

MATRIX

Matrix Holdings Limited
美力時集團有限公司

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

2010 Interim Report



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*)
Cheng Wing See, Nathalie
Cheung Kwok Sing
Leung Hong Tai
Tse Kam Wah
Yu Sui Chuen

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

Suite Nos. 223-231
2nd 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, | | |
| | 2010 | 2009 | Changes |
| | HK\$ | HK\$ | % |
| Turnover | 400,169,000 | 413,605,000 | -3.2% |
| Profit attributable to owners of the Company | 15,752,000 | 12,279,000 | +28.3% |
| Basic earnings per share | 0.02 | 0.02 | +0.0% |
| Interim dividend, declared | 0.03 | 0.02 | +50.0% |
| Gross profit margin ratio (%) | 33.3% | 32.4% | +2.8% |

The board (the "Board") of directors (the "Directors") of Matrix Holdings Limited (the "Company") announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30th June, 2010, together with the comparative figures for the corresponding period in 2009.

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

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

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

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30th June, 2010

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

Condensed Consolidated Statement of Financial Position

At 30th June, 2010

| | NOTES | 30th June, 2010 HK\$'000 (Unaudited) | 31st December, 2009 HK\$'000 (Audited) |
|--|-------|---|---|
| Non-current assets | | | |
| Property, plant and equipment | 8 | 237,045 | 240,290 |
| Prepaid lease payments | | 999 | 1,015 |
| Goodwill | | 109,822 | 109,822 |
| Intangible assets | | 36,550 | 42,768 |
| Deferred tax assets | | 3,918 | 3,918 |
| | | 388,334 | 397,813 |
| Current assets | | | |
| Inventories | | 170,177 | 181,068 |
| Trade and other receivables | 9 | 80,665 | 163,998 |
| Prepaid lease payments | | 32 | 32 |
| Tax recoverable | | 6,951 | 7,560 |
| Held-for-trading investments | | 84 | 125 |
| Amounts due from related companies | | – | 20,596 |
| Pledged bank deposit | | – | 5,002 |
| Bank balances and cash | | 107,615 | 72,685 |
| | | 365,524 | 451,066 |
| Current liabilities | | | |
| Trade and other payables and accruals | 10 | 116,561 | 167,378 |
| Tax payable | | 57,764 | 58,077 |
| Unsecured bank borrowings | | – | 24,661 |
| Obligations under finance leases | | 2,397 | 2,227 |
| | | 176,722 | 252,343 |
| Net current assets | | | |
| | | 188,802 | 198,723 |
| Total assets less current liabilities | | | |
| | | 577,136 | 596,536 |
| Capital and reserves | | | |
| Share capital | 11 | 71,229 | 71,229 |
| Reserves | | 411,438 | 414,563 |
| Equity attributable to owners of the Company | | 482,667 | 485,792 |
| Non-controlling interests | | 32 | – |
| Total Equity | | | |
| | | 482,699 | 485,792 |
| Non-current liabilities | | | |
| Deferred tax liabilities | | 9,586 | 12,869 |
| Obligations under finance leases | | 581 | 1,847 |
| Loan from ultimate holding company | 12 | 84,270 | 96,028 |
| | | 94,437 | 110,744 |
| | | 577,136 | 596,536 |

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30th June, 2010

| | Attributable to owners of the Company | | | | | | | | | | Non-controlling Interests HK\$'000 | Total HK\$'000 |
|--|---------------------------------------|---------------------------|---|--|-----------------------------------|---------------------------------------|---------------------------------------|---------------------------------|------------------------------|-------------------|---------------------------------------|-------------------|
| | 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 | Total HK\$'000 | | |
| At 1st January 2009 (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 |
| Other comprehensive income for the period | - | - | - | - | - | - | - | (2,581) | - | (2,581) | - | (2,581) |
| Total comprehensive income for the period | - | - | - | - | - | - | - | (2,581) | 12,279 | 9,698 | - | 9,698 |
| Lapse of share options | - | - | - | - | (2,030) | - | - | - | 2,030 | - | - | - |
| Deemed contribution from ultimate holding company | - | - | - | (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 |
| Profit for the period | - | - | - | - | - | - | - | - | 64,593 | 64,593 | - | 64,593 |
| Other comprehensive income for the period | - | - | - | - | - | 6,630 | - | (2,341) | - | 4,289 | - | 4,289 |
| Total comprehensive income for the period | - | - | - | - | - | 6,630 | - | (2,341) | 64,593 | 68,882 | - | 68,882 |
| Recognition of equity-settled Share based payments | - | - | - | - | 9,629 | - | - | - | - | 9,629 | - | 9,629 |
| Deemed contribution from ultimate holding company | - | - | - | 3,522 | - | - | - | - | - | 3,522 | - | 3,522 |
| Release of deemed contribution from ultimate holding company | - | - | - | (1,760) | - | - | - | - | - | (1,760) | - | (1,760) |
| Dividend paid (note 6) | - | - | - | - | - | - | - | - | (14,246) | (14,246) | - | (14,246) |
| At 31st December, 2009 (audited) | 71,229 | 119,439 | 771 | 15,699 | 14,806 | 52,575 | 49 | (16,301) | 227,525 | 485,792 | - | 485,792 |
| Profit for the period | - | - | - | - | - | - | - | - | 15,752 | 15,752 | 32 | 15,784 |
| Other comprehensive income for the period | - | - | - | - | - | - | - | (6,150) | - | (6,150) | - | (6,150) |
| Total comprehensive income for the period | - | - | - | - | - | - | - | (6,150) | 15,752 | 9,602 | 32 | 9,634 |
| Recognition of equity-settled Share based payments | - | - | - | - | 19,697 | - | - | - | - | 19,697 | - | 19,697 |
| Deemed contribution from ultimate holding company | - | - | - | 4,214 | - | - | - | - | - | 4,214 | - | 4,214 |
| Release of deemed contribution from ultimate holding company | - | - | - | (1,023) | - | - | - | - | - | (1,023) | - | (1,023) |
| Dividend paid (note 6) | - | - | - | - | - | - | - | - | (35,615) | (35,615) | - | (35,615) |
| At 30th June, 2010 (unaudited) | 71,229 | 119,439 | 771 | 18,890 | 34,503 | 52,575 | 49 | (22,451) | 207,662 | 482,667 | 32 | 482,699 |

Notes:

- 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.
- 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, 2010

| | NOTES | Six months ended 30th June, | |
|---|-------|---------------------------------|---------------------------------|
| | | 2010 HK\$'000 (Unaudited) | 2009 HK\$'000 (Unaudited) |
| OPERATING ACTIVITIES | | | |
| NET CASH FROM OPERATING ACTIVITIES | | 103,655 | 97,743 |
| INVESTING ACTIVITIES | | | |
| Proceeds from disposal of property, plant and equipment | | 1,191 | 61 |
| Purchase of property, plant and equipment | | (3,292) | (13,209) |
| Decrease in the pledged bank deposit | | 5,002 | – |
| Acquisition of subsidiaries | 13 | 271 | – |
| Other investing cash flows | | 64 | 97 |
| NET CASH FROM (USED IN) INVESTING ACTIVITIES | | 3,236 | (13,051) |
| FINANCING ACTIVITIES | | | |
| Repayments of bank loans | | (52,298) | (156,462) |
| New bank loans raised | | 27,637 | 112,975 |
| Repayments to ultimate holding company | | – | (3,011) |
| Advance from ultimate holding company | | – | 3,409 |
| Repayments to loan from ultimate holding company | | (10,589) | (20,000) |
| Dividends paid | | (35,615) | (7,123) |
| Repayments of obligations under finance leases | | (1,096) | – |
| Other financing cash flows | | – | (14,670) |
| NET CASH USED IN FINANCING ACTIVITIES | | (71,961) | (84,882) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | | 34,930 | (190) |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD | | 72,685 | 22,316 |
| CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD, represented by Bank balances and cash | | 107,615 | 22,126 |

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30th June, 2010

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3. SEGMENT INFORMATION

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

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

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

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

4. INCOME TAX CREDIT

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

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

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

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

The tax position of the Group is currently under audit by the Hong Kong Inland Revenue Department (“IRD”). The IRD issued estimated assessments to certain subsidiaries in respect of the years of assessment 2000/2001 and 2001/2002 with tax payable amounting to approximately HK\$2,345,000 and HK\$17,678,000 respectively. The Group filed an objection against such assessments for 2000/2001 and 2001/2002 and the whole tax demanded of HK\$2,345,000 for 2000/2001 was held over unconditionally by the IRD. The tax demanded for 2001/2002 for the amount of HK\$4,713,000 was held over on condition that the subsidiaries purchased an equal amount of tax reserve certificates, and the amount of HK\$12,965,000 was held over unconditionally by the IRD. In March 2009, IRD issued assessments to certain subsidiaries in respect of the years of assessment from 2002/2003 to 2007/2008 amounting to approximately HK\$163,658,000, including approximately HK\$5,542,000 being the tax demanded for 2002/2003 of Keyhinge Holdings Limited, the subsidiary acquired during the period (31st December, 2009: HK\$158,116,000). The detail of the acquired subsidiaries is set out in note 13. In March, 2010, IRD issued assessments to certain subsidiaries in respect of the year of assessment for 2003/2004 amounting to approximately HK\$41,234,000 and the whole tax demanded of HK\$41,234,000 was held

over unconditionally by the IRD. The Group filed objections to the IRD against such assessments on the grounds that these assessments were excessive, and that certain income under assessment neither arose in, nor was derived from, Hong Kong. The Company has appointed a tax advisor to assist the Group in handling this tax audit. The IRD is still at the fact-finding stage, and accordingly, the ultimate outcome of the matter cannot presently be determined. As at 30th June, 2010, the Group had made a tax provision in respect of these subsidiaries for the years of assessment approximately HK\$56,500,000 (year ended 31st December, 2009: HK\$56,500,000). The directors are of the view after taking advice from professional tax advisers that the amount of tax payable presented in the unaudited condensed consolidated financial statements is sufficient to meet the settlement of tax audit. The IRD may impose a penalty and there is no reasonable basis to determine any amount of tax penalty payable at the moment.

5. PROFIT FOR THE PERIOD

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

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

6. DIVIDEND

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

Note: In respect of the current interim period, the Directors had resolved to declare an interim dividend of HK3 cents (2009: HK2 cents in cash) per share to be payable in cash to the shareholders whose names appear on the Register of Members of the Company on 14th September, 2010. This dividend was declared after the interim reporting date, and therefore has not been included as a liability in the condensed statement of financial position.

7. EARNINGS PER SHARE

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

| Earnings | Six months ended 30th June, | |
|---|---------------------------------|---------------------------------|
| | 2010 HK\$'000 (Unaudited) | 2009 HK\$'000 (Unaudited) |
| Earnings for the purpose of basic and diluted earnings per share (Profit for the period attributable to owners of the Company) | 15,752 | 12,279 |

| Number of shares | Six months ended 30th June, | |
|---|-----------------------------|---------------------|
| | 2010 (Unaudited) | 2009 (Unaudited) |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | 712,294,228 | 712,294,228 |
| Effect of dilutive potential ordinary shares: Share options issued by the Company | 305,543 | – |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | 712,599,771 | 712,294,228 |

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

8. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

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

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

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

9. TRADE AND OTHER RECEIVABLES

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

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

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

10. TRADE AND OTHER PAYABLES AND ACCRUALS

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

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

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

11. SHARE CAPITAL

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

12. LOAN FROM ULTIMATE HOLDING COMPANY

The amount is unsecured and interest-free. As at 30th June, 2010, the ultimate holding company agreed not to request settlement of HK\$89,029,000 (31st December, 2009: HK\$99,618,000) within one year to two years from the end of the reporting period. On 31st May, 2010, the loan amount of approximately HK\$73,427,000 due for settlement on 31st May, 2010 was extended to 31st May, 2012. The fair value of the loan from ultimate holding company was determined based on an effective interest rate of 3.0% (31st December, 2009: 3.0%) per annum at the end of the reporting period. The difference between the principal amount of the loan of HK\$73,427,000 and its fair value determined on 31st May, 2010 amounting to approximately HK\$4,214,000 has been credited to equity as deemed contribution from the ultimate holding company.

During the period ended 30th June, 2010, a loan from the ultimate holding company of approximately HK\$10,589,000 (31st December, 2009: HK\$46,000,000) was early settled by the Company. The respective deemed contribution from ultimate holding company recognised in prior years amounted to approximately HK\$1,023,000 (31st December, 2009: HK\$1,760,000) has been reversed and debited to equity.

13. ACQUISITION OF SUBSIDIARIES

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

Assets and liabilities recognised at the date of acquisition:

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

Net cash outflow arising on acquisition:

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

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

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

14. CAPITAL COMMITMENTS

| | 30th June, 2010 HK\$'000 (Unaudited) | 31st December, 2009 HK\$'000 (Audited) |
|--|---|---|
| Capital expenditure in respect of the acquisition of property, plant and equipment as follows: | | |
| – contracted for but not provided in the condensed consolidated financial statements | – | 221 |
| – authorised but not contracted for | 1,863 | 916 |

15. CONTINGENT LIABILITIES

A. Legal claim

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

B. Additional tax assessments

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

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

16. RELATED PARTY TRANSACTIONS

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

| | Six months ended 30th June, | |
|---|---------------------------------|---------------------------------|
| | 2010 HK\$'000 (Unaudited) | 2009 HK\$'000 (Unaudited) |
| Rental paid or payable to related companies (<i>note a</i>) | 345 | 348 |
| Subcontracting fees paid or payable to a related company (<i>note b</i>) | 3,719 | 1,613 |
| Subcontracting fees received or receivable from a related company (<i>note b</i>) | – | (1,990) |
| Purchase of finished goods from a related company (<i>note b</i>) | 196 | 28,632 |
| Sales of raw materials to a related company (<i>note b</i>) | (1,542) | (5,793) |
| Service fee charged to a related company (<i>note b</i>) | (8) | (47) |
| Sales of fixed assets to a related company (<i>note b</i>) | – | (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. The related companies were acquired by the Group on 1st February, 2010. The detail is set out in note 13.

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, | |
|---|---------------------------------|---------------------------------|
| | 2010 HK\$'000 (Unaudited) | 2009 HK\$'000 (Unaudited) |
| Salaries and other short-term employee benefits | 6,880 | 3,888 |
| Post-employment benefits | 141 | 50 |
| Share-based payments | 8,836 | – |
| | 15,857 | 3,938 |

Interim Dividend

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

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

Management Discussion & Analysis

BUSINESS REVIEW

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

Manufacturing Operation

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

Toy business

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

US AND CANADA

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

EUROPE

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

MEXICO

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

AUSTRALIA

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

HONG KONG

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

PROSPECTS

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

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

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

Financial Review

LIQUIDITY AND FINANCIAL RESOURCES

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

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

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

CAPITAL EXPENDITURE

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

ASSETS AND LIABILITIES

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

EXCHANGE RATE RISK

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

Number of Employees and Remuneration Policies

As at 30th June, 2010, the Group had a total of approximately 12,200 (31st December, 2009: 8,600) employees in Hong Kong, Macau, PRC, Vietnam, US and United Kingdom. The Group provides its employees with competitive remuneration packages commensurate to the level of pay established by the market trend in comparable businesses. A share option scheme was adopted for selected participants (including full-time employees) as incentives or rewards for their contributions to the business and operation of the Group. A mandatory provident fund scheme and respective local retirement benefit schemes are also in place.

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

As at 30th June, 2010, 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 officer | Nature of interests | Number of issued ordinary shares held | Percentage of the issued share capital of the Company |
|---|--------------------------------------|---|--|
| Cheng Yung Pun (<i>Director</i>) | Corporate interest (<i>Note 1</i>) | 516,599,518 | 72.53% |
| Cheng Wing See, Nathalie (<i>Director</i>) | Personal interest | 723,230 | 0.10% |
| Cheung Kwok Sing (<i>Director</i>) | Personal interest | 1,230,000 | 0.17% |
| Leung Hong Tai (<i>Director</i>) | Personal interest (<i>Note 2</i>) | 4,342,000 | 0.61% |
| Tse Kam Wah (<i>Director</i>) | Personal interest | 1,280,000 | 0.18% |
| Yu Sui Chuen (<i>Director</i>) | Personal interest | 668,000 | 0.09% |
| Chen Wei Qing (<i>Chief Executive Officer</i>) | Personal interest | 1,100,000 | 0.15% |

Notes:

- (1) 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.
- (2) 3,648,000 shares are held by Ip Yi Mei, spouse of Mr. Leung Hong Tai.

Share Option

| Option type | Number of underlying shares attached to the share options | | | | Outstanding at end of period | Exercise price HK\$ | Exercise period |
|---|---|-------------------------|-----------------------------|----------------------|------------------------------|------------------------|---|
| | Outstanding at beginning of period | Granted during period | Exercised during the period | Lapsed during period | | | |
| Category 1: Directors/ Chief Executive Officer | | | | | | | |
| Arnold Edward Rubin (Director) | 2007a | 6,300,000 (Note 1) | - | - | - | 6,300,000 | 1.934 6th September, 2007 to 6th September, 2010 |
| Cheung Kwok Sing (Director) | 2009a | 3,000,000 (Note 2) | - | - | - | 3,000,000 | 1.250 1st March, 2010 to 1st March, 2013 |
| Leung Hong Tai (Director) | 2009a | 5,000,000 (Note 3) | - | - | - | 5,000,000 | 1.250 1st March, 2010 to 1st March, 2013 |
| Tse Kam Wah (Director) | 2009a | 3,000,000 (Note 4) | - | - | - | 3,000,000 | 1.250 1st March, 2010 to 1st March, 2013 |
| Yu Sui Chuen (Director) | 2009a | 5,000,000 (Note 5) | - | - | - | 5,000,000 | 1.250 1st March, 2010 to 1st March, 2013 |
| Chen Wei Qing (Chief Executive Officer) | 2009a | 3,000,000 (Note 6) | - | - | - | 3,000,000 | 1.250 1st March, 2010 to 1st March, 2013 |
| Total Directors/ Chief Executive Officer | | 25,300,000 | - | - | - | 25,300,000 | |
| Category 2: Employees | | | | | | | |
| | 2007b | 6,500,000 (Note 7) | - | - | - | 6,500,000 | 1.944 15th October, 2007 to 15th October, 2010 |
| | 2007c | 2,000,000 (Note 8) | - | - | - | 2,000,000 | 1.684 11th February, 2008 to 11th February, 2011 |
| | 2007e | 2,000,000 (Note 9) | - | - | - | 2,000,000 | 1.700 10th March, 2008 to 10th March, 2011 |
| | 2009a | 25,000,000 (Note 10) | - | - | - | 25,000,000 | 1.250 1st March, 2010 to 1st March, 2013 |
| | 2009b | 1,200,000 (Note 11) | - | - | - | 1,200,000 | 1.448 15th March, 2010 to 15th March, 2013 |
| Total Employees | | 36,700,000 | - | - | - | 36,700,000 | |
| Total all categories | | 62,000,000 | - | - | - | 62,000,000 | |

Notes:

- (1) 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.

- (2) Mr. Cheung Kwok Sing, a director of the Company, has beneficial interests in 3,000,000 underlying shares (representing 0.42% of issued share capital of the Company) in respect of share options granted to him on 1st December, 2009 pursuant to the Company's share option scheme.
- (3) Mr. Leung Hong Tai, a director of the Company, has beneficial interests in 5,000,000 underlying shares (representing 0.70% of issued share capital of the Company) in respect of share options granted to him on 1st December, 2009 pursuant to the Company's share option scheme.
- (4) Mr. Tse Kam Wah, a director of the Company, has beneficial interests in 3,000,000 underlying shares (representing 0.42% of issued share capital of the Company) in respect of share options granted to him on 1st December, 2009 pursuant to the Company's share option scheme.
- (5) Mr. Yu Sui Chuen, a director of the Company, has beneficial interests in 5,000,000 underlying shares (representing 0.70% of issued share capital of the Company) in respect of share options granted to him on 1st December, 2009 pursuant to the Company's share option scheme.
- (6) Mr. Chen Wei Qing, a chief executive officer of the Company, has beneficial interests in 3,000,000 underlying shares (representing 0.42% of issued share capital of the Company) in respect of share options granted to him on 1st December, 2009 pursuant to the Company's share option scheme.
- (7) The 6,500,000 underlying shares (representing 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.
- (8) The 2,000,000 underlying shares (representing 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.
- (9) The 2,000,000 underlying shares (representing 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.
- (10) The 25,000,000 underlying shares (representing 3.51% of issued share capital of the Company) in respect of share options were granted on 1st December, 2009 pursuant to the Company's share option scheme.
- (11) The 1,200,000 underlying shares (representing 0.17% of issued share capital of the Company) in respect of share options were granted on 15th December, 2009 pursuant to the Company's share option scheme.

Details of specific category of share options are as follows:

| Option Type | Date of grant | Vesting period | Exercise period | Exercise price |
|--------------------|----------------------|-----------------------|---|-----------------------|
| 2007a | 8th June, 2007 | 3 months | 6th September, 2007 to 6th September, 2010 | HK\$1.934 |
| 2007b | 17th July, 2007 | 3 months | 15th October, 2007 to 15th October, 2010 | HK\$1.944 |
| 2007c | 13th November, 2007 | 3 months | 11th February, 2008 to 11th February, 2011 | HK\$1.684 |
| 2007e | 11th December, 2007 | 3 months | 10th March, 2008 to 10th March, 2011 | HK\$1.700 |
| 2009a | 1st December, 2009 | 3 months | 1st March, 2010 to 1st March, 2013 | HK\$1.250 |
| 2009b | 15th December, 2009 | 3 months | 15th March, 2010 to 15th March, 2013 | HK\$1.448 |

During the six months ended 30th June, 2010, no options had been granted.

The fair value was calculated using the Black-Scholes pricing model. The inputs into the model are as follows:

| Option Type | 2007a | 2007b | 2007c | 2007e | 2009a | 2009b |
|------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Weighted average share price | HK\$2.105 | HK\$2.099 | HK\$2.066 | HK\$2.055 | HK\$1.129 | HK\$1.133 |
| Exercise price | HK\$1.934 | HK\$1.944 | HK\$1.684 | HK\$1.700 | HK\$1.250 | HK\$1.448 |
| Expected volatility | 42.00% | 43.00% | 49.00% | 51.00% | 96.00% | 97.00% |
| Expected life | 3 years |
| Risk-free rate | 4.55% | 4.41% | 3.80% | 2.98% | 1.50% | 1.62% |
| Expected dividend yield | 10.40% | 10.50% | 12.10% | 11.70% | 3.81% | 3.40% |

Expected volatility was determined by using the historical volatility of the Company's share price over the previous three years.

Because the Black-Scholes pricing model requires the input of highly subjective assumptions, including the volatility of share price, changes in subjective input assumptions can materially affect the fair value estimate.

The fair value of services received under an equity-settled share-based payment arrangement is determined by reference to the fair value of share options granted at the grant date and is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve). Details of the accounting policy for equity-settled share-based payment transactions are set out in the Group's financial statements for the six months ended 30th June, 2010.

The Group recognised the total expense of approximately HK\$19,697,000 for the six months ended 30th June, 2010 (31st December, 2009: HK\$9,629,000) in relation to share options granted by the Company.

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, 2010.

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, 2010, 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 | 516,599,518 | 72.53% |

Notes:

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

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 30th June, 2010.

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 Scheme had been summarised in our 2009 Annual Report published on 1st April, 2010.

As at 30th June, 2010, the total number of shares available for issue of option under the Share Option Scheme was 22,085,535 shares (after deducting a total of share options in respect of 45,200,000 underlying shares granted for the year ended 31st December, 2009 from the refreshed scheme mandate limit of share option in respect of 67,285,535 underlying shares) which representing 3.1% of the issued share capital of the Company.

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

As at 30th June, 2010, the options which had been granted and remained outstanding carry rights to subscribe for 62,000,000 shares (31st December, 2009: 62,000,000) representing 8.70% (31st December, 2009: 8.70%) of the Shares in issue at that date.

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, 2010, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s shares.

Compliance of the Code on Corporate Governance Practices (the “CGP Code”)

None of the directors of the Company is aware of information that would reasonably indicate the Company is not or was not for any part of the period under review, in compliance with the CGP Code as set out in Appendix 14 of the Listing Rules and its own code except for the deviation 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, Dr. Loke Yu alias Loke Hoi Lam, independent non-executive director (“INED”) of the Company, was appointed as an INED of Chiho-Tiande Group Limited (a company listed on the Stock Exchange) effective from 23rd June 2010.

Save as disclosed above, there is no 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 Appendix 10 Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) of the Listing Rules. Having made specific enquiry of all the directors, all the directors confirmed that they have complied with the required standard set out in the Model Code and the code of conduct regarding securities transactions by directors adopted by the Company.

Board 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

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

One of the indirect wholly-owned subsidiaries of the Company had applied to a bank in Macau (the "Lender") for one-year term banking facilities of up to an aggregate extent of HK\$12,000,000 effective from 22nd December 2009; and ii) one of the other indirect wholly-owned subsidiaries of the Company had applied to the Lender for one-year term banking facilities of up to an aggregate extent of HK\$38,000,000 effective from 22nd December, 2009 (collectively the "Facilities"). The Facilities include, inter alia, a condition to the effect that Mr. Cheng Yung Pun, 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 such an event of default occurs, the Facilities will become immediately due and repayable.

Review of Interim Results

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

By Order of the Board

Cheng Yung Pun
Chairman

Hong Kong, 26th August, 2010