

MATRIX

Matrix Holdings Limited
美力時集團有限公司

(Incorporated in Bermuda with limited liability)

Stock Code : 1005



Interim 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**



Corporate Information

BOARD OF DIRECTORS

Executive Directors

Cheng Yung Pun (*Chairman*)
Arnold Edward Rubin (*Vice-Chairman*)
Cheng Wing See, Nathalie
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)



Result Highlights

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

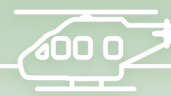
The board (the "Board") of directors (the "Directors") of Matrix Holdings Limited (the "Company") announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30th June, 2016, together with the comparative figures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

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	6	590,679	503,908
Cost of sales	8	(391,390)	(333,105)
Gross profit		199,289	170,803
Other income		268	640
Distribution and selling costs	8	(62,214)	(58,632)
Administrative expenses	8	(73,535)	(67,855)
Other losses	8	(2,826)	(1,131)
Research and development costs	8	(9,929)	(5,614)
Finance costs	6	(5)	(253)
Profit before taxation		51,048	37,958
Income tax expense	7	(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	10	7	5
Diluted	10	7	5

The notes on pages 7 to 19 form an integral part of this condensed consolidated financial information.



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	11	137,006	149,442
Leasehold land and land use rights	12	13,078	13,318
Intangible assets	13	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	14	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
EQUITY			
Capital and reserves attributable to the owners of the Company			
Share capital	16	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	17	35	69
		903	928
Current liabilities			
Trade and other payables and accruals	15	129,963	160,453
Tax payable		370	6,957
Bank borrowings	17	69	69
		130,402	167,479
Total liabilities		131,305	168,407
Total equity and liabilities		1,072,483	1,153,312

The notes on pages 7 to 19 form an integral part of this condensed consolidated financial information.



Condensed Consolidated Statement of Changes in Equity

For the six months ended 30th June, 2016

	(Unaudited)						
	Attributable to owners of the Company						
	Share capital HK\$'000	Share premium HK\$'000	Shareholders' contribution HK\$'000 (Note a)	Other reserves HK\$'000 (Note b)	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 period	-	-	-	-	-	50,690	50,690
Other comprehensive income							
Currency translation differences	-	-	-	-	3,889	-	3,889
Total other comprehensive income, net of tax	-	-	-	-	3,889	-	3,889
Total comprehensive income	-	-	-	-	3,889	50,690	54,579
Total contribution by and distributions to owners of the Company, recognised directly in equity							
Dividends paid (note 9)	-	-	-	-	-	(98,306)	(98,306)
	-	-	-	-	-	(98,306)	(98,306)
Balance at 30th June, 2016	75,620	189,090	21,028	(150)	(46,104)	701,694	941,178

	(Unaudited)						
	Attributable to owners of the Company						
	Share capital HK\$'000	Share premium HK\$'000	Shareholders' contribution HK\$'000 (Note a)	Other reserves HK\$'000 (Note b)	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 period	-	-	-	-	-	36,655	36,655
Other comprehensive income							
Currency translation differences	-	-	-	-	(2,384)	-	(2,384)
Total other comprehensive income, net of tax	-	-	-	-	(2,384)	-	(2,384)
Total comprehensive income	-	-	-	-	(2,384)	36,655	34,271
Total contribution by and distributions to owners of the Company, recognised directly in equity							
Dividends paid (note 9)	-	-	-	-	-	(45,372)	(45,372)
	-	-	-	-	-	(45,372)	(45,372)
Balance at 30th June, 2015	75,620	189,090	21,028	(150)	(47,423)	428,340	666,505

Notes:

- The shareholders' contribution represented the deemed contribution arising from the loan from ultimate holding company which is non-current and interest-free.
- Other reserves mainly comprise statutory reserve in People's Republic of China (the "PRC") and Macau legal reserve.

The notes on pages 7 to 19 form an integral part of this condensed consolidated financial information.



Condensed Consolidated Statement of Cash Flows

For the six months ended 30th June, 2016

	Six months ended 30th June,	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
NET CASH GENERATED FROM OPERATING ACTIVITIES	137,314	52,591
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(5,155)	(5,657)
Interest received	10	3
Deposit received from the disposal of a subsidiary	–	49,566
NET CASH (USED IN)/GENERATED FROM INVESTING ACTIVITIES	(5,145)	43,912
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(98,306)	(45,372)
Repayments of bank borrowings	(34)	(77,117)
New bank borrowings raised	–	51,759
NET CASH USED IN FINANCING ACTIVITIES	(98,340)	(70,730)
NET INCREASE IN CASH AND CASH EQUIVALENTS	33,829	25,773
CASH AND CASH EQUIVALENTS AT 1ST JANUARY	129,652	68,417
CASH AND CASH EQUIVALENTS AT 30TH JUNE	163,481	94,190

The notes on pages 7 to 19 form an integral part of this condensed consolidated financial information.



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



Notes to the Condensed Consolidated Financial Information (Continued)

For the six months ended 30th June, 2016

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

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. ESTIMATES

The preparation of interim financial information requires the management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31st December, 2015, with the exception of changes in estimates that are required in determining the provision for income taxes.



Notes to the Condensed Consolidated Financial Information (Continued)

For the six months ended 30th June, 2016

5. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The interim condensed consolidated financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31st December, 2015.

There have been no significant changes in the risk management policies since year end.

5.2 Liquidity risk

Compared to year ended 31st December, 2015, there was no material change in the contractual undiscounted cash outflows for financial liabilities.

5.3 Fair value of financial assets and liabilities measured at amortised cost

The fair value of the following financial assets and liabilities approximate their carrying values:

- Trade and other receivables and prepayments
- Trade and other payables and accruals
- Bank borrowings
- Cash and cash equivalents

6. 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.



Notes to the Condensed Consolidated Financial Information (Continued)

For the six months ended 30th June, 2016

6. SEGMENT INFORMATION (CONTINUED)

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 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.



Notes to the Condensed Consolidated Financial Information (Continued)

For the six months ended 30th June, 2016

6. SEGMENT INFORMATION (CONTINUED)

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.



Notes to the Condensed Consolidated Financial Information (Continued)

For the six months ended 30th June, 2016

6. SEGMENT INFORMATION (CONTINUED)

Revenue from major products

	Six months ended 30th June,	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (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 HK\$'000 (Unaudited)	2015 HK\$'000 (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.



Notes to the Condensed Consolidated Financial Information (Continued)

For the six months ended 30th June, 2016

7. INCOME TAX EXPENSE

	Six months ended 30th June,	
	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(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.

8. 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
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(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



Notes to the Condensed Consolidated Financial Information (Continued)

For the six months ended 30th June, 2016

9. 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.

10. 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 (Unaudited)	2015 (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.

11. 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



Notes to the Condensed Consolidated Financial Information (Continued)

For the six months ended 30th June, 2016

11. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	(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 (<i>Note</i>)	(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.

12. 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 (<i>Note</i>)	(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.



Notes to the Condensed Consolidated Financial Information (Continued)

For the six months ended 30th June, 2016

13. INTANGIBLE ASSETS

	Goodwill <i>HK\$'000</i>
Net book value as at 1st January, 2015	96,822
Amortisation	–
Net book value as at 30th June, 2015, 1st January, 2016 and 30th June, 2016	96,822

14. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	30th June, 2016 <i>HK\$'000</i> (Unaudited)	31st December, 2015 <i>HK\$'000</i> (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 <i>HK\$'000</i> (Unaudited)	31st December, 2015 <i>HK\$'000</i> (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

15. TRADE AND OTHER PAYABLES AND ACCRUALS

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



Notes to the Condensed Consolidated Financial Information (Continued)

For the six months ended 30th June, 2016

15. TRADE AND OTHER PAYABLES AND ACCRUALS (CONTINUED)

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 HK\$'000 (Unaudited)	31st December, 2015 HK\$'000 (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

16. SHARE CAPITAL

	Ordinary shares of HK\$0.1 each Number of shares (in thousands)	Share capital HK\$'000
Ordinary shares, issued and fully paid:		
At 1st January, 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.

17. BANK BORROWINGS

	30th June, 2016 HK\$'000 (Unaudited)	31st December, 2015 HK\$'000 (Audited)
Secured	104	138

At 30th June, 2016, the Group's bank borrowings were denominated in Vietnamese Dong ("VND") and repayable within two years. The carrying value of the bank borrowings approximated its fair value.



Notes to the Condensed Consolidated Financial Information (Continued)

For the six months ended 30th June, 2016

17. BANK BORROWINGS (CONTINUED)

Movements in bank borrowings are analysed as follows:

	(Unaudited) HK\$'000
Six months ended 30th June, 2016	
Opening balance as at 1st January, 2016	138
Repayment of bank borrowings	(34)
Closing balance as at 30th June, 2016	104
Six months ended 30th June, 2015	
Opening balance as at 1st January, 2015	25,358
Drawdown of bank borrowings	51,759
Repayment of bank borrowings	(77,117)
Closing balance as at 30th June, 2015	–

As at 30th June, 2016, the effective interest rate of the bank borrowings was 5.9% (31st December, 2015: 5.6%) per annum.

As at 30th June, 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\$2,436,000 (31st December, 2015: HK\$261,153,000) to a bank for banking facilities with credit limit of HK\$31,200,000 (31st December, 2015: HK\$31,200,000) granted to it.

18. CAPITAL COMMITMENTS AND OPERATING LEASE COMMITMENTS

As at 30th June, 2016, the capital commitments contracted but not provided for in the condensed consolidated interim financial information of the Group were HK\$236,000 (31st December, 2015: HK\$677,000).

As at 30th June, 2016, the operating lease commitments of the Group were HK\$68,096,000 (31st December, 2015: HK\$65,986,000).

19. 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.



Notes to the Condensed Consolidated Financial Information (Continued)

For the six months ended 30th June, 2016

20. RELATED-PARTY TRANSACTIONS

The Group is controlled by Smart Forest Limited (incorporated in the British Virgin Islands (“BVI”)), which owns 71.28% of the Company’s shares. The remaining 28.72% 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.

There is no disposal of interest to related party for the period ended 30th June, 2016.

In addition to those disclosed in these financial information, there were no related party transactions that the Group entered during the period. The remunerations of directors and other members of key management in respect of the period are as follows:

	Six months ended 30th June,	
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Salaries and other short-term employee benefits	7,604	7,262



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.

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.



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 30th June, 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 1)	Corporate Interests (Note 2)	Other Interests	Total	% of the issued share capital of the Company
Cheng Yung Pun (Director)	Long position	-	-	539,003,569	-	539,003,569	71.28%
Arnold Edward Rubin (Director)	Long position	72,000	-	-	-	72,000	0.01%
Cheng Wing See, Nathalie (Director)	Long position	723,230	-	-	-	723,230	0.10%
Cheng King Cheung (Director)	Long position	1,888,000	-	-	-	1,888,000	0.25%
Leung Hong Tai (Director)	Long position	4,594,000	1,596,000	-	-	6,190,000	0.82%
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%

Notes:

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

Share Option

There were no options remain outstanding and are granted, exercised, cancelled or lapsed during the six months ended 30th June, 2016 (31st December, 2015: nil).

Other than 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 or any of its associated corporations as at 30th June, 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 30th June, 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:

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 (<i>Note</i>)	Beneficial owner	539,003,569	71.28%

Note: Smart Forest, a company incorporated in the British Virgin Islands 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 30th June, 2016.

SHARE OPTION SCHEME

A share option scheme of the Company was adopted on 4th May, 2012 (the “2012 Share Option Scheme”). The key terms of the 2012 share option scheme had been summarised in our 2015 Annual Report published in March 2016.

As at 30th June, 2016, the total number of shares available for issue of option under the 2012 Share Option Scheme was 71,864,731 shares (after the 2012 Share Option Scheme adopted on 2012 annual general meeting held on 4th May, 2012) which representing 9.50% of the issued share capital of the Company.

During the six months ended 30th June, 2016, no options remain outstanding exercised. As at 30th June, 2016, no options which have been granted and remained outstanding carry rights to subscribe for shares (31st December, 2015: nil).

Save as disclosed above, no share options remain outstanding and are granted, exercised, cancelled or lapsed during the period under review.

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.

OTHER INFORMATION OF DIRECTOR

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 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, INED of Tianhe Chemicals Group Limited (a company listed on the Stock Exchange) with effect from 20th June, 2014, INED of China New Energy Power Group Limited (a company listed on the Stock Exchange) with effect from 28th July, 2015, and INED of Forebase International Holdings Limited (a company listed on the Stock Exchange) with effect from 18th April, 2016.

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 and as INED of Daohe Global Group Limited (a company listed on the Stock Exchange) with effect from 11th August, 2016. 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.

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



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.

BOARD COMMITTEES

The Nomination Committee comprises the Company's Chairman, Mr. Cheng Yung Pun 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, appointed by the Board and meets at least once a year. The Audit Committee comprises the said INEDs who have extensive experience in financial matters and meet at least twice a year. The Remuneration Committee also comprises the said INEDs meets at least once a year. All Committees have adopted terms of reference (containing the minimum prescribed duties) that are in line with the HKEx Code and CG Code.

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.

By Order of the Board
Cheng Yung Pun
Chairman

Hong Kong, 25th August, 2016