latest practicable date prior to the issue of the annual report.

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

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

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

## AUDITOR

The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

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

Hong Kong, 16th March, 2017

# Independent Auditor's Report

羅兵咸永道

**To the Shareholders of Matrix Holdings Limited**
(incorporated in Bermuda with limited liability)

## Opinion

***What we have audited***

The consolidated financial statements of Matrix Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 58 to 119, which comprise:

- the consolidated statement of financial position as at 31st December, 2016;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

***Our opinion***

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31st December, 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong*
*T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com*

***Independence***

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Goodwill impairment assessment
- Recoverability assessment of other non-current assets

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| **Goodwill impairment assessment**<br>Refer to notes 4(c) and 16 to the consolidated financial statements. | |
| As at 31st December, 2016, the Group had goodwill of HK$97 million relating to the acquisition of Funrise Holdings, LLC, Funrise, Inc. and Code 3 Collectibles LLC (together referred to as "Funrise Group") in 2007. Funrise Group is engaged mainly in the trading of toys in the United States of America.<br><br>Management has performed annual impairment assessment on goodwill allocated to the cash generating unit, i.e. Funrise Group by assessing the recoverable amount which was determined based on the value-in-use calculation. Significant management judgement with respect to the underlying cash flows, discount rate and future revenue growth was involved in the value-in-use calculation. | We evaluated the valuation methodology and assessed the reasonableness of key assumptions in relation to the management's impairment assessment.<br><br>The key assumptions in the impairment assessment were the discount rate and future revenue growth. We tested the discount rate by assessing the cost of capital of Funrise Group and comparable organisations in the toys industry. In assessing the future revenue growth, we evaluated management's rationale and compared the sales growth rate against historical actual performance of Funrise Group and market data in the toys industry.<br><br>Sensitivity analysis was also performed in respect of the key assumptions within a reasonable range. These procedures enabled us to assess the reasonableness of the forecasting process.<br><br>We are satisfied that the assumptions used in the impairment assessment are supported by available information and evidence. |

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| **Recoverability assessment of other non-current assets**<br>Refer to notes 4(c) and 26(b) to the consolidated financial statements. | |
| As at 31st December, 2016, the Group had other non-current assets of HK$186 million which represented the fair value of the residential properties to be received in 2020 as part of the consideration from the disposal of an indirectly wholly owned subsidiary in July 2015. The carrying amount of the other non-current assets is subject to the recoverability assessment.<br><br>The residential properties to be received are related to the redevelopment project to transform the industrial area into residential area and the delivery of the residential properties that will take place afterwards. Significant management judgement was involved in assessing the recoverability of other non-current assets based on the status of development of the redevelopment project and the latest market value of the residential properties upon completion. | We evaluated management's recoverability assessment on the residential properties to be received by reviewing the progress of government approval on the change of land use rights from industrial purpose to residential purpose. We checked the project progress status report provided by the third party property developer.<br><br>We evaluated management's valuation assessment on the residential properties to be received by comparing the projected market price with the latest market price of comparable residential properties in the area.<br><br>We found the recoverability of other non-current assets to be supported by the available information and evidence. |

## Other Information

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

## Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

## Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Wong Ka Keung, Johnny.

**PricewaterhouseCoopers**
*Certified Public Accountants*

Hong Kong, 16th March, 2017

# Consolidated Statement of Comprehensive Income

For the year ended 31st December, 2016

| | Note | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|---|
| Revenue | *5* | **1,247,218** | 1,277,063 |
| Cost of sales | *8* | **(797,933)** | (806,233) |
| Gross profit | | **449,285** | 470,830 |
| Other income | *6* | **1,003** | 1,334 |
| Gain on disposal of a subsidiary | *26(b)* | **–** | 218,134 |
| Other losses | *7* | **(6,409)** | (2,860) |
| Distribution and selling costs | *8* | **(136,811)** | (127,588) |
| Administrative expenses | *8* | **(150,086)** | (139,393) |
| Research and development costs | *8* | **(21,685)** | (23,235) |
| Operating profit | | **135,297** | 397,222 |
| Finance costs | *9* | **(22)** | (280) |
| Profit before income tax | | **135,275** | 396,942 |
| Income tax expense | *11* | **(12,621)** | (9,069) |
| Profit for the year attributable to owners of the Company | | **122,654** | 387,873 |
| Other comprehensive income | | | |
| Items that may be reclassified subsequently to profit or loss: | | | |
| Currency translation differences | | **4,959** | (4,954) |
| Other comprehensive income for the year, net of tax | | **4,959** | (4,954) |
| Total comprehensive income for the year attributable to owners of the Company | | **127,613** | 382,919 |
| Earnings per share attributable to owners of the Company for the year (expressed in HK cents per share) | | | |
| Basic earnings per share | *13* | **16** | 51 |
| Diluted earnings per share | *13* | **16** | 51 |

The notes on pages 64 to 119 are an integral part of these financial statements.

# Consolidated Statement of Financial Position

As at 31st December, 2016

| | Note | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | *14* | **136,339** | 149,442 |
| Leasehold land and land use rights | *15* | **12,837** | 13,318 |
| Intangible assets | *16* | **96,822** | 96,822 |
| Deferred tax assets | *23* | **6,220** | 5,869 |
| Pledged bank deposit | *20* | **–** | 138 |
| Other non-current assets | *26(b)* | **186,000** | 186,000 |
| | | **438,218** | 451,589 |
| **Current assets** | | | |
| Inventories | *17* | **324,838** | 304,147 |
| Trade and other receivables and prepayments | *19* | **275,841** | 267,906 |
| Tax receivable | | **18** | 18 |
| Pledged bank deposit | *20* | **136** | – |
| Cash and cash equivalents | *20* | **143,381** | 129,652 |
| | | **744,214** | 701,723 |
| **Total assets** | | **1,182,432** | 1,153,312 |
| **EQUITY** | | | |
| **Capital and reserves attributable to owners of the Company** | | | |
| Share capital | *21* | **75,620** | 75,620 |
| Reserves | *22* | **904,562** | 909,285 |
| **Total equity** | | **980,182** | 984,905 |

## Consolidated Statement of Financial Position

As at 31st December, 2016

| | Note | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Deferred income tax liabilities | *23* | **663** | 859 |
| Bank borrowings | *25* | **–** | 69 |
| | | **663** | 928 |
| **Current liabilities** | | | |
| Trade and other payables and accruals | *24* | **191,687** | 160,453 |
| Tax payables | | **8,537** | 6,957 |
| Bank borrowings | *25* | **1,363** | 69 |
| | | **201,587** | 167,479 |
| **Total liabilities** | | **202,250** | 168,407 |
| **Total equity and liabilities** | | **1,182,432** | 1,153,312 |

The financial statements on pages 58 to 119 were approved by the Board of Directors on 16th March, 2017 and were signed on its behalf.

**Cheng Yung Pun**
*Director*

**Yu Sui Chuen**
*Director*

The notes on pages 64 to 119 are an integral part of these financial statements.

# Consolidated Statement of Changes in Equity

For the year ended 31st December, 2016

| | Attributable to owners of the Company | | | | | | |
|---|---|---|---|---|---|---|---|
| | Share capital HK$'000 | Share premium HK$'000 | Shareholders' contribution HK$'000 *(Note 22)* | Other reserves HK$'000 *(Note 22)* | Translation reserve HK$'000 | Retained profits HK$'000 | Total HK$'000 |
| **Balance at 1st January, 2015** | 75,620 | 189,090 | 21,028 | (150) | (45,039) | 437,057 | 677,606 |
| **Comprehensive income** | | | | | | | |
| Profit for the year | – | – | – | – | – | 387,873 | 387,873 |
| **Other comprehensive income** | | | | | | | |
| Currency translation differences | – | – | – | – | (4,954) | – | (4,954) |
| Total other comprehensive income, net of tax | – | – | – | – | (4,954) | – | (4,954) |
| **Total comprehensive income** | – | – | – | – | (4,954) | 387,873 | 382,919 |
| **Total contributions by and distributions to owners of the Company, recognised directly in equity** | | | | | | | |
| Dividends paid *(Note 12)* | – | – | – | – | – | (75,620) | (75,620) |
| | – | – | – | – | – | (75,620) | (75,620) |
| **Balance at 31st December, 2015** | 75,620 | 189,090 | 21,028 | (150) | (49,993) | 749,310 | 984,905 |

The notes on pages 64 to 119 are an integral part of these financial statements.

# Consolidated Statement of Changes in Equity

For the year ended 31st December, 2016

| | Attributable to owners of the Company | | | | | | |
|---|---|---|---|---|---|---|---|
| | Share capital HK$'000 | Share premium HK$'000 | Shareholders' contribution HK$'000 *(Note 22)* | Other reserves HK$'000 *(Note 22)* | Translation reserve HK$'000 | Retained profits HK$'000 | Total HK$'000 |
| **Balance at 1st January, 2016** | 75,620 | 189,090 | 21,028 | (150) | (49,993) | 749,310 | 984,905 |
| **Comprehensive income** | | | | | | | |
| Profit for the year | – | – | – | – | – | 122,654 | 122,654 |
| **Other comprehensive income** | | | | | | | |
| Currency translation differences | – | – | – | – | 4,959 | – | 4,959 |
| Total other comprehensive income, net of tax | – | – | – | – | 4,959 | – | 4,959 |
| **Total comprehensive income** | – | – | – | – | 4,959 | 122,654 | 127,613 |
| **Total contributions by and distributions to owners of the Company, recognised directly in equity** | | | | | | | |
| Dividends paid *(Note 12)* | – | – | – | – | – | (132,336) | (132,336) |
| | – | – | – | – | – | (132,336) | (132,336) |
| **Balance at 31st December, 2016** | 75,620 | 189,090 | 21,028 | (150) | (45,034) | 739,628 | 980,182 |

The notes on pages 64 to 119 are an integral part of these financial statements.

# Consolidated Statement of Cash Flows

For the year ended 31st December, 2016

| | Note | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net cash generated from operations | *26(a)* | **180,343** | 156,552 |
| Income taxes paid | *26(d)* | **(10,947)** | (23,080) |
| Interest paid | | **(22)** | (280) |
| Net cash generated from operating activities | | **169,374** | 133,192 |
| **Cash flows from investing activities** | | | |
| Interest received | | **26** | 9 |
| Increase in pledged bank deposit | | **–** | (138) |
| Proceeds from disposals of property, plant and equipment | *26(c)* | **658** | 1,076 |
| Purchases of property, plant and equipment | | **(25,218)** | (21,630) |
| Disposal of a subsidiary | *26(b)* | **–** | 49,566 |
| Net cash (used in)/generated from investing activities | | **(24,534)** | 28,883 |
| **Cash flows from financing activities** | | | |
| Dividends paid | | **(132,336)** | (75,620) |
| New bank borrowings raised | | **1,294** | 67,573 |
| Repayments of bank borrowings | | **(69)** | (92,793) |
| Net cash used in financing activities | | **(131,111)** | (100,840) |
| **Net increase in cash and cash equivalents** | | **13,729** | 61,235 |
| Cash and cash equivalents at 1st January | | **129,652** | 68,417 |
| Cash and cash equivalents at 31st December | *20* | **143,381** | 129,652 |

The notes on pages 64 to 119 are an integral part of these financial statements.

## 1. GENERAL INFORMATION

Matrix Holdings Limited (the "Company") and its subsidiaries (together, the "Group") are principally engaged in the manufacturing and trading of toys and lighting products. The principal activities of the Company are investment holding and those of its principal subsidiaries are set out in Note 31.

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

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

These consolidated financial statements are presented in Hong Kong dollars ("HK$"), unless otherwise stated. These financial statements have been approved for issue by the Board on 16th March, 2017.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS") and the disclosure requirements of the Hong Kong Companies Ordinance. The consolidated financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

# 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

## 2.1 Basis of preparation (Continued)

### *(a) New and amended standards adopted by the Group*

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning 1st January, 2016:

| | |
|---|---|
| HKAS 1 (Amendment) | Disclosure initiative |
| HKAS 16 and HKAS 38 (Amendment) | Clarification of acceptable methods of depreciation and amortisation |
| HKAS 16 and HKAS 41 (Amendment) | Agriculture: bearer plants |
| HKAS 27 (Amendment) | Equity method in separate financial statements |
| HKFRS 10, HKFRS 12 and HKAS 28 (Amendment) | Investment entities: applying the consolidation exception |
| HKFRS 11 (Amendment) | Accounting for acquisition of interests in joint operation |
| HKFRS 14 | Regulatory deferral accounts |
| Annual Improvements Project | Annual improvements 2012-2014 cycle |

The adoption of the above amendments and interpretations to standards has no significant impact on the results and financial position of the Group.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.1 Basis of preparation (Continued)

#### *(b) New/revised standards and amendments to existing standards have been issued but not yet effective and have not been early adopted by the Group*

The following new/revised standards and amendments to existing standards have been issued but not yet effective and have not been early adopted by the Group:

| | | **Effective for accounting period beginning on or after** |
|---|---|---|
| HKAS 7 (Amendment) | Disclosure initiative | 1st January, 2017 |
| HKAS 12 (Amendment) | Recognition of deferred tax assets for unrealised losses | 1st January, 2017 |
| HKFRS 2 (Amendment) | Classification and measurement of share-based payment transactions | 1st January, 2018 |
| HKFRS 9 | Financial instruments | 1st January, 2018 |
| HKFRS 15 | Revenue from contracts with customers | 1st January, 2018 |
| HKFRS 15 (Amendment) | Clarifications to HKFRS 15 | 1st January, 2018 |
| HKFRS 16 | Leases | 1st January, 2019 |
| HKFRS 10 and HKAS 28 (Amendment) | Sale and contribution of assets between an investor and its associate or joint venture | To be determined |

The Group intends to adopt the above new/revised standards and amendments to existing standards when they become effective. The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the consolidated financial statements.

### 2.2 Subsidiaries

#### *(a) Consolidation*

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

# 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

## 2.2 Subsidiaries (Continued)

### *(a) Consolidation (Continued)*

*(i) Business combination*

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquire that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRS.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the profit or loss (Note 2.6).

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.2 Subsidiaries (Continued)

#### *(a) Consolidation (Continued)*

*(i) Business combination (Continued)*

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

*(ii) Disposal of subsidiaries*

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

#### *(b) Separate financial statements*

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

### 2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-makers. The chief operating decision-makers, who are responsible for allocating resources and assessing performance of the operating segments, has been identified collectively as the Executive Directors who make strategic decisions.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.4 Foreign currency translation

#### (a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in HK$, which is the Company's functional and the Group's presentation currency.

#### (b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss.

All other foreign exchange gains or losses are presented in the profit or loss within 'other losses'.

#### (c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

(ii) income and expenses for each profit or loss are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(iii) all resulting currency translation differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognised in other comprehensive income.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.5 Property, plant and equipment

Buildings comprise mainly factories and offices. Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Property, plant and equipment commence depreciation from the time the assets become available for their intended use. Depreciation is calculated using the straight-line method to allocate their cost to their residual values, where appropriate, over their estimated useful lives, as follows:

| | |
|---|---|
| Buildings | 25 – 50 years or over the lease term, if shorter |
| Leasehold improvements | 10 years or over the lease term, if shorter |
| Plant and machinery | 5 – 10 years |
| Moulds | 3 – 10 years |
| Others | 3 – 10 years |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.7). Gains and losses on disposals are determined by comparing net proceeds with carrying amount of the relevant assets and are included in the profit or loss.

### 2.6 Intangible assets

#### *(a) Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired business at the date of acquisition. Goodwill on acquisition of business is included in intangible assets.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.6 Intangible assets (Continued)

#### *(a) Goodwill (Continued)*

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

#### *(b) Customer base*

Definite-lived intangible assets including customer base acquired in a business combination, are recognised at its fair value at the acquisition date, and are being amortised over the estimated useful lives using the straight-line method. The estimated useful lives of the intangibles are 6 years.

### 2.7 Impairment of non-financial assets

Assets that have an indefinite useful life – for example, goodwill or intangible assets not ready to use – are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGU). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

### 2.8 Financial assets

#### *2.8.1 Classification*

The Group classifies its financial assets into loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise "trade and other receivables" and "cash and cash equivalents" in the consolidated statement of financial position.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.8 Financial assets (Continued)

#### *2.8.2 Recognition and measurements*

Regular way purchases and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

### 2.9 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

### 2.10 Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the group may measure impairment on the basis of an instrument’s fair value using an observable market price.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.10 Impairment of financial assets (Continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated profit or loss.

### 2.11 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in-first-out ("FIFO") method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

### 2.12 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

### 2.13 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

### 2.14 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

### 2.15 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.16 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

### 2.17 Borrowings costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

### 2.18 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

#### *(a) Current income tax*

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.18 Current and deferred income tax (Continued)

#### (b) Deferred income tax

*Inside basis differences*

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recongised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

*Outside basis differences*

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Only where there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

#### (c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.19 Employee benefits

#### (a) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the statement of financial position date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

#### (b) Bonus plans

Provisions for bonus plans due wholly within 12 months after the end of the reporting period are recognised where contractually obliged or where there is a past practice that has created a constructive obligation.

#### (c) Pension obligations

The Group maintains a number of defined contribution plans in the countries in which it operates. The assets of the retirement benefit are generally held in separate trustees-administered funds or insurance companies. The retirement plans are generally funded by payments from employees and by the Group.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

#### (d) Share-based compensations

The Group operates a share-based compensation plan, under which the entity receives services from employees as consideration for share options of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted, including any market performance conditions and excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and years of service of employees).

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.19 Employee benefits (Continued)

#### *(d) Share-based compensations (Continued)*

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-market performance and service conditions. It recognises the impact of the revision of original estimates, if any, in the profit or loss.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

### 2.20 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.21 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates of return on historical results, taking into consideration the type of customers, the type of transaction and the specifics of each arrangement.

(i) Sales of goods are recognised when a Group entity has delivered products to the customer, the customer has accepted the products and collectability of related receivables is reasonably assured.

(ii) Interest income is recognised using the effective interest method.

### 2.22 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

### 2.23 Dividend distributions

Dividend distributions to the Company's shareholders are recognised as a liability in the consolidated and the Company's statement of financial position in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

## 3. FINANCIAL RISK MANAGEMENT

### 3.1 Financial risk factors

The Group's major financial instruments include trade and other receivables, pledged bank deposit, cash and cash equivalents, trade and other payables and accruals and bank borrowings.

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

# 3. FINANCIAL RISK MANAGEMENT (CONTINUED)

## 3.1 Financial risk factors (Continued)

### *(a) Market risk*

#### *(i) Foreign exchange risk*

The Group operates internationally and is thus exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the United States dollars ("US$") and the Vietnamese Dong ("VND"). Foreign exchange risk arises when future commercial transactions, recognised assets, liabilities and net investments in foreign operations are denominated in a currency that is not the entity's functional currency.

The Group manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures. The Group currently does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the Group's foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies.

In the opinion of the directors, the HK$ is reasonably stable with respect to the US$ under the Linked Exchange Rate System, and accordingly, the Company does not have any significant foreign exchange risk in respect of transactions or balances as denominated in US$. Accordingly, no sensitivity analysis is performed.

At 31st December, 2016, if the VND had strengthened/weakened by 5% against the HK$, with all other variables held constant, profit for the year would have been approximately HK$6,968,000 (2015: HK$7,216,000) higher/lower mainly as a result of foreign exchange gains/losses on translation of the VND denominated net monetary assets.

#### *(ii) Cash flow and fair value interest rate risk*

The Group's cash flow and fair value interest rate risk primarily relates to bank balances and bank borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. Management of the Group monitors the related interest rate risk exposure closely and will consider hedging significant interest rate risk exposure should the need arise.

Management considers the fair value interest rate risk related to borrowings is insignificant.

## 3. FINANCIAL RISK MANAGEMENT (CONTINUED)

### 3.1 Financial risk factors (Continued)

#### *(b) Credit risk*

Credit risk mainly arises from trade and other receivables and cash and cash equivalents included in the consolidated statement of financial position. The Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regards, the directors of the Company consider that the Group's credit risk is significantly reduced.

As at 31st December, 2016, all bank balances and bank deposits were held at reputable financial institutions. Management makes periodic assessments on the recoverability of receivables and deposits, and is of the opinion that adequate provision for receivables with significant credit risk has been made.

#### *(c) Liquidity risk*

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents and the availability of funding through an adequate amount of committed credit facilities.

The Group's primary cash requirements have been for the addition of and upgrade on property, plant and equipment, payment on related debts and payment for purchases and operating expenses. The Group finances its working capital requirements through a combination of internal resources and bank borrowings, as necessary.

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure it maintains sufficient cash and cash equivalents and has available funding through adequate amount of committed credit facilities to meet its working capital requirements.

# 3. FINANCIAL RISK MANAGEMENT (CONTINUED)

## 3.1 Financial risk factors (Continued)

### *(c) Liquidity risk (Continued)*

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

| | On demand or less than 1 month HK$'000 | Between 1 to 3 months HK$'000 | Between 4 to 12 months HK$'000 | Between 1 to 2 years HK$'000 | Total undiscounted cash flow HK$'000 |
|---|---|---|---|---|---|
| **As at 31st December, 2016** | | | | | |
| Trade and other payables and accruals | **136,578** | **55,109** | **–** | **–** | **191,687** |
| Bank borrowings | **1,298** | **18** | **53** | **–** | **1,369** |
| | **137,876** | **55,127** | **53** | **–** | **193,056** |
| **As at 31st December, 2015** | | | | | |
| Trade and other payables and accruals | 125,249 | 35,204 | – | – | 160,453 |
| Bank borrowings | – | 17 | 55 | 74 | 146 |
| | 125,249 | 35,221 | 55 | 74 | 160,599 |

## 3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions. In order to maintain or adjust the capital structure, the Group may adjust the dividend payments to shareholders, return capital to shareholders, issue of new shares as well as the issue of new debts or the repayment of existing debts.

## 3. FINANCIAL RISK MANAGEMENT (CONTINUED)

### 3.2 Capital management (Continued)

The Group also monitors capital on the basis of gearing ratio and the compliance of covenants of its borrowings. The gearing ratio is calculated as total debt divided by equity attributable to owners of the Company. Total debt is calculated as total borrowings (including bank borrowings as shown in the consolidated statement of financial position). Equity attributable to owners of the Company is "total equity", as shown in the consolidated statement of financial position.

The table below analyses the Group's capital structure as at 31st December, 2016 and 2015:

| | **2016**<br>**HK$'000** | 2015<br>HK$'000 |
|---|---|---|
| Total borrowings | **1,363** | 138 |
| Total equity | **980,182** | 984,905 |
| Gearing ratio | **0.14%** | 0.01% |

The Group's strategy is to maintain a solid capital base to support the operations and development of its business in the long term.

### 3.3 Fair value estimation

The carrying amounts of the Group's financial assets, including cash and cash equivalents, pledged bank deposits, trade and other receivables, the Group's financial liabilities, including trade and other payables and bank borrowings, approximate their fair values due to their short maturities.

The nominal values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

### (a) Useful lives, residual values and depreciation of property, plant and equipment

The Group's management determines the estimated useful lives, residual values and related depreciation for the Group's property, plant and equipment with reference to the estimated periods that the Group intends to derive future economic benefits from the use of these assets. Management will revise the depreciation charges where useful lives are different to previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives and actual residual values may differ from estimated residual values. Periodic review could result in a change in depreciable lives and residual values and therefore depreciation expense in future periods.

### (b) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions in response to severe industry cycle. Management reassesses these estimates at each statement of financial position date.

### (c) Impairment of non-financial assets

The Group tests annually whether goodwill has suffered any impairment (Note 16). Other non-financial assets including property, plant and equipment and other amortisable intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts have been determined based on value-in-use calculations or fair value less costs to sell. These calculations require the use of judgements and estimates.

Management judgement is required in the area of asset impairment particularly in assessing: (i) whether an event has occurred that may indicate that the related asset values may not be recoverable; (ii) whether the carrying value of asset can be supported by the recoverable amount, being the higher of fair value less costs to sell and net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management in assessing impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test and as a result affect the Group's financial condition and results of operations. If there is a significant adverse change in the projected performance and resulting future cash flow projections, it may be necessary to take an impairment charge to the profit or loss.

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

### (c) Impairment of non-financial assets (Continued)

The Group's non-current assets related to the residential properties to be received in 2020 as part of the consideration from the disposal of an indirectly wholly owned subsidiary in July 2015. The impairment assessment on the recoverability of other non-current assets is based on the status of the development of the redevelopment project and the latest market value of the residential properties upon completion which require significant judgement.

### (d) Current and deferred income taxes

The Group is subject to income taxes in Hong Kong, Mainland, the United States, Vietnam and other jurisdictions. Judgement is required in determining the provision for income taxes in each of these jurisdictions. There are transactions and calculations during the ordinary course of business for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such as differences will impact the income tax and deferred income tax provisions in the period in which such determination is made.

Deferred income tax assets relating to temporary differences and tax losses are recognised when management considers it is probable that future taxable profits will be available to utilise against the temporary differences or tax losses. Where the expectations are different from the original estimate, such differences will impact the recognition of deferred income tax assets and liabilities and taxation charges in the period in which such estimates have been changed.

### (e) Consolidation of a subsidiary

In October 1999, there was a court judgement in connection with a claim made by a trade creditor. The Group's legal ownership of an indirect wholly owned subsidiary of the Company may be affected by the court judgement. The directors of the Company, based on independent legal advice, are of the opinion that the aforesaid judgement will have no material impact on Group's control in the subsidiary. Accordingly, the subsidiary continues to be treated as an indirectly held subsidiary of the Company and this financial result of the subsidiary are included in the consolidated financial statements.

## 5. REVENUE AND SEGMENT INFORMATION

The chief operating decision-makers ("CODM") have 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 the CODM in order to assess performance and allocate resources. The CODM assess the performance of the reportable segments based on the profit and loss generated.

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

## 5. REVENUE AND SEGMENT INFORMATION (Continued)

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 consolidated financial statements.

Assets of reportable segments exclude property, plant and equipment, intangible assets, deferred income tax assets and corporate assets, all of which are managed on a central basis. Liabilities of reportable segments exclude current and deferred income tax liabilities, bank borrowings and other corporate liabilities. These are part of the reconciliation to total assets and liabilities of the 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 consolidated statement of 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 a separate segment for the year as it is at early stage of operations and is not material to the Group.

### Segment revenues and results

**For the year ended 31st December, 2016**

| | The United States | Europe | Mexico | Canada | South America | Australia and New Zealand | Other locations *(Note)* | Unallocated | Consolidated |
|---|---|---|---|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| TURNOVER | | | | | | | | | |
| External sales | 1,092,870 | 28,587 | 9,387 | 70,577 | 9,387 | 24,781 | 11,629 | – | 1,247,218 |
| RESULTS | | | | | | | | | |
| Segment profit/(loss) | 221,085 | 5,630 | 2,231 | 9,409 | 2,097 | 1,227 | (5,627) | – | 236,052 |
| Unallocated income | | | | | | | | | 98 |
| Unallocated expenses | | | | | | | | | (100,853) |
| Finance costs | | | | | | | | | (22) |
| Profit before taxation | | | | | | | | | 135,275 |
| Other segment information: | | | | | | | | | |
| Depreciation and amortisation | 30,561 | 572 | 136 | 779 | 137 | 218 | 81 | 3,935 | 36,419 |

## 5. REVENUE AND SEGMENT INFORMATION (Continued)

### Segment revenues and results (Continued)

For the year ended 31st December, 2015

| | The United States | Europe | Mexico | Canada | South America | Australia and New Zealand | Other locations *(Note)* | Unallocated | Consolidated |
|---|---|---|---|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| TURNOVER | | | | | | | | | |
| External sales | 1,131,554 | 13,737 | 12,891 | 70,241 | 9,014 | 32,492 | 7,134 | – | 1,277,063 |
| RESULTS | | | | | | | | | |
| Segment profit/(loss) | 257,296 | (1,379) | 2,390 | 12,730 | 1,772 | 2,565 | (1,200) | – | 274,174 |
| Unallocated income | | | | | | | | | 218,124 |
| Unallocated expenses | | | | | | | | | (95,076) |
| Finance costs | | | | | | | | | (280) |
| Profit before taxation | | | | | | | | | 396,942 |
| Other segment information: | | | | | | | | | |
| Depreciation and amortisation | 29,831 | 362 | 340 | 1,851 | 238 | 857 | 188 | 6,784 | 40,451 |

*Note:* Other locations include the People's Republic of China (the "PRC") (including Hong Kong), Taiwan, Korea, Asia Pacific and others. These locations are considered by the CODM as one operating segment.

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

## 5. REVENUE AND SEGMENT INFORMATION (Continued)

### Segments assets and liabilities

The following is an analysis of the Group's assets and liabilities by operating segment based on the geographical location of customers:

**As at 31st December, 2016**

| | The United States | Europe | Mexico | Canada | South America | Australia and New Zealand | Other locations *(Note)* | Consolidated |
|---|---|---|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| ASSETS | | | | | | | | |
| Segment assets | 465,721 | 17,762 | 2,575 | 23,579 | 2,580 | 14,100 | 74,363 | 600,680 |
| Property, plant and equipment | | | | | | | | 136,339 |
| Leasehold land and land use rights | | | | | | | | 12,837 |
| Unallocated and other corporate assets | | | | | | | | 432,576 |
| Total assets | | | | | | | | 1,182,432 |
| LIABILITIES | | | | | | | | |
| Segment liabilities | 95,027 | 2,545 | 648 | 4,874 | 648 | 2,376 | 10,436 | 116,554 |
| Unallocated and other corporate liabilities | | | | | | | | 85,696 |
| Total liabilities | | | | | | | | 202,250 |

## 5. REVENUE AND SEGMENT INFORMATION (Continued)

### Segments assets and liabilities (Continued)

As at 31st December, 2015

| | The United States | Europe | Mexico | Canada | South America | Australia and New Zealand | Other locations *(Note)* | Consolidated |
|---|---|---|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| ASSETS | | | | | | | | |
| Segment assets | 483,121 | 11,358 | 4,673 | 18,409 | 2,607 | 12,234 | 39,789 | 572,191 |
| Property, plant and equipment | | | | | | | | 149,442 |
| Leasehold land and land use rights | | | | | | | | 13,318 |
| Unallocated and other corporate assets | | | | | | | | 418,361 |
| Total assets | | | | | | | | 1,153,312 |
| LIABILITIES | | | | | | | | |
| Segment liabilities | 82,327 | 983 | 761 | 4,123 | 529 | 2,967 | 12,606 | 104,296 |
| Unallocated and other corporate liabilities | | | | | | | | 64,111 |
| Total liabilities | | | | | | | | 168,407 |

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

### Other segment information

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

### Revenue from major products

| | **2016** | 2015 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Toys | **1,231,707** | 1,258,633 |
| Lighting products | **15,511** | 18,430 |
| | **1,247,218** | 1,277,063 |

## 5. REVENUE AND SEGMENT INFORMATION (Continued)

### Geographical information

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

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

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Hong Kong | **1,900** | 470 |
| Vietnam | **82,462** | 92,120 |
| The United States | **13,575** | 13,741 |
| The PRC | **236,250** | 241,076 |
| Other countries | **989** | 1,491 |
| | **335,176** | 348,898 |

*Note:* Non-current assets excluded intangible assets and deferred tax assets.

### Information about major customers

For the year ended 31st December, 2016, there are 2 customers (2015: 2 customers) in the United States with revenue contributing to approximately 42.2% and 23.9% (2015: 39.1% and 28.2%), respectively, of the total revenue of the Group. There is no other single customer contributing over 10% of the total revenue of the Group.

## 6. OTHER INCOME

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Interest income on bank deposits | **26** | 9 |
| Sales of scrap materials | **903** | 1,176 |
| Loss on disposal of property, plant and equipment *(Note 26 (c))* | **(6)** | (18) |
| Others | **80** | 167 |
| | **1,003** | 1,334 |

## 7. OTHER LOSSES

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Net exchange losses | **6,409** | 2,860 |

## 8. EXPENSES BY NATURE

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Raw materials and consumables used | **325,481** | 360,635 |
| Changes in inventories of finished goods and work-in-progress | **(13,402)** | 17,593 |
| Employee benefit expense *(Note 10)* | **449,567** | 398,852 |
| Depreciation of property, plant and equipment *(Note 14)* | **35,938** | 39,954 |
| Operating lease expenses | **22,991** | 20,662 |
| Advertising costs | **34,330** | 16,688 |
| Auditor's remuneration | | |
| – Audit services | **4,481** | 4,005 |
| – Non-audit services | **1,205** | 1,526 |
| Amortisation of leasehold land and land use rights *(Note 15)* | **481** | 497 |
| Royalty expenses | **38,855** | 39,843 |
| Freight charges | **25,434** | 30,747 |
| Other expenses | **181,154** | 165,447 |
| | **1,106,515** | 1,096,449 |
| Representing: | | |
| Cost of sales | **797,933** | 806,233 |
| Distribution and selling costs | **136,811** | 127,588 |
| Administrative expenses | **150,086** | 139,393 |
| Research and development costs | **21,685** | 23,235 |
| | **1,106,515** | 1,096,449 |

## 9. FINANCE COSTS

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Interest on: | | |
| Bank borrowings | **22** | 280 |

## 10. EMPLOYEE BENEFIT EXPENSE

Employee benefits expense, including directors' emoluments, represents:

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Wages, salaries and bonuses | **436,382** | 384,973 |
| Retirement benefits – defined contribution plans | **3,213** | 3,131 |
| Staff welfare | **9,972** | 10,748 |
| | **449,567** | 398,852 |

### (a) Retirement benefits – defined contribution plans

The Group has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme (the "MPF Scheme"), a defined contribution scheme managed by an independent trustee. Under the MPF Scheme, each of the Group and its Hong Kong employees makes monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation. Both the Group's and the employees' contributions are subject to a cap of HK$1,500 per month effective from 1st June, 2014.

The Group has no further obligations for post-retirement benefits in relation to its Hong Kong employees beyond the contributions to the MPF Scheme.

## 10. EMPLOYEE BENEFIT EXPENSE (Continued)

### (a) Retirement benefits – defined contribution plans (Continued)

The eligible employees of the subsidiaries in the PRC are members of pension schemes operated by the Chinese local government. The subsidiaries are required to contribute certain percentages of the relevant part of the payroll of these employees to the pension schemes to fund the benefits.

Eligible employees in Macau currently participate in a social security fund scheme operated by the local government. The contributions are fixed for domestic employees who meet certain eligibility requirements.

Eligible employees in Vietnam currently participate in a defined contribution pension scheme operated by the local municipal government. The calculation of contributions is based on certain percentage of the employees' payroll.

There are defined contribution retirement plans established in the United States for all domestic employees who meet certain eligibility requirements as to age and length of service.

During the year ended 31st December, 2016, the aggregate amount of the Group's contributions to the aforementioned pension schemes was approximately HK$3,213,000 (2015: HK$3,131,000). As at 31st December, 2016, the Group was not entitled to any forfeited contributions to reduce its future contributions (2015: nil).

## 10. EMPLOYEE BENEFIT EXPENSE (Continued)

### (b) Benefits and interests of directors (disclosures required by section 383 of the Hong Kong Companies Ordinance (Cap. 622), Companies (Disclosure of information about benefits of directors) Regulation (Cap. 622G) and HK Listing Rules)

Directors' emoluments comprise payments by the Group to directors of the Company in connection with the management of the affairs of the Company and its subsidiaries. The remuneration of each director and the chief executive for the year ended 31st December, 2016 is set out below:

| Name | Fees HK$'000 | Salary HK$'000 | Employer's contribution to a retirement benefit scheme HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| **Executive Directors** | | | | |
| Cheng Yung Pun | – | 1,118 | – | 1,118 |
| Yu Sui Chuen | – | 1,587 | 64 | 1,651 |
| Cheng Wing See, Nathalie *(Note (ii))* | – | 695 | 18 | 713 |
| Arnold Edward Rubin *(Note (ii))* | – | 5,008 | 103 | 5,111 |
| Tse Kam Wah | – | 1,530 | 18 | 1,548 |
| Leung Hong Tai | – | 1,531 | 18 | 1,549 |
| Tsang Chung Wa | – | 1,180 | 18 | 1,198 |
| Cheng King Cheung | – | 1,833 | 92 | 1,925 |
| **Independent non-executive Directors** | | | | |
| Loke Yu alias Loke Hoi Lam | 85 | – | – | 85 |
| Mak Shiu Chung, Godfrey | 85 | – | – | 85 |
| Wan Hing Pui | 85 | – | – | 85 |
| Heng Ja Wei, Victor | 85 | – | – | 85 |
| **Chief Executive** | | | | |
| Chen Wei Qing ("Mr. Chen") *(Note (i))* | – | 1,389 | 18 | 1,407 |
| | 340 | 15,871 | 349 | 16,560 |

## 10. EMPLOYEE BENEFIT EXPENSE (Continued)

### (b) Benefits and interests of directors (disclosures required by section 383 of the Hong Kong Companies Ordinance (Cap. 622), Companies (Disclosure of information about benefits of directors) Regulation (Cap. 622G) and HK Listing Rules) (Continued)

Directors' emoluments comprise payments by the Group to directors of the Company in connection with the management of the affairs of the Company and its subsidiaries. The remuneration of each director and the chief executive for the year ended 31st December, 2015 is set out below:

| Name | Fees<br>HK$'000 | Salary<br>HK$'000 | Employer's contribution to a retirement benefit scheme<br>HK$'000 | Total<br>HK$'000 |
|---|---|---|---|---|
| **Executive Directors** | | | | |
| Cheng Yung Pun | – | 1,118 | – | 1,118 |
| Yu Sui Chuen | – | 1,587 | 63 | 1,650 |
| Cheng Wing See, Nathalie | – | 695 | 18 | 713 |
| Arnold Edward Rubin | – | 5,008 | 103 | 5,111 |
| Tse Kam Wah | – | 1,475 | 18 | 1,493 |
| Leung Hong Tai | – | 1,474 | 18 | 1,492 |
| Tsang Chung Wa | – | 1,180 | 18 | 1,198 |
| Cheng King Cheung | – | 1,566 | 59 | 1,625 |
| **Independent non-executive Directors** | | | | |
| Loke Yu alias Loke Hoi Lam | 85 | – | – | 85 |
| Mak Shiu Chung, Godfrey | 85 | – | – | 85 |
| Wan Hing Pui | 85 | – | – | 85 |
| Heng Ja Wei, Victor | 85 | – | – | 85 |
| **Chief Executive** | | | | |
| Chen Wei Qing ("Mr. Chen") *(Note (i))* | – | 1,364 | 18 | 1,382 |
| | 340 | 15,467 | 315 | 16,122 |

## 10. EMPLOYEE BENEFIT EXPENSE (Continued)

### (b) Benefits and interests of directors (disclosures required by section 383 of the Hong Kong Companies Ordinance (Cap. 622), Companies (Disclosure of information about benefits of directors) Regulation (Cap. 622G) and HK Listing Rules) (Continued)

Notes:

(i) Mr. Chen is the chief executive of the Group and his remuneration disclosed above represents those for services rendered by him as the chief executive.

(ii) Mr. Arnold Edward Rubin and Ms. Cheng Wing See, Nathalie, resigned on 1st March, 2017 and 10th March, 2017, respectively.

(iii) No director or chief executive waived or agreed to waive any emoluments during the years ended 31st December, 2015 and 2016.

(iv) No directors' retirement benefits were paid during the years ended 31st December, 2015 and 2016.

(v) No directors' termination benefits were paid during the years ended 31st December, 2015 and 2016.

(vi) No consideration was provided to third parties for making available directors' services during the years ended 31st December, 2015 and 2016.

(vii) There were no loans, quasi-loans and other dealings were entered into by the Company or its subsidiary undertaking as at 31st December, 2015 and 2016.

(viii) No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## 10. EMPLOYEE BENEFIT EXPENSE (Continued)

### (c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2015: one) directors whose emoluments are reflected in the analysis shown above. The emoluments payable to the remaining three (2015: four) individuals during the year are as follows:

| | **2016 HK$'000** | 2015 HK$'000 |
|---|---|---|
| Salaries and allowances | **6,016** | 8,932 |
| Contributions to retirement benefit schemes and MPF Scheme | **293** | 389 |
| | **6,309** | 9,321 |

The emoluments fell within the following bands:

| | **Number of individuals** | |
|---|---|---|
| | **2016** | 2015 |
| HK$1,500,001 to HK$2,000,000 | **2** | 1 |
| HK$2,000,001 to HK$2,500,000 | **–** | 2 |
| HK$2,500,001 to HK$3,000,000 | **1** | – |
| HK$3,000,001 to HK$3,500,000 | **–** | 1 |
| | **3** | 4 |

For both years, no emoluments were paid by the Group to the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office.

## 11. INCOME TAX EXPENSE

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Current tax: | | |
| – Hong Kong | **(121)** | (2,527) |
| – Other jurisdictions | **(8,813)** | (6,413) |
| Under-provisions in prior years | | |
| – Hong Kong | **(4,198)** | (99) |
| – Other jurisdictions | **(36)** | (115) |
| Deferred tax *(Note 23)* | **547** | 85 |
| | **(12,621)** | (9,069) |

*Notes:*

(i) Hong Kong profits tax has been provided for at the rate of 16.5% (2015: 16.5%) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

(ii) Pursuant to the relevant Vietnam enterprise income tax rules and regulations, the applicable tax rates for subsidiaries operating in Vietnam range from 7.5% to 20.0% (2015: 7.5% to 22.0%) for the year.

(iii) The United States enterprise income tax rate for subsidiaries operating in the United States of America is 34.0% (2015: 34.0%) since the date of operation.

## 11. INCOME TAX EXPENSE (Continued)

The tax on the Group's profit before taxation differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

| | **2016 HK$'000** | 2015 HK$'000 |
|---|---|---|
| Profit before taxation | **135,275** | 396,942 |
| Tax calculated at the applicable domestic tax rate of respective companies *(Note)* | **(8,678)** | (25,522) |
| Tax effects of: | | |
| – Expenses not deductible for tax purposes | **(12,773)** | (12,006) |
| – Profit which are exempted from tax or under tax concessions | **25,073** | 28,394 |
| – Tax losses for which no deferred income tax assets have been recognised | **(12,074)** | (71) |
| Under-provision in prior years | **(4,234)** | (214) |
| Others | **65** | 350 |
| | **(12,621)** | (9,069) |

*Note*: The weighted average applicable tax rate was 6.4% (2015: 6.4%). The fluctuation in the weighted average applicable tax rate arose mainly because of the change in the relative profitability of the companies within the Group.

## 12. DIVIDENDS

The dividends paid in 2016 and 2015 were HK$132,336,000 (HK17.5 cents per share) and HK$75,620,000 (HK10 cents per share), respectively. A final dividend in respect of the year ended 31st December, 2016 of HK7 cents per share (2015: final dividend of HK7 cents and special dividend of HK6 cents, totalling HK13 cents per share), amounting to approximately HK$52,934,000 (2015: HK$98,306,000), is to be proposed at the forthcoming annual general meeting. These financial statements do not reflect this dividend payable as the final dividend was proposed after the date of statement of financial position and will be accounted for in equity as an appropriation of retained profits in the year ending 31st December, 2017 when approved at the forthcoming annual general meeting.

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Paid | | |
| Interim dividend paid HK4.5 cents (2015: HK4 cents) per ordinary share | 34,030 | 30,248 |
| Proposed | | |
| Final dividend proposed HK7 cents (2015: HK7 cents) per ordinary share | 52,934 | 52,934 |
| Special dividend proposed HKnil cents (2015: HK6 cents) per ordinary share | – | 45,372 |
| Total dividend proposed HK7 cents (2015: HK13 cents) per ordinary share | 52,934 | 98,306 |

## 13. EARNINGS PER SHARE

### (a) Basic

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

| | 2016 | 2015 |
|---|---|---|
| Profit attributable to owners of the Company *(HK$'000)* | 122,654 | 387,873 |
| Weighted average number of ordinary shares in issue *(thousands)* | 756,203 | 756,203 |
| Basic earnings per share *(HK cents)* | 16 | 51 |

## 13. EARNINGS PER SHARE (Continued)

### (b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares (i.e. share options). A calculation is made in order to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

During the year ended 31st December, 2016, there were no dilutive potential ordinary shares. All the share options have expired.

| | **2016** | 2015 |
|---|---|---|
| Profit for the year attributable to owners of the Company *(HK$'000)* | **122,654** | 387,873 |
| Weighted average number of ordinary shares for diluted earnings per share *(thousands)* | **756,203** | 756,203 |
| Diluted earnings per share *(HK cents)* | **16** | 51 |

## 14. PROPERTY, PLANT AND EQUIPMENT

| | Buildings | Leasehold improvements | Plant and machinery | Moulds | Construction in progress | Others | Total |
|---|---|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **At 1st January, 2015** | | | | | | | |
| Cost | 134,868 | 37,067 | 155,419 | 119,797 | – | 38,418 | 485,569 |
| Accumulated depreciation and impairment | (41,876) | (24,749) | (119,145) | (86,331) | – | (25,999) | (298,100) |
| Net book amount | 92,992 | 12,318 | 36,274 | 33,466 | – | 12,419 | 187,469 |
| **Year ended 31st December, 2015** | | | | | | | |
| Opening net book amount | 92,992 | 12,318 | 36,274 | 33,466 | – | 12,419 | 187,469 |
| Exchange adjustments | (2,385) | (54) | (1,496) | – | – | (178) | (4,113) |
| Additions | 319 | 1,718 | 10,686 | 6,596 | – | 2,311 | 21,630 |
| Disposals *(Note 26(c))* | – | (2) | (138) | – | – | (954) | (1,094) |
| Disposal of a subsidiary *(Note 26(b))* | (14,496) | – | – | – | – | – | (14,496) |
| Depreciation *(Note 8)* | (4,427) | (4,114) | (11,832) | (15,609) | – | (3,972) | (39,954) |
| Closing net book amount | 72,003 | 9,866 | 33,494 | 24,453 | – | 9,626 | 149,442 |
| **At 31st December, 2015** | | | | | | | |
| Cost | 110,431 | 35,251 | 154,127 | 125,656 | – | 31,033 | 456,498 |
| Accumulated depreciation and impairment | (38,428) | (25,385) | (120,633) | (101,203) | – | (21,407) | (307,056) |
| Net book amount | 72,003 | 9,866 | 33,494 | 24,453 | – | 9,626 | 149,442 |
| **At 1st January, 2016** | | | | | | | |
| Cost | 110,431 | 35,251 | 154,127 | 125,656 | – | 31,033 | 456,498 |
| Accumulated depreciation and impairment | (38,428) | (25,385) | (120,633) | (101,203) | – | (21,407) | (307,056) |
| Net book amount | 72,003 | 9,866 | 33,494 | 24,453 | – | 9,626 | 149,442 |
| **Year ended 31st December, 2016** | | | | | | | |
| Opening net book amount | 72,003 | 9,866 | 33,494 | 24,453 | – | 9,626 | 149,442 |
| Exchange adjustments | (472) | (150) | (1,031) | – | (75) | 9 | (1,719) |
| Additions | 1,343 | 2,012 | 6,014 | 7,476 | 3,895 | 4,478 | 25,218 |
| Disposals *(Note 26(c))* | – | – | (110) | – | – | (554) | (664) |
| Depreciation *(Note 8)* | (4,143) | (2,830) | (11,152) | (13,947) | – | (3,866) | (35,938) |
| Closing net book amount | 68,731 | 8,898 | 27,215 | 17,982 | 3,820 | 9,693 | 136,339 |
| **At 31st December, 2016** | | | | | | | |
| Cost | 110,935 | 35,238 | 157,815 | 133,132 | 3,820 | 35,107 | 476,047 |
| Accumulated depreciation and impairment | (42,204) | (26,340) | (130,600) | (115,150) | – | (25,414) | (339,708) |
| Net book amount | 68,731 | 8,898 | 27,215 | 17,982 | 3,820 | 9,693 | 136,339 |

## 14. PROPERTY, PLANT AND EQUIPMENT (Continued)

Depreciation expense is analysed as follows:

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Cost of sales | **30,327** | 33,001 |
| Distribution and selling costs | **–** | 169 |
| Administrative expenses | **5,611** | 6,784 |
| | **35,938** | 39,954 |

As at 31st December, 2016, buildings of approximately HK$28,253,000 (2015: HK$29,306,000) were frozen by Zhuhai Intermediate Court and Zhongshan Intermediate Court, respectively, (the "Court") in relation to a legal claim lodged by a third party (the "Plaintiff") against a subsidiary of the Company for a breach of a distribution agreement. Pursuant to the court judgement, the subsidiary was liable to pay the Plaintiff an amount of approximately HK$5,067,000. A full legal claim provision was made by the Group in prior years and HK$4,472,000 was paid by the Group in 2011. Based on independent legal advice in prior years, the directors are of the opinion that the land and building being frozen by the Court will be released upon the settlement of all the legal claim and do not have material impact on the financial position and operations of the Group.

## 15. LEASEHOLD LAND AND LAND USE RIGHTS

The Group's interests in leasehold land and land use rights are analysed as follows:

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| At 1st January | **13,318** | 14,685 |
| Amortisation *(Note 8)* | **(481)** | (497) |
| Disposal *(Note 26(b))* | **–** | (870) |
| At 31st December | **12,837** | 13,318 |

## 16. INTANGIBLE ASSETS

| | Goodwill HK$'000 | Customer base HK$'000 | Total HK$'000 |
|---|---|---|---|
| **Cost** | | | |
| At 1st January, 2015, 31st December, 2015 and 2016 | 96,822 | 74,620 | 171,442 |
| **Accumulated amortisation and impairment** | | | |
| At 1st January, 2015, 31st December, 2015 and 2016 | – | (74,620) | (74,620) |
| **Carrying amount** | | | |
| At 31st December, 2015 and 2016 | 96,822 | – | 96,822 |

Customer base of the Group was acquired as part of a business combination in 2007. The intangible asset has finite useful life. Customer base was amortised on a straight-line basis over 6 years and amortised in full as at 31st December, 2013. Accordingly, no amortisation is included in consolidated statement of comprehensive income for the year ended 31st December, 2016 (2015: nil).

### Impairment tests for goodwill

Goodwill is allocated to the Group's cash-generating unit ("CGU") in the trading of toys in the United States market related to the acquisition of Funrise Group in 2007. The Group performs impairment tests on goodwill annually, or more frequently if there is any indication that it may be impaired, by comparing the recoverable amount to the carrying amount as at the date of statement of financial position.

The recoverable amount of the CGU was determined based on a value in use calculation. The calculation used cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period were extrapolated using a zero (2015: zero) percent growth rate. Management determined budgeted gross margin based on past performance and its expectations of the market development. The pre-tax discount rate applied to the cash flow projection is 15.7% (2015: 15.7%) and it reflects specific risks relating to the relevant operating unit. The sales growth rate applied to cash flow projection is 3.5% (2015: 5%). Based on the value in the calculation, there is no impairment loss on goodwill for the year ended 31st December, 2016 (2015: nil).

## 16. INTANGIBLE ASSETS (Continued)

### Impairment tests for goodwill (Continued)

The recoverable amount calculated based on value in use exceeded carrying value by HK$16,343,000. If the sales growth applied to the cash flow projection reduced to 3.0% for the year ending 31st December, 2019 and 2.5% for the years ending 31st December, 2020 and 2021, there would not be an impact on the carrying value of goodwill. If the estimated discount rate used in determining the recoverable amounts of cash generating units had been 2% higher than management's estimates as at 31st December, 2016, there would not be an impact on the carrying value of goodwill.

## 17. INVENTORIES

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Raw materials | 91,694 | 84,405 |
| Work in progress | 52,172 | 40,266 |
| Finished goods | 180,972 | 179,476 |
| | 324,838 | 304,147 |

The cost of inventories recognised as expense and included in "cost of sales" amounted to HK$797,933,000 (2015: HK$806,233,000).

## 18. FINANCIAL INSTRUMENTS BY CATEGORY

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| **Financial assets – loans and receivables** | | |
| Trade and other receivables | 253,823 | 244,319 |
| Pledged bank deposit | 136 | 138 |
| Cash and cash equivalents | 143,381 | 129,652 |
| | 397,340 | 374,109 |
| **Financial liabilities – other financial liabilities at amortised cost** | | |
| Trade and other payables and accruals | 191,687 | 160,453 |
| Bank borrowings | 1,363 | 138 |
| | 193,050 | 160,591 |

## 19. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Trade receivables | 217,472 | 234,715 |
| Less: Allowance for doubtful debts | (5,113) | (5,535) |
| | 212,359 | 229,180 |
| Prepayments | 22,018 | 23,587 |
| Deposits and other receivables | 41,464 | 15,139 |
| | 275,841 | 267,906 |

The carrying amounts of trade and other receivables and prepayments approximate their fair values.

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

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| 0 – 60 days | 170,310 | 198,207 |
| 61 – 90 days | 36,134 | 23,935 |
| More than 90 days | 5,915 | 7,038 |
| | 212,359 | 229,180 |

As of 31st December, 2016, trade receivables of HK$179,501,000 (2015: HK$190,646,000) were fully performing.

## 19. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS (Continued)

As of 31st December, 2016, trade receivables of HK$32,858,000 (2015: HK$38,534,000) were past due but not impaired. These relate to a number of independent customers for whom there is no significant financial difficulty and based on past experience, the overdue amounts can be recovered. The ageing analysis of these trade receivables is as follows:

| | **2016**<br>**HK$'000** | 2015<br>HK$'000 |
|---|---|---|
| 0 – 60 days | **28,178** | 32,732 |
| 61 – 90 days | **747** | 1,501 |
| More than 90 days | **3,933** | 4,301 |
| | **32,858** | 38,534 |

As of 31st December, 2016, trade receivables of HK$5,113,000 (2015: HK$5,535,000) were impaired. The individually impaired trade receivables have either been placed under liquidation or in severe financial difficulties.

The carrying amounts of the Group's trade and other receivables and prepayments are denominated in the following currencies:

| | **2016**<br>**HK$'000** | 2015<br>HK$'000 |
|---|---|---|
| HK$ | **81,273** | 6,725 |
| US$ | **155,646** | 234,674 |
| Other currencies | **38,922** | 26,507 |
| | **275,841** | 267,906 |

## 19. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS (Continued)

Movements in the Group's provision for impairment of trade receivables are as follows:

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| At 1st January | 5,535 | 4,690 |
| (Reversal of)/provision for impairment of trade receivables *(Note 26(a))* | (422) | 845 |
| At 31st December | 5,113 | 5,535 |

The other classes within trade and other receivables and prepayments do not contain impaired assets. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Group does not hold any collateral as security.

## 20. PLEDGED BANK DEPOSIT AND CASH AND CASH EQUIVALENTS

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Cash at bank and on hand | 143,381 | 129,652 |
| Denominated in: | | |
| HK$ | 27,544 | 8,229 |
| US$ | 77,629 | 112,318 |
| Other currencies | 38,208 | 9,105 |
| | 143,381 | 129,652 |

Cash at banks earns interest at floating rates based on daily bank deposit rates.

As at 31st December, 2016, HK$136,000 (2015: HK$138,000) is pledged deposit held at bank as collateral for serving for term loan provided by the bank.

## 21. SHARE CAPITAL

| | Number of shares (thousands) | Ordinary shares HK$'000 |
|---|---|---|
| **At 1st January, 2015, 31st December, 2015 and 2016** | 756,203 | 75,620 |

The total authorised number of ordinary shares is 1,000 million shares (2015: 1,000 million shares) with a par value of HK$0.1 per share (2015: HK$0.1 per share). All issued shares are fully paid.

None of the Company's subsidiaries purchased, sold or redeemed any of the Company's shares during the year.

## 22. RESERVES

### (i) Shareholders' contribution

The shareholders' contribution represented the deemed contribution arising from the loan from ultimate holding company which is non-current and interest-free.

### (ii) Other reserves

Other reserves mainly comprise statutory reserve in the PRC and Macau legal reserve.

## 23. DEFERRED INCOME TAX

Deferred income tax is calculated in full on temporary differences under the liability method using the applicable tax rates.

The following amounts, determined after appropriate offsetting, are shown in the consolidated statement of financial position:

| | **2016 HK$'000** | 2015 HK$'000 |
|---|---|---|
| Deferred tax liabilities | **663** | 859 |
| Deferred tax assets | **(6,220)** | (5,869) |
| | **(5,557)** | (5,010) |

## 23. DEFERRED INCOME TAX (Continued)

The movements in net deferred income tax (assets)/liabilities is as follows:

| | Accelerated tax depreciation HK$'000 | Tax losses HK$'000 | Allowance for doubtful debts HK$'000 | Others HK$'000 *(Note)* | Total HK$'000 |
|---|---|---|---|---|---|
| At 1st January, 2015 | (912) | (344) | (1,528) | (2,141) | (4,925) |
| (Credited)/debited to profit or loss *(Note 11)* | (359) | – | 93 | 181 | (85) |
| At 31st December, 2015 | (1,271) | (344) | (1,435) | (1,960) | (5,010) |
| (Credited)/debited to profit or loss *(Note 11)* | (1,467) | 195 | 1,045 | (320) | (547) |
| At 31st December, 2016 | (2,738) | (149) | (390) | (2,280) | (5,557) |

*Note:* The amount represents the temporary differences arising from deferred rent, accrued vacation and bonus in the subsidiaries operating in the United States.

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. As at 31st December, 2016, the Group had unrecognised tax losses of HK$9,686,000 (2015: HK$9,928,000) to be carried forward against future taxable income. The tax losses may be carried forward indefinitely.

## 24. TRADE AND OTHER PAYABLES AND ACCRUALS

Trade and other payables and accruals principally comprise amounts outstanding for trade purposes and daily operating costs.

| | **2016 HK$'000** | 2015 HK$'000 |
|---|---|---|
| Trade payables | **86,137** | 74,960 |
| Other payables and accruals | **105,550** | 85,493 |
| | **191,687** | 160,453 |

## 24. TRADE AND OTHER PAYABLES AND ACCRUALS (Continued)

The credit period taken for trade purchases is 30 to 60 days. The following is an aged analysis of trade payables based on the invoice date at the end of the reporting period:

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| 0 – 60 days | **55,110** | 55,843 |
| 61 – 90 days | **16,042** | 12,851 |
| More than 90 days | **14,985** | 6,266 |
| | **86,137** | 74,960 |

The carrying amounts of trade and other payables and accruals approximate their fair values.

The carrying amounts of the trade and other payables and accruals are denominated in the following currencies:

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| HK$ | **66,186** | 50,979 |
| US$ | **57,586** | 44,940 |
| Other currencies | **67,915** | 64,534 |
| | **191,687** | 160,453 |

## 25. BANK BORROWINGS

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Unsecured | **–** | – |
| Secured | **1,363** | 138 |
| | **1,363** | 138 |

At 31st December, 2015, the Group's bank borrowings were denominated in VND. At 31st December, 2016, the Group's bank borrowings were denominated in HK$ and VND and repayable within one year. The carrying value of the bank borrowings approximated its fair value.

## 25. BANK BORROWINGS (Continued)

As at 31st December, 2016, the effective interest rate of the bank borrowings was 4.9% (2015: 5.9%) per annum.

As at 31st December, 2016, a subsidiary of the Company provided floating charge on certain of its assets including property, plant and equipment, trade receivables and inventories which approximated to HK$229,000,000 (2015: HK$261,153,000) to a bank for banking facilities with credit limit of HK$33,150,000 (2015: HK$31,200,000) granted to it.

## 26. CONSOLIDATED STATEMENT OF CASH FLOWS

### (a) Net cash generated from operations

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Profit before taxation | **135,275** | 396,942 |
| Adjustments for: | | |
| Loss on disposal of property, plant and equipment *(Note (c))* | **6** | 18 |
| Interest income | **(26)** | (9) |
| Interest expenses | **22** | 280 |
| Depreciation of property, plant and equipment *(Note 14)* | **35,938** | 39,954 |
| Amortisation of leasehold land and land use rights *(Note 15)* | **481** | 497 |
| (Reversal of)/provision for impairment of trade receivables *(Note 19)* | **(422)** | 845 |
| Gain on disposal of a subsidiary *(Note (b))* | **–** | (220,200) |
| | **171,274** | 218,327 |
| Changes in working capital | | |
| (Increase)/decrease in inventories | **(18,919)** | 5,195 |
| Increase in trade and other receivables and prepayments | **(7,513)** | (74,789) |
| Increase in trade and other payables and accruals | **35,501** | 7,819 |
| Net cash generated from operations | **180,343** | 156,552 |

## 26. CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

### (b) Disposal of a subsidiary

There was no disposal of subsidiaries during the year ended 31st December, 2016.

On 2nd July, 2015, Shelcore Hong Kong Limited ("SHK"), a wholly-owned subsidiary of the Group which mainly held the land and building in Shenzhen, was disposed of to Shenzhen Shouxi Property Investment Development Company Limited, an independent third party. Consideration for the disposal is RMB272,000,000 (approximately HK$337,280,000), including RMB40,000,000 (approximately HK$49,566,000) cash and RMB232,000,000 (approximately HK$287,680,000) worth of residential properties to be delivered.

Management estimated that the fair value of the residential properties to be received is RMB150,000,000 (approximately HK$186,000,000) based on the valuation performed by RHL Appraisal Ltd, an independent valuer, on the fair value of the redevelopment land of approximately RMB190,000,000 (approximately HK$235,566,000) as at disposal date less cash consideration of RMB40,000,000 (approximately HK$49,566,000).

The residential properties to be received is classified as other non-current assets based on the fair value at the disposal date.

The estimated gain on the transaction was approximately HK$218,134,000 based on the fair value of the land of HK$235,566,000 after deduction of carrying amounts of assets and liabilities of SHK and related expenses of HK$2,066,000.

## 26. CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

### (b) Disposal of a subsidiary (Continued)

The gain on disposal of a subsidiary was as follows:

| | 2015 HK$'000 |
|---|---|
| Total consideration satisfied by: | |
| Cash consideration | 49,566 |
| Fair value of the residential properties to be received | 186,000 |
| | 235,566 |
| Less: | |
| Net assets disposed of: | |
| Property, plant and equipment *(Note 14)* | 14,496 |
| Leasehold land and land use rights *(Note 15)* | 870 |
| | 15,366 |
| Gain on disposal of interest in a subsidiary | 220,200 |
| Less: costs directly attributable to the disposal | 2,066 |
| Net gain on disposal of interest in a subsidiary | 218,134 |
| Net cash inflow in respect of the disposal of 100% interest in SHK | 49,566 |

(c) In the statement of cash flows, proceeds from sale of property, plant and equipment comprises:

| | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|
| Net book amount *(Note 14)* | 664 | 1,094 |
| Loss on disposal of property, plant and equipment *(Note 6)* | (6) | (18) |
| Proceeds from disposal of property, plant and equipment | 658 | 1,076 |

(d) During the years ended 31st December, 2016 and 2015, the tax paid comprised of the current year's tax paid and the tax paid in accordance with the settlement proposal agreed with the Hong Kong Inland Revenue Department in 2013 which was fully settled in current year.

## 27. CAPITAL COMMITMENTS

Capital expenditure contracted for at the end of the year but not yet incurred is as follows:

| | **2016** | 2015 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Property, plant and equipment | **10,795** | 677 |

## 28. CONTINGENT LIABILITIES

Matrix Resources Enterprise Limited, Keyhinge Enterprises (Macao Commercial Offshore) Co Ltd. and Maxguard Limited, subsidiaries of the Company (the "Subsidiaries"), are involved in a litigation related to the claims of fund transfer from Matrix Distribution Limited for no legitimate commercial purpose or justification.

As at 31st December, 2016, the legal claims was in progress and the results are uncertain. On the basis of legal advice obtained, the Directors are of the opinion that there was no present obligation to pay any claims arising from this litigation existed at the end of the reporting period. Therefore, no provision has been made in the financial statements at this stage in respect of these matters.

Subsequent to year end in late January 2017, parties involved in the litigation have decided to negotiate the settlement of claims in order to minimise the potential legal costs. Any settlements agreed between these parties are subject to the sanction from the High Court of Hong Kong. As of the date of this report, the court sanction is still outstanding.

## 29. OPERATING LEASE COMMITMENTS

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

| | **2016** | 2015 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| No later than 1 year | **16,050** | 17,819 |
| Later than 1 year and no later than 5 years | **23,551** | 35,899 |
| Later than 5 years | **12,901** | 12,268 |
| | **52,502** | 65,986 |

Operating lease payments represent rentals payable by the Group for its factory, office premises and showrooms. Leases are negotiated for a term of 8 to 20 years in respect of the factory premises and a term of 1 to 10 years for office premises, showrooms and retail shops. The rentals are fixed throughout the lease period.

## 30. RELATED PARTY TRANSACTIONS

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

In addition to those disclosed in the consolidated financial statements, there were no related party transactions that the Group entered into during the year.

### Key management compensation

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Salaries and other short-term employee benefits | 15,871 | 15,467 |
| Post-employment benefits | 349 | 315 |
| | 16,220 | 15,782 |

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

## 31. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the principal subsidiaries at 31st December, 2015 and 2016 are as follows:

| Name of subsidiary | Place of incorporation/ operation | Particulars of issued/ paid-in capital | Interest held | | Principal activities |
|---|---|---|---|---|---|
| | | | **2016 indirect** | 2015 indirect | |
| Funrise, Inc. | The United States | US$7,500 common shares | **100%** | 100% | Wholesale distribution and importation of toy and sales of accessories connected with its product ranges |
| Funrise Holdings, LLC | The United States | Note i | **100%** | 100% | Investment holding |
| Code 3 Collectibles LLC | The United States | Note i | **100%** | 100% | Dormant |
| Funrise Toys Limited | Hong Kong | HK$10,000 preference shares HK$90,000 ordinary shares HK$10,000 redeemable shares | **100%** | 100% | Wholesale distribution and importation of toy and sales of accessories connected with its product ranges |
| Keyhinge Enterprises (Macao Commercial Offshore) Company Limited | Macau | MOP100,000 quota capital | **100%** | 100% | Purchase and trading of toys |
| Matrix Manufacturing Vietnam Company Limited | Vietnam | US$5,951,000 contributed legal capital | **100%** | 100% | Manufacture of toys |
| Keyhinge Toys Vietnam Joint Stock Company | Vietnam | US$10,261,000 contributed legal capital | **100%** | 100% | Manufacture of toys and lighting products |
| Associated Manufacturing Vietnam Company Limited | Vietnam | US$10,000,000 issued US$9,008,000 fully paid contributed legal capital | **100%** | 100% | Manufacture of toys |
| Matrix Vinh Company Limited | Vietnam | US$4,849,000 contributed legal capital | **100%** | 100% | Manufacture of toys |

## 31. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Details of the principal subsidiaries at 31st December, 2015 and 2016 are as follows: (Continued)

| Name of subsidiary | Place of incorporation/ operation | Particulars of issued/ paid-in capital | Interest held | | Principal activities |
|---|---|---|---|---|---|
| | | | **2016 indirect** | 2015 indirect | |
| Mega Management Services Limited | Hong Kong | HK$10 ordinary shares | **100%** | 100% | Provision of management services |
| Matrix Plastic Manufacturing (Zhongshan) Co., Ltd. ("MPMZ") | PRC (Note ii) | US$5,910,000 registered capital | **100%** | 100% | Manufacture of toys |
| Matrix Lighting Limited | BVI | US$10 ordinary shares | **100%** | 100% | Trading of lighting products |
| Viribright Lighting Inc. | The United States | US$10,000 shares | **100%** | 100% | Trading of lighting products |

*Note i*: Funrise Holdings, LLC and Code 3 Collectibles LLC are limited liability corporations that have members who have ownership interests. There is no authorised or issued share capital.

*Note ii:* MPMZ is a wholly foreign owned enterprise.

Subsidiaries which do not materially affect the results or financial position of the Group are not included in the above.

## 32. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

### (a) Statement of financial position of the Company

| | Note | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Interests in subsidiaries | | **153,423** | 153,517 |
| **Current assets** | | | |
| Deposits and prepayments | | **4,151** | 433 |
| Amounts due from subsidiaries | | **426,718** | 426,718 |
| Cash and cash equivalents | | **257** | 52 |
| | | **431,126** | 427,203 |
| **Total assets** | | **584,549** | 580,720 |
| **Equity and liabilities** | | | |
| Capital and reserves attributable to owners of the Company | | | |
| Share capital | | **75,620** | 75,620 |
| Reserves | *(b)* | **315,642** | 352,263 |
| **Total equity** | | **391,262** | 427,883 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Other payables and accruals | | **3,447** | 1,511 |
| Amounts due to subsidiaries | | **189,840** | 151,326 |
| | | **193,287** | 152,837 |
| **Total liabilities** | | **193,287** | 152,837 |
| **Total equity and liabilities** | | **584,549** | 580,720 |

The statement of financial position of the Company was approved by the Board of Directors on 16th March, 2017 and was signed on its behalf.

| | |
|---|---|
| **Cheng Yung Pun** | **Yu Sui Chuen** |
| *Director* | *Director* |

## 32. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY (Continued)

### (b) Reserve movement of the Company

| | Share premium HK$'000 | Shareholders' contribution HK$'000 *(Note 22(i))* | Contributed surplus HK$'000 | Retained profits HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| Balance at 1st January, 2015 | 189,090 | 19,689 | 3,661 | 195,193 | 407,633 |
| Profit and total comprehensive income for the year | – | – | – | 20,250 | 20,250 |
| Dividends paid *(Note 12)* | – | – | – | (75,620) | (75,620) |
| Balance at 31st December, 2015 | 189,090 | 19,689 | 3,661 | 139,823 | 352,263 |
| Balance at 1st January, 2016 | 189,090 | 19,689 | 3,661 | 139,823 | 352,263 |
| Profit and total comprehensive income for the year | – | – | – | 95,715 | 95,715 |
| Dividends paid *(Note 12)* | – | – | – | (132,336) | (132,336) |
| Balance at 31st December, 2016 | 189,090 | 19,689 | 3,661 | 103,202 | 315,642 |

## 33. SUBSEQUENT EVENTS

In January 2017, the Group had acquired a company incorporated in the United Kingdom for the expansion of lighting business. In February 2017, the Group had entered into sales and purchase agreements to acquire a company incorporated in Taiwan and the patent rights for the expansion of lighting business.

# Financial Summary

For the year ended 31st December

| | 2012<br>HK$'000<br>(Restated) | 2013<br>HK$'000 | 2014<br>HK$'000 | 2015<br>HK$'000 | **2016**<br>**HK$'000** |
|---|---|---|---|---|---|
| **RESULTS** | | | | | |
| Turnover | 880,374 | 1,034,079 | 1,160,119 | 1,277,063 | **1,247,218** |
| Profit before taxation | 33,669 | 83,025 | 125,084 | 396,942 | **135,275** |
| Income tax credit/(expenses) | (3,043) | 15,021 | (7,186) | (9,069) | **(12,621)** |
| Profit for the year | 30,626 | 98,046 | 117,898 | 387,873 | **122,654** |
| **Attributable to:** | | | | | |
| The owners of the Company | 30,626 | 98,046 | 117,898 | 387,873 | **122,654** |
| Non-controlling interests | – | – | – | – | **–** |
| | 30,626 | 98,046 | 117,898 | 387,873 | **122,654** |
| | HK$ | HK$ | HK$ | HK$ | **HK$** |
| Earnings per share | | | | | |
| Basic | 0.04 | 0.13 | 0.16 | 0.51 | **0.16** |
| Diluted | 0.04 | 0.13 | 0.16 | 0.51 | **0.16** |

| **As at 31st December** | 2012<br>HK$'000<br>(Restated) | 2013<br>HK$'000 | 2014<br>HK$'000 | 2015<br>HK$'000 | **2016**<br>**HK$'000** |
|---|---|---|---|---|---|
| Total assets | 853,870 | 877,388 | 877,282 | 1,153,312 | **1,182,432** |
| Total liabilities | (342,705) | (260,101) | (199,676) | (168,407) | **(202,250)** |
| | 511,165 | 617,287 | 677,606 | 984,905 | **980,182** |
| Equity attributable to the owners of the Company | 511,165 | 617,287 | 677,606 | 984,905 | **980,182** |

*Note:* The restatement in 2012 is based on the management's estimation for the impact of the adoption of cost model of property, plant and equipment.

This annual report is published in both English and Chinese. Should any conflict regarding meaning arises, the English version shall prevail.