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MATRIX
MATRIX HOLDINGS LIMITED
美力時集團有限公司*
(Incorporated in Bermuda with limited liability)
(Stock Code: 1005)

2010 INTERIM RESULTS ANNOUNCEMENT

RESULT HIGHLIGHTS

FINANCIAL HIGHLIGHTS			
	Six months ended		
	30th June,		
	2010	2009	Changes
	HK\$	HK\$	%
Turnover	400,169,000	413,605,000	-3.2%
Profit attributable to owners of the Company	15,752,000	12,279,000	+28.3%
Basic earnings per share	0.02	0.02	+0.0%
Interim dividend, declared	0.03	0.02	+50.0%
Gross profit margin ratio (%)	33.3%	32.4%	+2.8%

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, 2010, together with the comparative figures for the corresponding period in 2009.

* For identification purpose only

The Group's consolidated turnover for the six months ended 30th June, 2010 amounted to HK\$400,169,000, representing a moderate decline of 3.2% compared with HK\$413,605,000 in the corresponding period in 2009. Due to the gradual recovery of the global economy in 2010, the Group's worldwide orders were close to expectation. Along with the Group's existing major customers were having less deferred procurement and the Group strived to secure their orders, the sales turnover remained stable.

The appreciation of Renminbi, increase in statutory minimum wage, shortage in labour at Pearl River Delta, PRC and spiraling raw material cost still adversely affected toy industry. Notwithstanding, the Group's profit increased by 28.3% to HK\$15,752,000 for the period under review (30th June, 2009: HK\$12,279,000). The Group's profit was turned better principally due to the improvement of profit margins and effective cost savings. The Group continuously shifted its operation base from Zhongshan factory to Vietnam factories for alleviation of direct production cost pressure in terms of labour, water and electricity. The stabilized plastic price along with the Group's striving to optimize its raw material procurement, the gross profit margin improved.

For the six months ended 30th June, 2010, the United States continued to be the largest customer market of the Group, accounting for approximately 82.2% of the Group's total turnover (2009: 89.2%). The other significant customer markets for the Group included Europe and Canada, which accounted for approximately 4.6% (2009: 3.0%) and 2.6% (2009: 1.8%) respectively.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30TH JUNE, 2010

	NOTES	Six months ended 30th June,	
		2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)
Turnover	3	400,169	413,605
Cost of sales		<u>(267,071)</u>	<u>(279,588)</u>
Gross profit		133,098	134,017
Other income		5,042	5,048
Distribution and selling costs		(43,108)	(67,590)
Administrative expenses		(79,478)	(56,857)
Written back of bad and doubtful debts		55	753
Finance costs		<u>(2,530)</u>	<u>(4,038)</u>
Profit before taxation		13,079	11,333
Income tax credit	4	<u>2,705</u>	<u>946</u>
Profit for the period	5	<u><u>15,784</u></u>	<u><u>12,279</u></u>
Other comprehensive income			
Exchange differences arising on translation of foreign operations		<u>(6,150)</u>	<u>(2,581)</u>
Total comprehensive income for the period		<u><u>9,634</u></u>	<u><u>9,698</u></u>
Profit for the period attributable to:			
Owners of the Company		15,752	12,279
Non-controlling interests		<u>32</u>	<u>–</u>
		<u><u>15,784</u></u>	<u><u>12,279</u></u>
Total comprehensive income attributable to:			
Owners of the Company		9,602	9,698
Non-controlling interests		<u>32</u>	<u>–</u>
		<u><u>9,634</u></u>	<u><u>9,698</u></u>
Earnings per share			
– Basic	7	<u><u>HK\$0.02</u></u>	<u><u>HK\$0.02</u></u>
– Diluted	7	<u><u>HK\$0.02</u></u>	<u><u>N/A</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30TH JUNE, 2010

		30th June, 2010	31st December, 2009
		HK\$'000	HK\$'000
	NOTES	(Unaudited)	(Audited)
Non-current assets			
Property, plant and equipment	8	237,045	240,290
Prepaid lease payments		999	1,015
Goodwill		109,822	109,822
Intangible assets		36,550	42,768
Deferred tax assets		3,918	3,918
		<u>388,334</u>	<u>397,813</u>
Current assets			
Inventories		170,177	181,068
Trade and other receivables	9	80,665	163,998
Prepaid lease payments		32	32
Tax recoverable		6,951	7,560
Held-for-trading investments		84	125
Amounts due from related companies		-	20,596
Pledged bank deposit		-	5,002
Bank balances and cash		107,615	72,685
		<u>365,524</u>	<u>451,066</u>
Current liabilities			
Trade and other payables and accruals	10	116,561	167,378
Tax payable		57,764	58,077
Unsecured bank borrowings		-	24,661
Obligations under finance leases		2,397	2,227
		<u>176,722</u>	<u>252,343</u>
Net current assets		<u>188,802</u>	<u>198,723</u>
Total assets less current liabilities		<u><u>577,136</u></u>	<u><u>596,536</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30TH JUNE, 2010

		30th June, 2010 <i>HK\$'000</i> (Unaudited)	31st December, 2009 <i>HK\$'000</i> (Audited)
Capital and reserves			
Share capital	11	71,229	71,229
Reserves		<u>411,438</u>	<u>414,563</u>
Equity attributable to owners of the Company		482,667	485,792
Non-controlling interests		<u>32</u>	<u>–</u>
Total Equity		<u>482,699</u>	<u>485,792</u>
Non-current liabilities			
Deferred tax liabilities		9,586	12,869
Obligations under finance leases		581	1,847
Loan from ultimate holding company		<u>84,270</u>	<u>96,028</u>
		<u>94,437</u>	<u>110,744</u>
		<u>577,136</u>	<u>596,536</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30TH JUNE, 2010

1. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the Listing Rules) and with Hong Kong Accounting Standard 34 (HKAS 34), Interim Financial Reporting. The unaudited condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31st December, 2009.

2. PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at revalued amounts or fair values, as appropriate.

The accounting policies used in the unaudited condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st December, 2009.

In the current interim period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

HKFRSs (Amendments)	Amendment to HKFRSs 5 as part of Improvements to HKFRSs 2008
HKFRSs (Amendments)	Improvements to HKFRSs 2009
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 39 (Amendment)	Eligible Hedged Items
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised)	Business Combinations
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners

The Group applies HKFRS 3 (Revised) *Business Combinations* prospectively to business combinations for which the acquisition date is on or after 1st January, 2010. The requirements in HKAS 27 (Revised) *Consolidated and Separate Financial Statements* in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 1st January, 2010.

As there was no transaction during the current interim period in which HKAS 27 (Revised) are applicable, the application of HKAS 27 (Revised) and the consequential amendments to other HKFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

The adoption of HKFRS 3 (Revised) has no material impact to the accounting for the acquisition of Max Smart Investment Limited in current period.

Results of the Group in future periods may be affected by future transactions for which HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to the other HKFRSs are applicable.

The application of the other new and revised HKFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

The Group has not early applied the following new or revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs 2010 ¹
HKAS 24 (Revised)	Related Party Disclosures ⁴
HKAS 32 (Amendment)	Classification of Rights Issues ²
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters ³
HKFRS 9	Financial Instruments ⁵
HK(IFRIC) – Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement ⁴
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments ³

¹ *Effective for annual periods beginning on or after 1st July, 2010 and 1st January, 2011, as appropriate.*

² *Effective for annual periods beginning on or after 1st February, 2010.*

³ *Effective for annual periods beginning on or after 1st July, 2010.*

⁴ *Effective for annual periods beginning on or after 1st January, 2011.*

⁵ *Effective for annual periods beginning on or after 1st January, 2013.*

HKFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and will be effective from 1st January, 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows; and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

The directors of the Company anticipate that the application of other new and revised standards, amendments or interpretation will have no material impact on the results and the financial position of the Group.

3. SEGMENT INFORMATION

The following is an analysis of the Group's revenue and results by operating segment for the periods under review.

	Six months ended 30th June,			
	Turnover		Results	
	2010	2009	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
United States	328,785	368,927	72,838	45,982
Europe	18,311	12,295	658	1,226
Mexico	11,137	435	1,281	3
Canada	10,249	7,428	1,227	240
Australia	7,200	2,917	460	231
Hong Kong	3,412	2,856	380	126
All other locations (<i>Note</i>)	<u>21,075</u>	<u>18,747</u>	<u>(1,112)</u>	<u>(1,813)</u>
	<u>400,169</u>	<u>413,605</u>	75,732	45,995
Unallocated income			2,677	5,048
Unallocated expenses			(62,800)	(35,672)
Finance costs			<u>(2,530)</u>	<u>(4,038)</u>
Profit before taxation			13,079	11,333
Income tax credit			<u>2,705</u>	<u>946</u>
Profit for the period			<u>15,784</u>	<u>12,279</u>

Note: All other locations include the People's Republic of China (other than Hong Kong), Taiwan, Korea and others. These locations are considered by the chief operating decision maker as one operating segment.

Segment profit represents the profit earned by each segment without allocation of central administrative costs and directors' salaries, other non-operating income and finance costs. This is the measure reported to the chief operating decision maker, being the Chairman, for the purposes of resource allocation and performance assessment.

4. INCOME TAX CREDIT

	Six months ended 30th June,	
	2010	2009
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current tax:		
Hong Kong	200	80
Other Jurisdictions	443	–
	<u>643</u>	<u>80</u>
Deferred tax:		
Current period	<u>(3,348)</u>	<u>(1,026)</u>
Income tax credit	<u>(2,705)</u>	<u>(946)</u>

Hong Kong Profits Tax is calculated at 16.5% (six months ended 30th June, 2009: 16.5%) of the estimated assessable profit for the period ended 30th June, 2010. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

According to the Investment License granted by Vietnam tax authority to certain subsidiaries operating in Vietnam, the applicable Vietnam enterprise income tax rate is 10% on the estimated assessable profit during their operating periods. Matrix Manufacturing Vietnam Company Limited (“MVN”) is eligible for exemption from Vietnam enterprise income tax for four years from the first profit-making year followed by a 50% reduction in the Vietnam enterprise income tax for the next four years. For the six months end 30th June, 2010, MVN applied the tax rate of 5% on the estimated assessable profit as it is the sixth year since its first profit-making year. Associated Manufacturing Vietnam Company Limited (“AVN”) is eligible for exemption from Vietnam enterprise income tax for three years from the first profit-making year followed by a 50% reduction in the Vietnam enterprise income tax for the next seven years. The six months ended 30th June, 2010 is the second profit-making year of AVN.

Under the Law of the People’s Republic of China on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1st January, 2008 onwards.

The tax position of the Group is currently under audit by the Hong Kong Inland Revenue Department (“IRD”). The IRD issued estimated assessments to certain subsidiaries in respect of the years of assessment 2000/2001 and 2001/2002 with tax payable amounting to approximately HK\$2,345,000 and HK\$17,678,000 respectively. The Group filed an objection against such assessments for 2000/2001 and 2001/2002 and the whole tax demanded of HK\$2,345,000 for 2000/2001 was held over unconditionally by the IRD. The tax demanded for 2001/2002 for the amount of HK\$4,713,000 was held over on condition that the subsidiaries purchased an equal amount of tax reserve certificates, and the amount of HK\$12,965,000 was held over unconditionally by the IRD. In March 2009, IRD issued assessments to certain subsidiaries in respect of the years of assessment from 2002/2003 to 2007/2008 amounting to approximately HK\$163,658,000, including approximately HK\$5,542,000 being the tax demanded for 2002/2003 of Keyhinge Holdings Limited, the subsidiary acquired during the period (31st December, 2009: HK\$158,116,000). The detail of the acquired subsidiaries is set out in note 12. In March, 2010, IRD issued assessments to certain subsidiaries in respect of the year of assessment for 2003/2004 amounting to approximately HK\$41,234,000 and the whole tax demanded of HK\$41,234,000 was held over unconditionally by the IRD. The Group filed objections to the IRD against such assessments on the grounds that these assessments were excessive, and that certain income under assessment neither arose in, nor was derived from, Hong Kong. The Company has appointed a tax advisor to assist the Group in handling this tax audit. The IRD is still at the fact-finding stage, and accordingly, the ultimate outcome of the matter cannot presently be determined. As at 30th June, 2010, the Group had made a tax provision in respect of these subsidiaries for the years of assessment approximately HK\$56,500,000 (year ended 31st December, 2009: HK\$56,500,000). The directors are of the view after taking advice from professional tax advisers that the amount of tax payable presented in the unaudited condensed consolidated financial statements is sufficient to meet the settlement of tax audit. The IRD may impose a penalty and there is no reasonable basis to determine any amount of tax penalty payable at the moment.

5. PROFIT FOR THE PERIOD

	Six months ended 30th June,	
	2010	2009
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Profit for the period has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	22,824	24,056
Net loss on disposal of property, plant and equipment	87	148
Loss (gain) on fair value changes of held-for-trading investments	41	(8)
Amortisation of intangible assets included in cost of sales (<i>Note</i>)	6,218	6,219
Amortisation of prepaid lease payments	16	16
Net exchange (gain) loss	(2,677)	703

Note: Intangible assets represent customers base, which have finite useful lives. Intangible assets are amortised on a straight-line method over 6 years.

6. DIVIDEND

	Six months ended 30th June,	
	2010	2009
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Final dividend of HK5 cents for the year ended 31st December, 2009 paid during the period (year ended 31st December, 2008: HK1 cent) <i>(Note)</i>	35,615	7,123

Note: In respect of the current interim period, the Directors had resolved to declare an interim dividend of HK3 cents (2009: HK 2 cents in cash) per share to be payable in cash to the shareholders whose names appear on the Register of Members of the Company on 14th September, 2010. This dividend was declared after the interim reporting date, and therefore has not been included as a liability in the condensed statement of financial position.

7. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

Earnings	Six months ended 30th June,	
	2010	2009
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Earnings for the purpose of basic and diluted earnings per share (Profit for the period attributable to owners of the Company)	15,752	12,279
Number of shares	Six months ended 30th June,	
	2010	2009
	(Unaudited)	(Unaudited)
Weighted average number of ordinary shares for the purpose of basic earnings per share	712,294,228	712,294,228
Effect of dilutive potential ordinary shares:		
Share options issued by the Company	305,543	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	712,599,771	712,294,228

Diluted earnings is not shown for the six months ended 30th June, 2009 as the exercise price of the share options outstanding is higher than the average market price for shares.

8. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment at a cost of approximately HK\$3,292,000 (six months ended 30th June, 2009: HK\$13,209,000) directly and HK\$19,983,000 (30th June, 2009: HK\$nil) through the acquisition of a subsidiary.

During the period, the Group disposed of certain property, plant and equipment with a carrying amount of approximately HK\$1,104,000 (six months ended 30th June, 2009: HK\$209,000) for the cash proceeds of approximately HK\$1,191,000 (six months ended 30th June, 2009: HK\$61,000), resulting in a gain on disposal of approximately HK\$87,000 (six months ended 30th June, 2009: loss of HK\$148,000)

At 30th June, 2010, the Directors considered the carrying amount of the Group's leasehold land and buildings and plant and machinery carried at revalued amounts and estimated that their carrying amounts do not differ significantly from that which would be determined using fair values at the reporting date. Consequently, no revaluation surplus or deficit has been recognised in the current period.

9. TRADE AND OTHER RECEIVABLES

	30th June, 2010	31st December, 2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Trade receivables	62,105	129,890
<i>Less: allowance for doubtful debts</i>	<u>(8,685)</u>	<u>(8,740)</u>
	53,420	121,150
Other receivables	<u>27,245</u>	<u>42,848</u>
	<u><u>80,665</u></u>	<u><u>163,998</u></u>

The Group allows a credit period of 14 days to 90 days to its trade customers. The following is an analysis of trade receivables by age, presented based on the invoice date, net of allowance for doubtful debts:

	30th June, 2010 <i>HK\$'000</i> (Unaudited)	31st December, 2009 <i>HK\$'000</i> (Audited)
0 – 60 days	50,218	107,626
61 – 90 days	2,765	12,757
> 90 days	437	767
	<u>53,420</u>	<u>121,150</u>

10. TRADE AND OTHER PAYABLES AND ACCRUALS

	30th June, 2010 <i>HK\$'000</i> (Unaudited)	31st December, 2009 <i>HK\$'000</i> (Audited)
Trade payables	57,696	92,022
Other payables and accruals	58,865	75,356
	<u>116,561</u>	<u>167,378</u>

The following is an analysis of trade payables by age, presented based on invoice date:

	30th June, 2010 <i>HK\$'000</i> (Unaudited)	31st December, 2009 <i>HK\$'000</i> (Audited)
0 – 60 days	47,165	77,868
61 – 90 days	7,481	10,624
> 90 days	3,050	3,530
	<u>57,696</u>	<u>92,022</u>

11. SHARE CAPITAL

	Number of shares		Share Capital	
	30th June, 2010 '000 (Unaudited)	31st December, 2009 '000 (Audited)	30th June, 2010 <i>HK\$'000</i> (Unaudited)	31st December, 2009 <i>HK\$'000</i> (Audited)
Ordinary shares of HK\$0.10 each:				
<i>Authorised:</i>				
At the beginning and end of the period	<u>1,000,000</u>	<u>1,000,000</u>	<u>100,000</u>	<u>100,000</u>
<i>Issued and fully paid:</i>				
At the beginning and end of the period	<u>712,294</u>	<u>712,294</u>	<u>71,229</u>	<u>71,229</u>

12. ACQUISITION OF SUBSIDIARY

On 1st February, 2010 (the date of completion), the Group acquired the entire issued capital of Max Smart Investment Limited (“Max Smart”) for a cash consideration HK\$1.00. The acquisition has been accounted for by the purchase method of accounting. Max Smart is an investment holding company and holds 100% equity interests in Keyhinge Holdings Limited which holds 98% of the equity interests in Keyhinge Toys Vietnam Joint Stock Company which is principally engaged in the manufacture of toys in Vietnam (Max Smart, Keyhinge Holdings Limited and Keyhinge Toys Vietnam Joint Stock Company collectively known hereinafter as “Max Smart Group”)

Assets and liabilities recognised at the date of acquisition:

	<i>HK\$'000</i>
Current assets	
Cash and cash equivalents	271
Trade and other receivables	234
Inventories	9,462
Non-current assets	
Property, plant and equipment	19,983
Current liabilities	
Trade and other payables	(7,462)
Amounts due to the Group	(59,260)
Non-current liabilities	
Deferred tax liabilities	<u>(66)</u>
	<u><u>(36,838)</u></u>

Net cash outflow arising on acquisition:

	<i>HK\$'000</i>
Consideration paid in cash	–
<i>Less:</i> Cash and cash equivalent balances acquired	<u>(271)</u>
	<u><u>(271)</u></u>

Max Smart Group did not have any significant impact on the cash flows, turnover and profit of the Group for the interim period.

The amounts due to the Group as at 1st February, 2010 were approximately HK\$59,260,000. An impairment of HK\$36,890,000 was recognised on the amounts due from Max Smart Group in prior years, and such impairment amount of HK\$59,260,000 is reversed at the date of acquisition of Max Smart Group. The amount of discount on acquisition was approximately HK\$52,000 and was credited to the condensed consolidated statement of comprehensive income for the six months ended 30th June, 2010.

13. CONTINGENT LIABILITIES

A. Legal claim

- 1) On 19th August, 2009, IRD lodged a legal claim to a subsidiary of the Company, Shelcore Hong Kong Limited, for tax settlement payment of approximately HK\$2,403,000 in relation to the additional tax assessment issued by IRD on 16th March, 2009 for the year of assessment 2002/2003 and a court hearing will be held on 15th September, 2010. The details of the additional tax assessment issued by IRD are set out in note 4.
- 2) On 20th August, 2009, IRD lodged a legal claim to a subsidiary of the Company, Besco Enterprises Limited, for tax settlement payment of approximately HK\$821,000 in relation to the additional tax assessment issued by IRD on 16th March, 2009, for the year of assessment 2002/2003. The details of the additional tax assessment issued by IRD are set out in note 4. The aforementioned claim amount of approximately HK\$821,000 was deducted by the IRD from the tax recoverable for the year of assessment 2007/2008. The Directors are of the opinion that the aforementioned legal claim would not result in any material adverse effects on the financial position of the Group. Accordingly, no provision is required to be made in the unaudited condensed consolidated financial statements.

B. Additional tax assessments

The tax position of certain subsidiaries of the Company is currently being audited by IRD, as set out in note 4.

Save and except for the matters specified above, the Group does not have any litigations or claims of material importance and, so far as the directors are aware, no litigation or claims of material importance are pending or threatened by or against any companies of the Group.

MANAGEMENT DISCUSSION & ANALYSIS

BUSINESS REVIEW

Due to the slow pace recovery in United States (“US”) economy from the financial crisis, the Group encountered a moderate decline in sales. Nonetheless, this decline was offset by the Group’s striving to secure its existing major customers’ orders and the gradual recovery of global economy. The production base relocated to Vietnam taking advantage of lower labour, water and electricity costs along with the tightened cost control, resulted in an improvement in the Group’s gross and net profit margins.

Manufacturing Operation

The Group continued to operate two major development and manufacturing center in Zhongshan and Vietnam factories. The Group customized technical and manpower needs amongst the factories for meeting just-in-time toy production and supporting new lighting products’ research and development. The Group continued to have its internal reorganization on shifting production operation from Zhongshan factory to Vietnam factories for the alleviation of cost pressure and better position the Group to have cost-effective manufacturing.

Toy Business

The Group’s sales experienced a mild decline in the first half of 2010 due to the moderate decrease in sales of original design manufacturing and original brand manufacturing products in US market, whereas sales of the products of original equipment manufacturing remained consistent as they were less influenced by economic downturn.

US and Canada

Sales in US market decreased by 10.9% while the sales in Canadian market increased by 38.0%. The moderate decline was principally due to the slow pace recovery in market consumption sentiment in US and the Group’s concentration of the accounts with high margin business. Most of the decline was in Tonka – PODS sales, this vehicle decrease was offset by the increase in the Cutie Boutique Series spring sales. Along with the periodical extraordinary bulk orders received from some customers in the last first half year, the US sales in this first half year were comparatively lower. While, the sales in Canada increased was principally due to the gradual recovery of Canadian economy from financial crisis and the customers recovered their orders gradually.

Europe

Sales in Europe increased by 48.9% due to the gradual recovery of economy. As the exchange of European currency against the US dollar improved, European sales were significantly recovered as the customers recovered their orders gradually.

Mexico

Sales in Mexico surged by 2460.2% as a less restrictive credit and margin policy implemented by the Group in this area. Along with the enjoyment of tax benefit on importing products from Vietnam, the customers recovered their orders dramatically.

Australia

Sales in Australia surged by 146.8% as a less restrictive credit and margin policy implemented by the Group in this area. Along with the exchange of Australian currency against the US dollar improved, the customers recovered their orders dramatically.

Hong Kong

Sales in Hong Kong surged by 19.5% as they were less influenced by economic downturn.

PROSPECTS

The Group is dedicated to strive for improved performance by implementing its strategy to strengthen its core business by producing high quality products with competitive prices, focusing key brands development including Tonka, Gazillion Bubbles and Cutie Boutique series and maintaining closer relationship with the major mass retailers continuously. The Group will continue to streamline its operational procedures on shifting and consolidating manufacturing bases to Vietnam to improve operational and production efficiency without sacrificing cost control.

Overall, continuous strategic partnership with well known licensors imposed positive impact on the Group's long-term business growth. The Group will also continue its relationship with bubble licensors including Sesame Street and Disney which enable the Group to provide a variety of leading licensed brands maintaining shelf space at the retailers. The Group will continue to maintain and fully support the business practices of the International Council of Toy Industries Code. In addition, the enhancement of labour efficiency in Vietnam allows the Group to meet the customer's schedule. Overall, the Group is cautiously optimistic about the business environment in future.

There has also been an elevation in the importance of environmental sustainability by reducing our products' excessive packaging. The Group is also developing LED lighting products to meet the environmental awareness and create alternative sources of income. Lighting business is being engaged in research and development to further enhance the product quality and enrich the product variety.

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 30th June, 2010, the Group had bank balances and cash of approximately HK\$107,615,000 (31st December, 2009: HK\$72,685,000) and pledged bank deposit of approximately HK\$nil (31st December, 2009: HK\$5,002,000) secured for banking facilities granted. As at 30th June, 2010, the Group obtained banking facilities in a total of approximately HK\$135,000,000 (31st December, 2009: HK\$135,000,000) secured by corporate guarantee given by the Company.

As at 30th June, 2010, the Group had bank borrowings of approximately HK\$nil (31st December, 2009: HK\$24,661,000). The Group's gearing ratio, representing the total debt divided by equity attributable to owners of the Company, was 18.1% (31st December, 2009 25.7%).

During the period, net cash generated from operating activities amounted to approximately HK\$103,655,000 (30th June, 2009: net cash used in operating activities HK\$97,743,000). The Group has maintained an adequate level of cash flows for its business operations and capital expenditures.

Capital Expenditure

During the period, the Group acquired property, plant and equipment at a cost of approximately HK\$3,292,000 (30th June, 2009: HK\$13,209,000) directly and HK\$19,983,000 (30th June, 2009: HK\$nil) through the acquisition of a subsidiary to further enhance and upgrade the production capacity. These capital expenditures were financed primarily by cash flow generated from operations.

Assets and Liabilities

At 30th June, 2010, the Group had total assets of approximately HK\$753,858,000 (31st December, 2009: HK\$848,879,000), total liabilities of approximately HK\$271,159,000 (31st December, 2009: HK\$363,087,000) and equity attributable to owners of the Company of approximately HK\$482,667,000 (31st December, 2009: HK\$485,792,000). The net assets of the Group decreased 0.64% to approximately HK\$482,667,000 as at 30th June, 2010 (31st December, 2009: HK\$485,792,000).

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, 2010, the Group had a total of approximately 12,200 (31st December, 2009: 8,600) employees in Hong Kong, Macau, PRC, Vietnam, US and United Kingdom. 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 benefit schemes are also in place.

INTERIM DIVIDEND

The Directors had resolved to declare an interim dividend of HK3 cents (2009: HK2 cents in cash) per share for the six months ended 30th June, 2010, payable to shareholders whose names appear on the Register of Members of the Company on 14th September, 2010.

The record date for the purpose of determining the shareholders which are entitled to dividends is 14th September, 2010. In order to qualify for the interim dividend, all transfers and relevant share certificates must be lodged with the Company's Branch Share Registrars in Hong Kong, Tricor Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:00 p.m. on 14th September, 2010. The interim dividend will be paid on or around 20th September, 2010.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the six months ended 30th June, 2010, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares.

COMPLIANCE OF THE CODE ON CORPORATE GOVERNANCE PRACTICES (the "CGP Code")

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 CGP Code as set out in Appendix 14 of the Listing Rules and its own code except for the deviations from the code provision A.4.1. of the CGP Code that none of the existing non-executive directors of the Company (including independent non-executive) is appointed for a specific term. However, all the non-executive directors of the Company (including independent non-executive) are subject to the retirement provisions under the Company's Bye-laws. As such, 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 CGP Code.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

OTHER REQUIRED DISCLOSURE PURSUANT TO RULE 13.18 OF THE LISTING RULES

On 29th July 2010, the Group’s banking facilities provided by a bank in an aggregate amount of HK\$85,000,000 was terminated and the specific performance obligation on the controlling shareholder of the Company no longer existed.

One of the indirect wholly-owned subsidiaries of the Company had applied to a bank in Macau (the “Lender”) for one-year term banking facilities of up to an aggregate extent of HK\$12,000,000 effective from 22nd December 2009; and ii) one of the other indirect wholly-owned subsidiaries of the Company had applied to the Lender for one-year term banking facilities of up to an aggregate extent of HK\$38,000,000 effective from 22nd December, 2009 (collectively the “Facilities”). The Facilities include, inter alia, a condition to the effect that Mr. Cheng Yung Pun should maintain not less than 51% of shareholding (whether directly or indirectly) of the Company. A breach of the above condition will constitute an event of default of the Facilities. If such an event of default occurs, the Facilities will become immediately due and repayable.

REVIEW OF INTERIM RESULTS

The unaudited condensed consolidated interim results for the six months ended 30th June, 2010 have been reviewed by the Audit Committee, who are of the opinion that these interim results comply with applicable accounting standard and legal requirements, and that adequate disclosures have been made.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This results announcement is published on the website of Hong Kong Exchanges and Clearing Limited and the Company. The 2010 Interim Report of the Company will be dispatched to the shareholders of the Company as well as published on the website of the Hong Kong Exchanges and Clearing Limited and the Company in due course.

BOARD COMPOSITION

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

By Order of the Board
Cheng Yung Pun
Chairman

Hong Kong, 26th August, 2010