Matrix Holdings Limited
美力時集團有限公司

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

Annual Report 2010

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

MATRIX is a well-established manufacturer of plastic, die-cast and plush toys, with vertically integrated production process including mould making, manufacturing and design and a manufacturer of lighting products. Currently, the Group operates four plants – three in Danang City, Vietnam and one in Zhongshan, the People's Republic of China ("PRC"). As at 31st December, 2010, the Group employed approximately 12,000 staff in Hong Kong, Macau, PRC, Vietnam, the United States of America ("US") and Europe. The Shelcore and the Funrise Group, well-established toy companies designing, manufacturing and selling plastic toys were successfully merged into the Group since 2005 and 2007 respectively.

▲ Danang City, Vietnam – First Plant

▲ Zhongshan, the PRC

▲ Danang City, Vietnam – Second Plant

▲ Danang City, Vietnam – Third Plant

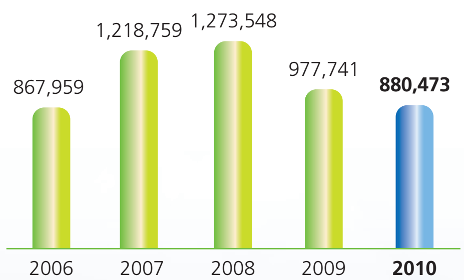
FINANCIAL HIGHLIGHTS

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

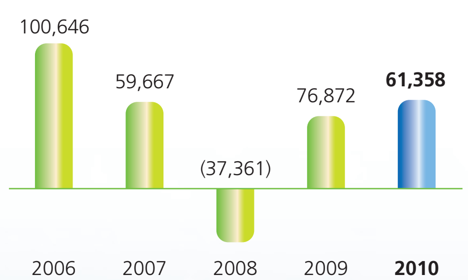
CONSOLIDATED

(HK$'000, except where otherwise stated)	**2010**	2009	% Change
Turnover	**880,473**	977,741	(9.9%)
Gross profit	**329,693**	388,745	(15.2%)
Operating profit before exceptional items	**74,358**	103,598	(28.2%)
Exceptional items:			
Adjustment to goodwill	**–**	(3,726)	100.0%
Impairment loss on goodwill	**(13,000)**	(23,000)	(43.5%)
Profit for the year attributable to owners of the Company	**61,358**	76,872	(20.2%)
Earnings per share – Basic	**HK9 cents**	HK11 cents	(18.2%)
Dividend per share			
Interim, paid	**HK3 cents**	HK2 cents	50.0%
Final, proposed	**HK5 cents**	HK5 cents	–
Gross Profit Margin (%)	**37.44**	39.76	(5.8%)
Net Profit Margin (%)	**6.97**	7.86	(11.3%)
Gearing Ratio (%)	**16.63**	25.68	(35.2%)
Current Ratio	**2.07**	1.79	15.6%
Quick Ratio	**1.03**	1.07	(3.7%)

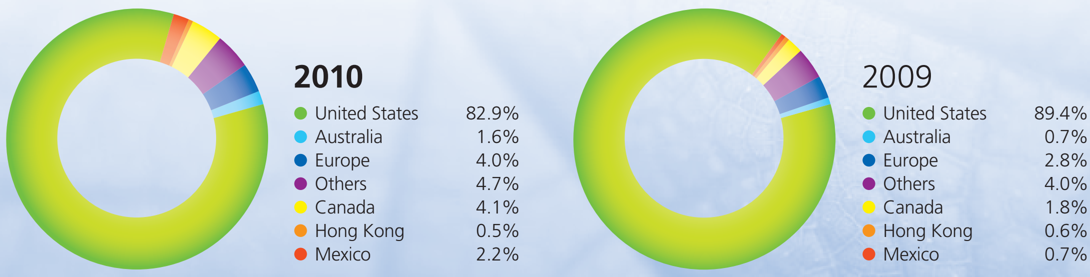
TURNOVER



PROFIT (LOSS) FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY

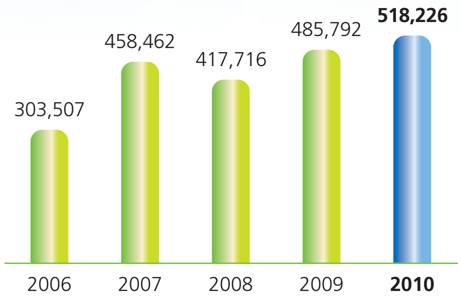


TURNOVER BREAKDOWN BY MARKET

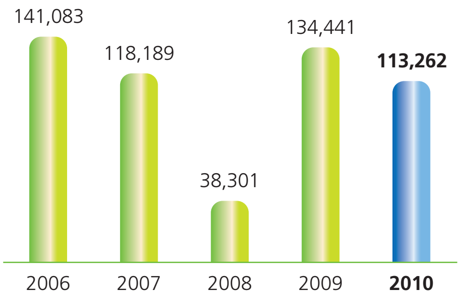


FINANCIAL HIGHLIGHTS

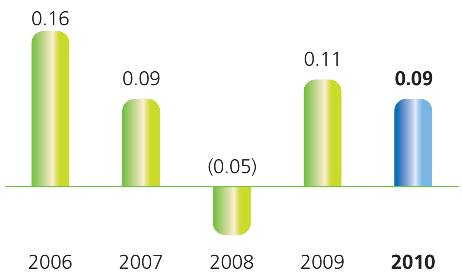
NET ASSETS



EBITDA



BASIC EARNINGS (LOSS) PER SHARE



DEFINITIONS

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

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

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

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

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

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
Tsang Chung Wa
(appointed on 11th January, 2011)
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

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

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 am pleased to present to our shareholders the annual report of Matrix Holdings Limited (the Company") and its subsidiaries (collectively the "Group") for the year ended 31st December, 2010.

During the year under review, the Group recorded a slight decrease by 10.0% of consolidated turnover from HK$977,741,000 in previous year to HK$880,473,000. The profit for the year attributable to owners of the Company amounted to HK$61,358,000, decreased by HK$15,514,000 or 20.2% from HK$76,872,000 last year.

In view of the robust economic and industrial development taking place in the mainland, the current rise in production cost is fathomable and is within our expectation. The substantial increase in raw materials prices and labour cost, particularly in the second half of the year, which was the peak season for production and deliveries, left the Group with little time to revise product prices and was forced to bear the extra costs. When supply-side cost goes ever higher, the inflexibility in retail price adjustment would lead to a squeeze on profits. Also, the growth in factory-gate prices was not sufficient to offset the effects brought about by raised mandatory minimum wages, the strengthening of Renminbi against the United States dollars and Hong Kong dollars and the considerable increase in prices of ABS plastic materials, paper packaging materials and metal materials. Under such a situation, the Group's profit was being adversely affected.

Despite the Group's sales performance was deviated from expected, the Group endeavored to maintain its gross profit margin through constant negotiations with its major purchasers and strike a balance on price expectations between our consumers and us. Though there was increasing understanding from our major customers about our operation environment and our pressing need to increase prices to balance out the rising costs, some of our clients chose to tightly control their inventory levels by ways of cutting down orders and limiting product selection so as to control their budget and make conservative purchases.

The rapid growth of the mainland economy exerts further inflationary pressure on all sorts of production costs, from raw materials cost to labour cost, which hits the record high. For example, according to a press report, the minimum wage level of Guangdong province is set to rise by at least 15% annually from 2011 to 2015 after a 20% increase in 2010. Apart from basic wages, the social security system of the PRC imposes extra charges, which includes pension, medical care, work injury, unemployment compensation and disability fund. In 2010, Renminbi appreciated approximately 3.5% against United States dollars and is expected to further appreciate by 5% in 2011. Therefore, the Group would have to raise factory-gate prices to counterbalance the higher wages, increase in material prices and appreciation in Renminbi. Notwithstanding, the Group's alternative production base in Vietnam currently enjoys favourable advantages such as stable workforce and competitive production costs, hence the Group was gradually relocating its toy manufacturing business to Vietnam (far away from the Pearl River Delta Region) is a timely strategy, so as to mitigate the aforesaid negative effects.

CHAIRMAN'S STATEMENT

Energy-saving is one of the major social concerns at present. Various governments spare no effort in promoting energy conservation and have initiated various supporting measures on reducing energy and power consumption and lowering carbon dioxide emission to reduce environment pollution. Some countries have promulgated regulations to phase out usage of incandescent bulbs and offered preferential taxes treatments for energy-saving companies. In view of the strong demand for energy-saving products propelled by increasing awareness of environmental conservation, the Group believes its newly developed lighting business would definitely be benefited from this trend.

Apart from the toy business, the management actively developed its new lighting business and had achieved steady progress during the year. The Group will continue to expand the customer base for this business with a view to explore new business opportunities and to diversify the revenue sources hopefully.

In conclusion, I would like to express my deepest gratitude to all our stakeholders, including shareholders, customers, business partners and suppliers, for their continuous support and for their confidence in the Group. My sincere appreciation also goes to the management and all our staff for their indispensable and enthusiastic contributions and their commitment to the Group.

Cheng Yung Pun
Chairman

Hong Kong, 17th March, 2011

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS

For the year ended 31st December, 2010, the Group's consolidated turnover decreased by 10.0% to HK$880,473,000 as compared to the last year's HK$977,741,000 and profit for the year attributable to owners of the Company decreased by 20.2% to HK$61,358,000 as compared to last year's HK$76,872,000. The basic earnings per share was HK9 cents (2009 basic earnings per share: HK11 cents). The sales volume slightly decreased primarily as some of our customers reduced the class and quantity of their orders to strictly control their budgets and inventory levels and the Group was decreasing the acceptance of orders for low-margin products at the peak season for production to strike a balance of its profit margin which was adversely affected by the increase of production costs. The drop of profit was mainly attributable to the increase of production costs as the increase of prices of materials such as ABS plastic materials, paper packaging materials and metal materials, and the increase of labor cost (especially in the second half of the year) which set off the profit margin, and the increase of research and development costs. Prices of some orders were fixed before the material price increased and due to the absence of a complete timeline to adjust our pricing during the peak season, the Group incurred additional charges. In addition, the decrease of the exchange rate of the United States dollar ("USD") and Hong Kong dollar ("HK$") against Renminbi ("RMB") further affected the profit.

DIVIDENDS

During the year, the Company paid an interim dividend of HK3 cents in cash (2009: interim dividend HK2 cents in cash) per share to the shareholders. The Directors had resolved to recommend the payment of a final dividend of HK5 cents (2009: HK5 cents) per share for the year ended 31st December, 2010, payable to shareholders whose names appear on the Register of Members of the Company on 5th May, 2011 with a scrip dividend alternate to offer the right to shareholders to elect to receive such final dividend wholly or partly by allotment of new shares in the Company, credited as fully paid in lieu of cash. Together with the interim dividend paid of HK3 cents per share, the total dividend per share for the year is HK8 cents (2009: HK7 cents).

The scrip dividend alternate is conditional upon (a) the issue price of a new share to be issued pursuant thereto being not less than the nominal value of a share of the Company; (b) the approval of the proposed final dividend at the forthcoming annual general meeting; and (c) the granting by the Listing Committee of the Stock Exchange of the listing of and permission to deal in the new shares to be issued pursuant thereto. The issue price of the new shares to be issued under the 2010 final scrip dividend alternate will be fixed after the Company's annual general meeting equivalent to the average closing price of the shares of the Company quoted on the Stock Exchange for the five consecutive trading days to be determined by the Directors. Thereafter, an announcement setting out the basis of allotment of new shares and the issue price of new shares under the 2010 final scrip dividend alternate will be published. A circular containing the details of the 2010 final scrip dividend and the form of election will be mailed to shareholders in due course.

Definitive share certificates in respect of the scrip dividend and cheques (for those shareholders who do not elect for scrip dividend) will be despatched to shareholders in due course.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Overall, as the economy is recovering gradually, the Group is still optimistic on the global retail market. Although the sales volume of the Group was lower than expected, the Group strived to maintain its stability in gross profit margin. As a measure to mitigate the pressure in our costs, the Group continued to move the production base out from the Pearl River Delta Region and imposed even tighter control over our costs.

MANUFACTURING OPERATION

Manufacturers concerned China's unstable labor market very much. The severe labor shortage and the PRC's policy to introduce a salary growth mechanism affected the enterprises running plants in the Pearl River Delta Region. Therefore, the Group continued to move its production base from Zhongshan to Vietnam and manufactured in a cost-effective manner. The Group continued to coordinate the needs of technology and manpower in a timely manner, so as to manufacture toy products, and to support the research and development on the Group's new lighting products.

Zhongshan, PRC – Warehouse ▶

▲ Zhongshan, PRC – Plant

▲ Danang City, Vietnam – First Plant

▲ Danang City, Vietnam – Second Plant

▲ Danang City, Vietnam – Third Plant

MANAGEMENT DISCUSSION AND ANALYSIS

SEGMENT PERFORMANCES

The Group dedicated to diversify its sales channels, and meanwhile identify potential distributors and conduct research and development on new products to maintain our turnover and sales volume. The Group also devoted to stabilize and grow its lighting business to explore business opportunities. During the year under review, we achieved the following development in our operations by geographic locations:

United States

Our turnover in the United States ("US") decreased by 16.5%. The moderate decrease in sales of the US was mainly attributable to the drop in sales of some branded products and the original equipment manufacturing products. Some of our customers were imposing even tighter control over their budgets and inventory levels on concerns over uncertainties in consumer's appetite, marked by the decrease in the class and quantity of their purchases. Furthermore, the Group focused on operations with higher profit margins and was decreasing the acceptance of orders for low-margin products.

Canada

The sales volume of Canada increased by 101.3%. The increase was especially for "Tonka" product. The increase was mainly due to the fact that economy of Canada recovered gradually from the financial crisis, customers gradually increase purchases and that the Group strived to continue the relationship with its existing distributors and customers such as Wal-Mart Canada, Toys"R"US Canada and Costco Canada.

Europe

Our turnover in Europe increased by 31.6%. The increase in this area was mainly affected by the appreciation of European currencies against USD and the substantial increase in customers' purchases as a result of our relatively loose credit policy and that the Group strived to continue the relationship with its existing distributors and customers.

Mexico

Our turnover in Mexico sharply increased by 186.4%. The increase in this area was mainly affected by the incentive tax policy enjoyed for products imported from Vietnam and the substantial increase in customers' purchases as a result of our relatively loose credit policy.

Australia

Our turnover in Australia substantially increased by 119.0%. The increase in this area was mainly affected by the appreciation of Australian currency against USD and the increase in customers' purchases as a result of our relatively loose credit policy, and that the Group strived to continue the relationship with its existing distributors and customers such as Kmart Australia and Target Australia.

Hong Kong

Our turnover in Hong Kong decreased by 18.3%. Although the impact of the financial crisis on this area was relatively insignificant, Hong Kong was just leaving from the haze of economic uncertainty.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 31st December, 2010, the Group had bank balances and cash of approximately HK$62,765,000 (2009: HK$72,685,000) and pledged bank deposit of approximately HK$2,177,000 (2009: HK$5,002,000) secured for banking facilities granted. During the year under review, the Group obtained banking facilities in a total of approximately HK$50,000,000 (2009: HK$135,000,000) secured by fixed deposits and corporate guarantee given by the Company.

As at 31st December, 2010, the Group had bank loans of approximately HK$nil (2009: HK$24,661,000). The Group's gearing ratio, representing the total debt divided by equity attributable to owners of the Company, was 16.6% (2009: 25.7%).

During the year, net cash generated from operating activities amounted to approximately HK$104,506,000 (2009: HK$192,510,000). 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$16,552,000 (2009: HK$24,550,000) to further enhance and upgrade the production capacity. These capital expenditures were financed primarily by cash generated from operations. Capital expenditure contracted for the year but not provided in the consolidated financial statements amounted to approximately HK$nil (2009: HK$221,000). Capital expenditure authorized for the year but not contracted for amounted to approximately HK$4,929,000 (2009: HK$916,000).

Assets and Liabilities

At 31st December, 2010, the Group had total assets of approximately HK$823,976,000 (2009: HK$848,879,000), total liabilities of approximately HK$305,750,000 (2009: HK$363,087,000) and equity attributable to owners of the Company of approximately HK$518,226,000 (2009: HK$485,792,000). The net assets of the Group increased approximately 6.7% (2009: increased 16.3%) to approximately HK$518,226,000 as at 31st December, 2010 (2009: 485,792,000).

Significant Investment and Acquisition

During the year ended 31st December, 2010, the Group acquired the entire issued capital of Max Smart Investment Limited ("Max Smart") for a cash consideration of HK$1.00. Max Smart is an investment holding Company and holds 100% equity interests in Keyhinge Holdings Limited which holds 98% of the equity interests in Keyhinge Toys Vietnam Joint Stock Company which is principally engaged in the manufacture of toys in Vietnam.

There was no other significant investment and acquisition for the year ended 31st December, 2010.

MANAGEMENT DISCUSSION AND ANALYSIS

Significant Disposal
There was no significant disposal for the year ended 31st December, 2010.

Contingent Liabilities
For the details of the contingent liabilities, please refer to note 39 to the consolidated financial statements.

Subsequent Event
There was no subsequent event for the year ended 31st December, 2010.

Exchange Rate Risk
Several subsidiaries of the Company have foreign currency sales and purchases, which expose the Group to foreign currency risk. Certain bank balances, pledged bank deposit, trade and other receivables, trade and other payables and accruals and unsecured bank borrowings of the Group are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

NUMBER OF EMPLOYEES AND REMUNERATION POLICIES
As at 31st December, 2010, the Group had a total of approximately 12,000 (2009: 8,600) employees in Hong Kong, Macau, the PRC, Vietnam, the US 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.

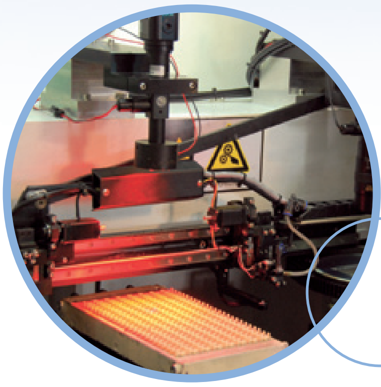
MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECTS

The Group will continue to explore sales opportunities in the global market and to develop own-brand toys. The Group will also maintain close relationship with large retailers and renowned brand owners.

Except for maintaining the relationship with the existing distributors, the Group will promptly identify new distributors to expand our distribution channels and expedite our sales and marketing effort to maintain our sales volume and obtain more market shares of international customers. The Group will dedicate itself to explore market opportunities for new product series, such as "Gazzuds" of the bubble series, new product series namely "Baby Cutique" as well as new branded series namely, "Baby Alive" and "HOP". The Group will continue to develop main brands including "Tonka", "Gazillion Bubbles" and "Shelcore", to manufacture high quality products with competitive prices while maintaining our profit margins. In addition, to maintain the relationship of strategic partnership with renowned brand owners and to maintain close relationship with large retailers will have a positive impact on the long-term business growth of the Group. The Group will continue to maintain close relationship with bubble brand holders including Sesame Street and Disney, so as to enable the Group to provide more different kinds of products with leading authorized brands to ensure continued sales of retailers. The Group will continue to maintain full support of the Code of Business Practices of the International Council of Toy Industries, and to reduce excessive packaging to protect the environment.

MANAGEMENT DISCUSSION AND ANALYSIS



For our lighting business, the Hong Kong and most European governments are strongly promoting the use of environmental lighting products. For example, the deactivate using incandescent bulbs has begun by the European Union, as well as its sustainable promotion of energy saving. The best way to save energy in the area of lighting is to control and reduce its consumption. In the past few years, LEDs have gradually replaced incandescent and fluorescent bulbs in many lighting applications. While compact fluorescent bulbs are still the choice for cost-effective energy efficiency, LEDs are rapidly rising as the newest contender on the market. Given their proven ability in saving energy cost, LED lighting products have come a long way from being used only for notebooks (laptops) to being widely used. As far as home lighting is concerned, new strides are being made not only in energy efficiency, but also the longevity of light sources. Because of advancing technology and improvements to the manufacturing processes, LED bulbs will soon become more affordable to the average consumers. The US Department of Energy has estimated that LED lighting could reduce US energy consumption for lighting by 29% by 2025. The above issues are giving rise to huge market opportunities for LED lighting products.

The Company has started the research and development of LED lighting products and is now ready to manufacture a series of LED lighting products for commercial and household users. These include the round shape A bulbs, a series of spot lights, downlights and a series of retrofit LED tubes. All our LED lighting products have been endorsed by the CE for European market in compliance with the European requirements and the UL products safety standard for the US market. We have also obtained various patents in respective areas. We have just appointed several distributors in Europe, the US, Middle East and Russia and are now looking for more distributors worldwide. The Company will attend several exhibitions to promote the LED lighting products throughout the year. In the year ahead, we will further improve our capability to manufacture and develop LED lighting products and we expect this new business will bring additional benefit to the Group.

The Group will continue to strengthen its manufacturing base in Vietnam and to streamline its operational procedures, with the aim to improve production efficiency and to strictly control production costs at the same time. In addition, the Group will improve labor efficiency in our plants in Vietnam to meet delivery schedules of customers. Overall, the Group is cautiously optimistic on the future business environment.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Cheng Yung Pun

Aged 59, was appointed Chairman of the Company in 2000. Mr. Cheng is responsible for the overall corporate policies, development strategies and monitoring the overall management of the Group. Mr. Cheng has in-depth knowledge and extensive experience in business operation in Greater China. Mr. Cheng has more than 30 years' extensive experience in plastic toys manufacturing, property development and investment. Mr. Cheng is also a director of Smart Forest Limited (Mr Cheng's wholly owned company) which owns share interest in the Company. He is the father of Ms. Cheng Wing See, Nathalie, executive director of the Company.

Mr. Arnold Edward Rubin

Aged 63, 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 44 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 the President of the International Council of Toy Industries. He joined the Company in 2007.

Mr. Yu Sui Chuen

Aged 55, is currently responsible for corporate finance, legal and taxation management of the Group. Mr. Yu holds a Higher Diploma in Business Administration major in Accounting. Mr. Yu has over 30 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 2000.

Ms. Cheng Wing See, Nathalie

Aged 37, Ms. Cheng has over 12 years' extensive experience in procurement in the plastic toys field. She is the daughter of Mr. Cheng Yung Pun, Chairman of the Company. She joined the Company in 2000 and is currently responsible for sales and marketing of the overseas' company.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS (Continued)

Mr. Cheung Kwok Sing

Aged 52, was appointed executive director of the Company in November 2009. Mr. Cheung holds a Master Degree in Business Administration from University of Wale, United Kingdom. He has over 23 years' experience in the operation and production management of toy industry. 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. He joined the Group over 11 years and is currently responsible for the finance and accounting management.

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

Aged 54, was appointed executive director in November 2009. He 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 21 years' 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. He joined the Group in 2003 and is currently responsible for the electronic design, development and production of the electronic related products.

Mr. Tse Kam Wah

Aged 60, was appointed executive director of the Company in November 2009. Mr. Tse obtained a higher certificate in mechanical engineering from The Hong Kong Polytechnic University. He has over 23 years' experience in toy factory and production management. His experience ranges from managing all manufacturing activities of the corporations in the base outside Hong Kong, monitoring manufacturing process to product development. He joined the Group over 12 years and is currently responsible for the production management.

Mr. Tsang Chung Wa

Aged 47, was appointed executive director of the Company on 11th January, 2011. He holds a Diploma in Management Studies awarded jointly by The Hong Kong Management Association and The Hong Kong Polytechnic University. He has over 22 years' experience in the operation, sales and production management of toy industry. His experience ranges from managing marketing activities of the corporations in the base outside Hong Kong to business development. He joined the Group over 10 years and is currently responsible for the marketing management and the related business management works.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Loke Yu alias Loke Hoi Lam

Aged 61, was appointed independent non-executive director of the Company in 2004 and the chairman of the audit committee and the remuneration committee of the Company. Dr. Loke has over 35 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. He 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 Hong Kong Institute of Chartered Secretaries.

He is currently the company secretary of Minth Group Limited and serves as an independent non-executive director of Vodone Limited, Bio-Dynamic Group Limited, China Fire Safety Enterprise Group Limited, Winfair Investment Company Limited, SCUD Group Limited, Zhong An Real Estate Limited and Chiho-Tiande Group Limited, companies listed on The Stock Exchange of Hong Kong Limited.

Mr. Mak Shiu Chung, Godfrey

Aged 48, was appointed to the board as 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, a company listed on the The Stock Exchange of Hong Kong Limited. Mr. Mak has over 20 years of experiences in the field of corporate finance. He joined the Company in 2000.

Mr. Wan Hing Pui

Aged 80, was appointed to the board as independent non-executive director and a member of the audit committee and remuneration committee of the Company. Mr. Wan has over 52 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 2004.

CHIEF EXECUTIVE OFFICER

Mr. Chen Wei Qing

Aged 43, was appointed 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 the Group in Vietnam and China. He has above 22 years' extensive experience in product development and manufacturing of toys.

CORPORATE GOVERNANCE REPORT

CODE ON CORPORATE GOVERNANCE PRACTICES

The Board of Directors (the "Board") of Matrix Holdings Limited (the "Company") had adopted and amended from time to time the code on corporate governance practices in accordance with the 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 is serving the important function of guiding the management. As at 31st December 2010, the Board 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 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. Since 11th January, 2011, Mr. Tsang Chung Wa, had been appointed as executive director of the Company. Save as Ms. Cheng is the daughter of Mr. Cheng, there is no financial, business, family or other material or 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; reviewed and approved the annual and interim results of the Group for the year ended 31st December, 2009 and for the six months ended 30th June, 2010 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 video conference. 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 seven board meetings in which Mr. Cheng Yung Pun, Mr. Yu Sui Chuen, Mr. Cheung Kwok Sing, Mr. Leung Hong Tai, Dr. Loke Yu alias Loke Hoi Lam and Mr. Wan Hing Pui had attended all the board meetings and Mr. Arnold Edward Rubin, Mr. Tse Kam Wah and Mr. Mak Shiu Chung, Godfrey had attended six board meetings and Ms. Cheng Wing See, Nathalie 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 on no less exacting than the terms and required standard contained in the Model Code for Securities Transactions by Directors set out in Appendix 10 of the Listing Rules (the "Model Code"). Having made specific enquiry of all the Directors, the Company had obtained confirmation from all the Directors that they have complied with the required standard set out in the Model Code and the code of conduct 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, 2010 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 is 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.

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.

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 specific terms of reference of the Remuneration Committee (contained the minimum prescribed duties) in accordance with the Listing Rules are available on request or on the website: www.matrix.hk.com.

CORPORATE GOVERNANCE REPORT

REMUNERATION COMMITTEE (Continued)

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 one meeting reviewing the directors' remuneration which was 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 specific terms of reference (contained the minimum prescribed duties) in accordance with the 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$2,124,000 and HK$180,000 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$924,000.

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 serves 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 considers the adequacy of resources, qualifications and experience of staff of the Company's accounting and financing reporting function and their training programmes and budget.

CORPORATE GOVERNANCE REPORT

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 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, 2010.

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 38 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The five largest customers of the Group together accounted for approximately 82.3% of the Group's turnover, with the largest customer accounted for approximately 46.1%. The aggregate purchases attributable to the Group's five largest suppliers were approximately 36.2% of total purchases of the Group, with the largest supplier accounted for approximately 16.3%.

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, 2010 are set out in the consolidated statement of comprehensive income on page 41.

During the year, the Company has paid a 2009 final dividend of HK5 cents and the directors have declared a 2010 interim dividend of HK3 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 5th May, 2011 to be satisfied by cash and with an alternative to the shareholders to elect to receive such dividends (or part thereof) by way of scrip dividend by allotment of new shares in the Company, credited as fully paid. The remaining retained profits in the Company is amounting to approximately HK$226,451,000.

REPORT OF THE DIRECTORS

PROPERTY, PLANT AND EQUIPMENT

The Group's leasehold land and buildings and plant and machinery were revalued at 31st December, 2010. The revaluation resulted in a surplus over book values amounting to approximately HK$16,708,000, which has been credited directly to the asset revaluation reserve.

During the year, the Group spent approximately HK$5,681,000 on plant and machinery and approximately HK$1,361,000 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 16 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 29 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 44.

Reserves of the Company as at 31st December, 2010 available for distribution, calculated under the Companies Act 1981 of Bermuda (as amended), amounted to approximately HK$265,727,000 (2009: HK$345,148,000).

RESERVES (Continued)

The Company's reserves available for distribution to the shareholders at the end of the reporting period are set out as follows:

	2010 HK$'000	2009 HK$'000
Contributed surplus	**3,661**	3,661
Retained profits	**262,066**	341,487
	265,727	345,148

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 into 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, directors of that subsidiary received management services fees amounting to HK$7,800 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
Leung Hong Tai
Tsang Chung Wa (appointed on 11th January, 2011)
Tse Kam Wah
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, Dr. Loke Yu alias Loke Hoi Lam, independent non-executive director ("INED") of the Company was appointed INED of Chiho-Tiande Group Limited (a company listed on the The Stock Exchange of Hong Kong Limited (the "the Stock Exchange")) with effect from 23rd June, 2010. He was no longer a member of Malaysian Institute of Accountants. In addition, in the last three years, Mr. Cheng Yung Pun (Chairman and executive director of the Company) had been the chairman and executive director of Wah Nam International Holdings Limited (a listed company at the Stock Exchange); but has resigned on 16th February, 2009.

Save as disclosed above, there is no information required to be disclosed pursuant to Rule 13.51(B)(1) of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

DIRECTORS' SERVICE CONTRACTS

In accordance with the clause 99 of the Bye-laws of the Company, Mr. Cheng Yung Pun, Mr. Arnold Edward Rubin, Mr. Mak Shiu Chung, Godfrey and Mr. Wan Hing Pui, 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, Mr. Tsang Chung Wa retire and, being eligible, offer himself 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.

An employment agreement was entered into between one of the wholly-owned subsidiaries of the Company and Mr. Arnold Edward Rubin, executive director and vice chairman of the Company, commencing from 9th June, 2010 and continuing for a period of three years thereafter for his being the chief executive officer and director of this subsidiary. Save as disclosed above, none of the directors being proposed for re-election at the forthcoming annual general meeting has an unexpired service contract with the Company or any of its subsidiaries that 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, the annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. 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 35 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.

REPORT OF THE DIRECTORS

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

As at 31st December, 2010, 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)*	521,885,518	73.27%
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 the year	Lapsed during year	Outstanding at end of year	Exercise price HK$	Exercise period
Category 1: Directors/ Chief Executive Officer								
Yu Sui Chuen (Director)	2009a	5,000,000 *(Note 1)*	–	–	–	5,000,000	1.250	1st March, 2010 to 1st March, 2013
Arnold Edward Rubin (Director)	2007a	6,300,000 *(Note 2)*	–	–	6,300,000	–	–	–
Cheung Kwok Sing (Director)	2009a	3,000,000 *(Note 3)*	–	–	–	3,000,000	1.250	1st March, 2010 to 1st March, 2013
Leung Hong Tai (Director)	2009a	5,000,000 *(Note 4)*	–	–	–	5,000,000	1.250	1st March, 2010 to 1st March, 2013
Tse Kam Wah (Director)	2009a	3,000,000 *(Note 5)*	–	–	–	3,000,000	1.250	1st March, 2010 to 1st March, 2013
Chen Wei Qing (Chief Executive Officer)	2009a	3,000,000 *(Note 6)*	–	–	–	3,000,000	1.250	1st March, 2010 to 1st March, 2013
Total Directors/ Chief Executive Officer		25,300,000	–	–	6,300,000	19,000,000		

REPORT OF THE DIRECTORS

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)*

		Number of underlying shares attached to the share options						
	Option type	Outstanding at beginning of year	Granted during year	Exercised during the year	Lapsed during year	Outstanding at end of year	Exercise price HK$	Exercise period
Category 2: Employees								
	2007b	6,500,000 *(Note 7)*	–	–	6,500,000	–	–	
	2007c	2,000,000 *(Note 8)*	–	–	–	2,000,000	1.684	11th February, 2008 to 11th February, 2011
	2007e	2,000,000 *(Note 9)*	–	–	–	2,000,000	1.700	10th March, 2008 to 10th March, 2011
	2009a	25,000,000 *(Note 10)*	–	–	–	25,000,000	1.250	1st March, 2010 to 1st March, 2013
	2009b	1,200,000 *(Note 11)*	–	–	–	1,200,000	1.448	15th March, 2010 to 15th March, 2013
Total Employees		36,700,000	–	–	6,500,000	30,200,000		
Total all categories		62,000,000	–	–	12,800,000	49,200,000		

Notes:

(1) 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.

(2) The 2007a share option in respect of 6,300,000 underlying shares granted to Mr. Arnold Edward Rubin, a director of the Company lapsed.

(3) 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.

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)

(4) 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.

(5) 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.

(6) 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.

(7) The 2007b share option in respect of 6,500,000 underlying shares lapsed.

(8) 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.

(9) 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.

(10) 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.

(11) 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$1.7, HK$1.25 and HK$1.40 respectively.

Particulars of the Company’s Share Option Scheme are set out in note 36 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, 2010.

REPORT OF THE DIRECTORS

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, 2010, 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	521,885,518	73.27%

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.

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, 2010.

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 of the Company held on 29th May, 2008) are 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 represent 3.1% of the issued share capital of the Company as at 31st December, 2010;

(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;

REPORT OF THE DIRECTORS

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 Scheme are set out in note 36 to the consolidated financial statements.

Save as the share options in respect of 12,800,000 underlying shares had been lapsed, no share options are granted, exercised, cancelled or lapsed during the year under review. The share options which had been granted and remained outstanding carry rights to subscribe are 49,200,000 shares (31st December, 2009: 62,000,000) representing 6.9% (31st December, 2009: 8.70%) of the Shares in issue as at 31st December, 2010. The details of the share options were disclosed in the Section "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures".

As at 31st December, 2010, the total number of shares available for issue of options under the Scheme are 22,085,535 shares (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 represent 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.

COMPLIANCE OF THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Board had adopted its own code on corporate governance practices 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, 2010.

OTHER REQUIRED DISCLOSURE PURSUANT TO RULE 13.18 OF THE LISTING RULES

On 29th July 2010, the Group's banking facilities provided by a bank in an aggregate amount of HK$85,000,000 was terminated and the specific performance obligation on the controlling shareholder of the Company no longer existed.

One of the indirect wholly-owned subsidiaries of the Company had applied to a bank in Macau (the "Lender") for one-year term banking facilities of up to an aggregate extent of HK$12,000,000; and one of the other indirect wholly-owned subsidiaries of the Company had applied to the Lender for one-year term banking facilities of up to an aggregate extent of HK$38,000,000 (collectively the "Facilities"). The Facilities include, inter alia, a condition to the effect that Mr. Cheng Yung Pun, the controlling shareholder of the Company, 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 of the Facilities. If any significant change on the above condition occurs, the Lender can request to adjust or terminate the facilities.

REPORT OF THE DIRECTORS

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, 17th March, 2011

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 41 to 112, which comprise the consolidated statement of financial position as at 31st December, 2010, and the 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 of consolidated financial statements that give a true and fair view 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, and for such internal control as the director determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 about whether the consolidated financial statements are free from material misstatement.

INDEPENDENT AUDITOR'S REPORT

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 of the consolidated financial statements that give a true and fair view 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, 2010 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.

EMPHASIS OF MATTER

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 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. The directors of the Company, 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.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

17th March, 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31st December, 2010

	NOTES	2010 HK$'000	2009 HK$'000
Turnover	8	**880,473**	977,741
Cost of sales		**(550,780)**	(588,996)
Gross profit		**329,693**	388,745
Other income	9a	**840**	4,612
Distribution and selling costs		**(116,288)**	(126,748)
Administrative expenses		**(138,268)**	(151,535)
Finance costs	10	**(3,370)**	(6,445)
Reversal of allowance (allowance) for trade receivables	22	**2,331**	(3,502)
Adjustment to goodwill	18	**–**	(3,726)
Other gains and losses	9b	**(7,928)**	(22,794)
Research and development costs		**(14,314)**	(7,775)
Profit before taxation	11	**52,696**	70,832
Income tax credit	13	**8,662**	6,040
Profit for the year attributable to owners of the Company		**61,358**	76,872
Other comprehensive income			
Exchange difference arising on translation of foreign operations		**(9,475)**	(6,184)
Release of translation reserve on deregistration of foreign operations		**(1,419)**	1,262
Gain on revaluation of land and buildings, and plant and machinery		**16,708**	6,642
Deferred tax liability arising on revaluation of land and buildings, and plant and machinery		**–**	(12)
Other comprehensive income for the year (net of tax)		**5,814**	1,708
Total comprehensive income for the year attributable to owners of the Company		**67,172**	78,580
Earnings per share	15		
Basic		**HK$0.09**	HK$0.11
Diluted		**HK$0.09**	N/A

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31st December, 2010

	NOTES	2010 HK$'000	2009 HK$'000
Non-current assets			
Property, plant and equipment	16	**238,871**	240,290
Prepaid lease payments	17	**983**	1,015
Goodwill	18	**96,822**	109,822
Intangible asset	20	**30,331**	42,768
Deferred tax assets	30	**8,563**	3,918
Deposits paid for acquisition of property, plant and equipment		**6,820**	–
		382,390	397,813
Current assets			
Inventories	21	**221,835**	181,068
Trade and other receivables	22	**147,164**	163,998
Prepaid lease payments	17	**32**	32
Tax recoverable		**7,613**	7,560
Held-for-trading investments	23	**–**	125
Amounts due from the disposed subsidiaries	24	**–**	20,596
Pledged bank deposit	25	**2,177**	5,002
Bank balances and cash	25	**62,765**	72,685
		441,586	451,066
Current liabilities			
Trade and other payables and accruals	26	**153,933**	167,378
Tax payable		**57,075**	58,077
Unsecured bank borrowings	27	**–**	24,661
Obligations under finance leases	28	**1,847**	2,227
		212,855	252,343
Net current assets		**228,731**	198,723
Total assets less current liabilities		**611,121**	596,536

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31st December, 2010

	NOTES	**2010 HK$'000**	2009 HK$'000
Capital and reserves			
Share capital	*29*	**71,229**	71,229
Reserves		**446,997**	414,563
Equity attributable to owners of the Company		**518,226**	485,792
Non-current liabilities			
Deferred tax liabilities	*30*	**8,558**	12,869
Obligations under finance leases	*28*	**–**	1,847
Loan from ultimate holding company	*31*	**84,337**	96,028
		92,895	110,744
		611,121	596,536

The consolidated financial statements on pages 41 to 112 were approved and authorised for issue by the Board of Directors on 17th March, 2011 and are signed on its behalf by:

Cheng Yung Pun	**Cheung Kwok Sing**
Chairman	*Director*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December, 2010

	Attributable to owners of the Company									
	Share capital HK$'000	Share premium HK$'000	Special reserve HK$'000 *(Note 1)*	Shareholders' contribution HK$'000 *(Note 2)*	Share options reserve HK$'000	Asset revaluation reserve HK$'000	Legal reserve HK$'000 *(Note 3)*	Translation reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1st January, 2009	71,229	119,439	771	14,463	7,207	45,945	49	(11,379)	169,992	417,716
Profit for the year	–	–	–	–	–	–	–	–	76,872	76,872
Other comprehensive income for the year	–	–	–	–	–	6,630	–	(4,922)	–	1,708
Total comprehensive income for the year	–	–	–	–	–	6,630	–	(4,922)	76,872	78,580
Recognition of equity-settled share based payments	–	–	–	–	9,629	–	–	–	–	9,629
Lapse of share options	–	–	–	–	(2,030)	–	–	–	2,030	–
Deemed contribution from ultimate holding company *(note 31)*	–	–	–	2,996	–	–	–	–	–	2,996
Release of deemed contribution from ultimate holding company	–	–	–	(1,760)	–	–	–	–	–	(1,760)
Dividend paid *(note 14)*	–	–	–	–	–	–	–	–	(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
Profit for the year	–	–	–	–	–	–	–	–	61,358	61,358
Other comprehensive income for the year	–	–	–	–	–	16,708	–	(10,894)	–	5,814
Total comprehensive income for the year	–	–	–	–	–	16,708	–	(10,894)	61,358	67,172
Recognition of equity-settled share based payments	–	–	–	–	19,697	–	–	–	–	19,697
Lapse of share options	–	–	–	–	(3,875)	–	–	–	3,875	–
Deemed contribution from ultimate holding company *(note 31)*	–	–	–	4,638	–	–	–	–	–	4,638
Release of deemed contribution from ultimate holding company	–	–	–	(2,089)	–	–	–	–	–	(2,089)
Transfer upon disposal of leasehold land and building	–	–	–	–	–	(566)	–	–	566	–
Dividend paid *(note 14)*	–	–	–	–	–	–	–	–	(56,984)	(56,984)
At 31st December, 2010	**71,229**	**119,439**	**771**	**18,248**	**30,628**	**68,717**	**49**	**(27,195)**	**236,340**	**518,226**

Notes:

(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) The shareholders' contribution represented the deemed contribution arising from the amount due from ultimate holding company which is non-current and interest-free. The details of amount due from ultimate holding company are set out in note 31.

(3) 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 STATEMENT OF CASH FLOWS

For the year ended 31st December, 2010

	NOTE	2010 HK$'000	2009 HK$'000
OPERATING ACTIVITIES			
Profit before taxation		**52,696**	70,832
Adjustments for:			
(Gain) loss on disposal of property, plant and equipment		**(136)**	7,427
Loss (gain) on fair value changes of held-for-trading investments		**125**	(96)
Interest income		**(136)**	(158)
Interest expenses		**3,370**	6,445
Depreciation of property, plant and equipment		**44,759**	44,727
Amortisation of intangible assets		**12,437**	12,437
Impairment of property, plant and equipment		**1,225**	–
Share-based payment expenses		**19,697**	9,629
Amortisation of prepaid lease payments		**32**	32
Revaluation deficit recognised on property, plant and equipment		**3,225**	2,362
Impairment loss on goodwill		**13,000**	23,000
(Reversal of allowance) allowance for trade receivables		**(2,331)**	3,502
Written off of trade receivables		**58**	152
Net gain on acquisition of subsidiaries	32	**(52)**	–
Adjustment to goodwill		**–**	3,726
Operating cash flows before movements in working capital		**147,969**	184,017
(Increase) decrease in inventories		**(39,626)**	16,420
Decrease in trade and other receivables		**5,848**	30,907
Increase in amounts due from the disposed subsidiaries		**–**	(1,537)
Decrease in trade and other payables and accruals		**(7,414)**	(33,071)
Cash generated from operations		**106,777**	196,736
Income taxes paid		**(1,419)**	(2,168)
Interest paid		**(852)**	(2,058)
NET CASH FROM OPERATING ACTIVITIES		**104,506**	192,510

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31st December, 2010

	NOTE	2010 HK$'000	2009 HK$'000
INVESTING ACTIVITIES			
Interest received		**136**	158
Proceeds on disposal of property, plant and equipment		**1,246**	38
Purchases of property, plant and equipment		**(16,552)**	(24,550)
Acquisition of subsidiaries	32	**271**	–
Deposits paid for acquisition of property, plant and equipment		**(6,820)**	–
Increase in pledged bank deposit		**(2,177)**	(1)
Decrease in pledged bank deposit		**5,002**	–
NET CASH USED IN INVESTING ACTIVITIES		**(18,894)**	(24,355)
FINANCING ACTIVITIES			
Dividends paid		**(56,984)**	(21,369)
Repayments of obligations under finance leases		**(2,227)**	(1,899)
New bank loans raised		**52,664**	174,389
Repayments of bank loans		**(77,325)**	(208,405)
Decrease in bank overdrafts		**–**	(13,764)
Advance from ultimate holding company		**–**	3,409
Repayments to ultimate holding company		**–**	(4,147)
Repayments to loan from ultimate holding company		**(11,660)**	(46,000)
NET CASH USED IN FINANCING ACTIVITIES		**(95,532)**	(117,786)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(9,920)**	50,369
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**72,685**	22,316
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by Bank balances and cash		**62,765**	72,685

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

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 parent and ultimate holding company is Smart Forest Limited ("Smart Forest"), a company 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 38.

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 of the Company, 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 and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs issued in 2008
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009
HKAS 27 (Revised)	Consolidated and separate financial statements
HKAS 39 (Amendment)	Eligible hedged items
HKFRS 2 (Amendment)	Group cash-settled shared-based payment transactions
HKFRS 3 (Revised)	Business combinations
HK (IFRIC) – INT 17	Distributions of non-cash assets to owners
HK-INT 5	Presentation of financial statements – Classification by the borrower of a term loan that contains a repayment on demand clause

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

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

HKFRS 3 (as revised in 2008) Business Combinations

HKFRS 3 (as revised in 2008) has been applied in the current year prospectively to business combinations of which the acquisition date is on or after 1st January, 2010 in accordance with the relevant transitional provisions.

- HKFRS 3 (as revised in 2008) allows a choice on a transaction-by-transaction basis for the measurement of non-controlling interests at the date of acquisition (previously referred to as 'minority' interests) either at fair value or at the non-controlling interests' share of recognised identifiable net assets of the acquiree.

- HKFRS 3 (as revised in 2008) changes the recognition and subsequent accounting requirements for contingent consideration. Previously contingent consideration was recognised at the acquisition date only if payment of the contingent consideration was probable and it could be measured reliably; any subsequent adjustments to the contingent consideration were always made against the cost of the acquisition. Under the revised Standard, contingent consideration is measured at fair value at the acquisition date; subsequent adjustments to the consideration are recognised against the cost of acquisition only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

- HKFRS 3 (as revised in 2008) requires the recognition of a settlement gain or loss when the business combination in effect settles a pre-existing relationship between the Group and the acquiree.

- HKFRS 3 (as revised in 2008) requires acquisition-related costs to be accounted for separately from the business combination, generally leading to those costs being recognised as an expense in profit or loss as incurred, whereas previously they were accounted for as part of the cost of the acquisition.

In the current year, HKFRS 3 (as revised in 2008) has been applied in respect of the acquisition of Max Smart Investment Limited (see note 32). It has had no significant effect on the consolidated financial statements.

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

Amendments to HKAS 17 Leases

As part of Improvements to HKFRSs issued in 2009, HKAS 17 Leases has been amended in relation to the classification of leasehold land. Before the amendments to HKAS 17, the Group was required to classify leasehold land as operating leases and to present leasehold land as prepaid lease payments in the consolidated statement of financial position. The amendments to HKAS 17 have removed such a requirement. The amendments require that the classification of leasehold land should be based on the general principles set out in HKAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee.

In accordance with the transitional provisions set out in the amendments to HKAS 17, the Group reassessed the classification of unexpired leasehold land as at 1st January, 2010 based on information that existed at the inception of the leases. The application of amendments to HKAS 17 has not affected the classification of leasehold land of the Group as at 31st December, 2010.

The adoption of the new and revised Standards, Amendments and Interpretations in current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

The Group has not early applied the following new and revised Standards, Amendments and Interpretations that have been issued but are not yet effective:

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010[1]
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets[3]
HKFRS 9	Financial Instruments[4]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[5]
HKAS 24 (As revised in 2009)	Related Party Disclosures[6]
HKAS 32 (Amendments)	Classification of Rights Issues[7]
HK (IFRIC) – Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement[6]
HK (IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[2]

1 *Effective for annual periods beginning on or after 1st July, 2010 and 1st January, 2011, as appropriate.*
2 *Effective for annual periods beginning on or after 1st July, 2010.*
3 *Effective for annual periods beginning on or after 1st July, 2011.*
4 *Effective for annual periods beginning on or after 1st January, 2013.*
5 *Effective for annual periods beginning on or after 1st January, 2012.*
6 *Effective for annual periods beginning on or after 1st January, 2011.*
7 *Effective for annual periods beginning on or after 1st February, 2010.*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

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

HKFRS 9 *Financial Instruments* (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 *Financial Instruments* (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

- Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

- In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss is presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1st January, 2013, with earlier application permitted.

The Directors anticipate that HKFRS 9 that will be adopted in the Group's consolidated financial statements for the annual period beginning 1st January, 2013 and that the application of the new Standard may not have any significant impact on the Groups' financial assets and financial liabilities based on an analysis of the Group's financial instruments as at 31st December, 2010.

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 that are measured at revalued amounts or fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

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.

The principal accounting policies are set out below.

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 in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations

Business combinations that took place on or after 1st January, 2010

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits* respectively;

- liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment transactions with share-based payment transactions of the Group are measured in accordance with HKFRS 2 *Share-based* Payment at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for sale and Discontinued Operations* are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations (Continued)

Business combinations that took place on or after 1st January, 2010 *(Continued)*

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or another measurement basis required by another Standard.

Business combinations that took place prior to 1st January, 2010

Acquisition of businesses was accounted for using the purchase method. The cost of the acquisition was 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 were generally recognised at their fair values at the acquisition date.

Goodwill arising on acquisition was recognised as an asset and initially measured at cost, being the excess of the cost of the acquisition over the Group's interest in the recognised amounts of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the recognised amounts of the acquiree's identifiable assets, liabilities and contingent liabilities exceeded the cost of the acquisition, the excess was recognised immediately in profit or loss.

The non-controlling interest in the acquiree was initially measured at the non-controlling shareholder's proportionate share of the recognised amounts of the assets, liabilities and contingent liabilities of the acquiree.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the cash-generating units, or groups of cash-generating units, that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit, 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 recognised for goodwill is recognised directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill 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 recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. 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 estimated future cash receipts through the expected lift 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 subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment (other than properties under construction) less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

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 disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Intangible assets acquired in a business combination

Intangible assets that are acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets with finite useful lives are carried at cost 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 the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible 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 asset is estimated in order to determine the extent of the impairment loss, if any. In addition, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that they may be impaired. 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 activities (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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

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 initially 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 expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which cash they are capitalised in accordance with the Group's policy on borrowing costs.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

For leasehold land classified as an operating lease, whilst the building element is classified as a finance lease, interest in leasehold land is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 retranslation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

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 period, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates 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).

On the disposal of a foreign operation, all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and retranslated at the rate of exchange prevailing at the end of the reporting period. Exchange differences arising are recognised in the translation reserve.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 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 in profit or loss 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.

Deferred tax is recognised on temporary 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. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax 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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each 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 basis.

Retirement benefits costs

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

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 and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life 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 other than those financial assets classified as of FVTPL, of which interest income is included in net gains or losses.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets at fair value through profit or loss

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

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 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 arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset.

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 when 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 investment have been affected.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans and receivables (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.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and 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.

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, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss 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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans and receivables (Continued)

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.

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.

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities including trade and other payables and accruals, unsecured bank borrowings 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.

Derecognition

Financial assets are derecognised when the rights to the 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 in its entirely, the difference between the asset's carrying amount and the sum of the consideration received and receivable 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans and receivables (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. When 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 original estimates during the vesting period, if any, is recognised in profit or loss with a corresponding adjustment to share options reserve.

At the time when share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When 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 earnings.

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 these 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.

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 16 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

5. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Estimate of the fair value of property, plant and equipment

As described in note 16, leasehold land and buildings and plant and machinery were revalued as at 31st December, 2009 and 2010 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 the 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, 2010, the carrying amount of leasehold land and buildings and plant and machinery are approximately HK$134,413,000 and HK$62,361,000 respectively (2009: HK$123,646,000 and HK$61,820,000 respectively).

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 calculation 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, 2010, an impairment loss on goodwill of HK$13,000,000 (2009: HK$23,000,000) in relation to the manufacture and trading of toys was recognised. Details of the recoverable amount calculation of goodwill are disclosed in note 19. For the year ended 31st December, 2010, the goodwill arising on acquisition of subsidiaries is HK$36,838,000 and the Group fully impaired this goodwill immediately after the acquisition (see note 32).

5. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Income taxes

As at 31st December, 2010, a deferred tax asset of HK$8,563,000 (2009: HK$3,918,000) 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$14,988,000 (2009: HK$28,504,000) 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.

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 27, 28 and 31 respectively, equity attributable to owners of the Company, comprising issued share capital, reserves and retained profits.

The Directors of the Group 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

7. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2010 **HK$'000**	2009 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**199,971**	252,809
Held-for-trading investments	**–**	125
	199,971	252,934

	2010 **HK$'000**	2009 HK$'000
Financial liabilities		
Amortised cost	**238,270**	288,067

(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 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.

7. FINANCIAL INSTRUMENTS (Continued)

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

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 22, 25, 26 and 27 respectively. They are denominated in foreign currencies other than the functional currency of the relevant group entities, which expose the Group to foreign currency risk. 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 arise.

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

	Assets		Liabilities	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
United States dollars ("USD")	**77,301**	86,699	**–**	9,843
Euro ("EUR")	**–**	13,064	**–**	13,064

In addition, three (2009: two) subsidiaries of the Company with functional currency of Vietnam dong ("VND") have foreign currency transactions within the Group that are denominated in USD, which expose the subsidiaries to foreign currency risk.

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 net off 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 post-tax profit for the year where USD strengthens 5% against VND.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31st December, 2010

7. FINANCIAL INSTRUMENTS (Continued)

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

Currency risk *(Continued)*

Sensitivity analysis (Continued)

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

	2010	2009
	HK$'000	HK$'000
Increase in post-tax profit for the year	**5,779**	3,783

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 28 for the details of the obligations under finance leases) and pledged bank deposit (see note 25 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 27 for details of the unsecured bank borrowings) and bank balances (see note 25 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.

The Group does not have any variable-rate bank borrowings as at 31st December, 2010. The Directors consider the Group's exposure to interest rate risk of bank balances is not significant, no sensitivity analysis is presented for the year end 31st December, 2010.

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.

For the year ended 31st December, 2009, if interest rates had been 50 basis point higher/lower and all other variables were held constant, the Group's profit for the year would increase/decrease approximately by HK$240,000. 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, 2010 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 82.3% (2009: 85.9%) 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$112,922,000 (2009: HK$107,294,000) 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.

The Group's concentration of credit risk by geographical locations is mainly in the United States, which accounted for 91.2% (2009: 90.0%) of the total trade receivables as at 31st December, 2010.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

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, 2010, the Group had a total of unutilised overdraft and short-term bank loan available facilities of approximately HK$50,000,000 (2009: HK$110,339,000).

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 at the end of the reporting period.

	Weighted average effective interest rate	On demand or 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
2010							
Non-derivative financial liabilities							
Trade and other payables and accruals	**–**	**109,060**	**44,873**	**–**	**–**	**153,933**	**153,933**
Obligations under finance leases	**12.40%**	**224**	**447**	**1,291**	**–**	**1,962**	**1,847**
Loan from ultimate holding company	**3.00%**	**–**	**–**	**–**	**87,958**	**87,958**	**84,337**
		109,284	**45,320**	**1,291**	**87,958**	**243,853**	**240,117**
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

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 in active liquid markets are determined with reference to quoted market bid price; and

– the fair value of other financial assets and financial liabilities are determined based on discounted cash flow analysis in accordance with generally accepted pricing models.

The Directors of the Group 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

Information reported to the Chairman of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on geographical location of customers.

Specifically, the Group's operating segments under HKFRS 8 are – the United States, Europe, Mexico, Canada, Australia, 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 of the Company, the chief operating decision maker, in order to allocate resources to segments and to assess their performance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

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, 2010

	United States	Europe	Mexico	Canada	Australia	Hong Kong	All other locations *(Note)*	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TURNOVER								
External sales	729,708	35,630	19,666	35,962	13,928	4,690	40,889	880,473
RESULTS								
Segment profit	158,820	4,130	3,122	6,132	2,209	621	5,509	180,543
Unallocated income								5,339
Unallocated expenses								(116,816)
Impairment loss on goodwill								(13,000)
Finance costs								(3,370)
Profit before taxation								52,696

For the year ended 31st December, 2009

	United States	Europe	Mexico	Canada	Australia	Hong Kong	All other locations *(Note)*	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TURNOVER								
External sales	874,077	27,069	6,866	17,867	6,359	5,743	39,760	977,741
RESULTS								
Segment profit (loss)	228,039	2,977	935	2,320	964	676	(909)	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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

8. SEGMENT INFORMATION (Continued)

Segment revenues and results (Continued)

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

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, 2010	**United States HK$'000**	**Europe HK$'000**	**Mexico HK$'000**	**Canada HK$'000**	**Australia HK$'000**	**Hong Kong HK$'000**	**All other locations HK$'000**	**Consolidated HK$'000**
ASSETS								
Segment assets	**303,689**	**11,574**	**4,217**	**10,470**	**2,994**	**5,872**	**14,486**	**353,302**
Property, plant and equipment								**238,871**
Other corporate assets								**231,803**
Consolidated assets								**823,976**
LIABILITIES								
Segment liabilities	**96,378**	**3,541**	**1,887**	**3,456**	**1,337**	**1,059**	**5,593**	**113,251**
Unallocated corporate liabilities								**192,499**
Consolidated liabilities								**305,750**

At 31st December, 2009	United States HK$'000	Europe HK$'000	Mexico HK$'000	Canada HK$'000	Australia HK$'000	Hong Kong HK$'000	All other locations HK$'000	Consolidated HK$'000
ASSETS								
Segment assets	281,225	5,365	1,272	3,326	1,178	27,300	17,348	337,014
Property, plant and equipment								240,290
Other corporate assets								271,575
Consolidated assets								848,879
LIABILITIES								
Segment liabilities	93,718	15,809	738	721	255	2,241	1,987	115,469
Unallocated corporate liabilities								247,618
Consolidated liabilities								363,087

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

8. SEGMENT INFORMATION (Continued)

Segments assets and liabilities (Continued)

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

- Only inventories, trade receivables and certain other receivables are allocated to operating segments.

- Only trade payables and certain other payables and accruals are allocated to operating segments.

Other segment information

For the year ended 31st December 2010

	United States HK$'000	Europe HK$'000	Mexico HK$'000	Canada HK$'000	Australia 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	–	(2,331)	–	–	–	–	–	(2,331)
Written off of trade receivables	–	48	–	–	–	10	–	58
	–	(2,283)	–	–	–	10	–	(2,273)

For the year ended 31st December 2009

	United States HK$'000	Europe HK$'000	Mexico HK$'000	Canada HK$'000	Australia 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

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.

8. SEGMENT INFORMATION (Continued)

Revenue from major products

	2010 HK$'000	2009 HK$'000
Toys	**845,545**	961,827
Lighting products	**2,975**	327
Others	**31,953**	15,587
	880,473	977,741

Geographical information

The Group's operations are located in Hong Kong, Vietnam, the United States, the PRC and other countries.

The Group's information about its non-current assets by geographical location of the assets are detailed below:

	Non-current assets	
	2010 *HK$'000*	2009 *HK$'000*
Hong Kong	**638**	855
Vietnam	**69,642**	66,830
The United States	**6,810**	8,625
The PRC	**169,512**	164,871
Others countries	**72**	124
	246,674	241,305

Note: Non-current assets excluded goodwill, intangible asset and deferred tax assets.

Information about major customers

For the year ended 31st December, 2010, there are two customers with revenue contributing approximately 46.1% and 24.3% (2009: 51.4% and 23.3%) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

9a. OTHER INCOME

	2010 HK$'000	2009 HK$'000
Interest income on bank deposits	**136**	158
Subcontracting income	**–**	1,972
Others	**704**	2,482
	840	4,612

9b. OTHER GAIN AND LOSSES

	2010 HK$'000	2009 HK$'000
(Loss) gain on fair value changes of held-for-trading investments	**(125)**	96
Net exchange gain	**5,203**	262
Written off of trade receivables	**(58)**	(152)
Impairment loss on goodwill *(note 19)*	**(13,000)**	(23,000)
Net gain on acquisition of subsidiaries *(note 32)*	**52**	–
	(7,928)	(22,794)

10. FINANCE COSTS

	2010 HK$'000	2009 HK$'000
Interest on:		
Bank borrowings wholly repayable within five years	**397**	967
Finance leases	**455**	1,091
Imputed interest expense on non-current interest-free loan from ultimate holding company	**2,518**	4,387
	3,370	6,445

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

11. PROFIT BEFORE TAXATION

	2010 **HK$'000**	2009 HK$'000
Profit before taxation has been arrived at after (crediting) charging:		
(Gain) loss on disposal of property, plant and equipment	**(136)**	7,427
Revaluation deficit recognised on property, plant and equipment *(note 16)*	**3,225**	2,362
Cost of inventories recognised as an expense	**550,780**	588,996
Auditor's remuneration	**3,241**	2,833
Amortisation of prepaid lease payments	**32**	32
Depreciation of property, plant and equipment	**44,759**	44,727
Impairment of property, plant and equipment *(note 16)*	**1,225**	–
Amortisation of intangible assets (included in cost of sales)	**12,437**	12,437
Research and development costs (including staff costs of HK$2,723,000 (2009: HK$2,195,000)) *(Note a)*	**14,314**	7,775
Staff costs *(Note b)*	**259,121**	209,636

Notes:

a. The research and development costs of approximately HK$9,909,000 (2009: nil) is related to lighting products.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

12. DIRECTORS' EMOLUMENTS AND EMPLOYEES' EMOLUMENTS

Directors' emoluments

The emoluments paid or payable to each of the ten (2009: ten) directors are as follows:

		Other emoluments			
2010	**Fees**	**Salaries and allowances**	**Contributions to MPFS**	**Other benefits** *(Note 1)*	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Executive directors					
Cheng Yung Pun	–	975	–	–	975
Yu Sui Chuen	–	1,193	55	2,155	3,403
Cheng Wing See, Nathalie	–	533	12	–	545
Arnold Edward Rubin	–	4,727	57	–	4,784
Cheung Kwok Sing	–	923	12	1,293	2,228
Tse Kam Wah	–	975	12	1,293	2,280
Leung Hong Tai	–	975	12	2,155	3,142
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 2010	216	10,301	160	6,896	17,573

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

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

Directors' emoluments (Continued)

2009	Fees	Salaries and allowances	Contributions to MPFS	Other benefits *(Note 1)*	Total
		Other emoluments			
		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

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, 2010.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

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

Employees' emoluments

Of the five individuals with the highest emoluments in the Group, five (2009: four) are directors of the Company whose emoluments are included in the above disclosures. For the year ended 31st December, 2009, of the four directors included in the five highest emoluments in the Group, two were directors appointed on 25th November, 2009. The directors' emoluments disclosed in note 12 for these two directors represented the emoluments received or receivable by them after 25th November, 2009. The total emoluments of these two newly appointed directors in 2009 and remaining one individual received and receivable for the year ended 31st December, 2009 were as follows:

	2010 **HK$'000**	2009 HK$'000
Salaries and allowances	–	3,985
Contributions to retirement benefit schemes and MPFS	–	81
Other benefits *(Note)*	–	1,751
	–	5,817

Their emoluments are within the following bands:

	2010 **No. of** **employees**	2009 No. of employees
HK$1,500,001 to HK$2,000,000	–	2
HK$2,000,001 to HK$2,500,000	–	1
	–	3

Note: Other benefits represent employees share option benefits

13. INCOME TAX CREDIT

	2010	2009
	HK$'000	HK$'000
Current tax:		
Hong Kong	**(380)**	(340)
Other jurisdictions	**(141)**	(753)
	(521)	(1,093)
Over (under) provision in prior years		
Hong Kong	**142**	(104)
Other jurisdictions	**10**	103
	152	(1)
Deferred tax:		
Current year *(note 30)*	**9,031**	7,134
Taxation credit attributable to the Company and its subsidiaries	**8,662**	6,040

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

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") and Keyhinge Toys Vietnam Joint Stock Company ("KVN") are eligible for exemption from Vietnam enterprise income tax for four years from the first profit-making year followed by a 50% reduction in the Vietnam enterprise income tax for the next four years. For the year ended 31st December, 2010, MVN applied the tax rate of 5% (2009: 5%) on the estimated assessable profit as it is the sixth year since its first profit-making year and KVN applied the tax rate of 10% (2009: 10%) on the estimated assessable profit as it is the fourteenth year since its first profit-making year. The applicable Vietnam enterprise income tax rate for Associated Manufacturing Vietnam Company Limited ("AVN") is 15% since the date of operation on the estimated assessable profit for twelve years followed by 25%. AVN is eligible for exemption from Vietnam enterprise income tax for eight 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, 2010 is the third profit-making year of AVN and thus AVN is exempted from Vietnam enterprise income tax for the year ended 31st December, 2010 and 2009.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31st December, 2010

13. INCOME TAX CREDIT (Continued)

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 certain subsidiaries of the Group is currently under audit by the Hong Kong Inland Revenue Department ("IRD"). In March, 2008, 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 heldover on condition that the subsidiaries purchased an equal amount of tax reserve certificates, and the amount of HK$12,965,000 was heldover unconditionally by the IRD. In March 2009, the IRD issued assessments to certain subsidiaries in respect of the years of assessment from 2002/2003 to 2007/2008 amounting to approximately HK$163,658,000. In March, 2010, the IRD issued assessments to certain subsidiaries in respect of the year of assessment for 2003/2004 amounting to approximately HK$41,234,000. 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 whole tax demanded for the year of assessment for 2003/2004 of HK$41,234,000 was heldover unconditionally by the IRD. The Company appointed a tax advisor to assist the Group in handling this tax audit. Up to the date of this report, the tax advisor together with the management of the Group had several meetings with the case officer of the IRD and settlement proposals were submitted to the IRD. The Directors are of the opinion that the final assessments for the years of assessments from 2000/2001 to 2009/2010 will be settled soon. Since the Group has not received the final assessments, the ultimate outcome of the matter cannot presently be confirmed. As at 31st December, 2010, the Group had made a tax provision in respect of these subsidiaries for the years of assessment of approximately HK$56,500,000 (2009: HK$56,500,000). The Directors are of the view after taking advice from professional tax advisers and the understanding during the discussion with case officer of the IRD that the amount of tax payable presented in the consolidated financial statements should be sufficient for settlement of the tax audit.

13. INCOME TAX CREDIT (Continued)

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

	2010 HK$'000	2009 HK$'000
Profit before taxation	**52,696**	70,832
Tax charge at the weighted average income tax rate *(Note)*	**(3,452)**	(6,088)
Tax effect of expenses not deductible for tax purpose	**(10,646)**	(11,908)
Tax effect of income not taxable for tax purpose	**228**	1,752
Tax effect of profit which are exempted from tax or under tax concessions	**15,711**	20,060
Over (under) provision in respect of prior years	**152**	(1)
Tax effect of tax losses not recognised	**(1,133)**	(3,262)
Tax effect of utilisation of tax losses previously not recognised	**823**	5,362
Recognition of previously unrecognised tax losses	**4,656**	–
Others	**2,323**	125
Tax credit for the year	**8,662**	6,040

Note: The weighted average applicable tax rate of 6.5% (2009: 8.6%) 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.

14. DIVIDENDS

	2010 HK$'000	2009 HK$'000
Dividends recognised as distribution during the year		
Prior year final, paid – HK5 cents (2009: HK1 cent) per share	**35,615**	7,123
Interim, paid – HK3 cents (2009: HK2 cents) per share	**21,369**	14,246
	56,984	21,369

The 2009 final dividend and 2010 interim dividend were declared and paid as cash dividend.

The final dividend of HK5 cents (2009: HK5 cents) per share amounting to approximately HK$35,615,000 (2009: HK$35,615,000) has been proposed by the Directors and is subjected to approval by the shareholders in the annual general meeting. The proposed final dividend for 2010 will be payable in cash with a scrip dividend alternate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

15. EARNINGS PER SHARE

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

Earnings

	2010 **HK$'000**	2009 HK$'000
Earnings for the purposes of basic and diluted earnings per share (profit for the year attributable to owners of the Company)	**61,358**	76,872

Number of shares

	2010 **'000**	2009 '000
Number of ordinary shares for the purpose of basic earnings per share	**712,294**	712,294
Effect of dilutive potential ordinary shares: Share options	**1,623**	
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**713,917**	

The computation of diluted earnings per share for the year ended 31st December, 2009 did not assume the exercise of the Company's share options as the exercise price of those options was higher than average market price per share for 2009.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

16. 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, 2009	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
Exchange adjustments	(6)	(2,007)	(163)	(2,836)	–	(509)	–	(5,521)
Additions	7	1,361	1,369	5,681	6,327	1,395	412	16,552
Disposals	–	(1,080)	(223)	(5)	–	(142)	(10)	(1,460)
Acquisition of subsidiaries	–	8,555	–	11,285	–	143	–	19,983
Surplus on revaluation	–	3,938	–	(13,584)	–	–	–	(9,646)
At 31st December, 2010	**108**	**134,413**	**32,555**	**62,361**	**70,277**	**19,477**	**945**	**320,136**
Comprising								
At cost	108	–	32,555	–	70,277	19,477	945	123,362
At valuation	–	134,413	–	62,361	–	–	–	196,774
	108	134,413	32,555	62,361	70,277	19,477	945	320,136
DEPRECIATION AND IMPAIRMENT								
At 1st January, 2009	–	–	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
Exchange adjustments	–	(219)	(107)	(635)	–	(217)	–	(1,178)
Provided for the year	–	4,731	4,258	19,254	12,664	3,808	44	44,759
Revaluation deficit recognised in profit or loss	–	–	–	3,225	–	–	–	3,225
Impairment loss recognised in profit or loss	–	–	–	–	1,225	–	–	1,225
Eliminated on disposals	–	(2)	(203)	–	–	(135)	(10)	(350)
Eliminated on revaluation	–	(4,510)	–	(21,844)	–	–	–	(26,354)
At 31st December, 2010	**–**	**–**	**15,367**	**–**	**50,781**	**14,626**	**491**	**81,265**
CARRYING VALUES								
At 31st December, 2010	**108**	**134,413**	**17,188**	**62,361**	**19,496**	**4,851**	**454**	**238,871**
At 31st December, 2009	107	123,646	20,153	61,820	27,058	7,420	86	240,290

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For the year ended 31st December, 2010

16. 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%

During the year, the Directors conducted a review of the Group's moulds and determined that a number of moulds were impaired due to no further sales for certain toys models. Accordingly, those moulds have been fully impaired and impairment losses of HK$1,225,000 (2009: nil) have been recognised.

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, 2010 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, 2010 were revalued by RHL and FCC respectively. The leasehold land and buildings has been valued using direct comparison approach by making reference to comparable sales transactions available in the relevant market and/or 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$3,225,000 (2009: HK$2,362,000) is recognised in profit or loss.

16. PROPERTY, PLANT AND EQUIPMENT (Continued)

At 31st December, 2010, all of the leasehold land and buildings and plant and machinery of the Group had been carried at historical cost less accumulated depreciation and accumulated impairment losses, their carrying values would have been approximately HK$52,925,000 (2009:HK$56,281,000) and HK$48,960,000 (2009: HK$60,371,000) respectively.

As at 31st December, 2010, the carrying value of leasehold improvements of HK$16,951,000 (2009: HK$20,153,000) includes an amount of HK$3,822,000 (2009: HK$4,962,000) in respect of assets held under finance leases (see note 28).

The Group has pledged its leasehold land and buildings having a carrying value of approximately HK$70,104,000 (2009: HK$62,500,000) to a bank for banking facilities granted to the Group.

As at 31st December, 2010 and 2009, the land and buildings of approximately HK$59,176,000 and HK$55,125,000 respectively were frozen by Zhuhai Intermediate Court and Zhongshan Intermediate Court respectively (the "Court") in relation to a legal claim lodged by a third party (the "Plaintiff") against a subsidiary of the Company for a breach of a distribution agreement. Pursuant to the court judgement, the subsidiary is liable to pay the Plaintiff an amount of approximately HK$ 5,067,000. A full legal claim provision was made by the Group as at 31st December, 2010 and 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 do not have material impact on the financial position and operations of the Group.

17. PREPAID LEASE PAYMENTS

	2010 **HK$'000**	2009 HK$'000
The Group's prepaid lease payments comprise:		
Leasehold land outside Hong Kong under medium term lease	**1,015**	1,047

	2010 **HK$'000**	2009 HK$'000
Analysed for reporting purposes as:		
Current	**32**	32
Non-current	**983**	1,015
	1,015	1,047

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

18. GOODWILL

	HK$'000
CARRYING AMOUNTS	
At 1st January, 2009	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
Impairment loss recognised	(13,000)
At 31st December, 2010	**96,822**

Particulars regarding impairment testing on goodwill are disclosed in note 19.

19. IMPAIRMENT TESTING ON GOODWILL

For the purposes of impairment testing, goodwill set out in note 18 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% (2009: 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% (2009: 9.16%) and it reflects specific risks relating to the relevant operating unit. Due to the global economy recession in 2009, the turnover of this CGU in 2010 and 2009 was behind management's expectation, the management revised its cash flow projections for this CGU as at 31st December, 2010 and 31st December, 2009 with the key assumptions set out above. Based on the recoverable amount of the CGU, an impairment loss of HK$13,000,000 and HK$23,000,000 was recognised on goodwill for the year ended 31st December, 2010 and 31st December, 2009 respectively.

20. INTANGIBLE ASSET

	Customer base
	HK$'000
COST	
At 31st December, 2008 and 2009 and 2010	**74,620**
AMORTISATION AND IMPAIRMENT	
At 1st January, 2009	19,415
Charge for the year	12,437
At 31st December, 2009	31,852
Charge for the year	12,437
At 31st December, 2010	**44,289**
CARRYING AMOUNT	
At 31st December, 2010	**30,331**
At 31st December, 2009	42,768

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.

21. INVENTORIES

	2010	2009
	HK$'000	HK$'000
Raw materials	**106,123**	88,522
Work in progress	**18,147**	23,841
Finished goods	**97,565**	68,705
	221,835	181,068

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

22. TRADE AND OTHER RECEIVABLES

	2010 **HK$'000**	2009 HK$'000
Trade receivables	**127,895**	129,890
Less: allowance for doubtful debts	**(5,153)**	(8,740)
	122,742	121,150
Other receivables	**24,422**	42,848
Total trade and other receivables	**147,164**	163,998

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.

	2010 **HK$'000**	2009 HK$'000
0 – 60 days	**103,701**	107,626
61 – 90 days	**18,303**	12,757
> 90 days	**738**	767
	122,742	121,150

Included in the Group's trade receivables are receivables of approximately HK$39,216,000 (2009: HK$34,522,000) 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$117,639,000 and HK$54,842,000 as at 31st December, 2010 and 2009 respectively, which are neither past due nor impaired.

22. TRADE AND OTHER RECEIVABLES

Trade receivables (Continued)

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.

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

	2010 HK$'000	2009 HK$'000
0 – 60 days	**4,541**	65,540
61 – 90 days	**464**	661
> 90 days	**98**	107
	5,103	66,308

Movement in the allowance for doubtful debts

	2010 HK$'000	2009 HK$'000
Balance at beginning of the year	**8,740**	6,085
Impairment losses recognised on trade receivables	**–**	3,502
Reversal of allowance for trade receivables	**(2,331)**	–
Amounts written off as uncollectible	**(1,256)**	(847)
Balance at end of the year	**5,153**	8,740

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of approximately HK$5,153,000 (2009: HK$8,740,000) which have either been placed under liquidation or in severe financial difficulties. The Group does not hold any collateral over these balances.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

22. TRADE AND OTHER RECEIVABLES (Continued)

Other receivables

As at 31st December, 2009, included in the Group's other receivables was a receivable from former shareholders of a subsidiary of approximately HK$13,493,000 that related to a legal case. The legal case was settled on 30th April, 2010 *(see note 26)*.

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 31/12/2010	Balance at 1/1/2010	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

As at 31st December, 2009, included in the Group's other receivables were receivables of approximately HK$13,064,000 and HK$429,000 denominated in EUR and the USD respectively, foreign currency of the relevant group entities.

23. HELD-FOR-TRADING INVESTMENTS

The investments represent equity securities listed in the United States which are stated at quoted market bid price. The held-for-trading investments are grouped to level 1 based on the degree to which the fair value is observable. Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identified assets or liabilities.

24. AMOUNTS DUE FROM THE DISPOSED SUBSIDIARIES

The amounts were unsecured, interest-free and repayable within one year. At 31st December, 2010, the amounts due from the disposed subsidiaries are eliminated upon the Group acquired Max Smart Investment Limited and its subsidiaries (including the disposed subsidiaries) on 1st February, 2010. The details of the acquisition are set out in note 32.

25. PLEDGED BANK DEPOSIT AND BANK BALANCES AND CASH

As at 31st December, 2009, the pledged bank deposit was to secure short term bank facilities granted to the Group and was therefore classified as a current asset. As at 31st December, 2010, the pledged bank deposit carried interest at average fixed rate of 0.17% (2009: 0.02%) per annum. The bank balances carries interest at prevailing interest rates. As at 31st December, 2010, the pledged bank deposit of approximately HK$2,177,000 (2009: Nil) for a new short term bank facilities granted in the year ended 31st December, 2010 are denominated in the USD, foreign currency of the relevant group entities.

The bank balances of approximately HK$35,908,000 (2009: HK$51,748,000) are denominated in the USD, foreign currency of the relevant group entities.

At 31st December, 2010, the bank balances and cash of approximately HK$6,053,000 (2009: HK$1,791,000) were denominated in Renminbi ("RMB") which is not freely convertible into other currencies.

26. TRADE AND OTHER PAYABLES AND ACCRUALS

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

	2010 **HK$'000**	2009 HK$'000
Trade payables	**92,891**	92,022
Other payables and accruals	**61,042**	75,356
	153,933	167,378

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

	2010 **HK$'000**	2009 HK$'000
0 – 60 days	**73,806**	77,868
61 – 90 days	**15,831**	10,624
> 90 days	**3,254**	3,530
	92,891	92,022

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26. TRADE AND OTHER PAYABLES AND ACCRUALS (Continued)

As at 31st December, 2009, included in the Group's other payables was a payable of a subsidiary, Funrise Toys Limited ("Funrise Toys") of approximately HK$13,493,000 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 had to be settled by Funrise Toys on or before 14th December, 2009, otherwise the case would be treated as conclusive and Funrise Toys was 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 indemnified the Group the claim against Funrise Toys, so that, if the liability crystalises, the former shareholders would 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 was probable at the completion of the acquisition. As a result, a liability of HK$13,493,000 had been included in trade and other payables and accruals as at 31st December, 2009. In addition, a receivable of HK$13,493,000 had been included in trade and other receivables as at 31st December, 2009.

On 30th April, 2010, Funrise Toys entered into settlement agreement with the plaintiff pursuant to which the Group agreed to settle the aforementioned legal claim by paying an amount of approximately HK$3,103,000 to the plaintiff. Such amount was reimbursed by the former shareholders. As a result, the respective remaining other receivable and other payable related to the legal case of HK$13,493,000 were derecognised during the year ended 31st December, 2010.

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

27. UNSECURED BANK BORROWINGS

	2010	2009
	HK$'000	HK$'000
Bank loans	–	24,661

At 31st December, 2009, bank loans were repayable within one year and bear variable interest at HIBOR plus 1.5% ranging from 1.55% to 1.57% per annum.

At 31st December, 2009, 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 which were denominated in USD, foreign currency of the relevant group entities.

28. OBLIGATIONS UNDER FINANCE LEASES

It is the Group's policy to lease certain of its leasehold improvements 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% (2009: 8.00% to 13.00%) per annum. 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	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable under finance leases				
Within one year	**1,962**	2,682	**1,847**	2,227
In more than one year but not more than two years	**–**	1,962	**–**	1,847
	1,962	4,644	**1,847**	4,074
Less: future finance charges	**(115)**	(570)	**–**	–
Present value of lease obligations	**1,847**	4,074	**1,847**	4,074
Less: Amount due for settlement within 12 months (shown under current liabilities)			**(1,847)**	(2,227)
Amount due for settlement after 12 months			**–**	1,847

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

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29. SHARE CAPITAL

	Number of shares 2010 and 2009 '000	Share capital 2010 and 2009 HK$'000
Ordinary shares of HK$0.1 each		
Authorised		
At the beginning and end of the year	**1,000,000**	**100,000**
Issued and fully paid		
At the beginning and end of the year	**712,294**	**71,229**

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

30. 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$'000 (Note)	Total HK$'000
At 1st January, 2009	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
Credit to profit or loss	(2,323)	–	(2,052)	(4,656)	–	(9,031)
Acquisition of subsidiaries	–	–	–	–	66	66
Exchange difference	–	(1)	–	–	10	9
At 31st December, 2010	**(662)**	**2,645**	**5,016**	**(5,001)**	**(2,003)**	**(5)**

Note: The amount represents the temporary differences arising from deferred rent, accrued vacation and bonus in the subsidiaries operated in the United States.

30. DEFERRED TAXATION (Continued)

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:

	2010	2009
	HK$'000	HK$'000
Deferred tax liabilities	**8,558**	12,869
Deferred tax assets	**(8,563)**	(3,918)
	(5)	8,951

At the end of the reporting period, the Group had unused estimated tax losses of HK$29,732,000 (2009: HK$29,554,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK$14,744,000 (2009: HK$1,050,000) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses of HK$14,988,000 (2009: HK$28,504,000) due to the unpredictability of future profit streams. The tax losses may be carried forward indefinitely.

31. LOAN FROM ULTIMATE HOLDING COMPANY

The amount is unsecured and interest-free. As at 31st December, 2010, the ultimate holding company agreed not to request settlement of HK$87,958,000 (2009: HK$99,618,000) within one to one and half year from the end of the reporting period. On 31st May, 2010 and 31st December, 2010, the loan amounts of approximately HK$73,427,000 and HK$14,531,000 due for settlement on 31st May, 2010 and 30th June, 2011 were extended to 31st May, 2012 and 30th June, 2012 respectively. The fair value of the loan from ultimate holding company is determined based on an effective interest rate of 3.0% (2009: 3.0%) per annum at the end of the reporting period. The difference between the principal amounts of the loan of HK$73,427,000 and HK$14,531,000 and their fair value determined on 31st May, 2010 and 31st December, 2010 amounted to approximately HK$4,215,000 and HK$423,000 respectively (2009: HK$2,996,000) has been credited to equity as deemed contribution from ultimate holding company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

32. ACQUISITION OF SUBSIDIARIES

On 1st February, 2010 (the date of completion), the Group acquired the entire issued capital of Max Smart Investment Limited ("Max Smart") for cash consideration HK$1.00 from Waterfront Investment Management Limited ("Waterfront"). The acquisition has been accounted for using the acquisition method. Max Smart is an investment holding company and holds 100% equity interests in Keyhinge Holdings Limited which holds 98% of the equity interests in Keyhinge Toys Vietnam Joint Stock Company which is principally engaged in the manufacture of toys in Vietnam (Max Smart, Keyhinge Holdings Limited and Keyhinge Toys Vietnam Joint Stock Company collectively known hereinafter as "Max Smart Group")

Max Smart Group is principally engaged in the manufacture of toys. Max Smart Group was the subsidiaries of the Group and was disposed of by the Group to an independent third party (the "Purchaser") on 1st July, 2008. Pursuant to the sales and purchase agreement entered into between the Group and the Purchaser dated 26th June, 2008, the Purchaser should procure to make full payment of all the amounts due to the Group by Max Smart Group on or before 31st December, 2009. Subsequent to the disposal of Max Smart Group by the Group, Max Smart Group has continued to be a manufacturer of the Group's products. As a result of the change in the overall economy and the business environment, Max Smart Group was unable to settle the outstanding amounts due to the Group on 31st December 2009. Thus, the Purchaser agreed to sell Max Smart Group to the Group at a nominal consideration of HK$1.00.

The Group will continue to engage Max Smart Group to manufacture the Group's products after completion of the acquisition, the Directors considered that the acquisition was in the interest of the Company and its shareholders as a whole.

32. ACQUISITION OF SUBSIDIARIES (Continued)

Assets acquired and liabilities recognised at the date of acquisition are as follows:

	HK$'000
Current assets	
Inventories	9,462
Trade and other receivables	234
Bank balances and cash	271
Non-current assets	
Property, plant and equipment	19,983
Current liabilities	
Trade and other payables	(7,462)
Amounts due to the Group	(59,260)
Non-current liabilities	
Deferred tax liabilities	(66)
	(36,838)

The goodwill arising on acquisition is HK$36,838,000.

Impairment on goodwill *(Note)*	36,838
Reversal of impairment loss on amounts due from the disposed subsidiaries	(36,890)
Net gain on acquisition of subsidiaries	(52)

Note: The Group was the major customer of Max Smart Group. No significant profit and cash flow will be generated by Max Smart Group alone. Hence, the Group fully impaired goodwill of HK$36,838,000 immediately after the acquisition.

Net cash inflow arising on acquisition of Max Smart Group is HK$271,000.

The amounts due to the Group as at 1st February, 2010 were approximately HK$59,260,000. An impairment of HK$36,890,000 was recognised as at 31st December, 2009. An amount of HK$52,000, which was the difference between the reversal of the impairment loss of HK$36,890,000 and the impairment on goodwill of HK$36,838,000 was credited to profit or loss for the year ended 31st December, 2010. Had the acquisition been completed on 1st January, 2010, total Group's profit for the year would have been HK$61.6 million and there would have been no impact to the total revenue of the Group. The pro forma financial information is for illustrative purpose only and is not necessarily an indication of revenue and results of the operation of the Group that actually would have been achieved had the acquisition been completed on 1st January, 2010, nor is it intended to be a projection of future results.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

33. OPERATING LEASE COMMITMENTS

	2010 HK$'000	2009 HK$'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	**15,187**	22,317

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:

	2010 HK$'000	2009 HK$'000
Within one year	**10,188**	10,809
In the second to fifth years inclusive	**18,098**	25,246
After five years	**12,551**	2,496
	40,837	38,551

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.

34. CAPITAL COMMITMENTS

	2010 HK$'000	2009 HK$'000
Capital expenditure in respect of the acquisition of property, plant and equipment		
– contracted for but not provided in the consolidated financial statements	**–**	221
– authorised but not contracted for	**4,929**	916

35. RELATED PARTY TRANSACTIONS

The amount due from a director, amounts due from the disposed subsidiaries, and loan from ultimate holding company are disclosed in notes 22, 24 and 31 respectively.

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

	2010 **HK$'000**	2009 HK$'000
Rental paid or payable to related companies *(Note a)*	**729**	693
Subcontracting fees paid or payable to a related company *(Note b)*	**3,800**	18,675
Purchase of finished goods from a related company *(Note b)*	**196**	35,581
Sales of raw materials to a related company *(Note b)*	**(1,541)**	(8,214)
Service fee charged to a related company *(Note b)*	**(8)**	(94)
Subcontracting fee charged to a related company *(Note b)*	**–**	(1,972)
Sales of property, plant and equipment to a related company *(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 related companies but have no beneficial interests in the related companies. The related companies were acquired by the Group on 1st February, 2010. Details of the acquisition are set out in note 32.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

35. 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:

	2010	2009
	HK$'000	HK$'000
Salaries and other short-term employee benefits	**11,081**	11,227
Post-employment benefits	**172**	186
Share-based payments	**8,189**	4,158
	19,442	15,571

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

36. 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.

36. 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, 2010, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 49,200,000 (2009: 62,000,000), representing 6.9% (2009: 8.7%) 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

36. 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, 2009	Granted during year	Expired/ Lapsed during year	Outstanding at 1st January, 2010	Expired/ Lapsed during year	Outstanding at 31st December, 2010
2005	2,922,000	–	(2,922,000)	–	–	–
2007a	8,433,333	–	(2,133,333)	6,300,000	(6,300,000)	–
2007b	6,500,000	–	–	6,500,000	(6,500,000)	–
2007c	2,000,000	–	–	2,000,000	–	2,000,000
2007d	2,000,000	–	(2,000,000)	–	–	–
2007e	2,000,000	–	–	2,000,000	–	2,000,000
2009a	–	44,000,000	–	44,000,000	–	44,000,000
2009b	–	1,200,000	–	1,200,000	–	1,200,000
	23,855,333	45,200,000	(7,055,333)	62,000,000	(12,800,000)	49,200,000
Exercisable at the end of the year 2010						**49,200,000**
Exercisable at the end of the year 2009						16,800,000
Weighted average exercise price	HK$1.92	HK$1.26	HK$2.02	HK$1.42	HK$1.94	HK$1.29

There was no option granted during the year ended 31st December, 2010. 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 were HK$28,446,000 and HK$880,000 respectively.

36. 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	2009a	2009b
Weighted average share price	HK$1.129	HK$1.133
Exercise price	HK$1.250	HK$1.448
Expected volatility	96.00%	97.00%
Expected life	3 years	3 years
Risk–free rate	1.50%	1.62%
Expected dividend yield	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$19,697,000 for the year ended 31st December, 2010 (2009: HK$9,629,000) in relation to share options granted by the Company.

37. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

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

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.

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$2,799,000 (2009: HK$3,962,000) represents contributions payable to the schemes by the Group at the rates specified in the rules of the various schemes.

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the principal subsidiaries at 31st December, 2010 and 31st December, 2009 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
				2010	2009	
Funrise, Inc	USA	USD7,500	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	Macau Pataca 100,000	Quota capital	**100%**	100%	Purchasing and trading of toys
Matrix Manufacturing Limited	British Virgin Islands	USD1	Ordinary share	**100%**	100%	Manufacture of toys

38. 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
				2010	2009	
Matrix Manufacturing Vietnam Company Limited	Vietnam	USD5,000,000	Capital contribution	**100%**	100%	Manufacture of toys
Keyhinge Toys Vietnam Joint Stock Company	Vietnam	USD9,766,400	Capital contribution	**100%**	100%	Manufacture of toys
Associated Manufacturing Vietnam Company Limited	Vietnam	USD10,000,000 (Issued) USD8,466,500 (Fully paid)	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)	USD5,910,000	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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

39. CONTINGENT LIABILITIES

A. Legal Claim

1. On 19th August, 2009, the 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 the IRD on 16th March, 2009 for the year of assessment 2002/2003. The details of the additional tax assessment issued by the IRD are set out in note 13.

2. A legal claim was filed on 10th January, 2011 against Funrise, Inc., a subsidiary of the Company by Charles M. Forman (the "Plaintiff A"), liquidator of a customer of Funrise, Inc. (the "Debtor A"). In addition, a legal claim was filed on 20th January, 2010 against Associated Traders Hong Kong Limited ("ATL"), a subsidiary of the Company by Hoop Liquidating Trust (the "Plaintiff B"), liquidator of a customer of ATL (the "Debtor B").

   Plaintiff A and Plaintiff B alleged their complaints against Funrise, Inc. and ATL by bringing adversary proceedings to avoid and recover the monetary value of all such preferential transfers (the "Transfers") made by one or more of the Debtor A and the Debtor B to Funrise, Inc. and ATL arising from the Debtors' bankruptcy.

   The total potential claims are approximately USD115,000 and USD338,000 against Funrise, Inc. and ATL respectively (total equivalent to HK$3,533,000). The Directors believe, based on legal advice, Funrise, Inc. and ATL have a meritorious defense based on a "contemporaneous exchange of value". The aforementioned complaint 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.

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 the IRD, details of which are as set out in note 13.

40. MAJOR NON CASH TRANSACTION

For the year ended 31st December, 2010, Funrise Toys settled a legal claim and the details of the settlement is set out in note 26. The settlement amount of HK$3,103,000 is paid by the former shareholders directly to the plaintiff.

FINANCIAL SUMMARY

	Year ended 31st December,				
	2006	2007	2008	2009	**2010**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
RESULTS					
Turnover	867,959	1,218,759	1,273,548	977,741	**880,473**
Profit (loss) before taxation	104,050	61,861	(36,645)	70,832	**52,696**
Income tax (charge) credit	(3,404)	(2,200)	(734)	6,040	**8,662**
Profit (loss) for the year	100,646	59,661	(37,379)	76,872	**61,358**
Attributable to:					
Owners of the Company	100,646	59,667	(37,361)	76,872	**61,358**
Non-controlling interests	–	(6)	(18)	–	**–**
	100,646	59,661	(37,379)	76,872	**61,358**
	HK$	HK$	HK$	HK$	**HK$**
Earnings (loss) per share					
Basic	0.16	0.09	(0.05)	0.11	**0.09**
Diluted	N/A	N/A	N/A	N/A	**0.09**

	At 31st December,				
	2006	2007	2008	2009	**2010**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Total assets	528,789	992,329	910,817	848,879	**823,976**
Total liabilities	(225,282)	(533,867)	(493,101)	(363,087)	**(305,750)**
	303,507	458,462	417,716	485,792	**518,226**
Equity attributable to owners of the Company	303,507	456,811	417,716	485,792	**518,226**
Non-controlling interests	–	1,651	–	–	**–**
	303,507	458,462	417,716	485,792	**518,226**

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 5th May, 2011 at 2:30 p.m. for the following purposes:–

1. To receive and consider the audited financial statements for the year ended 31st December, 2010 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 (the "Share Option Scheme"); 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)."

NOTICE OF ANNUAL GENERAL MEETING

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."

NOTICE OF ANNUAL 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."

D. "THAT subject to the terms and conditions upon the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the shares of HK$0.10 each in the capital of the Company to be issued pursuant to the exercise of options which may be granted under the Share Option Scheme, the refreshment of the general limit in respect of the grant of options to subscribe for shares of the Company under the Share Option Scheme be and is hereby approved provided that (i) the total number of shares in respect of which options may be granted under the Share Option Scheme shall not exceed 10% of the total number of shares in issue as at the date of passing this resolution; and (ii) options previously granted under the Share Option Scheme (including those outstanding, cancelled, lapsed in accordance with the terms of the Share Option Scheme or exercised options) will not be counted for the purpose of calculating the 10% refreshed limit; and (iii) the Directors of the Company be and are hereby authorized to offer or grant options pursuant to the Share Option Scheme subject to the 10% refreshed limit and to exercise all the powers of the Company to allot and issue shares upon the exercise of such options; and that (iv) such increase in the 10% refreshed limit shall in no event result in the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes of the Company or any of its Subsidiaries (as defined in the Share Option Scheme) exceed 30% of the Shares in issue from time to time.'

By Order of the Board
Lai Mei Fong
Company Secretary

Hong Kong, 30th March, 2011

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 28th April, 2011 (Thursday) to 5th May, 2011 (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 27th April, 2011.

5. An explanatory statement containing further details regarding the proposed Resolutions set out in the notice (except Resolutions 1 to 4 and 5d) convening the above meeting will be sent to members of the Company together with the annual report 2010.

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, all votes of the Shareholders at the annual general meeting must be taken by poll.