MATRIX

Matrix Holdings Limited

美力時集團有限公司

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

Interim Report 2011

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
Tsang Chung Wa
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
Tsim Sha Tsui East
Kowloon, Hong Kong

PRINCIPAL BANKER

Bank of China

WEBSITE

www.irasia.com/listco/hk/matrix

STOCK CODE

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

Result Highlights

FINANCIAL HIGHLIGHTS

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

The board (the "Board") of directors (the "Directors") of Matrix Holdings Limited (the "Company") announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30th June, 2011, together with the comparative figures for the corresponding period in 2010.

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

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

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

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

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30th June, 2011

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

Condensed Consolidated Statement of Financial Position

At 30th June, 2011

	NOTES	**30th June, 2011 *HK$'000* (Unaudited)**	31st December, 2010 *HK$'000* (Audited)
Non-current assets			
Property, plant and equipment	*8*	**247,836**	238,871
Prepaid lease payments		**967**	983
Goodwill		**96,822**	96,822
Intangible assets		**24,113**	30,331
Deferred tax assets		**9,529**	8,563
Deposits paid for acquisition of property, plant and equipment		**1,689**	6,820
		380,956	382,390
Current assets			
Inventories		**242,578**	221,835
Trade and other receivables	*9*	**69,805**	147,164
Prepaid lease payments		**32**	32
Tax recoverable		**7,375**	7,613
Pledged bank deposit		**2,180**	2,177
Bank balances and cash		**86,334**	62,765
		408,304	441,586
Current liabilities			
Trade and other payables and accruals	*10*	**135,445**	153,933
Tax payable		**57,292**	57,075
Unsecured bank borrowings		**5,151**	–
Obligations under finance leases		**606**	1,847
		198,494	212,855
Net current assets		**209,810**	228,731
Total assets less current liabilities		**590,766**	611,121
Capital and reserves			
Share capital	*11*	**71,733**	71,229
Reserves		**430,755**	446,997
Equity attributable to owners of the Company		**502,488**	518,226
Non-current liabilities			
Deferred tax liabilities		**6,873**	8,558
Loan from ultimate holding company	*12*	**81,405**	84,337
		88,278	92,895
		590,766	611,121

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30th June, 2011

	Share capital HK$'000	Share premium HK$'000	Special reserve HK$'000 (Note a)	Shareholders' contribution HK$'000 (Note b)	Share options reserve HK$'000	Asset revaluation reserve HK$'000	Legal reserve HK$'000 (Note c)	Translation reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1st January, 2010 (audited)	71,229	119,439	771	15,699	14,806	52,575	49	(16,301)	227,525	485,792
Profit for the period	–	–	–	–	–	–	–	–	15,784	15,784
Other comprehensive income for the period	–	–	–	–	–	–	–	(6,150)	–	(6,150)
Total comprehensive income for the period	–	–	–	–	–	–	–	(6,150)	15,784	9,634
Recognition of equity-settled share based payments	–	–	–	–	19,697	–	–	–	–	19,697
Deemed contribution from ultimate holding company	–	–	–	4,214	–	–	–	–	–	4,214
Release of deemed contribution from ultimated holding company	–	–	–	(1,023)	–	–	–	–		(1,023)
Dividend paid *(note 6)*	–	–	–	–	–	–	–	–	(35,615)	(35,615)
At 30th June, 2010 (unaudited)	71,229	119,439	771	18,890	34,503	52,575	49	(22,451)	207,694	482,699
Profit for the period									45,574	45,574
Other comprehensive income for the period	–	–	–	–	–	16,708	–	(4,744)	–	11,964
Total comprehensive income for the period	–	–	–	–	–	16,708	–	(4,744)	45,574	57,538
Lapse of share options	–	–	–	–	(3,875)	–	–	–	3,875	–
Deemed contribution from ultimate holding company	–	–	–	424	–	–	–	–	–	424
Release of deemed contribution from ultimated holding company	–	–	–	(1,066)	–	–	–	–	–	(1,066)
Transfer upon disposal of leasehold land and building	–	–	–	–	–	(566)	–	–	566	–
Dividend paid *(note 6)*	–	–	–	–	–	–	–	–	(21,369)	(21,369)
At 31st December, 2010 (audited)	71,229	119,439	771	18,248	30,628	68,717	49	(27,195)	236,340	518,226
Profit for the period	–	–	–	–	–	–	–	–	8,258	8,258
Other comprehensive expense for the period	–	–	–	–	–	–	–	(10,308)	–	(10,308)
Total comprehensive income for the period	–	–	–	–	–	–	–	(10,308)	8,258	(2,050)
Issue of shares pursuant to scrip dividend *(note 6)*	504	(504)	–	–	–	–	–	–	7,831	7,831
Recognition of equity-settled share based payments	–	–	–	–	9,902	–	–	–	–	9,902
Share option lapsed	–	–	–	–	(1,302)	–	–	–	1,302	–
Deemed contribution from ultimate holding company	–	–	–	4,194	–	–	–	–	–	4,194
Dividend paid *(note 6)*	–	–	–	–	–	–	–	–	(35,615)	(35,615)
At 30th June, 2011 (unaudited)	71,733	118,935	771	22,442	39,228	68,717	49	(37,503)	218,116	502,488

Notes:

a) The special reserve of the Group of HK$771,000 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.

b) The shareholders' contribution represented the deemed contribution arising from the amount due from ultimate holding company which is non-current and interest-free. The details of amount due from ultimate holding company are set out in note 12.

c) 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, 2011

	NOTE	Six months ended 30th June, 2011 HK$'000 (Unaudited)	2010 HK$'000 (Unaudited)
OPERATING ACTIVITIES			
NET CASH FROM OPERATING ACTIVITIES		**78,412**	103,655
INVESTING ACTIVITIES			
Proceeds from disposal of property, plant and equipment		**250**	1,191
Purchase of property, plant and equipment		**(29,668)**	(3,292)
(Increase) decrease in the pledged bank deposit		**(3)**	5,002
Acquisition of subsidiaries	*13*	**–**	271
Other investing cash flows		**(1,548)**	64
NET CASH (USED IN) FROM INVESTING ACTIVITIES		**(30,969)**	3,236
FINANCING ACTIVITIES			
Repayments of bank loans		**–**	(52,298)
New bank loans raised		**5,151**	27,637
Repayments to loan from ultimate holding company		**–**	(10,589)
Dividends paid		**(27,784)**	(35,615)
Repayments of obligations under finance leases		**(1,241)**	(1,096)
NET CASH USED IN FINANCING ACTIVITIES		**(23,874)**	(71,961)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**23,569**	34,930
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		**62,765**	72,685
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD, represented by			
Bank balances and cash		**86,334**	107,615

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30th June, 2011

1. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with Hong Kong Accounting Standard 34 (HKAS 34), Interim Financial Reporting. The unaudited condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31st December, 2010.

2. PRINCIPAL ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

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

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

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

3. SEGMENT INFORMATION

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

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

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

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

4. INCOME TAX CREDIT

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

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the period ended 30th June, 2011 and 2010. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

According to the Investment License granted by Vietnam tax authority to certain subsidiaries operating in Vietnam, the applicable Vietnam enterprise income tax rate is 10% on the estimated assessable profit during their operating periods. Matrix Manufacturing Vietnam Company Limited ("MVN") and Keyhinge Toys Vietnam Joint Stock Company ("KVN") are eligible for exemption from Vietnam enterprise income tax for four years from the first profit-making year followed by a 50% reduction in the Vietnam enterprise income tax for the next four years. For the six months ended 30th June, 2011, MVN applied the tax rate of 5% (six months ended 30th June, 2010: 5%) on the estimated assessable profit as it is the seventh year since its first profit-making year and KVN applied the tax rate of 10% on the estimated assessable profit as it is the fifteen year since its first profit-making year. The applicable Vietnam enterprise income tax rate for Associated Manufacturing Vietnam Company Limited ("AVN") is 15% since the date of operation on the estimated assessable profit for twelve years followed by 25%. AVN is eligible for exemption from Vietnam enterprise income tax for eight years from the first profit-making year followed by a 50% reduction in the Vietnam enterprise income tax for the next seven years. The six months ended 30th June, 2011 is the fourth profit-making year of AVN and thus AVN is exempted from Vietnam enterprise income tax for the six months ended 30th June, 2011 and 2010.

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

The tax position of certain subsidiaries of the Group is currently under audit by the Hong Kong Inland Revenue Department ("IRD"). In March, 2008, the IRD issued estimated assessments to certain subsidiaries in respect of the years of assessment 2000/2001 and 2001/2002 with tax payable amounting to approximately HK$2,345,000 and HK$17,678,000 respectively. The Group filed an objection against such assessments for 2000/2001 and 2001/2002 and the whole tax demanded of HK$2,345,000 for 2000/2001 was held over unconditionally by the IRD. The tax demanded for 2001/2002 for the amount of HK$4,713,000 was heldover on condition that the subsidiaries purchased an equal amount of tax reserve certificates, and the amount of HK$12,965,000 was heldover unconditionally by the IRD. In March, 2009, IRD issued assessments to certain subsidiaries in respect of the years of assessment from 2002/2003 to 2007/2008 amounting to approximately HK$163,658,000. In March, 2010, the IRD issued assessments to certain subsidiaries in respect of the year of assessment for 2003/2004 amounting to approximately HK$41,234,000. The Group filed objections to the IRD against such assessments on the grounds that these assessments were excessive, and that certain income under assessment neither arose in, nor was derived from, Hong Kong. The whole tax demanded for the year of assessment for 2003/2004 of HK$41,234,000 was heldover unconditionally by the IRD. In March, 2011, the IRD issued assessments to certain subsidiaries in respect of the years of assessment from 2004/2005 amounting to approximately HK$50,097,000 and approximately HK$42,835,000 tax demanded was heldover unconditionally by the IRD. The Company appointed a tax advisor to assist the Group in handling this tax audit. Up to the date of this report, the tax advisor together with the management of the Group had several meetings with the case officer of the IRD and settlement proposals were submitted to the IRD. The directors are of the opinion that the final assessments for the years of assessments from 2000/2001 to 2009/2010 will be settled soon. Since the Group has not received the final assessments, the ultimate outcome of the matter cannot presently be confirmed and there is no guarantee whether the submitted proposal will eventually be accepted by the IRD. As at 30th June, 2011, the Group had made a tax provision in respect of these subsidiaries for the years of assessment approximately HK$56,500,000 (year ended 31st December, 2010: HK$56,500,000). The directors are of the view after taking advice from professional tax advisers and the understanding during the discussion with case officer of the IRD that the amount of tax payable presented in the unaudited condensed consolidated financial statements should be sufficient for settlement of the tax audit.

5. PROFIT FOR THE PERIOD

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

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

6. DIVIDEND

During the current interim period, a final dividend of HK5 cents per share in respect of year ended 31st December, 2010 (2010: HK5 cents per share in respect of the year ended 31st December, 2009) was declared and paid to the owners of the Company. The aggregate amount of the final dividend declared and paid in the current interim period amounted to HK$35,615,000 (2010: HK$35,615,000). A scrip dividend alternate was offered to shareholders in respect of the 2010 final dividend.

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

In respect of the current interim period, the Directors had resolved to declare an interim dividend of HK1.1 cents (2010: HK3 cents in cash) per share to be payable in cash to the shareholders whose names appear on the Register of Members of the Company on 12th September, 2011. This dividend was declared after the interim reporting date, and therefore has not been included as a liability in the condensed consolidated statement of financial position.

7. EARNINGS PER SHARE

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

Earnings	**Six months ended 30th June,**	
	2011	2010
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Earnings for the purpose of basic and diluted earnings per share (profit for the period attributable to owners of the Company)	**8,258**	15,784

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

8. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment at a cost of approximately HK$34,799,000 (six months ended 30th June, 2010: HK$3,292,000) directly and HK$nil (30th June, 2010: HK$19,983,000) through the acquisition of a subsidiary.

During the period, the Group disposed of certain property, plant and equipment with a carrying amount of approximately HK$221,000 (six months ended 30th June, 2010: HK$1,104,000) for the cash proceeds of approximately HK$250,000 (six months ended 30th June, 2010: HK$1,191,000), resulting in a gain on disposal of approximately HK$29,000 (six months ended 30th June, 2010: gain of HK$87,000)

At 30th June, 2011, the directors considered the carrying amount of the Group's leasehold land and buildings and plant and machinery carried at revalued amounts and estimated that their carrying amounts do not differ significantly from that which would be determined using fair values at the reporting date. Consequently, no revaluation surplus or deficit has been recognised in the current period.

9. TRADE AND OTHER RECEIVABLES

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

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

	30th June, 2011 HK$'000 (Unaudited)	31st December, 2010 HK$'000 (Audited)
0 – 60 days	**44,783**	103,701
61 – 90 days	**4,173**	18,303
> 90 days	**927**	738
	49,883	122,742

10. TRADE AND OTHER PAYABLES AND ACCRUALS

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

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

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

11. SHARE CAPITAL

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

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

12. LOAN FROM ULTIMATE HOLDING COMPANY

The amount is unsecured and interest-free. As at 30th June, 2011, the ultimate holding company agreed not to request settlement of HK$87,958,000 (31st December, 2010: HK$87,958,000) within two years and seven months from the end of the reporting period. On 30th June, 2011, the loan amount of approximately HK$73,427,000 and HK$14,531,000 due for settlement on 31st May, 2012 and 30th June, 2012 respectively was extended to 31st January, 2014. The fair value of the loan from ultimate holding company is determined based on an effective interest rate of 3.0% (31st December, 2010: 3.0%) per annum at the end of the reporting period. The difference between the principal amount of the loan of HK73,427,000 and HK$14,531,000 and their fair value determined on 30th June, 2011 amounting to approximately HK$3,530,000 and HK$664,000 respectively has been credited to equity as deemed contribution from the ultimate holding company.

13. ACQUISITION OF SUBSIDIARY

On 1st February, 2010 (the date of completion), the Group acquired the entire issued capital of Max Smart Investment Limited ("Max Smart") for a cash consideration HK$1.00. The acquisition was 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:

	HK$'000
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)
	36,838

Net cash outflow arising on acquisition:

	HK$'000
Consideration paid in cash	–
Less: Cash and cash equivalent balances acquired	(271)
	(271)

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

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

14. CAPITAL COMMITMENTS

	30th June, 2011 *HK$'000* **(Unaudited)**	31st December, 2010 *HK$'000* (Audited)
Capital expenditure in respect of the acquisition of property, plant and equipment:		
– contracted for but not provided in the consolidated financial statements	**6,865**	–
– authorised but not contracted for	**3,109**	4,929
	9,974	4,929

15. CONTINGENT LIABILITIES AND CLAIMS

A. Legal and other claim

1) On 19th August, 2009, IRD lodged a legal claim to a subsidiary of the Company, Shelcore Hong Kong Limited, for tax settlement payment of approximately HK$2,403,000 in relation to the additional tax assessment issued by IRD on 16th March, 2009 for the year of assessment 2002/2003. The details of the additional tax assessment issued by IRD are set out in note 4.

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

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

   The total potential claims are approximately US$115,000 and US$338,000 against Funrise, Inc. and ATL respectively (total equivalent to HK$3,533,000). The directors believe, based on legal advice, Funrise, Inc. and ATL have a meritorious defense based on a "contemporaneous exchange of value". The aforementioned complaint would not result in any material adverse effects on the financial position of the Group. Accordingly no provision is required to be made in the consolidated financial statements.

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

   Arbitration proceedings had commenced by MDL against GBG on 26th April, 2010 and a claim was lodged on 26th July, 2010 for breach of Agreement of approximately of US$8,770,000 plus damages for loss of profit due to unattainable sales level introduced to MDL from GBG. On 18th May, 2011, GBG lodged defense and counter claim to MDL in arbitration proceeding, for failure of settlement of two installments total amounting to US$7,000,000 in accordance to the Agreement. The outcome of the proceeding cannot be reasonably ascertained at this stage. The directors believe, based on the legal advice, the aforementioned claim would not result in any material adverse effects on the financial position of the Group. Accordingly, no provision is required to be made in the consolidated financial statements.

B. Additional tax assessments

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

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

16. RELATED PARTY TRANSACTIONS

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

	Six months ended 30th June,	
	2011	2010
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Rental paid or payable to related companies *(note a)*	**378**	345
Subcontracting fees paid or payable to a related company *(note b)*	**–**	3,719
Purchase of finished goods from a related company *(note b)*	**–**	196
Sales of raw materials to a related company *(note b)*	**–**	(1,542)
Service fee charged to a related company *(note b)*	**–**	(8)

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 are 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,	
	2011	2010
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Salaries and other short-term employee benefits	**5,870**	5,114
Post-employment benefits	**93**	86
Share-based payments	**4,262**	8,189
	10,225	13,389

Interim Dividend

The Directors had resolved to declare an interim dividend of HK1.1 cents (2010: HK3 cents in cash) per share for the six months ended 30th June, 2011, payable to shareholders whose names appear on the Register of Members of the Company on 12th September, 2011.

The record date for the purpose of determining the shareholders which are entitled to dividend is 12th September, 2011. In order to qualify for the interim dividend, all transfers and relevant share certificates must be lodged with the Company's Branch Share Registrars in Hong Kong, Tricor Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:00 p.m. on 12th September, 2011. The interim dividend will be paid on or around 20th September, 2011.

Management Discussion and Analysis

BUSINESS REVIEW

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

Manufacturing Operation

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

Segment Performances

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

United States

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

Canada

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

Europe

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

Mexico

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

Australia

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

Hong Kong

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

PROSPECTS

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

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

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

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

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

Financial Review

LIQUIDITY AND FINANCIAL RESOURCES

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

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

During the period, net cash generated from operating activities amounted to approximately HK$78,412,000 (30th June, 2010: net cash used in operating activities HK$103,655,000). The Group has maintained an adequate level of cash flows for its business operations and capital expenditures.

CAPITAL EXPENDITURE

During the period, the Group acquired property at a cost of approximately HK$14,517,000 (30th June, 2010: HK$174,000), and plant and equipment at a cost of approximately HK$20,282,000 (30th June, 2010: HK$3,292,000) to further enhance and upgrade the production capacity. These capital expenditures were financed primarily by cash flow generated from operations.

ASSETS AND LIABILITIES

At 30th June, 2011, the Group had total assets of approximately HK$789,260,000 (31st December, 2010: HK$823,976,000), total liabilities of approximately HK$286,772,000 (31st December, 2010: HK$305,750,000) and equity attributable to owners of the Company of approximately HK$502,488,000 (31st December, 2010: HK$518,226,000). The net assets of the Group decreased 3% to approximately HK$502,488,000 as at 30th June, 2011 (31st December, 2010: HK$518,226,000).

EXCHANGE RATE RISK

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

Number of Employees and Remuneration Policies

As at 30th June, 2011, the Group had a total of approximately 12,300 (31st December, 2010: 12,000) employees in Hong Kong, Macau, PRC, Vietnam, US and United Kingdom. The Group provides its employees with competitive remuneration packages commensurate to the level of pay established by the market trend in comparable businesses. A share option scheme was adopted for selected participants (including full-time employees) as incentives or rewards for their contributions to the business and operation of the Group. A mandatory provident fund scheme and respective local retirement benefit schemes are also in place.

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

As at 30th June, 2011, 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 *(Director)*	Corporate interest *(Note 1)*	526,997,569	73.47%
Cheng Wing See, Nathalie *(Director)*	Personal interest	723,230	0.10%
Cheung Kwok Sing *(Director)*	Personal interest	1,230,000	0.17%
Leung Hong Tai *(Director)*	Personal interest *(Note 2)*	4,342,000	0.61%
Tsang Chung Wa *(Director)*	Personal interest	1,124,251	0.16%
Tse Kam Wah *(Director)*	Personal interest	1,280,000	0.18%
Yu Sui Chuen *(Director)*	Personal interest	668,000	0.09%
Chen Wei Qing *(Chief Executive Officer)*	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 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/Chief Executive Officer								
Yu Sui Chuen *(Director)*	2009a	5,000,000 *(Note 1)*	–	–	–	5,000,000	1.250	1st March, 2010 to 1st March, 2013
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
Tsang Chung Wa *(Director)*	2009a	3,000,000 *(Note 4)*	–	–	–	3,000,000	1.250	1st March, 2010 to 1st March, 2013
Tse Kam Wah *(Director)*	2009a	3,000,000 *(Note 5)*	–	–	–	3,000,000	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
Arnold Edward Rubin *(Director)*	2011a	–	6,300,000 *(Note 7)*	–	–	6,300,000	1.692	20th July, 2011 to 20th July, 2014
Loke Yu alias Loke Hoi Lam *(Director)*	2011a	–	300,000 *(Note 8)*	–	–	300,000	1.692	20th July, 2011 to 20th July, 2014
Mak Shiu Chung, Godfrey *(Director)*	2011a	–	300,000 *(Note 9)*	–	–	300,000	1.692	20th July, 2011 to 20th July, 2014
Wan Hing Pui *(Director)*	2011a	–	300,000 *(Note 10)*	–	–	300,000	1.692	20th July, 2011 to 20th July, 2014
Total Directors/Chief Executive Officer		22,000,000	7,200,000	–	–	29,200,000		
Category 2: Employees								
	2007c	2,000,000 *(Note 11)*	–	–	2,000,000	–		
	2007e	2,000,000 *(Note 12)*	–	–	2,000,000	–		
	2009a	22,000,000 *(Note 13)*	–	–	–	22,000,000	1.250	1st March, 2010 to 1st March, 2013
	2009b	1,200,000 *(Note 14)*	–	–	–	1,200,000	1.448	15th March, 2010 to 15th March, 2013
	2011a	–	7,500,000 *(Note 15)*	–	–	7,500,000	1.692	20th July, 2011 to 20th July, 2014
Total Employees		27,200,000	7,500,000	–	4,000,000	30,700,000		
Total all categories		49,200,000	14,700,000	–	4,000,000	59,900,000		

Notes:

(1) Mr. Yu Sui Chuen, an executive 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.

(2) Mr. Cheung Kwok Sing, an executive 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, an executive 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. Tsang Chung Wa, being an executive director of the Company effective from 11th January, 2011, 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. Tse Kam Wah, an executive 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.

(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) Mr. Arnold Edward Rubin, an executive 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 21st April, 2011 pursuant to the Company's share option scheme.

(8) Dr. Loke Yu alias Loke Hoi Lam, independent non-executive director of the Company, has beneficial interests in 300,000 underlying shares (representing 0.04% of issued share capital of the Company) in respect of share options granted to him on 21st April, 2011 pursuant to the Company's share option scheme.

(9) Mr. Mak Shiu Chung, Godfrey, independent non-executive director of the Company, has beneficial interests in 300,000 underlying shares (representing 0.04% of issued share capital of the Company) in respect of share options granted to him on 21st April, 2011 pursuant to the Company's share option scheme.

(10) Mr. Wan Hing Pui, independent non-executive director of the Company, has beneficial interests in 300,000 underlying shares (representing 0.04% of issued share capital of the Company) in respect of share options granted to him on 21st April, 2011 pursuant to the Company's share option scheme.

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

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

(13) The 22,000,000 underlying shares (representing approximately 3.07% 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.

(14) The 1,200,000 underlying shares (representing approximately 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.

(15) The 7,500,000 underlying shares (representing approximately 1.05% of issued share capital of the Company) in respect of share options were granted on 21st April, 2011 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
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
2011a	21st April, 2011	3 months	20th July, 2011 to 20th July, 2014	HK$1.692

During the six months ended 30th June, 2011, the options carry rights to subscribe for 14,700,000 shares had been granted on 21st April, 2011.

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

Option Type	2007c	2007e	2009a	2009b	2011a
Weighted average share price	HK$2.066	HK$2.055	HK$1.129	HK$1.133	HK$1.692
Exercise price	HK$1.684	HK$1.700	HK$1.250	HK$1.448	HK$1.692
Expected volatility	49.00%	51.00%	96.00%	97.00%	99.00%
Expected life	3 years	3 years	3 years	3 years	3 years
Risk-free rate	3.80%	2.98%	1.50%	1.62%	1.060%
Expected dividend yield	12.10%	11.70%	3.81%	3.40%	4.70%

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 shared-based payment transactions are set out in the Group's financial statements for the six months ended 30th June, 2011.

The Group recognised the total expense of approximately HK$9,902,000 for the six months ended 30th June, 2011 ((31st December, 2010: 19,697,000)) 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, 2011.

Arrangements to Purchase Shares and Debentures

Other than as disclosed in the section "Directors' and Chief Executives' Interests and Short Postions 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, 2011, 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	526,997,569	73.47%

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.

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, 2011.

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 2010 Annual Report published on 30th March, 2011.

As at 30th June, 2011, the total number of shares available for issue of option under the Share Option Scheme was 71,229,422 shares (after the refreshed scheme mandate limit of share option in respect of 71,229,422 underlying shares on 5th May, 2011) which representing 9.93% of the issued share capital of the Company (after the enlarged issued share capital in 717,327,313 shares under the issue of 5,033,085 final scrip dividend shares on 17th June 2011).

During the six months ended 30th June, 2011, the options carry rights to subscribe for 14,700,000 shares had been granted on 21st April, 2011.

As at 30th June, 2011, the options which had been granted and remained outstanding carry rights to subscribe for 59,900,000 shares (31st December, 2010: 45,200,000 shares) representing 8.35% (31st December, 2010: 6.35%) 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, 2011, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares.

Compliance of the Code on Corporate Governance Practices (the "CGP Code")

None of the directors of the Company is aware of information that would reasonably indicate the Company is not or was not for any part of the period under review, in compliance with the CGP Code as set out in Appendix 14 of the Listing Rules and its own code except for the deviations from the code provision A.4.1. of the CGP Code that none of the existing non-executive directors of the Company (including independent non-executive) is appointed for a specific term. However, all the non-executive directors of the Company (including independent non-executive) are subject to the retirement provisions under the Company's Bye-laws. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the CGP Code.

Other Information of Director

In the last three years, i) Dr. Loke Yu alias Loke Hoi Lam (independent non-executive director ("INED") of the Company) had been the INED of Zmay Holdings Limited (a company listed on the Stock Exchange); but he has resigned on 18th September, 2009; and ii) Mr. Cheng Yung Pun (Chairman and executive director of the Company) had been the chairman and executive director of Wah Nam International Holdings Listed (a company listed on the Stock Exchange); but he has resigned on 16th February, 2009.

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 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 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 indirect wholly-owned subsidiaries of the Company had applied to a bank in Macau (the "Lender") for one-year term banking facilities of up to an aggregate extent of HK$12,000,000; and ii) one of the other indirect wholly-owned subsidiaries of the Company had applied to the Lender for one-year term banking facilities of up to an aggregate extent of HK$38,000,000 (collectively the "Facilities"). The Facilities include, inter alia, a condition to the effect that Mr. Cheng Yung Pun, the controlling shareholder of the Company, should maintain not less than 51% of shareholding (whether directly or indirectly) of the Company. A breach of the above condition will constitute an event of default of the Facilities. If any significant change on the above condition occurs, the Lender can request to adjust or terminate the facilities.

Review of Interim Results

The unaudited interim results for the six months ended 30th June, 2011 have been reviewed by the Audit Committee, who are of the opinion that these interim results comply with applicable accounting standard and legal requirements, and that adequate disclosures have been made.

By Order of the Board
Cheng Yung Pun
Chairman

Hong Kong, 25th August, 2011