MATRIX

MATRIX HOLDINGS LIMITED

美力時集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 1005)

2008 INTERIM RESULTS ANNOUNCEMENT

RESULT HIGHLIGHTS

FINANCIAL HIGHLIGHTS

	For the six months ended 30th June		
	2008	2007	Changes
	HK$	*HK$*	*%*
Turnover	**560,437,000**	479,972,000	+16.8%
Profit attributable to equity holders of the Company	**15,240,000**	33,331,000	-54.3%
Basic earnings per share	**0.02**	0.05	-60.0%
Interim dividend, declared	**0.02**	0.08	-75.0%
Gross profit margin ratio (%)	**29.6%**	26.8%	+10.4%

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, 2008, together with the comparative figures for the corresponding period in 2007.

In the first half of 2008, the consolidated turnover of the Group amounted to HK$560,437,000 (2007: HK$479,972,000). The increase as compared to the last corresponding period was mainly attributable to the inclusion of the sales contribution resulted from the integration of Shelcore and Funrise Groups.

The profit attributable to equity holders of the Company was HK$15,240,000 (2007: HK$33,331,000), which resulted in a basic earnings per share of HK$0.02 (2007: HK$0.05). The decrease as compared to the last corresponding period was mainly attributable to rising costs as a result of various external factors, such as:

– the prolonged high inflation rate in both Vietnam and the People's Republic of China ("PRC");

– the prevailing high crude oil prices which increased the costs of raw materials;

– the persistent appreciation of Renminbi currency against US dollar;

– the implementation of new Labour Contract Law in the PRC.

To worsen off the situation, the non-operating or non-cash items (including the amortization of intangible assets for the acquisition of Funrise Group in June 2007 and imputed interest on loan from a shareholder, etc) in a total amount of approximately HK$12,088,000 resulted in further reduction of the profit of the Group.

In addition, the adverse impact of the weakened United States economy caused by the looming United States sub-prime mortgage crisis led to the drop in United States citizen income and consumption sentiment and that both the sales and profit of the Group were adversely affected.

For the six months ended 30th June, 2008, the United States continued to be the largest customer market of the Group, accounting for approximately 83.7% of the Group's total turnover (2007: 83.7%). The other significant customer markets for the Group included Europe, Canada, Russia and Hong Kong, which accounted for approximately 5.1% (2007: 4.8%), 2.0% (2007: 4.5%), 2.1% (2007: 0.5%) and 1.1% (2007: 4.2%) respectively.

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE, 2008

		For the six months ended	
		30th June, 2008	30th June, 2007
		(Unaudited)	(Unaudited)
	NOTES	***HK$'000***	*HK$'000*
Turnover	*3*	**560,437**	479,972
Cost of sales		**(394,566)**	(351,258)
Gross profit		**165,871**	128,714
Other income		**8,561**	2,810
Distribution and selling costs		**(76,808)**	(43,235)
Administrative expenses		**(77,110)**	(53,011)
Finance costs		**(5,889)**	(1,267)
Profit before taxation	*4*	**14,625**	34,011
Income tax credit (charge)	*5*	**614**	(680)
Profit for the period		**15,239**	33,331
Attributable to:			
Equity holders of the Company		**15,240**	33,331
Minority interest		**(1)**	–
		15,239	33,331
Earnings per share – Basic	*7*	**HK$0.02**	HK$0.05

CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30TH JUNE, 2008

	NOTES	**30th June, 2008 (Unaudited) *HK$'000***	31st December, 2007 (Audited) *HK$'000*
Non-current assets			
Property, plant and equipment	*8*	**266,830**	287,690
Prepaid lease payments		**1,063**	1,079
Goodwill		**115,488**	115,488
Intangible assets	*4*	**61,423**	67,642
Deferred tax assets		**454**	478
Prepaid royalty		**62,946**	39,546
		508,204	511,923
Current assets			
Inventories		**227,767**	229,819
Trade and other receivables	*9*	**205,559**	201,517
Prepaid lease payments		**32**	32
Tax recoverable		**6,665**	1,952
Held-for-trading investments		**156**	133
Pledged bank deposit		**5,896**	5,606
Bank balances and cash		**23,175**	27,854
		469,250	466,913
Assets classified as held for sale		**31,987**	–
		501,237	466,913
Current liabilities			
Trade and other payables	*10*	**195,738**	216,744
Dividend payable		**20,186**	–
Tax payable		**59,652**	58,024
Amount due to ultimate holding company		**30,915**	18,500
Unsecured bank borrowings		**144,427**	116,126
Obligations under finance leases		**1,792**	1,587
		452,710	410,981
Liabilities associated with assets classified as held for sale		**6,171**	–
		458,881	410,981
Net current assets		**42,356**	55,932
Total assets less current liabilities		**550,560**	567,855

	NOTES	30th June, 2008 (Unaudited) HK$'000	31st December, 2007 (Audited) HK$'000
Capital and reserves			
Share capital	*11*	**67,286**	67,286
Reserves		**372,706**	389,525
Equity attributable to equity holders of the Company		**439,992**	456,811
Minority interest		**1,650**	1,651
Total equity		**441,642**	458,462
Non-current liabilities			
Deferred tax liabilities		**14,554**	16,577
Obligations under finance leases		**5,065**	5,769
Loan from a shareholder		**89,299**	87,047
		108,918	109,393
		550,560	567,855

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements of the Group for the six months ended 30th June, 2008 have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

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 method of computation followed in the preparation of the unaudited condensed consolidated financial statements are the same as those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31st December, 2007 except for the following accounting polices which are applicable to the period ended 30th June, 2008.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of the assets (disposal groups) previous carrying amount and fair value less costs to sell.

In the current interim period, the Group has applied, for the first time, the following new interpretations ("new HKFRSs") issued by the HKICPA which are effective for the Group's financial year beginning on 1st January, 2008.

HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC) – Int 12	Service Concession Arrangements
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum funding Requirements and their Interaction

The adoption of the new interpretations had no material effect on the results and financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new or revised standards, amendments and interpretations that have been issued but are not yet effective. The Directors of the Company anticipate that the application of these standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Revised)	Presentation of Financial Statements [1]
HKAS 23 (Revised)	Borrowing Costs [1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements [2]
HKAS 32 and HKAS 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation [1]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations [1]
HKFRS 3 (Revised)	Business Combinations [2]
HKFRS 8	Operating Segments [1]
HK(IFRIC) – Int 13	Customer Loyalty Programmes [3]
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate [1]
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation [4]

[1] *Effective for annual periods beginning on or after 1st January, 2009.*

[2] *Effective for annual periods beginning on or after 1st July, 2009.*

[3] *Effective for annual periods beginning on or after 1st July, 2008.*

[4] *Effective for annual periods beginning on or after 1st October, 2008.*

3. SEGMENT INFORMATION

The Group's primary format for reporting segment information is geographical segments.

	For the six months ended 30th June			
	Turnover		Results	
	2008	2007	**2008**	2007
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
United States	**469,233**	401,703	**68,314**	68,968
Europe	**28,502**	22,860	**6,644**	7,531
Canada	**11,438**	21,890	**1,728**	2,805
Hong Kong	**6,056**	20,079	**479**	2,795
Russia	**11,928**	2,505	**1,488**	501
Others	**33,280**	10,935	**3,774**	2,165
	560,437	479,972	**82,427**	84,765
Unallocated income			**8,253**	2,211
Unallocated expenses				
– Distribution and selling expenses			**(10,995)**	(9,126)
– Administrative expenses			**(59,171)**	(42,572)
– Finance costs			**(5,889)**	(1,267)
Profit before taxation			**14,625**	34,011
Income tax credit (charge)			**614**	(680)
Profit for the period			**15,239**	33,331

4. PROFIT BEFORE TAXATION

	For the six months ended	
	30th June, 2008	30th June, 2007
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Profit before taxation has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	**24,091**	16,810
Net (gain) loss on disposal of property, plant and equipment	**(88)**	278
(Gain) loss on fair value changes on held-for-trading investments	**(23)**	453
Amortisation of intangible assets included in cost of sales *(Note)*	**6,219**	2,261

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

5. INCOME TAX (CREDIT) CHARGE

	For the six months ended	
	30th June, 2008	30th June, 2007
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Current tax:		
Hong Kong	**1,580**	1,010
Other jurisdictions	**–**	40
	1,580	1,050
Overprovision in prior years:		
Hong Kong	**(316)**	–
Deferred tax:		
Current period	**(1,026)**	(370)
Attributable to change in tax rate	**(852)**	–
	(614)	680

Hong Kong Profits Tax is calculated at 16.5% (2007: 17.5%) of the estimated assessable profits for the six months period ended 30th June, 2008. The Hong Kong profits tax rate was decreased from 17.5% to 16.5% with effect from the 2008/09 year of assessment. The effect of this decrease has been reflected in the calculation of current and deferred tax balances at 30th June, 2008.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

The tax position of the Group is currently being reviewed by the Hong Kong Inland Revenue Department ("IRD"). As a matter of IRD's practice, IRD has issued assessments to certain subsidiaries in respect of the years of assessment 2000/2001 and 2001/2002 amounting to approximately HK$2,345,000 and HK$17,678,000 respectively. The Group has filed an objection against such assessments of 2000/2001 and 2001/2002 and tax demanded for 2000/2001 was heldover unconditionally as agreed by the IRD. The tax demanded for 2001/2002 for the amount of HK$4,713,000 was held over on condition that the subsidiaries purchased an equal amount of tax reserve certificates, and the amount of HK$12,965,000 was held over unconditionally. The review is still at a preliminary fact-finding stage. The Directors are of the opinion that the amount of tax payable in the unaudited condensed consolidated financial statements is adequate and that the eventual outcome of the review would not result in material impact on the unaudited condensed consolidated financial statements.

6. DIVIDEND

On 29th May, 2008, a dividend of HK3 cents (2006 final dividend: HK9 cents) per share amounting to approximately HK$20,186,000 (2006: HK$56,894,000) has been approved by the shareholders in the annual general meeting as final dividend in respect of the year ended 31st December, 2007. A scrip dividend alternate was offered to shareholders in respect of the 2007 final dividend.

Subsequent to the balance sheet date, the scrip dividend alternate was accepted by some of the shareholders in respect of the 2007 final dividend. A total of 14,042,976 scrip dividend shares for the dividend of approximately HK$12,695,000 were issued to the shareholders on 10th July, 2008 and the rest of approximately HK$7,491,000 was paid to the shareholders as cash dividend.

Subsequent to the end of the interim period, the Directors had resolved to declare an interim dividend of HK2 cents (2007: HK8 cents) per share to be payable in cash with a scrip dividend alternate to the shareholders whose names appear on the Register of Members of the Company on 8th October, 2008.

7. EARNINGS PER SHARE

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

Earnings	**For the six months ended**	
	30th June, 2008	30th June, 2007
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Earnings for the purpose of basic earnings per share for the period	**15,240**	33,331

Number of shares	**For the six months ended**	
	30th June, 2008	30th June, 2007
	(Unaudited)	(Unaudited)
	'000	*'000*
Weighted average number of ordinary shares for the purpose of basic earnings per share	**672,855**	630,144

The weighted average number of ordinary shares for the six months ended 2007 for the purpose of basic earnings per share has been adjusted for the effects of the scrip dividend in July and November 2007 respectively.

No diluted earnings per share has been presented because the exercise price of the share options outstanding is higher than the average market price for shares for both the six months ended 30th June, 2008 and 2007.

8. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment at a cost of approximately HK$33,041,000 directly (2007: HK$19,141,000) and approximately HK$ nil (2007: HK$35,940,000) through the acquisition of subsidiaries.

At 30th June, 2008, 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 balance sheet date. Consequently, no revaluation surplus or deficit has been recognised in the current period.

9. TRADE AND OTHER RECEIVABLES

	30th June, 2008 (Unaudited) *HK$'000*	31st December, 2007 (Audited) *HK$'000*
Trade receivables	**133,760**	132,320
Other receivables	**71,799**	69,197
	205,559	201,517

The Group allows a credit period of 14 days to 90 days to its trade customers. The following is an aged analysis of trade receivables at the balance sheet date:

	30th June, 2008 (Unaudited) *HK$'000*	31st December, 2007 (Audited) *HK$'000*
0 – 60 days	**121,251**	95,521
61 – 90 days	**2,356**	16,390
> 90 days	**13,194**	20,620
	136,801	132,531
Less: allowance for doubtful debts	**(3,041)**	(211)
	133,760	132,320

10. TRADE AND OTHER PAYABLES

	30th June, 2008 (Unaudited) *HK$'000*	31st December, 2007 (Audited) *HK$'000*
Trade payables	**121,549**	119,423
Other payables	**74,189**	97,321
	195,738	216,744

The following is an aged analysis of trade payables at the balance sheet date:

	30th June, 2008 (Unaudited) ***HK$'000***	31st December, 2007 (Audited) *HK$'000*
0 – 60 days	**79,692**	79,181
61 – 90 days	**18,514**	17,136
> 90 days	**23,343**	23,106
	121,549	119,423

11. SHARE CAPITAL

	Number of shares		**Share Capital**	
	30th June 2008 (Unaudited) ***'000***	31st December 2007 (Audited) *'000*	**30th June 2008 (Unaudited)** ***HK$'000***	31st December 2007 (Audited) *HK$'000*
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	**672,855**	577,157	**67,286**	57,716
Issue of new subscription shares *(Note a)*	**–**	55,000	**–**	5,500
Issued in lieu of cash dividend *(Note b)*	**–**	40,698	**–**	4,070
At the end of the period	**672,855**	672,855	**67,286**	67,286

Note:

a) On 7th May, 2007, pursuant to a subscription agreement dated 24th April, 2007, the Company issued and allotted a total of 55,000,000 ordinary shares of HK$0.10 each in the Company at a price of HK$1.81 per share to Suncorp Investments Group Limited, the ultimate holding company of the Company. The shares issued rank pari passu with the then existing shares in all respects.

b) On 6th July, 2007 and 15th November, 2007, the Company issued and allotted a total of 19,545,643 ordinary shares and 21,152,740 ordinary shares both of HK$0.10 each in the Company respectively at par value to the shareholders who elected to receive shares in the Company in lieu of cash payment for the 2006 final dividend and 2007 interim dividend respectively. These shares issued rank pari passu with the then existing shares in all respects.

12. CONTINGENT LIABILITIES

Legal claim

1) A judgement was made by the court in France against Funrise Toys Limited ("Funrise Toys"), an indirect wholly-owned subsidiary of the Company regarding the termination of an agency agreement. The amount awarded to the plaintiff by the court up to 30th June, 2008 to be paid by the group company was approximately HK$14,132,000. Funrise Toys has filed an appeal against the judgement. Funrise Toys also filed claims to the court against the plaintiff for the ownership of the "Funrise" trademark to be returned to the group company. There is no further progress in respect of the case after 30th June, 2008 up to the date of this results announcement.

   Based on the advice of the lawyers obtained by the management as at 15th April, 2008, the outcome of the proceedings cannot be reasonably ascertained at this stage. Given that the former shareholders of Funrise Toys have indemnified Funrise Toys for any loss incurred for settling the legal claim using funds available from an escrow account which was funded by the proceeds receivable by the former shareholders of Funrise Toys from the Company for the sales of Funrise Toys, the management of the Group is of the opinion that 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 these unaudited condensed consolidated financial statements.

2) On 2nd November, 2007, the Company and Matrix Resources Enterprise Limited, an indirect wholly-owned subsidiary of the Company, claimed HK$14,000,000 compensation against a former chief executive officer of the Group for breach of contract. On 14th February, 2008, this former chief executive officer counter claimed against the Company and such subsidiary for approximately HK$15,167,000. As this case is at its early stage of the proceedings, the Directors, having sought legal advice on the case, believe that 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 these unaudited condensed consolidated financial statements.

3) Groundswell Trading Limited ("Groundswell"), an indirect wholly-owned subsidiary of the Company, and Ms. Zhao Jian (趙健), a former employee of Groundswell's representative office in Shenzhen, together with other 17 former employees of Groundswell's representative office in Shenzhen (collectively the "18 employees") were involved in a dispute arising from the termination of employment of the 18 employees of Groundswell's representative office in Shenzhen. The 18 employees claimed the additional compensation under the PRC law notwithstanding agreements for mutual termination by all parties were executed. On 28th May, 2008, 深圳市勞動爭議仲裁委員會 (the Labour Tribunal in Shenzhen, the PRC)* ruled in favor of Groundswell except for a claim in a work over-time compensation of RMB39,624 and 25% of the economical compensation in the amount of RMB9,906, made by Ms. Zhao Jian (趙健) against Groundswell. The other 17 employees has filed with the court an appeal against Groundswell and Groundswell has also filed with the court an appeal against the decision of 深圳市勞動爭議仲裁委員會 (the Labour Tribunal in Shenzhen, the PRC)* on the said claim made by Ms. Zhao Jian (趙健). The Directors consider that the abovementioned amounts are insignificant and believe such decision will have no significant impact to the Group's financial and operation position. Accordingly, no provision is required to be made in these unaudited condensed consolidated financial statements.

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

13. EVENTS AFTER BALANCE SHEET DATE

On 26th June, 2008, Matrix Investments Group Limited, a direct wholly-owned subsidiary of the Company, as Vendor, entered into the Agreement with the Purchaser, Waterfront Investments Management Limited, an independent third party, to sell the entire issued share capital of Max Smart Investments Limited ("Max Smart"), for a cash consideration of HK$1 million and the Purchaser undertook to procure the relevant members of Max Smart to make full payment of all the outstanding payables (as at 31st May, 2008, net payables HK$57,060,000) to the Vendor and/or the relevant affiliate of the Vendor post completion. Max Smart is an indirect wholly-owned subsidiary of the Company. Upon completion which occurred on 1st July, 2008, Max Smart ceased to be a subsidiary of the Company.

Max Smart is an investment holding company whose only asset is the entire interests in Keyhinge Holdings Limited ("Keyhinge"). Keyhinge, in turn, is an investment holding company which holds 98% of the equity interests in the Keyhinge Toys Vietnam Joint Stock Company which engages in the manufacture of gifts and novelties in Vietnam. The details of the disposal are set out in the circular to shareholders dated 31st July, 2008 issued by the Company.

INTERIM DIVIDEND

The Directors had resolved to declare an interim dividend of HK2 cents (2007: HK8 cents) per share for the six months ended 30th June, 2008, payable to shareholders whose names appear on the Register of Members of the Company on 8th October, 2008, with a scrip dividend alternate to offer the right to eligible shareholders to elect to receive such interim dividend wholly or partly by allotment of new shares credited as fully paid in lieu of cash.

The scrip dividend alternate is conditional upon (a) the issue price of a new share to be issued pursuant thereto being not less than the nominal value of a share of the Company; and (b) the granting by the Listing Committee of the Stock Exchange of the listing of and permission to deal in the new shares to be issued pursuant thereto. A circular containing details of the 2008 interim scrip dividend alternate and the form of election will be mailed to shareholders of the Company in due course.

Definitive share certificates in respect of the scrip dividend and cheques (for those shareholders who do not elect for scrip dividend) are expected to be despatched to shareholders on or about 17th November, 2008.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 6th October to 8th October, 2008, both days inclusive, during which period no transfer of shares can be registered. In order to qualify for the interim dividend, all share transfers, accompanied by the 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 3rd October, 2008.

MANAGEMENT DISCUSSION & ANALYSIS

BUSINESS REVIEW

The business environment to the traditional labour-intensive toy manufacturers turns fading, particularly to the plant located at Zhongshan at Pearl River Delta region as labour and utility costs climb continuously in this region since the year 2007. Adding to the woes, the higher inflation rate in the PRC and Vietnam, the accelerating appreciation of Renminbi currency against the Hong Kong dollar and prevailing high crude oil prices led to the increase in the material, direct production cost and labour cost. Fierce price competition led to the absorption of part of the increasing costs by the manufacturers, the tightening government policy imposed against the processing plant and the increased price in imported materials compounded the situation and contributed to the decrease in the profit margin.

MANUFACTURING OPERATION

Plant

Wages, social security contributions and other welfare benefits in the PRC have increased in the past two years added burden to the manufacturers particularly the plant located at Pearl River Delta Region. As a newly Labour Contract Law implemented, a social security system among workers to be implemented compulsorily. Accordingly, the amount of contributions to various schemes has increased in line with the wage rise. Furthermore, insufficient supply of migrant workers in the Pearl River Delta Region who mainly engaging in lower-end work has pushed up the wage levels of these workers which worsened the existing situation as the manufacturer need to offer above the minimum wage in order to attract new workers or retain existing ones. China's latest move to reduce the export VAT rebate and processing trade's import tax preferential treatment will pose a burden on the cash flow of processing trade companies and all together burdened the administration cost for the plant located at the Zhongshan plant.

Due to the deteriorating manufacturing environment in the PRC, the development of the plants located in Vietnam becomes crucial. In order to improve the overall toy manufacturing production efficiency, the Group has disposed of the Group's oldest and less efficient production plant and constructed a new production plant in Danang City, Vietnam. With relatively more advanced technology and machinery in this new plant, it is expected that the overall efficiency of the production plant will improve.

TOYS OPERATION

Funrise and Shelcore Businesses

The newly acquired Funrise Group is principally engaged in the design, sales and distribution of quality, innovative toys under proprietary and licensed brands. The Funrise Group is a multi-category toy company offering basic products featuring established brand names. Funrise products are sold throughout the world primarily by mass-market retailers.

The Funrise group's core product portfolio includes mainly Gazillion Bubbles® and Play 'n Pretty® as well as international licensed brands such as Disney© and Tonka®. The Gazillion Bubbles category in the Funrise Group has enabled it to be a year-round company and the Shelcore Group's important branded products are Shake N' Bobbles® products. In year 2008, the sales and administration perspective and product perspective of Shelcore Group were integrated with Funrise Group which resulted the opening of new distribution channels for both groups. Though the United States harsh economic condition, the sales in the United States market remain stable as compared with the same corresponding period 2007 due to the increases in the sales of Tonka® and Shelcore Shake N' Bobbles® products. In addition, most of markets other than United States like Canada, Europe, Middle East, Russia and United Kingdom have experienced the fair performance as the sales in those markets were increased. Furthermore, the Funrise Group had increased in orders for products Tonka® and Shelcore from major retailers; for example, Toys R Us, Wal-Mart and Target as compared with the same corresponding period in year 2007.

Soccer Ball Business

With regard to the Group's being appointed as the worldwide exclusive manufacturer and supplier of The Federation Internationale de Football Association ("FIFA") official licensed footballs (soccer balls) as well as being appointed on a non-exclusive basis with respect to football skills products and supply of premium footballs sold on behalf of Global Brand Group ("GBG") since the year 2007, the Group has established production facilities, implemented labour training and sourced the raw materials so as to make production ready to process. Also, the future sales planning was in progress of negotiating with GBG. The Company believes that the soccer ball business will benefit from the FIFA's popularity and world-class brand image.

PROSPECTS

Amid the sluggishness of USA and European markets, there are signs that the operating environment remains competitive and challenging. The Group continues to strive for survival under the prolonged appreciation of RMB currency, persistent high inflation rate, high crude oil price, reduction of the value added tax rebate on goods exported from the PRC, the tightening government policy imposed against the processing plant and labour regulation and the shortage of supply in labour and utilities which will have some impact on margins. Accordingly, the high production cost and the limit the scope of price increases due to economic slowdown remained matter of concern. However, amid this deteriorating business environment, the Group's overall order position of the Group for the first half remains stable. On the other hand, these adverse factors on manufacturing have eased the competition amongst the toy manufacturers as smaller manufacturers are forced out of business.

In July 2008, the Group has disposed of one of the production plant in Danang City, Vietnam. This plant is the oldest one amongst all the production plants of the Company in Vietnam and the machinery and equipment which it carries are relatively less efficient. The Company considers that the disposal will enable the Company to revamp and improve the overall toy manufacturing production capacity and efficiency of the Group as such will enable the Group to raise proceeds for investment and upgrading of existing and new production plants. The Group keeps costs down through more efficient production processes, enhanced equipment and automation and closer vertical integration in the plant.

The Group's major customers, Wal-Mart, Target and Toys R US are also the major retailers in United states market as these "Big 3" account for almost half of market sharing in the United States market. Notwithstanding, to reduce reliance on any particular geographical regimes, the Group takes forward business development plans to expand into new markets like Middle East and Russia and the businesses in certain areas of Europe continue to be developed. Specifically, the new distributors in certain markets across all brands and continue to grow in other Eastern European countries, such as the Ukraine and Croatia. In United Kingdom, it is expected that a new partnership with a local United Kingdom distributor which will supply the second tier retail accounts on behalf of Funrise and Shelcore Groups. However, the United States and Europe economic slowdown continues to limit the scope of price increases and that manufacturers have to absorb part of the increasing costs.

Not resting on our laurels, the Group will continue to pursue various initiatives to enhance productivity and cost effectiveness and implement cost control measures so as to strive for a positive return to our shareholders.

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 30th June, 2008, the Group had bank balances and cash of approximately HK$23,175,000 (31st December, 2007: HK$27,854,000) and pledged bank deposit of approximately HK$5,896,000 (31st December, 2007: HK$5,606,000) secured for banking facilities granted. As at 30th June, 2008, the Group obtained banking facilities in a total of approximately HK$324,800,000 (31st December, 2007: HK$212,860,000) secured by fixed deposits and corporate guarantee given by the Company.

As at 30th June, 2008, the Group had bank borrowings of approximately HK$144,427,000 (31st December, 2007: HK$116,126,000). The Group's gearing ratio, representing the total debt divided by equity attributable to equity holders of the Company, was 54.7% (31st December, 2007: 46.1%).

During the period, net cash used in operating activities amounted to approximately HK$11,979,000 (30th June, 2007: net cash generated from operating activities HK$8,199,000). 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$33,041,000 (30th June, 2007: HK$19,141,000) directly and HK$nil (30th June, 2007: HK$35,940,000) through acquisition of subsidiaries 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, 2008, the Group had total assets of approximately HK$1,009,441,000 (31st December, 2007: HK$978,836,000), total liabilities of approximately HK$567,799,000 (31st December, 2007: HK$520,374,000) and equity attributable to equity holders of the Company of approximately HK$439,992,000 (31st December, 2007: HK$456,811,000). The net assets of the Group decreased 3.7% to approximately HK$441,642,000 as at 30th June, 2008 (31st December, 2007: HK$458,462,000).

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, 2008, the Group had a total of approximately 19,000 (31st December, 2007: 17,000) employees in Hong Kong, Macau, PRC, Vietnam, U.S.A. and Europe. 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.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the six months ended 30th June, 2008, 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

On 5th May, 2008, Mr. Chen Wei Qing was appointed as the chief executive officer ("CEO") of the Company so as to balance the power and authority among CEO and the Chairman and to rectify the deviation of the Code A.2.1. of the Code on Corporate Governance Practices (the "CGP Code") as set out in Appendix 14 of the Listing Rules and the Company's own code since Mr. Michael Adam Greenberg no longer the CEO of the Company as from November 2007.

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

BOARD COMMITTEE

Audit Committee

The Audit Committee, comprising three independent non-executive directors ("INEDs") namely Dr. Loke Yu alias Loke Hoi Lam (Chairman), Mr. Mak Shiu Chung, Godfrey and Mr. Wan Hing Pui, appointed by the Board, 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 Group's banking facilities provided by a bank in an aggregate amount of HK$40,000,000 (the "Facility") had been renewed effective from 1st December, 2006 to any date if such facilities be terminated. Throughout the term of the Facility, Mr. Cheng Yung Pun, the controlling shareholder of the Company, is required to retain his control over the Company not less than 51% of the Company's issued share capital.

REVIEW OF INTERIM RESULTS

The unaudited interim results for the six months ended 30th June, 2008 have been reviewed by the Audit Committee, who are of the opinion that these interim results comply with applicable accounting standard and legal requirements, and that adequate disclosures have been made.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This results announcement is published on the website of Hong Kong Exchanges and Clearing Limited and the Company. The 2008 Interim Report of the Company will be dispatched to the shareholders of the Company as well as published on the website of the Hong Kong Exchanges and Clearing Limited and the Company in due course.

BOARD COMPOSITION

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

By Order of the Board
Cheng Yung Pun
Chairman

Hong Kong, 18th September, 2008

* *For identification purpose only*