Matrix Holdings Limited

美力時集團有限公司

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

2009
Annual Report

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

CONTENTS

CORPORATE PROFILE

Zhongshan, the PRC


Danang City, Vietnam

MATRIX is a well-established manufacturer of plastic, die-cast and plush toys, with vertically integrated production process including mould making, manufacturing and design. Currently, the Group operates three plants – two in Danang City, Vietnam and one in Zhongshan, the PRC. As at 31st December, 2009, the Group employed approximately 8,600 staff in Hong Kong, Macau, PRC, Vietnam, United States of America and Europe. The Shelcore and the Funrise Group, well-established toy companies designing, manufacturing and selling plastic toys were merged into the Group since 2005 and 2007 respectively.

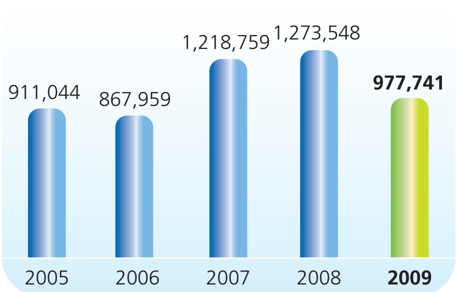
FINANCIAL HIGHLIGHTS

Financial Highlights and Key Ratios as of the Year Ended 31st December:

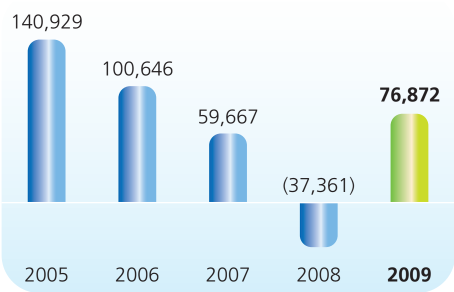
CONSOLIDATED

(HK$'000, except where otherwise stated)	**2009**	2008	% Change
Turnover	**977,741**	1,273,548	(23.2%)
Gross profit	**388,745**	373,674	4.0%
Operation profit before exceptional items	**103,598**	41,457	149.9%
Exceptional items:			
Impairment loss on prepaid royalty	**–**	(62,946)	–
Adjustment to goodwill	**(3,726)**	(3,031)	22.9%
Impairment loss on goodwill	**(23,000)**	–	–
Allowance for amounts due from the disposed subsidiaries, net of gain on disposal	**–**	(12,859)	–
Profit (loss) attributable to owners of the Company	**76,872**	(37,361)	305.8%
Earnings (loss) per share – Basic	**HK11 cents**	(HK5 cents)	320.0%
Dividend per share			
Interim, paid	**HK2 cents**	HK2 cents	–
Final, proposed	**HK5 cents**	HK1 cent	400.0%
Gross Profit Margin (%)	**39.76**	29.34	35.5%
Net Profit (Loss) Margin (%)	**7.86**	(2.93)	368.3%
Gearing Ratio (%)	**25.68**	52.02	(50.6%)
Current Ratio	**1.79**	1.35	32.6%
Quick Ratio	**1.07**	0.75	42.7%

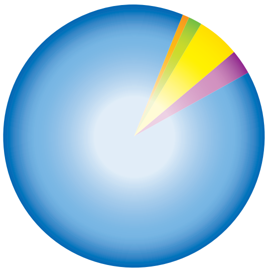
TURNOVER



PROFIT (LOSS) ATTRIBUTABLE TO OWNERS OF THE COMPANY

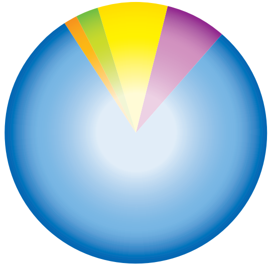


TURNOVER BREAKDOWN BY MARKET



2009

United States	**89.4%**
Europe	**2.8%**
Others	**5.4%**
Canada	**1.8%**
Hong Kong	**0.6%**

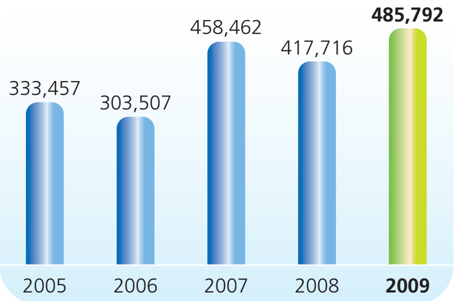


2008

United States	79.7%
Europe	7.4%
Others	8.5%
Canada	2.9%
Hong Kong	1.5%

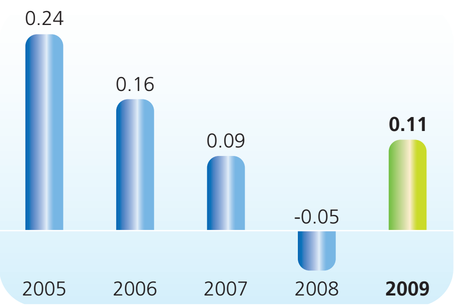
FINANCIAL HIGHLIGHTS

NET ASSETS



EBITDA

BASIC EARNINGS (LOSS) PER SHARE



DEFINITIONS

$$\text{Gross Profit Margin (\%)} = \frac{\text{Gross Profit}}{\text{Turnover}} \times 100\%$$

$$\text{Net Profit (Loss) Margin (\%)} = \frac{\text{Profit (Loss) attributable to owners of the Company}}{\text{Turnover}} \times 100\%$$

$$\text{Gearing Ratio (\%)} = \frac{\text{Total Debt}}{\text{Equity attributable to owners of the Company}} \times 100\%$$

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

$$\text{Quick Ratio} = \frac{\text{Current Assets excluding Inventories}}{\text{Current Liabilities}}$$

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Cheng Yung Pun *(Chairman)*
Arnold Edward Rubin *(Vice Chairman)*
Cheng Wing See, Nathalie
Cheung Kwok Sing
Leung Hong Tai
Tse Kam Wah
Yu Sui Chuen

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

COMPANY SECRETARY

Lai Mei Fong

AUDITOR

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 Fulcrum Group (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke HM08
Bermuda

BRANCH SHARE REGISTRAR IN HONG KONG

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite Nos. 223-231
2nd Floor, Tsim Sha Tsui Centre
66 Mody Road
Tsim Sha Tsui East
Kowloon, Hong Kong

PRINCIPAL BANKER

Bank of China (Hong Kong) Limited

WEBSITE

www.irasia.com/listco/hk/matrix

STOCK CODE

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

CHAIRMAN'S STATEMENT

To Our Shareholders,

I have pleasure in presenting to our shareholder the annual report of Matrix Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the financial year ended 31st December, 2009.

During the year under review, the Group recorded a decrease of consolidated turnover from HK$1,273,548,000 to HK$977,741,000 by 23.2% and a profit attributable to owners of the Company amounted to HK$76,872,000 as compared to a loss incurred amounted to HK$37,361,000 for the year ended 31st December, 2008.

Amid the sluggishness of United States and European markets under economic downturn, the business environment remains challenging. The global financial crisis had left some customers without finance to support their order placing. Orders were placed in conservative approach by delaying or even cutting down by the major customers at the first half year of 2009 as they expected that the consumers were lack of confidence on economy to consume, the Group's whole year sales were dragged down. The weakening of the Euro currency against the US dollar also dampened demand in both Western and Eastern European markets and worsen off the Group's sales. This business environment limited the scope of price increase by the Group in its major markets and the Group decreased accounts with long credit period or low gross profit margin which further adversely affected its sales performance.

Despite the worldwide sales decreased by 23.2% under economic downturn, the Group's profit was improved as the economic slack led a positive effect on falling inflation and a general reduction of material prices, plastic price and transportation fee. Along with the Group's great effort on cost control and streamlining its production operation between Vietnam and Zhongshan factories, the profit earned is principally due to the fall of cost of sales and production and the improvement of gross and net profit margins.

There was a strategic direction of the Group to decrease accounts with low gross profit margin. This strategic action dragged down the Group's sales; however simultaneously improved the gross profit margin's percentage. In addition, the Group put a great effort to control cost by recent intentionally moving production to a more cost-effectiveness production area in Vietnam and by downsizing of a plant in Zhongshan, PRC to cut down direct labour cost. Along with the Group's target on growing with core customers and expanding the base of strategic high margin customers and match with such relative low production and administration costs, the Group had turnaround to perform better-than-expected.

The Group's continuous efforts to control cost, automate production procedures, optimize raw material procurement through diversification of vendors, streamline its operation and further enhance its operating efficiency so as to minimize the adverse business impacts, to emphasize higher margin customers while trying to grow internationally maintaining solid margin produced admirable improvements in both the gross and net profit margins.

In view of the downturn of economy and the market sentiment in toy business remains gloomy, the Group had diversified its business by introducing a LED lighting business to the Group. Due to eco-awareness, it is in best interests of the shareholders to introduce the new business to the Group as long as it was managed by a management team with ample and extensive experience.

In conclusion, I would like to express my deepest gratitude to all our stakeholders, including shareholders, customers, business partners and suppliers, for their continued support and for their confidence in the Group. My sincere appreciation also goes to the management and all our staff's indispensable and enthusiastic contributions and their commitment to ensuring we master every challenge faced by the Group for the year.

Cheng Yung Pun
Chairman

Hong Kong, 18th March, 2010

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS

For the year ended 31st December, 2009, the Group's consolidated turnover decreased to HK$977,741,000 as compared to the last year's HK$1,273,548,000 and a profit attributable to owners of the Company amounted to HK$76,872,000 as compared to the last year's loss of HK$37,361,000 respectively. The basic earnings per share was HK11 cents (2008 basic loss per share: HK5 cents). The decrease of sales was due to the Group's stopped taking small volume orders, decrease of customers with credit crisis and cash flow problem. The customers were also placing orders in conservative approach due to economic downturn. However, the profit turnaround was mainly attributable to (i) no further impairment loss resulting from a prepaid royalty was made this year as compared to last year; (ii) improvement of gross profit margins due to the reduction of material prices under the economic downturn; and (iii) tighter cost control measures implemented by the Group.

DIVIDENDS

During the year, the Company paid an interim dividend of HK2 cents in cash (2008: interim dividend HK2 cents in cash with the scrip dividend alternate) per share to the shareholders. The directors had resolved to recommend the payment of a final dividend of HK5 cents (2008: HK1 cent) per share for the year ended 31st December, 2009, payable to shareholders whose names appear on the Register of Members of the Company on 27th May, 2010. Together with the interim dividend paid of HK2 cents per share, the total dividend per share for the year is HK7 cents (2008: HK3 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 June, 2010.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The business environment remained very challenging in year 2009. The slack United States economy made customers more conservative in placing orders and weakened the merchandise demand. The weakening of the Euro currency against the US dollar also dampened demand in European markets. The tougher testing requirements and ever-more stringent quality standards imposed by both United States government and the major customers had eaten into the Group's profit margin.

The Group had to cut down the sales to customers with long credit period and finance problem to avoid loss and simultaneously limited the scope of price increase due to economic slowdown which dragged down the sales. However, reduction of material prices along with the stringent costs control by the Group and improvement in production efficiency of factories by restructuring, the Group had turnaround in year 2009.

MANUFACTURING OPERATION

During the year under review, the Company continues to have internal restructuring and vigorously downsizing its Zhongshan factory, gradually shifting the manufacturing operation to the most cost-effectiveness production area in Vietnam. This movement of production base better positions the Group to alleviate pressure from rising labour costs in coastal areas of the Pearl River Delta Region, to enjoy better production efficiency at markedly reduced administrative expenses at cost-effectiveness production area and to reap greater economies of scale and it expects to take up more orders and contribute to revenue of the Group.

Zhongshan, PRC – Plant

Danang City, Vietnam – Second Plant

Danang City, Vietnam – Third Plant

MANAGEMENT DISCUSSION AND ANALYSIS

TOY BUSINESS

United States and Canada

To avoid loss, the Group is decreasing any accounts with low gross profit margin. In addition, sales in festive seasons for the year under review were below the solid gain achieved in the past few years. Sales got off to an unexpectedly firm start amid retailers aggressive tactics on deeper discounts and longer business hours as the mass merchandise customers become more conservative and lack of confidence in the economy. To be sure, retailers were faced with a difficult holiday season, as the United States, the epicentre of the global financial crisis, has been already in recession since December 2008. To worsen the situation, a severe winter storm spreading across the country, was another negative factor. Notwithstanding the US$700 billion in United States rescue package and interest rate cuts, mass merchandise customers still not eager to have consuming. Plunging home values and vagaries of the stock market have not only made shoppers feel less wealthy, but indeed obstructed the sources of financing for lavish spending in United States market. Tighter credits, along with rising job concerns, have further made it more difficult to consume. Well aware of the thrifty consumer mindset, retailers cut their inventories, adopted a generous product return policy, and resorted to a string of big bargains and heavy promotions, to an extent seemingly more aggressive than those of recent years, thus significantly eating into profit margins. Under this weak business environment, the sales in Shelcore preschool line and Bubble sales decreased; but, the sales of Tonka and that of Activities item's Cutie Boutique line slightly increased.

However, since prudence was generally the watchword for holiday shoppers, the phenomenon of trading down has been ubiquitous, and mass merchandisers and discount stores (our major customers) were once again favoured over department stores, as well as luxury stores, which were barely dented in second half year orders for our goods. Also, the sale of toys in original equipment manufacturing business remains stable and generates stable source of revenue for the Group's breakeven at minimal.

Europe

The attendant rising joblessness and the weakening of the European currencies against US dollars have eroded its domestic consumption and import absorption power as the faltering European housing market and harder-to-get credits have further curbed consumers' ability and willingness to spend money in stores. Also, there is a strategic direction of the Group to substantial decrease customers with credit crisis as well as a concerted effort to reduce risk with customers who could not pay for merchandise via letter of credit which further adversely affected European market's performance.

Hong Kong

Hong Kong sales decreased as the performance of Hong Kong market was adversely affected by economic downturn.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 31st December, 2009, the Group had bank balances and cash of approximately HK$72,685,000 (2008: HK$22,316,000) and pledged bank deposit of approximately HK$5,002,000 (2008: HK$5,001,000) secured for banking facilities granted. During the year under review, the Group obtained banking facilities in a total of approximately HK$135,000,000 (2008: HK$184,380,000) secured by fixed deposits and corporate guarantee given by the Company.

As at 31st December, 2009, the Group had bank loans of approximately HK$24,661,000 (2008: bank overdrafts and bank loans of HK$13,764,000 and HK$58,677,000 respectively). The Group's gearing ratio, representing the total debt divided by equity attributable to owners of the Company, was 25.7% (2008: 52.0%).

During the year, net cash generated from operating activities amounted to approximately HK$192,510,000 (2008: HK$96,746,000). The Group has maintained an adequate level of cash flows for its business operations and capital expenditures.

Capital Expenditure and Commitment

During the year, the Group acquired property, plant and equipment at a cost of approximately HK$24,550,000 (2008: HK$57,496,000) to further enhance and upgrade the production capacity. These capital expenditures were financed primarily by cash flow generated from operations. Capital expenditure contracted for the year but not provided in the consolidated financial statements amounted to approximately HK$221,000 (2008: HK$616,000). Capital expenditure authorised for the year but not contracted for amounted to approximately HK$916,000 (2008: HK$150,000).

Assets and Liabilities

At 31st December, 2009, the Group had total assets of approximately HK$848,879,000 (2008: HK$910,817,000), total liabilities of approximately HK$363,087,000 (2008: HK$493,101,000) and equity attributable to owners of the Company of approximately HK$485,792,000 (2008: HK$417,716,000). The net assets of the Group increased approximately 16.3% (2008: decreased 8.9%) to approximately HK$485,792,000 as at 31st December, 2009 (2008: HK$417,716,000).

Significant Investment and Acquisition

There was no significant investment and acquisition for the year ended 31st December, 2009.

Significant Disposal

There was no significant disposal for the year ended 31st December, 2009.

Contingent Liabilities

For the details of the contingent liabilities, please refer to note 42 of the consolidated financial statements.

Subsequent Event

For the details of the subsequent event, please refer to note 43 of the consolidated 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, 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.

MANAGEMENT DISCUSSION AND ANALYSIS

NUMBER OF EMPLOYEES AND REMUNERATION POLICIES

As at 31st December, 2009, the Group had a total of approximately 8,600 (2008: 14,000) employees in Hong Kong, Macau, PRC, Vietnam, United States of America 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.

PROSPECTS

In view of the downturn of economy and the market sentiment in toy business remains gloomy, the management would strive for business diversification and develop businesses other than toy business to maximize the shareholder's value. The management has done thorough research and analysis on various investment opportunities that energy-saving sector would be the future promising industry that could provide sound investment potential and prospect for the Group. Also, due to eco-awareness, it is in best interests of the shareholders to introduce a new lighting business to the Group as long as it is managed by a management team with ample and extensive experience. The Company has established a division on the new business of developing and manufacturing LED lighting bulb and the newly developed products were well equipped for launch.

On the other side, the positive effect of economic downturn and ever-more stringent quality standards do it favour to the larger and reputable manufacturers as the new requirements, coupled with the financial downturn that dried up credit and sales, wiped out smaller manufacturers in China and buyers seek to reduce risk by consolidating their vendor to our Group, one of the reputable manufacturers. In addition, our Group puts its effort to continue relationships for bubble licensing in order to strengthen its existing Bubble items, continues to strength its key brands on extending product category of its existing Tonka items and Cutie Boutique lines, streamline operational procedures without sacrificing controls and improve operational and production efficiency.

Looking ahead, business conditions continue to remain challenging in future years and management will adopt a cost-conscious approach towards managing its current business. The Group placed emphasis on modernizing and scrutinizing production methods to increase efficiency and to maximize productivity. The Group continues to develop high value added products and integrates technology with its toy products to emphasize higher margin customers while trying to grow internationally maintaining solid margin.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Cheng Yung Pun

Aged 58, has been a Chairman of the Company since 2000. Mr. Cheng is responsible for the overall corporate policy and development strategy and to oversee the overall management of the Group. Mr. Cheng has an in-depth knowledge and extensive experience in business operations in Greater China. Mr. Cheng has more than 29 years' extensive experience in plastic toys manufacturing, property development and investment. Mr. Cheng is also a director of Smart Forest Limited (wholly owned by Mr. Cheng) which owns share interest in the Company. He is a father of Ms. Cheng Wing See, Nathalie, executive Director of the Company.

Mr. Arnold Edward Rubin

Aged 62, is responsible for the marketing development and assisting the Chairman in overall strategies, management and operations of the Group as a Vice Chairman of the Company. Mr. Rubin has over 43 year's of extensive experience in the toy industry. He is currently an advisor to the Toy Industry Association Board of Directors and has served as Chairman of both the Toy Industry Association and Toy Industry Foundation. He is currently serving as a president of the International Counsel of Toy Industries. He joined the Company in year 2007.

Mr. Yu Sui Chuen

Aged 54, Mr. Yu holds a Higher Diploma in Business Administration majoring in Accounting. Mr. Yu has over 29 years' experience in finance management and administration of which nearly 10 years as a member of the management committee of a listed company. He joined the Company in the year 2000.

Ms. Cheng Wing See, Nathalie

Aged 36, Ms. Cheng has over 12 years' extensive experience in procurement in the plastic toys field. Ms. Cheng is a daughter of Mr. Cheng Yung Pun, Chairman of the Company. She joined the Company in the year 2000.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS (Continued)

Mr. Cheung Kwok Sing

Aged 51, was appointed as an executive director of the Company on 25th November, 2009. Mr. Cheung holds a Master Degree in Business Administration from University of Wale, United Kingdom. He has an extensive experience in the operation and production management of toy business. His experience ranges from managing sales operation activities of the corporations in the base outside Hong Kong, improvement of the operation system to business development.

Mr. Leung Hong Tai (former name known as Leung Mang Pong)

Aged 53, was appointed as an executive director of the Company on 25th November, 2009. Mr. Leung holds a Bachelor of Science degree in Electronics and a Master of Science degree in Digital Communication from University of Kent, England. He is a full member of Hong Kong Computer Society and a member of Australian Computer Society. He has over 20 years of experience in electronic and computing related subjects such as electronic hardware design, electronic printed circuit board development and production, LED and semi-conductor assembling machinery, information system development and implementation, computer networking, information security, equipment dimensioning and communication. His experience ranges from design, development to production of the electronic or toy related products.

Mr. Tse Kam Wah

Aged 59, was appointed as an executive director of the Company on 25th November, 2009. Mr. Tse obtained a higher certificate in mechanical engineering from The Hong Kong Polytechnic University. He has an extensive experience in toy factory management. His experience ranges from managing all manufacturing activities of the corporations in the base outside Hong Kong, monitoring manufacturing process to product development.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Loke Yu alias Loke Hoi Lam

Aged 60, was appointed as an independent non-executive director of the Company and a chairman of the audit committee and remuneration committee of the Company. He has over 37 years of experience in accounting and auditing for private and public companies; financial consultancy; and corporate management. He holds a Master of Business Administration Degree from Universiti Teknologi Malaysia and a Doctor of Business Administration Degree from University of South Australia. Dr. Loke is a fellow of The Institute of Chartered Accountants in England and Wales; Hong Kong Institute of Certified Public Accountants; and The Hong Kong Institute of Directors. He is also an Associate member of The Institute of Chartered Secretaries and Administrators and a member of Malaysian Institute of Accountants. He is currently the Chairman of MHL Consulting Limited and serves as an independent non-executive director of Bio-Dynamic Group Limited, China Fire Safety Enterprise Group Holdings Limited, Scud Group Limited, Vodone Limited, Winfair Investment Company Limited and Zhong An Real Estate Limited, companies listed on the Stock Exchange of Hong Kong. He joined the Company in the year 2004.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS (Continued)

Mr. Mak Shiu Chung, Godfrey

Aged 47, was appointed to the board as an independent non-executive director and a member of the audit committee and remuneration committee of the Company. Mr. Mak holds a Bachelor of Science degree in business studies from Bradford University School of Management, United Kingdom and a Master of Business Administration degree from the University of Wales, United Kingdom. He is a Member of the Hong Kong Securities Institute; a Member of The Chartered Institute of Marketing and an Associate of The Institute of Chartered Secretaries and Administrators. Mr. Mak is a Co-Chairman of DeTeam Company Limited and has over 19 years of experiences in the field of corporate finance. He joined the Company in the year 2000.

Mr. Wan Hing Pui

Aged 79, was appointed to the board as an independent non-executive director and a member of the audit committee and remuneration committee of the Company. Mr. Wan has over 51 years of experiences in auditing, taxation and financial management consultancy services. He is an Associate Member of The Institute of Chartered Accountants in England and Wales, a Fellow of Hong Kong Institute of Certified Public Accountants and The Taxation Institute of Hong Kong. He is a sole proprietor of H.P. Wan & Co., a firm of Certified Public Accountants (Practising). He joined the Company in the year 2004.

CHIEF EXECUTIVE OFFICER

Mr. Chen Wei Qing

Aged 42, was appointed as a chief executive officer of the Company in May 2008. Mr. Chen is responsible for new product development and manufacturing operations of the Group. Mr. Chen was the Head of Factory Plant of Vietnam and China Plant of the Company and he has above 21 years' extensive experience in product development and manufacturing of toy.

CORPORATE GOVERNANCE REPORT

CODE ON CORPORATE GOVERNANCE PRACTICES

The Board of Directors (the "Board") of Matrix Holdings Limited (the "Company") had adopted an amended code on corporate governance practices on 29th December, 2008 in accordance with the newly amended Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") which incorporates all the code provisions in the Code on Corporate Governance Practices (the "CGP Code") as set out in Appendix 14 to the Listing Rules as amended from time to time.

The Company had applied the principles of the CGP Code and its own code since their adoption, with an exception of code provision A.4.1. as stated in the CGP Code, in order to protect and enhance the benefits of shareholders. Following sustained development of the Company, the Board and its executive management will continue to monitor the governance policies to ensure that such policies meet the general rules and standards.

BOARD OF DIRECTORS

The Board serving the important function of guiding the management, currently comprises seven executive directors, namely Mr. Cheng Yung Pun ("Mr. Cheng") (Chairman), Mr. Arnold Edward Rubin (Vice-Chairman) Mr. Yu Sui Chuen, Ms. Cheng Wing See, Nathalie ("Ms. Cheng"), Mr. Cheung Kwok Sing, Mr. Leung Hong Tai and Mr. Tse Kam Wah and three independent non-executive directors ("INEDs") (collectively the "Directors") required under Rule 3.10(1) of the Listing Rules, namely Dr. Loke Yu alias Loke Hoi Lam, Mr. Mak Shiu Chung, Godfrey and Mr. Wan Hing Pui who represent almost one-third of the Board and include two with appropriate professional qualifications and accounting and related financial expertise required under Rule 3.10(2) of the Listing Rules. Save as Ms. Cheng is the daughter of Mr. Cheng, there is no financial, business, family or other material/relevant relationship between the Directors. The Company considers that the Board has the necessary skills and experience appropriate for discharging their duties as Directors in the best interest of the Company and that the current board size as adequate for its present operations.

Each of the Directors keeps abreast of his/her responsibilities as a Director of the Company and of the conduct, business activities and development of the Company. All Directors are updated from time to time with development in the laws and regulations applicable to the Company and each of the INEDs has made an annual confirmation that he complied with the independence criteria set out in Rule 3.13 of the Listing Rules. The Directors consider that all the three INEDs to be independent under these independence criteria and are capable to effectively exercise independent judgment.

BOARD OF DIRECTORS (Continued)

The Directors as aforesaid, accompanied by their respective biographical details, are listed in the section of "Biographies of Directors and Senior Management" in this report and that the INEDs are expressly identified in all of the Company's publication such as circular, announcement or relevant corporate communications in which the names of Directors of the Company are disclosed.

The principal functions of the Board are to make decision on the strategic development of the Company; to oversee the management of the business and affairs of the Group; to supervise the management of the business and affairs with the objective of enhancing the Company and shareholders' value with the proper delegation of the power to the management for its day-to-day operation of the Company, implementation of the budgets and strategic plans and development of the organisation of the Company for implementing the Board's decision. During the year under review, the Board has reviewed, inter alia, the performance of the Group and formulated business strategy of the Group; reviewed and approved the annual and interim results of the Group for the year ended 31st December, 2008 and for the six months ended 30th June, 2009 respectively.

The Board conducts meeting on a regular basis and on an ad hoc basis, as required by business needs. The Bye-laws of the Company allows board meetings to be conducted by way of telephone or videoconference. Any resolutions to be passed by way of written resolutions circulated to and signed by all Directors from time to time when necessary unless any matters in which a substantial shareholder or a Director or their respective associates has a conflict of interest. During the year under review, the Board held ten board meetings in which Mr. Yu Sui Chuen, Ms. Cheng Wing See, Nathalie and Dr. Loke Yu alias Loke Hoi Lam had attended all the board meetings, Mr. Cheng Yung Pun had attended nine board meetings, Mr. Mak Shiu Chung, Godfrey and Mr. Wan Hing Pui had attended eight board meetings and Mr. Arnold Edward Rubin had attended seven board meetings. Since 25th November, 2009 (the appointment date of Messrs. Cheung Kwok Sing ("Mr. Cheung") , Leung Hong Tai ("Mr. Leung") and Tse Kam Wah ("Mr. Tse")), Messrs. Cheung, Leung and Tse had attended four board meetings.

In the said board meetings, sufficient fourteen-day notices for regular board meetings and notice in reasonable days for non-regular board meetings were given to all Directors so as to ensure that each of them had an opportunity to attend the meetings, and agendas and accompanying board papers were given to all Directors in a timely manner before the appointed date of the board meetings and at least three days before the regular board meetings or such other period as agreed. Sufficient information was also supplied by the management to the Board to enable it to make informed decisions, which are made in the best interests of the Company.

CORPORATE GOVERNANCE REPORT

APPOINTMENTS AND RE-ELECTION OF DIRECTORS

In accordance with the Bye-laws of the Company, every director should be subject to retirement by rotation at least once every three years. All Directors appointed to fill a casual vacancy should be subject to election by shareholders at the first annual general meeting after their appointment and that one-third of the Directors should be subject to retirement and re-election every year. Accordingly, though none of the existing non-executive (including independent non-executive) Directors of the Company is appointed for a specific term, 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 as all non-executive Directors are subject to retirement provisions under the Company's Bye-laws.

In considering the nomination of a new director, the Board will review its own size, structure and composition to ensure that it has a balance of expertise, skills and experience appropriate to the requirements of the Company. Where vacancies on the Board exist or an additional director is considered necessary, the Chairman will identify suitable candidates and propose the appointment of such candidates to the Board for consideration and the Board will take into account the qualification, in particular any qualification as required in the Listing Rules, ability, working experience, leadership and professional ethics of the candidates and approved if such appointment considered suitable. The Board also considers that the existing human resources policy in recruitment of new senior staff, to certain circumstance, is applicable to nomination of a new director. Furthermore, as the Board is responsible for selection and approval of candidates for appointment as directors to the Board, the Company has not established a Nomination Committee for the time being.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of Chairman and Chief Executive Officer ("CEO") are segregated and performed by separate individual, Mr. Cheng Yung Pun and Mr. Chen Wei Qing respectively, to ensure a balance of power and authority. The role of Chairman and the CEO are governed by the Chairman Mandate and CEO Mandate (containing the minimum prescribed duties) and stated in the Company's own code on corporate governance practices.

The Chairman is appointed by the Board and his responsibilities are, inter alia, the leadership and effective running of the Board, ensuring that all key and appropriate issues are discussed by the Board in a timely and constructive manner and ensure that Directors receive adequate information, which must be complete and reliable, in a timely manner. The CEO is appointed by the Board and is delegated with the authority and his principal responsibilities are, inter alia, running the Group's business, and implementation of the Group's strategy in achieving the overall commercial objectives.

DIRECTORS' SECURITIES TRANSACTIONS

The Company had adopted a code of conduct regarding securities transactions by directors as amended on 8th September, 2009 on no less exacting than the terms and required standard contained in the newly amended 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 for securities transactions by directors adopted by the Company.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The financial statements of the Company for the year ended 31st December, 2009 have been reviewed by the Audit Committee and audited by the external auditors, Messrs. Deloitte Touche Tohmatsu. The Directors acknowledge their responsibility for preparing the financial statements of the Group and presenting a balanced, clear and comprehensive assessment of the Group's performance and prospects. They are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The Directors ensure the preparation of the financial statements of the Group are in accordance with statutory requirements and applicable accounting standards. The Directors also ensure the publication of the financial statements of the Group in a timely manner.

None of the directors being proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

The Company has received from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange. The Company considers all of the independent non-executive directors are independent.

REMUNERATION COMMITTEE

The Board has established a Remuneration Committee comprising three INEDs, namely Dr. Loke Yu alias Loke Hoi Lam, Mr. Mak Shiu Chung, Godfrey and Mr. Wan Hing Pui, appointed by the Board and is chaired by Dr. Loke Yu alias Loke Hoi Lam, which meets at least once a year.

REMUNERATION COMMITTEE (Continued)

The principal duties of Remuneration Committee include, inter alia, reviewing and making recommendation to the Board the remuneration policy; making recommendation to the Board of the remuneration of non-executive directors; and determination of the remuneration of the executive director and members of the Senior Management. The overriding objective of the remuneration policy is to ensure that the Company is able to attract, retain, and motivate a high-calibre team which is essential to the success of the Company.

The amended specific terms of reference of the Remuneration Committee (adopted on 29th December, 2008 and contained the minimum prescribed duties) in accordance with the newly amended Listing Rules are available on request or on the website: www.matrix.hk.com.

The Remuneration Committee consults the Chairman and/or CEO about their proposal relating to the remuneration of other executive Directors and has access to professional advice where necessary. No Directors and executives can determine his own remuneration. During the year under review, the Remuneration Committee held three meetings, one for reviewing the directors' remuneration and two for share option grant which were attended by all committee members namely Dr. Loke Yu alias Loke Hoi Lam, Mr. Mak Shiu Chung, Godfrey and Mr. Wan Hing Pui. Minutes of Remuneration Committee Meeting are kept by a duly appointed secretary of the meeting. Draft and final versions of minutes of the meeting are sent to all members of the Committee for their comment and records respectively, in both cases within a reasonable time after the meeting.

AUDIT COMMITTEE

The Audit Committee, comprising three INEDs namely Dr. Loke Yu alias Loke Hoi Lam, Mr. Mak Shiu Chung, Godfrey and Mr. Wan Hing Pui, appointed by the Board who have extensive experience in financial matters, meets at least twice a year and is chaired by Dr. Loke Yu alias Loke Hoi Lam. Two Audit Committee members are qualified accountants. None of the Audit Committee members are members of the former or existing auditors of the Company.

The principal responsibilities of the Audit Committee are, inter alia, to review the appointment of external auditors on an annual basis including a review of the audit scope and approval of the audit fees; to ensure continuing auditor objectivity and to safeguard independence of the Company's auditors; to meet the external auditors to discuss issues and reservations (if any) arising from the interim review and final audit, and any matters the auditors suggest to discuss; to review the Group's internal control system; to review the annual and interim report and quarterly result (if any) prior to approval by the Board in accordance with the accounting policies and practices and relevant accounting standards, the Listing Rules and the legal requirements; to serve as a focal point for communication between other Directors and the external auditors in respect of the duties relating to financial and other reporting, internal controls, external audit, and such other matters as the Board determines from time to time; to consider major findings of internal review and management's response and ensure proper arrangement in place for the fair and independent review of such concerns and appropriate follow up action; to devise a framework for the type and authorisation of non-audit services provided by the external auditors.

AUDIT COMMITTEE (Continued)

During the year under review, the Audit Committee had held two meetings which were attended by all committee members namely Dr. Loke Yu alias Loke Hoi Lam, Mr. Mak Shiu Chung, Godfrey and Mr. Wan Hing Pui, to have financial review; to review interim and annual reports before submission to the Board in accordance with the accounting policies and practices, relevant accounting standards, the Listing Rules and the legal requirements; to review the external auditors' engagement letter; to discuss issues during the audits of external auditors. The external auditors and the senior executives are invited to attend the meeting for annual financial statements. Minutes of Audit Committee Meeting are kept by a duly appointed secretary of the meetings. Draft and final versions of minutes of the meeting are sent to all members of the committee for their comment and records respectively, in both cases within a reasonable time after the meetings.

The Audit Committee discharged their duties according to the amended specific terms of reference (adopted on 29th December, 2008 and contained the minimum prescribed duties) in accordance with the newly amended Listing Rules. These specific terms of reference are available on request or on the website: www.matrix.hk.com.

AUDITOR'S REMUNERATION

During the year under review, the fees paid or payable to the auditor of the Company, Messrs. Deloitte Touche Tohmatsu were approximately HK$2,080,000 and HK$163,000 for statutory audit services rendered and non-audit services rendered (including disbursement fees) to the Group respectively.

Remuneration paid to other auditors for audit services rendered to overseas subsidiaries was approximately HK$821,000.

INTERNAL CONTROL

The Board has overall responsibilities for maintaining sound and effective internal control system of the Group. The Board has conducted a review of the effectiveness of the system of internal control of the Group including the relevant financial, operational and compliance controls and risk management procedures and has delegated to the management the implementation of such systems of internal controls. The Qualified Accountant still served the Board in the Group to overseeing the Group's financial reporting procedure internal controls and compliance with the accounting-related requirements under the Listing Rules. Notwithstanding, the Board will consider the adequacy of resources, qualifications and experience of staff of the Company's accounting and financing reporting function and their training programmes and budget in due course.

INTERNAL CONTROL (Continued)

An Internal Control Committee comprises members of the management which was established for conducting a review of the internal control of the Group which cover the material controls including financial, operational and compliance controls and risk management functions. Procedures have been set up for safeguarding assets against unauthorised use or disposition, controlling over capital expenditure, maintaining proper accounting records and ensuring the reliability of financial information used for business and publication etc. The management throughout the Group maintains and monitors the internal control system on an ongoing basis.

INVESTOR RELATIONS

During the year under review, the Group has proactively enhanced its corporate transparency and communications with its shareholders and the investment community through its mandatory interim and final reports. Through the timely distribution of press releases, the Group has also kept the public abreast of its latest developments..

COMMUNICATION WITH SHAREHOLDERS

The annual general meeting provides a useful forum for shareholders to exchange views with the Board. The Chairman as well as chairman of the Audit and Remuneration Committees and members of the Committees are pleased to answer shareholders' questions.

Separate resolutions are proposed at general meetings on each substantially separate issue, including the election of individual directors.

The circular to shareholders dispatched together with the annual report includes relevant details of proposed resolutions, including biographies of each candidates standing for re-election. In order to comply with the newly amended Listing Rules and CGP Code as well, the forthcoming annual general meeting will be held voting by way of a poll and that all shareholders will be given a notice for 20 clear business day or 21 days (whichever is later). The results of the poll in general meetings from time to time will be published on the Company's website and website of The Stock Exchange of Hong Kong Limited, www.hkex.com.hk.

REPORT OF THE DIRECTORS

The directors of the Company have pleasure in presenting their annual report together with the audited consolidated financial statements of the Company for the year ended 31st December, 2009.

PRINCIPAL ACTIVITIES

The Company is an investment holding company.

The principal activities of its subsidiaries are the manufacture and distribution of gifts, novelties items and infant and pre-school children toys. The analysis of the principal activities and geographical locations of the operations of the Company and its principal subsidiaries during the financial year are set out in note 41 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The five largest customers of the Group together accounted for approximately 86% of the Group's turnover, with the largest customer accounted for approximately 51%. The aggregate purchases attributable to the Group's five largest suppliers were approximately 42% of total purchases of the Group, with the largest supplier accounted for approximately 15%.

At no time during the year did any director, any associate of a director, or any shareholder, which to the knowledge of the directors owned more than 5% of the Company's share capital, have any beneficial interests in these customers or suppliers.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2009 are set out in the consolidated statement of comprehensive income on page 40.

During the year, the Company has paid a 2008 final dividend of HK1 cent and the directors have declared a 2009 interim dividend of HK2 cents, both were to be satisfied by cash.

The directors now recommend the payment of a final dividend of HK5 cents per share, amounting to approximately HK$35,615,000, to the shareholders on the register of members on 27th May, 2010 by cash. The remaining retained profits in the Company is amounting to approximately HK$305,872,000.

REPORT OF THE DIRECTORS

PROPERTY, PLANT AND EQUIPMENT

Certain of the Group's leasehold land and buildings were revalued at 31st December 2009. The revaluation resulted in a surplus over book values amounting to approximately HK$6,642,000, which has been credited directly to the asset revaluation reserve.

During the year, the Group spent approximately HK$8,927,000 on plant and machinery and approximately HK$345,000 on leasehold land and buildings to expand and upgrade its production capacity.

Details of these and other movements during the year in the property, plant and equipment of the Group are set out in note 17 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 31 to the consolidated financial statements.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the listed shares of the Company

RESERVES

Movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 43.

Reserves of the Company as at 31st December, 2009 available for distribution, calculated under the Companies Act 1981 of Bermuda (as amended), amounted to approximately HK$345,148,000 (2008: HK$220,216,000).

RESERVES (Continued)

The Company's reserves available for distribution to the shareholders as at the balance sheet date are set out as follows:

	2009 HK$'000	2008 HK$'000
Contributed surplus	**3,661**	3,661
Retained profits	**341,487**	216,555
	345,148	220,216

The contributed surplus of the Company represents the difference between the nominal amount of the share capital issued by the Company and the book value of the underlying consolidated net tangible assets of subsidiaries acquired as a result of a group reorganisation.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

(a) it is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

MANAGEMENT CONTRACTS

Keyhinge Toys Vietnam Joint Stock Company has entered an administration support service agreement with an indirect wholly owned subsidiary of the Company for a period of two years starting from 1st July, 2008. Messrs. Cheng Yung Pun, Yu Sui Chuen and Cheng Wing See, Nathalie, are the directors of that subsidiary which received administration support services fees amounting to approximately HK$94,000 during the year.

REPORT OF THE DIRECTORS

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 113.

DIRECTORS

The directors of the Company during the year and up to the date of this report are:

Executive directors:
Cheng Yung Pun *(Chairman)*
Arnold Edward Rubin *(Vice Chairman)*
Cheng Wing See, Nathalie
Cheung Kwok Sing (appointed on 25th November, 2009)
Leung Hong Tai (appointed on 25th November, 2009)
Tse Kam Wah (appointed on 25th November, 2009)
Yu Sui Chuen

Independent non-executive directors:
Loke Yu alias Loke Hoi Lam
Mak Shiu Chung, Godfrey
Wan Hing Pui

OTHER INFORMATION OF DIRECTOR

During the year under review, i) Mr. Cheng Yung Pun, a chairman and executive director of the Company, has resigned as chairman and executive director of Wah Nam International Holdings Limited, a company listed on the Stock Exchange, with effect from 16th February, 2009; ii) Dr. Loke Yu alias Loke Hoi Lam, an independent non-executive director of the Company, have been appointed as the independent non-executive directors of Scud Group Limited and Zhong An Real Estate Limited, companies listed on the Stock Exchange, with effect from 14th May, 2009 and 30th June, 2009 respectively.

Save as disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51(B)(1) of the listing Rules.

DIRECTORS' SERVICE CONTRACTS

In accordance with the clause 99 of the Bye-laws of the Company, Mr. Yu Sui Chuen, Ms. Cheng Wing See, Nathalie and Dr. Loke Yu alias Loke Hoi Lam retire and, being eligible, offers themselves for re-election at the forthcoming annual general meeting. In accordance with the clause 91 of the Bye-laws of the Company, Messrs. Cheung Kwok Sing, Leung Hong Tai and Tse Kam Wah retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The term of office of each independent non-executive director is the period up to his retirement by rotation in accordance with the Company's Bye-laws.

None of the directors being proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

The Company has received from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company considers all of the independent non-executive directors are independent.

DIRECTORS'/CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Details of related party transactions during the year are set out in note 38 to the consolidated financial statements.

Save as disclosed above, no other contracts of significance to which the Company, its holding company or any of its subsidiaries was a party and in which a director or a controlling shareholder of the Company had a material interest, whether directly or indirectly in any contract, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the directors have any interests in competing business to the Group.

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

As at 31st December, 2009, 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 officer	Nature of interests	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Cheng Yung Pun *(Director)*	Corporate interest *(Note 1)*	512,375,518	71.93%
Cheng Wing See, Nathalie *(Director)*	Personal interest	723,230	0.10%
Cheung Kwok Sing *(Director)*	Personal interest	1,230,000	0.17%
Leung Hong Tai *(Director)*	Personal interest *(Note 2)*	4,342,000	0.61%
Tse Kam Wah *(Director)*	Personal interest	1,280,000	0.18%
Yu Sui Chuen *(Director)*	Personal interest	668,000	0.09%
Chen Wei Qing *(Chief Executive Officer)*	Personal interest	1,100,000	0.15%

Notes:

(1) The shares are held by Smart Forest Limited ("Smart Forest"), a company incorporated in the British Virgin Islands. The entire issued share capital of Smart forest is wholly owned by Mr. Cheng Yung Pun.

(2) 3,648,000 shares are held by Ip Yi Mei, spouse of Mr. Leung Hong Tai, director of the Company.

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

Long Positions in Underlying Shares of the Company

Share Option

		Number of underlying shares attached to the share options						
	Option type	Outstanding at beginning of year	Granted during year	Exercised during year	Lapsed during year	Outstanding at end of year	Exercise price HK$	Exercise period
Category 1: Directors/ Chief Executive Officer								
Yu Sui Chuen (Director)	2005 and 2009a	2,922,000 *(Note 1)*	5,000,000 *(Note 2)*	–	2,922,000	5,000,000	1.250	1st March, 2010 to 1st March, 2013
Arnold Edward Rubin (Director)	2007a	6,300,000 *(Note 3)*	–	–	–	6,300,000	1.934	6th September, 2007 to 6th September, 2010
Cheung Kwok Sing (Director)	2009a	–	3,000,000 *(Note 4)*	–	–	3,000,000	1.250	1st March, 2010 to 1st March, 2013
Leung Hong Tai (Director)	2009a	–	5,000,000 *(Note 5)*	–	–	5,000,000	1.250	1st March, 2010 to 1st March, 2013
Tse Kam Wah (Director)	2009a	–	3,000,000 *(Note 6)*	–	–	3,000,000	1.250	1st March, 2010 to 1st March, 2013
Chen Wei Qing (Chief Executive Officer)	2009a	–	3,000,000 *(Note 7)*	–	–	3,000,000	1.250	1st March, 2010 to 1st March, 2013
Total Directors/ Chief Executive Officer		9,222,000	19,000,000	–	2,922,000	25,300,000		

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

Long Positions in Underlying Shares of the Company (Continued)

***Share Option** (Continued)*

	Option type	Number of underlying shares attached to the share options					Exercise price	Exercise period
		Outstanding at beginning of year	Granted during year	Exercised during year	Lapsed during year	Outstanding at end of year	HK$	
Category 2: Employees								
	2007a	2,133,333 *(Note 8)*	–	–	2,133,333	–		
	2007b	6,500,000 *(Note 9)*	–	–	–	6,500,000	1.944	15th October, 2007 to 15th October, 2010
	2007c	2,000,000 *(Note 10)*	–	–	–	2,000,000	1.684	11th February, 2008 to 11th February, 2011
	2007d	2,000,000 *(Note 11)*	–	–	2,000,000	–		
	2007e	2,000,000 *(Note 12)*	–	–	–	2,000,000	1.700	10th March, 2008 to 10th March, 2011
	2009a	–	25,000,000 *(Note 13)*	–	–	25,000,000	1.250	1st March, 2010 to 1st March, 2013
	2009b	–	1,200,000 *(Note 14)*	–	–	1,200,000	1.448	15th March, 2010 to 15th March, 2013
Total Employees		14,633,333	26,200,000	–	4,133,333	36,700,000		
Total all categories		23,855,333	45,200,000	–	7,055,333	62,000,000		

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

Long Positions in Underlying Shares of the Company (Continued)

Share Option *(Continued)*

Notes:

(1) The 2005 share option in respect of 2,922,000 underlying shares granted to Mr. Yu Sui Chuen, a director of the Company lapsed.

(2) Mr. Yu Sui Chuen, a director of the Company, has beneficial interests in 5,000,000 underlying shares (representing 0.70% of issued share capital of the Company) in respect of share options granted to him on 1st December, 2009 pursuant to the Company's share option scheme.

(3) Mr. Arnold Edward Rubin, a director of the Company, has beneficial interests in 6,300,000 underlying shares (representing 0.88% of issued share capital of the Company) in respect of share options granted to him on 8th June, 2007 pursuant to the Company's share option scheme.

(4) Mr. Cheung Kwok Sing, a director of the Company, has beneficial interests in 3,000,000 underlying shares (representing 0.42% of issued share capital of the Company) in respect of share options granted to him on 1st December, 2009 pursuant to the Company's share option scheme.

(5) Mr. Leung Hong Tai, a director of the Company, has beneficial interests in 5,000,000 underlying shares (representing 0.70% of issued share capital of the Company) in respect of share options granted to him on 1st December, 2009 pursuant to the Company's share option scheme.

(6) Mr. Tse Kam Wah, a director of the Company, has beneficial interests in 3,000,000 underlying shares (representing 0.42% of issued share capital of the Company) in respect of share options granted to him on 1st December, 2009 pursuant to the Company's share option scheme.

(7) Mr. Chen Wei Qing, a chief executive officer of the Company, has beneficial interests in 3,000,000 underlying shares (representing 0.42% of issued share capital of the Company) in respect of share options granted to him on 1st December, 2009 pursuant to the Company's share option scheme.

(8) The 2007a share option in respect of 2,133,333 underlying shares lapsed.

(9) The 6,500,000 underlying shares (representing approximately 0.91% of issued share capital of the Company) in respect of share options were granted on 17th July, 2007 pursuant to the Company's share option scheme.

(10) The 2,000,000 underlying shares (representing approximately 0.28% of issued share capital of the Company) in respect of share options were granted on 13th November, 2007 pursuant to the Company's share option scheme.

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

Long Positions in Underlying Shares of the Company (Continued)

Share Option *(Continued)*

Notes: (Continued)

(11) The 2007d share option in respect of 2,000,000 underlying shares lapsed.

(12) The 2,000,000 underlying shares (representing approximately 0.28% of issued share capital of the Company) in respect of share options were granted on 11th December, 2007 pursuant to the Company's share option scheme.

(13) The 25,000,000 underlying shares (representing approximately 3.51% of issued share capital of the Company) in respect of share options were granted on 1st December, 2009 pursuant to the Company's share option scheme.

(14) The 1,200,000 underlying shares (representing approximately 0.17% of issued share capital of the Company) in respect of share options were granted on 15th December, 2009 pursuant to the Company's share option scheme.

The closing prices of the Company's shares on 8th June, 2007, 17th July, 2007, 13th November, 2007, 11th December, 2007, 1st December, 2009 and 15th December, 2009 the dates of grant of the options type of 2007a, 2007b, 2007c, 2007e, 2009a and 2009b were HK$1.92, HK$1.90, HK$1.65, HK$1.70, 1.25 and 1.40 respectively.

Particulars of the Company's Share Option Scheme are set out in note 39 to the consolidated financial statements.

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 31st December, 2009.

ARRANGEMENTS TO PURCHASE 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 year was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries, was a party to any arrangements to enable the directors of the Company and their associates to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2009, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following shareholders had notified the Company of relevant interests and short positions in the issued share capital of the Company:

Long Positions 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
Smart Forest *(Note 1)*	Beneficial owner	512,375,518	71.93%
Dresdner VPV N.V.	Investment Manager	39,460,043	5.54%
Dresdner Bank Aktiengesellschaft *(Note 2)*	Interest held by controlled corporations	39,460,043	5.54%

Notes:

(1) Smart Forest, a company incorporated in the British Virgin Islands, which is wholly owned by Mr. Cheng Yung Pun, director of the Company.

(2) These shares are held by Dresdner VPV N.V., which is wholly-owned by Dresdner Bank Luxembourg S.A. Dresdner Bank Luxembourg S.A. is in turn wholly-owned by Dresdner Bank 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 31st December, 2009.

REPORT OF THE DIRECTORS

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 effective on 1st September, 2001. The key terms of the Scheme are summarised herein below:

(i) The purpose of the Scheme is to enable the Company to grant options to selected participants as incentives or rewards for their contribution to the Company and/or the subsidiaries (as defined in the Scheme);

(ii) The participants of the Scheme include any full-time employee, executives or officers, directors of the Company or any of the subsidiaries and any suppliers, consultants, agents or advisers who have contributed to the Group;

(iii) The total number of shares remaining available for issue under the Scheme (the scheme mandate limit was refreshed in 2008 annual general meeting held on 29th May 2008) is 22,085,535 (after deducting share options in respect of 44,000,000 underlying shares and 1,200,000 underlying shares which were granted on 1st December, 2009 and 15th December, 2009 respectively, from the refreshed scheme mandate limit of share options in respect of 67,285,535 underlying shares) which represents 3.1% of the issued share capital of the Company as at 31st December, 2009.

(iv) The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company at the date of adoption of the Scheme, unless approval from the Company's shareholders has been obtained. The number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes of the Company must not exceed 30% of the shares in issue from time to time;

(v) Unless approved by shareholders in general meeting, no participants shall be granted an option if the total number of shares issued and to be issued upon exercise of the options granted and to be granted to such participant in any 12-month period up to the date of the latest grant would exceed 1% of the issued share capital of the Company from time to time. Options granted to a substantial shareholders or an independent non-executive director in excess of 0.1% of the Company's share capital in issue for the time being and with a value in excess of HK$5 million must be approved in advance by the Company's shareholders;

SHARE OPTION SCHEME (Continued)

(vi) An option may be exercised in accordance with the terms of the Scheme at any time during a period to be notified by the Board to each grantee. Unless otherwise determined by the Board at its sole discretion, there is no requirement of a minimum period for which an option must be held or a performance target which must be achieved before an option can be exercised;

(vii) A non-refundable remittance of HK$1 by way of consideration for the grant of an option is required to be paid by each grantee upon acceptance of the option;

(viii) The subscription price payable upon exercising any particular option granted under the Scheme is determined based on a formula: P = N x Ep, where "P" is the subscription price; "N" is the number of shares to be subscribed; and "Ep" is the exercise price of the highest of (a) the nominal value of a share in the Company on the date of grant; (b) the official closing price of shares of the Company as stated in the daily quotation sheets of the Stock Exchange on the date of grant; and (c) the average of the official closing price of shares of the Company as stated in the daily quotation sheets of the Stock Exchange for the five business days immediately preceding the date of grant and as adjusted pursuant to the clauses of the Scheme; and

(ix) The life of the Scheme is until the tenth anniversary of the adoption date of the Scheme.

Particulars of the Company's share option scheme are set out in note 39 to the consolidated financial statements.

Save as share options in respect of 7,055,333 underlying shares had been lapsed and share options in a sum of 45,200,000 underlying shares had been granted as disclosed in the Section "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures", no share options are granted, exercised, cancelled or lapsed during the year under review.

As at 31st December, 2009, the total number of shares available for issue under the Company's share option scheme was 22,085,535 shares (after deducting a total of share options in respect of 45,200,000 underlying shares granted for the year ended 31st December, 2009 from the refreshed scheme mandate limit of share option in respect of 67,285,535 underlying shares) which represented 3.1% of the issued share capital of the Company.

EMOLUMENT POLICY

A Remuneration Committee is set up for reviewing the Group's emolument policy and structure for all remuneration of the directors and senior management of the Group, having regard to the Group's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as incentive to directors and eligible employees, details of the scheme is set out as "Share Option Scheme" above.

REPORT OF THE DIRECTORS

COMPLIANCE OF THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Board had adopted its own code on corporate governance practices and amended on 29th December, 2008 in which incorporates all code provisions in the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules (the "CGP Code").

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 CGP Code and its own code except the deviation from the Code A.4.1 that none of the existing non-executive directors of the Company is appointed for a specific term. However, as all the non-executive directors of the Company (including 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 CGP Code.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31st December, 2009.

EVENTS AFTER THE REPORTING PERIOD

On 26th June, 2008, Matrix Investments Group Limited ("MIGL"), a direct wholly-owned subsidiary of the Company, had entered into the Agreement (the "Disposal Agreement") with Waterfront Investments Management Limited ("Waterfront"), an independent third party, regarding the disposal of the entire issued share capital (the "Sale Shares") of Max Smart Investment Limited ("Max Smart"), for a cash consideration of HK$1 million and Waterfront undertook to procure the relevant members of Max Smart to make full payment of all the outstanding payables to MIGL and/or the relevant affiliate of MIGL on or before 31st December, 2009 (the "Current Account Balances"). However, Current Account Balances are still outstanding and were due on 31st December, 2009. With a view to resolving the repayment of the Current Account Balances, Waterfront and MIGL had entered into the agreement on 15th January, 2010 for the acquisition of the Sale Shares by MIGL from Waterfront at a nominal consideration of HK$1.00 (the "Acquisition"). The Group will continue to engage Max Smart and its subsidiaries to manufacture the Group's products after completion of the Acquisition. All the Current Account Balances will be eliminated in the consolidated financial statements of the Company after 1st February, 2010 (the date of the completion of the Acquisition) and thus resolve any issue regarding the recoverability of the Current Account Balances at the Group's consolidated level. Upon completion of Acquisition, Max Smart became the indirect wholly-owned subsidiary of the Company.

Max Smart is an investment holding company whose only asset is the entire interests in Keyhinge Holdings Limited ("Keyhinge"). Keyhinge, in turn, is an investment holding company which holds 98% of the equity interests in the Keyhinge Toys Vietnam Joint Stock Company which engages in the manufacture of toys in Vietnam. The details of the Acquisition are set out in the announcement dated 15th January, 2010 issued by the Company.

OTHER REQUIRED DISCLOSURE PURSUANT TO RULE 13.18 OF THE LISTING RULES

One of the Group's banking facilities provided by a bank in an aggregate amount of HK$40,000,000 (the "Facility") to the Company's various subsidiaries (the "Borrowers") had been revised on 5th January, 2009 that the Facility was revised to an aggregate amount of HK$85,000,000 (the "Facility") which was effective from 5th January, 2009 to any date if such facilities be terminated by the Bank. Throughout the term of the Facility, (i) Mr. Cheng Yung Pun ("Mr. Cheng"), 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 (whether directly or indirectly) and that (ii) unless and until the revised Facilities (together with interest thereon and any fees, charges and other sums payable to the Bank) are fully repaid and the Bank are under no further liability to the Borrowers under the revised Facility Letter, the Company shall not repay or pay any of and Suncorp Investments Group Limited, (a company indirect wholly owned by Mr. Cheng) may not demand, recover or accept repayment or payment of the loan amount, and shall maintain not less than HK$89 million due to Smart Forest from the Company (including interest thereon and any other sums payable).

One of the indirect wholly-owned subsidiaries of the Company had applied to a bank in Macau (the "Lender") for banking facilities of up to an aggregate extent of HK$12,000,000 (the "Facility 1") and was entered into a facility letter on 22nd December, 2009 (the "Facility Letter 1") effective from 22nd December, 2009 and ii) one of the other indirect wholly-owned subsidiaries of the Company had applied to the Lender for banking facilities of up to an aggregate extent of HK$38,000,000 (the "Facility 2") and was entered into a facility letter on 22nd December, 2009 (the "Facility Letter 2") effective from 22nd December, 2009. The Facility Letters 1 and 2 include, inter alia, a condition to the effect that Mr. Cheng should maintain not less than 51% of shareholding (whether directly or indirectly) of the Company. A breach of the above condition will constitute an event of default under the Facility Letters 1 and 2. If such an event of default occurs, the Facilities 1 and 2 will become immediately due and repayable.

AUDITOR

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

By order of the Board
Cheng Yung Pun
Chairman

Hong Kong, 18th March, 2010

INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

德勤•關黃陳方會計師行
香港金鐘道88號
太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

TO THE MEMBERS OF MATRIX HOLDINGS LIMITED
美力時集團有限公司
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Matrix Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 40 to 45, which comprise the consolidated statement of financial position as at 31st December, 2009, and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

AUDITOR'S RESPONSIBILITY (Continued)

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31st December, 2009 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

OWNERSHIP OF MATRIX PLASTIC MANUFACTURING (ZHONGSHAN) CO., LTD. ("MPMZ")

Without qualifying our opinion, we draw attention to note 2 to the consolidated financial statements which explains that in October 1999 there was a court judgement in connection with a claim made by a trade creditor. According to the court judgement, the Company did not hold the legal ownership of MPMZ, an indirect wholly owned major subsidiary of the Company. The Company has made an application for a judicial review of the judgement regarding the ownership of MPMZ. The directors, based on independent legal advice, are of the opinion that the aforesaid judgement can be overruled and will have no material impact on the financial position and operations of the Group and accordingly have continued to treat MPMZ as an indirectly held subsidiary of the Company.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, 18th March, 2010

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31st December, 2009

	NOTES	2009 HK$'000	2008 HK$'000
Turnover	8	**977,741**	1,273,548
Cost of sales		**(588,996)**	(899,874)
Gross profit		**388,745**	373,674
Other income	9	**4,970**	12,470
Distribution and selling costs		**(131,110)**	(180,292)
Administrative expenses		**(154,948)**	(145,171)
Finance costs	10	**(6,445)**	(11,924)
Impairment loss on prepaid royalty	11	**–**	(62,946)
Allowance for trade receivables	23	**(3,502)**	(5,874)
Written off of trade receivables		**(152)**	(692)
Adjustment to goodwill	19	**(3,726)**	(3,031)
Impairment loss on goodwill	20	**(23,000)**	–
Allowance for amounts due from the disposed subsidiaries, net of gain on disposal	34	**–**	(12,859)
Profit (loss) before taxation	12	**70,832**	(36,645)
Income tax credit (charge)	14	**6,040**	(734)
Profit (loss) for the year		**76,872**	(37,379)
Other comprehensive income			
Exchange difference arising on translation of foreign operations		**(6,184)**	(14,629)
Release of translation reserve on deregistration of foreign operations		**1,262**	–
Release of translation reserve on disposal of foreign operations	34	**–**	13,859
Gain on revaluation of land and buildings, and plant and machinery		**6,642**	5,535
Deferred tax liability arising on revaluation of land and buildings, and plant and machinery		**(12)**	(808)
Other comprehensive income for the year (net of tax)		**1,708**	3,957
Total comprehensive income (expense) for the year		**78,580**	(33,422)
Profit (loss) for the year attributable to:			
Owners of the Company		**76,872**	(37,361)
Minority interests		**–**	(18)
		76,872	(37,379)
Total comprehensive income (expense) attributable to:			
Owners of the Company		**78,580**	(33,404)
Minority interests		**–**	(18)
		78,580	(33,422)
Earnings (loss) per share – Basic	16	**HK$0.11**	(HK$0.05)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31st December, 2009

	NOTES	2009 HK$'000	2008 HK$'000
Non-current assets			
Property, plant and equipment	*17*	**240,290**	267,399
Prepaid lease payments	*18*	**1,015**	1,047
Goodwill	*19*	**109,822**	136,548
Intangible asset	*21*	**42,768**	55,205
Deferred tax assets	*32*	**3,918**	314
		397,813	460,513
Current assets			
Inventories	*22*	**181,068**	198,676
Trade and other receivables	*23*	**163,998**	198,559
Prepaid lease payments	*18*	**32**	32
Tax recoverable		**7,560**	6,632
Held-for-trading investments	*24*	**125**	29
Amounts due from the disposed subsidiaries	*25*	**20,596**	19,059
Pledged bank deposit	*26*	**5,002**	5,001
Bank balances and cash	*26*	**72,685**	22,316
		451,066	450,304
Current liabilities			
Trade and other payables and accruals	*27*	**167,378**	200,449
Tax payable		**58,077**	58,246
Amount due to ultimate holding company	*28*	**–**	738
Unsecured bank borrowings	*29*	**24,661**	72,441
Obligations under finance leases	*30*	**2,227**	1,928
		252,343	333,802
Net current assets		**198,723**	116,502
Total assets less current liabilities		**596,536**	577,015

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31st December, 2009

	NOTES	2009 HK$'000	2008 HK$'000
Capital and reserves			
Share capital	*31*	**71,229**	71,229
Reserves		**414,563**	346,487
Equity attributable to owners of the Company		**485,792**	417,716
Non-current liabilities			
Deferred tax liabilities	*32*	**12,869**	16,377
Obligations under finance leases	*30*	**1,847**	4,045
Loan from ultimate holding company	*33*	**96,028**	138,877
		110,744	159,299
		596,536	577,015

The consolidated financial statements on pages 40 to 112 were approved and authorised for issue by the Board of Directors on 18th March, 2010 and are signed on its behalf by:

Cheng Yung Pun
Chairman

Cheung Kwok Sing
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December, 2009

	Attributable to owners of the Company											
	Share capital	Share premium	Special reserve	Shareholders' contribution	Share options reserve	Asset revaluation reserve	Legal reserve	Translation reserve	Retained profits	Total	Minority interests	Total
	HK$'000	HK$'000	HK$'000 *(Note 1)*	HK$'000	HK$'000	HK$'000	HK$'000 *(Note 2)*	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1st January, 2008	67,286	123,382	771	15,909	6,419	48,065	49	(10,609)	205,539	456,811	1,651	458,462
Loss for the year	–	–	–	–	–	–	–	–	(37,361)	(37,361)	(18)	(37,379)
Other comprehensive income for the year	–	–	–	–	–	(2,120)	–	(770)	6,847	3,957	–	3,957
Total comprehensive expense for the year	–	–	–	–	–	(2,120)	–	(770)	(30,514)	(33,404)	(18)	(33,422)
Issue of shares pursuant to scrip dividend	3,943	(3,943)	–	–	–	–	–	–	21,990	21,990	–	21,990
Recognition of equity-settled share based payments	–	–	–	–	788	–	–	–	–	788	–	788
Deemed contribution from ultimate holding company *(note 33)*	–	–	–	5,455	–	–	–	–	–	5,455	–	5,455
Disposal of subsidiaries *(note 34)*	–	–	–	(6,901)	–	–	–	–	6,901	–	(1,633)	(1,633)
Dividend paid *(note 15)*	–	–	–	–	–	–	–	–	(33,924)	(33,924)	–	(33,924)
At 31st December, 2008	71,229	119,439	771	14,463	7,207	45,945	49	(11,379)	169,992	417,716	–	417,716
Profit for the year	–	–	–	–	–	–	–	–	76,872	76,872	–	76,872
Other comprehensive income for the year	–	–	–	–	–	6,630	–	(4,922)	–	1,708	–	1,708
Total comprehensive income for the year	–	–	–	–	–	6,630	–	(4,922)	76,872	78,580	–	78,580
Recognition of equity-settled share based payments	–	–	–	–	9,629	–	–	–	–	9,629	–	9,629
Lapse of share options	–	–	–	–	(2,030)	–	–	–	2,030	–	–	–
Deemed contribution from ultimate holding company *(note 33)*	–	–	–	2,996	–	–	–	–	–	2,996	–	2,996
Release of deemed contribution from ultimate holding company *(note 33)*	–	–	–	(1,760)	–	–	–	–	–	(1,760)	–	(1,760)
Dividend paid *(note 15)*	–	–	–	–	–	–	–	–	(21,369)	(21,369)	–	(21,369)
At 31st December, 2009	**71,229**	**119,439**	**771**	**15,699**	**14,806**	**52,575**	**49**	**(16,301)**	**227,525**	**485,792**	**–**	**485,792**

Note:

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

(2) In accordance with the provisions of the Macao Commercial Code, one of the subsidiaries of the Company is required to transfer a minimum of 25% of its profit for the year to a legal reserve on the appropriation of profits to dividends until the reserve equals half of the quota capital of that subsidiary. The transfer reached half of the quota capital of that subsidiary as at 31st December, 2007. This reserve is not distributable to the shareholders.

CONSOLIDATED CASH FLOWS STATEMENT

For the year ended 31st December, 2009

	2009	2008
	HK$'000	HK$'000
OPERATING ACTIVITIES		
Profit (loss) before taxation	**70,832**	(36,645)
Adjustments for:		
Loss on disposal of property, plant and equipment	**7,427**	856
(Gain) loss on fair value changes of held-for-trading investments	**(96)**	104
Interest income	**(158)**	(287)
Interest expenses	**6,445**	11,924
Depreciation of property, plant and equipment	**44,727**	50,585
Amortisation of intangible assets	**12,437**	12,437
Loss on disposal of subsidiaries	**–**	12,859
Share-based payment expenses	**9,629**	788
Amortisation of prepaid lease payments	**32**	32
Revaluation deficit recognised on property, plant and equipment	**2,362**	147
Impairment loss on prepaid royalty	**–**	62,946
Impairment loss on goodwill	**23,000**	–
Allowance for trade receivables	**3,502**	5,874
Written off of trade receivables	**152**	692
Adjustment to goodwill	**3,726**	3,031
Operating cash flows before movements in working capital	**184,017**	125,343
Decrease in inventories	**16,420**	26,844
Decrease (increase) in trade and other receivables	**30,907**	(18,287)
(Increase) decrease in amounts due from the disposed subsidiaries	**(1,537)**	3,084
Decrease in trade and other payables and accruals	**(33,071)**	(27,420)
Cash generated from operations	**196,736**	109,564
Income taxes paid	**(2,168)**	(5,988)
Interest paid	**(2,058)**	(6,830)
NET CASH FROM OPERATING ACTIVITIES	**192,510**	96,746

CONSOLIDATED CASH FLOWS STATEMENT

For the year ended 31st December, 2009

	NOTE	**2009 HK$'000**	2008 HK$'000
INVESTING ACTIVITIES			
Interest received		**158**	287
Proceeds on disposal of property, plant and equipment		**38**	243
Purchases of property, plant and equipment		**(24,550)**	(57,496)
Disposal of subsidiaries	34	**–**	50
Increase in prepaid royalty		**–**	(23,400)
(Increase) decrease in pledged bank deposit		**(1)**	605
NET CASH USED IN INVESTING ACTIVITIES		**(24,355)**	(79,711)
FINANCING ACTIVITIES			
Dividends paid		**(21,369)**	(11,934)
Repayments of obligations under finance leases		**(1,899)**	(1,383)
New bank loans raised		**174,389**	477,648
Repayments of bank loans		**(208,405)**	(534,583)
(Decrease) increase in bank overdrafts		**(13,764)**	13,250
Advance from ultimate holding company		**3,409**	738
Repayments to ultimate holding company		**(4,147)**	(18,500)
Loan from ultimate holding company		**–**	52,191
Repayments to loan from ultimate holding company		**(46,000)**	–
NET CASH USED IN FINANCING ACTIVITIES		**(117,786)**	(22,573)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**50,369**	(5,538)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**22,316**	27,854
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by Bank balances and cash		**72,685**	22,316

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2009

1. GENERAL

The Company was incorporated in Bermuda on 24th November, 1993 as an exempted company under the Companies Act 1981 of Bermuda (as amended). The Company is a public limited company and its shares are listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its former parent and ultimate holding company was Suncorp Investments Group Limited ("Suncorp"). On 11th May, 2009, Suncorp sold all the equity interest of the Company to Smart Forest Limited ("Smart Forest"). Both Suncorp and Smart Forest are incorporated in the British Virgin Islands. The address of the registered office and principal place of business of the Company are disclosed in the corporate information section of this annual report.

The principal activities of the Company are investment holding and those of its principal subsidiaries are set out in note 41.

The consolidated financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

In October 1999, there was a court judgement in connection with a claim made by a trade creditor. According to the court judgement, the Company did not hold the legal ownership of Matrix Plastic Manufacturing (Zhongshan) Co., Ltd. ("MPMZ"), an indirect wholly owned major subsidiary of the Company. The Company has made an application for a judicial review of the judgement 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, based on independent legal advice, are of the opinion that the aforesaid judgement can be overruled and will have no material impact on the financial position and operations of the Group. Accordingly, MPMZ continues to be treated as an indirectly held subsidiary of the Company.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following new and revised standards, amendments to standards and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

HKAS 1 (Revised 2007)	Presentation of financial statements
HKAS 23 (Revised 2007)	Borrowing costs
HKAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or associate
HKFRS 2 (Amendment)	Vesting conditions and cancellations
HKFRS 7 (Amendment)	Improving disclosures about financial instruments
HKFRS 8	Operating segments
HK(IFRIC) – INT 9 & HKAS 39 (Amendments)	Embedded derivatives
HK(IFRIC) – INT 13	Customer loyalty programmes
HK(IFRIC) – INT 15	Agreements for the construction of real estate
HK(IFRIC) – INT 16	Hedges of a net investment in a foreign operation
HK(IFRIC) – INT 18	Transfers of assets from customers
HKFRSs (Amendment)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning or after 1st July, 2009
HKFRSs (Amendments)	Improvement to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39

Except as described below, the adoption of the new and revised HKFRSs has had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

New and revised HKFRSs affecting presentation and disclosure only

HKAS 1 (Revised 2007) Presentation of financial statements

HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

HKFRS 8 Operating segments

HKFRS 8 is a disclosure standard that requires the identification of operating segments to be performed on the same basis as financial information that is reported internally for the purpose of allocating resources between segments and assessing their performance. The predecessor standard, HKAS 14 "Segment reporting", required the identification of two sets of segments (business and geographical) using a risks and returns approach. In the past, the Group's primary reporting format was geographical segments by location of customers. The application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14 *(see note 8)*.

New and revised HKFRSs affecting the reported results and/or financial position

HKAS 23 (Revised 2007) Borrowing costs

In previous years, the Group expensed all borrowing costs that were directly attributable to the acquisition, construction or production of a qualifying asset when they were incurred. HKAS 23 (Revised 2007) removes the option previously available to expense all borrowing costs when incurred. The adoption of HKAS 23 (Revised 2007) has resulted in the Group changing its accounting policy to capitalise all borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying assets as part of the cost of the qualifying asset. The Group has applied the revised accounting policy to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1st January, 2009 in accordance with the transitional provisions in HKAS 23 (Revised 2007). The revised accounting policy has been applied prospectively from 1st January, 2009 and does not have a material effect on the reported results and financial position of the Group for the current or prior accounting periods.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of improvements to HKFRSs May 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs April 2009[2]
HKAS 24 (Revised)	Related party disclosures[6]
HKAS 27 (Revised)	Consolidated and separate financial statements[1]
HKAS 32 (Amendment)	Classification of rights issues[4]
HKAS 39 (Amendment)	Eligible hedged items[1]
HKFRS 1 (Amendment)	Additional exemptions for first-time adopters[3]
HKFRS 1 (Amendment)	Limited exemption from comparative HKFRS 7 Disclosures for first-time adopters[5]
HKFRS 2 (Amendment)	Group cash-settled share-based payment transactions[3]
HKFRS 3 (Revised)	Business combinations[1]
HKFRS 9	Financial instruments[7]
HK(IFRIC) – INT 14 (Amendment)	Prepayments of a minimum funding requirement[6]
HK(IFRIC) – INT 17	Distributions of non-cash assets to owners[1]
HK(IFRIC) – INT 19	Extinguishing financial liabilities with equity instruments[5]

1 *Effective for annual periods beginning on or after 1st July, 2009.*
2 *Effective for annual periods beginning on or after 1st July, 2009 and 1st January, 2010, as appropriate.*
3 *Effective for annual periods beginning on or after 1st January, 2010.*
4 *Effective for annual periods beginning on or after 1st February, 2010.*
5 *Effective for annual periods beginning on or after 1st July, 2010.*
6 *Effective for annual periods beginning on or after 1st January, 2011.*
7 *Effective for annual periods beginning on or after 1st January, 2013.*

The application of HKFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is on or after 1st January, 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

HKFRS 9 "Financial instruments" introduces new requirements for the classification and measurement of financial assets and will be effective from 1st January, 2013, with earlier application permitted. The standard requires all recognised financial assets that are within the scope of HKAS 39 "Financial instruments: Recognition and measurement" to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. In addition, under HKFRS 9, changes in fair value of equity investments are generally recognised in other comprehensive income, with only dividend income recognised in profit or loss. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the consolidated financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES

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, as explained in the accounting policies set out below.

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from the activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interests in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Business combinations

The acquisition of business is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 *Business Combinations* are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses and is presented separately in the consolidated statement of financial position. For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss statement. An impairment loss for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Revenue from sales of goods is recognised when goods are delivered and title has passed.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment

Leasehold land and buildings held for use in the production or supply of good or services, or for administrative purposes other than construction in progress and plant and machinery are stated in the consolidated statement of financial position at their revalued amount, being the fair value on the basis of their existing use at the date of revaluation less any subsequent accumulated depreciation and any subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the end of the reporting period.

Any revaluation increase arising on revaluation of leasehold land and buildings and plant and machinery is recognised in other comprehensive income and accumulated in revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is recognised in profit or loss to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

Other property, plant and equipment (other than construction in progress) are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost or fair value of items of property, plant and equipment other than construction in progress, over their estimated useful lives and after taking into account of their estimated residual value, using the straight line method.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period in which the item is derecognised.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Impairment losses on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At each of the reporting period, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss if any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

The Group as lessee

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 statement of financial position 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.

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases and amortised over the lease term on a straight-line basis.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the year in which they arise.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the year, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the translation reserve). Such exchange differences are recognised in profit or loss in the year in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1st January, 2005 are treated as assets and liabilities of that foreign operation and translated at the rate if exchange prevailing at the end of the reporting period. Exchange differences arising are recognised in the translation reserve.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale for which the commencement date for capitalisation is on or after 1st January, 2009 are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised as expenses and included in finance costs in the consolidated income statement of comprehensive income in the period in which they are incurred.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Retirement benefits costs

Payments to the Mandatory Provident Fund Scheme (“MPFS”) and other schemes by the Group, are charged as an expense when employees have rendered service entitling them to the contributions.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of the two categories, including financial assets at fair value through profit or loss ("FVTPL") and loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Financial assets at fair value through profit or loss

Financial assets at FVTPL of the Group comprise of held-for-trading investments.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets *(Continued)*

A financial asset is classified as held-for-trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excluded any dividend or interest earned on the financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from the disposed subsidiaries, pledged bank deposit and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For loans and receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Impairment of financial assets *(Continued)*

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments and observable changes in national or local economic conditions that correlate with default on receivables.

Impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities including trade and other payables and accruals, amount due to ultimate holding company, bank borrowings, obligations under finance leases and loan from ultimate holding company, are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Scrip dividends

For shares issued by the Company as alternative to a cash dividend, such scrip dividend is accounted for using the capitalisation method. The cash amount of the dividend foregone by the shareholders is written back in reserves and an amount equal to the nominal value of the share issued is credited to share capital and debited to share premium account.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect is material).

Equity-settled share-based payment transactions

Share options granted to employees of the Group

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in profit or loss with a corresponding adjustment to share options reserve.

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained profits.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies which are described in note 4, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from the estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Depreciation

The Group depreciates its property, plant and equipment on a straight-line basis over their estimated useful lives as set out in note 17 to the consolidated financial statements, commencing from the date the items of property, plant and equipment are put into their intended use. The estimated useful lives and the dates the items of property, plant and equipment are put into use reflect the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the property, plant and equipment. The Group assesses the residual value and useful lives of the property, plant and equipment on a regular basis and if the expectation differs from the original estimate, such difference will impact the depreciation charge in the year in which such estimate has been changed.

Estimate of the fair value of property, plant and equipment

As described in note 17, leasehold land and buildings and plant and machinery were revalued as at 31st December, 2008 and 2009 based on direct comparison approach and depreciated replacement cost method respectively determined by independent professional valuers. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the estimation for direct comparison approach, the Group's management considers information in relation to the current price in market and uses assumptions that are mainly based on market conditions existing at the end of the reporting period. Where there are any changes in the assumptions on the market conditions in the People's Republic of China ("PRC") and Vietnam, the estimate of fair value of leasehold land and buildings and plant and machinery may be affected. In making the estimation for depreciated replacement cost method, the Group's management considers information from the aggregate amount of the new replacement cost of the buildings and plant and machinery and deductions may be made to allow for the age, condition, economic or functional obsolescence and environmental factor existing at the end of the reporting period. As at 31st December, 2009, the carrying amount of leasehold land and buildings and plant and machinery are approximately HK$123,646,000 and HK$61,820,000 respectively (2008: HK$127,966,000 and HK$72,220,000 respectively).

5. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Estimated impairment of intangible assets and goodwill

Determining whether intangible asset relating to customer base and goodwill acquired are impaired require an estimation of the value in use of the cash-generating units that contain goodwill and the customer base. The estimation of the value in use of the cash-generating units requires the Group to estimate the future net cash flows expected to arise from the unit, and a suitable discount rate in order to calculate the present value. The discount rate represents rate that reflects current market assessments of time value of money and the risks specific to the asset. Where the actual future cash flows are less than expected, a material impairment loss may arise. For the year ended 31st December, 2009, an impairment loss of HK$23,000,000 (2008: nil) was recognised on goodwill. Details of the recoverable amount calculation of goodwill are disclosed in note 20.

Income taxes

As at 31st December, 2009, a deferred tax asset of HK$3,918,000 (2008: HK$314,000) in relation to unused tax losses and other taxable temporary differences have been recognised in the Group's consolidated statement of financial position. No deferred tax asset has been recognised on the tax losses of approximately HK$140,539,000 (2008: HK$139,664,000) due to unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less or more than expected, a reversal or additional recognition of deferred tax asset may arise, which would be recognised in profit or loss in the consolidated statement of comprehensive income. In respect of the acquisition of subsidiaries, if a deferred tax asset of the acquiree which was not recognised at the time of the business combination is subsequently recognised, the resulting credit will be taken to the profit or loss for the period. At the same time, the carrying amount of goodwill will be reduced to the amount at which it would have been carried if the deferred tax asset had been recognised as an identifiable asset at the time of the combination, and the resulting write-off is charged to profit in the same period.

6. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debts disclosed in notes 28, 29, 30 and 33 respectively, equity attributable to owners of the Company, comprising issued share capital, reserves and retained profits.

The directors of the Company review the capital structure on a continuous basis. As part of this review, the directors consider the cost of capital and the risks associates with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of cash dividends or scrip dividends, new share issues and share buy-backs as well as the issue of new debts or the repayment of existing debts.

7. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2009 **HK$'000**	2008 HK$'000
Financial assets		
Loans and receivables		
(including cash and cash equivalents)	**252,809**	224,859
Held-for-trading investments	**125**	29
	252,934	224,888

	2009 **HK$'000**	2008 HK$'000
Financial liabilities		
Amortised cost	**288,067**	412,505

7. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, amounts due from the disposed subsidiaries, pledged bank deposit, bank balances and cash, trade and other payables and accruals, unsecured bank borrowings, amount due to ultimate holding company and loan from ultimate holding company. Details of these financial instruments are disclosed in respective notes. The risk associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

Several subsidiaries of the Company have foreign currency sales and purchases, which expose the Group to foreign currency risk. Foreign exchange risk is the risk of loss due to adverse movement in foreign exchange rate relating to foreign currency denominated trade and other receivables, pledged bank deposit and bank balances, trade and other payables and accruals and unsecured bank borrowings are disclosed in notes 23, 26, 27 and 29 respectively. 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.

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities at the reporting date are as follows:

	Assets		**Liabilities**	
	2009 HK$'000	2008 HK$'000	**2009 HK$'000**	2008 HK$'000
United States dollars ("USD")	**86,699**	108,059	**9,843**	13,584
Euro ("EUR")	**13,064**	13,064	**13,064**	13,064

In addition, two subsidiaries of the Company with functional currency of Vietnam dollars ("VND") have foreign currency transactions within the Group that are denominated in USD, which expose the subsidiaries to foreign currency risk.

7. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

***Currency risk** (Continued)*

Sensitivity analysis

As Hong Kong dollars are pegged to USD, the Group does not expect any significant foreign currency exposure arising from the fluctuation of the USD/HKD exchange rates. As at 31st December, 2009, as the carrying amounts of the Group's Euro denominated monetary assets and liabilities netoff each other, the Group does not expect any significant foreign currency exposure arising from the fluctuation of the EUR/HKD exchange rates.

The following table details the Vietnam subsidiaries' sensitivity to a 5% increase and decrease in VND against USD. 5% is the sensitivity rate used by the management in the assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding USD denominated amounts due between subsidiaries of the Group and adjusts its translation at the year end for a 5% change in USD rates. A positive number below indicates increase in profit/decrease in loss for the year where USD strengthens 5% against VND.

For a 5% weakening of USD against VND there would be an equal and opposite impact on the profit/loss for the year below:

	2009 **HK$'000**	2008 HK$'000
Increase in profit/decrease in loss for the year	**3,783**	4,667

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

Interest rate risk

The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note. The Group is exposed to fair value interest rate risk in relation to fixed rate borrowings (see note 30 for the details of the obligations under finance leases) and pledged bank deposit (see note 26 for the details of the pledged bank deposit). The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of interest rate arising from the Group's variable-rate bank borrowings (see note 29 for details of the unsecured bank borrowings) and bank balances (see note 26 for details of the bank balances).

The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arises.

7. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

***Interest rate risk** (Continued)*

Sensitivity analysis

The sensitivity analysis below was determined based on the exposure to interest rates for the non-derivative instruments at the end of the reporting period. For variable-rate bank balances and bank borrowings, the analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis point increase or decrease represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year would increase/decrease approximately by HK$240,000 (2008: the Group's loss for the year would decrease/increase approximately by HK$250,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank balances and bank borrowings.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31st December, 2009 in relation to each class of recognised financial assets is the carrying amounts of those assets as stated in the consolidated statement of financial position. In order to minimise the credit risk, the Group has monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regards, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The five largest customers of the Group together accounted for approximately 86% (2008: 71%) of the Group's turnover, therefore, the Group's credit risk on its trade receivables is concentrated on a few major customers which accounted for approximately HK$107,294,000 (2008: HK$87,341,000) as at the end of the reporting period. The Group has policies in place to ensure that sales of products are made to those customers with good credit history.

7. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The Group relies on bank borrowings as a significant source of liquidity. As at 31st December, 2009, the Group had a total of unutilised overdraft and short-term bank loan available facilities of approximately HK$110,339,000 (2008: HK$111,939,000).

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities on the agreed repayment terms. It has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

	Weighted average effective interest rate	Less than 1 month	Between 1 to 3 months	Between 4 to 12 months	Between 1 to 5 years	Total undiscounted cash flow	Total carrying amount
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2009							
Non-derivative financial liabilities							
Trade and other payables and accruals	**–**	**83,178**	**70,707**	**13,493**	**–**	**167,378**	**167,378**
Unsecured bank borrowings	**1.56%**	**5,984**	**18,733**	**–**	**–**	**24,717**	**24,661**
Obligations under finance leases	**12.40%**	**224**	**447**	**2,012**	**1,961**	**4,644**	**4,074**
Loan from ultimate holding company	**3.00%**	**–**	**–**	**–**	**99,618**	**99,618**	**96,028**
		89,386	**89,887**	**15,505**	**101,579**	**296,357**	**292,141**
2008							
Non-derivative financial liabilities (Restated)							
Trade and other payables and accruals	–	108,241	78,715	13,493	–	200,449	200,449
Unsecured bank borrowings	3.00%	31,094	41,632	–	–	72,726	72,441
Obligations under finance leases	12.40%	226	451	2,030	4,676	7,383	5,973
Amount due to ultimate holding company	–	738	–	–	–	738	738
Loan from ultimate holding company	3.00%	–	–	–	145,618	145,618	138,877
		140,299	120,798	15,523	150,294	426,914	418,478

7. FINANCIAL INSTRUMENTS (Continued)

(c) Fair value

The fair value of financial assets and financial liabilities are determined as follows:

– the fair value of held-for-trading investments which are traded on active liquid markets are determined with reference to quoted market bid prices; and

– the fair value of other financial assets and financial liabilities are determined based on discounted cash flow analysis or using prices from observable current market transactions.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate to their fair values.

8. SEGMENT INFORMATION

The Group has adopted HKFRS 8 Operating Segments with effect from 1st January, 2009. HKFRS 8 is a disclosure standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker, being the Chairman, in order to allocate resources to segments and assessing their performance. In contrast, the predecessor standard (HKAS 14, Segment Reporting) required an entity to identify two sets of segments (business and geographical) using a risks and returns approach. In the past, the Group's primary reporting format was geographical segments. The application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14. Nor has the adoption of HKFRS 8 changed the basis of measurement of segment profit or loss.

The Group currently organised into five operating segments based on the location of customers – the United States, Europe, Canada, Hong Kong and others. These revenue streams are the basis of the internal reports about components of the Group that are regularly reviewed by the Chairman, the chief operating decision maker in order to allocate resources to segments and to assess their performance.

8. SEGMENT INFORMATION (Continued)

Segment revenues and results

The following is an analysis of the Group's revenue and results by operating segment based on geographical location of customers:

For the year ended 31st December, 2009

	United States	Europe	Canada	Hong Kong	All other locations *(Note)*	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TURNOVER						
External sales	**874,077**	**27,069**	**17,867**	**5,743**	**52,985**	**977,741**
RESULTS						
Segment profit	**228,039**	**2,977**	**2,320**	**676**	**990**	**235,002**
Unallocated income						**1,255**
Unallocated expenses						**(135,980)**
Impairment loss on goodwill						**(23,000)**
Finance costs						**(6,445)**
Profit before taxation						**70,832**

8. SEGMENT INFORMATION (Continued)

Segment revenues and results (Continued)

For the year ended 31st December, 2008

	United States	Europe	Canada	Hong Kong	All other locations *(Note)*	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TURNOVER						
External sales	1,015,086	94,661	36,587	18,903	108,311	1,273,548
RESULTS						
Segment profit (loss)	165,790	9,548	2,655	1,223	(896)	178,320
Unallocated income						513
Unallocated expenses						(140,608)
Impairment loss on prepaid royalty						(62,946)
Finance costs						(11,924)
Loss before taxation						(36,645)

Note: All other locations include the PRC (other than Hong Kong), Russia, Australia, Brazil, Taiwan, Korea and others. These locations are considered by the chief operating decision maker as one operating segment.

The accounting policies of the operating segments are the same as the Group's accounting policies as described in note 4. Segment profit (loss) represents the profit (loss) earned by each segment without allocation of investment income, other non operating income, central administration costs and finance costs. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

8. SEGMENT INFORMATION (Continued)

Segments assets and liabilities

The following is an analysis of the Group's assets and liabilities by operating segment based on geographical location of customers:

At 31st December, 2009	United States	Europe	Canada	Hong Kong	All other locations	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS						
Segment assets	**281,225**	**5,365**	**3,326**	**27,300**	**19,798**	**337,014**
Property, plant and equipment						**240,290**
Other corporate assets						**271,575**
Consolidated assets						**848,879**
LIABILITIES						
Segment liabilities	**93,718**	**15,809**	**721**	**2,241**	**2,980**	**115,469**
Unallocated corporate liabilities						**247,618**
Consolidated liabilities						**363,087**

8. SEGMENT INFORMATION (Continued)

Segments assets and liabilities (Continued)

At 31st December, 2008	United States HK$'000	Europe HK$'000	Canada HK$'000	Hong Kong HK$'000	All other locations HK$'000	Consolidated HK$'000
ASSETS						
Segment assets	305,355	17,221	5,825	29,958	26,132	384,491
Property, plant and equipment						267,399
Other corporate assets						258,927
Consolidated assets						910,817
LIABILITIES						
Segment liabilities	110,484	20,275	2,289	2,645	7,389	143,082
Unallocated corporate liabilities						350,019
Consolidated liabilities						493,101

For the purposes of monitoring segment performances and allocating resources between segments:

- All assets are allocated to operating segments other than property, plant and equipment, intangible asset, goodwill, prepaid lease payments, deferred tax assets, held-for-trading investments, tax recoverable, bank balances and cash, pledged bank deposit and other receivables, deposits and prepayment.

- All liabilities are allocated to operating segments other than other payables and accruals, tax payable, amount due to ultimate holding company, unsecured bank borrowings, obligations under finance leases, loan from ultimate holding company and deferred tax liabilities.

8. SEGMENT INFORMATION (Continued)

Other segment information

For the year ended 31st December, 2009

	United States HK$'000	Europe HK$'000	Canada HK$'000	Hong Kong HK$'000	All other locations HK$'000	Consolidated HK$'000
Amounts included in the measure of segment profit or loss or segment assets:						
(Reversal of) allowance for trade receivables	**(263)**	**4,027**	**(262)**	**–**	**–**	**3,502**
Written off of trade receivables	**152**	**–**	**–**	**–**	**–**	**152**
	(111)	**4,027**	**(262)**	**–**	**–**	**3,654**

For the year ended 31st December, 2008

	United States HK$'000	Europe HK$'000	Canada HK$'000	Hong Kong HK$'000	All other locations HK$'000	Consolidated HK$'000
Amounts included in the measure of segment profit or loss or segment assets:						
Allowance for trade receivables	1,613	490	2,924	37	810	5,874
Written off of trade receivables	692	–	–	–	–	692
	2,305	490	2,924	37	810	6,566

8. SEGMENT INFORMATION (Continued)

Other segment information (Continued)

No analysis of capital expenditures, depreciation, amortisation of prepaid lease payments and amortisation of intangible assets is disclosed for both years as these items are not reviewed by the chief operating decision maker regularly to allocate resources to segment, and assess their performance.

Revenue from major products

	2009 **HK$'000**	2008 HK$'000
Toys	**961,827**	1,273,548
Others	**15,914**	–
	977,741	1,273,548

Information about major customers

For the year ended 31st December, 2009, there are two customers with revenue contributing approximately 51% and 23% (2008: 46% and 12%) of total sales of the Group, which are both revenue from toys. There is no other customer contributing over 10% of total sales of the Group.

9. OTHER INCOME

	2009 **HK$'000**	2008 HK$'000
Gain on fair value changes of held-for-trading investments	**96**	–
Interest income on bank deposits	**158**	287
Net exchange gain	**262**	5,156
Subcontracting income	**1,972**	–
Reversal of allowance for customer claims	**–**	3,937
Others	**2,482**	3,090
	4,970	12,470

10. FINANCE COSTS

	2009 **HK$'000**	2008 HK$'000
Interest on:		
Bank borrowings wholly repayable within five years	**967**	5,820
Finance leases	**1,091**	1,010
Imputed interest expense on non-current interest-free loan from ultimate holding company	**4,387**	5,094
	6,445	11,924

11. IMPAIRMENT LOSS ON PREPAID ROYALTY

As at 31st December, 2008, the directors reviewed the carrying amount of the prepaid royalty to determine whether there was any indication that this asset had suffered an impairment loss. In the opinion of the directors of the Company, due to the uncertainty about the market conditions in coming years, this prepaid royalty might not be probable to bring cash inflows or economic benefits to the Group in the future and the recoverable amount of the prepaid royalty was estimated to be much less than its carrying amount, thus impairment loss was recognised for the full amount of prepaid royalty.

12. PROFIT (LOSS) BEFORE TAXATION

	2009 **HK$'000**	2008 HK$'000
Profit (loss) before taxation has been arrived at after charging:		
Loss on disposal of property, plant and equipment	**7,427**	856
Revaluation deficit recognised on property, plant and equipment *(note 17)*	**2,362**	147
Cost of inventories recognised as an expense	**588,996**	899,874
Auditor's remuneration	**2,833**	3,126
Amortisation of prepaid lease payments	**32**	32
Loss on fair value changes of held-for-trading investments	**–**	104
Depreciation of property, plant and equipment	**44,727**	50,585
Amortisation of intangible assets included in cost of sales	**12,437**	12,437
Research and development costs (including staff costs of HK$2,195,000 (2008: HK$5,951,000)) included in administrative expenses	**7,775**	15,638
Staff costs *(Note)*	**209,636**	295,362

Note: Staff costs include directors' remuneration and employees benefits in respect of share options granted but exclude staff costs included in research and development costs.

13. DIRECTORS' EMOLUMENTS AND EMPLOYEES' EMOLUMENTS

Directors' emoluments

The emoluments paid or payable to each of the ten (2008: seven) directors are as follows:

2009	Fees	Other emoluments			Total
		Salaries and allowances	Contributions to MPFS	Other benefits *(Note 1)*	
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Executive directors					
Cheng Yung Pun	**–**	**975**	**9**	**–**	**984**
Yu Sui Chuen	**–**	**1,193**	**60**	**1,094**	**2,347**
Cheng Wing See, Nathalie	**–**	**533**	**12**	**–**	**545**
Arnold Edward Rubin	**–**	**4,736**	**57**	**–**	**4,793**
Cheung Kwok Sing *(Note 2)*	**–**	**94**	**1**	**657**	**752**
Tse Kam Wah *(Note 2)*	**–**	**99**	**1**	**657**	**757**
Leung Hong Tai *(Note 2)*	**–**	**99**	**1**	**1,094**	**1,194**
Independent non-executive directors					
Loke Yu alias Loke Hoi Lam	**72**	**–**	**–**	**–**	**72**
Mak Shiu Chung, Godfrey	**72**	**–**	**–**	**–**	**72**
Wan Hing Pui	**72**	**–**	**–**	**–**	**72**
Total for 2009	**216**	**7,729**	**141**	**3,502**	**11,588**

13. DIRECTORS' EMOLUMENTS AND EMPLOYEES' EMOLUMENTS (Continued)

Directors' emoluments (Continued)

2008	Fees	Other emoluments Salaries and allowances	Other emoluments Contributions to MPFS	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Executive directors				
Cheng Yung Pun	–	975	12	987
Yu Sui Chuen	–	1,175	63	1,238
Cheng Wing See, Nathalie	–	533	12	545
Arnold Edward Rubin	–	4,746	54	4,800
Independent non-executive directors				
Loke Yu alias Loke Hoi Lam	72	–	–	72
Mak Shiu Chung, Godfrey	72	–	–	72
Wan Hing Pui	72	–	–	72
Total for 2008	216	7,429	141	7,786

Note 1: Other benefits represent employees share option benefits.

Note 2: The disclosed emoluments for individual director represent the emoluments received or receivable after the appointment of directorship on 25th November, 2009.

No director waived any emoluments in the two years ended 31st December, 2009.

13. DIRECTORS' EMOLUMENTS AND EMPLOYEES' EMOLUMENTS (Continued)

Employees' emoluments

Of the five individuals with the highest emoluments in the Group, four (2008: one) are directors of the Company whose emoluments are included in the above disclosures. Of the four directors including in the five highest emoluments in the Group, two (2008:nil) are directors appointed on 25th November, 2009. The directors' emoluments disclosed in note 13 for these two directors represent the emoluments received or receivable by them after 25th November, 2009. The total emoluments of these two newly appointed directors and remaining one (2008: four) individuals received and receivable for the year ended 31st December, 2009 are as follows:

	2009 **HK$'000**	2008 HK$'000
Salaries and allowances	**3,985**	6,705
Contributions to retirement benefit schemes and MPFS	**81**	144
Other benefits *(Note)*	**1,751**	–
	5,817	6,849

Their emoluments are within the following bands:

	2009 **No. of** **employees**	2008 No. of employees
HK$1,000,001 to HK$1,500,000	**–**	–
HK$1,500,001 to HK$2,000,000	**2**	3
HK$2,000,001 to HK$2,500,000	**1**	1
	3	4

Note: Other benefits represent employees share option benefits

14. INCOME TAX CREDIT (CHARGE)

	2009 **HK$'000**	2008 HK$'000
Current tax:		
Hong Kong	**(340)**	(1,827)
Other jurisdictions	**(753)**	–
	(1,093)	(1,827)
(Under) overprovision in prior years:		
Hong Kong	**(104)**	391
Other jurisdictions	**103**	–
	(1)	391
Deferred tax:		
Current year *(note 32)*	**7,134**	(136)
Attributable to a change in tax rate *(note 32)*	**–**	838
	7,134	702
Taxation credit (charge) attributable to the Company and its subsidiaries	**6,040**	(734)

On 26th June, 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. Therefore, Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

14. INCOME TAX CREDIT (CHARGE) (Continued)

According to the Investment License granted by Vietnam tax authority to certain subsidiaries operating in Vietnam, the applicable Vietnam enterprise income tax rate is 10% on the estimated assessable profit during their operating periods. Matrix Manufacturing Vietnam Company Limited ("MVN") is 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. For the year ended 31st December, 2009, MVN applied the tax rate of 5% on the estimated assessable profit as it is the fifth year since its first profit-making year. Associated Manufacturing Vietnam Company Limited ("AVN") is eligible for exemption from Vietnam enterprise income tax for three years from the first profit-making year followed by a 50% reduction in the Vietnam enterprise income tax for the next seven years. The year ended 31st December, 2009 is the first profit-making year of AVN.

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

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1st January, 2008 onwards.

The tax position of the Group is currently under audit by the Hong Kong Inland Revenue Department ("IRD"). The IRD issued estimated assessments to certain subsidiaries in respect of the years of assessment 2000/2001 and 2001/2002 with tax payable amounting to approximately HK$2,345,000 and HK$17,678,000 respectively. The Group filed an objection against such assessments for 2000/2001 and 2001/2002 and the whole tax demanded of HK$2,345,000 for 2000/2001 was heldover unconditionally by the IRD. The tax demanded for 2001/2002 for the amount of HK$4,713,000 was held over on condition that the subsidiaries purchased an equal amount of tax reserve certificates, and the amount of HK$12,965,000 was held over unconditionally by the IRD. In March 2009, IRD issued assessments to certain subsidiaries in respect of the years of assessment from 2002/2003 to 2007/2008 amounting to approximately HK$158,116,000. The Group filed objections to the IRD against such assessments on the grounds that these assessments were excessive, and that certain income under assessment neither arose in, nor was derived from, Hong Kong. The Company has appointed a tax advisor to assist the Group in handling this tax audit. The IRD is still at the fact-finding stage, and accordingly, the ultimate outcome of the matter cannot presently be determined. As at 31st December, 2009, the Group had made a tax provision in respect of these subsidiaries for the years of assessment approximately HK$56,500,000 (2008: HK$56,500,000). The directors are of the view after taking advice from professional tax advisers that the amount of tax payable presented in the consolidated financial statements is sufficient to meet the settlement of tax audit. The IRD may impose a penalty and there is no reasonable basis to determine any amount of tax penalty payable at the moment.

14. INCOME TAX CREDIT (CHARGE) (Continued)

The tax credit (charge) for the year can be reconciled to the profit (loss) before taxation per the consolidated statement of comprehensive income as follows:

	2009 **HK$'000**	2008 HK$'000
Profit (loss) before taxation	**70,832**	(36,645)
Tax (charge) credit at the weighted average income tax rate *(Note)*	**(6,088)**	8,319
Tax effect of expenses not deductible for tax purpose	**(11,908)**	(16,538)
Tax effect of income not taxable for tax purpose	**1,752**	1,940
Tax effect of profit which are exempted from tax or under tax concessions	**20,060**	6,404
(Under) overprovision in respect of prior years	**(1)**	391
Tax effect of tax losses/deductible temporary differences not recognised	**(3,262)**	(8,696)
Decrease in opening deferred tax liability resulting from a decrease in applicable tax rate	**–**	838
Tax effect of utilisation of tax losses previously not recognised	**5,362**	6,613
Others	**125**	(5)
Tax credit (charge) for the year	**6,040**	(734)

Note: The weighted average applicable tax rate of 8.6% (2008: -22.7%) represents the weighted average tax rate in different jurisdictions in which the Group operates and is calculated on the basis of the profit or loss before taxation arising in these jurisdictions and on the statutory rates applicable.

15. DIVIDENDS

	2009 HK$'000	2008 HK$'000
Dividends recognised as distribution during the year		
Prior year final, paid – HK1 cent (2008: HK3 cents) per share	**7,123**	20,186
Interim, paid – HK2 cents (2008: HK2 cents) per share	**14,246**	13,738
	21,369	33,924

The 2008 final dividend and 2009 interim dividend were declared and paid as cash dividend. Scrip dividend alternate was offered to shareholders in respect of the 2007 final dividend and 2008 interim dividend. The scrip dividend alternate was accepted by some of the shareholders as follows:

	2008 HK$'000
Dividends:	
Cash	11,934
Shares *(note 35)*	21,990
	33,924

The final dividend of HK5 cents (2008: HK1 cent) per share amounting to approximately HK$35,615,000 (2008: HK$7,123,000) has been proposed by the directors and is subject to approval by the shareholders in the annual general meeting. The proposed final dividend for 2009 will be payable in cash.

16. EARNINGS (LOSS) PER SHARE

The calculation of basic and diluted earnings (loss) per share attributable to the owners of the Company is based on the following data:

	2009	2008
	HK$'000	HK$'000
Earnings (loss) for the purposes of basic and diluted earnings (loss) per share (profit (loss) for the year attributable to owners of the Company)	**76,872**	(37,361)

Number of shares

	2009	2008
	'000	'000
Weighted average number of ordinary shares for the purpose of diluted earnings (loss) per share	**712,565**	711,837

For the year ended 31st December, 2008, the weighted average number of ordinary shares for the purpose of basic loss per share has been adjusted for the effects of the scrip dividend in July and November 2008 respectively.

Diluted earnings is not shown as the exercise price of the share options outstanding was higher than average market price for shares for both 2009 and 2008.

17. PROPERTY, PLANT AND EQUIPMENT

	Construction In Progress HK$'000	Leasehold Land and Buildings HK$'000	Leasehold Improvements HK$'000	Plant and Machinery HK$'000	Moulds HK$'000	Furniture and Equipment HK$'000	Motor Vehicles HK$'000	Total HK$'000
COST OR VALUATION								
At 1st January, 2008	28,174	115,667	26,130	123,612	60,541	17,527	718	372,369
Exchange adjustments	(1,495)	(1,851)	(76)	(4,942)	–	(472)	–	(8,836)
Additions	508	2,264	6,054	13,150	32,424	3,096	–	57,496
Disposals	–	–	(1,796)	(106)	–	(1,091)	–	(2,993)
Disposal of subsidiaries	–	(13,095)	–	(27,358)	–	(839)	–	(41,292)
Transfer	(26,978)	25,667	1,282	–	–	29	–	–
Surplus on revaluation	–	(686)	–	(32,136)	–	–	–	(32,822)
At 31st December, 2008	209	127,966	31,594	72,220	92,965	18,250	718	343,922
Exchange adjustments	(12)	(1,842)	(112)	(2,114)	–	(391)	–	(4,471)
Additions	–	345	908	8,927	12,815	1,435	120	24,550
Disposals	–	–	(818)	(2,827)	(41,830)	(704)	(295)	(46,474)
Transfer	(90)	90	–	–	–	–	–	–
Surplus on revaluation	–	(2,913)	–	(14,386)	–	–	–	(17,299)
At 31st December, 2009	**107**	**123,646**	**31,572**	**61,820**	**63,950**	**18,590**	**543**	**300,228**
Comprising								
At cost	107	–	31,572	–	63,950	18,590	543	114,762
At valuation	–	123,646	–	61,820	–	–	–	185,466
	107	123,646	31,572	61,820	63,950	18,590	543	300,228
DEPRECIATION								
At 1st January, 2008	–	–	6,962	33,227	37,925	5,847	718	84,679
Exchange adjustments	–	(296)	(59)	(1,691)	–	(224)	–	(2,270)
Provided for the year	–	5,461	2,299	17,438	20,755	4,632	–	50,585
Revaluation deficit recognised in profit or loss	–	–	–	147	–	–	–	147
Eliminated on disposals	–	–	(866)	(88)	–	(940)	–	(1,894)
Eliminated on disposal of subsidiaries	–	(2,634)	–	(13,207)	–	(526)	–	(16,367)
Eliminated on revaluation	–	(2,531)	–	(35,826)	–	–	–	(38,357)
At 31st December, 2008	–	–	8,336	–	58,680	8,789	718	76,523
Exchange adjustments	–	(174)	(2)	(352)	–	(196)	–	(724)
Provided for the year	–	3,301	3,806	20,449	13,875	3,262	34	44,727
Revaluation deficit recognised in profit or loss	–	–	–	2,362	–	–	–	2,362
Eliminated on disposals	–	–	(721)	(1,645)	(35,663)	(685)	(295)	(39,009)
Eliminated on revaluation	–	(3,127)	–	(20,814)	–	–	–	(23,941)
At 31st December, 2009	**–**	**–**	**11,419**	**–**	**36,892**	**11,170**	**457**	**59,938**
CARRYING VALUES								
At 31st December, 2009	**107**	**123,646**	**20,153**	**61,820**	**27,058**	**7,420**	**86**	**240,290**
At 31st December, 2008	209	127,966	23,258	72,220	34,285	9,461	–	267,399

17. PROPERTY, PLANT AND EQUIPMENT (Continued)

Depreciation is provided to write off the cost or valuation of items of property, plant and equipment other than construction in progress, over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method, at the following rates per annum:

Leasehold land and buildings	2% – 4% or over the lease term, if shorter
Leasehold improvements	10% or over the lease term, if shorter
Plant and machinery	10% – 20%
Furniture and equipment	10% – 33.3%
Motor vehicle	20% – 33.3%
Moulds	25% – 33.3%

All leasehold land and buildings are situated on land outside Hong Kong under medium term leases.

The Group's plant and machinery in the PRC and Vietnam at 31st December, 2009 were revalued by RHL Appraisal Ltd. ("RHL"), Chartered Surveyors and FCC Control and Fumigation Company, Danang Branch ("FCC"), Chartered Surveyors respectively. The Group's plant and machinery has been valued using direct comparison approach by making reference to comparable sales transactions available in the relevant market and depreciated replacement cost method by making reference to the costs required to reproduce or replace equipment appraised in accordance with current market prices for similar equipment and deducting for physical deterioration and all relevant forms of obsolescence and optimisation. Both RHL and FCC are not connected with the Group.

The Group's leasehold land and buildings in the PRC and Vietnam at 31st December, 2009 were revalued by RHL and FCC respectively. The land portion of the leasehold land and buildings has been valued using direct comparison approach by making reference to comparable sales transactions available in the relevant market. The building portion of the leasehold land and buildings has been valued using depreciated replacement cost method by making reference to the construction costs required to rebuild the buildings and deducting for physical deterioration and all relevant forms of obsolescence and optimisation. Both RHL and FCC are not connected with the Group.

Based on the valuation reports provided by RHL and FCC, the revaluation amount of certain plant and machinery were below their carrying amount. A revaluation deficit of approximately HK$2,362,000 (2008: HK$147,000) is recognised to the consolidated statement of comprehensive income.

17. PROPERTY, PLANT AND EQUIPMENT (Continued)

At 31st December, 2009, had all of the leasehold land and buildings and plant and machinery of the Group been carried at historical cost less accumulated depreciation and accumulated impairment losses, their carrying values would have been approximately HK$56,281,000 (2008: HK$59,231,000) and HK$60,371,000 (2008: HK$71,837,000) respectively.

As at 31st December, 2009, the carrying value of leasehold improvements of HK$20,153,000 (2008: HK$23,258,000) includes an amount of HK$4,962,000 (2008: HK$5,883,000) in respect of assets held under finance leases (see note 30).

The Group has pledged its leasehold land and buildings having a carrying value of approximately HK$62,500,000 (2008: HK$64,676,000) to a bank for banking facilities granted to the Group.

As at 31st December, 2009, the land and buildings of approximately HK$55,125,000 was frozen by Zhongshan Intermediate Court (the "Court") in relation to a legal claim lodged by a third party (the "Plaintiff") against a subsidiary of the Company for a breach of a distribution agreement. Pursuant to the court judgement, the subsidiary is liable to pay the Plaintiff an amount of approximately HK$5,067,000. A full legal claim provision was made by the Group as at 31st December, 2009. Based on independent legal advice, the directors are of the opinion that the land and buildings being frozen by the Court will be released upon the settlement of the legal claim and does not have material impact on the financial position and operations of the Group.

18. PREPAID LEASE PAYMENTS

	2009 **HK$'000**	2008 HK$'000
The Group's prepaid lease payments comprise:		
Leasehold land outside Hong Kong under medium term lease	**1,047**	1,079

	2009 **HK$'000**	2008 HK$'000
Analysed for reporting purposes as:		
Current	**32**	32
Non-current	**1,015**	1,047
	1,047	1,079

19. GOODWILL

	HK$'000
CARRYING AMOUNTS	
At 1st January, 2008	115,488
Arising on acquisition of subsidiaries	24,091
Adjustment to goodwill due to utilisation of pre-acquisition tax losses	(3,031)
At 31st December, 2008	136,548
Adjustment to goodwill due to utilisation of pre-acquisition tax losses	(3,726)
Impairment loss recognised	(23,000)
At 31st December, 2009	**109,822**

Particulars regarding impairment testing on goodwill are disclosed in note 20.

20. IMPAIRMENT TESTING ON GOODWILL

For the purposes of impairment testing, goodwill set out in note 19 has been allocated to the cash generating unit ("CGU") in the manufacture and trading of toys in the United States market.

The basis of the recoverable amount of the above CGU and their major assumptions are summarised below:

The recoverable amount of the CGU has been determined based on a value in use calculation. The calculation is based on financial budgets approved by management covering a five-year period. A key assumption for the value in use calculations is that the budgeted growth rate increased by 10% in the first year and 3% each year for the next four years. The cash flows beyond the five-year period are extrapolated using a zero percent growth rate. The growth rate is determined based on past performance and management's expectations for the market development. The discount rate applied to the cash flow projection is 9.16% (2008: 9.17%) and it reflects specific risks relating to the relevant operating unit. Due to the sub-prime mortgage crisis in the United States in late 2008 and the global economy recession in 2009, the turnover of this CGU in 2009 was behind management's expectation. The management revised its cash flow projections for this CGU as at 31st December, 2009 with the key assumptions set out above. Based on the recoverable amount of the CGU, an impairment loss of HK$23,000,000 was recognised on goodwill for the year ended 31st December, 2009. The management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the CGU to exceed the aggregate recoverable amount of the CGU after making the impairment.

21. INTANGIBLE ASSET

	Customer base
	HK$'000
COST	
At 31st December, 2007 and 2008 and 2009	**74,620**
AMORTISATION AND IMPAIRMENT	
At 1st January, 2008	6,978
Charge for the year	12,437
At 31st December, 2008	19,415
Charge for the year	12,437
At 31st December, 2009	**31,852**
CARRYING AMOUNT	
At 31st December, 2009	**42,768**
At 31st December, 2008	55,205

The intangible asset of the Group was acquired as part of a business combination in the year ended 31st December, 2007.

The intangible asset has finite useful life. Intangible asset is depreciated on a straight-line basis over 6 years.

22. INVENTORIES

	2009	2008
	HK$'000	HK$'000
Raw materials	**88,522**	89,958
Work in progress	**23,841**	26,906
Finished goods	**68,705**	81,812
	181,068	198,676

23. TRADE AND OTHER RECEIVABLES

	2009 HK$'000	2008 HK$'000
Trade receivables	**129,890**	153,028
Less: allowance for doubtful debts	**(8,740)**	(6,085)
	121,150	146,943
Other receivables	**42,848**	51,616
Total trade and other receivables	**163,998**	198,559

Trade receivables

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 net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period.

	2009 HK$'000	2008 HK$'000
0 – 60 days	**107,626**	114,597
61 – 90 days	**12,757**	26,124
> 90 days	**767**	6,222
	121,150	146,943

Included in the Group's trade receivables are receivables of approximately HK$34,522,000 (2008: HK$102,121,000) denominated in the USD, foreign currency of the relevant group entities.

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customers. Recoverability of the existing customers is reviewed by the Group regularly. Included in the Group's trade receivable balances are receivables with aggregate carrying amount of HK$54,842,000 and HK$78,102,000 as at 31st December, 2009 and 2008 respectively, which are neither past due nor impaired.

The trade receivables that had been past due but not provided for were either subsequently settled as at the date of this report or without historical default of payments by the respective customers. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts as at the end of the reporting period. The Group does not hold any collateral over these balances.

23. TRADE AND OTHER RECEIVABLES (Continued)

Aging of trade receivables which are past due but not impaired:

	2009 HK$'000	2008 HK$'000
0 – 60 days	**65,540**	62,306
61 – 90 days	**661**	4,011
> 90 days	**107**	2,524
	66,308	68,841

Movement in the allowance for doubtful debts

	2009 HK$'000	2008 HK$'000
Balance at beginning of the year	**6,085**	211
Impairment losses recognised on trade receivables	**3,502**	5,874
Amounts written off as uncollectible	**(847)**	–
Balance at end of the year	**8,740**	6,085

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of approximately HK$8,740,000 (2008: HK$6,085,000) which have either been placed under liquidation or in severe financial difficulties. The Group does not hold any collateral over these balances.

23. TRADE AND OTHER RECEIVABLES (Continued)

Other receivables

As at 31st December, 2009, included in the Group's other receivables is a receivable from former shareholders of a subsidiary of approximately HK$13,493,000 (2008: HK$13,493,000) that related to a legal case *(see note 27)*.

One of the former shareholders of that subsidiary is an existing director of the Company. The amount due from the director disclosed pursuant to section 161B of the Companies Ordinance is as follows:

Director	**Terms of the receivable**	**Balance at 31/12/2009**	**Balance at 1/1/2009**	**Maximum amount outstanding during the year**
		HK$'000	HK$'000	HK$'000
Arnold Edward Rubin	Unsecured, repayable on demand, interest free	13,493	13,493	13,493

As at 31st December, 2009, included in the Group's other receivables are receivables of approximately HK$13,064,000 (2008: HK$13,064,000) and HK$429,000 (2008: HK$429,000) denominated in EUR and the USD respectively, foreign currency of the relevant group entities. In the opinion of directors, the receivable from former shareholders of HK$13,493,000 is expected to be recovered within one year from the reporting date.

24. HELD-FOR-TRADING INVESTMENTS

The investments represent equity securities listed in the United States which are stated at quoted market bid price.

25. AMOUNTS DUE FROM THE DISPOSED SUBSIDIARIES

The amounts are unsecured, interest-free and repayable within one year. The details of the amounts are set out in note 34.

26. PLEDGED BANK DEPOSIT AND BANK BALANCES AND CASH

The pledged bank deposit was to secure short term bank facilities granted to the Group and is therefore classified as a current asset. The pledged bank deposit carried interest at average fixed rate of 0.02% (2008: 0.01%) per annum and will be released upon the settlement of the bank borrowings. The bank balances carries interest at prevailing interest rates.

The bank balances of approximately HK$51,748,000 (2008: HK$5,509,000) are denominated in the USD, foreign currency of the relevant group entities.

At 31st December, 2009, the bank balances and cash of approximately HK$1,791,000 (2008: HK$7,772,000) were denominated in Renminbi ("RMB") which is not freely convertible into other currencies.

27. TRADE AND OTHER PAYABLES AND ACCRUALS

Trade and other payables and accruals principally comprise amounts outstanding for trade purposes and daily operating costs.

	2009 **HK$'000**	2008 HK$'000
Trade payables	**92,022**	107,549
Other payables and accruals	**75,356**	92,900
	167,378	200,449

The credit period taken for trade purchases is 30 to 60 days. The following is an aged analysis of trade payables presents based on the invoice date at the end of the reporting period:

	2009 **HK$'000**	2008 HK$'000
0 – 60 days	**77,868**	46,964
61 – 90 days	**10,624**	27,715
> 90 days	**3,530**	32,870
	92,022	107,549

27. TRADE AND OTHER PAYABLES AND ACCRUALS (Continued)

As at 31st December, 2009, included in the Group's other payables is a payable of a subsidiary, Funrise Toys Limited ("Funrise Toys") of approximately HK$13,493,000 (2008: HK$13,493,000) that related to a legal case. Funrise Toys was acquired by the Group during the year ended 31st December, 2007. On 25th June, 2002, judgement was made by the court in France against Funrise Toys regarding the termination of an agency agreement. The amount awarded to the plaintiff by the court to be paid by Funrise Toys was approximately HK$13,493,000. Funrise Toys has filed an appeal against the judgement.

In order to activate the formal appeal process, the full amount of HK$13,493,000 has to be settled by Funrise Toys on or before 14th December, 2009, otherwise the case would be treated as conclusive and Funrise Toys is liable for HK$13,493,000. Based on the relevant sales and purchase agreement entered by the Group in year 2007, the former shareholders of the Funrise Toys will indemnify the Group the claim against Funrise Toys, so that, if the liability crystalises, the former shareholders will pay the Group the amount paid by the Group to settle the liability. It was determined that crystallisation of the liability of HK$13,493,000 is probable at the completion of the acquisition. As a result, a liability of HK$13,493,000 has been included in trade and other payables and accruals as at 31st December, 2009 (2008: HK$13,493,000). In addition, a receivable of HK$13,493,000 has been included in trade and other receivables as at 31st December, 2009 (2008: HK$13,493,000). During the year ended 31st December, 2009, Funrise Toys did not make any payment to settle the amount of HK$13,493,000, and thus the case had been treated as conclusive and non-appealable.

27. TRADE AND OTHER PAYABLES AND ACCRUALS (Continued)

As at 31st December, 2009, included in the Group's other payables and accruals are payables of approximately HK$13,064,000 (2008: HK$13,064,000) and HK$429,000 (2008: HK$429,000) denominated in EUR and the USD respectively, foreign currency of the relevant group entities.

28. AMOUNT DUE TO ULTIMATE HOLDING COMPANY

The amount was unsecured, interest-free and repayable on demand.

29. UNSECURED BANK BORROWINGS

	2009 **HK$'000**	2008 HK$'000
Bank overdrafts	**–**	13,764
Bank loans	**24,661**	58,677
	24,661	72,441

Bank overdrafts and bank loans are repayable within one year and bear variable interest at HIBOR plus 1.5% (2008: Prime and HIBOR plus 1.75% to 2%) ranging from 1.55% to 1.57% (2008: 0.75% to 5.50%) per annum.

The Group's borrowings were all denominated in Hong Kong dollars except for the carrying amount of bank loans of approximately HK$9,414,000 (2008: HK$13,155,000) which were denominated in USD, foreign currency of the relevant group entities.

30. OBLIGATIONS UNDER FINANCE LEASES

It is the Group's policy to lease certain of its leasehold improvement under finance leases. The average lease term is 5 years. Interest rates underlying all obligations under finance leases are fixed at respective contract dates ranging from 8.00% to 13.00% (2008: 8.00% to 13.00%). These leases have no terms of renewal. No arrangement has been entered into for contingent rental payments.

	Minimum lease payments		Present value of minimum lease payments	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable under finance leases				
Within one year	**2,682**	2,707	**2,227**	1,928
In more than one year but not more than two years	**1,962**	2,707	**1,847**	2,227
In more than two years but not more than five years	**–**	1,969	**–**	1,818
	4,644	7,383	**4,074**	5,973
Less: future finance charges	**(570)**	(1,410)	**–**	–
Present value of lease obligations	**4,074**	5,973	**4,074**	5,973
Less: Amount due for settlement within 12 months (shown under current liabilities)			**(2,227)**	(1,928)
Amount due for settlement after 12 months			**1,847**	4,045

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

31. SHARE CAPITAL

	Number of shares		Share capital	
	2009	2008	**2009**	2008
	'000	'000	**HK$'000**	HK$'000
Ordinary shares of HK$0.1 each				
Authorised				
At the beginning and end of the year	**1,000,000**	1,000,000	**100,000**	100,000
Issued and fully paid				
At the beginning of the year	**712,294**	672,855	**71,229**	67,286
Issued in lieu of cash dividend *(Note)*	**–**	39,439	**–**	3,943
At the end of the year	**712,294**	712,294	**71,229**	71,229

Note: On 10th July, 2008 and 17th November, 2008, the Company issued and allotted a total of 14,042,976 shares and 25,395,902 shares of HK$0.10 each in the Company respectively at par to the shareholders who elected to receive shares in the Company in lieu of cash payment for the 2007 final dividend and 2008 interim dividend respectively. These shares rank pari passu in all respects with other shares then in issue. The details of the scrip dividend alternate in respect of 2007 final dividend and 2008 interim dividend are set out in note 35.

None of the Company's subsidiaries purchased, sold and redeemed any of the Company's shares during the year.

32. DEFERRED TAXATION

The following are the major deferred tax liabilities and assets recognised and movements thereon during the current and prior years:

	Accelerated tax depreciation HK$'000	Revaluation of property, plant and equipment HK$'000	Intangible assets HK$'000	Tax losses HK$'000	Others HK$'000	Total HK$'000
At 1st January, 2008	2,836	1,963	11,848	(258)	(290)	16,099
Charge (credit) to profit or loss	1,987	–	(2,052)	–	201	136
Charge to other comprehensive income for the year	–	808	–	–	–	808
Disposal of subsidiaries *(note 34)*	–	(126)	–	9	(51)	(168)
Credit to consolidated statement of comprehensive income for the year due to change in tax rate *(note 14)*	(162)	–	(676)	–	–	(838)
Exchange difference	–	(9)	–	21	14	26
At 31st December, 2008	4,661	2,636	9,120	(228)	(126)	16,063
Credit to profit or loss	(3,000)	–	(2,052)	(122)	(1,960)	(7,134)
Charge to other comprehensive income for the year	–	12	–	–	–	12
Exchange difference	–	(2)	–	5	7	10
At 31st December, 2009	**1,661**	**2,646**	**7,068**	**(345)**	**(2,079)**	**8,951**

For the purposes of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2009 HK$'000	2008 HK$'000
Deferred tax liabilities	**12,869**	16,377
Deferred tax assets	**(3,918)**	(314)
	8,951	16,063

32. DEFERRED TAXATION (Continued)

At the end of the reporting period, the Group had unused estimated tax losses of HK$141,589,000 (2008: HK$144,173,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK$1,050,000 (2008: HK$4,509,000) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses of HK$140,539,000 (2008: HK$139,664,000) due to the unpredictability of future profit streams. The tax losses may be carried forward indefinitely.

33. LOAN FROM ULTIMATE HOLDING COMPANY

The amount is unsecured and interest-free. As at 31st December, 2009, the ultimate holding company agreed not to request settlement of HK$99,618,000 (2008: HK$145,618,000) within one to one and half year from the end of the reporting period. On 30th June, 2009, the loan amount of approximately HK$52,191,000 due for settlement on 30th June, 2010 was extended to 30th June, 2011. The fair value of the loan from ultimate holding company is determined based on an effective interest rate of 3.0% (2008: 3.0%) per annum at the end of the reporting period. The difference between the principal amount of the loan of HK$52,191,000 and its fair value determined on 30th June, 2009 amounted to approximately HK$2,996,000 (2008:HK$5,455,000) has been credited to equity as deemed contribution from ultimate holding company.

During the year ended 31st December, 2009, a loan from the ultimate holding company of approximately HK$46,000,000 was early settled by the Company. The respective deemed contribution from ultimate holding company recognised in prior years amounted to approximately HK$1,760,000 has been reversed and debited to equity.

34. DISPOSAL OF SUBSIDIARIES

The entire equity interest in Max Smart Investment Limited, Keyhinge Holdings Limited and Keyhinge Toys Vietnam Joint Stock Company (together referred to as the "disposed subsidiaries") were disposed of on 1st July, 2008. The net liabilities of the subsidiaries at the date of disposal are as follows:

	HK$'000
Net liabilities disposed of	
Property, plant and equipment	24,925
Inventories	4,299
Trade and other receivables	181
Tax recoverable	122
Bank balances and cash	950
Trade and other payables	(6,533)
Amounts due to the Group *(Note)*	(59,033)
Deferred tax liabilities	(168)
Minority interests	(1,633)
	(36,890)
Net liabilities disposed of	36,890
Cash consideration	1,000
Release of translation reserve	(13,859)
Gain on disposal of subsidiaries	24,031
Allowance for amounts due from the disposed subsidiaries	(36,890)
	(12,859)
Net cash inflow arising on disposal:	
Cash consideration received	1,000
Bank balances and cash disposed of	(950)
	50

The disposed subsidiaries did not have any significant impact on the cash flows, turnover and profit of the Group in 2008.

34. DISPOSAL OF SUBSIDIARIES (Continued)

Note: Pursuant to the sales and purchase agreement entered on 26th June, 2008, the purchaser of the disposed subsidiaries (the "Purchaser") irrevocably undertakes and shall procure the members of the disposed subsidiaries to make full payment of all the amounts due to the Group on or before 31st December, 2009. The Purchaser also provided an indemnity to the Group for the settlement of the amounts due to the Group.

The amounts due to the Group as at 1st July, 2008 were HK$59,033,000. The directors of the Company are of the opinion that under the current global economic condition and the financial resources of the disposed subsidiaries, an impairment of approximately HK$36,890,000 was made on the amounts due from the disposed subsidiaries at initial recognition. The amounts due from the disposed subsidiaries after impairment as at 1st July, 2008 amounted to approximately HK$22,143,000. The terms of the amounts due from the disposed subsidiaries are disclosed in note 25.

The Purchaser was unable to settle the remained outstanding balance after impairment of HK$20,596,000 as at 31st December, 2009. On 1st February, 2010, the Purchaser entered into an agreement with the Group and agreed to sell the disposed subsidiaries to the Group at a consideration of HK$1. The details of the transaction are set out in note 43.

35. MAJOR NON-CASH TRANSACTIONS

During the year ended 31st December, 2008, the directors declared a final dividend in 2007 of HK3 cents and an interim dividend in 2008 of HK2 cents respectively to be satisfied by cash and with an alternative to the shareholder to elect to receive such dividend (or part thereof) by way of scrip dividend by allotment of new shares in the Company, credited as fully paid. The market prices for the purpose of the scrip dividend were determined at HK$0.904 and HK$0.366 per share respectively, which were equivalent to the average closing prices of the shares quoted on the Stock Exchange for the five consecutive trading days, from 23rd May, 2008 to 29th May, 2008 and from 30th September, 2008 to 8th October, 2008, respectively.

As a result, 39,438,878 shares were issued to the shareholders who had elected to receive new shares in the Company in lieu of cash dividend. A total amount of approximately HK$3,944,000 equal to the nominal value of the shares issued is credited to share capital and approximately HK$21,990,000 is credited to retained profits as if the shareholders had foregone their dividends and accepted a bonus issue of share in the place of those dividends.

36. OPERATING LEASE COMMITMENTS

	2009 HK$'000	2008 HK$'000
Minimum lease payments in respect of land and buildings under operating leases recognised in profit or loss in the consolidated statement of comprehensive income	**22,317**	25,018

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2009 HK$'000	2008 HK$'000
Within one year	**10,809**	19,040
In the second to fifth years inclusive	**25,246**	30,687
After five years	**2,496**	4,379
	38,551	54,106

Operating lease payments represent rentals payable by the Group for its factory, office premises and retail shops. Leases are negotiated for a term of 8 to 20 years in respect of the factory premises and a term of 1 to 10 years for office premises and showrooms. The rentals are fixed throughout the lease period.

37. CAPITAL COMMITMENTS

	2009 HK$'000	2008 HK$'000
Capital expenditure in respect of the acquisition of property, plant and equipment		
– contracted for but not provided in the consolidated financial statements	**221**	616
– authorised but not contracted for	**916**	150

38. RELATED PARTY TRANSACTIONS

The amount due from a director, amounts due from the disposed subsidiaries, amount due to ultimate holding company and loan from ultimate holding company are disclosed in notes 23, 25, 28 and 33 respectively.

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

	2009 HK$'000	2008 HK$'000
Rental paid or payable to related companies *(note a)*	**693**	696
Subcontracting fees paid or payable to the disposed subsidiaries *(note b)*	**18,675**	18,267
Purchase of finished goods from the disposed subsidiaries *(note b)*	**35,581**	20,015
Sales of raw materials to the disposed subsidiaries *(note b)*	**(8,214)**	(9,332)
Service fee charged to the disposed subsidiaries *(note b)*	**(94)**	(47)
Subcontracting fee charged to the disposed subsidiaries *(note b)*	**(1,972)**	–
Sales of property, plant and equipment to the disposed subsidiaries *(note b)*	**(57)**	–

Note:

a. Mr. Cheng Yung Pun and Arnold Edward Rubin, directors of the Company, have beneficial interests in the related companies.

b. Mr. Cheng Yung Pun, Ms. Cheng Wing See, Nathalie and Mr. Yu Sui Chuen, directors of the Company, are also directors of the disposed subsidiaries but have no beneficial interests in the disposed subsidiaries.

38. RELATED PARTY TRANSACTIONS (Continued)

Compensation of key management personnel

The remuneration of directors and other members of key management in respect of the year are as follows:

	2009 HK$'000	2008 HK$'000
Salaries and other short-term employee benefits	**11,227**	8,068
Post-employment benefits	**186**	151
Share-based payments	**4,158**	–
	15,571	8,219

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

39. 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 to subscribe for the shares in the Company at a price equal to the highest of (i) the official closing price of the shares as stated in the Stock Exchange's daily quotation sheets on the date of grants; (ii) the average of the official closing price of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares to be issued to each participant in any twelve-month period must not exceed 1% of the share capital of the Company in issue, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK$5 million must be approved in advance by the Company's shareholders.

39. SHARE BASED PAYMENT TRANSACTION (Continued)

Equity-settled share option scheme (Continued)

Options granted must be taken up not later than 28 days after the date of grant, upon payment of HK$1 per option. The period during which an option may be exercised will be determined by the board of directors of the Company at its absolute discretion, save that no option may be exercised more than 10 years after it has been granted. No option may be granted more than 10 years after the date of approval of the Scheme.

As at 31st December, 2009, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 62,000,000 (2008: 23,855,333), representing 8.70% (2008: 3.35%) of the shares of the Company in issue at that date.

Details of specific category of share options are as follows:

Option Type	Date of grant	Vesting period	Exercise period	Exercise price
2005	27th October, 2005	3 months	27th January, 2006 to 26th January, 2009	HK$2.340
2007a	8th June, 2007	3 months	6th September, 2007 to 6th September, 2010	HK$1.934
2007b	17th July, 2007	3 months	15th October, 2007 to 15th October, 2010	HK$1.944
2007c	13th November, 2007	3 months	11th February, 2008 to 11th February, 2011	HK$1.684
2007d	23rd November, 2007	3 months	21st February, 2008 to 21st February, 2011	HK$1.656
2007e	11th December, 2007	3 months	10th March, 2008 to 10th March, 2011	HK$1.700
2009a	1st December, 2009	3 months	1st March, 2010 to 1st March, 2013	HK$1.250
2009b	15th December, 2009	3 months	15th March, 2010 to 15th March, 2013	HK$1.448

39. SHARE BASED PAYMENT TRANSACTION (Continued)

Equity-settled share option scheme (Continued)

The following table discloses movements of the Company's share options held by directors and employees during the year:

Option Type	Outstanding at 1st January, 2008 and 2009	Granted during year	Expired/ Lapsed during year	Outstanding at 31st December, 2009
2005	2,922,000	–	(2,922,000)	–
2007a	8,433,333	–	(2,133,333)	6,300,000
2007b	6,500,000	–	–	6,500,000
2007c	2,000,000	–	–	2,000,000
2007d	2,000,000	–	(2,000,000)	–
2007e	2,000,000	–	–	2,000,000
2009a	–	44,000,000	–	44,000,000
2009b	–	1,200,000	–	1,200,000
	23,855,333	45,200,000	(7,055,333)	62,000,000
Exercisable at the end of the year 2009				**16,800,000**
Exercisable at the end of the year 2008				23,855,333
Weighted average Exercise price	HK$1.92	HK$1.26	HK$2.02	HK$1.42

During the year ended 31st December, 2009, options were granted on 1st December and 15th December. The estimated fair values of the options granted on those dates are HK$28,446,000 and HK$880,000 respectively. No option was granted during the year ended 31st December, 2008.

39. SHARE BASED PAYMENT TRANSACTION (Continued)

Equity-settled share option scheme (Continued)

The fair value was calculated using the Black-Scholes pricing model. The inputs into the model are as follows:

Option Type	2007a	2007b	2007c	2007e	2009a	2009b
Weighted average share price	HK$2.105	HK$2.099	HK$2.066	HK$2.055	HK$1.129	HK$1.133
Exercise price	HK$1.934	HK$1.944	HK$1.684	HK$1.700	HK$1.250	HK$1.448
Expected volatility	42.00%	43.00%	49.00%	51.00%	96.00%	97.00%
Expected life	3 years	3 years	3 years	3 years	3 years	3 years
Risk-free rate	4.55%	4.41%	3.80%	2.98%	1.50%	1.62%
Expected dividend yield	10.40%	10.50%	12.10%	11.70%	3.81%	3.40%

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

Because the Black-Scholes pricing model requires the input of highly subjective 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 approximately HK$9,629,000 for the year ended 31st December, 2009 (2008: HK$788,000) in relation to share options granted by the Company.

40. RETIREMENT BENEFIT SCHEMES AND MANDATORY PROVIDENT FUND

The Group operates a MPFS for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the scheme, which contribution is matched by the employees.

The eligible employees of the subsidiaries in the PRC are members of pension schemes operated by the Chinese local government. The subsidiaries are required to contribute certain percentages of the relevant part of the payroll of these employees to the pension schemes to fund the benefits.

Eligible employees in Vietnam currently participate in a defined contribution pension scheme operated by the local municipal government. The calculation of contributions is based on certain percentage of the employees' payroll.

40. RETIREMENT BENEFIT SCHEMES AND MANDATORY PROVIDENT FUND (Continued)

There are defined contribution retirement plans established in the United States for all domestic employees who meet certain eligibility requirements as to age and length of service.

The retirement benefits cost charged to profit or loss in the consolidated statement of comprehensive income approximately HK$3,962,000 (2008: HK$3,895,000) represents contributions payable to the schemes by the Group at the rates specified in the rules of the various schemes.

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the principal subsidiaries at 31st December, 2009 and 31st December, 2008 are as follows:

Name of subsidiary	Place/ country of incorporation or registration/ operation	Issued and fully paid share capital/ registered capital/ contributed legal capital	Class of capital held	Proportion of nominal value of issued capital/ registered capital/ contributed legal capital held by the Company		Principal activities
				2009	2008	
Funrise, Inc	USA	US$7,500	Common share	**100%**	100%	Wholesale distribution and importation of toys and sales of accessories connected with its product ranges.
Funrise Toys Limited	Hong Kong	HK$10,000 (Preference) HK$90,000 (Ordinary) HK$10,000 (Redeemable)	Preference share Ordinary share Redeemable share	**100%**	100%	Wholesaling, importing and exporting of toys & sales of accessories connected with product range
Keyhinge Enterprises (Macao Commercial Offshore) Company Limited	Macau	MOP100,000	Quota capital	**100%**	100%	Purchasing and trading of toys

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place/ country of incorporation or registration/ operation	Issued and fully paid share capital/ registered capital/ contributed legal capital	Class of capital held	Proportion of nominal value of issued capital/ registered capital/ contributed legal capital held by the Company		Principal activities
				2009	2008	
Matrix Manufacturing Vietnam Company Limited	Vietnam	US$5,000,000	Capital contribution	**100%**	100%	Manufacture of toys
Matrix Resources Enterprise Limited	Hong Kong	HK$10,000	Ordinary share	**100%**	100%	Provision of management services
Matrix Plastic Manufacturing (Zhongshan) Co., Ltd.	PRC *(Note 1)*	US$5,910,000	Capital contribution	**100%**	100%	Manufacture of toys

Note:

1) Wholly owned foreign enterprise.

The above table lists the principal subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had any debt securities outstanding at the end of the year.

42. CONTINGENT LIABILITIES

A. Legal Claim

1. On 2nd November, 2007, the Company and its subsidiary lodged a claim for HK$14,000,000 compensation from a former Chief Executive Officer of the Group for the breach of service agreement. On 14th February, 2008, this former Chief Executive Officer lodged a counter claim for approximately HK$15,167,000. The directors believe, based on legal advice, the aforementioned legal action would not result in any material adverse effects on the financial position of the Group. Accordingly, no provision is required to be made in the consolidated financial statements.

2. On 19th August, 2009, IRD lodged a legal claim to a subsidiary of the Company, Shelcore Hong Kong Limited for tax settlement payment of approximately HK$2,403,000 in relation to the additional tax assessment issued by IRD on 16th March, 2009 for the year of assessment 2002/2003. The details of the additional tax assessment issued by IRD is set out in note 14.

3. On 20th August, 2009, IRD lodged a legal claim to a subsidiary of the Company, Besco Enterprises Limited for tax settlement payment of approximately HK$821,000 in relation to the additional tax assessment issued by IRD on 16th March, 2009, for the year of assessment 2002/2003. The details of the additional tax assessment issued by IRD is set out in note 14. The aforementioned claim amount of approximately HK$821,000 is deducted by the IRD from the tax recoverable for the year of assessment 2007/2008.

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

B. Additional tax assessments

The tax position of certain subsidiaries of the Company is currently being reviewed by IRD, as set out in note 14.

43. SUBSEQUENT EVENT

On 15th January, 2010, a subsidiary of the Company entered into an agreement regarding the sale and purchase of the entire issued share capital of Max Smart Investment Limited, Keyhinge Holdings Limited and Keyhinge Toys Vietnam Joint Stock Company ("Max Smart Group") with Waterfront Investments Management Limited (the "Vendor"). The Vendor agreed to sell the entire issued share capital of Max Smart Group for a total consideration of HK$1.00. The Company has commenced considering the fair value of the net assets acquired in this transaction that include monetary and non-monetary assets but is not yet in a position to disclose the finalised financial information of the acquisition completed on 1st February, 2010.

FINANCIAL SUMMARY

	Year ended 31st December,				
	2005	2006	2007	2008	**2009**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
RESULTS					
Turnover	911,044	867,959	1,218,759	1,273,548	**977,741**
Profit (loss) before taxation	138,866	104,050	61,861	(36,645)	**70,832**
Income tax credit (charge)	1,931	(3,404)	(2,200)	(734)	**6,040**
Profit (loss) for the year	140,797	100,646	59,661	(37,379)	**76,872**
Attributable to:					
Owners of the Company	140,929	100,646	59,667	(37,361)	**76,872**
Minority interests	(132)	–	(6)	(18)	**–**
	140,797	100,646	59,661	(37,379)	**76,872**
	HK$	HK$	HK$	HK$	**HK$**
Earnings (loss) per share					
Basic	0.24	0.16	0.09	(0.05)	**0.11**

	At 31st December,				
	2005	2006	2007	2008	**2009**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
ASSETS AND LIABILITIES					
Total assets	512,691	528,789	992,329	910,817	**848,879**
Total liabilities	(179,234)	(225,282)	(533,867)	(493,101)	**(363,087)**
	333,457	303,507	458,462	417,716	**485,792**
Equity attributable to owners of the Company	333,457	303,507	456,811	417,716	**485,792**
Minority interests	-	-	1,651	-	**-**
	333,457	303,507	458,462	417,716	**485,792**

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the Annual General Meeting of Matrix Holdings Limited (the "Company") will be held at Sunshine Hotel, Imperial Banquet Room IV-V, 2/F., Imperial Wing, 1 Jiabin Road, Shenzhen, China on 27th May, 2010 at 2:30 p.m. for the following purposes:–

1. To receive and consider the audited financial statements for the year ended 31st December, 2009 together with the Report of the Directors and the Independent Auditor's Report thereon.

2. To declare a final dividend.

3. To re-elect directors and authorize the Board of Directors to fix their remuneration.

4. To re-appoint auditors and authorize the Board of Directors to fix their remuneration.

5. As special business, to consider and, if thought fit, pass with or without amendments, the following resolutions as Ordinary Resolutions:–

ORDINARY RESOLUTIONS

A. "THAT

(a) subject to paragraph (c) of this Resolution, pursuant to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options which might require the exercise of such powers be and is hereby generally and unconditionally approved;

(b) the approval in paragraph (a) of this Resolution shall authorize the Directors during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;

(c) the aggregate nominal amount of share capital allotted, issued or otherwise dealt with or agreed conditionally or unconditionally to be allotted, issued or otherwise dealt with (whether pursuant to an option or otherwise) by the Directors of the Company pursuant to the approval in paragraph (a) of this Resolution, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined); or (ii) an issue of shares of the Company upon the exercise of rights of subscription or conversion under the terms of any warrants of the Company or any securities which are convertible into shares of the Company; or (iii) the exercise of the share option scheme adopted and approved by the Company at the general meeting of the Company held on 17th December, 2002; or (iv) an issue of shares in lieu of the whole or part of the dividend on shares of the Company in accordance with the Bye-laws of the Company, shall not exceed 20 per cent of the aggregate nominal amount of the issued share capital of the Company at the date of passing this Resolution, and the said approval shall be limited accordingly; and

(d) for the purposes of this Resolution:

"Relevant Period" means the period from the passing of this Resolution until whichever is the earlier of:

(i) the conclusion of the next annual general meeting of the Company; or

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the Bye-laws of the Company or any applicable law to be held; or

(iii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders of the Company in general meeting; and

"Rights Issue" means an offer of shares or offer or issue of warrants or options to subscribe for shares open for a period fixed by the Directors of the Company to holders of shares whose names appear on the register of members of the Company on a fixed record date in proportion to their then holdings of such shares (subject to such exclusions or other arrangements as the Directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognized regulatory body or any stock exchange in, any territory applicable to the Company)."

B. "THAT

(a) subject to paragraph (b) of this Resolution, the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) of all powers of the Company to repurchase its own shares on the Stock Exchange or any other stock exchange on which the shares of the Company may be listed and is recognized by the Securities and Future Commission and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and the requirements of the Listing Rules as amended from time to time, be and is hereby generally and unconditionally approved;

(b) the aggregate nominal amount of the shares of the Company which the Company is authorized to repurchase pursuant to the approval in paragraph (a) of this Resolution during the Relevant Period shall not exceed 10 per cent of the aggregate nominal amount of the issued share capital of the Company at the date of passing this Resolution, and the said approval shall be limited accordingly; and

(c) for the purposes of this Resolution:

"Relevant Period" means the period from the passing of this Resolution until whichever is the earlier of:

(i) the conclusion of the next annual general meeting of the Company; or

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the Bye-laws of the Company or any applicable law to be held; or

(iii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders of the Company in general meeting."

C. "THAT conditional upon the passing of the Resolutions set out in paragraph 5A and 5B of the notice convening this meeting, the general mandate granted to the Directors of the Company to allot, issue and deal with additional shares of the Company pursuant to the Resolution set out in paragraph 5A of the notice convening this meeting be and is hereby extended by the addition to the aggregate nominal amount of the share capital of the Company which may be allotted, issued or otherwise dealt with or agreed conditionally or unconditionally to be allotted, issued or otherwise dealt with by the Directors of the Company pursuant to such general mandate of an amount representing the aggregate nominal amount of the shares of the Company repurchased by the Company under the authority granted pursuant to the Resolution set out in paragraph 5B of the notice convening this meeting."

By Order of the Board
Lai Mei Fong
Company Secretary

Hong Kong, 31st March, 2010

NOTICE OF ANNUAL GENERAL MEETING

Notes:

1. A member entitled to attend and vote at the above meeting (or at any adjournment thereof) is entitled to appoint one or more proxies to attend and vote in his stead. A proxy need not be a member of the Company.

2. Where there are joint registered holders of any shares, any one of such persons may vote at the above meeting (or at any adjournment thereof), either personally or by proxy, in respect of such shares as if he were solely entitled thereto; but if more than one of such joint holders be present at the above meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof.

3. In order to be valid, the forms of proxy, together with the power of attorney or other authority (if any) under which it is signed or a certified copy of that power of attorney or authority (such certification to be made by either a notary public or a solicitor qualified to practise in Hong Kong), must be deposited with the branch share registrar of the Company in Hong Kong, Tricor Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not less than 48 hours before the time fixed for holding the above meeting or any adjournment thereof.

4. The register of members of the Company will be closed from 20th May, 2010 (Thursday) to 27th May, 2010 (Thursday), both days inclusive, during which period no transfer of shares can be registered. In order to qualify for the proposed final dividends and attending and voting at the above meeting or any adjournment thereof, all share transfers, accompanied by the relevant share certificates, must be lodged with the branch share registrar of the Company in Hong Kong, Tricor Secretaries Limited at the above address for registration not later than 4:00 p.m. on 19th May, 2010.

5. An explanatory statement containing further details regarding the proposed Resolutions set out in the notice (except Resolutions 1 to 4) convening the above meeting will be sent to members of the Company together with the annual report 2009.

6. The translation into Chinese language of this notice is for reference only. In case of any inconsistency, the English version shall prevail.

7. Pursuant to Rule 13.39 of the Listing Rules, the chairman of the meeting will demand a poll for all the resolutions set out in the notice of the annual general meeting.