

# MATRIX

## Matrix Holdings Limited

## 美力時集團有限公司

(Incorporated in Bermuda with limited liability)

Stock Code: 1005



# Interim Report 2006



## 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

### AUDIT COMMITTEE & REMUNERATION COMMITTEE

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

### QUALIFIED ACCOUNTANT

Chu Chor Lin

### COMPANY SECRETARY

Lai Mei Fong

### AUDITORS

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

### BRANCH SHARE REGISTRAR IN HONG KONG

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

### PRINCIPAL PLACE OF BUSINESS

Room 901  
9th Floor, East Ocean Centre  
98 Granville Road  
Tsimshatsui East  
Kowloon, Hong Kong

### PRINCIPAL BANKER

Bank of China (Hong Kong) Limited

### WEBSITE

[www.matrix.hk.com](http://www.matrix.hk.com)

### STOCK CODE

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





## RESULT HIGHLIGHTS

	<b>FINANCIAL HIGHLIGHTS</b>		
	For the six months ended 30th June		Changes
	2006	2005	
	HK\$	HK\$	%
Turnover	345,205,000	447,074,000	-22.8
Profit attributable to equity holders of the Company	40,013,000	61,122,000	-34.5
Basic earnings per share	0.07	0.10	-30.0
Interim dividend, proposed	0.08	0.08	—
Gross profit margin ratio (%)	33.44%	27.08%	

In the first half of 2006, the unaudited consolidated turnover of Matrix Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") amounted to HK\$345,205,000 (2005: HK\$447,074,000) and the profit attributable to equity holders of the Company was HK\$40,013,000 (2005: HK\$61,122,000), which resulted in a basic earnings per share of HK\$0.07 (2005: HK\$0.10). Having been adversely affected by conservative ordering practices of certain customers, delayed purchase orders were received from the customers that causing some of the Group's sale orders and delivery date being deferred to the second half year of 2006. In addition, the seasonal nature of the customers' orders for Shelcore products also brought another adverse effect on the results of the Group due to its seasonal low sales turnover in the first half year.

Nevertheless, through the implementation of a series of cost control, inventory management measures, effective management of integration and productivity enhancement, the adverse impact of the above events to the Group's result was moderated. For instance, the Company has passed on the additional costs to the customers so as to reduce cost pressure and has effectively utilised its resources by disposing of its vacant office. Although the relatively low seasonal sales have weighted down on the Group's overall performance during these past six months, it is expected that this would not be prolonged as seasonal sales of retail toy products are expected to boost the Group's turnover towards the second half of the year.

For the six months ended 30th June, 2006, the United States continued to be the largest customer market of the Group, accounting for approximately 86.5% of the Group's total turnover (2005: 90.0%). The other significant customer markets for the Group included Europe, Canada and Hong Kong, which accounted for approximately 4.0% (2005: 3.9%), 2.0% (2005: 2.8%) and 4.8% (2005: 1.1%) respectively.



## 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, 2006, together with the comparative figures for the corresponding period in 2005 as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE, 2006

	NOTES	For the six months ended 30th June, 2006 (Unaudited) HK\$'000	30th June, 2005 (Unaudited) HK\$'000
Turnover	3	345,205	447,074
Cost of sales		(229,769)	(326,014)
Gross profit		115,436	121,060
Other income		4,880	3,228
Distribution and selling costs		(37,138)	(30,787)
Administrative expenses		(41,565)	(37,205)
Finance costs		(373)	(24)
Discount on acquisition of subsidiaries		—	3,390
Profit before taxation	4	41,240	59,662
Income tax (charge) credit	5	(1,227)	1,378
Profit for the period		40,013	61,040
Attributable to:			
Equity holders of the Company		40,013	61,122
Minority interest		—	(82)
		40,013	61,040
Dividend	6	45,984	46,778
Earnings per share — Basic	7	HK\$0.07	HK\$0.10



CONDENSED CONSOLIDATED BALANCE SHEET  
AS AT 30TH JUNE, 2006

	NOTES	30th June, 2006 (Unaudited) HK\$'000	31st December, 2005 (Audited) HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment	8	201,775	207,947
Prepaid lease payments		1,127	1,143
Deferred tax assets		379	380
		203,281	209,470
<b>Current assets</b>			
Inventories		167,133	149,295
Trade and other receivables	9	90,312	58,704
Prepaid lease payments		32	32
Held for trading investments		672	942
Pledged bank deposit		5,196	51,990
Bank balances and cash		28,262	42,258
		291,607	303,221
<b>Current liabilities</b>			
Trade and other payables	10	115,486	100,445
Dividend payable		—	17,542
Tax payable		57,773	56,432
Bank overdrafts		14,978	—
		188,237	174,419
<b>Net current assets</b>		103,370	128,802
<b>Total assets less current liabilities</b>		306,651	338,272
<b>Capital and reserves</b>			
Share capital	11	57,480	58,472
Reserves		244,358	274,985
<b>Equity attributable to equity holders of the Company</b>		301,838	333,457
<b>Non-current liabilities</b>			
Deferred tax liabilities		4,813	4,815
		306,651	338,272



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE SIX MONTHS ENDED 30TH JUNE, 2006

	Attributable to equity holders of the Company										
	Share capital HK\$'000	Share premium HK\$'000	Special reserve HK\$'000	Shareholders' contribution HK\$'000	Share options reserve HK\$'000	Other asset revaluation reserve HK\$'000	Translation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000	Minority interest HK\$'000	Total HK\$'000
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 recognised directly in equity	—	—	—	—	—	—	(263)	—	(263)	—	(263)
Profit for the period	—	—	—	—	—	—	—	61,122	61,122	(82)	61,040
Total recognised income and expenses for the period	—	—	—	—	—	—	(263)	61,122	60,859	(82)	60,777
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
Currency translation difference recognised directly in equity	—	—	—	—	—	—	(594)	—	(594)	—	(594)
Surplus on revaluation of property, plant and equipment	—	—	—	—	—	26,788	—	—	26,788	—	26,788
Deferred tax liability arising on revaluation of property, plant and equipment	—	—	—	—	—	(1,058)	—	—	(1,058)	—	(1,058)
Net income recognised directly in equity	—	—	—	—	—	25,730	(594)	—	25,136	—	25,136
Profit for the period	—	—	—	—	—	—	—	79,807	79,807	(50)	79,757
Total recognised income and expenses for the period	—	—	—	—	—	25,730	(594)	79,807	104,943	(50)	104,893
Recognition of equity-settled share based payments	—	—	—	—	1,625	—	—	—	1,625	—	1,625
Dividend paid	—	—	—	—	—	—	—	(46,778)	(46,778)	—	(46,778)
Special dividend declared	—	—	—	—	—	—	—	(17,542)	(17,542)	—	(17,542)
At 31st December, 2005	58,472	55,708	771	6,901	1,625	35,039	(10,908)	185,849	333,457	—	333,457
At 1st January, 2006	58,472	55,708	771	6,901	1,625	35,039	(10,908)	185,849	333,457	—	333,457
Currency translation difference recognised directly in equity	—	—	—	—	—	—	(247)	—	(247)	—	(247)
Release of revaluation surplus upon disposal of property, plant and equipment	—	—	—	—	—	(2,612)	—	2,612	—	—	—
Net income recognised directly in equity	—	—	—	—	—	(2,612)	(247)	2,612	(247)	—	(247)
Profit for the period	—	—	—	—	—	—	—	40,013	40,013	—	40,013
Total recognised income and expenses for the period	—	—	—	—	—	(2,612)	(247)	42,625	39,766	—	39,766
Recognition of equity-settled share based payments	—	—	—	—	812	—	—	—	812	—	812
Dividend paid	—	—	—	—	—	—	—	(51,732)	(51,732)	—	(51,732)
Shares repurchased and cancelled	(992)	(19,473)	—	—	—	—	—	—	(20,465)	—	(20,465)
At 30th June, 2006	57,480	36,235	771	6,901	2,437	32,427	(11,155)	176,742	301,838	—	301,838

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 a group reorganisation in 1994.



CONDENSED CONSOLIDATED CASH FLOW STATEMENT  
FOR THE SIX MONTHS ENDED 30th JUNE, 2006

	For the six months ended	
	30th June, 2006 (Unaudited) HK\$'000	30th June, 2005 (Unaudited) HK\$'000
Net cash from operating activities	24,162	100,284
Net cash from (used in) investing activities		
Acquisition of subsidiaries, net of cash and cash equivalents acquired	—	(54,134)
Other investing cash flows	36,603	(12,186)
	36,603	(66,320)
Net cash used in financing activities	(89,739)	(78,424)
Net decrease in cash and cash equivalents	(28,974)	(44,460)
Cash and cash equivalents at beginning of the period	42,258	89,688
Cash and cash equivalents at end of the period	13,284	45,228
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	28,262	45,228
Bank overdrafts	(14,978)	—
	13,284	45,228





## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 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 (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 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 used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st December, 2005.

In the current period, the Group has applied, for the first time, a number of new standards, amendments and interpretations (hereinafter collectively referred to as "new HKFRSs"), issued by the HKICPA that are effective for accounting periods beginning on or after 1st December, 2005 or 1st January, 2006. The adoption of these new HKFRSs did not have any material impact on how the financial statements of the Group are prepared and presented for the current or prior accounting period.

#### Potential Impact of New Standards Not Yet Effective

The Group has not early applied the following new 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 and interpretations will have no material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital Disclosures <sup>1</sup>
HKFRS 7	Financial Instruments: Disclosures <sup>1</sup>
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies <sup>2</sup>
HK(IFRIC)-Int 8	Scope of HKFRS 2 <sup>3</sup>
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1st January, 2007.

<sup>2</sup> Effective for annual periods beginning on or after 1st March, 2006.

<sup>3</sup> Effective for annual periods beginning on or after 1st May, 2006.

<sup>4</sup> Effective for annual periods beginning on or after 1st June, 2006.



### 3. SEGMENT INFORMATION

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

	For the six months ended 30th June		Results	
	Turnover			
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
United States	298,728	402,255	81,746	99,431
Europe	13,721	17,316	5,810	7,834
Canada	6,786	12,576	1,986	3,517
Hong Kong	16,699	5,052	3,306	1,290
Others	9,271	9,875	3,463	4,475
	345,205	447,074	96,311	116,547
Unallocated income and expenses			(55,071)	(56,885)
Profit before taxation			41,240	59,662
Income tax (charge) credit			(1,227)	1,378
Profit for the period			40,013	61,040

### 4. PROFIT BEFORE TAXATION

	For the six months ended	
	30th June, 2006	30th June, 2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Profit before taxation has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment		
— owned assets	16,808	16,360
— assets held under a finance lease	—	42
Gain on disposal of subsidiaries	(715)	—
Net (gain) loss on disposal of property, plant and equipment	(724)	32
Unrealised loss (gain) on held for trading investments	270	(110)



## 5. INCOME TAX (CHARGE) CREDIT

	For the six months ended	
	30th June, 2006 (Unaudited) HK\$'000	30th June, 2005 (Unaudited) HK\$'000
Current tax:		
Hong Kong	(980)	(3,848)
Other jurisdictions	(250)	(662)
	(1,230)	(4,510)
Overprovision in prior years:		
Hong Kong	3	5,888
	(1,227)	1,378

Hong Kong Profits Tax is calculated at 17.5% (2005: 17.5%) of the estimated assessable profits for the six months period ended 30th June, 2006.

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

## 6. DIVIDEND

The Directors had resolved to declare an interim dividend of HK\$0.08 per share to be payable in cash with a scrip dividend alternative (2005: HK\$0.08 per share payable in cash) to the shareholders whose names appear on the Register of Members of the Company on 5th September, 2006.

## 7. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30th June, 2006 is based on the profit for the period attributable to equity holders of the Company of approximately HK\$40,013,000 (2005: HK\$61,122,000) and weighted average number of 575,742,000 shares (2005: 584,720,000 shares) in issue during the period.

No diluted earnings per share for the six months ended 30th June, 2006 was presented because the computation of diluted earnings per share does not assume the exercise of the Company's outstanding share options as the exercise price of those options is higher than the average market price for shares for the six months ended 30th June, 2006.

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 property, plant and equipment at a cost of approximately HK\$20,378,000.



## 9. TRADE AND OTHER RECEIVABLES

The trade and other receivables include trade receivables of HK\$74,517,000 (2005: HK\$46,021,000). 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, 2006 (Unaudited) HK\$'000	31st December, 2005 (Audited) HK\$'000
0 – 60 days	72,864	40,734
61 – 90 days	327	1,443
> 90 days	1,326	3,844
	74,517	46,021

## 10. TRADE AND OTHER PAYABLES

The trade and other payables include trade payables of HK\$79,875,000 (2005: HK\$57,434,000).

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

	30th June, 2006 (Unaudited) HK\$'000	31st December, 2005 (Audited) HK\$'000
0 – 60 days	56,183	53,944
61 – 90 days	8,921	2,723
> 90 days	14,771	767
	79,875	57,434

## 11. SHARE CAPITAL

	<b>Number of shares</b>		<b>Share Capital</b>	
	30th June, 2006 (Unaudited) '000	31st December, 2005 (Audited) '000	30th June, 2006 (Unaudited) HK\$'000	31st December, 2005 (Audited) HK\$'000
<b>Ordinary shares of HK\$0.10 each:</b>				
<i>Authorised:</i>				
At the beginning and end of the period	1,000,000	1,000,000	100,000	100,000
<i>Issued and fully paid:</i>				
At the beginning of the period	584,720	584,720	58,472	58,472
Shares repurchased and cancelled	(9,924)	—	(992)	—
At the end of the period	574,796	584,720	57,480	58,472



## 12. DISPOSAL OF SUBSIDIARIES

During the period, the Group disposed of its certain subsidiaries. The net liabilities of the subsidiaries at the date of disposal, 29th June, 2006 were as follows:

	29th June, 2006 (Unaudited) HK\$'000
Net liabilities disposed of	
Property, plant and equipment	218
Trade and other receivables	451
Bank balances and cash	125
Trade and other payables	(1,509)
	(715)
Gain on disposal of subsidiaries	715
Cash consideration	—
Satisfied by	
Cash	—
Net cash outflow arising on disposal:	
Bank balances and cash disposed of	(125)

The subsidiaries disposed of during the period did not have any significant impact to the cash flows, turnover and profit of the Group for the period.

## 13. COMMITMENTS

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

	30th June, 2006 (Unaudited) HK\$'000	31st December, 2005 (Audited) HK\$'000
Contracted for but not provided in the financial statements	638	6,688
Authorised but not contracted for	1,254	1,114

## 14. RELATED PARTY TRANSACTIONS

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

	For the six months ended 30th June, 2006 (Unaudited) HK\$'000	30th June, 2005 (Unaudited) HK\$'000
Rental paid or payable to a related company	72	72
Purchases of plant and equipment from a related company	177	—

Mr. Cheng Yung Pun, a director of the Company, has beneficial interests in the related companies.





## 15. SHARE BASED PAYMENT TRANSACTION

### Equity-settled share option scheme

Pursuant to the Company's share option scheme (the "Scheme"), the Company's directors may grant options to any full-time employees, executives or officers, directors of the Group and any suppliers, consultants, agents or advisers who have contributed to the business and operation of the Group. The key terms of the Scheme had been summarised in the Company's 2005 Annual Report published in March 2006.

As at 30th June, 2006, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 8,768,000 (31st December, 2005: 8,768,000), representing 1.53% (31st December, 2005: 1.50%) of the shares of the Company in issue at that date. Options may be exercised at any time from three months from the date of grant of the share option, 27th January, 2006 to 26th January, 2009.

Details of specific category of share options are as follows:

Date of grant	Vesting period	Exercise period	Exercise price
27th October, 2005	3 months	27th January, 2006 to 26th January, 2009	HK\$2.34

The following table discloses movements of the Company's share options held by director and chief executive during the period:

Name of director/ chief executive	Outstanding at 1st January, 2006	Granted during period	Exercised during period	Outstanding at 30th June, 2006
Yu Sui Chuen	2,922,000	—	—	2,922,000
Michael Adam Greenberg	5,846,000	—	—	5,846,000
Total	8,768,000	—	—	8,768,000

The fair value of options granted was calculated using the Black-Scholes pricing model. The inputs into the model at the date of grant on 27th October, 2005 were as follows:

Weighted average share price	HK\$2.26
Exercise price	HK\$2.34
Expected volatility	30%
Expected life	3 years
Risk-free rate	4.224%
Expected dividend yield	8.6%

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

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

The Group recognised the total expense of HK\$812,000 for the period ended 30th June, 2006 (six months ended 30th June, 2005: nil) in relation to share options granted by the 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, 2006 to be payable in cash with a scrip dividend alternative (2005: HK\$0.08 payable in cash) to those shareholders whose names appear on the Register of Members of the Company on 5th September, 2006. The scrip dividend alternative offers 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 alternative 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 scrip dividend alternative and the form of election will be mailed to the 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 despatch to shareholders on or about 16th October, 2006.

## CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 1st September, 2006 to 5th September, 2006, 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, 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 31st August, 2006.

## MANAGEMENT DISCUSSION & ANALYSIS

### BUSINESS REVIEW

2006 was a challenging year for the toy industry and the Group also. In common with many toy manufacturers, a tough retail environment caused a sustained pricing pressure and customers' conservative ordering practices caused a decline in sales turnover to the Group for the first half year. Apart from these, the Group's overall profitability had been continuously affected by unfavourable factors including the exorbitant oil prices, the shortage and unstable supply of public facilities in the People's Republic of China ("PRC") and the appreciation of Renminbi that led the increase of operation cost and Renminbi denominated expenses also. In addition, further cost incurred by the Group to invest in its expansion of existing product range, advertising and brand promotion for the Group's own branded and licensed products.

During the period under review, the Group focused on reducing production costs by minimising outsourcing and integrating production operation to maximise manufacturing profits. With its dedicated and relentless efforts on continuously adoption of cost stringent policy, the adverse effect of those factors to the Group's result was minimised.

### REVIEW OF OPERATION

#### Toys Manufacturing Operation

In order to augment production capacity subsequent to the amalgamation of the Original Design Manufacturing ("ODM") operation to the Group, the Group has undergone processes of renovation and relocation of production facilities in the plant in the first half year of 2006. An additional factory space in the Zhongshan was constructed for enhancing product productivity of ODM products during the period under review. With continuous enhancing cost-effectiveness of production, the Group has established its own production line for producing electronic components. The production efficiency from this backward integration in overall production was materialised. This newly developed arm has accomplished the Group's aim at providing 'one-stop-shop' production line and vertical integration functionally.



The renovation of the first plant in the Vietnam has proceeded steadily as planned. Upon completion of all renovation works, significant benefit in term of enhanced production efficiency is expected as the improved factory floor outlay contributed to the smooth physical production flow.

With such a giant manufacturing momentum of the Group, those cost-effective production plants contributed to a higher gross profit margin and tapered off the adverse impact of the above events.

However, toy retail market that was continuously characterised by intensified retail prices competition and slower sales growth against the Group's existing customers. Despite that, the Group has extended its distribution network to other international markets and gained exposure to its newly developed markets in particular, Latin America, Australia, Spain, Middle East and the PRC. The Group continued to maximise the full potential of the distribution channels spanning over those newly developed markets by implementing a pricing strategy and effective advertising and promotion campaigns so as to strengthen its brand awareness during the period under review. Apart from it, the Group has opened up a controlling office in Europe to organise the marketing activities in European markets, and employed experienced marketing staff and executives for expansion of the range of product sales in the European markets. With positive response from retail businesses in the PRC, the Company would consider to develop more points of sale in the PRC.

Based on the Group's strong manufacturing expertise and its expansion of a team of well-trained and highly skilled engineers to handle the development and improvement of its innovative products, the product mix was enlarged to enhance the satisfaction and appeal to its customers.

The Group's licensed character trademarks such as 'Nascar' have enriched the styles of its own branded products. Sales of licensed character products for the period were gradually increased by the purchase of additional licences in year 2006. Newly licensed character products accounted for an increasing percentage of the total sales reflecting the growth of the development of licensed products. The Group would continue to identify potential licences for additional trademarks to offer a broader choice of licensed character products for customers.

#### Printing Operation

With installation of the additional printing machines, the Group had expanded its production capacity of printing and which has brought in a stable source of revenue to the Group. During the period under review, the vertically integrated printing arm of the Group continued to expand its customer base beyond internal consumption.

#### Marketing and Promotional Operation

During the period under review, owing to marketing and promotional operation did not achieve the expected market shares in the promotional industry in the PRC, the Group had disposed of its marketing and promotional operation on 29th June, 2006.

#### Production Code of Conduct

The Group is extremely conscious of adhering to its strict production code of conduct and put its great effort on providing comfortable working conditions and leisure centre in its plants to the staff together with providing safety standards, staff employment terms and environment conditions, meet international standards to the employees for ensuring that they are well taken care of. Regular trainings and numerous social functions and activities have also been provided 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

Numerous challenges in the coming years would be expected to encounter on both plastic and plush toy businesses and the infant and pre-school children toy market. Increasing expenses, in particular, the increase in the rental expenses as operation costs, increase in labour costs and other expenses due to the appreciation in Renminbi and the surge in crude oil, would be projected. To face up to this challenge and intensified toy markets competition, the Group would dedicate its utmost efforts to broaden its worldwide and local distribution and network, to secure its niche in the premium toy market, to enrich its product mix and to adopt further cost-saving measures. In addition, the seasonal sales of retail toy products towards the second half of the year is expected to boost the Group's turnover. The Group showed great resilience amid the adverse global toy markets conditions.

The Group continues the development and diversification of new products. Apart from its Original Equipment Manufacturing products, the Group is now actively developing its own branded name and licensed products in the international markets, targeting mainly the potential customers in Latin American, Australian, Spanish, Middle East and European markets and developing more points of sale in the PRC. Product diversification would facilitate business expansion and reduce the Group's dependence on limit branded product mix, providing greater flexibility and increased operating profit. After years of strive, sales of own branded products accounts for an increasing percentages of total sales. These positive results have justified the Group's decision to diversify strategically.

The Group would continue to implement its strategic plan on conducting effective market studies and product research and development so as to expand the mass merchandise markets. With the reinforcement of the product development team in a cost effective location, the Group is enable to launch a diversified toy products to meet the customers' appeal and revitalise the Shelcore's brand worldwide with extended distribution network to Latin America and other international markets in second half of year. With all the above in place, including a steady foothold in the retail toy market, the Group is poised to obtain recognition in the international toy market and phases of metamorphosis in terms of production and marketing has been undergone.

Notwithstanding, product research and development and marketing activities are largely invested. Though, the benefit from this long-term investment has not yet fully reflected in the Group's results during the period under review, the benefit is expected to materialise in future.

The Group would continue to review business and enterprise with its expansion plans with a view to achieving rational growth in scale, structure and profitability. In the coming years, one of the Group's strategies is to strengthen the core toys manufacturing operation through acquisitions for accelerating business growth.

## FINANCIAL REVIEW

### Liquidity and Financial Resources

As at 30th June, 2006, the Group had bank balances and cash of HK\$28,262,000 (31st December, 2005: HK\$42,258,000) and pledged bank deposit of HK\$5,196,000 (31st December, 2005: HK\$51,990,000) secured for banking facilities granted. As at 30th June, 2006, the Group obtained banking facilities in a total of HK\$40,000,000 (31st December, 2005: HK\$81,000,000) secured by fixed deposits and corporate guarantee given by the Company.

As at 30th June, 2006, the Group had bank overdrafts of HK\$14,978,000 (31st December, 2005: Nil). The Group's gearing ratio, representing the total debt divided by equity attributable to equity holders of the Company was 5.0% (31st December, 2005: Nil).

During the period, net cash generated from operating activities amounted to approximately HK\$24,162,000 (30th June, 2005: HK\$100,284,000). 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 HK\$20,378,000 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, 2006, the Group had total assets of HK\$494,888,000 (31st December, 2005: HK\$512,691,000), total liabilities of HK\$193,050,000 (31st December, 2005: HK\$179,234,000) and equity attributable to equity holders of the Company of HK\$301,838,000 (31st December, 2005: HK\$333,457,000). The net assets of the Group decreased 9.5% to HK\$301,838,000 as at 30th June, 2006 (31st December, 2005: HK\$333,457,000).

## Sales of Properties

In the current period, the Group disposed of certain of its vacant properties at a sales proceeds of HK\$10,000,000 with a gain amounting to approximately HK\$1,344,000, which has been recognised directly in the income statement during the period. The revaluation surplus of the disposed properties amounted to approximately HK\$2,612,000 was released and transferred from other asset revaluation reserve to retained profits directly upon the disposal.

## Repurchase of Shares

During the six months ended 30th June, 2006, the Company repurchased a total of 9,924,000 ordinary shares of the Company of HK\$0.10 each through the Stock Exchange at an aggregate consideration of HK\$20,369,910 before expenses. The repurchased shares were subsequently cancelled and the issued share capital of the Company was reduced by the par value thereof.

## 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, 2006, the Group had a total of approximately 17,000 (31st December, 2005: 17,000) employees in Hong Kong, Macau, PRC, Vietnam, U.S.A., Canada 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.





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

As at 30th June, 2006, 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, pursuant to the Model Code for Securities Transactions by Directors of the Listing Companies were as follows:

### Long Positions in Ordinary Shares of the Company

#### Ordinary Shares of HK\$0.10 each of the Company

Name of director/ chief executive	Nature of interests	Number of issued ordinary shares/ underlying shares held	Percentage of the issued share capital of the Company
Cheng Yung Pun ( <i>director</i> )	Corporate interest ( <i>Note</i> )	409,242,800	71.20%
Yu Sui Chuen ( <i>director</i> )	Personal interest	604,000	0.11%
Cheng Wing See, Nathalie ( <i>director</i> )	Personal interest	700,000	0.12%
Michael Adam Greenberg ( <i>chief executive</i> )	Personal interest	794,000	0.14%

*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.

### Share Option

Name of director/ chief executive	Number of underlying shares attached to the share options				Exercise price HK\$	Exercise period
	Outstanding at beginning of period	Granted during period	Exercised during period	Outstanding at end of period		
Yu Sui Chuen ( <i>director</i> )	2,922,000 ( <i>Note 1</i> )	—	—	2,922,000	2.34	27th January, 2006 to 26th January, 2009
Michael Adam Greenberg ( <i>chief executive</i> )	5,846,000 ( <i>Note 2</i> )	—	—	5,846,000	2.34	27th January, 2006 to 26th January, 2009
<b>Total</b>	<b>8,768,000</b>	<b>—</b>	<b>—</b>	<b>8,768,000</b>		

*Notes:*

- Mr. Yu, a director of the Company, has beneficial interests in 2,922,000 underlying shares (representing 0.51% of issued share capital of the Company) in respect of share options granted to him on 27th October, 2005 pursuant to the Company's share option scheme.
- Mr. Greenberg, a chief executive officer of the Company, has beneficial interests in 5,846,000 underlying shares (representing 1.02% of issued share capital of the Company) in respect of share options granted to him on 27th October, 2005 pursuant to the Company's share option scheme.

The closing price of the Company's shares immediately before 27th October, 2005, the date of grant of the 2005 options, was HK\$2.325.

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, 2006.



## DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

Other than as disclosed in the section "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures", at no time during the period was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries, 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, 2006, 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 were as follows:

### 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
Suncorp (Note 1)	Beneficial owner	409,242,800	71.20%
Veer Palthe Voûte NV	Beneficial owner	40,268,000	7.01%
Dresdner Bank Aktiengesellschaft (Note 2)	Interest held by controlled corporations	40,268,000	7.01%
Allianz Aktiengesellschaft (Note 3)	Interest held by controlled corporations	40,268,000	7.01%

#### Notes:

1. Suncorp is wholly owned by Mr. Cheng Yung Pun, director of the Company.
2. The Shares are held by Veer Palthe Voûte NV, which is through Dresdner Bank Luxembourg S.A., 100% held by Dresdner Bank Aktiengesellschaft.
3. The Shares are held by Veer Palthe Voûte NV, which is through Dresdner Bank Luxembourg S.A., 100% held by Dresdner Bank Aktiengesellschaft, which in turn is, through Allianz Finanzbeteiligungs GmbH, 81.10% held by Allianz Aktiengesellschaft.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 30th June, 2006.

## SHARE OPTION SCHEME

The share option scheme of the Company was adopted on 17th December, 2002 (the "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 2005 Annual Report published in March this year.

As at 30th June, 2006, the total number of shares available for issue under the Scheme was 23,504,000 shares which represented 4.09% of the issued share capital of the Company.



As at 30th June, 2006, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 8,768,000, representing 1.53% of the shares of the Company in issue at that date. Options may be exercised at any time from three months from the date of grant of the share option, 27th January, 2006 to 26th January, 2009.

## PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the six months ended 30th June, 2006, the Company repurchased a total of 9,924,000 ordinary shares of the Company of HK\$0.10 each through the Stock Exchange at an aggregate consideration of HK\$20,369,910 before expenses. The repurchased shares were subsequently cancelled and the issued share capital of the Company was reduced by the par value thereof. Details of the shares repurchased are as follows:

Month of repurchase	Number of ordinary shares repurchased of HK\$0.1 each	Price per share		Aggregate consideration (before expenses) paid HK\$
		Highest HK\$	Lowest HK\$	
January 2006	9,924,000	2.15	1.98	20,369,910

Save as mentioned above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares.

## COMPLIANCE OF THE CODE ON CORPORATE GOVERNANCE PRACTICES

None of the directors of the Company is aware of information that would reasonably indicate the Company is not or was not for any part of the period under review, in compliance with the Code on Corporate Governance Practices (the "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 Code 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.

## 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 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 had 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. These specific terms of reference are available on request or on the website: [www.matrix.hk.com](http://www.matrix.hk.com).



## 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 had 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. These specific terms of reference are available on request or on the website: [www.matrix.hk.com](http://www.matrix.hk.com).

## OTHER REQUIRED DISCLOSURE PURSUANT TO RULE 13.18 OF THE LISTING RULES

One of the Group's banking facilities made with a bank on 21st December, 2005 in an aggregate amount of HK\$35,000,000 (the "Facility") will expire on 30th November, 2006. 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.

Save as disclosed above, there are no other events which are required to be disclosed by the Company under rule 13.18 of the Listing Rules.

## REVIEW OF INTERIM RESULTS

The unaudited interim results for the six months ended 30th June, 2006 have been reviewed by the Audit Committee, who is 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, 15th August, 2006

