MATRIX

MATRIX HOLDINGS LIMITED
美力時集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 1005)

2011 INTERIM RESULTS ANNOUNCEMENT

RESULT HIGHLIGHTS

FINANCIAL HIGHLIGHTS

	Six months ended 30th June,		
	2011	2010	Changes
	HK$	*HK$*	*%*
Turnover	**394,383,000**	400,169,000	-1.4%
Profit attributable to owners of the Company	**8,258,000**	15,784,000	-47.7%
Basic earnings per share	**0.010**	0.020	-50.0%
Interim dividend, declared	**0.011**	0.030	-63.3%
Gross profit margin ratio *(%)*	**31.2%**	33.5%	-6.9%

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, 2011, together with the comparative figures for the corresponding period in 2010.

For the six months ended 30th June, 2011, the Group's consolidated turnover decreased by 1.4% to HK$394,383,000 as compared to the last period's HK$400,169,000 and profit attributable to owners of the Company decreased by 47.7% to HK$8,258,000 as compared to the last period's HK$15,784,000.

* *For identification purpose only*

During the first half of the year, the Group continued to take initiatives to launch a series of new toy products and step up its efforts in the promotion of plastic toy products of its own brand and other renowned brands through diversified sales channels, aiming at luring orders from overseas buyers and identifying new business opportunities in the United States ("US") market. In addition, on the back of long-standing and strong partnership with customers who are renowned brand owners, and the overwhelming response we received from our new LED lighting products, sales has been spurred and started to make contribution to our turnover. However, due to the reduction of ordering contracts by some of our customers, and the fact that we were obliged to take up less orders of low-end products to mitigate the effect of surging production costs to our gross profit margin, the Group recorded a moderate decrease of 1.4% in our consolidated turnover during the period.

The decrease in our profit was attributable to surging costs of raw materials and prices of materials such as ABS plastics, paper packaging and metals, as well as the rise in energy prices. The onset of statutory minimum wages and the shortage of labors had resulted in increased wages and costs of labors in production plants. The above situation was even perplexed by increased costs of research and development, hyper inflation, appreciation of Renminbi to US dollars and HK dollars, and increase in our costs as a result of the increase in non-operating expenses. In light of the above, our profit suffered on declining profit margin.

For the six months ended 30th June, 2011, the United States continued to be the largest customer market of the Group, accounting for approximately 88.2% of the Group's total turnover (2010: 82.2%). The other significant customer markets for the Group included Europe and Canada, which accounted for approximately 2.4% (2010: 4.6%) and 3.6% (2010: 2.6%) respectively.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30TH JUNE, 2011

	NOTES	Six months ended 30th June, 2011 HK$'000 (Unaudited)	2010 HK$'000 (Unaudited)
Turnover	3	**394,383**	400,169
Cost of sales		**(271,431)**	(266,241)
Gross profit		**122,952**	133,928
Other income		**5,337**	2,365
Distribution and selling costs		**(54,672)**	(41,611)
Administrative expenses		**(67,148)**	(79,337)
Written back of bad and doubtful debts		**–**	55
Other gains and losses		**6,057**	2,677
Research and development costs		**(4,218)**	(2,468)
Finance costs		**(1,522)**	(2,530)
Profit before taxation		**6,786**	13,079
Income tax credit	4	**1,472**	2,705
Profit for the period attributable to owners of the Company	5	**8,258**	15,784
Other comprehensive expense for the period			
Exchange differences arising on translation of foreign operations		**(10,308)**	(6,150)
Total comprehensive (expense) income for the period attributable to owners of the Company		**(2,050)**	9,634
Earnings per share			
– Basic	7	**HK$0.01**	HK$0.02
– Diluted	7	**HK$0.01**	HK$0.02

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30TH JUNE, 2011

	NOTES	30th June, 2011 HK$'000 (Unaudited)	31st December, 2010 HK$'000 (Audited)
Non-current assets			
Property, plant and equipment	*8*	**247,836**	238,871
Prepaid lease payments		**967**	983
Goodwill		**96,822**	96,822
Intangible assets		**24,113**	30,331
Deferred tax assets		**9,529**	8,563
Deposits paid for acquisition of property, plant and equipment		**1,689**	6,820
		380,956	382,390
Current assets			
Inventories		**242,578**	221,835
Trade and other receivables	*9*	**69,805**	147,164
Prepaid lease payments		**32**	32
Tax recoverable		**7,375**	7,613
Pledged bank deposit		**2,180**	2,177
Bank balances and cash		**86,334**	62,765
		408,304	441,586
Current liabilities			
Trade and other payables and accruals	*10*	**135,445**	153,933
Tax payable		**57,292**	57,075
Unsecured bank borrowings		**5,151**	–
Obligations under finance leases		**606**	1,847
		198,494	212,855
Net current assets		**209,810**	228,731
Total assets less current liabilities		**590,766**	611,121

	NOTES	30th June, 2011 HK$'000 (Unaudited)	31st December, 2010 HK$'000 (Audited)
Capital and reserves			
Share capital	*11*	**71,733**	71,229
Reserves		**430,755**	446,997
Equity attributable to owners of the Company		**502,488**	518,226
Non-current liabilities			
Deferred tax liabilities		**6,873**	8,558
Loan from ultimate holding company		**81,405**	84,337
		88,278	92,895
		590,766	611,121

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30TH JUNE, 2011

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, 2010.

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies and methods of computations used in the unaudited condensed consolidated financial statements for the six months ended 30th June, 2011 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31st December, 2010.

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

- Improvements to HKFRSs issued in 2010.
- HKAS 24 (as revised in 2009) Related party disclosure.
- Amendments to HKAS 32 Classification of rights issues.
- Amendments to HK(IFRIC) – Int 14 Prepayments of a minimum funding requirement.
- HK(IFRIC) – Int 19 Extinguishing financial liabilities with equity instruments.

The application of the above new or revised HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

The Group has not early applied new or revised standards that have been issued but are not yet effective. The following new or revised standards have been issued after the date the consolidated financial statements for the year ended 31st December, 2010 were authorised for issuance and are not yet effective:

HKFRS 10	Consolidated financial statements[1]
HKFRS 11	Joint arrangements[1]
HKFRS 12	Disclosures of interests in other entities[1]
HKFRS 13	Fair value measurement[1]
HKAS 1 (Amendments)	Presentation of items of other comprehensive income[2]
HKAS 19 (Revised 2011)	Employee benefits[1]
HKAS 27 (as revised in 2011)	Separate financial statements[1]
HKAS 28 (as revised in 2011)	Investment in associates and joint ventures[1]

[1] *Effective for annual periods beginning on or after 1st January, 2013.*
[2] *Effective for annual periods beginning on or after 1st July, 2012.*

Except for HKFRS 13, HKAS 1 (Amendments) and HKAS 19 (Revised 2011) the other five new or revised standards on consolidation, joint arrangements and disclosures were issued by the HKICPA in June, 2011 and are effective for annual periods beginning on or after 1st January, 2013. Earlier application is permitted provided that all of these five new or revised standards are applied early at the same time. The directors of the Company anticipate that these new or revised standards will be applied in the Group's consolidated financial statements for financial year ending 31st December, 2013.

The directors of the Company anticipate that the application of the new or revised standards 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 period under review.

	Six months ended 30th June,			
	Turnover		Results	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
United States	**347,802**	328,785	**54,938**	72,838
Europe	**9,288**	18,311	**714**	658
Mexico	**2,442**	11,137	**116**	1,281
Canada	**14,323**	10,249	**2,485**	1,227
Australia	**5,573**	7,200	**790**	460
Hong Kong	**6,693**	3,412	**945**	380
All other locations *(Note)*	**8,262**	21,075	**(1,075)**	(1,112)
	394,383	400,169	**58,913**	75,732
Unallocated income			**6,113**	2,677
Unallocated expenses			**(56,718)**	(62,800)
Finance costs			**(1,522)**	(2,530)
Profit before taxation			**6,786**	13,079
Income tax credit			**1,472**	2,705
Profit for the period			**8,258**	15,784

Note: All other locations include the People's Republic of China (other than Hong Kong), Russia, 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 investment income, other non-operating income, central administration costs and finance costs. This is the measure reported to the chief operating decision maker, for the purposes of resource allocation and performance assessment.

4. INCOME TAX CREDIT

	Six months ended 30th June,	
	2011	2010
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Current tax:		
Hong Kong	**180**	200
Other jurisdictions	**231**	443
	411	643
Underprovision in prior years		
Hong Kong	**37**	–
Other jurisdictions	**750**	–
	787	–
Deferred tax:		
Current period	**(2,670)**	(3,348)
Income tax credit	**(1,472)**	(2,705)

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the period ended 30th June, 2011 and 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") and Keyhinge Toys Vietnam Joint Stock Company ("KVN") are 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 ended 30th June, 2011, MVN applied the tax rate of 5% (six months ended 30th June, 2010: 5%) on the estimated assessable profit as it is the seventh year since its first profit-making year and KVN applied the tax rate of 10% on the estimated assessable profit as it is the fifteen year since its first profit-making year. The applicable Vietnam enterprise income tax rate for Associated Manufacturing Vietnam Company Limited ("AVN") is 15% since the date of operation on the estimated assessable profit for twelve years followed by 25%. AVN is eligible for exemption from Vietnam enterprise income tax for eight 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, 2011 is the fourth profit-making year of AVN and thus AVN is exempted from Vietnam enterprise income tax for the six months ended 30th June, 2011 and 2010.

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 certain subsidiaries of the Group is currently under audit by the Hong Kong Inland Revenue Department ("IRD"). In March, 2008, 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 heldover on condition that the subsidiaries purchased an equal amount of tax reserve certificates, and the amount of HK$12,965,000 was heldover 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. In March, 2010, the IRD issued assessments to certain subsidiaries in respect of the year of assessment for 2003/2004 amounting to approximately HK$41,234,000. 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 whole tax demanded for the year of assessment for 2003/2004 of HK$41,234,000 was heldover unconditionally by the IRD. In March, 2011, the IRD issued assessments to certain subsidiaries in respect of the years of assessment from 2004/2005 amounting to approximately HK$50,097,000 and approximately HK$42,835,000 tax demanded was heldover unconditionally by the IRD. The Company appointed a tax advisor to assist the Group in handling this tax audit. Up to the date of this report, the tax advisor together with the management of the Group had several meetings with the case officer of the IRD and settlement proposals were submitted to the IRD. The directors are of the opinion that the final assessments for the years of assessments from 2000/2001 to 2009/2010 will be settled soon. Since the Group has not received the final assessments, the ultimate outcome of the matter cannot presently be confirmed and there is no guarantee whether the submitted proposal will eventually be accepted by the IRD. As at 30th June, 2011, 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, 2010: HK$56,500,000).

The directors are of the view after taking advice from professional tax advisers and the understanding during the discussion with case officer of the IRD that the amount of tax payable presented in the unaudited condensed consolidated financial statements should be sufficient for settlement of the tax audit.

5. PROFIT FOR THE PERIOD

	Six months ended 30th June,	
	2011	2010
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Profit for the period has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	**22,773**	22,824
Net gain on disposal of property, plant and equipment	**(29)**	(87)
Gain on fair value changes of held-for-trading investments	**–**	41
Amortisation of intangible assets included in cost of sales *(Note)*	**6,218**	6,218
Amortisation of prepaid lease payments	**16**	16
Net exchange gain	**(6,057)**	(2,677)

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

During the current interim period, a final dividend of HK$5 cents per share in respect of year ended 31st December, 2010 (2010: HK$5 cents per share in respect of the year ended 31st December, 2009) was declared and paid to the owners of the Company. The aggregate amount of the final dividend declared and paid in the current interim period amounted to HK$35,615,000 (2010: HK$35,615,000). A scrip dividend alternate was offered to shareholders in respect of the 2010 final dividend.

Subsequent to 31st December, 2010, the scrip dividend alternate was accepted by some of the shareholders in respect of the 2010 final dividend. A total of 5,033,085 scrip dividend shares for the dividend of approximately HK$7,831,000 were issued to the shareholders on 17th June, 2011 and the rest of approximately HK$27,784,000 was paid to the shareholders as cash dividend.

In respect of the current interim period, the Directors had resolved to declare an interim dividend of HK1.1 cents (2010: HK3 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 12th September, 2011. 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,**	
	2011	2010
	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)	**8,258**	15,784

Number of shares	**Six months ended 30th June,**	
	2011	2010
	(Unaudited)	(Unaudited)
Weighted average number of ordinary shares for the purpose of basic earnings per share	**717,327,313**	712,294,228
Effect of dilutive potential ordinary shares: Share options issued by the Company	**8,134,620**	305,543
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**725,461,933**	712,599,771

8. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment at a cost of approximately HK$34,799,000 (six months ended 30th June, 2010: HK$3,292,000) directly and HK$nil (30th June, 2010: HK$19,983,000) 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$221,000 (six months ended 30th June, 2010: HK$1,104,000) for the cash proceeds of approximately HK$250,000 (six months ended 30th June, 2010: HK$1,191,000), resulting in a gain on disposal of approximately HK$29,000 (six months ended 30th June, 2010: gain of HK$87,000)

At 30th June, 2011, 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, 2011 *HK$'000* **(Unaudited)**	31st December, 2010 *HK$'000* (Audited)
Trade receivables	**55,036**	127,895
Less: allowance for doubtful debts	**(5,153)**	(5,153)
	49,883	122,742
Other receivables	**19,922**	24,422
	69,805	147,164

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, 2011 *HK$'000* **(Unaudited)**	31st December, 2010 *HK$'000* (Audited)
0 – 60 days	**44,783**	103,701
61 – 90 days	**4,173**	18,303
> 90 days	**927**	738
	49,883	122,742

10. TRADE AND OTHER PAYABLES AND ACCRUALS

	30th June, 2011 **(Unaudited)** *HK$'000*	31st December, 2010 (Audited) *HK$'000*
Trade payables	**82,474**	92,891
Other payables and accruals	**52,971**	61,042
	135,445	153,933

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

	30th June, 2011	31st December, 2010
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
0 – 60 days	**58,892**	73,806
61 – 90 days	**22,020**	15,831
> 90 days	**1,562**	3,254
	82,474	92,891

11. SHARE CAPITAL

	Number of shares		**Share Capital**	
	30th June, 2011	31st December, 2010	**30th June, 2011**	31st December, 2010
	'000	*'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Audited)	**(Unaudited)**	(Audited)
Ordinary shares of HK$0.10 each:				
Authorised:				
At the beginning and end of the period	**1,000,000**	1,000,000	**100,000**	100,000
Issued and fully paid:				
At the beginning of the period	**712,294**	712,294	**71,229**	71,229
Issued in lieu of cash dividend *(note)*	**5,033**	–	**504**	–
At the end of the period	**717,327**	712,294	**71,733**	71,229

Note: On 17th June, 2011, the Company issued and allotted a total of 5,033,085 ordinary shares of HK$0.10 each in the Company at par value to the shareholders who elected to receive shares in the Company in lieu of cash payment for the 2010 final dividend. These shares issued rank pari passu with the then existing shares in all respects.

12. CONTINGENT LIABILITIES AND CLAIMS

A. Legal and other 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. The details of the additional tax assessment issued by IRD are set out in note 4.

2) A legal claim was filed on 10th January, 2011 against Funrise, Inc., a subsidiary of the Company by Charles M. Forman (the "Plaintiff A"), liquidator of a customer of Funrise, Inc. (the "Debtor A"). In addition, a legal claim was filed on 20th January, 2010 against Associated Traders Hong Kong Limited ("ATL"), a subsidiary of the Company by Hoop Liquidating Trust (the "Plaintiff B"), liquidator of a customer of ATL (the "Debtor B").

   Plaintiff A and Plaintiff B alleged their complaints against Funrise, Inc. and ATL by bringing adversary proceedings to avoid and recover the monetary value of all such preferential transfers (the "Transfers") made by one or more of the Debtor A and the Debtor B to Funrise, Inc. and ATL arising from the Debtors' bankruptcy.

   The total potential claims are approximately US$115,000 and US$338,000 against Funrise, Inc. and ATL respectively (total equivalent to HK$3,533,000). The directors believe, based on legal advice, Funrise, Inc. and ATL have a meritorious defense based on a "contemporaneous exchange of value". The aforementioned complaint 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 consolidated financial statements.

3) Matrix Distribution Limited ("MDL"), a subsidiary of the Company and Global Brands (Football) Pte Ltd ("GBG") entered into the Supply Appointment Agreement ("Agreement") on 5th October, 2007. Pursuant to the agreement, GBG shall actively seek out and introduce sales to MDL of at least 20 million products. In return, MDL agreed to pay GBG a minimum royalty guarantee of US$15,000,000 with four installments.

Arbitration proceedings had commenced by MDL against GBG on 26th April, 2010 and a claim was lodged on 26th July, 2010 for breach of Agreement of approximately of US$8,770,000 plus damages for loss of profit due to unattainable sales level introduced to MDL from GBG. On 18th May, 2011, GBG lodged defense and counter claim to MDL in arbitration proceeding, for failure of settlement of two installments total amounting to US$7,000,000 in accordance to the Agreement. The outcome of the proceeding cannot be reasonably ascertained at this stage. The directors believe, based on the legal advice, the aforementioned 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 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 AND ANALYSIS

The sovereign debt issues stemming from the US and Europe had badly hit the world's sentiment and dampened the toys market, with numerous players being squeezed out of the market. This had lent ample business opportunities to reputable and reliable players like us. During the first half of 2011, though it was not much of a solid and robust growth scenario, the world's economy had been reviving steadily. The Group was taking Vietnam as a major production base, where production costs are comparatively lower to enable production of more sophisticated products with higher profit margins and bargaining power by the Group. Against this backdrop, we had struck to balance our sales, revenue and profit.

MANUFACTURING OPERATION

The Group operates a total of five factories, one in Zhongshan, China and four in Vietnam. In order to enhance production and cost efficiency by lowering direct labor costs and administration expenses, the Group has further expanded our production activities in Vietnam. Competition among manufacturers has forced manufacturers in Pearl River Delta, China to offer higher salary. In order to better manage our cost, the Group took full advantage of the relatively cheap labor and unrestricted currency appreciation of Vietnam, made it as our main production base. During the period under review, with a view to ease the pressure arising from higher cost compared with corresponding period last year, Vietnam's factories employed seasonal contracted staffs and employed fewer workers in China's factory. As such, factories in Vietnam represent all the production power of the Group's toy manufacturing operation in 2011. In order to meet the strict production requirements and ease cost pressure, the Group had implemented stringent cost control to monitor capital expenses internally. As our long-term measure to increase production value per capita, reduce wastes and provide continued support for toy manufacturing Research and Development, we have upgraded our modernized production facilities and enhanced automatic production program to manufacture products in an efficient and cost effective way. The Group has also optimized the procurement procedure for raw materials.

SEGMENT PERFORMANCES

As of the end of the first half of 2011, the market condition of our major export market US, Europe and Canada was still competitive. Since the financial tsunami, as affected by the weak sentiment of the global economy, customers still being conservative in placing order, especially for high-end toys. As for customers for lower priced goods, orders were still affected by the economic uncertainties. However, the Group's overall financial position was still stable amid the uncertain business environment. The Group kept developing innovative toys and was well received by the market. In order to reduce the reliance on specific market, the Group kept trying hard to expand its business to new market and exploring new sales channel, such as through wholesalers, internet and other professional retailers. Benefited from our strong partnership with world famous toys brand, the Group has further diversified its product mix and set up new product series. The Group was authorized to produce exclusive products for HOP, and the products were well received in major markets. Besides striving for maintaining sales amount, the Group also work hard to maintain stable gross profit margin. The Group achieved the following development in our operations by geographic locations:

United States

Our turnover in the United States increased by HK$19,017,000 or 5.8% to HK$347,802,000 this period compared with HK$328,785,000 corresponding period last year. The sales growth in the United States market was mainly attributable from client-owned brand "Tonka" and self-owned brand "Gazillion Bubbles". With the economy becoming stable, our sales gradually recovered to stable level. Furthermore, products of our exclusive licensed brand "HOP" has earned good response in the United States market, which offset the decrease in shipment for products of our self-owned brand "Girl Activities". Besides, the Group strived to continue the relationship with its existing distributors and customers, such as Wal-Mart USA, Target, Costco USA and Toys"R"Us, etc.

Canada

Our turnover in Canada increased by HK$4,074,000 or 39.8% to HK$14,323,000 this period compared with HK$10,249,000 corresponding period last year. The increase in turnover in Canada market, especially for products of "Gazillion Bubbles", was mainly attributable to the economy becoming stable and sales gradually recover to stable level, as well as the Group strived to continue the relationship with its existing distributors and customers such as Wal-Mart Canada.

Europe

Our turnover in Europe market decreased by HK$9,023,000 or 49.3% to HK$9,288,000 this period compared with HK$18,311,000 corresponding period last year. Such decrease was mainly due to the adjustment made to certain products in response to the market condition. However, the Group still strived to continue the relationship with its existing distributors and customers such as Top Toy in Denmark and Sunman in Turkey.

Mexico

Our turnover in Mexico decreased by HK$8,695,000 or 78.1% to HK$2,442,000 this period compared with HK$11,137,000 corresponding period last year. Such decrease was mainly due to the adjustment made to certain products in response to the market condition. However, the Group still strived to continue the relationship with its existing distributors and customers such as Wal-Mart Mexico.

Australia

Our turnover in Australia decreased by HK$1,627,000 or 22.6% to HK$5,573,000 this period compared with HK$7,200,000 corresponding period last year. The decrease was mainly due to the reduction of ordering contracts by some of our customers and the adjustment made to certain products in response to the market condition. However, the Group still strived to continue the relationship with its existing distributors and customers such as Kmart Australia, etc.

Hong Kong

Our turnover in Hong Kong increased by HK$3,281,000 or 96.2% to HK$6,693,000 this period compared with HK$3,412,000 corresponding period last year. This is attributable to the economy becoming stable and sales gradually recovered to increasing level.

PROSPECTS

The Group will continue to explore sales opportunities in the global market and to develop own-brand toys. The Group will also maintain close relationship with large retailers and renowned brand owners. The Group will promptly employ new distributors to expand new distribution channels and expedite our sales and marketing effort to maintain our sales volume and obtain more market shares of international customers. As for 2011, our focus will still be placed on maintaining profit and foster major brand, as well as continue to develop main brands including “Tonka”, “Gazillion Bubbles” and “Shelcore”, and strive to explore global market opportunities for new product series, such as new product series namely “Baby Boutique” and products of “HOP” and “Baby Alive”. The Group will keep manufacturing high quality products with competitive prices while maintaining our profit margins. In addition, to maintain strategic partnership with renowned brand owners and to maintain close relationship with large retailers will have a positive impact on the long-term business growth of the Group. The Group will continue to maintain close relationship with its brand holders including “Hasbro” and “Universal”, so as to enable the Group to provide various kinds of products for leading authorized brands, making sure that retailers will keep selling those products. The Group will continue to provide full support to the Code of Business Practices of the International Council of Toy Industries, and to reduce excessive packaging to protect the environment. Furthermore, our Group is still looking into the feasibility of expanding the diversified product mix for high-end plush toys market, which is also supported by our quality customer base consisted of renowned toy brands and retailers in the world. In general, the Group is optimistic about the global toys retailing market.

Although LED lighting market grows rapidly, LED lighting products only account for a very small market share as compared with existing lighting products sold in the lighting market. On the other hand, LED lighting products will be a great potential business in the world. Nevertheless, the high price of LED lighting products, limited choices, as well as countries like United States and most Asian countries still selling incandescent bulbs are the major obstacles for the LED lighting products to grow. However, most of the above-said countries will forbid from selling incandescent bulbs in the coming years, as such, it will become very important to control the cost of raw materials and LED lighting products. The Group has more than twenty years experience in large scale product production, making we have sound ability in controlling production cost for lighting products. Furthermore, except the LED chips, other parts of LED lighting products were produced and manufactured by the plants of the Group. As such, the Group can produce products with competitive price and good quality control. The Group has obtained several patent certificates related to LED lighting products, with some new patents are still pending for patent examination.

The Hong Kong Government has recently announced the standard requirement of the energy efficiency label for LED lighting products. The United States and the United Kingdom have their own authorized energy efficiency labeling requirement, such as Energy Star of the United States and Energy Saving Trust of the United Kingdom. Hong Kong, the United States and most European countries are now aggressively promoting the use of green lighting products. Some countries have waived the import tax for products with United State's Energy Star label and United Kingdom's Energy Saving Trust label. The above measure has encouraged people to buy LED lighting products. With the advancement in both technology and technique, LED light bulbs will soon become more valuable products for general consumers in the coming years.

The marketing development of LED lighting business is moving forward and the Group has participated in more than six exhibitions in the past six months, including Canton Fair, Hong Kong International Lighting Fair and US Light Fair, and will keep participating relative exhibitions in the coming year. We have established sales team in the United States to handle North American and South American market, and has introduced products to enter the North American and South American market.

A well equipped new laboratory for designing and constructing LED lighting products located in China factory is now in full operation, more LED lighting products have been developed to expand our LED brandname of "Viribright" and the new products have received positive response from our potential customers. Looking forward to the year ahead, the Group feels confident to the Group's LED lighting business, and expects to generate satisfactory returns from the market.

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 30th June, 2011, the Group had bank balances and cash of approximately HK$86,334,000 (31st December, 2010: HK$62,765,000) and pledged bank deposit of approximately HK$2,180,000 (31st December, 2010: HK$2,177,000) secured for banking facilities granted. As at 30th June, 2011, the Group obtained banking facilities in a total of approximately HK$52,300,000 (31st December, 2010: HK$52,300,000) secured by corporate guarantee given by the Company.

As at 30th June, 2011, the Group had bank borrowings of approximately HK$5,151,000 (31st December, 2010: HK$nil). The Group's gearing ratio, representing the total debt divided by equity attributable to owners of the Company, was 16.3% (31st December, 2010: 16.6%).

During the period, net cash generated from operating activities amounted to approximately HK$78,412,000 (30th June, 2010: net cash used in operating activities HK$103,655,000). 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 at a cost of approximately HK$14,517,000 (30th June, 2010: HK$174,000), and plant and equipment at a cost of approximately HK$20,282,000 (30th June, 2010: HK$3,292,000) 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, 2011, the Group had total assets of approximately HK$789,260,000 (31st December, 2010: HK$823,976,000), total liabilities of approximately HK$286,772,000 (31st December, 2010: HK$305,750,000) and equity attributable to owners of the Company of approximately HK$502,488,000 (31st December, 2010: HK$518,226,000). The net assets of the Group decreased 3% to approximately HK$502,488,000 as at 30th June, 2011 (31st December, 2010: HK$518,226,000).

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, 2011, the Group had a total of approximately 12,300 (31st December, 2010: 12,000) 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 HK$1.1 cents (2010: HK3 cents in cash) per share for the six months ended 30th June, 2011, payable to shareholders whose names appear on the Register of Members of the Company on 12th September, 2011.

The record date for the purpose of determining the shareholders which are entitled to dividends is 12th September, 2011. 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 12th September, 2011. The interim dividend will be paid on or around 20th September, 2011.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the six months ended 30th June, 2011, 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

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; 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 (collectively the "Facilities"). The Facilities include, inter alia, a condition to the effect that Mr. Cheng Yung Pun, the controlling shareholder of the Company, 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 any significant change on the above condition occurs, the Lender can request to adjust or terminate the facilities.

REVIEW OF INTERIM RESULTS

The unaudited interim results for the six months ended 30th June, 2011 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 2011 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, Mr. Tsang Chung Wa and Mr. Tse Kam Wah as executive Directors and Dr. Loke Yu alias Loke Hoi Lam, Mr. Mak Shiu Chung, Godfrey and Mr. Wan Hing Pui as independent non-executive Directors.

By Order of the Board
Cheng Yung Pun
Chairman

Hong Kong, 25th August, 2011