MATRIX HOLDINGS LIMITED
美力時集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 1005)

2005 FINAL RESULTS ANNOUNCEMENT

FINANCIAL HIGHLIGHTS

	2005	2004	% Change
	HK$'000	*HK$'000*	*%*
Turnover	**911,044**	686,684	+32.7
Profit attributable to equity holders of the Company	**140,929**	151,810	-7.2
Basic earnings per share	**24 cents**	27 cents	-11.1
Dividends			
– Interim dividend, paid	**8 cents**	8 cents	–
– Special dividend, declared	**3 cents**	3 cents	–
– Final dividend, proposed	**9 cents**	9 cents	–

For the year ended 31st December, 2005, the audited consolidated turnover of Matrix Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") increased 32.7% to HK$911,044,000 (2004: HK$686,684,000). The profit attributable to equity holders of the Company was HK$140,929,000 (2004: HK$151,810,000), which resulted in a basic earnings per share of HK24 cents (2004: HK27 cents).

RESULTS

The Board of Directors (the "Directors") of the Company are pleased to announce the audited consolidated results of the Group for the year ended 31st December, 2005 as follows:

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER, 2005

	NOTES	**2005**	2004
		HK$'000	*HK$'000*
Turnover	*3*	**911,044**	686,684
Cost of sales		**(613,981)**	(469,696)
Gross profit		**297,063**	216,988
Other income		**4,221**	2,095
Distribution and selling costs		**(77,396)**	(3,681)
Administrative expenses		**(87,570)**	(37,550)
Finance costs		**(35)**	(89)
Impairment loss recognised in respect of goodwill		**(807)**	–
Discount on acquisition of subsidiaries	*12*	**3,390**	–
Profit before taxation	*4*	**138,866**	177,763
Income tax credit (charge)	*5*	**1,931**	(26,137)
Profit for the year		**140,797**	151,626
Attributable to:			
Equity holders of the Company		**140,929**	151,810
Minority interest		**(132)**	(184)
		140,797	151,626
Dividends	*6*	**116,052**	116,945
Earnings per share	*7*		
Basic		**HK$0.24**	HK$0.27
Diluted		**N/A**	HK$0.26

CONSOLIDATED BALANCE SHEET
AT 31ST DECEMBER, 2005

	NOTES	**2005**	2004
		HK$'000	*HK$'000*
Non-current assets			
Property, plant and equipment	*8*	**207,947**	122,881
Goodwill		**–**	807
Prepaid lease payments		**1,143**	–
Deferred tax assets		**380**	1,924
Deposit for acquisition of investments in subsidiaries		**–**	9,945
		209,470	135,557
Current assets			
Inventories		**149,295**	166,262
Trade and other receivables	*9*	**58,704**	56,100
Prepaid lease payments		**32**	–
Held for trading investments		**942**	–
Investment in securities		**–**	1,389
Pledged bank deposit		**51,990**	5,011
Bank balances and cash		**42,258**	89,688
		303,221	318,450
Current liabilities			
Trade and other payables	*10*	**100,445**	93,307
Obligations under a finance lease		**–**	113
Dividend payable		**17,542**	17,542
Tax payable		**56,432**	55,293
		174,419	166,255
Net current assets		**128,802**	152,195
Total assets less current liabilities		**338,272**	287,752
Capital and reserves			
Share capital	*11*	**58,472**	58,472
Reserves		**274,985**	224,503
Equity attributable to equity holders of the Company		**333,457**	282,975
Minority interest		**–**	132
Total equity		**333,457**	283,107
Non-current liabilities			
Obligations under a finance lease		**–**	60
Deferred tax liabilities		**4,815**	4,585
		4,815	4,645
		338,272	287,752

NOTES TO THE FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing of the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The 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.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES

In the current year, 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 HKICPA that are effective for accounting periods beginning on or after 1st January, 2005, other than HKFRS 3 "Business Combinations", HKAS 36 "Impairment of Assets" and HKAS 38 "Intangible 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 consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of the 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 years are prepared and presented:

Financial Instruments

In the current year, 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 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, trading securities reported under SSAP 24 was classified as held for trading investment of "financial assets at fair value through profit or loss" category upon the adoption of the HKAS 39. Accordingly, no adjustment to retained profits at 1st January, 2005 was required.

Owner-occupied Leasehold Interest in Land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the revaluation model. In the current year, 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 classified 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 buildings elements at 31st December, 2004.

3. SEGMENT INFORMATION

The Group is mainly engaged in the manufacture and trading of gifts, novelties and infant and pre-school children toys. The nature of products, the production processes and the methods used to distribute the products to customers in different geographical areas are similar. Accordingly, no analysis on the basis of business segment is presented. The Group's production facilities are located in the People's Republic of China (the "PRC") (other than Hong Kong) and the Socialist Republic of Vietnam ("Vietnam"). The directors of the Company consider the geographical segments by location of customers as primary source of the Group's risks and returns.

The Group's customers are mainly located in United States. The Europe segment is a new geographical segment in the year ended 31st December, 2005. The following table provides an analysis of the Group's segment information by geographical location of the Group's customers:

2005

	United States	Europe	Canada	Hong Kong	Others	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
TURNOVER						
External sales	808,258	49,334	28,881	5,098	19,473	911,044
RESULTS						
Segment results	247,466	22,623	9,206	1,191	8,452	288,938
Unallocated income						6,754
Unallocated expenses						(156,791)
Finance costs						(35)
Profit before taxation						138,866
Income tax credit						1,931
Profit for the year						140,797
ASSETS						
Segment assets	135,043	5,636	5,541	20,121	3,451	169,792
Unallocated corporate assets						342,899
						512,691
LIABILITIES						
Segment liabilities	34,463	–	1,034	8	676	36,181
Unallocated corporate liabilities						143,053
						179,234

2004

	United States *HK$'000*	Canada *HK$'000*	Hong Kong *HK$'000*	Others *HK$'000*	Consolidated *HK$'000*
TURNOVER					
External sales	618,711	17,594	43,570	6,809	686,684
RESULTS					
Segment results	196,398	4,675	11,749	1,893	214,715
Unallocated income					1,892
Unallocated expenses					(38,755)
Finance costs					(89)
Profit before taxation					177,763
Income tax charge					(26,137)
Profit for the year					151,626
ASSETS					
Segment assets	162,158	3,298	26,561	1,162	193,179
Unallocated corporate assets					260,828
					454,007
LIABILITIES					
Segment liabilities	57,471	1,138	8,534	1,593	68,736
Unallocated corporate liabilities					102,164
					170,900

No analysis of capital expenditures, depreciation and amortisation and non-cash expenses by location of customers is disclosed for both years as in the opinion of the directors, there is no appropriate basis in allocating the capital expenditures, depreciation and amortisation and non-cash expenses by location of customers.

The following is an analysis of the carrying amount of segment assets and additions to property, plant and equipment analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		**Additions to property, plant and equipment**	
	2005 ***HK$'000***	2004 *HK$'000*	**2005** ***HK$'000***	2004 *HK$'000*
PRC	**238,910**	217,272	**76,395**	4,373
Vietnam	**109,903**	109,823	**6,190**	10,766
Hong Kong	**132,789**	107,602	**9,419**	62
Macau	**19,489**	17,386	**–**	36
United States	**7,745**	–	**2,990**	–
Canada	**3,475**	–	**6**	–
	512,311	452,083	**95,000**	15,237

4. PROFIT BEFORE TAXATION

	2005	2004
	HK$'000	*HK$'000*
Profit before taxation has been arrived at after charging:		
Auditors' remuneration		
– current year	**1,445**	775
– underprovision in previous year	**129**	24
Amortisation of prepaid lease payments	**30**	–
Bad debt written off	**–**	975
Loss on disposal of property, plant and equipment	**69**	20
Unrealised loss on held for trading investments	**447**	–
Unrealised loss on investments in securities	**–**	530
Depreciation of property, plant and equipment		
– owned assets	**35,205**	18,912
– assets held under a finance lease	**–**	127
	35,205	19,039
Revaluation deficit in respect of property, plant and equipment	**804**	–
Net exchange loss	**2,143**	11
Employees share option benefits	**1,625**	–
Staff costs (including wages and directors' remuneration)	**204,382**	112,138

5. TAXATION

	2005	2004
	HK$'000	*HK$'000*
Current tax:		
Hong Kong	**3,027**	26,335
Other jurisdiction	**223**	912
	3,250	27,247
(Over) under provision in prior years:		
Hong Kong	**(5,889)**	95
Deferred tax:		
Current year	**708**	(1,205)
Taxation (credit) charge attributable to the Company and its subsidiaries	**(1,931)**	26,137

Hong Kong Profits Tax is calculated at 17.5% (2004: 17.5%) on the estimated assessable profit for the year.

According to the Investment License granted by Vietnam authority to the Vietnam subsidiaries, the Vietnam enterprise income tax rate is 10% on the estimated assessable profits during the operating period. The Vietnam subsidiaries are eligible for exemption from Vietnam enterprise income tax for four years from the first profit-making year followed by a 50% reduction in the Vietnam enterprise income tax for the next four years.

Vietnam enterprise income tax is calculated at 10% (2004: 5%) on the estimated assessable profit for the year.

6. DIVIDENDS

	2005	2004
	HK$'000	*HK$'000*
Ordinary shares:		
Interim, paid – HK8 cents (2004: HK8 cents) per share	**46,778**	46,778
Special, declared – HK3 cents (2004: HK3 cents) per share	**17,542**	17,542
Final, proposed – HK9 cents (2004: HK9 cents) per share	**51,732**	52,625
	116,052	116,945

The final dividend of HK9 cents (2004: HK9 cents) per share has been proposed by the directors and is subject to approval by the shareholders in the annual general meeting.

7. EARNINGS PER SHARE

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

Earnings

	2005	2004
	HK$'000	*HK$'000*
Earnings for the purposes of basic earnings per share	**140,929**	151,810
Effect of dilutive potential ordinary shares:		
Interest on convertible loan stock	**–**	73
Earnings for the purposes of diluted earnings per share	**140,929**	151,883

Number of shares

	2005	2004
	'000	*'000*
Weighted average number of ordinary shares for the purposes of basic earnings per share	**584,720**	570,013
Effect of dilutive potential ordinary shares:		
Convertible loan stock	**–**	14,707
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**N/A**	584,720

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 2005.

8. PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired property, plant and equipment at a cost of HK$46,766,000 (2004: HK$14,790,000) directly and HK$48,234,000 (2004: HK$447,000) through the acquisition of subsidiaries.

9. TRADE AND OTHER RECEIVABLES

The trade and other receivables include trade receivables of HK$46,021,000 (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:

	2005	2004
	HK$'000	*HK$'000*
0 – 60 days	**40,734**	44,239
61 – 90 days	**1,443**	141
> 90 days	**3,844**	194
	46,021	44,574

The fair value of the Group's trade and other receivables at 31st December, 2005 was approximate to the corresponding carrying amount.

Included in the Group's trade receivables, there are trade receivables of HK$43,900,000 denominated in the United States dollar other than the functional currency of the Group.

10. TRADE AND OTHER PAYABLES

The trade and other payables include trade payables of HK$57,434,000 (2004: HK$71,536,000).

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

	2005	2004
	HK$'000	*HK$'000*
0 – 60 days	**53,944**	69,482
61 – 90 days	**2,723**	1,603
> 90 days	**767**	451
	57,434	71,536

The fair value of the Group's trade and other payables at 31st December, 2005 approximates to the corresponding carrying amount.

11. SHARE CAPITAL

	Number of shares			
	2005	2004	**2005**	2004
	'000	*'000*	***HK$'000***	*HK$'000*
Ordinary shares of HK$ 0.1 each				
Authorised				
At the beginning of the year	**1,000,000**	700,000	**100,000**	70,000
Increased at 20th April, 2004	**–**	300,000	**–**	30,000
At the end of the year	**1,000,000**	1,000,000	**100,000**	100,000
Issued and fully paid				
At the beginning of the year	**584,720**	462,720	**58,472**	46,272
Conversion of convertible loan stock	**–**	122,000	**–**	12,200
At the end of the year	**584,720**	584,720	**58,472**	58,472

12. 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:

	Acquirees' carrying amount before combination *HK$'000*	**Fair values** *HK$'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 of subsidiaries		(3,390)
		70,318
Satisfied by:		
Cash		60,373
Deposit for acquisition of investments in subsidiaries		9,945
		70,318
Net cash outflow arising on acquisition:		
Cash consideration		(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$235.8 million turnover and loss of approximately HK$3.3 million to the Group's profit before tax for the year between the date of acquisition and the balance sheet date.

If the acquisition had been completed on 1st January, 2005, total turnover of the Group for the year would have been approximately HK$919.9 million, and profit for the year would have been approximately HK$133.7 million. The pro forma information is for illustrative purposes only and is not necessarily an indicative turnover and profit for the year 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.

SUMMARY OF THE AUDITORS' REPORT

The followings are the extraction from the auditors' report with modification:

Without qualifying our opinion, we draw attention to the basis of preparation of financial statements which explains that in October 1999 there was a court judgment regarding the ownership of Matrix Plastic Manufacturing (Zhongshan) Co., Ltd. ("MPMZ"), an indirect wholly-owned major subsidiary of the Company, in connection with a claim made by a trade creditor, which had subsequently been settled. The Company has made an application for a judicial review of the judgment regarding the ownership of MPMZ. The directors have sought independent legal advice and are of the opinion that the aforesaid judgment can be overruled and will have no material impact on the financial position and operations of the Group.

THE BASIS OF PREPARATION OF FINANCIAL STATEMENTS

In October 1999, there was a court judgment regarding the ownership of MPMZ, an indirect wholly-owned major subsidiary of the Company, in connection with a claim made by a trade creditor, which had subsequently been settled. The Company has made an application for a judicial review of the judgment regarding the ownership of MPMZ. In 2002, the Company received an acknowledgement from Zhongshan Intermediate People's Court that Guangdong High People's Court has transferred the Company's application to Zhongshan Intermediate People's Court for processing. The directors have sought independent legal advice and are of the opinion that the aforesaid judgment can be overruled and will have no material impact on the financial position and operations of the Group. Accordingly, MPMZ is still treated as an indirect subsidiary of the Company.

RESULTS

For the year ended 31st December, 2005, the Group attained a modest surge of 32.7% in turnover amounted to HK$911,044,000 (2004: HK$686,684,000) which was driven by the turnover contribution from the Shelcore Companies' Original Design Manufacturing ("ODM") operations as well as the steady growth of the Group's Original Equipment Manufacturing ("OEM") operations. The profit attributable to equity holders of the Company was dropped by 7.2% to HK$140,929,000 (2004: HK$151,810,000) by which the basic earnings per share was HK24 cents (2004: HK27 cents).

Comparing to the year 2004, the drop in profit was primarily attributable to the hike in commodity prices as well as increase in labour cost and other operating expenses in Mainland China since 2004. Although the Group enjoyed a growth in turnover due to inclusion of Shelcore Companies' sales turnover, competition between toy retailers, customers of the Shelcore Companies resulting sustained pricing pressure which had an adverse impact on the Group's result. However, benefits of synergies from the amalgamation and considerable economies of scale after implementation of a series of cost saving, prudent production policies and inventory management measures, the Group was able to mitigate to a certain extent the negative impact and negotiate for more competitive raw material prices.

DIVIDENDS

During the year, the Company paid an interim dividend of HK8 cents (2004: HK8 cents) and declared a special dividend of HK3 cents (2004: HK3 cents) per share to the shareholders. The Directors recommended the payment of a final dividend of HK9 cents (2004: HK9 cents) per share in respect of the year ended 31st December, 2005 (Based on 574,796,000 shares at this announcement date in an amount of approximately HK$51,732,000). Together with the interim dividend and special dividend paid and declared of HK8 cents and HK3 cents per share respectively, the total dividend per share for the year is HK20 cents (2004: HK20 cents). Subject to the approval of the shareholders at the forthcoming annual general meeting, the proposed final dividend will be paid on or about 3rd May, 2006.

BUSINESS REVIEW

In January 2005, the Group had successfully completed the acquisition of the Shelcore Companies, well-established US-based toy companies with ODM operations specialising in the design, manufacture and sales of plastic toys for infant and pre-school children.

With the Group's implementation of a series of cost saving and inventory measures, to certain extent, the adverse effect of the threats of the Group of being a toy manufacturer could be minimised. Accordingly, the OEM business maintained stable growth with the same level of year 2004 whilst the ODM on the other hand encountered a changing environment.

TOYS MANUFACTURING OPERATION

Original Equipment Manufacturing

PRC

The Group's strong manufacturing foothold in Zhongshan, the People's Republic of China ("PRC") is well-equipped with fully-integrated and centralised facilities for molding, welding, spray painting, printing and assembly which enabled the Group's OEM business sustained to strive and achieve stable growth to enhance the manufacturing process and the customer appeal and satisfaction as well.

First and foremost, the capacity of the Zhongshan plant had been augmented subsequent to the installation of a number of plastic injection machines amounted to approximately HK$20 million to boost its production of plastic toys. During the year under review, the newly-constructed warehouse with a total gross floor area of approximately 5,000 square metres at Zhongshan Plant commenced operation in order to accommodate more raw materials and finished goods inventory to meet the increasing orders from customers.

Vietnam

To enhance production efficiency, the renovation of the Group's first Vietnam plant for improving the factory floor layout and ensuring more systematic physical production flow is underway and is scheduled to complete by mid-2006. Upon completion of the renovation of plant, the overall production efficiency of the Group, who is one of the first movers in the Asian regional toy industry, would be further enhanced.

The improved business environment in Vietnam including the development of structural road networks and enhanced shipping and logistic facilities provided, and stable supply of public facilities, enables the Group having further development in Vietnam.

The Group is conscious of adhering to its strict production code of conduct and takes social responsibility on providing comfortable working place and leisure centre to ensure our staff working in a humanity environment. Frequent human resources function and activities were taken place to enhance the loyalty of our workers. In addition, the Group strives to ensure that the working conditions in its plant such as safety standards, staff employment terms and environment conditions, meet international standards.

Original Design Manufacturing

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

The benefits from the amalgamation of operation and corporate structural reorganisation after the acquisition of the Shelcore Companies have been reflected as the profitability of the Shelcore Companies was enhanced and the result of the Shelcore Companies was improved during the year under review. The Group continued to maximise the full potential of the distribution channels spanning over 60 countries by introducing new toys for infant and pre-school children market. In addition, due to the positive response from the newly-developed markets such as United Kingdom, France, Germany and Spain, additional sales force had been employed to further strengthen the Group's marketing efforts in opening up other new markets in Europe. Other than the United States and European markets, a retail business market in the PRC would be worthwhile to build up.

PRINTING OPERATION

To maximise the use of printing machines, the Group had utilised the excess capacity to develop the network of external customers and bring in a new source of revenue to the Group. In the year 2005, the external customers' orders have been increased.

The Group has widened the variety of printed products and therefore in addition to the Group's internal consumption and supplementing the packaging function in the overall production process, the enlarged range of finalised products could better meet external customer demands and satisfaction as well.

As the Group believes the demand from external users will be increasing, complemented by the Group's internal demand, this operation will have a positive contribution to the Group in the forthcoming years.

MARKETING AND PROMOTIONAL OPERATION

The business promotional operation of the Group has not yet achieved the expected market shares in the promotional industry in the PRC during the year under review. The management would continue to observe the potential market segment of its business promotional operation.

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 31st December, 2005, the Group had bank balances and cash of HK$42,258,000 (2004: HK$89,688,000) and pledged bank deposit of HK$51,990,000 (2004: HK$5,011,000) secured for banking facilities granted. During the year under review, the Group was granted banking facilities in a total of HK$81,000,000 (2004: HK$5,000,000) secured by fixed deposits and corporate guarantee given by the Company.

The Group's gearing ratio, representing the total debt divided by equity attributable to equity holders of the Company, was not applicable as the Group did not have any bank loans or borrowings as at 31st December, 2005 and 2004.

During the year, the Group financed its operations with internally generated cash flows. Net cash generated from operating activities amounted to approximately HK$225 million (2004: HK$151 million). The Group has consistently maintained a healthy financial position during the year.

Capital Expenditure

During the year, the Group acquired property, plant and equipment at a cost of HK$46,766,000 (2004: HK$14,790,000) directly and HK$48,234,000 (2004: HK$447,000) through the acquisition of subsidiaries to expand and upgrade the production capacity. These capital expenditures were primarily funded by internal resources.

Assets and Liabilities

At 31st December, 2005, the Group had total assets of HK$512,691,000 (2004: HK$454,007,000), total liabilities of HK$179,234,000 (2004: HK$170,900,000) and shareholders' equity of HK$333,457,000 (2004: 282,975,000). The net assets of the Group increased 17.8% (2004: 19.3%) to HK$333,457,000 as at 31st December, 2005 (2004: HK$283,107,000). Certain of the Group's fixed assets were revalued at year-end date, the revaluation resulted in an increase in value, which has been reflected in the financial statements.

Exchange Rate Risk

Several subsidiaries of the Company have foreign currency sales, which expose the Group to foreign currency risk. Certain bank balances, pledged bank deposit and trade receivables 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 31st December, 2005, the Group had a total of approximately 17,000 (2004: 15,000) employees in Hong Kong, Macau, PRC, Vietnam, U.S.A. and Canada. 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.

PROSPECTS

Looking forward, the Group will continue to implement effective cost-saving measures and study ways to streamline its ODM business so as to further improve the overall efficiency, and thereby enhancing the competitiveness of its toy businesses. As the global crude oil prices have shown signs of stabilising, the profit margins will be expected to remain stable and not be squeezed further. Moreover, benefits from the amalgamation of the two OEM and ODM businesses as well as corporate reorganisation of Shelcore Companies are gradually materialised. In addition, the Shelcore Companies' ODM business is targeted to become profitable after completion of corporate restructuring and launch of new product lines by enhancing the research and development campaign of the Company.

Shelcore Companies' international outlook shows potential growth through new accounts and new market segments in Europe. The recruitment of expert toy sales and marketing team in Europe enhances its product and market development and brand re-enforcement which may better off result in future. With plans to enhance its research and development efforts, in particular reinforcing the product development team in a cost effective location, the Group will increase the varieties of its ODM toy products for the sales in its retail chain stores. All these moves will definitely enhance the Group's competitiveness. In addition, with financial and operational support from the Group, there is full confidence of revitalising the Shelcore Toys brandname worldwide – including opening brand new retail stores in major cities in the PRC. Effective market studies and product search and development are crucial to the success of the launch of new toys to meet demand of those new markets. The marketing efforts supported with public relations, marketing and promotional campaigns as well as continuous media presence offering another way for the Group to increase its market share, in particular, in North America.

The management will closely monitor the impact of the implemented government-mandated minimum wage, the shortage and unstable supply of public facilities, the impact on future tax treatment of processing arrangement and the recent growth of currency rate of RMB in the PRC and aim at devising a measure for the Group to minimise the adverse effect of those factors on the Group's profitability continuously.

Though the operating conditions is challenging, the Group is dedicated to strive for the best performance by implementing its strategy to produce high quality products with competitive prices. Besides, the Group will continue to strengthen its core business, streamline its existing operations and tighten cost control measures and inventory measures. The Group is confident all these efforts can sustain and enhance its business growth.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the year, 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

As stated in the Company's interim report for the six months ended 30th June, 2005, the Board had adopted its own code on corporate governance practices in which incorporates all code provisions in the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Board had also reviewed and proposed the amendments to the Company's Bye-laws. At the annual general meeting of the Company held on 20th April, 2005, a special resolution was passed to amend the Company's Bye-laws so that every director, including those appointed for a specific term should be subject to retirement by rotation at least once every three years in compliance with the code provision A.4.2. In compliance with the code provision A.2.1, a chief executive officer was appointed and this role is performed by a separate individual other than the chairman of the Company.

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 year under review, in compliance with the Code except the deviation from the code provision A.4.1 that none of the existing non-executive directors of the Company is appointed for a specific term. However, as all the directors of the Company (executive and independent non-executive) are subject to retirement provision under the Company's Bye-laws, 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.

DIRECTORS' SECURITIES TRANSACTIONS

The Company had adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard set out in Appendix 10 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.

ANNUAL GENERAL MEETING

The annual general meeting ("AGM") of the Company will be held at Kowloon Room I, Mezzanine Floor, Kowloon Shangri-La Hotel, 64 Mody Road, Tsimshatsui East, Kowloon, Hong Kong on 25th April, 2006 at 2:30 p.m.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 20th April, 2006 to 25th April, 2006 (both days inclusive) during which period no transfer of shares can be registered. In order to qualify for the proposed final dividend and attending and voting at the above AGM, 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 19th April, 2006.

REVIEW OF ACCOUNTS

The Audit Committee has reviewed the Group's audited consolidated financial statements for the year ended 31st December, 2005, including the accounting principles and practices adopted by the Group.

PUBLICATION OF FINAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This result announcement is published on the website of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The 2005 Annual Report and Notice of AGM of the Company will be dispatched to the shareholders of the Company as well as published on the website of the Stock Exchange in due course.

BOARD COMPOSITION

As at the date of this announcement, the Board comprises Mr. Cheng Yung Pun, Mr. Yu Sui Chuen and Ms. Cheng Wing See, Nathalie as executive Directors and Mr. 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, 16th March, 2006

* *For identification purpose only*