

MATRIX

MATRIX HOLDINGS LIMITED

美力時集團有限公司*

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

2007 INTERIM RESULTS ANNOUNCEMENT

RESULT HIGHLIGHTS

FINANCIAL HIGHLIGHTS

	For the six months ended 30th June		
	2007 HK\$	2006 HK\$	Changes %
Turnover	479,972,000	345,205,000	+39.0
Profit attributable to equity holders of the Company	33,331,000	40,013,000	-16.7
Basic earnings per share	0.06	0.07	-14.3
Interim dividend, declared	0.08	0.08	—
Gross profit margin ratio (%)	26.8%	33.4%	-6.6

The board (the “Board”) of directors (the “Directors”) of Matrix Holdings Limited (the “Company”) announces the condensed consolidated interim results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30th June, 2007, together with the comparative figures for the corresponding period in 2006. In the first half of 2007, the consolidated turnover of the Group amounted to HK\$479,972,000 (2006: HK\$345,205,000) and the profit attributable to equity holders of the Company was HK\$33,331,000 (2006: HK\$40,013,000), which resulted in a basic earnings per share of HK\$0.06 (2006: HK\$0.07). The increase in consolidated turnover as compared to the last corresponding period was mainly attributable to an increase in sales order from one of the Group’s major customers and a result of the inclusion of turnover contribution from a newly acquired Funrise group since 8th June, 2007. The profit attributable to the equity holders of the Company was squeezed by the appreciation of Renminbi and the increase of crude oil price both led to the increase in material and direct production costs. In addition, an increase in government-mandated minimum wage, a higher inflation rate and an increase in minimum premium for labour insurance are the major factors that attributed to the decrease in profit margin of the Group.

For the six months ended 30th June, 2007, the United States continued to be the largest customer market of the Group, accounting for approximately 83.7% of the Group's total turnover (2006: 86.5%). The other significant customer markets for the Group included Europe, Canada and Hong Kong, which accounted for approximately 4.8% (2006: 4.0%), 4.5% (2006: 2.0%) and 4.2% (2006: 4.8%) respectively.

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE, 2007

		For the six months ended	
		30th June, 2007	30th June, 2006
	<i>NOTES</i>	<i>(Unaudited)</i> HK\$'000	<i>(Unaudited)</i> HK\$'000
Turnover	3	479,972	345,205
Cost of sales		(351,258)	(229,769)
Gross profit		128,714	115,436
Other income		2,810	4,880
Distribution and selling costs		(43,235)	(37,138)
Administrative expenses		(53,011)	(41,565)
Finance costs		(1,267)	(373)
Profit before taxation	4	34,011	41,240
Income tax charge	5	(680)	(1,227)
Profit for the period		33,331	40,013
Attributable to:			
Equity holders of the Company		33,331	40,013
Minority interest		—	—
		33,331	40,013
Earnings per share — Basic	7	HK\$0.06	HK\$0.07

CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30TH JUNE, 2007

	<i>NOTES</i>	30th June, 2007 (Unaudited) HK\$'000	31st December, 2006 (Audited) HK\$'000
Non-current assets			
Property, plant and equipment	8	236,088	198,297
Prepaid lease payments		1,095	1,111
Intangible assets	13	230,636	—
Deferred tax assets		343	344
		<u>468,162</u>	<u>199,752</u>
Current assets			
Inventories		211,303	192,556
Trade and other receivables	9	184,827	99,467
Prepaid lease payments		32	32
Held-for-trading investments		367	820
Tax recoverable		123	—
Pledged bank deposit		5,380	5,291
Bank balances and cash		56,737	30,871
		<u>458,769</u>	<u>329,037</u>
Current liabilities			
Trade and other payables	10	225,220	130,393
Dividend payable		56,894	17,315
Tax payable		60,259	58,680
Bank borrowings — repayable within one year		64,043	13,525
Obligations under finance leases		1,518	—
		<u>407,934</u>	<u>219,913</u>
Net current assets		<u>50,835</u>	<u>109,124</u>
Total assets less current liabilities		<u><u>518,997</u></u>	<u><u>308,876</u></u>

Capital and reserves			
Share capital	11	63,216	57,716
Reserves		322,907	245,791
Equity attributable to equity holders of the Company			
Minority interest		144	—
Total equity		386,267	303,507
Non-current liabilities			
Deferred tax liabilities		41,280	5,369
Obligations under finance leases		6,655	—
Loan from a shareholder	12	84,795	—
		132,730	5,369
		518,997	308,876

NOTES TO THE CONDENSED CONSOLIDATED 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 (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 consolidated financial statements for the year ended 31st December, 2006, except for the following accounting policies which are applicable to the period ended 30th June, 2007.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset is derecognised.

In the current period, the Group has applied, for the first time, the following new standard, amendment and interpretations (“new HKFRSs”) issued by the HKICPA which are effective for the Group’s financial year beginning 1st January, 2007.

HKAS 1 (Amendment)	Capital Disclosures ¹
HKFRS 7	Financial Instruments: Disclosures ¹
HK(IFRIC) — Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies ²
HK(IFRIC) — Int 8	Scope of HKFRS 2 ³
HK(IFRIC) — Int 9	Reassessment of Embedded Derivatives ⁴
HK(IFRIC) — Int 10	Interim Financial Reporting and Impairment ⁵

¹ Effective for annual periods beginning on or after 1st January, 2007.

² Effective for annual periods beginning on or after 1st March, 2006.

³ Effective for annual periods beginning on or after 1st May, 2006.

⁴ Effective for annual periods beginning on or after 1st June, 2006.

⁵ Effective for annual periods beginning on or after 1st November, 2006.

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

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

HKAS 23 (Revised)	Borrowing Costs ¹
HKFRS 8	Operating Segments ¹
HK(IFRIC) — Int 11	HKFRS 2 — Group and Treasury Share Transactions ²
HK(IFRIC) — Int 12	Service Concession Arrangements ³

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

² Effective for annual periods beginning on or after 1st March, 2007.

³ Effective for annual periods beginning on or after 1st January, 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	
	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
United States	401,703	298,728	68,968	81,746
Europe	22,860	13,721	7,531	5,810
Canada	21,890	6,786	2,805	1,986
Hong Kong	20,079	16,699	2,795	3,306
Others	13,440	9,271	2,666	3,463
	<u>479,972</u>	<u>345,205</u>	<u>84,765</u>	<u>96,311</u>
Unallocated income			2,211	4,880
Unallocated expenses				
— Distribution and selling expenses			(9,126)	(20,216)
— Administrative expenses			(42,572)	(39,362)
— Finance costs			(1,267)	(373)
Profit before taxation			34,011	41,240
Income tax charge			(680)	(1,227)
Profit for the period			<u>33,331</u>	<u>40,013</u>

4. PROFIT BEFORE TAXATION

	For the six months ended	
	30th June,	30th June,
	2007	2006
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Profit before taxation has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment		
— owned assets	16,802	16,808
— assets held under a finance lease	8	—
	<u>16,810</u>	<u>16,808</u>
Gain on disposal of subsidiaries	—	(715)
Net loss (gain) on disposal of property, plant and equipment	278	(724)
Loss on fair value changes on held-for-trading investments	453	270
Amortisation of intangible assets included in cost of sales (Note)	<u>2,261</u>	<u>—</u>

Note: Intangible assets represent product development cost and customers base which are amortised on a straight-line method over the period of 4 years and 6 years respectively.

5. INCOME TAX CHARGE

	For the six months ended	
	30th June, 2007 (Unaudited) HK\$'000	30th June, 2006 (Unaudited) HK\$'000
Current tax:		
Hong Kong	1,010	980
Other jurisdictions	<u>40</u>	<u>250</u>
	1,050	1,230
Overprovision in prior years:		
Hong Kong	—	(3)
Deferred tax		
Current period	<u>(370)</u>	<u>—</u>
	<u><u>680</u></u>	<u><u>1,227</u></u>

Hong Kong Profits Tax is calculated at 17.5% (2006: 17.5%) of the estimated assessable profits for the six months period ended 30th June, 2007.

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”). IRD has issued assessments to certain subsidiaries in respect of the year of assessment 2000/2001. The Group has filed an objection against such assessments and such assessments were agreed to be held over. Although the review is still at a preliminary fact-finding stage, the directors are of the opinion that the outcome of the review would not result in material impact on the condensed consolidated financial statements.

6. DIVIDEND

On 29th May, 2007, a dividend of HK9 cents (2005: HK9 cents) per share amounting to approximately HK\$56,894,000 (2005: HK\$51,732,000) has been approved by the shareholders in the annual general meeting as final dividend in respect of the year ended 31st December, 2006. A scrip dividend alternate was offered to shareholders in respect of the 2006 final dividend.

Subsequent to the balance sheet date, the scrip dividend alternate was accepted by some of the shareholders in respect of the 2006 final dividend. A total of 19,545,643 scrip dividend shares for the dividend of approximately HK\$37,723,000 were issued to the shareholders on 6th July, 2007 and the rest of approximately HK\$19,171,000 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 HK8 cents (2006: 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 5th October, 2007.

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:

	For the six months ended	
	30th June, 2007	30th June, 2006
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Earnings		
Earnings for the purpose of basic earnings per share for the period	<u>33,331</u>	<u>40,013</u>
	For the six months ended	
	30th June, 2007	30th June, 2006
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>'000</i>	<i>'000</i>
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>593,566</u>	<u>575,742</u>

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, 2007 and 2006.

8. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment at a cost of approximately HK\$19,141,000 directly and approximately HK\$35,940,000 through the acquisition of subsidiaries.

At 30th June, 2007, 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

The trade and other receivables include trade receivables of HK\$128,831,000 (2006: HK\$85,377,000). The Group allows a credit period of 7 days to 120 days to its trade customers.

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

	30th June, 2007 (Unaudited) HK\$'000	31st December, 2006 (Audited) HK\$'000
0–60 days	111,845	76,073
61–90 days	6,438	6,999
> 90 days	<u>10,548</u>	<u>2,305</u>
	<u><u>128,831</u></u>	<u><u>85,377</u></u>

10. TRADE AND OTHER PAYABLES

The trade and other payables include trade payables of HK\$141,274,000 (2006: HK\$83,931,000).

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

	30th June, 2007 (Unaudited) HK\$'000	31st December, 2006 (Audited) HK\$'000
0–60 days	103,814	62,143
61–90 days	17,803	15,160
> 90 days	<u>19,657</u>	<u>6,628</u>
	<u><u>141,274</u></u>	<u><u>83,931</u></u>

11. SHARE CAPITAL

	Number of shares		Share Capital	
	30th June 2007 (Unaudited) '000	31st December 2006 (Audited) '000	30th June 2007 (Unaudited) HK\$'000	31st December 2006 (Audited) HK\$'000
Ordinary shares of HK\$0.10 each:				
<i>Authorised:</i>				
At the beginning and end of the period	<u>1,000,000</u>	<u>1,000,000</u>	<u>100,000</u>	<u>100,000</u>
<i>Issued and fully paid:</i>				
At the beginning of the period	577,157	584,720	57,716	58,472
Issue of new subscription shares (Note)	55,000	—	5,500	—
Issued in lieu of cash dividend	—	2,361	—	236
Shares repurchased and cancelled	<u>—</u>	<u>(9,924)</u>	<u>—</u>	<u>(992)</u>
At the end of the period	<u>632,157</u>	<u>577,157</u>	<u>63,216</u>	<u>57,716</u>

Note: On 7th May, 2007, pursuant to a subscription agreement dated 24th April, 2007, the Company issued 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 during the period rank pari passu with the then existing shares in all respects.

12. LOAN FROM A SHAREHOLDER

The amount is unsecured and interest-free. As at 30th June, 2007, the directors confirmed that the shareholder had no intention to request settlement within two years. However, on application of HKAS 39 Financial Instrument — Recognition and Measurement, the fair value of loan from a shareholder is determined based on an effective interest rate of 5.20% (2006: nil) on initial recognition. The difference between the principal amount of the loan and its fair value determined on initial recognition amounted to HK\$9,008,000 has been credited to equity as deemed contribution from a shareholder.

13. ACQUISITION OF SUBSIDIARIES

On 8th June, 2007 (the date of completion), the Group acquired all of the equity interests of each of Funrise Holdings, LLC, Funrise, Inc. and Code 3 Collectibles LLC (together referred to as “Funrise Group”) for a total consideration (“Intital Consideration”) and acquisition expenses of HK\$192,478,000. The acquisition has been accounted for by the purchase method of accounting. The Funrise Group is principally engaged in the design, sales and distribution of quality, innovative toys under proprietary and licensed brands.

The net assets acquired in the transaction, and the goodwill arising, are as follows:

	Acquiree’s carrying amount before combination	Provisional Fair value adjustments	Provisional fair value
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
		<i>(Notes a and b)</i>	
Net assets acquired:			
Property, plant and equipment	35,940	—	35,940
Intangible asset	7,452	207,324	214,776
Inventories	7,380	—	7,380
Trade and other receivables	65,017	—	65,017
Tax recoverable	123	—	123
Bank balances and cash	10,891	—	10,891
Trade and other payables	(100,326)	—	(100,326)
Bank borrowings	(14,751)	—	(14,751)
Obligations under finance leases	(8,267)	—	(8,267)
Deferred tax liabilities	—	(36,282)	(36,282)
	3,459	171,042	174,501
Minority interest			(144)
Goodwill <i>(Notes a and c)</i>			18,121
			192,478
Total cost of acquisition comprised:			
Cash consideration			176,408
Direct attributable costs			16,070
			192,478
Net cash outflow arising on acquisition:			
Cash consideration and direct attributable costs paid <i>(Note d)</i>			(183,629)
Bank balances and cash acquired			10,891
			(172,738)

According to the sales and purchase agreement in respect of the purchase of the equity interests of Funrise Group (the "Acquisition") dated 25th April, 2007, the consideration for this Acquisition is subject to adjustments based on the net carrying values of the assets and liabilities of the Funrise Group as at 31st December, 2007 and its turnover for the year ended 31st December, 2007. The details of the conditional adjustments are set out in the circular to shareholders dated 30th June, 2007 issued by the Company.

Funrise Group contributed approximately HK\$25.7 million to the Group's turnover and loss of approximately HK\$0.5 million to the Group's profit before taxation for the period between the date of completion and the balance sheet date.

If the acquisition had been completed on 1st January, 2007, total group turnover for the period would have been approximately HK\$654.6 million, and total group profit for the period would have been approximately HK\$28.7 million, based on the management accounts of the companies in the Funrise Group. The pro forma 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, 2007, nor is it intended to be a projection of future results.

Notes:

- (a) The initial accounting for the above acquisition has been determined provisionally, pending the finalisation of a valuation by an independent professional valuer on the intangible assets.
- (b) The fair value adjustments represent the recognition of the provisional fair value of Funrise Group's customers base and other intangible assets and the related deferred tax liabilities which is subject to change upon finalisation of an independent valuation. It is anticipated that any adjustments to the fair value of the intangible assets upon the finalisation of the valuation would not have a material impact on the results for the period.
- (c) Funrise Group is principally engaged in the design, sales and distribution of quality, innovative toys under proprietary and licensed brands. The goodwill arising on the acquisition of Funrise Group is attributable to the anticipated profitability from Funrise Group and the anticipated future operating synergies from the combination.
- (d) Included in the cost of acquisition of HK\$192,478,000, approximately HK\$8,849,000 direct attributable costs incurred in the Acquisition has not been settled at the balance sheet date and the balance was included in trade and other payables.
- (e) The amount of intangible assets as carried in the balance sheet at 30th June, 2007 of HK\$230,636,000, comprising of goodwill and other identifiable intangible assets, is arrived at after deducting the aggregate amortisation of HK\$2,261,000.

14. CAPITAL COMMITMENTS

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

	30th June, 2007	31st December, 2006
	<i>(Unaudited)</i>	<i>(Audited)</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Contracted for but not provided in the condensed consolidated financial statements	<u>28,580</u>	<u>7,548</u>
Authorised but not contracted for	<u>37</u>	<u>547</u>

15. CONTINGENT LIABILITIES

Legal claim

A judgment was made by the court in France against a newly acquired subsidiary of the Group (see note 13) regarding the termination of an agency agreement. The amount awarded to the plaintiff by the court including accrued interest up

to 31st December, 2006 to be paid by the group company was approximately HK\$14,132,000. The subsidiary has filed an appeal against the judgment. The subsidiary also filed claims to the court against the plaintiff for the ownership of the “Funrise” Trademark to be returned to the group company. In addition, the plaintiff filed for bankruptcy protection in year 2002, and at the time the subsidiary’s lawyers submitted claims of which approximately HK\$4,583,000 was accepted by the liquidator which represented approximately 48% of the total claim admitted by the liquidator. The total contingent liabilities, being the net impact of the amount awarded by the court to the plaintiff and the claimed amount accepted by the liquidator is approximately HK\$9,549,000. There is no further progress in respect of the case after 31st December, 2006.

Based on the advice of the lawyers obtained by the management as at 3rd August, 2007 and given that the former shareholders of that subsidiary have agreed to settle the legal claim, should the claim resulted in losses to the Group, out of funds available from an escrow account which was funded by the proceeds receivable of the former shareholders from the Company for the sales of Funrise Group, 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 condensed consolidated financial statements.

INTERIM DIVIDEND

The Directors had resolved to declare an interim dividend of HK8 cents (2006: HK8 cents) per share for the six months ended 30th June, 2007, payable to shareholders whose names appear on the Register of Members of the Company on 5th October, 2007 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 2007 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 15th November, 2007.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 4th October, 2007 and 5th October, 2007, 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, 2007.

MANAGEMENT DISCUSSION & ANALYSIS

BUSINESS REVIEW

The Group continues to engage in the manufacture of plastic and plush toys on an Original Equipment Manufacturing basis and the design, manufacture and sale of infant toys for pre-school

children under private labels or its own various brandnames on an Original Design Manufacturing basis.

The business environment remains unfavourable to the traditional labour-intensive toy manufacturers in particular to our plant located at Zhongshan, PRC as labour, material and utility costs climb continuously since the year 2006 at Pearl River Delta region. Adding to the woes is the shortage in electricity and labour widespread during the peak production season. The higher inflation rate in the PRC and the accelerating appreciation of Renminbi currency against the Hong Kong dollar led to the increase in the material, direct production and labour costs. The stringent government policy imposed against the processing plant, the increased price in imported materials and fierce price competition compounded the situation and contributed to the decrease in the profit margin. Nevertheless, the management has developed new products with value-added features to enhance the product variety and product profitability as well and therefore that the Group can secure new orders from a number of prestigious customers. In addition, the management also put its effort on rectifying its operational management and increased its production efficiency to remedy the tough manufacturing environment.

TOYS OPERATION

The expansion of production and warehouse areas in Zhongshan Plant was put in place which accommodated more raw materials and finished good inventories so as to improve a supply chain management and to facilitate a logistics operation of the plant in smooth progress. In the meantime, an additional production area consists of production and warehouse facilities would also be built in Zhongshan plant to enhance the Group's production capacity and to further improve the logistics operation in Zhongshan plant. With such a giant manufacturing momentum of the Group, these new production areas contributed to meet the objective of the Group's expansion on production.

The construction of the Group's third production plant in Danang City, Vietnam is at the final stage and will be completed by the third quarter of this year. This newly constructed plant is predicted to increase the Group's production capacity by approximately 25% and facilitates the Group to produce the upgraded and value added products to serve the ever-changing customers' demand. The Group is confident that it can emerge a stronger player as the production base is expanded in Vietnam.

Shelcore products are sold throughout the world primarily via mass-market retailers. However, the retail toys markets in United States and the world continued to be challenging. Adding to woes is that the seasonal sales nature of Shelcore products led the Shelcore groups' sales performance fluctuated. The substantial sales will occur in the second half of the year as the sales of toy products are highly seasonal. The Shelcore group had struggled with top-line sales growth, especially in the United States and implemented a competitive price strategy and struggled to recover its sales during the period under review. Notwithstanding, the Shelcore group continues to struggle to become one of the leading designers, developers and marketers of innovative products for infants and pre-school children.

In order to broaden product varieties, the Shelcore group has signed a new licensing agreement with Marvel Entertainment for Spiderman. The Shelcore group is also in negotiation for the

license of interactive feeding placemats and role play concepts using the well known character. The scope of services of the Shelcore group has been expanded from traditional marketing into licensing, entertainment, celebrity endorsements and events. The Shelcore toys continue to win awards and receive press coverage.

In order to strengthen the Group's investment with revenue-generating power, the Group, completed the acquisition of the entire equity interests of the Funrise group on 8th June, 2007 (the "Acquisition"). The Funrise group is principally engaged in the design, sales and distribution of quality, innovative toys under proprietary and licensed brands. The Funrise group sources substantially all of its products from various original equipment manufacturers in Asia, many of which have served the Funrise group since its founding in 1987. The Funrise group's core property portfolio includes, Gazillion Bubbles[®], Nylint[®], Home Arcade and Play 'n Pretty[®] as well as international licensed brands such as Disney[®], Tonka[®] and ZOOOOS[™], amongst others. Funrise has offices in Van Nuys, California, Hong Kong, United Kingdom and France with additional showrooms in Bentonville and Nürnberg. The Acquisition will therefore expand considerably the product range and design capability of the Group thereby broadening the Group's revenue source and customer base. Therefore, the management believes that the newly acquired toy business is expected to be one of the major engines for the Group's growth.

With strong manufacturing foothold, financial and operational support from the Group, the Group revitalized its 'Shelcore' brandname worldwide by opening numerous retail stores in various provinces in the PRC. Effective market studies and product research and development are crucial to the success as the toys with new design were launched to meet demand of these new markets and the PRC retail stores are expected to generate profits in future.

PROSPECTS

The management is cautiously optimistic on the general outlook of the business of the Group. While the overall order position of the Group for the first half remain strong, the management has concern on the reduction of the value added tax rebate on goods exported from the PRC and the stringent government policy imposed against the processing plant which will have some impact on margins. In addition, the Pearl River Delta region in which the one of the Group's factories operate continues to experience the higher inflation rate and the shortage of supply in labour and electricity. The high cost of raw materials also remained matter of concern.

In addition, there has been a significant focus on the safety of products coming out of the PRC and most recently are with regard to the paint and magnets included in toys. Toy companies will be forced to focus on procedures in manufacturing to prevent unsafe products from being manufactured and exported from the PRC. In the meantime, the Company will continue to enforce its production code of conduct and strengthen the quality control process.

The Group would continue to focus on efforts to keep itself ahead of pack by modernizing its operations and encouraging innovation. The Group invested in the latest technologies and machinery for toy manufacturing, enforce the manpower in the research and development center in cost-effective area and improve a supply chain management system developed by an advanced ERP solution. As these were put in place, it would increase value to the customers and make itself one of the most efficient manufacturers and trusted business partners.

The 2007 business plan of the Shelcore group emphasizes the introduction of new products and the enhancement and extension of existing products. Developing items will enrich Shelcore's next half year offering in various categories of product. Working models of each item were created for presentations at the distributor meetings and for several US retailers. This continues to be critical to the future sales growth. Product support through investing in advertising and brand promotion programs will have a return.

Consistent with the Group's stated strategic objective on long-term growth and diversification of the Group's product portfolio, the management believes that the Group's operations and development will benefit from the Acquisition of the Funrise group. Prospects for the second half of year 2007 is optimistic, as retail sales on spring product lines including Gazillion Bubbles and our licensed bubble products are very strong. Indications based on first presentations to major retailers would indicate strong sales on spring product in the fourth quarter of 2007. Specifically, a product, Gazillion Bubble BBQ has been selected by all major retailers in the United States. Funrise group will be increasing its research & development and creative teams in the second half of 2007.

Enjoying considerable economies of scale from the synergies of the amalgamation of both Shelcore group and Funrise group is expected as it allowed its principally injection moulded plastic toys adding onto the Company's existing manufacturing operations which enabled the Group to implement a series of cost saving and inventory management measures at various stages of production including removal of duplicative overheads, sharing of quality control, warehousing and distribution capabilities and administrative centre. The Group continued to enjoy from its prudent production policies as well as the leverage on Shelcore and Funrise's extensive distribution network, in particular in United States so as to diversify the Group of any country risk. More diversified customer base and wider range of Funrise's products, such congruence in management philosophies would further make optimistic future return.

Though the operating conditions is challenging, the Group is dedicated to strive for a best performance by implementing its strategy to produce high quality products with competitive prices. Besides, the Group will look for the potential business partners and continue to strengthen its core business, streamline its existing operations and control its costs. The Group is confident all these efforts can sustain its business return.

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 30th June, 2007, the Group had bank balances and cash of approximately HK\$56,737,000 (31st December, 2006: HK\$30,871,000) and pledged bank deposit of approximately HK\$5,380,000 (31st December, 2006: HK\$5,291,000) secured for banking facilities granted. As at 30th June, 2007, the Group obtained banking facilities in a total of approximately HK\$205,670,000 (31st December, 2006: HK\$40,000,000) secured by fixed deposits and corporate guarantee given by the Company.

As at 30th June, 2007, the Group had bank borrowings of approximately HK\$64,043,000 (31st December, 2006: HK\$13,525,000). The Group's gearing ratio, representing the total debt divided by equity attributable to equity holders of the Company, was 16.6% (31st December, 2006: 4.5%).

During the period, net cash generated from operating activities amounted to approximately HK\$8,199,000 (30th June, 2006: HK\$24,162,000). 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\$19,141,000 (30th June, 2006: HK\$20,378,000) directly and approximately HK\$35,940,000 (30th June, 2006: nil) 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, 2007, the Group had total assets of approximately HK\$926,931,000 (31st December, 2006: HK\$528,789,000), total liabilities of approximately HK\$540,664,000 (31st December, 2006: HK\$225,282,000) and equity attributable to equity holders of the Company of approximately HK\$386,123,000 (31st December, 2006: HK\$303,507,000). The net assets of the Group increased 27.2% to approximately HK\$386,123,000 as at 30th June, 2007 (31st December, 2006: HK\$303,507,000).

Acquisition of Subsidiaries

On 25th April, 2007, the Group entered into an agreement to acquire all of the equity interests of each of Funrise Holdings, LLC, Funrise, Inc. and Code 3 Collectibles LLC (together referred to as "Funrise Group"). The Funrise Group is principally engaged in the design, sales and distribution of quality, innovative toys under proprietary and licensed brands.

The acquisition was successfully completed on 8th June, 2007. Details of the transaction were disclosed in the Circular of the Company dated 30th June, 2007.

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, 2007, the Group had a total of approximately 20,000 (31st December, 2006: 19,000) 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.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the six months ended 30th June, 2007, 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 "CGP Code") as set out in Appendix 14 of the Listing Rules and its own code except for the deviation from the code provision A.4.1 of the CGP Code that none of the existing non-executive directors of the Company (including independent non-executive) is appointed for a specific term. However, all the non-executive directors of the Company (including independent non-executive) are subject to the retirement provisions under the Company's Bye-laws. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the CGP Code.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company had adopted a code of conduct regarding securities transactions by directors on no less exacting than the terms and 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, the Company had obtained confirmation from all the directors that they have complied with the required standard set out in the Model Code and the code of conduct regarding securities transactions by directors adopted by the Company.

BOARD COMMITTEE

Audit Committee

The Audit Committee, comprising three INEDs namely Dr. Loke Yu alias Loke Hoi Lam (Chairman), Mr. Mak Shiu Chung, Godfrey and Mr. Wan Hing Pui, appointed by the Board and meets at least two times a year. Two Audit Committee members are qualified accountants and none of the Audit Committee members are members of the former or existing auditors of the

Company. The Committee has adopted terms of reference (containing the minimum prescribed duties) that are in line with the CGP Code and the Company's own code on corporate governance practices.

Remuneration Committee

The Remuneration Committee comprising three INEDs, namely Dr. Loke Yu alias Loke Hoi Lam (Chairman), Mr. Mak Shiu Chung, Godfrey and Mr. Wan Hing Pui, appointed by the Board and meets at least once a year. The Committee has adopted terms of reference (containing the minimum prescribed duties) that are in line with the CGP Code and the Company's own code on corporate governance practices.

REVIEW OF INTERIM RESULTS

The unaudited interim results for the six months ended 30th June, 2007 have been reviewed by the Audit Committee and the Company's independent auditor, Deloitte Touche Tohmatsu, 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 2007 Interim Report of the Company will be despatched 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, 20th September, 2007

* *For identification purpose only*