MATRIX

# MATRIX HOLDINGS LIMITED

# 美力時集團有限公司*

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 1005)**

# 2016 FINAL RESULTS ANNOUNCEMENT

The Board of Directors (the "Directors") of Matrix Holdings Limited (the "Company") are pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31st December, 2016 as follows:

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*FOR THE YEAR ENDED 31ST DECEMBER, 2016*

| | Note | **2016** | 2015 |
|---|---|---|---|
| | | ***HK$'000*** | *HK$'000* |
| Revenue | *3* | **1,247,218** | 1,277,063 |
| Cost of sales | *4* | **(797,933)** | (806,233) |
| Gross profit | | **449,285** | 470,830 |
| Other income | | **1,003** | 1,334 |
| Gain on disposal of a subsidiary | | **–** | 218,134 |
| Other losses | | **(6,409)** | (2,860) |
| Distribution and selling costs | *4* | **(136,811)** | (127,588) |
| Administrative expenses | *4* | **(150,086)** | (139,393) |
| Research and development costs | *4* | **(21,685)** | (23,235) |
| Operating profit | | **135,297** | 397,222 |
| Finance costs | | **(22)** | (280) |
| Profit before income tax | | **135,275** | 396,942 |
| Income tax expense | *5* | **(12,621)** | (9,069) |
| Profit for the year attributable to owners of the Company | | **122,654** | 387,873 |

* *For identification purpose only*

| | Note | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|---|
| Other comprehensive income | | | |
| Items that may be reclassified subsequently to profit or loss: | | | |
| Currency translation differences | | **4,959** | (4,954) |
| Other comprehensive income for the year, net of tax | | **4,959** | (4,954) |
| Total comprehensive income for the year attributable to owners of the Company | | **127,613** | 382,919 |
| Earnings per share attributable to owners of the Company for the year (expressed in HK cents per share) | | | |
| Basic earnings per share | *7* | **16** | 51 |
| Diluted earnings per share | *7* | **16** | 51 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*AS AT 31ST DECEMBER, 2016*

| | Note | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|---|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | | **136,339** | 149,442 |
| Leasehold land and land use rights | | **12,837** | 13,318 |
| Intangible assets | | **96,822** | 96,822 |
| Deferred tax assets | | **6,220** | 5,869 |
| Pledged bank deposit | | **–** | 138 |
| Other non-current assets | | **186,000** | 186,000 |
| | | **438,218** | 451,589 |
| Current assets | | | |
| Inventories | | **324,838** | 304,147 |
| Trade and other receivables and prepayments | *8* | **275,841** | 267,906 |
| Tax receivable | | **18** | 18 |
| Pledged bank deposit | | **136** | – |
| Cash and cash equivalents | | **143,381** | 129,652 |
| | | **744,214** | 701,723 |
| Total assets | | **1,182,432** | 1,153,312 |
| EQUITY | | | |
| Capital and reserves attributable to owners of the Company | | | |
| Share capital | | **75,620** | 75,620 |
| Reserves | | **904,562** | 909,285 |
| Total equity | | **980,182** | 984,905 |

| | Note | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|---|
| LIABILITIES | | | |
| Non-current liabilities | | | |
| Deferred income tax liabilities | | **663** | 859 |
| Bank borrowings | | **–** | 69 |
| | | **663** | 928 |
| Current liabilities | | | |
| Trade and other payables and accruals | *9* | **191,687** | 160,453 |
| Tax payables | | **8,537** | 6,957 |
| Bank borrowings | | **1,363** | 69 |
| | | **201,587** | 167,479 |
| Total liabilities | | **202,250** | 168,407 |
| Total equity and liabilities | | **1,182,432** | 1,153,312 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*FOR THE YEAR ENDED 31ST DECEMBER, 2016*

## 1. General information

Matrix Holdings Limited (the "Company") and its subsidiaries (together, the "Group") are principally engaged in the manufacturing and trading of toys and lighting products.

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

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

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

## 2. Summary of significant accounting policies

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

### 2.1 Basis of preparation

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

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

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

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

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

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

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

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

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

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

## 3. Revenue and segment information

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

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

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

Assets of reportable segments exclude property, plant and equipment, intangible assets, deferred income tax assets and corporate assets, all of which are managed on a central basis. Liabilities of reportable segments exclude current and deferred income tax liabilities, bank borrowings and other corporate liabilities. These are part of the reconciliation to total assets and liabilities of the consolidated statement of financial position.

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

There are two main businesses of the Group, including toys and lighting business. CODM did not consider the lighting business as a separate segment for the year as it is at early stage of operations and is not material to the Group.

**Segment revenues and results**

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

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

For the year ended 31st December, 2015

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

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

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

**Segments assets and liabilities**

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

**As at 31st December, 2016**

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

As at 31st December, 2015

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

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

**Other segment information**

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

**Revenue from major products**

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

**Geographical information**

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

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

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

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

## 4. Expenses by nature

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Raw materials and consumables used | **325,481** | 360,635 |
| Changes in inventories of finished goods and work-in-progress | **(13,402)** | 17,593 |
| Employee benefit expense | **449,567** | 398,852 |
| Depreciation of property, plant and equipment | **35,938** | 39,954 |
| Operating lease expenses | **22,991** | 20,662 |
| Advertising costs | **34,330** | 16,688 |
| Auditor's remuneration | | |
| – Audit services | **4,481** | 4,005 |
| – Non-audit services | **1,205** | 1,526 |
| Amortisation of leasehold land and land use rights | **481** | 497 |
| Royalty expenses | **38,855** | 39,843 |
| Freight charges | **25,434** | 30,747 |
| Other expenses | **181,154** | 165,447 |
| | **1,106,515** | 1,096,449 |

Representing:

| | | |
|---|---|---|
| Cost of sales | **797,933** | 806,233 |
| Distribution and selling costs | **136,811** | 127,588 |
| Administrative expenses | **150,086** | 139,393 |
| Research and development costs | **21,685** | 23,235 |
| | **1,106,515** | 1,096,449 |

## 5. Income tax expense

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

*Notes:*

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

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

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

## 6. Dividends

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

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Paid | | |
| Interim dividend paid HK4.5 cents (2015: HK4 cents) per ordinary share | **34,030** | 30,248 |
| Proposed | | |
| Final dividend proposed HK 7 cents (2015: HK7 cents) per ordinary share | **52,934** | 52,934 |
| Special dividend proposed of HK nil cents (2015: HK6 cents) per ordinary share | **–** | 45,372 |
| Total dividend proposed HK 7 cents (2015: HK13 cents) per ordinary share | **52,934** | 98,306 |

## 7. Earnings per share

### (a) Basic

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

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

**(b) Diluted**

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

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

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

## 8. Trade and other receivables and prepayments

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

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

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

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

## 9. Trade and other payables and accruals

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

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

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

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

## 10. Contingent liabilities

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

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

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

## 11. Capital commitments

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

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

## 12. Subsequent events

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

## RESULTS

The Board (the "Board") of directors of the Company hereby announces the audited consolidated results of the Group for the year ended 31st December, 2016, together with the comparative figures for the corresponding year in 2015.

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

## FINANCIAL REVIEW

### Revenue

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

### Gross profit

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

### Distribution and selling costs

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

### Administrative expenses

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

### Finance costs and income tax

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

### Research and development cost

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

### Trade and other receivables and prepayments

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

### Trade and other payables and accruals

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

### Quick Ratio

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

### Current Ratio

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

**Financial position and cash flows review**

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

**Liquidity and Financial Resources**

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

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

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

**Capital Expenditure and Commitments**

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

**Assets and Liabilities**

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

## SIGNIFICANT INVESTMENT AND ACQUISITION

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

## SIGNIFICANT DISPOSAL/IMPORTANT EVENT

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

## SUBSEQUENT EVENT

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

## EXCHANGE RATE RISK

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

## BUSINESS REVIEW

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

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

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

**Manufacturing operation**

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

## Segment performance

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

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

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

## The United States ("US")

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

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

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

## Canada

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

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

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

## Europe

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

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

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

## Mexico

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

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

**Australia and New Zealand**

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

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

**South America**

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

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

## NUMBER OF EMPLOYEES AND REMUNERATION POLICIES

As at 31st December, 2016, the Group had a total of approximately 15,000 (2015: 14,600) employees in Hong Kong, Macau, the PRC, Vietnam, Australia, the US, Canada and Europe. The Group provides its employees with competitive remuneration packages commensurate to the level of pay established by the market trend in comparable businesses. A share option scheme was adopted by the Group for selected participants (including full time employees) as incentives or rewards for their contributions to the business and operation of the Group. A mandatory provident fund scheme and respective local retirement benefit schemes are also in place.

## ENVIRONMENTAL PROTECTION

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

## COMPLIANCE WITH LAWS AND REGULATIONS

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

## RELATIONSHIP WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

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

## PROSPECT

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

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

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

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

## DIVIDEND

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

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

## PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

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

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

None of the directors of the Company is aware of information that would reasonably indicate the Company is not or was not for any part of the period under review, in compliance with the HKEx Code and CG Code except for the deviations from code provisions A.4.1, A.6.7 and E.1.2 which are explained as follows:

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

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

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

## DIRECTORS' SECURITIES TRANSACTIONS

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

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

## ANNUAL GENERAL MEETING

The annual general meeting ("AGM") of the Company will be held at Peony Room, Crowne Plaza Hotel & Suites Landmark Shenzhen, No. 3018, Nanhu Road, Shenzhen on 4th May, 2017 at 2:30 p.m.

## CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 27th April, 2017 and 4th May, 2017, both days inclusive for the entitlement to attend the AGM, and be closed on 10th May, 2017 for the final dividend entitlement, during such periods no transfer of shares will be registered. In order to be eligible to attend and vote at the AGM of the Company, all transfers accompanied by the 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, not later than 4:30 p.m. on 26th April, 2017. In order to be eligible to have final dividend, all transfers accompanied by the relevant share certificates must be lodged with the address of the Company's Branch Share Registrar in Hong Kong as abovementioned, not later than 4:30 p.m. on 9th May, 2017.

## REVIEW OF FINANCIAL STATEMENTS

The Audit Committee has reviewed the Group's audited consolidated financial statements for the year ended 31st December, 2016, including the accounting principles and practices adopted by the Group.

## PUBLICATION OF FINAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This results announcement is published on the website of the Stock Exchange. The 2016 Annual Report and Notice of AGM of the Company will be despatched to the shareholders of the Company as well as published on the website of the Stock Exchange in due course.

## BOARD COMPOSITION

As at the date of this announcement, the Board comprises Mr. Cheng Yung Pun, Mr. Cheng King Cheung, Mr. Leung Hong Tai, Mr. Tsang Chung Wa, Mr. Tse Kam Wah and Mr. Yu Sui Chuen 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 as independent non-executive Directors.

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

Hong Kong, 16th March, 2017