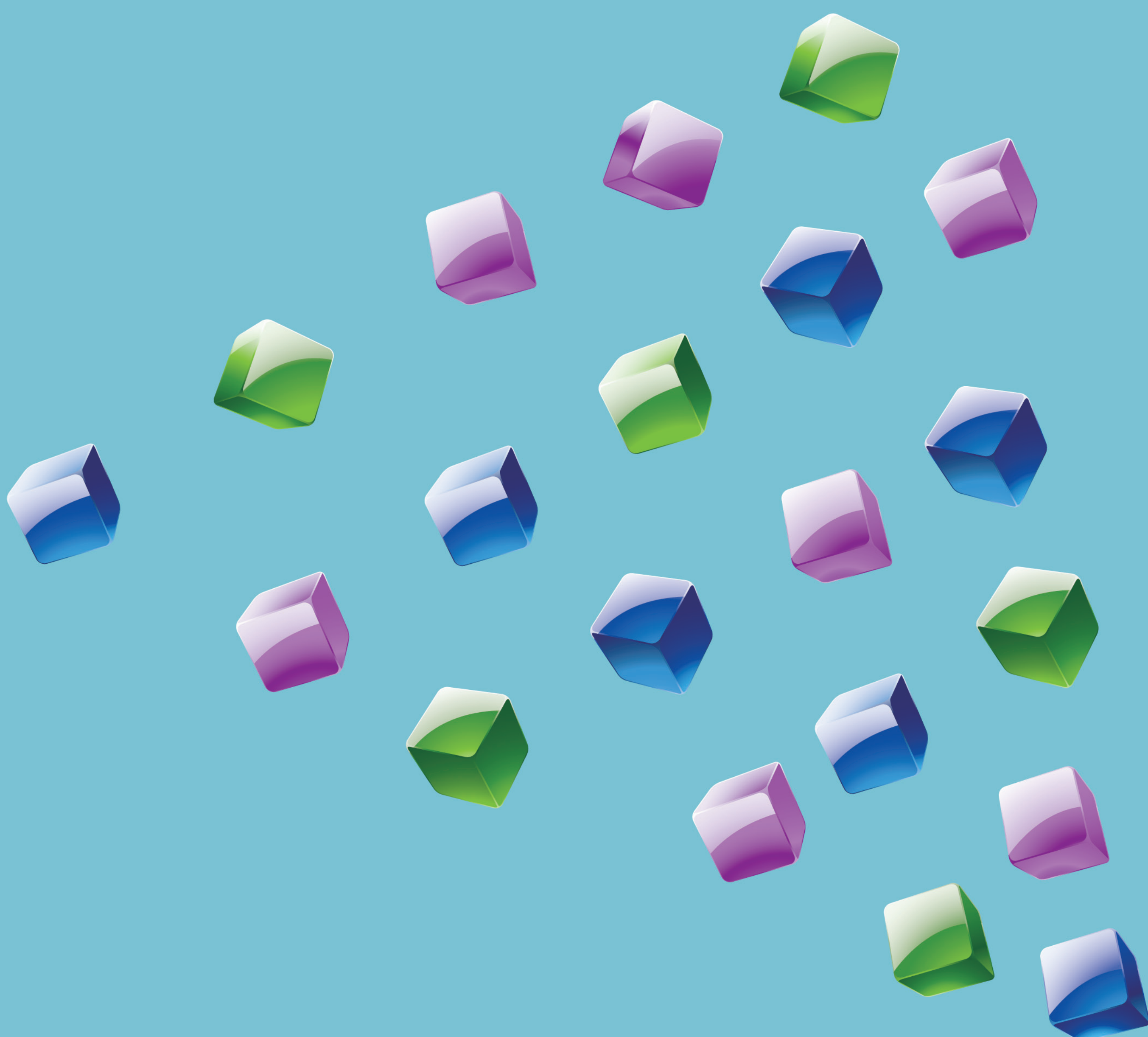
Interim Report 2009

Matrix Holdings Limited
美力時集團有限公司

(Incorporated in Bermuda with limited liability)
Stock Code : 1005



Our Mission

- To enhance customer satisfaction through delivery of high quality products that meet world safety standard

- To be a socially responsible employer by providing safe and pleasant working environment to workers

- To be environmentally responsible in all its manufacturing processes through recycling and adherence to national and local environmental protection laws

- To optimize shareholders' return by pursuing business growth, diversification and productivity enhancement

Corporate Information

BOARD OF DIRECTORS

Executive Directors
Cheng Yung Pun *(Chairman)*
Arnold Edward Rubin *(Vice-Chairman)*
Yu Sui Chuen
Cheng Wing See, Nathalie

Independent Non-executive Directors
Loke Yu alias Loke Hoi Lam
Mak Shiu Chung, Godfrey
Wan Hing Pui

AUDIT COMMITTEE & REMUNERATION COMMITTEE

Loke Yu alias Loke Hoi Lam *(Chairman)*
Mak Shiu Chung, Godfrey
Wan Hing Pui

COMPANY SECRETARY

Lai Mei Fong

AUDITOR

Deloitte Touche Tohmatsu
35th Floor
One Pacific Place
88 Queensway
Hong Kong

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

SHARE REGISTRAR

Butterfield Fulcrum Group (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke HM08
Bermuda

BRANCH SHARE REGISTRAR IN HONG KONG

Tricor Secretaries Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong

PRINCIPAL PLACE OF BUSINESS

Room No. 1008
10th Floor, Tsim Sha Tsui Centre
66 Mody Road
Tsimshatsui East
Kowloon, Hong Kong

PRINCIPAL BANKER

Bank of China (Hong Kong) Limited

WEBSITE

www.irasia.com/listco/hk/matrix/index.htm

STOCK CODE

1005 (Main Board of The Stock Exchange of Hong Kong Limited)

Result Highlights

FINANCIAL HIGHLIGHTS

	Six months ended 30th June,		
	2009	2008	Changes
	HK$	*HK$*	*%*
Turnover	**413,605,000**	560,437,000	-26.2%
Profit attributable to owners of the Company	**12,279,000**	15,240,000	-19.4%
Basic earnings per share	**0.02**	0.02	–
Interim dividend, declared	**0.02**	0.02	–
Gross profit margin ratio *(%)*	**32.4%**	29.6%	+9.5%

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, 2009, together with the comparative figures for the corresponding period in 2008.

In the first half of 2009, the consolidated turnover of the Group dropped by 26.2% to HK$413,605,000 (six months ended 30th June, 2008: HK$560,437,000). The decrease was mainly caused by the dramatic deterioration of global economy due to the outbreak of financial tsunami in the United States in the fourth quarter 2008.

The rapid economic downturn and the credit crunch had left consumers and businesses without the finance to support demand and investment. During the period under review, the major mass retailers in the United States predicted the downturn and further tightened their inventory and purchasing policies by deferring purchases.

Due to the drop of sales, the profit attributable to owners of the Company dropped by 19.4% to HK$12,279,000 (six months ended 30th June, 2008: HK$15,240,000) which resulted in a basic earnings per share HK$0.02 (2008: HK$0.02). However, the gross profit margin ratio slightly improved due to the falloff of the commodity prices and the substantial decrease of customers with lower margins and little orders.

For the six months ended 30th June, 2009, the United States continued to be the largest customer market of the Group, accounting for approximately 89.2% of the Group's total turnover (2008: 83.7%). The other significant customer markets for the Group included Europe, Canada, Russia and Hong Kong, which accounted for approximately 2.97% (2008: 5.1%), 1.8% (2008: 2.0%), 0.26% (2008: 2.1%) and 0.69% (2008: 1.1%) respectively.

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30th June, 2009

		Six months ended 30th June,	
		2009	2008
		HK$'000	*HK$'000*
	NOTES	**(Unaudited)**	(Unaudited)
Turnover	*3*	**413,605**	560,437
Cost of sales		**(279,588)**	(394,566)
Gross profit		**134,017**	165,871
Other income		**5,048**	8,561
Distribution and selling costs		**(67,590)**	(76,808)
Administrative expenses		**(56,857)**	(74,280)
Written back of (allowance for) bad and doubtful debts		**753**	(2,830)
Finance costs		**(4,038)**	(5,889)
Profit before taxation		**11,333**	14,625
Income tax credit	*4*	**946**	614
Profit for the period	*5*	**12,279**	15,239
Other comprehensive income			
Exchange differences arising on translation of foreign operations		**(2,581)**	(12,661)
Total comprehensive income for the period		**9,698**	2,578
Profit for the period attributable to:			
Owners of the Company		**12,279**	15,240
Minority interest		**–**	(1)
		12,279	15,239
Total comprehensive income attributable to:			
Owners of the Company		**9,698**	2,579
Minority interest		**–**	(1)
		9,698	2,578
Earnings per share – Basic	*7*	**HK$0.02**	HK$0.02

Condensed Consolidated Statement of Financial Position

At 30th June, 2009

	NOTES	30th June, 2009 HK$'000 (Unaudited)	31st December, 2008 HK$'000 (Audited)
Non-current assets			
Property, plant and equipment	8	**254,871**	267,399
Prepaid lease payments		**1,031**	1,047
Goodwill		**136,548**	136,548
Intangible assets		**48,986**	55,205
Deferred tax assets		**309**	314
		441,745	460,513
Current assets			
Inventories		**170,734**	198,676
Trade and other receivables	9	**108,625**	198,559
Prepaid lease payments		**32**	32
Tax recoverable		**6,113**	6,632
Held-for-trading investments		**37**	29
Amounts due from the disposed subsidiaries		**–**	19,059
Amounts due from related companies		**19,037**	–
Pledged bank deposit		**5,001**	5,001
Bank balances and cash		**22,126**	22,316
		331,705	450,304
Current liabilities			
Trade and other payables and accruals	10	**136,663**	200,449
Tax payable		**58,088**	58,246
Amount due to ultimate holding company		**1,136**	738
Unsecured bank borrowings		**15,213**	72,441
Obligations under finance leases		**2,073**	1,928
		213,173	333,802
Net current assets		**118,532**	116,502
Total assets less current liabilities		**560,277**	577,015
Capital and reserves			
Share capital	11	**71,229**	71,229
Share premium and reserves		**348,536**	346,487
Equity attributable to owners of the Company		**419,765**	417,716
Non-current liabilities			
Deferred tax liabilities		**15,351**	16,377
Obligations under finance leases		**2,971**	4,045
Loan from a shareholder	12	**122,190**	138,877
		140,512	159,299
		560,277	577,015

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30th June, 2009

	Share capital *HK$'000*	Share premium *HK$'000*	Special reserve *HK$'000* *(Note 1)*	Shareholders' contribution *HK$'000*	Share options reserve *HK$'000*	Asset revaluation reserve *HK$'000*	Legal reserve *HK$'000* *(Note 2)*	Translation reserve *HK$'000*	Retained profits *HK$'000*	Attributable to owners of the Company *HK$'000*	Minority interest *HK$'000*	Total *HK$'000*
At 1st January, 2008 (audited)	67,286	123,382	771	15,909	6,419	48,065	49	(10,609)	205,539	456,811	1,651	458,462
Profit for the period	–	–	–	–	–	–	–	–	15,240	15,240	(1)	15,239
Exchange difference arising on translation of foreign operations	–	–	–	–	–	–	–	(12,661)	–	(12,661)	–	(12,661)
Total comprehensive income for the period	–	–	–	–	–	–	–	(12,661)	15,240	2,579	(1)	2,578
Recognition of equity-settled share based payments	–	–	–	–	788	–	–	–	–	788	–	788
Dividend recognised as distribution *(note 6)*	–	–	–	–	–	–	–	–	(20,186)	(20,186)	–	(20,186)
At 30th June, 2008 (unaudited)	67,286	123,382	771	15,909	7,207	48,065	49	(23,270)	200,593	439,992	1,650	441,642
Loss for the period	–	–	–	–	–	–	–	–	(52,601)	(52,601)	(17)	(52,618)
Exchange difference arising on translation of foreign operations	–	–	–	–	–	–	–	(1,968)	–	(1,968)	–	(1,968)
Deferred tax liability arising on revaluation of land and buildings, and plant and machinery	–	–	–	–	–	(808)	–	–	–	(808)	–	(808)
Gain on revaluation of land and buildings, and plant and machinery	–	–	–	–	–	5,535	–	–	–	5,535	–	5,535
Disposal of subsidiaries	–	–	–	–	–	(6,847)	–	13,859	6,847	13,859	–	13,859
Total comprehensive income for the period	–	–	–	–	–	(2,120)	–	11,891	(45,754)	(35,983)	(17)	(36,000)
Issue of shares pursuant to scrip dividend	3,943	(3,943)	–	–	–	–	–	–	21,990	21,990	–	21,990
Deemed contribution from a shareholder	–	–	–	5,455	–	–	–	–	–	5,455	–	5,455
Disposal of subsidiaries	–	–	–	(6,901)	–	–	–	–	6,901	–	(1,633)	(1,633)
Dividend paid	–	–	–	–	–	–	–	–	(13,738)	(13,738)	–	(13,738)
At 31st December, 2008 (audited)	71,229	119,439	771	14,463	7,207	45,945	49	(11,379)	169,992	417,716	–	417,716
Profit for the period	–	–	–	–	–	–	–	–	12,279	12,279	–	12,279
Exchange difference arising on translation of foreign operations	–	–	–	–	–	–	–	(2,581)	–	(2,581)	–	(2,581)
Total comprehensive income for the period	–	–	–	–	–	–	–	(2,581)	12,279	9,698	–	9,698
Share option lapsed	–	–	–	–	(2,030)	–	–	–	2,030	–	–	–
Deemed contribution to a shareholder	–	–	–	(526)	–	–	–	–	–	(526)	–	(526)
Dividend paid *(note 6)*	–	–	–	–	–	–	–	–	(7,123)	(7,123)	–	(7,123)
At 30th June, 2009 (unaudited)	71,229	119,439	771	13,937	5,177	45,945	49	(13,960)	177,178	419,765	–	419,765

Notes:

1) The special reserve of the Group represents the difference between the nominal amount of the share capital issued by the Company and the aggregate nominal amount of the share capital of subsidiaries acquired in exchange under the group reorganisation in 1994.

2) In accordance with the provisions of the Macao Commercial Code, one of the subsidiaries of the Company is required to transfer a minimum of 25% of its profit for the period to a legal reserve on the appropriation of profits to dividends until the reserve equals half of the quota capital of that subsidiary. The transfer reached half of the quota capital of that subsidiary as at 31st December, 2007. This reserve is not distributable to the shareholders.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30th June, 2009

	Six months ended 30th June,	
	2009	2008
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Net cash from (used in) operating activities	**97,743**	(11,979)
Net cash (used in) from investing activities:		
Proceeds from disposal of property, plant and equipment	**61**	233
Purchase of property, plant and equipment	**(13,209)**	(33,041)
Other investing cash flows	**97**	(108)
	(13,051)	(32,916)
Net cash (used in) from financing activities:		
Repayment of bank borrowings	**(156,462)**	(233,661)
New bank loans raised	**112,975**	238,993
Repayment to ultimate holding company	**(3,011)**	–
Advance from ultimate holding company	**3,409**	12,415
Repayment to a shareholder	**(20,000)**	–
Dividends paid	**(7,123)**	–
Other financing cash flows	**(14,670)**	22,469
	(84,882)	40,216
Net decrease in cash and cash equivalents	**(190)**	(4,679)
Cash and cash equivalents at 1st January,	**22,316**	27,854
Cash and cash equivalents at 30th June, represented by:		
Bank balances and cash	**22,126**	23,175

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30th June, 2009

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, 2008.

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, 2008.

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"), which are effective for the Group's financial year beginning on 1st January, 2009.

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning or after 1st July, 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39
HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
HKAS 32 and 1 (Amendments)	Puttable Financial Instruments and Obligation Arising on Liquidation
HKFRS 1 and HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC) – Int 9 and HKAS 39 (Amendments)	Embedded Derivatives
HK(IFRIC) – Int 13	Customer Loyalty Programmes
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation

HKAS 1 (Revised) "Presentation of Financial Statements" has introduced a number of terminology changes, including revised titles for the condensed consolidated financial statements, and has resulted in a number of changes in presentation and disclosure.

HKFRS 8 "Operating Segments" is a disclosure standard that requires the identification of operating segments to be performed on the same basis as financial information that is reported internally for the purpose of allocating resources between segments and assessing their performance. The predecessor standard, HKAS 14 "Segment Reporting", required the identification of two sets of segments (business and geographical) using a risks and returns approach. In the past, the Group's primary reporting format was geographical segments by location of customers. The application of HKFRS 8 has not resulted in a re-designation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14 *(see note 3)*.

The adoption of the new and revised HKFRSs has had no material effect on the reported results and financial position of the Group for the current and prior accounting periods. Accordingly, no prior period adjustment has been recognised.

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)	Amendment to HKFRS 5 as part of Improvements to HKFRSs issued in 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[1]
HKAS 39 (Amendment)	Eligible Hedged Items[1]
HKFRS 1 (Amendment)	Additional exemptions for first-time adopters[3]
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[3]
HKFRS 3 (Revised)	Business Combinations[1]
HK(IFRIC) – Int 17	Distribution of Non-cash Assets to Owners[1]
HK(IFRIC) – Int 18	Transfers of Assets from Customers[4]

1 Effective for annual periods beginning on or after 1st July, 2009.

2 Amendments that are effective for annual periods beginning on or after 1st July, 2009 or 1st January, 2010, as appropriate.

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

4 Effective for transfers on or after 1st July, 2009.

The adoption of HKFRS 3 (Revised) may affect the Group's accounting for business combinations for which the acquisition dates are on or after the beginning of the first annual reporting period beginning on or after 1st July, 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary that do not result in loss of control of the subsidiary. Changes in the Group's ownership interest that do not result in loss of control of the subsidiary will be accounted for as equity transactions.

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 Group has adopted HKFRS 8 "Operating Segments" with effect from 1st January, 2009. HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker, represented by the board of directors, in order to allocate resources to segments and to assess their performance. In contrast, the predecessor Standard (HKAS 14 Segment Reporting) required an entity to identify two sets of segments (business and geographical) using a risks and returns approach, with the entity's "system of internal financial reporting to key management personnel" serving only as the starting point for the identification of such segments. In the past, the Group's primary reporting format was geographical segments by location of customers. The application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14. Nor has the adoption of HKFRS 8 changed the basis of measurement of segment profit or loss.

The following is an analysis of the Group's revenue and results geographical segments for the periods under review.

	Six months ended 30th June,			
	Turnover		**Results**	
	2009	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
United States	**368,927**	469,233	**45,982**	68,314
Europe	**12,295**	28,502	**1,226**	6,644
Canada	**7,428**	11,438	**240**	1,728
Hong Kong	**2,856**	6,056	**126**	479
Russia	**1,061**	11,928	**104**	1,488
Others	**21,038**	33,280	**(1,683)**	3,774
	413,605	560,437	**45,995**	82,427
Unallocated other income			**5,048**	8,253
Unallocated costs				
– Distribution and selling expenses			**(1,730)**	(10,995)
– Central administrative costs and directors' salaries			**(33,942)**	(59,171)
– Finance costs			**(4,038)**	(5,889)
Profit before taxation			**11,333**	14,625
Income tax credit			**946**	614
Profit for the period			**12,279**	15,239

All of the segment revenue reported above is from external customers.

Segment profit represents the profit earned by each segment without allocation of central administrative costs and directors' salaries, other income and finance costs. This is the measure reported to the Group's Chief Executive Officer for the purposes of resource allocation and assessment of segment performance.

4. INCOME TAX CREDIT

	Six months ended 30th June, 2009 HK$'000 (Unaudited)	2008 HK$'000 (Unaudited)
Current tax:		
Hong Kong	**80**	1,580
Overprovision in prior years:		
Hong Kong	**–**	(316)
	80	1,264
Deferred tax:		
Current period	**(1,026)**	(1,026)
Attributable to change in tax rate	**–**	(852)
	(1,026)	(1,878)
Income tax credit	**(946)**	(614)

Hong Kong Profits Tax is calculated at 16.5% (six months ended 30th June, 2008: 16.5%) of the estimated assessable profit for the period ended 30th June, 2009. Taxation arising in other jurisdictions is calculated at the rate prevailing in the relevant jurisdictions.

The tax position of the Group is currently being reviewed by the Hong Kong Inland Revenue Department ("IRD"). As a matter of IRD's practice, IRD issued assessments to certain subsidiaries in respect of the years of assessment 2000/2001 and 2001/2002 amounting to approximately HK$2,345,000 and HK$17,678,000 respectively. The Group filed an objection against such assessments of 2000/2001 and 2001/2002 and tax demanded for 2000/2001 was heldover unconditionally as agreed 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. 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$158,116,000. The directors of the Company strongly disagreed these assessments and filed an objection against such assessments on the grounds that these assessments from IRD were excessive on the basis that certain income under assessment neither arose in, nor was derived from, Hong Kong. The Company had appointed a tax advisor to assist the Group in handling this tax review. The tax review by IRD is still at fact-finding stage, and accordingly, the ultimate outcome of the matter cannot presently be determined. As at 30th June, 2009, the Group had made a tax provision in respect of these subsidiaries in respect of these years of assessment of approximately HK$56,500,000 (six months ended 30th June, 2008: HK$56,500,000).

5. PROFIT FOR THE PERIOD

	Six months ended 30th June,	
	2009	2008
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Profit for the period has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	**24,056**	24,091
Net loss (gain) on disposal of property, plant and equipment	**148**	(88)
Gain on fair value changes of held-for-trading investments	**(8)**	(23)
Amortisation of intangible assets included in cost of sales *(Note)*	**6,219**	6,219
Net exchange loss (gain)	**703**	(7,149)

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,	
	2009	2008
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Final dividend of HK1 cent for the year ended 31st December, 2008 paid during the period (year ended 31st December, 2007: HK3 cents) *(Note)*	**7,123**	20,186

Note: In respect of the current interim period, the Directors had resolved to declare an interim dividend of HK2 cents (2008: HK2 cents) per share to be payable in cash to the shareholders whose names appear on the Register of Members of the Company on 23rd September, 2009. This dividend was declared after the interim reporting date, and therefore has not been included as a liability in the condensed consolidated statement of financial position.

7. EARNINGS PER SHARE

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

Earnings	**Six months ended 30th June,**	
	2009	2008
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Earnings for the purpose of basic earnings per share	**12,279**	15,240

Number of shares	**Six months ended 30th June,**	
	2009	2008
	'000	*'000*
	(Unaudited)	(Unaudited)
Weighted average number of ordinary shares for the purpose of basic earnings per share	**712,294**	672,855

Diluted earnings is not shown as the exercise price of the share options outstanding is higher than the average market price for shares for both the six months ended 30th June, 2009 and 2008.

8. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment at a cost of approximately HK$13,209,000 (six months ended 30th June, 2008: HK$33,041,000).

During the period, the Group disposed of certain property, plant and equipment with a carrying amount of approximately HK$209,000 (six months ended 30th June, 2008: HK$145,000) for the cash proceeds of approximately HK$61,000 (six months ended 30th June, 2008: HK$233,000), resulting in a loss on disposal of approximately HK$148,000 (six months ended 30th June, 2008: gain of HK$88,000)

At 30th June, 2009, 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, 2009	31st December, 2008
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade receivables	**70,211**	153,028
Less: allowance for doubtful debts	**(5,332)**	(6,085)
	64,879	146,943
Other receivables	**43,746**	51,616
	108,625	198,559

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, 2009	31st December, 2008
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
0 – 60 days	**51,315**	114,597
61 – 90 days	**8,936**	26,124
> 90 days	**4,628**	6,222
	64,879	146,943

10. TRADE AND OTHER PAYABLES AND ACCRUALS

	30th June, 2009 HK$'000 (Unaudited)	31st December, 2008 HK$'000 (Audited)
Trade payables	**65,531**	107,549
Other payables and accruals	**71,132**	92,900
	136,663	200,449

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

	30th June, 2009 HK$'000 (Unaudited)	31st December, 2008 HK$'000 (Audited)
0 – 60 days	**51,681**	46,964
61 – 90 days	**6,664**	27,715
> 90 days	**7,186**	32,870
	65,531	107,549

11. SHARE CAPITAL

	Number of shares		**Share Capital**	
	30th June, 2009 '000 (Unaudited)	31st December, 2008 '000 (Audited)	**30th June, 2009 HK$'000 (Unaudited)**	31st December, 2008 HK$'000 (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**	672,855	**71,229**	67,286
Issued in lieu of cash dividend *(Note)*	**–**	39,439	**–**	3,943
At the end of the period	**712,294**	712,294	**71,229**	71,229

Note: On 10th July, 2008 and 17th November, 2008, the Company issued and allotted a total of 14,042,976 shares and 25,395,902 shares of HK$0.10 each in the Company respectively at par value to the shareholders who elected to receive shares in the Company in lieu of cash payment for the 2007 final dividend and 2008 interim dividend. These shares issued rank pari passu with other shares then in issue.

12. LOAN FROM A SHAREHOLDER

The amount is unsecured, interest-free and not due for settlement within two years from 31st December, 2008. The fair value of loan from a shareholder is determined based on an effective interest rate of 3.0% per annum on 31st December, 2008. The difference between the principal amount of the loan and its fair value, determined on 31st December, 2008 amounting to approximately HK$5,455,000 has been credited to equity as deemed contribution from a shareholder.

13. CAPITAL COMMITMENTS

The Group was committed to capital expenditure in respect of the acquisition of property, plant and equipment as follows:

	30th June, 2009	31st December, 2008
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Contracted for but not provided in the condensed consolidated financial statements	**524**	616
Authorised but not contracted for	**96**	150

14. CONTINGENT LIABILITIES

Legal claim

On 2nd November, 2007, the Company and its subsidiary lodged a claim for HK$14,000,000 compensation from a former Chief Executive Officer of the Group for breach of service agreement. On 14th February, 2008, this former Chief Executive Officer lodged a counter claim for approximately HK$15,167,000. As this case is at its early stage of the proceedings, the Directors believe, based on legal advice, that the aforementioned legal action would not result in any material adverse effects on the financial position of the Group. Accordingly, no provision is required to be made in these unaudited condensed consolidated financial statements.

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 aware, no litigation or claims of material importance are pending or threatened by or against any companies of the Group.

15. RELATED PARTY TRANSACTIONS

During the period, the Group entered into the following related party transactions:

	Six months ended 30th June,	
	2009	2008
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Rental paid or payable to related companies *(note a)*	**348**	348
Subcontracting fees paid or payable to a related company *(note b)*	**1,613**	–
Subcontracting fees received or receivable from a related company *(note b)*	**(1,990)**	–
Purchase of finished goods from a related company *(note b)*	**28,632**	–
Sales of raw materials to a related company *(note b)*	**(5,793)**	–
Service fee charged to a related company *(note b)*	**(47)**	–
Sales of fixed assets to a related company *(note b)*	**(53)**	–

Notes:

a. Mr. Cheng Yung Pun and Mr. Arnold Edward Rubin, directors of the Company, have beneficial interests in the related companies.

b. Mr. Cheng Yung Pun, Ms. Cheng Wing See, Nathalie and Mr. Yu Sui Chuen, directors of the Company, are also directors of the related companies but have no beneficial interests in the related companies.

Compensation of key management personnel

The remunerations of directors and other members of key management in respect of the period are as follows:

	Six months ended 30th June,	
	2009	2008
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Salaries and other short-term employee benefits	**3,888**	3,712
Post-employment benefits	**50**	48
	3,938	3,760

Interim Dividend

The Directors had resolved to declare an interim dividend of HK2 cents (2008: HK2 cents) per share for the six months ended 30th June, 2009, payable to shareholders whose names appear on the Register of Members of the Company on 23rd September, 2009. The interim dividend will be paid on or around 29th September, 2009.

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 23rd September, 2009.

Management Discussion & Analysis

BUSINESS REVIEW

The collapse of housing and equity markets in United States ("US"), which began with the US sub-prime mortgage sector in year 2007 and spread to many countries, was swifter and deeper than expected. It quickly spread to the consumer markets and industrialized sector, crimping industrial production and placing many industrial businesses in peril.

Faced with unprecedented loss of wealth and rapidly weakening labour markets, consumers reined-in spending for consumer goods. In addition, the fall in spending that affected so many economies stems directly from heightened uncertainty. Households deferred purchases and firms postponed investments. The incipient slowdown in economic activity and fallout from the financial crisis induced massive price declines. Weak demand and continued rise in unemployment kept consumer goods' price pressures which adversely affected the performance of the Group's toy business.

MANUFACTURING OPERATION

The Group continued to eliminate the production operation in the People's Republic of China ("PRC") due to the external factors such as high currency rate of Renminbi and high labour and facilities cost adversely affected the profitability of running production plant in the PRC, particularly a plant located at coastal areas of the Pearl River Delta Region. To alleviate cost pressure, the Group reduced production of Zhongshan Plant and concentrated on production activities outside Pearl River Delta Region such as expanding the production base in Vietnam to enjoy the comparatively low labour cost in this country.

TOY BUSINESS

The ongoing credit crisis and unfavourable business conditions prevailing worldwide negatively impacted on the Group and other operators in toy industry.

The worldwide sales volume of the Funrise and Shelcore groups had decreased in the first half of 2009 due to the delay of purchase orders by major merchandise retailer and the decrease accounts with lower margin business. The sales included Preschool business under the Shelcore brand, sales in Bubbles and Activities sales were down while Tonka sales improved.

United States and Canada

Meanwhile, sales in US and Canada decreased by 21% and 35% respectively. The sales of Funrise Group and the sales of the original equipment manufacturing products decreased by 22% and 18% respectively. Most of this decrease in Funrise Group was mostly in Bubbles sales. This was mainly due to substantial decrease of customers with lower margins and little orders and further tightened inventory and purchasing policies implemented by major retail customers.

Europe and Russia

The sales in Europe and Russia decreased by 57% and 91% respectively. This was also due to substantial decrease of customers with lower margins. Additionally, as markets in Europe and Russia have strong ties with the US financial system, the sales of the Group were adversely affected. For instance, the sales in Europe were influenced by the devaluation of currency in many European countries, specifically emerging markets led to less money for new orders.

Latin America

The decrease of sales in Latin America was due to the Group's direction on high margin requirements as well as currency exchange with the current world financial crisis.

Asia

Sales in Hong Kong, Taiwan, Macau and Korea decreased while PRC increased as PRC sales were less influenced by the US financial market as compared with other countries.

Overall, continuous strategic partnership with a well known licensor positively impacted the Group's business growth. The Group also has continued relationships for Bubbles licensing including Sesame Street and Disney which enabled Funrise Group to offer an assortment of leading licensed brands maintaining shelf space at the retailers.

Prospects

The effort of central banks and governments in US to reassure markets was complicated by the fact that their implementation of financial support was proving to be more complex than originally envisaged. Bankruptcies, corporate defaults and volatility in equity markets will continue throughout 2009 and policy changed and ambiguities have added to overall uncertainty, thus the recovery of recession will be slowly spread to industrial sector.

Due to overall company direction to improve margin requirements, the sales in Tonka, Bubbles and Preschool business and market sales in US, Canada, Europe, Middle East, Russia and Latin America will be adversely affected. Due to increases in Funrise group's pricing and margin requirements internationally, the businesses with the major mass retailers in 2009 will also be adversely affected.

Though the Group is specifically eliminating or reducing the volume of business with the lower margin customers and many of which are international distributors, more orders in second half than first half are expected for shipment to enable sales for 2009. The Group will continue to focus on key brands including Tonka and Gazillion Bubbles and new Cutie Boutique line by experienced marketing team.

Though the operating conditions is challenging, the Group is dedicated to strive for improved performance by implementing its strategy to produce high quality products with competitive prices as well as to maintain close relationship with the major mass retailers. Also, expenses will continuously be tightly controlled and cost cutting pressures continuously to be implemented to tackle the high production and operational costs. To streamline its existing operations, the Group consolidated manufacturing bases to Vietnam for optimum cost-effectiveness and production efficiency. Overall, the Group is cautiously optimistic about the business environment in future.

In the meantime, one of the subsidiaries received sales orders for soccer balls from Global Brand Group ("GBG") under the Supply Appointment Agreement (the "Agreement") during May to August 2009 and expected continuous orders received. However, as the Agreement will only have another 16 months to run before the initial term expires and the general retail business has been adversely affected by the onset of the global financial crisis, the Group considers that such subsidiary may not be able to recover the royalty prepayment made to GBG under the Agreement. However, for conservative and prudent purpose, the impairment loss was made in the last annual report in this respect.

Financial Review

LIQUIDITY AND FINANCIAL RESOURCES

As at 30th June, 2009, the Group had bank balances and cash of approximately HK$22,126,000 (31st December, 2008: HK$22,316,000) and pledged bank deposit of approximately HK$5,001,000 (31st December, 2008: HK$5,001,000) secured for banking facilities granted. As at 30th June, 2009, the Group obtained banking facilities in a total of approximately HK$125,000,000 (31st December, 2008: HK$184,380,000) secured by fixed deposits and corporate guarantee given by the Company.

As at 30th June, 2009, the Group had bank borrowings of approximately HK$15,213,000 (31st December, 2008: HK$72,441,000). The Group's gearing ratio, representing the total debt divided by equity attributable to owners of the Company, was 33.9% (31st December, 2008: 52.0%).

During the period, net cash generated from operating activities amounted to approximately HK$97,743,000 (30th June, 2008: net cash used in operating activities HK$11,979,000). 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$13,209,000 (30th June, 2008: HK$33,041,000) directly 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, 2009, the Group had total assets of approximately HK$773,450,000 (31st December, 2008: HK$910,817,000), total liabilities of approximately HK$353,685,000 (31st December, 2008: HK$493,101,000) and equity attributable to owners of the Company of approximately HK$419,765,000 (31st December, 2008: HK$417,716,000). The net assets of the Group increased 0.5% to approximately HK$419,765,000 as at 30th June, 2009 (31st December, 2008: HK$417,716,000).

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, 2009, the Group had a total of approximately 14,800 (31st December, 2008: 14,000) employees in Hong Kong, Macau, PRC, Vietnam and US. 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.

Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 30th June, 2009, the interests and short positions of the directors and chief executives and their respective associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or which were otherwise required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), pursuant to the Model Code for Securities Transactions by Directors of the Listing Companies were as follows:

LONG POSITIONS IN ORDINARY SHARES OF THE COMPANY

Ordinary Shares of HK$0.10 each of the Company

Name of director/ chief executive	Nature of interests	Number of issued ordinary shares/underlying shares held	Percentage of the issued share capital of the Company
Cheng Yung Pun *(director)*	Corporate interest *(Note)*	479,191,518	67.27%
Yu Sui Chuen *(director)*	Personal interest	668,000	0.09%
Cheng Wing See, Nathalie *(director)*	Personal interest	723,230	0.10%
Chen Wei Qing *(chief executive officer)*	Personal interest	1,100,000	0.15%

Note: The shares are held by Smart Forest Limited ("Smart Forest"), a company incorporated in the British Virgin Islands. The entire issued share capital of Smart Forest is wholly owned by Mr. Cheng Yung Pun.

Share Option

Option type		Number of underlying shares attached to the share options						
	Option type	Outstanding at beginning of period	Granted during period	Exercised during the period	Lapsed during period	Outstanding at end of period	Exercise price *HK$*	Exercise period
Category 1: Directors								
Yu Sui Chuen	2005	2,922,000 *(Note 1)*	–	–	2,922,000	–	–	–
Arnold Edward Rubin	2007a	6,300,000 *(Note 2)*	–	–	–	6,300,000	1.934	6th September, 2007 to 6th September, 2010
Total directors		9,222,000	–	–	2,922,000	6,300,000		
Category 2: Employees	2007a	2,133,333 *(Note 3)*	–	–	2,133,333	–		
	2007b	6,500,000 *(Note 4)*	–	–	–	6,500,000	1.944	15th October, 2007 to 15th October, 2010
	2007c	2,000,000 *(Note 5)*	–	–	–	2,000,000	1.684	11th February, 2008 to 11th February, 2011
	2007d	2,000,000 *(Note 6)*	–	–	2,000,000	–		
	2007e	2,000,000 *(Note 7)*	–	–	–	2,000,000	1.700	10th March, 2008 to 10th March, 2011
Total Employees		14,633,333	–	–	4,133,333	10,500,000		
Total all categories		23,855,333	–	–	7,055,333	16,800,000		

Notes:

(1) The 2005 share option in respect of 2,922,000 underlying shares granted to Mr. Yu Sui Chuen, a director of the Company, lapsed.

(2) Mr. Arnold Edward Rubin, a director of the Company, has beneficial interests in 6,300,000 underlying shares (representing 0.88% of issued share capital of the Company) in respect of share options granted to him on 8th June, 2007 pursuant to the Company's share option scheme.

(3) The 2007a share option in respect of 2,133,333 underlying shares lapsed.

(4) The 6,500,000 underlying shares (representing approximately 0.91% of issued share capital of the Company) in respect of share options were granted on 17th July, 2007 pursuant to the Company's share option scheme.

(5) The 2,000,000 underlying shares (representing approximately 0.28% of issued share capital of the Company) in respect of share options were granted on 13th November, 2007 pursuant to the Company's share option scheme.

(6) The 2007d share option in respect of 2,000,000 underlying shares lapsed.

(7) The 2,000,000 underlying shares (representing approximately 0.28% of issued share capital of the Company) in respect of share options were granted on 11th December, 2007 pursuant to the Company's share option scheme.

Other than as disclosed above, none of the directors, chief executives nor their respective associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 30th June, 2009.

Arrangements to Purchase Shares and Debentures

Other than as disclosed in the section "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures", at no time during the period was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries, was a party to any arrangements to enable the directors of the Company and their associates to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Substantial Shareholders

As at 30th June, 2009, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following shareholders had notified the Company of relevant interests and short positions in the issued share capital of the Company:

LONG POSITIONS IN ORDINARY SHARES OF THE COMPANY

Ordinary Shares of HK$0.10 each of the Company

Name of shareholder	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Smart Forest *(Note 1)*	Beneficial owner	479,191,518	67.27%
Dresdner VPV N.V.	Investment Manager	39,460,043	5.54%
Dresdner Bank Aktiengesellschaft *(Note 2)*	Interest held by controlled corporations	39,460,043	5.54%

Notes:

(1) Smart Forest, a company incorporated in the British Virgin Island which is wholly owned by Mr. Cheng Yung Pun, director of the Company.

(2) These Shares are held by Dresdner VPV N.V., which is wholly-owned by Dresdner Bank Luxembourg S.A.. Dresdner Bank Luxembourg S.A. is in turn wholly-owned by Dresdner Bank Aktiengesellschaft.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 30th June, 2009.

Share Option Scheme

The share option scheme of the Company was adopted on 17th December, 2002 (the "Share Option Scheme") to comply with the requirements of Chapter 17 of the Listing Rules effected on 1st September, 2001. The key terms of the Share Option Scheme had been summarised in our 2008 Annual Report published in March this year.

At the 2008 annual general meeting (the "AGM") which was held on 29th May, 2008, the refreshment of the Share Option Scheme mandate limit was approved, based on 672,855,350 Shares in issue and assume no further Shares are issued or repurchased up to the date of the AGM, the Company was allowed to grant further options under the Share Option Scheme for subscription of up to a total of 67,285,535 Shares, representing 10% of the issued share capital of the Company as at the date of the AGM (the "refreshed share option scheme limit"). Accordingly, the total number of shares available for issue under the refreshed share option scheme limit was 67,285,535 shares (31st December, 2008: 67,285,535) which represented 9.45% of the issued share capital of the Company as at 30th June, 2009.

During the period, no share options had been granted under the Share Option Scheme.

Share options in respect of 7,055,333 underlying Shares had been lapsed. As such, the outstanding options carry rights to subscribe for 16,800,000 Shares, representing 2.36% of the Shares in issue (31st December, 2008: 3.55%) at 30th June, 2009.

Options may be exercised at any time from for the period beginning 90 days after the date of grant of the option and ending three years thereafter.

Purchase, Sale or Redemption of Securities

During the six months ended 30th June, 2009, 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

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 Code on Corporate Governance Practices (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.

Other Information of Director

During the period under review, i) Mr. Cheng Yung Pun, a chairman and executive director of the Company, has resigned as chairman and executive director of Wah Nam International Holdings Limited, a company listed on the Stock Exchange, with effect from 16th February, 2009; and ii) Dr. Loke Yu alias Loke Hoi Lam, an independent non-executive director of the Company, have been appointed as independent non-executive directors of Scud Group Limited and Zhong An Real Estate Limited, companies listed on the Stock Exchange, with effect from 14th May 2009 and 30th June 2009 respectively.

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

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 the Model Code for Securities Transactions by Directors set out in Appendix 10 of the Listing Rules (the "Model Code"). Having made specific enquiry of all the directors, all the directors confirmed that they have complied with the required standard set out in the Model Code and the code of conduct regarding securities transactions by directors adopted by the Company.

Board Committee

AUDIT COMMITTEE

The Audit Committee, comprising three INEDs namely Dr. Loke Yu alias Loke Hoi Lam (Chairman), Mr. Mak Shiu Chung, Godfrey and Mr. Wan Hing Pui, appointed by the Board who have extensive experience in financial matters and meets at least two times a year. Two Audit Committee members are qualified accountants and none of the Audit Committee members are members of the former or existing auditors of the Company. The Committee has adopted terms of reference (containing the minimum prescribed duties) that are in line with the CGP Code and the Company's own code on corporate governance practices.

REMUNERATION COMMITTEE

The Remuneration Committee comprising three INEDs, namely Dr. Loke Yu alias Loke Hoi Lam (Chairman), Mr. Mak Shiu Chung, Godfrey and Mr. Wan Hing Pui, appointed by the Board and meets at least once a year. The Committee has adopted terms of reference (containing the minimum prescribed duties) that are in line with the CGP Code and the Company's own code on corporate governance practices.

Other Required Disclosure Pursuant to Rule 13.18 of the Listing Rules

One of the Group's banking facilities provided by a bank (the "Bank") in an aggregate amount of HK$40,000,000 (the "Facility") to the Group's various subsidiaries (the "Borrowers") had been revised on 5th January, 2009 that the Facility was revised to an aggregate amount of HK$85,000,000 (the "revised Facility") which was effective from 5th January, 2009 to any date if such facilities be terminated by the Bank. Throughout the term of the revised Facility, (i) Mr. Cheng Yung Pun ("Mr. Cheng"), the controlling shareholder of the Company, is required to retain his control over the Company not less than 51% of the Company's issued share capital (whether directly or indirectly) and that (ii) unless and until the revised Facility (together with interest thereon and any fees, charges and other sums payable to the Bank) are fully repaid and the Bank are under no further liability to the Borrowers under the revised Facility letter, the Company shall not repay or pay any of and Suncorp Investments Group Limited ("Suncorp"), a company wholly owned by Mr. Cheng, may not demand, recover or accept repayment or payment of the loan amount of not less than HK$89,000,000 due to Suncorp from the Company (including interest thereon and any other sums payable).

Review of Interim Results

The unaudited interim results for the six months ended 30th June, 2009 have been reviewed by the Audit Committee, who are of the opinion that these interim results comply with applicable accounting standard and legal requirements, and that adequate disclosures have been made.

By Order of the Board
Cheng Yung Pun
Chairman

Hong Kong, 8th September, 2009