MATRIX

Let It Shine!™

SHELCORE TOYS®

Matrix Holdings Limited

美 力 時 集 團 有 限 公 司

(Incorporated in Bermuda with limited liability)

Interim Report 2005

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)*
Yu Sui Chuen
Cheng Wing See, Nathalie

Independent Non-executive Directors

Loke Yu alias Loke Hoi Lam
Mak Shiu Chung, Godfrey
Wan Hing Pui

COMPANY SECRETARY

Lai Mei Fong

AUDITORS

Deloitte Touche Tohmatsu
26th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

SHARE REGISTRARS

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke HM08
Bermuda

BRANCH SHARE REGISTRARS IN HONG KONG

Secretaries Limited
Ground Floor
Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

PRINCIPAL PLACE OF BUSINESS

Room 901, 9/F.
East Ocean Centre
98 Granville Road
Tsimshatsui East
Kowloon, Hong Kong

PRINCIPAL BANKER

Bank of China (Hong Kong) Limited

WEBSITE

www.matrix.hk.com

STOCK CODE

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

RESULT HIGHLIGHTS

FINANCIAL HIGHLIGHTS

	For the six months ended 30th June		
	2005	2004	**Changes**
	HK$	*HK$*	%
Turnover	**447,074,000**	375,629,000	+19.0
Profit attributable to equity holders of the parent	**61,122,000**	89,463,000	-31.7
Basic earnings per share	**0.10**	0.16	-37.5
Interim dividend, proposed	**0.08**	0.08	–

In the first half of 2005, the unaudited consolidated turnover of Matrix Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") amounted to HK$447,074,000 (2004: HK$375,629,000) and the profit attributable to equity holders of the parent was HK$61,122,000 (2004: HK$89,463,000), which resulted in a basic earnings per share of HK$0.10 (2004: HK$0.16). Comparing to the first half of 2004, the decrease in profit was primarily attributable to the hike in commodity prices as well as increase in labour cost and other operating expenses in the mainland since the second half of 2004. Although the Group enjoyed a growth in turnover due to the inclusion of Shelcore Companies that became wholly-owned subsidiaries of the Group since 27th January, 2005, the benefits from the amalgamation of operation and corporate structural reorganization have not yet been reflected in the Group's results during the period under review. In addition, Shelcore Companies have been facing competition in the infant and pre-school children toy market which has an adverse impact on the Group's results. Nevertheless, through the implementation of a series of cost saving and inventory management measures, the Group's results was in line with the management's expectations.

For the six months ended 30th June, 2005, the United States continued to be the largest customer market of the Group, accounting for approximately 90.0% of the Group's total turnover (2004: 92.5%). The other significant customer markets for the Group included Europe, Canada, Taiwan and Hong Kong, which accounted for approximately 3.9% (2004: 0.0%), 2.8% (2004: 2.2%), 0.4% (2004: 0.6%) and 1.1% (2004: 4.6%) respectively. With the inclusion of Shelcore Companies' operations, the Group's customer base is enlarged and diversified, counting world-renowned global retailers as its customers.

UNAUDITED INTERIM RESULTS

The board (the "Board") of directors (the "Directors") of the Company announces the unaudited consolidated interim results of the Group for the six months ended 30th June, 2005, together with the comparative figures for the corresponding period in 2004 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE, 2005

		For the six months ended	
		30th June, 2005	30th June, 2004
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
Turnover	*3*	**447,074**	375,629
Cost of sales		**(326,014)**	(254,019)
Gross profit		**121,060**	121,610
Other operating income		**3,228**	1,750
Distribution and selling costs		**(30,787)**	(1,165)
Administrative expenses		**(37,205)**	(16,900)
Finance costs		**(24)**	(82)
Discount on acquisition of subsidiaries	*13*	**3,390**	–
Profit before taxation	*4*	**59,662**	105,213
Income tax credit/(charge)	*5*	**1,378**	(15,750)
Profit for the period		**61,040**	89,463
Attributable to:			
Equity holders of the parent		**61,122**	89,463
Minority interest		**(82)**	–
		61,040	89,463
Dividend	*6*	**46,778**	46,778
Earnings per share	*7*		
Basic		**HK$0.10**	HK$0.16
Diluted		**N/A**	HK$0.15

CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30TH JUNE, 2005

	Notes	**30th June, 2005 (Unaudited) HK$'000**	31st December, 2004 (Audited) HK$'000
Non-current assets			
Property, plant and equipment	8	**166,609**	122,881
Goodwill		**807**	807
Prepaid lease payments		**1,159**	–
Deferred tax assets		**1,918**	1,924
Deposit for acquisition of investments in subsidiaries		**–**	9,945
		170,493	135,557
Current assets			
Inventories		**178,661**	166,262
Trade and other receivables	9	**70,253**	56,100
Prepaid lease payments		**32**	–
Investments in securities		**1,499**	1,389
Pledged bank deposit		**5,036**	5,011
Bank balances and cash		**45,228**	89,688
		300,709	318,450
Current liabilities			
Trade and other payables	10	**117,287**	93,307
Obligations under a finance lease		**117**	113
Dividend payable		**–**	17,542
Tax payable		**57,954**	55,293
		175,358	166,255
Net current assets		**125,351**	152,195
Total assets less current liabilities		**295,844**	287,752
Capital and reserves			
Share capital	11	**58,472**	58,472
Reserves		**232,737**	224,503
Equity attributable to equity holders of the parent		**291,209**	282,975
Minority interest		**50**	132
Total equity		**291,259**	283,107
Non-current liabilities			
Obligations under a finance lease		**–**	60
Deferred tax liabilities		**4,585**	4,585
		4,585	4,645
		295,844	287,752

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30TH JUNE, 2005

	Attributable to equity holders of the parent									
	Share capital	Share premium	Special reserve	Shareholders' contribution	Other asset revaluation reserve	Translation reserve	Accumulated profits	Total	Minority interest	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January, 2004	46,272	55,708	771	6,901	9,309	(8,663)	127,000	237,298	–	237,298
Currency translation difference not recognised in the income statement	–	–	–	–	–	(2,268)	–	(2,268)	–	(2,268)
Net profit for the period	–	–	–	–	–	–	89,463	89,463	–	89,463
Dividend paid	–	–	–	–	–	–	(52,625)	(52,625)	–	(52,625)
Conversion of convertible loan stock	12,200	–	–	–	–	–	–	12,200	–	12,200
At 30th June, 2004	58,472	55,708	771	6,901	9,309	(10,931)	163,838	284,068	–	284,068
Currency translation difference not recognised in the income statement	–	–	–	–	–	880	–	880	–	880
Arising from acquisition of subsidiaries	–	–	–	–	–	–	–	–	316	316
Net profit for the period	–	–	–	–	–	–	62,347	62,347	(184)	62,163
Dividend paid	–	–	–	–	–	–	(46,778)	(46,778)	–	(46,778)
Special dividend declared	–	–	–	–	–	–	(17,542)	(17,542)	–	(17,542)
At 31st December, 2004	58,472	55,708	771	6,901	9,309	(10,051)	161,865	282,975	132	283,107
At 1st January, 2005	58,472	55,708	771	6,901	9,309	(10,051)	161,865	282,975	132	283,107
Currency translation difference not recognised in the income statement	–	–	–	–	–	(263)	–	(263)	–	(263)
Net profit for the period	–	–	–	–	–	–	61,122	61,122	(82)	61,040
Dividend paid	–	–	–	–	–	–	(52,625)	(52,625)	–	(52,625)
At 30th June, 2005	58,472	55,708	771	6,901	9,309	(10,314)	170,362	291,209	50	291,259

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

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30th JUNE, 2005

		For the six months ended	
		30th June, 2005	30th June, 2004
		(Unaudited)	(Unaudited)
	Note	***HK$'000***	*HK$'000*
Net cash from operating activities		**100,284**	120,395
Net cash (used in) from investing activities			
Acquisition of subsidiaries, net of cash and cash equivalents acquired	*13*	**(54,134)**	–
Other investing cash flows		**(64,811)**	20,095
		(118,945)	20,095
Net cash used in financing activities		**(25,799)**	(66,558)
Net (decrease) increase in cash and cash equivalents		**(44,460)**	73,932
Cash and cash equivalents at beginning of the period		**89,688**	54,016
Cash and cash equivalents at end of the period		**45,228**	127,948
Analysis of the balances of cash and cash equivalents			
Bank balances and cash		**45,228**	127,948

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The 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 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st December, 2004 except as described below.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (HKFRSs), Hong Kong Accounting Standards (HKASs) and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are effective for accounting periods beginning on or after 1st January, 2005, other than HKFRS 3 "Business Combinations" and HKAS 36 "Impairment of Assets" that had been early adopted for the year ended 31st December, 2004. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. In particular, the presentation of minority interest has been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented:

Financial Instruments

In the current period, the Group has applied HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 39, which is effective for annual periods beginning on or after 1st January, 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The principal effect resulting from the implementation of HKAS 39 is summarised below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

By 31st December, 2004, the Group classified and measured its debt and equity securities in accordance with the alternative treatment of Statement of Standard Accounting Practice 24 (SSAP 24). Under SSAP 24, investments in debt or equity securities are classified as "trading securities", "non-trading securities" or "held-to-maturity investments" as appropriate. Both "trading securities" and "non-trading securities" are measured at fair value. Unrealised gains or losses of "trading securities" are reported in the profit or loss for the period in which gains or losses arise. Unrealised gains or losses of "non-trading securities" are reported in equity until the securities are sold or determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for that period. From 1st January, 2005 onwards, the Group classifies and measures its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method.

On 1st January, 2005, the Group classified and measured its debt and equity securities in accordance with the requirements of HKAS 39. Trading securities reported under SSAP 24 was classified as "financial assets at fair value through profit or loss" upon the adoption of the HKAS 39. Accordingly, no adjustment to accumulated profit at 1st January, 2005 was required.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Owner-occupied Leasehold Interest in Land

In previous periods, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the revaluation model. In the current period, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment. This change in accounting policy does not have effect to prior periods because the amount of land and building cannot be allocated reliably between the land and building elements at 31st December, 2004.

Potential Impact of New Standards Not Yet Adopted

The Group has not early applied the following new Standards or Interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these Standards or Interpretations will have no material impact on the financial statements of the Group.

HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 (Amendments)	Cash Flow Hedge Accounting for Forecast Intragroup Transactions
	The Fair Value Option
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS-Int 4	Determining whether an Arrangement Contains a Lease
HKFRS-Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

3. SEGMENT INFORMATION

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

	For the six months ended 30th June			
	Turnover		Results	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
United States	**402,255**	347,497	**99,431**	112,283
Europe	**17,316**	–	**7,834**	–
Canada	**12,576**	8,511	**3,517**	2,323
Taiwan	**1,783**	2,131	**469**	701
Hong Kong	**5,052**	17,127	**1,290**	4,985
Others	**8,092**	363	**4,006**	322
	447,074	375,629	**116,547**	120,614
Unallocated income and expenses			**(56,885)**	(15,401)
Profit before taxation			**59,662**	105,213
Income tax credit/(charge)			**1,378**	(15,750)
Profit for the period			**61,040**	89,463

4. PROFIT BEFORE TAXATION

	For the six months ended	
	30th June, 2005	30th June, 2004
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Profit before taxation has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment		
– owned assets	**16,360**	8,509
– assets held under a finance lease	**42**	63
Loss on disposal of property, plant and equipment	**32**	32
Fair value (gain) loss on investments in securities	**(110)**	113

5. INCOME TAX CREDIT/(CHARGE)

	For the six months ended	
	30th June, 2005	30th June, 2004
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Current tax:		
Hong Kong	**(3,848)**	(14,570)
Other jurisdictions	**(662)**	(1,180)
	(4,510)	(15,750)
Overprovision in prior years:		
Hong Kong	**5,888**	–
	1,378	(15,750)

Hong Kong Profits Tax is calculated at 17.5% (2004: 17.5%) of the estimated assessable profits for the six months period ended 30th June, 2005.

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

The overprovision of income tax in prior years represented the offshore income claimed by a subsidiary of the Company which was agreed by the Inland Revenue Department during the period ended 30th June, 2005.

6. DIVIDEND

The Directors had resolved to declare an interim dividend of HK$0.08 per share (2004: HK$0.08 per share) to be payable to the shareholders whose names appear on the Register of Members of the Company on 25th August, 2005.

7. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30th June, 2005 is based on the net profit for the period attributable to equity holders of the parent of approximately HK$61,122,000 (2004: HK$89,463,000) and 584,720,000 shares (2004: weighted average number of 555,225,000 shares) in issue during the period.

The calculation of diluted earnings per share for the six months ended 30th June, 2004 is based on the adjusted net profit for the period attributable to equity holders of the parent of approximately HK$89,536,000 and the weighted average number of 584,720,000 shares after taking into consideration on the potential dilution effect of conversion of convertible loan stock. No diluted earnings per share for the six months ended 30th June, 2005 was presented because there was no potential ordinary shares outstanding during the period.

8. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired plant and machinery at a cost of HK$12,417,000 directly and HK$48,234,000 through the acquisition of subsidiaries.

9. TRADE AND OTHER RECEIVABLES

The trade and other receivables include trade receivables of HK$50,065,000 (2004: HK$44,574,000). 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, 2005	31st December, 2004
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
0 – 60 days	**48,389**	44,239
61 – 90 days	**1,254**	141
> 90 days	**422**	194
	50,065	44,574

10. TRADE AND OTHER PAYABLES

The trade and other payables include trade payables of HK$74,739,000 (2004: HK$71,536,000).

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

	30th June, 2005 (Unaudited) *HK$'000*	31st December, 2004 (Audited) *HK$'000*
0 – 60 days	**64,934**	69,482
61 – 90 days	**8,942**	1,603
> 90 days	**863**	451
	74,739	71,536

11. SHARE CAPITAL

	Number of shares		**Share Capital**	
	30th June 2005 (Unaudited) *'000*	31st December 2004 (Audited) *'000*	**30th June 2005 (Unaudited) *HK$'000***	31st December 2004 (Audited) *HK$'000*
Ordinary shares of HK$0.10 each:				
Authorised:				
At the beginning of the period	**1,000,000**	700,000	**100,000**	70,000
Increased at 20th April, 2004	**–**	300,000	**–**	30,000
At the end of the period	**1,000,000**	1,000,000	**100,000**	100,000
Issued and fully paid:				
At the beginning of the period	**584,720**	462,720	**58,472**	46,272
Conversion of convertible loan stock	**–**	122,000	**–**	12,200
At the end of the period	**584,720**	584,720	**58,472**	58,472

12. COMMITMENTS

The Group was committed to capital expenditure contracted for but not provided in the financial statements as follows:

	30th June, 2005 (Unaudited) *HK$'000*	31st December, 2004 (Audited) *HK$'000*
Acquisition of subsidiaries	**1,759**	58,114
Acquisition of property, plant and equipment	**–**	1,677

13. ACQUISITION OF SUBSIDIARIES

On 27th January, 2005, the Group acquired 100% of the issued share capital of each of Shelcore, Inc., Shelcore Hong Kong Limited, Shelcore Canada Limited and Shelcore UK Limited (together referred to as "Shelcore Companies"). The acquisition has been accounted for by the purchase method of accounting. The principal activity of the Shelcore Companies is engaged in the manufacturing and trading of infant and pre-school children toys.

The net assets acquired in the transaction, and the discount on acquisition arising, are as follows:

	Acquiree's carrying amount before combination	**Fair value**
	HK$'000	*HK$'000*
Net assets acquired:		
Property, plant and equipment	48,234	48,234
Prepaid lease payments	1,205	1,205
Inventories	26,013	26,013
Trade and other receivables	22,522	22,522
Bank balances and cash	6,239	6,239
Trade and other payables	(21,530)	(21,530)
Tax payable	(774)	(774)
Bank borrowings	(8,201)	(8,201)
	73,708	73,708
Discount on acquisition		(3,390)
		70,318
Satisfied by:		
Cash consideration		60,373
Deposit for acquisition of investments in subsidiaries		9,945
		70,318
Net cash outflow arising on acquisition:		
Cash consideration paid		(60,373)
Cash and cash equivalents acquired		6,239
		(54,134)

The discount on acquisition arising on the above acquisition is attributable to the consideration agreed by both parties that are less than the fair value of the net assets acquired.

Shelcore Companies contributed approximately HK$67.4 million turnover and loss of approximately HK$20.3 million to the Group's profit before tax for the period between the date of acquisition and the balance sheet date.

If the acquisition had been completed on 1st January, 2005, total group turnover for the period would have been approximately HK$456.0 million, and profit for the period would have been approximately HK$53.9 million. The proforma information is for illustrative purposes only and is not necessarily an indicative turnover and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1st January, 2005, nor is it intended to be a projection of future results.

14. RELATED PARTY TRANSACTIONS

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

	For the six months ended	
	30th June, 2005	30th June, 2004
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interest paid or payable on convertible loan stock to ultimate holding company *(Note a)*	**–**	73
Rental paid or payable to a related company *(Note b)*	**72**	72

Notes:

a. The interest paid or payable on convertible loan stock to ultimate holding company, Suncorp Investments Group Limited ("Suncorp") was calculated at 5% per annum on the principal amount outstanding from time to time and shall be payable annually in arrears.

b. The rental paid or payable to a related company is determined in accordance with a tenancy agreement entered between a wholly owned subsidiary of the Group and a related company.

Mr. Cheng Yung Pun, a director of the Company, has beneficial interest in Suncorp and the related company.

INTERIM DIVIDEND

The Directors had resolved to declare an interim dividend of HK$0.08 per share for the six months ended 30th June, 2005 (2004: HK$0.08) to be payable in cash to those shareholders whose names appear on the Register of Members of the Company on 25th August, 2005. The interim dividend will be paid on or around 31st August, 2005.

In order to qualify for the interim dividend, all transfers and relevant share certificates must be lodged with the Company's Hong Kong Branch Share Registrars, Secretaries Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, for registration not later than 4:00 p.m. on 25th August, 2005.

MANAGEMENT DISCUSSION & ANALYSIS

BUSINESS REVIEW

The Group's toys manufacturing operations faced different situations in the first half of 2005. Whilst the Original Equipment Manufacturing ("OEM") business maintained stable growth, the Original Design Manufacturing ("ODM") business on the other hand, faced a challenging year. Some of the Group's clients lost market share in the highly-competitive retail toy market, which in turn affected the sales of the Group's ODM toy products. Despite the challenges encountered, anticipated results was still achieved with the adoption of effective cost-saving measures and prudent production policies, to cope with the competition.

REVIEW OF OPERATION

Toys Manufacturing Operation

OEM Business

One of the Group's key strengths is its strong manufacturing foothold in Zhongshan, the PRC and Danang City, Vietnam, which enabled its OEM business to continue to strive and achieve stable growth during the period under review. In order to maximize the efficiency and usage of current facilities, the Group has undertaken certain improvement actions.

First and foremost, the Group completed the construction of a 5,000 sq. m. warehouse at the Zhongshan Plant in mid 2005. With this additional storage capacity in place, the Group will be able to accommodate more raw materials and finished products inventory to meet the increasing orders from customers.

The Group has commenced renovation of its Vietnam plant and scheduled for the completion of which by the end of 2005. Upon completion of the renovation works, significant benefits in terms of enhanced production efficiency is expected with improved factory floor layout and more systematic physical production flow.

ODM Business

The acquisition of Shelcore Companies in January 2005 not only expanded the Group's toy product portfolio including infant and pre-school children toys and providing a new diversified source of revenue, but also allowed the Group to gain exposure to the global toy industry and a pool of potential customers by leveraging on Shelcore Companies' extensive worldwide distribution network.

During the period under review, the Group focused on the amalgamation of Shelcore operation with the Group, which included restructuring the ODM toy manufacturing operations and implementing various cost-saving measures in the procurement and purchasing divisions.

As mentioned earlier, the climate of the global retail industry has proven to be challenging in the first half of 2005 due to retail prices competition against the major customers. Despite that, the Group opened up the European market by securing a number of new accounts and achieved sales growth in countries such as UK and France. Other markets that are showing vitality are Ireland, Spain and the Nordic region. Central Europe is having challenges within their individual economies and the impact of the fluctuating Euro currency in these countries. Based on the Group's well established reputation, strong manufacturing expertise and delivery of innovative toy products at competitive prices, the Group believes that it will be able to retain and even gain new customers in both its existing and newly-developed markets.

Printing Operation

During the period under review, the vertically integrated printing arm of the Group continued to expand its customer base beyond internal consumption. The Group has been receiving orders from customers increasingly in light of the Group's ability to produce high quality finished products on a timely and efficient manner. The Group expects that this printing operation will provide steady and recurring income in the forthcoming years.

Marketing and Promotional Operation

The results of the business promotional company in the PRC maintained growth during the period under review.

Production Code of Conduct

The Group is extremely conscious of adhering to its strict production code of conduct. The Group strives to ensure that the working conditions in its plants such as safety standards, staff employment terms and environment conditions, meet international standards in order to ensure that its employees are well taken care of. Regular trainings have also been conducted to all levels of staff, so as to boost the staff's motivation by increasing their skill set and knowledge, as well as to increase the staff's productivity and contribution to the Group.

FUTURE PROSPECTS

The global toy market will continue to face numerous challenges in the coming years as commodity prices rise, and competition intensifies both in the plastic and plush toy business. To face up to this challenge, the Group will dedicate its efforts to secure its niche in both the premium toy market as well as the infant and pre-school children toy market.

Effective market studies and product research and development are crucial to the success of the launch of new toys to meet the market demand. With plans to enhance its research and development efforts, in particular reinforcing the product development team in a cost effective location, the Group is confident of launching new toy products to revitalize the Shelcore Toys brandname worldwide. The Group will also be considering a retail business to further expand its toy business. In addition to increasing its turnover, more importantly this move will give the Group brand exposure and opportunity to interact with the end consumers for more valuable direct feedback.

To further enhance product support and relationship with its customers, Shelcore Companies will allocate more resources in the toy sales, public relations, product development and brand re-enforcement. A branding campaign will also be launched in the second half of 2005. The marketing and communications campaign will also be supported by a series of public relations activities and continuous media presence. As such, the Group believes that there will be an improvement in its results in the second half of 2005.

Aim at securing a firm position within the global toy market, the outlook of the Group remains robust in the second half of 2005. Moving forward, the Group will not only continue to ensure the steady growth of its well-established OEM premium toys business, but also increase market share and brand exposure of its ODM toy products. Geographically, the Group has also been witnessing developments within the European market as the Group secures new accounts and explores new markets. This is a significant step for the Group as it diversifies its original foothold in the US market. The Group believes that all these moves will enhance its competitiveness and elevate its position in the global toy market, as well as maximize the return to its loyal shareholders.

FINANCIAL REVIEW

Liquidity and Financial Resources

During the period under review, the Group was granted banking facilities in a total of HK$18,000,000 secured by a fixed deposit and pledged by certain property from one of its subsidiaries. The Group's gearing ratio was not applicable as it was debt free at period end. As at 30th June, 2005, the Group had cash and bank balances of HK$50,264,000 (2004: HK$94,699,000).

The total capital expenditure on property, plant and equipment during the period amounted to HK$12,417,000 (2004: HK$14,790,000) to expand and upgrade the production capacity. These capital expenditures were funded mainly by internal resources.

The Group maintained a healthy financial position for the period. Net cash generated from operating activities amounted to approximately HK$100,000,000 (2004: HK$120,000,000).

At 30th June, 2005, the Group had total assets of HK$471,202,000 (2004: HK$454,007,000), total liabilities of HK$179,943,000 (2004: HK$170,900,000) and the equity attributable to equity holders of the parent was HK$291,209,000 (2004: HK$282,975,000).

There had been no material change in exposure to fluctuation in exchanges rates and contingent liabilities since the most recent published annual report.

Acquisition of Subsidiaries

On 16th November, 2004, the Group entered into agreements to acquire certain assets of Shelcore, Inc. and Shelcore Hong Kong Limited and the entire issued share capital of each of the Shelcore Companies, well-established US-based toy companies specializing in the design, manufacturing and sales of plastic toys for infant and pre-school children. The acquisition of Shelcore Companies was successfully completed on 27th January, 2005. Details of the transaction were disclosed in the Circular of the Company dated 31st January, 2005.

EMPLOYEES AND REMUNERATION POLICY

As at 30th June, 2005, the Group had a total of approximately 18,700 employees (2004: 16,000) in Hong Kong, Macau, PRC, Vietnam and USA. The considerable increase in workforce was mainly contributed by the acquisition of Shelcore Companies completed in January 2005.

The Group's employee remuneration packages are in line with prevailing industry practices, and the employees are awarded on a performance-related basis within the general framework of the Group's salary and bonus systems. In Hong Kong, the Group's directors and employees have been enrolled in the mandatory provident fund scheme. In PRC and Vietnam, accommodation and welfare services are also provided to staff at the Group's production facilities. Share option scheme and discretionary bonus are also put in place to motivate and reward the employees with outstanding performance.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30th June, 2005, 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

Ordinary Shares of HK$0.10 each of the Company

Name of director	Nature of interests	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Cheng Yung Pun	Corporate interest *(Note)*	396,494,800	67.80%
Yu Sui Chuen	Personal interest	604,000	0.10%
Cheng Wing See, Nathalie	Personal interest	700,000	0.12%

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

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 corporation as at 30th June, 2005.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the period was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the directors nor the chief executive, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

SUBSTANTIAL SHAREHOLDERS

As at 30th June, 2005, 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

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
Suncorp *(Note 1)*	Beneficial owner	396,494,800	67.80%
Arisaig Greater China Fund Limited ("Arisaig China") *(Notes 2 & 3)*	Beneficial owner	29,756,000	5.09%
Arisaig Partners (Mauritius) Ltd. ("Arisaig Partners") *(Notes 2 & 3)*	Fund Manager	29,756,000	5.09%
Lindsay William Ernest Cooper ("Lindsay Cooper") *(Note 3)*	Interest held by controlled corporations	29,756,000	5.09%

SUBSTANTIAL SHAREHOLDERS (continued)

Notes:

1. Suncorp is wholly owned by Mr. Cheng Yung Pun, director of the Company.
2. The Shares are held by Arisaig China of which Arisaig Partners is the fund manager.
3. The Shares are held by Arisaig China. Arisaig Partners which is indirectly owned as to 33.33% by Lindsay Cooper is the fund manager of Arisaig China.

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, 2005.

SHARE OPTION SCHEME

The share option scheme of the Company was adopted on 17th December, 2002 (the "Scheme") to comply with the new requirements of Chapter 17 of the Listing Rules effected on 1st September, 2001. The key terms of the Scheme had been summarized in our 2004 Annual Report published in March this year.

As at 30th June, 2005, the total number of shares available for issue under the Scheme was 32,272,000 shares which represented 5.52% of the issued share capital of the Company.

No options were granted or exercised under the Scheme during the period and there were no outstanding share options at 30th June, 2005.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the six months ended 30th June, 2005, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares.

CODE ON CORPORATE GOVERNANCE

The Company has adopted its own code on corporate governance practices which incorporates all the code provisions in the Code on Corporate Governance Practices in Appendix 14 of the Listing Rules (the "Code on Corporate Governance Practices"). In compliance with the code provision A.2.1, a Chief Executive Officer ("CEO") was appointed by the Company on 1st April, 2005, namely Mr. Michael Adam Greenberg. The responsibilities and duties of both the chairman and CEO have been stated in Chairman Mandate and CEO Mandate respectively as adopted by the Board. Secondly, in compliance with the code provision A.4.2, the amendments to the Company's Bye-laws were passed in the 2005 annual general meeting of the Company which was held on 20th April, 2005. The Company's Bye-laws was amended to the effect that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

In the opinion of the directors, the Company has complied throughout the period with the code provisions set out in the Code on Corporate Governance Practices except for the deviation from the code provision A.4.1. that none of the existing non-executive (including independent non-executive) Directors of the Company is appointed for a specific term. However, all the Directors of the Company (executive and 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 Code.

INDEPENDENT NON-EXECUTIVE DIRECTOR

The Company has complied with Rules 3.10(1) and 3.10(2) of the Listing Rules relating to appointment of a sufficient number of independent non-executive Directors ("INEDs") and at least an INED with appropriate professional qualifications, or accounting or related financial management expertise. The Board comprises three INEDs including two with financial management expertises. Details of their biographies were set out in the 2004 Annual Report of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard 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 Company has an Audit Committee which was established for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls.

The written term of reference which describes the authority and duties of the Audit Committee was prepared and adopted with reference to "A Guide for The Formation of An Audit Committee" and "A Guide for Effective Audit Committee" published by the Hong Kong Institute of Certified Public Accountants, and was amended in accordance with the Appendix 14 of the Listing Rules. The Audit Committee, comprises three INEDs, namely Mr. Loke Yu alias Loke Hoi Lam (Chairman of Audit Committee), Mr. Mak Shiu Chung, Godfrey and Mr. Wan Hing Pui, met regularly during the financial year. During the meetings, the Audit Committee reviewed the accounting principles and practices adopted by the Group, the interim and annual reports of the Group and discussed with management the auditing, internal control and financial reporting matters including the review of these unaudited interim results for the six months ended 30th June, 2005.

Remuneration Committee

The Remuneration Committee was established for the purposes of making recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management. The written term of reference which describes the authority and duties of the Remuneration Committee was prepared and adopted. The Remuneration Committee comprises three INEDs, namely Mr. Loke Yu alias Loke Hoi Lam (Chairman of Remuneration Committee), Mr. Mak Shiu Chung, Godfrey and Mr. Wan Hing Pui.

REVIEW OF INTERIM RESULTS

The unaudited interim results for the six months ended 30th June, 2005 have been reviewed by the Audit Committee and the auditors of the Company, Messrs. Deloitte Touche Tohmatsu.

By Order of the Board
Cheng Yung Pun
Chairman

Hong Kong, 16th August, 2005