MATRIX HOLDINGS LIMITED
美力時集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 1005)

2016 INTERIM RESULTS ANNOUNCEMENT

RESULT HIGHLIGHTS

FINANCIAL HIGHLIGHTS

	Six months ended 30th June,		
	2016	2015	Changes
Revenue *(HK$'000)*	**590,679**	503,908	17.2%
Profit attributable to owners of the Company *(HK$'000)*	**50,690**	36,655	38.3%
Basic earnings per share *(HK cents)*	**7**	5	40.0%
Interim dividend, declared *(HK cents)*	**4.5**	4	12.5%
Gross profit margin ratio *(%)*	**33.7%**	33.9%	(0.2%)

The board (the "Board") of directors (the "Directors") of Matrix Holdings Limited (the "Company") announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30th June, 2016, together with the comparative figures for the corresponding period in 2015.

* *For identification purpose only*

The Group's consolidated revenue for the six months ended 30th June, 2016 increased by HK$86,771,000 or 17.2% to HK$590,679,000 from HK$503,908,000 for the corresponding period of last year. The profit attributable to the owners of the Company increased by HK$14,035,000 or 38.3% to HK$50,690,000 as compared with the profit of HK$36,655,000 of the corresponding period of last year.

During the period under review, in response to the ever-changing global market environment, the Group proactively implemented various strategies such as business diversification, creating synergies between its existing and potential business sector and seizing greater growth opportunities, so as to maintain long-term sales growth, it recorded an increase in sales. Benefiting from the increase in orders from a major customer of its original equipment manufacturing ("OEM") business in the United States (the "US"), the revenue growth of OEM business was higher than expected, which can offset the decrease of Original Design Manufacturing ("ODM") business resulted from the slowdown of year-on-year growth in the sales of cars and plush toys product. Therefore, the overall revenue of the Group increased.

Compared to the corresponding period of last year, the continued increase in minimum staff salaries had pushed up our spending on direct labour and the relevant costs, leading to higher manufacturing expenditure. However, the adoption of optimised production planning and inventory control measures by the Group has improved the production efficiency. As a result, the inventory turnover ratio has increased, which helped to accelerate cash inflow and in turn decrease interest expense. Meanwhile, the Group has made efforts to optimise its procurement strategy to further improve the production process, with an aim to reduce resource waste and lower the relevant cost, thereby relieving the adverse impact from dropping ODM business sales and higher production cost. In addition, the increase of the sales of OEM business has contributed to improving profit margin ratio for the Group. Overall, the Group recorded a growth in profit.

For the six months ended 30th June, 2016, the US continued to be the largest customer market of the Group, accounted for approximately 90.4% of the Group's total turnover (2015: 89.7%). The other significant customer markets for the Group included Europe, Australia and New Zealand and Canada, which accounted for approximately 1.8% (2015: 1.5%), 1.7% (2015: 3.3%) and 4.4% (2015: 3.6%) of the Group's total turnover respectively.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30th June, 2016

		Six months ended 30th June,	
		2016	2015
		HK$'000	*HK$'000*
	Note	**(Unaudited)**	(Unaudited)
Revenue	*4*	**590,679**	503,908
Cost of sales	*6*	**(391,390)**	(333,105)
Gross profit		**199,289**	170,803
Other income		**268**	640
Distribution and selling costs	*6*	**(62,214)**	(58,632)
Administrative expenses	*6*	**(73,535)**	(67,855)
Other losses	*6*	**(2,826)**	(1,131)
Research and development costs	*6*	**(9,929)**	(5,614)
Finance costs	*4*	**(5)**	(253)
Profit before taxation		**51,048**	37,958
Income tax expense	*5*	**(358)**	(1,303)
Profit for the period attributable to owners of the Company		**50,690**	36,655
Other comprehensive income			
Items that may be reclassified to profit or loss			
Currency translation differences		**3,889**	(2,384)
Other comprehensive income for the period, net of tax		**3,889**	(2,384)
Total comprehensive income for the period attributable to owners of the Company		**54,579**	34,271
Earnings per share for the period attributable to owners of the Company *(expressed in HK cents per share)*			
Basic	*8*	**7**	5
Diluted	*8*	**7**	5

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30th June, 2016

	Note	**30th June, 2016** *HK$'000* **(Unaudited)**	31st December, 2015 *HK$'000* (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	*9*	**137,006**	149,442
Leasehold land and land use rights	*10*	**13,078**	13,318
Intangible assets		**96,822**	96,822
Deferred tax assets		**5,869**	5,869
Pledged bank deposit		**138**	138
Other non-current assets		**186,000**	186,000
		438,913	451,589
Current assets			
Inventories		**283,222**	304,147
Trade and other receivables and prepayments	*11*	**183,309**	267,906
Tax recoverable		**3,558**	18
Cash and cash equivalents		**163,481**	129,652
		633,570	701,723
Total assets		**1,072,483**	1,153,312

	Note	30th June, 2016 HK$'000 (Unaudited)	31st December, 2015 HK$'000 (Audited)
EQUITY			
Capital and reserves attributable to the owners of the Company			
Share capital	*13*	**75,620**	75,620
Reserves		**865,558**	909,285
Total equity		**941,178**	984,905
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities		**868**	859
Bank borrowings		**35**	69
		903	928
Current liabilities			
Trade and other payables and accruals	*12*	**129,963**	160,453
Tax payable		**370**	6,957
Bank borrowings		**69**	69
		130,402	167,479
Total liabilities		**131,305**	168,407
Total equity and liabilities		**1,072,483**	1,153,312

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30th June, 2016

1. GENERAL INFORMATION

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

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

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

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

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

This condensed consolidated interim financial information was approved for issue on 25th August, 2016.

This condensed consolidated interim financial information has not been audited.

2. BASIS OF PREPARATION

The unaudited condensed consolidated interim financial information for the six months ended 30th June, 2016 has been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The unaudited condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31st December, 2015, which have been prepared in accordance with Hong Kong Financial Reporting Standard ("HKFRS").

3. PRINCIPAL ACCOUNTING POLICIES

The accounting policies applied to this condensed consolidated interim financial information are consistent with those of the annual financial statements for the year ended 31st December, 2015 as described in those annual financial statements except that income tax is accrued using the tax rate that would be applicable to expected total annual earnings.

(a) The following amendments to standards and annual improvements are mandatory 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 Group has adopted these standards and the adoption of these standards did not have significant impacts on the Group's results and financial position.

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

(b) The following new standards, amendments to standards and annual improvement have been issued but are not effective for the financial year beginning 1st January, 2016 and have not been early adopted by the Group:

		Effective for accounting period beginning on or after
HKFRS 10 and HKAS 28 (Amendment)	Sale and contribution of assets between an investor and its associate or joint venture	To be determined by HKICPA
HKFRS 9	Financial instruments	1st January, 2018
HKFRS 15	Revenue from contracts with customers	1st January, 2018
HKFRS 16	Leases	1st January, 2019

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

4. SEGMENT INFORMATION

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

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

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

Assets of reportable segments exclude property, plant and equipment, intangible assets, deferred 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 condensed consolidated statement of financial position.

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

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

Segment revenue and results

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

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

	The United States *HK$'000*	Canada *HK$'000*	Europe *HK$'000*	South America *HK$'000*	Australia and New Zealand *HK$'000*	Mexico *HK$'000*	Other locations *HK$'000*	Unallocated *HK$'000*	Consolidated *HK$'000*
Revenue									
External sales	**533,974**	**25,968**	**10,431**	**3,566**	**10,324**	**1,709**	**4,707**	**–**	**590,679**
Results									
Segment profit/(loss)	**104,556**	**3,109**	**(1,967)**	**506**	**(4)**	**243**	**(785)**	**–**	**105,658**
Unallocated income									**18**
Unallocated expenses									**(54,623)**
Finance costs									**(5)**
Profit before taxation									**51,048**
Taxation									**(358)**
									50,690
Other segment information:									
Depreciation and amortisation	**13,844**	**673**	**270**	**92**	**268**	**44**	**122**	**2,948**	**18,261**

For the six months ended 30th June, 2015 (unaudited)

	The United States *HK$'000*	Canada *HK$'000*	Europe *HK$'000*	South America *HK$'000*	Australia and New Zealand *HK$'000*	Mexico *HK$'000*	Other locations *HK$'000*	Unallocated *HK$'000*	Consolidated *HK$'000*
Revenue									
External sales	452,121	18,054	7,468	3,456	16,721	2,487	3,601	–	503,908
Results									
Segment profit/(loss)	83,756	2,430	(1,327)	532	1,138	326	(747)	–	86,108
Unallocated income									200
Unallocated expenses									(48,097)
Finance costs									(253)
Profit before taxation									37,958
Taxation									(1,303)
									36,655
Other segment information:									
Depreciation and amortisation	15,613	623	258	119	577	86	124	3,528	20,928

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

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

Segment assets and liabilities

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

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

At 31st December, 2015 (Audited)	The United States *HK$'000*	Canada *HK$'000*	Europe *HK$'000*	South America *HK$'000*	Australia and New Zealand *HK$'000*	Mexico *HK$'000*	Other locations *HK$'000*	Consolidated *HK$'000*
ASSETS								
Segment assets	483,121	18,409	11,358	2,607	12,234	4,673	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	4,123	983	529	2,967	761	12,606	104,296
Unallocated and other corporate liabilities								64,111
Total liabilities								168,407

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

Other segment information

No analysis of capital expenditures, depreciation, amortisation of leasehold land and land use rights and amortisation of intangible assets is disclosed for both 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

	Six months ended 30th June,	
	2016	2015
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Toys	**579,582**	494,424
Lighting products	**11,097**	9,484
	590,679	503,908

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:

	30th June,	31st December,
	2016	2015
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Hong Kong	**729**	470
Vietnam	**79,564**	92,120
The United States	**12,823**	13,741
The PRC	**241,893**	241,076
Other countries	**1,213**	1,491
	336,222	348,898

Information about major customers

For the period ended 30th June, 2016, there are 2 customers (2015: 2 customers) in the United States with revenue contributing to approximately 55.6% and 21.4% (2015: 43.0% and 29.8%), respectively, of the total revenue of the Group. There is no other single customer contributing over 10% of the total revenue of the Group.

5. INCOME TAX EXPENSE

	Six months ended 30th June,	
	2016	2015
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Current tax:		
Hong Kong	**100**	163
Other jurisdictions	**792**	1,023
	892	1,186
(Over)/under-provision in prior years		
Hong Kong	**–**	–
Other jurisdictions	**(534)**	117
	(534)	117
Income tax expense	**358**	1,303

(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 period. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

(ii) The applicable tax rates for subsidiaries operate in Vietnam is 7.5% to 22% for the period ended 30th June, 2016 (2015: 7.5% to 22%).

(iii) The applicable US enterprise income tax rate for subsidiaries operate in the United States of America is 34% (2015: 34%) since the date of operation.

6. EXPENSES BY NATURE

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

	Six months ended 30th June,	
	2016	2015
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Auditor's remuneration	**2,720**	2,133
Depreciation of property, plant and equipment	**18,021**	20,704
Operating lease rental in respect of buildings	**11,973**	10,281
Amortisation of leasehold land and land use rights	**240**	224
Net exchange loss	**2,826**	1,131

7. DIVIDEND

A dividend of HK$98,306,000 that relates to the year ended 31st December, 2015 was paid in May 2016 (2015: HK$45,372,000).

On 25th August, 2016, the board of directors has resolved to declare an interim dividend of HK4.5 cents per share (2015: HK4 cents per share), which is payable on 20th September, 2016 to shareholders who are on the register at 12th September, 2016. This interim dividend has not been recognised as a liability in this interim financial information. It will be recognised in shareholders' equity in the year ending 31st December, 2016.

8. EARNINGS PER SHARE

(a) Basic

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

	Six months ended 30th June,	
	2016	2015
	(Unaudited)	(Unaudited)
Profit attributable to owners of the Company *(HK$'000)*	**50,690**	36,655
Weighted average number of ordinary shares in issue *(thousands)*	**756,203**	756,203
Basic earnings per share attributable to equity holders of the Company *(HK cents)*	**7**	5

(b) Diluted

Dilutive earnings per share is of the same amount as the basic earnings per share as there were no potential dilutive ordinary shares outstanding during the period.

9. PROPERTY, PLANT AND EQUIPMENT

	(Unaudited)
	HK$'000
Six months ended 30th June, 2016	
Net book value as at 1st January, 2016	**149,442**
Additions	**5,155**
Depreciation	**(18,021)**
Exchange realignment	**430**
Net book value as at 30th June, 2016	**137,006**

	(Unaudited) *HK$'000*
Six months ended 30th June, 2015	
Net book value as at 1st January, 2015	187,469
Additions	5,657
Depreciation	(20,704)
Exchange realignment	(1,330)
Transfer to non-current assets classified as held for sale *(Note)*	(14,496)
Net book value as at 30th June, 2015	156,596

Note:

On 2nd July, 2015, Shelcore Hong Kong Limited ("SHK"), an indirect wholly-owned subsidiary of the Group which mainly held the land and building in Shenzhen, was disposed to Shenzhen Shouxi Property Investment Development Company Limited, an independent third party.

10. LEASEHOLD LAND AND LAND USE RIGHTS

	(Unaudited) *HK$'000*
Six months ended 30th June, 2016	
Net book value as at 1st January, 2016	**13,318**
Amortisation	**(240)**
Net book value as at 30th June, 2016	**13,078**
Net book value as at 1st January, 2015	14,685
Amortisation	(224)
Transfer to non-current assets classified as held for sale *(Note)*	(870)
Net book value as at 30th June, 2015	13,591

Note:

On 2nd July, 2015, SHK, an indirect wholly-owned subsidiary of the Group which mainly held the land and building in Shenzhen, was disposed to Shenzhen Shouxi Property Investment Development Company Limited, an independent third party.

11. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	30th June, 2016	31st December, 2015
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade receivables	**144,109**	234,715
Less: allowance for doubtful debts	**(9,578)**	(5,535)
	134,531	229,180
Other receivables, deposit and prepayments	**48,778**	38,726
	183,309	267,906

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

	30th June, 2016	31st December, 2015
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
0 – 60 days	**107,106**	198,207
61 – 90 days	**24,730**	23,935
> 90 days	**2,695**	7,038
	134,531	229,180

12. TRADE AND OTHER PAYABLES AND ACCRUALS

	30th June, 2016	31st December, 2015
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade payables	**50,726**	74,960
Other payables and accruals	**79,237**	85,493
	129,963	160,453

At 30th June, 2016 and 31st December, 2015, the ageing analysis of the trade payables based on invoice date was as follows:

	30th June, 2016	31st December, 2015
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
0 – 60 days	**41,548**	55,843
61 – 90 days	**3,582**	12,851
> 90 days	**5,596**	6,266
	50,726	74,960

13. SHARE CAPITAL

	Ordinary shares of HK$0.1 each	
	Number of shares	**Share capital**
	(in thousands)	***HK$'000***
Ordinary shares, issued and fully paid:		
At 1st January, 2016 and 30th June, 2016	**756,203**	**75,620**
At 1st January, 2015 and 30th June, 2015	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.

14. CONTINGENT LIABILITIES

Matrix Resources Enterprise Limited, Keyhinge Enterprises (Macao Commercial Offshore) Company Limited 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 ("MDL") for no legitimate commercial purpose or justification. The directors considered that these fund transfers are having commercial substance given these Subsidiaries are the suppliers and service providers of MDL.

As at 30th June, 2016, on the basis of legal advice obtained, the directors are of the opinion that the Subsidiaries have good prospects of defending these claims and the legal proceedings are unlikely to result in any material outflow of economic benefits from the Group. In consequence, no provision has been made in the financial statements at this stage in respect of these matters.

MANAGEMENT DISCUSSION & ANALYSIS

BUSINESS REVIEW

To sustain the business growth in the long run, the Group continued to enhance the development of its core business by adopting the constant strategy to broaden the product range of toys, while complementing with measures such as exploring business opportunities in promotion activities for toys, building up and increasing sales channels, developing own brand products, and exploring sales opportunities in the global market. In relation to cost control, the Group streamlined the production and operational procedures to enhance the efficiency and implemented various cost reduction measures. The steady and sound performance of the Group was mainly attributable to the growing revenue driven by the OEM business to date, and the long-term partnership with famous customers including the owners and franchise users of globally well-renowned characters. There was a boost in the sales of outdoor games products including "Gazillion ® Bubbles" bubble products series and other products such as "girls role-playing", offsetting the effects of the decrease in sales of products under authorised licensing brands such as cars under "TONKA" and the plush toys products under "My Little Pony" caused by the slowdown of year-on-year growth. Furthermore, the Group has actively complied with the government requirements on toy safety, the Group also focuses on quality and design to improve product value.

Manufacturing operation

With an aim to achieve sustainable growth by more efficient method through resources consolidation, the Group maintains its main production base in Vietnam where advantages remain in terms of relatively lower labour costs and production costs, abundant workforce and less volatility on currency exchange rate. The Group has established four plants in Vietnam to manufacture all our Group's products in order to achieve greater economies of scale and higher operational efficiency, so as to reduce our production costs. The Group also proceeds to plant integration with an aim of capacity expansion and improving its resources allocation, which enables it to sustain the capacity increase of its plants in Vietnam. During the last year, the Group sold its plant in Shenzhen which had been left unused and suspended from operation. As the purchaser intended to acquire the property for re-development, the property disposal came as a great opportunity for the Group to realise a gain. In addition, the right of purchase as part of the consideration would allow the Group to exchange for certain units in the residential properties at the fixed price after its open for sale, which would enable the Group to diversify its investments and broaden the asset base and income stream of the Group.

The US government has made multiple efforts to improve the safety of imported consumables, such as formally enforcing the Consumer Product Safety Improvement Act ("CPSIA"). To cope with such increasing concerns from overseas markets on product safety and environmental protection, the Group continued to learn and to adopt more effective methods and techniques to maintain product quality and safety, and pay close attention and monitor the changes in safety standards and regulations in different markets to ensure compliance with the new requirements.

Segment performance

Under the complicated macroeconomic environment, last year was one of the years that the United States toy's retail amount recorded strong year-on-year increase, despite of the fluctuation in the global economic growth. Thanks to the remaining positive impacts of continuous recovery, together with European Union's ("EU") improving employment, easing credit as well as sustainable financial budget and foreign debt, the short-term growth prospect of most highly indebted EU countries also seem to take a favourable turn. The Group's two-pronged strategy has proven effective in maintaining growth in both the scale of business and profitability. In business development, OEM based business has become an established platform that helps consolidate stable income, and the partnership with the world's top toy companies also produces growth impetus. But it is still insufficient to push the sales growth during the review period.

The United States ("US")

The US was still a major export market for the Group's products. Our turnover increased by HK$81,853,000 or 18.1% to HK$533,974,000 in the first half of this year from HK$452,121,000 for the corresponding period last year. The growth of the OEM business offset the decrease in the sales of the ODM business. The overall turnover increased.

The US economy continues to gain strong momentum. Though the economic growth slowed due to the slowdown of private investment and exports in the third quarter of last year, many departments of the US government still anticipate that the US economy will soon enter its best period for more than a decade. Meanwhile, positive factors such as falling energy prices, moderate inflation, less fiscal burden and improved financial position of families, companies and banks as well as the improved real estate market conditions are expected to support a satisfactory performance. The unemployment rate of the US expected to further decline from the end of previous year. Factors such as the stronger US dollar, the expected increase of interest rate and the continued tensions of geopolitical situation in Eastern Europe and the Middle East would also bring adverse effect. To summarise, the US economic growth may accelerate. As a result, the sales in the US remain optimistic.

Despite one mass-market retailer placed less orders to the Group in spring, which led to a decrease in the product sales of "TONKA", the outdoor play "Gazillion ® Bubbles" bubble products and "girls role-playing", the total sales in US remained strong due to the products of "TONKA", "Gazillion ® Bubbles" and "girls role-playing" were still on the shelves of all the top retailers. Coupled with that the increase of sales of OEM products have offset the impact from the slight fall of sales in the ODM business this year due to the expansion in previous years, and the decrease in sales of lighting products resulted from modification in product specifications, the total turnover in the US market still recorded an increase. The Group will strive to maintain authorised licensing business for major brand, 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 HK$7,914,000 or 43.8% to HK$25,968,000 in the first half of this year from HK$18,054,000 for the corresponding period last year.

Despite the sluggish growth of global economy and the drop in oil and commodity prices, Canada's economic outlook remained positive. As the US economy picked up, employment continued to improve, and investment and manufacturing activities started to recover, the consumer demand has been boosted. Due to Canada's sound banking and financial systems and the favourable impact of weakening Canadian dollar, export in non-commodity related industries has kept growing, which continued to offer support to its domestic enterprises and consumers. However, with the end of quantitative easing in the US, the uncertain global financial market remains the biggest problem for Canada to achieve economic growth. Nevertheless, given the US economy picking-up and commodity prices stabilised, Canada's economy is expected to grow. In general, our turnover in the Canadian market recorded an increase mainly due to the increase of the retail sales of "girls role-playing" products series in mass-market. The Group will strive to retain its existing distributors and clients, including Wal-Mart, Toys "R" US and Costco.

Europe

Our turnover in Europe increased by HK$2,963,000 or 39.7% to HK$10,431,000 in the first half of this year from HK$7,468,000 for the corresponding period last year.

Most EU countries with massive debts also saw a turnaround in the short-term growth prospects due to improving employment and easing credit conditions as well as the fiscal budget and foreign debt being at an easily maintainable level. EU countries have implemented actions to correct macroeconomic imbalances and to carry out economic reforms. Supported by favorable factors such as a weaker European dollar and the loose monetary policy and fiscal stance adopted by the European Central Bank, the Gross Domestic Product (GDP) of the EU in 2016 is expected to achieve growth. Consumption expenditure is picking up after years of austerity measures, and good financing conditions have facilitated investments, both of which will continue to be key drivers of the economy. Nevertheless, what remain the major downside risks are high unemployment rate, deflationary pressure, debt reduction measures, volatility resulted from Brexit, and unstable geopolitical conditions, including the continuous mutual sanctions between the EU and Russia, and the influx of refugees from the Middle East, as well as refugee problems and Greece debt crisis and political crisis.

With the squeezed profit margins from European and Russian clients, the Group faced increasing difficulties in boosting sales in the European market. Our sales from Finland, Estonia, Romania, Poland and France recorded a decrease, while sales from Denmark, Ukraine, Italy and the United Kingdom (“UK”) recorded an increase. And the increase from the UK has offset the decrease from the above countries. The Group is currently allowed to sell “TONKA” products within Europe and is focusing on orders of “TONKA” products and the bubble products of self-owned brands such as “Gazillion ® Bubbles”. In addition, our sales of lighting products slightly increased and our total turnover in the European market recorded an increase.

Mexico

Our turnover in the Mexican market decreased by HK$778,000 or 31.3% to HK$1,709,000 in the first half of this year from HK$2,487,000 for the corresponding period last year.

Given a close relationship between Mexico and the US, the Mexican economy has clearly benefited from the continuous recovery of the US economy. In addition, considering the benefits from structural reforms which are expected to emerge gradually and the favorable economic trend of the US, the Mexican economy is expected to expand again this year. However, given the structural weakness of public finance, the government maintains its austerity measures. Overall, the order demands for “TONKA” and other products remained stable, plus the decreased sales of lighting products affected by the modification of product specifications, 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 HK$6,397,000 or 38.3% to HK$10,324,000 in the first half of this year from HK$16,721,000 for the corresponding period last year.

Due to the fact that Australian economic growth was lower than the average level and its unemployment rate remained high, Australia has lowered interests rate in the beginning of this year in order to stimulate borrowing and consumption. Despite the month-on-month increase of retail sales, the department stores recorded a fall in retail sales on a monthly basis. Accordingly, orders from one of our major customers have decreased, which led to the decrease in order demands for "TONKA" and plush products. Coupled with the decreased sales of lighting products, a decrease was recorded in the total turnover in the Australia and New Zealand markets. The Group will continue its efforts to maintain its existing distributors and clients such as Big W and Target, etc.

South America

Our turnover in South American market increased by HK$110,000 or 3.2% to HK$3,566,000 in the first half of this year from HK$3,456,000 for the corresponding period last year.

South America has not benefited much from the strong recovery of the US economy, and it also faced a strong headwind caused by the unstable global economy which led to the decrease of export demands for metals and agricultural commodities. Its economic difficulty could be reflected more clearly by the investment slowdown and decline in this region since previous year. In addition to the deteriorating external business environment, this region was also affected by numbers of internal issues. The sales from Panama, Bolivia, Costa Rica, Honduras and Ecuador all recorded decline with Chile and Argentina as an exception. Chile's economic prospect is relatively optimistic due to the implementation of various reform plans which is expected to benefit our business within this country. However, our total turnover in the South American markets still remained flat as a whole, due to the decreasing orders affected by economic condition and the flat sales of lighting products.

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 controlling group 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.

PROSPECTS

It is expected that the recovery of the global economy will be sluggish, but the US economy will still maintain stable growth. Considering the foreseeable issues that include geopolitical issues, fluctuating oil prices and currency exchange rates, our business still shall require proactive measures of reform. Nevertheless, as one of the world's largest toy markets as well as the Group's major market, US is expected to maintain the uptrend of economy growth and experience stable economic growth. The Group will continue developing its ODM business and expanding the distribution network and market share of its OBM business, in order to provide its clients with innovative products under the brands of "Gazillion ® Bubbles", "TONKA" and "My Little Pony", cope with an ever-changing global environment and achieve long-term and sustainable growth of revenue. The Group remains cautiously optimistic about its prospects and will strive to capture potential business opportunities in carrying out its strategies already mapped out. By drawing on the momentum of economic recovery, the Group will, based on its solid business foundation, continue its efforts to explore more cooperation opportunities across different regions and product categories, with a focus on expanding its international distribution and market share in Canada, Britain and Australia. The Group will also explore more co-operative opportunities across different regions and product categories to boost sales growth. In response to the modification of lighting-product specifications, lighting products business will be adjusted progressively to support the sales of the products of new specifications, and the Group expects the sales of the products of new specifications will improve accordingly. Nowadays, the toy industry is still undergoing consolidation with many players relocating their facilities to overseas for production at a lower cost to meet the market demand. However, as one of the pioneers in the industry, the Group is well positioned to offer products on a cost effective basis and capture surplus orders by leveraging its strong production base in Vietnam established through efforts made over the past decade. It is expected that our Group will further enlarge its market share in the near future.

FINANCIAL REVIEW

Revenue

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

Gross profit

The Group's gross profit increased to approximately HK$199,289,000 as at 30th June, 2016 due to the increase in revenue. The decrease in primary raw material costs offsets the increase in other material costs and the direct labour cost.

Distribution and selling costs

Distribution and selling costs increased to approximately HK$62,214,000 as at 30th June, 2016. The increase in distribution and selling costs was mainly attributable to the increase in advertising cost in order to promote and publicise the 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 by approximately HK$5,680,000 compared to same period last year was attributable to the increase in office rental, salary and warehouse expenses.

Finance costs and income tax

Finance costs of the period under review was approximately HK$5,000 and income tax expense of this period decreased to approximately HK$358,000 as compared to last corresponding period.

Research and development cost

Research and development cost increased by approximately HK$4,315,000 in order to enhance the lighting and creative toys products for the expansion and continued growth of business.

Trade and other receivables and prepayments

Trade and other receivables and prepayments decreased by approximately HK$84,597,000 to approximately HK$183,309,000 for this period as compared to last year. It was resulted from proper monitoring of accounts receivables collection.

Trade and other payables and accruals

Trade and other payables and accruals decreased by approximately HK$30,490,000 to approximately HK$129,963,000 for this period as compared to last year. It was mainly due to the account payables function was well controlled to prevent the long outstanding payment.

Quick ratio

During the period, the quick ratio improved, mainly due to the improvement in the Group's liquidity.

Current ratio

During the period, the current ratio improved, mainly due to the improvement in the Group's liquidity.

Financial position and cash flows review

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

Liquidity and financial resources

As at 30th June, 2016, the Group had cash and cash equivalents of approximately HK$163,481,000 (31st December, 2015: HK$129,652,000) and pledged bank deposit of approximately HK$138,000 (31st December, 2015: HK$138,000) secured for bank loans. As at 30th June, 2016, the Group obtained banking facilities in a total of approximately HK$151,200,000 (31st December, 2015: HK$151,200,000) of which HK$120,000,000 was supported by corporate guarantee and HK$31,200,000 was secured with floating charge on certain assets of the Group.

As at 30th June, 2016, the Group had bank borrowings of approximately HK$104,000 (31st December, 2015: HK$138,000). The Group's gearing ratio, representing the total debt divided by equity attributable to owners of the Company, was 0.01% (31st December, 2015: 0.01%).

During the period, net cash generated from operating activities amounted to approximately HK$137,314,000 (31st December, 2015: net cash generated from operating activities 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 period, the Group acquired property, plant and equipment at a cost of approximately HK$5,155,000 (31st December, 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.

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.

Assets and liabilities

At 30th June, 2016, the Group had total assets of approximately HK$1,072,483,000 (31st December, 2015: HK$1,153,312,000), total liabilities of approximately HK$131,305,000 (31st December, 2015: HK$168,407,000) and equity attributable to owners of the Company of approximately HK$941,178,000 (31st December, 2015: HK$984,905,000). The net assets of the Group decreased by 4.4% to approximately HK$941,178,000 as at 30th June, 2016 (31st December, 2015: HK$984,905,000).

EXCHANGE RATE RISK

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

NUMBER OF EMPLOYEES AND REMUNERATION POLICIES

As at 30th June, 2016, the Group had a total of approximately 14,200 (31st December, 2015: 14,600) employees in Hong Kong, Macau, the PRC, Vietnam, Australia, Canada, the US and Europe. The Group provides its employees with competitive remuneration packages commensurate to the level of pay established by the market trend in comparable businesses. A share option scheme was adopted for selected participants (including full-time employees) as incentives or rewards for their contributions to the business and operation of the Group. A mandatory provident fund scheme and respective local retirement scheme also had been set up by our Group.

INTERIM DIVIDEND

The Directors had resolved to declare an interim dividend of HK4.5 cents (2015: HK4 cents in cash) per share for the six months ended 30th June, 2016, payable to shareholders whose names appear on the Register of Members of the Company on 12th September, 2016.

The record date for the purpose of determining the shareholders which are entitled to dividend is 12th September, 2016. In order to qualify for the interim dividend, all transfers and relevant share certificates must be lodged with the Company's Branch Share Registrar in Hong Kong, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:00 p.m. on 12th September, 2016. The interim dividend will be paid on or around 20th September, 2016.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the six months ended 30th June, 2016, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares.

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

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

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

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

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

OTHER REQUIRED DISCLOSURE PURSUANT TO RULE 13.18 OF THE LISTING RULES

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 25th January, 2016 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.

REVIEW OF INTERIM RESULTS

The unaudited interim results for the six months ended 30th June, 2016 have been reviewed by the Audit Committee, who are of the opinion that these interim results comply with applicable accounting standard and legal requirements, and that adequate disclosures have been made.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This results announcement is published on the website of Hong Kong Exchanges and Clearing Limited and the Company. The 2016 Interim Report of the Company will be dispatched to the shareholders of the Company as well as published on the website of the Hong Kong Exchanges and Clearing Limited and the Company in due course.

BOARD COMPOSITION

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

By Order of the Board
Cheng Yung Pun
Chairman

Hong Kong, 25th August, 2016