MATRIX
Matrix Holdings Limited
美力時集團有限公司

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

Annual Report 2011

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**

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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 five plants – four in Vietnam and one in Zhongshan, the PRC. As at 31st December, 2011, the Group employed approximately 11,500 staff in Hong Kong, Macau, PRC, Vietnam, United States of America and Europe. The Shelcore and the Funrise Group, well-established toy companies designing, manufacturing and selling plastic toys were merged into the Group since 2005 and 2007 respectively.

Zhongshan, the PRC

Danang City, Vietnam – First Plant

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
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

Danang City, Vietnam –
Second Plant

Danang City, Vietnam –
Third Plant

Vinh City, Vietnam –
Fourth Plant

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 Macau Branch

WEBSITE

www.irasia.com/listco/hk/matrix

STOCK CODE

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

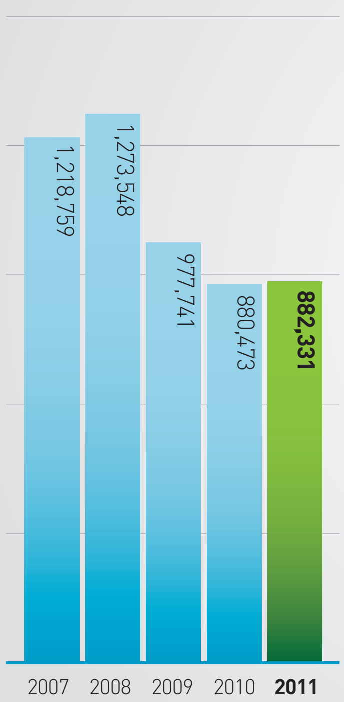
FINANCIAL HIGHLIGHTS

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

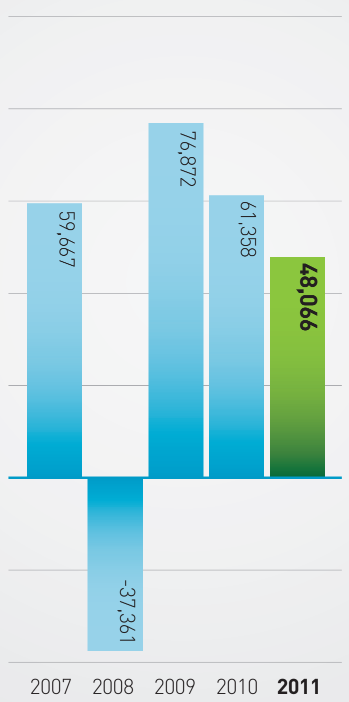
CONSOLIDATED

(HK$'000, except where otherwise stated)	2011	2010	% Change
Turnover	**882,331**	**880,473**	0.2%
Gross profit	**310,411**	**329,693**	(5.8%)
Operation profit before exceptional items	**48,066**	**74,358**	(35.4%)
Exceptional items:			
Impairment loss on goodwill	**–**	**(13,000)**	100.0%
Profit for the year attributable to owners of the Company	**48,066**	**61,358**	(21.7%)
Earnings per share – Basic	**HK7 cents**	**HK9 cents**	(22.2%)
Dividend per share			
Interim, paid	**HK1.1 cents**	**HK3 cents**	(63.3%)
Final, proposed	**HK3.5 cents**	**HK5 cents**	(30.0%)
Gross Profit Margin (%)	**35.18**	**37.44**	(6.0%)
Net Profit Margin (%)	**5.45**	**6.97**	(21.8%)
Gearing Ratio (%)	**16.48**	**16.63**	(0.9%)
Current Ratio	**2.22**	**2.07**	7.2%
Quick Ratio	**1.03**	**1.03**	–

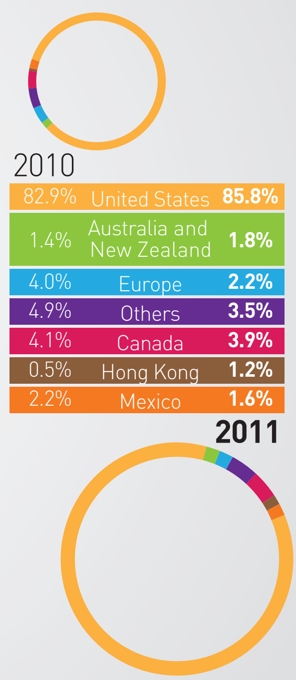
TURNOVER



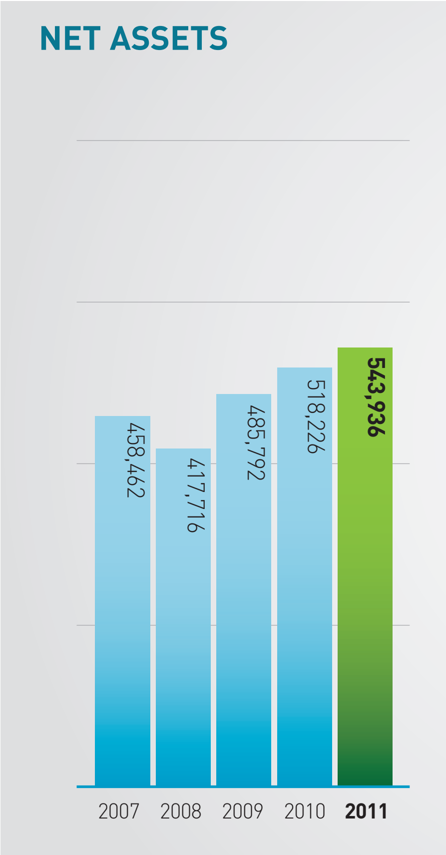
PROFIT (LOSS) FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY

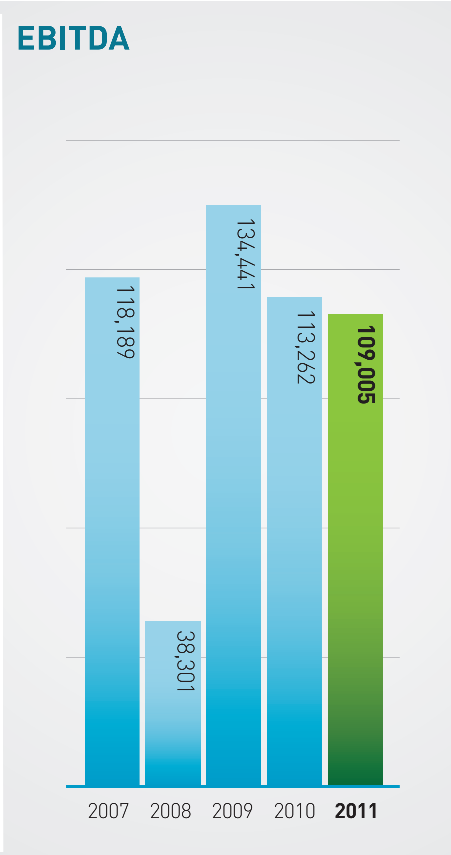


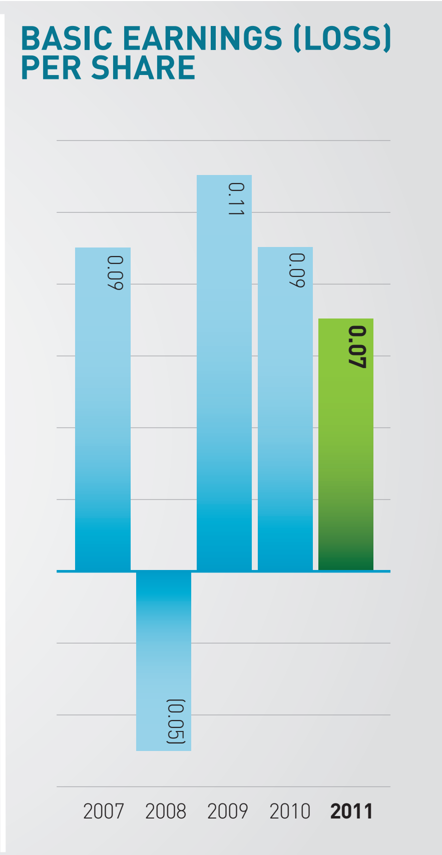
TURNOVER BREAKDOWN BY MARKET



Financial Highlights







DEFINITIONS

Gross Profit Margin (%)	=	$\frac{\text{Gross Profit}}{\text{Turnover}}$	x 100%
Net Profit Margin (%)	=	$\frac{\text{Profit attributable to owners of the Company}}{\text{Turnover}}$	x 100%
Gearing Ratio (%)	=	$\frac{\text{Total Debt}}{\text{Equity attributable to owners of the Company}}$	x 100%
Current Ratio	=	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	
Quick Ratio	=	$\frac{\text{Current Assets excluding Inventories}}{\text{Current Liabilities}}$	

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, 2011.

During the year under review, the Group recorded an increase of consolidated turnover from HK$880,473,000 in previous year to HK$882,331,000. The profit attributable to owners of the Company amounted decreased to HK$48,066,000, as compared to the last year's HK$61,358,000.

The Group continued to enhance the development of its core business through strategic restructuring plans. Widespread concerns over the sovereignty debt crisis still lingered around despite those phased quantitative easing measures implemented in the market, thereby resulting in a slowdown in the recovery of the global economy, particularly those of developed countries; however, with the favorable effect brought about by the enhanced promotional and marketing initiatives of LED lighting products, the Group was able to expand the global coverage of its customer base. Meanwhile, orders for toy products under self-owned brand names and well-known licensed brand names placed by our loyal clients around the world still flowed to the Group continuously. The Group's quality clientele consisted of owners of the most renowned toy brand names and famous retailers across the world. We developed and recommended specific promotion proposals to facilitate our clients and the Group to increase the sales volume and to promote the brand names, aiming at a mutual-beneficial solution for all parties. During the year, the Group kept on strengthening its partner relationship with the said clientele, improving the operating environment and upgrading the efficiency of cost control measures and production activities for the sake of maintaining the stable development of its business. Accordingly, during the past year, the Group maintained stable sales volume regardless of the global economic uncertainty and the conservative approach adopted by clients in the course of placing orders.

The Group continued to compete labour resources with all labor-intensive factories located in the Pearl Delta Region, and also needed to accommodate to challenges brought about by the higher statutory minimum wage and the further decrease in the supply of migrant workers from other parts of China. All these factors contributed to an increase in labor costs as well as an unsteady supply of migrant workers. Moreover, the political instability of a number of oil exporting countries also pushed up the prices of oil and raw materials. Besides, with the inflation and energy costs fuelled by the appreciation of Renminbi and the weakening United States dollars as well as the increase in costs of raw materials, including plastic materials, paper packaging materials and metal materials, an ever rising trend of production costs was formed accordingly. In addition, given the Group's investment approach focusing on its strategic development planning (including investment in new businesses on an on-going basis and developing a variety of products, operating costs increased as a result) thereby inevitably affecting the profit margin and results performance of the Group, and in turn reducing our overall profitability.

In addition to the toy business, the management endeavored to develop the lighting business, and will adjust its marketing strategy according to market condition, aiming at expanding its customer base, exploring new business opportunities in markets and then diversifying our income source. Accordingly, orders increased significantly during the year.

The management is cautiously optimistic about the business outlook. In conclusion, I would like to express my deepest gratitude to all of our stakeholders, including shareholders, customers, business partners and suppliers, for their continuous support in various aspects and for their confidence in the Group for years. 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, 20th March, 2012

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS

For the year ended 31st December, 2011, the Group's consolidated turnover slightly increased from HK$880,473,000 in previous year to HK$882,331,000 by 0.2%. The profit attributable to owners of the Company amounted to HK$48,066,000, down 21.7% from HK$61,358,000 for the last year. The basic earnings per share was HK7 cents (2010 basic earnings per share: HK9 cents). Major economies around the world slowed down and concerns over the European debt crisis lingered around the United States and Europe, which are the most important exporting markets of the Group, thus undermining the spending desire of the market. Our clients adopted a conservative approach during the course of placing orders or even postponed the placement of orders, which intensified the market competition and affected the bargaining power in pricing as well as the sales volume. Nevertheless, challenges brought about by intensified competition forced certain industrial players to quit the market, offering business opportunities for further development to reputable players with sound financial position in the toy industry, including the Group. LED lighting business, original equipment manufacturing ("OEM"), authorized brand licensing and original design manufacturing ("ODM") of toy businesses and the improvement of product design, development and marketing activities of self-owned brands and renowned brand names continued to be the core business of the Group. In 2011, the Group enriched its product mix of its new product lines, increased the percentage of products with a higher profit margin, optimized its marketing campaigns and expanded the distribution network of its products by the application of internet social media, such as blog and social network, as well as appointing more dedicated retailers. All these initiatives were well received by the market, thus recording a stable sales volume.

Regardless of the stringent cost control measures of the Group, prices of raw materials, including plastic materials, paper packaging materials and metal materials, increased. Energy prices also recorded an ever rising trend due to other external factors. In addition, the labor shortage in the Pearl River Delta of China, the appreciation of Renminbi and the higher statutory minimum wage in China also pushed up the direct labor cost. On the other hand, the high inflation rate, the appreciation of Renminbi against United States dollars and Hong Kong dollars and the increase in our expenses for product promotion, advertisement and trade fairs, thereby undermining the Group's profit margin.

DIVIDENDS

During the year, the Company paid an interim dividend of HK1.1 cents in cash (2010: interim dividend HK3 cents in cash) per share to the shareholders. The Directors had resolved to recommend the payment of a final dividend of HK3.5 cents (2010: HK5 cents) per share for the year ended 31st December, 2011, payable to shareholders whose names appear on the Register of Members of the Company on 10th May, 2012. Together with the interim dividend paid of HK1.1 cents per share, the total dividend per share for the year is HK4.6 cents (2010: HK8 cents).

Subject to the approval of the shareholders at the forthcoming annual general meeting, the proposed final dividend will be paid on or about 17th May, 2012.

BUSINESS REVIEW

The exporting market of the Group mainly included the United States (the "US"), Canada and Europe. In spite of the market with intense competition, the Group was able to retain its major and quality clients with its established goodwill in the sector and its persistence of supplying products with excellent quality and our turnover recorded an increase accordingly. The Group implemented stringent cost control measures to accommodate itself to the market uncertainties and the ever rising operation and production cost. In 2011, the Group actively took part in trade fairs for LED lighting products, including the US Lighting Fair, Hong Kong Lighting Fair, the Canton Fair and those held in Australia, India, Dubai, Vietnam, Poland and Istanbul. Besides, the Group also successfully secured a foothold in the South America market and its clientele consisted of clients in Columbia and Mexico. The Group established a network comprising distributors and clients from the US, UK, Germany, Sweden, Italy, Austria, Poland, Spain, Latvia, Ukraine, Russia, Dubai, Australia, Philippines, China and Hong Kong, aiming at generating a higher sales volume and driving a growth for the Group in the following year. We will participate in lighting fairs held in a number of countries in the following year.

MANUFACTURING OPERATION

The Group was operating 5 self-owned factories, of which 4 were in Vietnam and the other one was in Zhongshan, China. The Group adjusted the production activities of individual factory in a well-organized way to make use of the flexibility available in terms of capacity. In order to attain higher production efficiency, to be more cost efficient and to substantially reduce direct labor costs and management expenses, we further expanded our production activities in Vietnam during the year because the labor force in Vietnam was relatively abundant and the labor cost was also reasonable, providing a steady environment under which the Group was able to rely less on factories in China. During the year under review, in order to meet the demanding product requirement with modernized equipment, the Group increased its investment in production facilities in Vietnam by purchasing additional plant, equipment and moulds, and also applied internal capital expenditure to upgrade its production facilities and enhance the quality control for our laboratories.

SEGMENT PERFORMANCE

The Group was 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 was also devoted to grow its lighting business to explore business opportunities. During the year under review, the Group achieved the following development in operations by geographic locations:

Management Discussion and Analysis

UNITED STATES

The US was still the most important exporting market of the Group's toy products. Our turnover increased by 3.7% or HK$26,952,000 to HK$756,660,000 this year from HK$729,708,000 in 2010. The Group established a secured relationship with its existing OEM clients and would continue to fortify the said relationship. The authorized licensing business and ODM business delivered satisfactory performance as a whole while the orders for products under "TONKA" series from renowned retailers in the US also recorded a steady growth in general. The Group took an active role to design, develop, sell and market products under "TONKA", a brand name of our client, "GAZILLION", a self-owned brand name, and "GIRL ROLE PLAY", a new brand name, and meanwhile identified new distribution channels for those products. Since the economic conditions became stable, our sales volume resumed to a steady level eventually. In addition, products under "HOP" series, an exclusively authorized brand name, were well received in the US market. The Group endeavored to retain its existing distributors and clients, including Wal-Mart, Target, Costco, Toys "R" US and Kmart. We would also continue to retain the major brand names licensed under authorization to enrich our product range.

CANADA

Our turnover in the Canadian market decreased by 3.4% or HK$1,208,000 to HK$34,754,000 this year from HK$35,962,000 in 2010. The decrease in turnover was resulted from the slowdown of economic recovery. However, the Group would strive to retain its existing distributors and clients, including Wal-Mart and Toys "R" US.

EUROPE

Europe was also an important market of the Group. Our turnover in Europe decreased by 44.4% or HK$15,808,000 to HK$19,822,000 this year from HK$35,630,000 in 2010. Concerns over the debt crisis still lingered around the European market and, therefore, our clients were cautious in the course of placing orders by adopting a more conservative approach for procurement. Certain products were adjusted according to market conditions and the bargaining power in pricing was hampered. Our turnover in Europe decreased was subject to direct impact. However, the Group still endeavored to retain its existing distributors and clients.

MEXICO

Our turnover in Mexico decreased by 29.6% or HK$5,818,000 to HK$13,848,000 this year from HK$19,666,000 in 2010. The turnover recorded a decrease because certain clients adopted a conservative approach in the course of placing orders and certain products were adjusted according to market conditions. However, the Group still endeavored to retain its existing distributors and clients, including Coppel.

AUSTRALIA & NEW ZEALAND

Our turnover in Australia and New Zealand increased by 11.8% or HK$1,648,000 to HK$15,576,000 this year from HK$13,928,000 in 2010. Sales volume resumed to a steady level because the economic conditions were stabilized eventually. The Group would strive to retain its existing distributors and clients, such as Kmart Australia.

HONG KONG

Our turnover in Hong Kong increased by 120.8% or HK$5,665,000 to HK$10,355,000 this year from HK$4,690,000 in 2010. Since the economy became stable, our sales volume gradually increased.

FINANCIAL REVIEW

LIQUIDITY AND FINANCIAL RESOURCES

As at 31st December, 2011, the Group had bank balances and cash of approximately HK$45,998,000 (2010: HK$62,765,000) and pledged bank deposit of approximately HK$2,183,000 (2010: HK$2,177,000) secured for banking facilities granted. During the year under review, the Group obtained banking facilities in a total of approximately HK$52,300,000 (2010: HK$50,000,000) secured by fixed deposits and corporate guarantee given by the Company.

As at 31st December, 2011, the Group had bank loans of approximately HK$6,978,000 (2010: HK$nil). The Group's gearing ratio, representing the total debt (sum of unsecured bank borrowings, obligations under finance leases and loans from ultimate holding company) divided by equity attributable to owners of the Company, was 16.5% (2010: 16.6%).

During the year, net cash generated from operating activities amounted to approximately HK$56,394,000 (2010: HK$104,506,000). 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$57,194,000 (2010: HK$16,552,000) to further enhance and upgrade the production capacity. These capital expenditures were financed primarily by cash generated from operations. Capital expenditure authorised for the year but not contracted for amounted to approximately HK$2,003,000 (2010: HK$4,929,000).

ASSETS AND LIABILITIES

At 31st December, 2011, the Group had total assets of approximately HK$840,156,000 (2010: HK$823,976,000), total liabilities of approximately HK$296,220,000 (2010: HK$305,750,000) and equity attributable to owners of the Company of approximately HK$543,936,000 (2010: HK$518,226,000). The net assets of the Group increased approximately 5.0% (2010: increased 6.7%) to approximately HK$543,936,000 as at 31st December, 2011 (2010: 518,226,000).

SIGNIFICANT INVESTMENTS AND ACQUISITION

There was no significant investment and acquisition for the year ended 31st December, 2011.

SIGNIFICANT DISPOSAL

There was no significant disposal for the year ended 31st December, 2011.

CONTINGENT LIABILITIES

For the details of the contingent liabilities, please refer to note 38 to the consolidated financial statements.

SUBSEQUENT EVENT

There was no subsequent event for the year ended 31st December 2011.

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 and trade and other receivables of the Group are denominated in foreign currencies other than the functional currency of the relevant group entities. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

Management Discussion and Analysis

NUMBER OF EMPLOYEES AND REMUNERATION POLICIES

As at 31st December, 2011, the Group had a total of approximately 11,500 (2010: 12,000) employees in Hong Kong, Macau, PRC, Vietnam, 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.

PROSPECTS

Due to the concerns about the European sovereignty debt crisis still linger around the US and European markets, the global economy recovery is uncertainty. Meanwhile, given the labor shortage in PRC cities which were mainly engaged in manufacturing activities, the appreciation of Renminbi, the fluctuation of prices of raw materials and the higher statutory minimum wage in China, labor costs are subject to increase. The ever rising energy costs and the appreciation of RMB may also result in higher production costs, which will have adverse impact on businesses of the Group. The Group's revenue is mainly derived from OEM and ODM businesses; however, the Group will keep on diversifying its business. The Group will strengthen its relationship with major clients and will strive to enhance its core business. Vietnam is currently the alternative production base of the Group because the said country is more competitive than China or other Asia countries in terms of labor supply and labor costs. The Group's objectives still includes the simplification of work flow, the enhancement of operation and production efficiency, the streamlining of production procedures through automation, the improvement of production efficiency of its factories and the reduction of outgoings and transportation and administration costs. In addition, the Group will continue to improve its production efficiency including the retirement of inefficient production facilities and studying the possibility to make use of the idle capacity available in low seasons. The Group will try its best to upgrade its productivity and control its production costs.

The Group will keep on investing in the development of LED lighting products under its own brand name "VIRIBRIGHT", innovative products as well as products available for sale so as to ensure resources are directed towards clients of OEM and ODM businesses and to secure orders for our self-owned brand names and renowned products in emerging overseas markets. The Group will continue to invest in the development of new series of products under the brand name of "TONKA", "GAZILLION", "GIRL ROLE PLAY" and "HOP". Besides, we will also develop "TONKA" metal and die-cast toy cars, aiming at bringing those products to the retailing sector. Moreover, the Group has also implemented measures to explore new markets, including Korea and Japan, and to expand its clientele for the sake of maintaining its competitive edges. Since the global economy is still uncertain, market activities will still be suppressed. Nevertheless, we have expanded our product range and clientele, and we expect that our sales volume will be able to maintain at a steady level and that our financial position and operation will also stay healthy. Being one of the leading players in the industry, the Group will continue to supply the most competitive products with the best quality with our core advantages, including the economy of scale, the diversified manufacturing platform, the product quality and the technological expertise.

Management Discussion and Analysis

We believe the newly established lighting segment is going to bring the Group to a stage featuring diversified businesses. The Group's marketing team in the US and South America has recruited experienced marketing experts, and we will establish new sales offices in Australia in 2012. The Group keeps on developing innovative LED lighting products and expanding its product range, and newly developed products include Spot lights, PAR lamps, candle lamp, PLC lamp, a complete series of higher power globe bulbs and T8 Tubes. On the other hand, the Group has installed 20 sets of computerized fully-automatic LED chips bonding equipment, and has fully automated its production lines. The Group is also going to increase its productivity in 2012 to make it more competitive in the LED lighting market. In 2011, the production cost of LED lighting was lower because the price of LED chips decreased slightly. Since the range of LED lighting products is quite limited at the moment and the market of which is still at the preliminary stage, the Group will continue to identify the income potential of LED lighting manufacturers around the world in order to expand its existing business and capitalize on the opportunities of diversified investment. The Group will also focus on the development of new products to meet the expectation of clients, and will introduce flexible and yet effective marketing campaigns for the sake of enhancing its sales activities in the market and promoting the brand image of "VIRIBRIGHT". The Group is optimistic about our business outlook.

Looking forward, the Group will continue to focus on its profitability and efficiency will be our ultimate goal. Accordingly, we will closely monitor the development of our lighting and toy businesses so as to expand our business in a strategic way and on a timely basis, thereby rewarding our shareholders with the highest return.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

MR. CHENG YUNG PUN

Aged 60, was appointed Chairman of the Company in September 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 operations in Greater China. Mr. Cheng has more than 31 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 64, was appointed vice chairman and executive Director of the Company in July 2007. He is responsible for the marketing development and assisting the Chairman in overall strategies, management and operation of the Group. Mr. Rubin has over 45 year's 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.

MR. YU SUI CHUEN

Aged 56, was appointed executive Director of the Company in September 2000. Mr. Yu holds a Higher Diploma in Business Administration major in Accounting. Mr. Yu has over 31 years' experience in finance management and administration of which nearly 10 years as a member of the management committee of a listed company. Mr. Yu is currently responsible for corporate finance, legal and taxation management of the Group.

MS. CHENG WING SEE, NATHALIE

Aged 38, was appointed executive Director of the Company in September 2000. Ms. Cheng has over 12 years' extensive experience in procurement in the plastic toys field and two years' experience in sales and marketing. She is currently responsible for sales and marketing of the overseas' company. She is the daughter of Mr. Cheng Yung Pun, Chairman of the Company.

MR. CHEUNG KWOK SING

Aged 53, 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 24 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 12 years and is currently responsible for the finance and accounting management.

MR. LEUNG HONG TAI (FORMER NAME KNOWN AS LEUNG MANG PONG)

Aged 55, 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. He has over 22 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 61, 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 24 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 13 years and is currently responsible for the production management.

MR. TSANG CHUNG WA

Aged 48, was appointed as executive Director of the Company in 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 23 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 11 years and is currently responsible for the marketing management and the related business management works.

INDEPENDENT NON-EXECUTIVE DIRECTORS

DR. LOKE YU ALIAS LOKE HOI LAM

Aged 62, was appointed independent non-executive Director of the Company in September 2004 and is also the chairman of the audit committee and the remuneration committee of the Company. Dr. Loke has over 36 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.

Biographies of Directors and Senior Management

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

MR. MAK SHIU CHUNG, GODFREY

Aged 49, was appointed independent non-executive Director in May 2000 and is also 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 Stock Exchange. Mr. Mak has over 21 years of experiences in the field of corporate finance.

MR. WAN HING PUI

Aged 81, was appointed independent non-executive Director in September 2004 and is also a member of the audit committee and remuneration committee of the Company. Mr. Wan has over 53 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).

CHIEF EXECUTIVE OFFICER

MR. CHEN WEI QING

Aged 44, was appointed as 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 23 years' extensive experience in product development and manufacturing 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 2011, the Board comprises eight 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, Mr. Tse Kam Wah and Mr. Tsang Chung Wa 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 less than one third of the Board and include two with appropriate professional qualifications and accounting and related financial expertise required under Rule 3.10(2) of the Listing Rules. Save as Ms. Cheng is the daughter of Mr. Cheng, there is no financial, business, family or other material/relevant relationship between the Directors. The Company considers that the Board has the necessary skills and experience appropriate for discharging their duties as Directors in the best interest of the Company and that the current board size as adequate for its present operations.

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

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.

Corporate Governance Report

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, 2010 and for the six months ended 30th June, 2011 respectively.

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

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.

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. The Board had resolved to establish a Nomination Committee which is chaired by Mr. Cheng Yung Pun, Chairman of the Board and comprising the members with the majority of INED with effect from 30th March, 2012.

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, 2011 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. All members attended the committee meeting in 2011.

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 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.

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.

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. All members attended all committee meetings in 2011. 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.

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$2,331,000 and HK$290,000 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$1,002,000.

Corporate Governance Report

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.

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, 2011.

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 37 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The five largest customers of the Group together accounted for approximately 83.5% of the Group's turnover, with the largest customer accounted for approximately 49.1%. The aggregate purchases attributable to the Group's five largest suppliers were approximately 35.6% of total purchases of the Group, with the largest supplier accounted for approximately 15.8%.

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, 2011 are set out in the consolidated statement of comprehensive income on page 41.

During the year, the Company has paid 2010 final dividend of HK5 cents and the Directors have declared 2011 interim dividend of HK1.1 cents. The 2010 final dividend was satisfied by cash and with an alternative to the shareholder to elect to receive such dividend (or part thereof) by way of scrip dividend by the allotment of new shares in the Company, credited as fully paid; however, the 2011 interim dividend was paid by cash. The total amount of scrip dividend credited as fully paid shares and total cash dividend paid during the year was approximately HK$7,831,000 and HK$35,674,000 respectively.

The Directors now recommend the payment of a final dividend of HK3.5 cents per share, amounting to approximately HK$25,112,000, to the shareholders on the register of members on 10th May 2012 payable in cash. The remaining retained profits in the Company are amounting to approximately HK$333,863,000.

PROPERTY, PLANT AND EQUIPMENT

Certain of the Group's leasehold land and buildings were revalued at 31st December, 2011. The revaluation resulted in a surplus over carrying values amounting to approximately HK$3,778,000, which has been credited directly to the asset revaluation reserve.

During the year, the Group spent approximately HK$17,292,000 on plant and machinery and approximately HK$17,492,000 on leasehold land and buildings to expand and upgrade its production capacity.

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

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 28 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, 2011 available for distribution, calculated under the Companies Act 1981 of Bermuda (as amended), amounted to approximately HK$358,975,000 (2010: HK$265,727,000).

RESERVES (Continued)

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

	2011	2010
	HK$'000	HK$'000
Contributed surplus	**3,661**	3,661
Retained profits	**355,314**	262,066
	358,975	265,727

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

During the year, no contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered or existed.

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 112.

Report of the Directors

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
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

In the last three years, i) Dr. Loke Yu alias Loke Hoi Lam (independent non-executive Director of the Company) had been the independent non-executive Director of Zmay Holdings Limited (a company listed on the Stock Exchange); but he has resigned on 18th September, 2009; ii) Mr. Cheng Yung Pun (Chairman and executive Director of the Company) had been the chairman and executive Director of Wah Nam International Holdings Listed (a listed company at the Stock Exchange); but he has resigned on 16th February, 2009. In addition, Mr. Leung Hong Tai (executive Director of the Company) was no longer a member of Australian Computer Society; and the Director emolument (including any sum receivable as Director's fee or remuneration) per month of Mr. Cheng Yung Pun, Ms. Cheng Wing See, Nathalie, Mr. Yu Sui Chuen, Mr. Cheung Kwok Sing, Mr. Leung Hong Tai, Mr. Tsang Chung Wa, Mr. Tse Kam Wah, Dr. Loke Yu alias Loke Hoi Lam, Mr. Mak Shiu Chung and Mr. Wan Hing Pui has been adjusted to HK$78,750, HK$43,050, HK$96,390, HK$74,550, HK$78,750, HK$63,000, HK$78,750, HK$6,667, HK$6,667 and HK$6,667, respectively, with effect from 1st February, 2011. Save as disclosed above, there is no information required to be disclosed pursuant to Rule 13.51(B)(1) of the Listing Rules.

DIRECTORS' SERVICE CONTRACTS

In accordance with the clause 99 of the Bye-laws of the Company, Mr. Yu Sui Chuen, Mr. Leung Hong Tai, Mr. Tse Kam Wah and Dr. Loke Yu alias Loke Hoi Lam, retire and, being eligible, offers themselves for re-election at the forthcoming annual general meeting.

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

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

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

DIRECTORS'/CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Details of related party transactions during the year are set out in note 34 to the consolidated financial statements.

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

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

As at 31st December, 2011, 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)*	526,997,569	73.47%
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)*	4,042,000	0.56%
Tsang Chung Wa *(Director)*	Personal interest	1,124,251	0.16%
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) 3,448,000 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 the year	Exercised during the year	Lapsed during the 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
Cheung Kwok Sing *(Director)*	2009a	3,000,000 *(Note 2)*	–	–	–	3,000,000	1.250	1st March, 2010 to 1st March, 2013
Leung Hong Tai *(Director)*	2009a	5,000,000 *(Note 3)*	–	–	–	5,000,000	1.250	1st March, 2010 to 1st March, 2013
Tsang Chung Wa *(Director)*	2009a	3,000,000 *(Note 4)*	–	–	–	3,000,000	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
Arnold Edward Rubin *(Director)*	2011a	–	6,300,000 *(Note 7)*	–	–	6,300,000	1.692	20th July, 2011 to 20th July, 2014
Loke Yu alias Loke Hoi Lam *(Director)*	2011a	–	300,000 *(Note 8)*	–	–	300,000	1.692	20th July, 2011 to 20th July, 2014
Mak Shiu Chung, Godfrey *(Director)*	2011a	–	300,000 *(Note 9)*	–	–	300,000	1.692	20th July, 2011 to 20th July, 2014
Wan Hing Pui *(Director)*	2011a	–	300,000 *(Note 10)*	–	–	300,000	1.692	20th July, 2011 to 20th July, 2014
Total Directors/ Chief Executive Officer		22,000,000	7,200,000	–	–	29,200,000		

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)*

	Option type	Number of underlying shares attached to the share options: Outstanding at beginning of year	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at end of year	Exercise price HK$	Exercise period
Category 2: Employees								
	2007c	2,000,000 *(Note 11)*	–	–	2,000,000	–		
	2007e	2,000,000 *(Note 12)*	–	–	2,000,000	–		
	2009a	22,000,000 *(Note 13)*	–	–	–	22,000,000	1.250	1st March, 2010 to 1st March, 2013
	2009b	1,200,000 *(Note 14)*	–	–	–	1,200,000	1.448	15th March, 2010 to 15th March, 2013
	2011a	–	7,500,000 *(Note 15)*	–	–	7,500,000	1.692	20th July, 2011 to 20th July, 2014
Total Employees		27,200,000	7,500,000	–	4,000,000	30,700,000		
Total all categories		49,200,000	14,700,000	–	4,000,000	59,900,000		

Notes:

(1) Mr. Yu Sui Chuen, an executive 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) Mr. Cheung Kwok Sing, an executive 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.

(3) Mr. Leung Hong Tai, an executive 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.

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. Tsang Chung Wa, being an executive Director of the Company, has beneficial interests in 3,000,000 underlying shares (representing 0.42% of issued share capital of the Company) in respect of share options granted to him on 1st December, 2009 pursuant to the Company's share option scheme.

(5) Mr. Tse Kam Wah, an executive 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) Mr. Arnold Edward Rubin, an executive Director of the Company, has beneficial interests in 6,300,000 underlying shares (representing 0.88% of issued share capital of the Company) in respect of share options granted to him on 21st April, 2011 pursuant to the Company's share option scheme.

(8) Dr. Loke Yu alias Loke Hoi Lam, independent non-executive Director of the Company, has beneficial interests in 300,000 underlying shares (representing 0.04% of issued share capital of the Company) in respect of share options granted to him on 21st April, 2011 pursuant to the Company's share option scheme.

(9) Mr. Mak Shiu Chung, Godfrey, independent non-executive Director of the Company, has beneficial interests in 300,000 underlying shares (representing 0.04% of issued share capital of the Company) in respect of share options granted to him on 21st April, 2011 pursuant to the Company's share option scheme.

(10) Mr. Wan Hing Pui, independent non-executive Director of the Company, has beneficial interests in 300,000 underlying shares (representing 0.04% of issued share capital of the Company) in respect of share options granted to him on 21st April, 2011 pursuant to the Company's share option scheme.

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

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

(13) The 22,000,000 underlying shares (representing approximately 3.07% 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.

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)

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

(15) The 7,500,000 underlying shares (representing approximately 1.05% of issued share capital of the Company) in respect of share options were granted on 21st April, 2011 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, 15th December, 2009 and 21st April, 2011 the dates of grant of the options type of 2007a, 2007b, 2007c, 2007e, 2009a, 2009b and 2011a were HK$1.92, HK$1.90, HK$1.65, HK$1.7, HK$1.25, HK$1.40 and HK$1.69 respectively.

Particulars of the Company's Share Option Scheme are set out in note 35 to the consolidated financial statements.

Other than as disclosed above, neither 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, 2011.

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, 2011, 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 Limited	Beneficial Interest	526,997,569	73.47%

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, 2011.

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);

SHARE OPTION SCHEME (Continued)

(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) As at 31st December, 2011, the total number of shares available for issue of option under the Share Option Scheme was 71,229,422 shares (after the refreshed scheme mandate limit of share option in respect of 71,229,422 underlying shares on 5th May, 2011) which representing 9.93% of the issued share capital of the Company (after the enlarged issued share capital in 717,327,313 shares under the issue of 5,033,085 final scrip dividend shares on 17th June, 2011);

(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;

(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;

SHARE OPTION SCHEME (Continued)

(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 35 to the consolidated financial statements.

During the year under review, the share options in respect of 4,000,000 underlying shares had been lapsed and that options carry right to subscribe for a total of 14,700,000 underlying shares were granted. Save as disclosed above, no share options are granted, exercised, cancelled or lapsed during the year.

As at 31st December, 2011, the share options which had been granted and remained outstanding carry rights to subscribe are 59,900,000 shares (31st December, 2010: 49,200,000) representing 8.35% (31st December, 2010: 6.90%) of the Shares in issue as the date of this report. 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".

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, 2011.

OTHER REQUIRED DISCLOSURE PURSUANT TO RULE 13.18 OF THE LISTING RULES

With regard to i) the renewed facilities of up to an aggregate extent of HK$12,000,000 previously granted to one of the indirect wholly-owned subsidiaries of the Company by the bank in Macau; and ii) the renewed facilities of up to an aggregate extent of HK$38,000,000 previously granted to another indirect wholly-owned subsidiary of the Company by the bank in Macau in 2011, the renewed facility letters have been provided by the bank in Macau on 12th January, 2012 regarding the renewal of the facilities for half year further (the "renewed facilities"). The terms and conditions of the facility letters for the renewed facilities including, inter alia, a condition to the effect that Mr. Cheng Yung Pun (a controlling shareholder of the Company) should maintain not less than 51% of shareholding (whether directly or indirectly) of the Company, remain unchanged. A breach of the above condition will constitute an event of default under the renewed facilities. If any significant change on the above condition occurs, the bank in Macau can request to adjust or terminate the renewed facilities.

OTHER REQUIRED DISCLOSURE PURSUANT TO RULE 13.18 OF THE LISTING RULES (Continued)

The facility letters have been provided by the bank in Hong Kong regarding the banking facilities in an aggregated amount shall not exceed HK$45,000,000 (the "new facilities". Such facilities are subject to annual review) to the two indirect wholly-owned subsidiaries of the Company on 31st January, 2012. The terms and conditions of the facility letters for the new facilities include, inter alia, a condition to the effect that Mr. Cheng Yung Pun (a 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 under the new facilities. The new facilities will become immediately due and repayable to the bank if such an event of default occurs.

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, 20th March, 2012

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 111, which comprise the consolidated statement of financial position as at 31st December, 2011, 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 information.

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 directors 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.

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

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 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 qualified audit opinion.

BASIS FOR QUALIFIED OPINION

As disclosed in note 38A(ii) to the consolidated financial statements, claims made by Matrix Distribution Limited ("MDL"), a wholly owned subsidiary of the Company, in respect of a Supply Appointment Agreement has been dismissed pursuant to an arbitral award made on 2nd March, 2012 and the arbitrator ordered MDL to pay a sum of US$7,000,000 together with the accrued interest ("Award") to the respondent. The Group has not made any provision for the Award in the consolidated financial statements and has sought legal advice on applying to set aside the Award and to pursue their own rights against the respondent and its former Directors. However, the legal advisor is in the process of doing further research as to whether a setting aside application can be made as of the date of approval of the consolidated financial statements for issue. Accordingly, we are unable to obtain sufficient reliable audit evidence to satisfy ourselves as to whether any additional provision is necessary to be recognised in accordance with Hong Kong Accounting Standard 37 "Provisions, Contingent Liabilities and Contingent Assets" issued by the HKICPA.

QUALIFIED OPINION

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the consolidated financial statements give a true and fair view of the state of the Group's affairs as at 31st December, 2011 and of its 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.

Independent Auditor's Report

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

EMPHASIS OF MATTER

Without further 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

20th March, 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31st December, 2011

	NOTES	2011 HK$'000	2010 HK$'000
Turnover	8	**882,331**	880,473
Cost of sales		**(571,920)**	(550,780)
Gross profit		**310,411**	329,693
Other income	9	**4,810**	840
Distribution and selling costs		**(130,413)**	(116,288)
Administrative expenses		**(137,459)**	(138,268)
Finance costs	10	**(3,181)**	(3,370)
Reversal of allowance for trade receivables	23	**–**	2,331
Other gains and losses	11	**12,760**	(7,928)
Research and development costs		**(8,562)**	(14,314)
Profit before taxation	12	**48,366**	52,696
Income tax (expense) credit	14	**(300)**	8,662
Profit for the year attributable to owners of the Company		**48,066**	61,358
Other comprehensive (expense) income			
Exchange difference arising on translation of foreign operations		**(13,801)**	(9,475)
Reclassification of exchange difference on deregistration of foreign operations		**(1,886)**	(1,419)
Gain on revaluation of land and buildings, and plant and machinery		**12,606**	16,708
Deferred tax arising from revaluation of land and buildings, and plant and machinery		**(542)**	–
Other comprehensive (expense) income for the year (net of tax)		**(3,623)**	5,814
Total comprehensive income for the year attributable to owners of the Company		**44,443**	67,172
Earnings per share	16		
Basic		**HK$0.07**	HK$0.09
Diluted		**HK$0.07**	HK$0.09

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31st December, 2011

	NOTES	2011 HK$'000	2010 HK$'000
Non-current assets			
Property, plant and equipment	*17*	**253,280**	238,871
Prepaid lease payments	*18*	**951**	983
Goodwill	*19*	**96,822**	96,822
Intangible asset	*21*	**17,894**	30,331
Deferred tax assets	*29*	**8,567**	8,563
Deposits paid for acquisition of property, plant and equipment		**1,948**	6,820
		379,462	382,390
Current assets			
Inventories	*22*	**247,821**	221,835
Trade and other receivables	*23*	**156,681**	147,164
Prepaid lease payments	*18*	**32**	32
Tax recoverable		**7,979**	7,613
Pledged bank deposit	*24*	**2,183**	2,177
Bank balances and cash	*24*	**45,998**	62,765
		460,694	441,586
Current liabilities			
Trade and other payables and accruals	*25*	**141,468**	153,933
Tax payable		**58,719**	57,075
Unsecured bank borrowings	*26*	**6,978**	–
Obligations under finance leases	*27*	**–**	1,847
		207,165	212,855
Net current assets		**253,529**	228,731
Total assets less current liabilities		**632,991**	611,121

Consolidated Statement of Financial Position

At 31st December, 2011

	NOTES	2011 HK$'000	2010 HK$'000
Capital and reserves			
Share capital	*28*	**71,733**	71,229
Reserves		**472,203**	446,997
Equity attributable to owners of the Company		**543,936**	518,226
Non-current liabilities			
Deferred tax liabilities	*29*	**6,386**	8,558
Loans from ultimate holding company	*30*	**82,669**	84,337
		89,055	92,895
		632,991	611,121

The consolidated financial statements on pages 41 to 111 were approved and authorised for issue by the Board of Directors on 20th March, 2012 and are signed on its behalf by:

Cheng Yung Pun
Chairman

Cheung Kwok Sing
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December, 2011

	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, 2010	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
Exchange difference arising on translation of foreign operations	–	–	–	–	–	–	–	(9,475)	–	(9,475)
Reclassification of exchange difference on deregistration of foreign operations	–	–	–	–	–	–	–	(1,419)	–	(1,419)
Gain on revaluation of land and building, and plant and machinery	–	–	–	–	–	16,708	–	–	–	16,708
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	–	–	–	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 15)*	–	–	–	–	–	–	–	–	(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
Profit for the year	–	–	–	–	–	–	–	–	48,066	48,066
Exchange difference arising on translation of foreign operations	–	–	–	–	–	–	–	(13,801)	–	(13,801)
Reclassification of exchange difference on deregistration of foreign operations	–	–	–	–	–	–	–	(1,886)	–	(1,886)
Gain on revaluation of land and building, and plant and machinery	–	–	–	–	–	12,606	–	–	–	12,606
Deferred tax arising from revaluation of land and building, and plant and machinery	–	–	–	–	–	(542)	–	–	–	(542)
Other comprehensive expense for the year	–	–	–	–	–	12,064	–	(15,687)	–	(3,623)
Total comprehensive income for the year	–	–	–	–	–	12,064	–	(15,687)	48,066	44,443
Issue of shares pursuant to scrip dividend *(note 15)*	504	(504)	–	–	–	–	–	–	7,831	7,831
Recognition of equity-settled share based payments	–	–	–	–	12,747	–	–	–	–	12,747
Lapse of share options	–	–	–	–	(1,302)	–	–	–	1,302	–
Deemed contribution from ultimate holding company *(note 30)*	–	–	–	4,194	–	–	–	–	–	4,194
Dividend paid *(note 15)*	–	–	–	–	–	–	–	–	(43,505)	(43,505)
At 31st December, 2011	**71,733**	**118,935**	**771**	**22,442**	**42,073**	**80,781**	**49**	**(42,882)**	**250,034**	**543,936**

Note:

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

(2) The shareholders' contribution represented the deemed contribution arising from the amount due to ultimate holding company which is non-current and interest-free. The details of amount due to ultimate holding company are set out in note 30.

(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, 2011

	NOTE	2011 HK$'000	2010 HK$'000
OPERATING ACTIVITIES			
Profit before taxation		**48,366**	52,696
Adjustments for:			
Gain on disposal of property, plant and equipment		**(198)**	(136)
Loss on fair value changes of held-for-trading investments		**–**	125
Interest income		**(83)**	(136)
Interest expenses		**3,181**	3,370
Depreciation of property, plant and equipment		**45,021**	44,759
Amortisation of intangible assets		**12,437**	12,437
Impairment of property, plant and equipment		**1,174**	1,225
Share-based payment expenses		**12,747**	19,697
Amortisation of prepaid lease payments		**32**	32
Revaluation deficit (reversed) recognised on property, plant and equipment		**(389)**	3,225
Impairment loss on goodwill		**–**	13,000
Reversal of allowance for trade receivables		**–**	(2,331)
Written off of trade receivables		**–**	58
Allowance for obsolete inventories		**456**	–
Net gain on acquisition of subsidiaries	*31*	**–**	(52)
Operating cash flows before movements in working capital		**122,744**	147,969
Increase in inventories		**(37,219)**	(39,626)
(Increase) decrease in trade and other receivables		**(9,517)**	5,848
Decrease in trade and other payables and accruals		**(17,197)**	(7,414)
Cash generated from operations		**58,811**	106,777
Income taxes paid		**(1,762)**	(1,419)
Interest paid		**(655)**	(852)
NET CASH FROM OPERATING ACTIVITIES		**56,394**	104,506

Consolidated Statement of Cash Flows

For the year ended 31st December, 2011

	NOTE	2011 HK$'000	2010 HK$'000
INVESTING ACTIVITIES			
Interest received		**83**	136
Proceeds on disposal of property, plant and equipment		**4,895**	1,246
Purchases of property, plant and equipment		**(50,962)**	(16,552)
Acquisition of subsidiaries	*31*	**–**	271
Deposits paid for acquisition of property, plant and equipment		**(1,360)**	(6,820)
Increase in pledged bank deposit		**(6)**	(2,177)
Decrease in pledged bank deposit		**–**	5,002
NET CASH USED IN INVESTING ACTIVITIES		**(47,350)**	(18,894)
FINANCING ACTIVITIES			
Dividends paid		**(30,942)**	(56,984)
Repayments of obligations under finance leases		**(1,847)**	(2,227)
New bank loans raised		**24,224**	52,664
Repayments of bank loans		**(17,246)**	(77,325)
Repayments to loan from ultimate holding company		**–**	(11,660)
NET CASH USED IN FINANCING ACTIVITIES		**(25,811)**	(95,532)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(16,767)**	(9,920)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**62,765**	72,685
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by bank balances and cash		**45,998**	62,765

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2011

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 37.

The consolidated financial statements are presented in Hong Kong dollars ("HKD"), 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").

Amendments to HKFRSs	Improvements to HKFRSs issued in 2010
HKAS 24 (as revised in 2009)	Related Party Disclosures
Amendments to HKAS 32	Classification of Rights Issues
Amendments to HK(IFRIC) – Int 14	Prepayments of a Minimum Funding Requirement
HK (IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments

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

AMENDMENTS TO HKAS 1 PRESENTATION OF FINANCIAL STATEMENTS

(as part of Improvements to HKFRSs issued in 2010)

The amendments to HKAS 1 clarify that an entity may choose to disclose an analysis of other comprehensive income by item in the statement of changes in equity or in the notes to the financial statements. In the current year, for each component of equity, the Group has chosen to present such an analysis in the consolidated statement of changes in equity. Such amendments have been applied retrospectively, and hence the disclosures in these consolidated financial statements have been modified to reflect the change.

The application of other new and revised Standards, Amendments and Interpretations in current year has had no material effect on the Group's financial performance and positions for the current and prior years 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:

HKFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[1]
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets[1]
HKFRS 7 (Amendments)	Disclosures – Offsetting Financial Assets and Financial Liabilities[2]
HKFRS 9	Financial Instruments[3]
HKFRS 9 and HKFRS 7 (Amendments)	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[5]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[4]
HKAS 19 (Revised 2011)	Employee Benefits[2]
HKAS 27 (Revised 2011)	Separate Financial Statements[2]
HKAS 28 (Revised 2011)	Investments in Associates and Joint Ventures[2]
HKAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities[6]
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine[2]

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

AMENDMENTS TO HKAS 1 PRESENTATION OF FINANCIAL STATEMENTS

(as part of Improvements to HKFRSs issued in 2010) (Continued)

[1] Effective for annual periods beginning on or after 1st July, 2011
[2] Effective for annual periods beginning on or after 1st January, 2013
[3] Effective for annual periods beginning on or after 1st January, 2015
[4] Effective for annual periods beginning on or after 1st January, 2012
[5] Effective for annual periods beginning on or after 1st July, 2012
[6] Effective for annual periods beginning on or after 1st January, 2014

HKFRS 13 FAIR VALUE MEASUREMENT

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 *Financial Instruments: Disclosures* will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1st January, 2013, with earlier application permitted.

The Directors anticipate that HKFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning 1st January, 2013 and that the application of this new Standard may affect the amounts of property, plant and equipment reported in the consolidated financial statements measured at revalued amounts and result in more extensive disclosures in the consolidated financial statements.

The Directors of the Company anticipate that the application of 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 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 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 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 its 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.

BUSINESS COMBINATIONS

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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

BUSINESS COMBINATIONS (Continued)

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 arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree 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.

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 when applicable on the basis specified in another Standard.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

GOODWILL

Goodwill arising on an acquisition of a business is carried at cost less 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 whenever 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 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, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

REVENUE RECOGNITION (Continued)

- it is probable that the economic benefits associated with the transaction will flow to the Group; and

- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

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 income can be measured reliably. Interest income 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 life of the financial asset to that asset's net carrying amount on initial recognition.

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, if any. 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 in the consolidated statement of financial position 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 construction in progress) 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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

PROPERTY, PLANT AND EQUIPMENT (Continued)

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.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainly that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

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. The estimated useful life and amortisation method are reviewed of the end of each reporting period, with the effective of any changes in estimated being accounted for on a prospective basis.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss 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 (or a cash-generating unit) 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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

LEASING (Continued)

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation. Lease payments are apportioned between finance 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 case 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, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. 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. HKD) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of the translation reserve (attributed to non-controlling interests as appropriate).

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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. Current and 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 current and deferred tax is also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for business combination.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in-first-out basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

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.

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, 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 loans and receivables

Loans and receivables are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be 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 financial assets 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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

LOANS AND RECEIVABLES (Continued)

Impairment of loans and receivables (Continued)

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, 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 the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

Impairment of financial assets

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.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

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 (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 of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

LOANS AND RECEIVABLES (Continued)

Financial liabilities and equity instruments *(Continued)*

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

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Scrip dividends

For shares issued by the Company as alternative to a cash dividend, the cash equivalent amount of the scrip dividend is credited to equity. An amount equal to the nominal value of the share issued is credited to share capital and debited to share premium account.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, and a reliable estimate can be made of the amount of the 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 of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

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 such that the cumulative expense reflects the revised estimate, 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 profits.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies which are described in note 4, the Directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from 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 17 to the consolidated financial statements, commencing from the date the items of property, plant and equipment are put into their intended use. The estimated useful lives and the dates the items of property, plant and equipment are put into use reflect the Directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the property, plant and equipment. The Group assesses the residual value and useful lives of the property, plant and equipment on a regular basis and if the expectation differs from the original estimate, such difference will impact the depreciation charge in the year in which such estimate has been changed. For the year ended 31st December, 2011, depreciation of property, plant and equipment of HK$45,021,000 (2010: HK$44,759,000) was recognised.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

ESTIMATE OF THE FAIR VALUE OF PROPERTY, PLANT AND EQUIPMENT

As described in note 17, leasehold land and buildings and plant and machinery were revalued as at 31st December, 2010 and 2011 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, 2011, the carrying amount of leasehold land and buildings and plant and machinery are approximately HK$147,673,000 and HK$61,894,000 respectively (2010: HK$134,413,000 and HK$62,361,000 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. There was no impairment recognised during the year ended 31st December, 2011. For the year ended 31st December, 2010, an impairment loss on goodwill of HK$13,000,000 in relation to the manufacture and trading of toys was recognised. Details of the recoverable amount calculation of goodwill are disclosed in note 20. 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 31).

5. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

INCOME TAXES

As at 31st December, 2011, a deferred tax asset of HK$8,567,000 (2010: HK$8,563,000) 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$18,746,000 (2010: HK$14,988,000) 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 26, 27 and 30 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.

7. FINANCIAL INSTRUMENTS

(A) CATEGORIES OF FINANCIAL INSTRUMENTS

	2011 **HK$'000**	2010 HK$'000
Financial assets		
Loans and receivables		
(including cash and cash equivalents)	**190,347**	199,971

	2011 **HK$'000**	2010 HK$'000
Financial liabilities		
Amortised cost	**231,115**	238,270
Obligations under finance leases	**–**	1,847

(B) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade and other receivables, pledged bank deposit, bank balances and cash, trade and other payables and accruals, dividend payable, 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.

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 are disclosed in notes 23 and 24 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 arises.

7. FINANCIAL INSTRUMENTS (Continued)

(B) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Currency risk (Continued)

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	
	2011	2010
	HK$'000	HK$'000
Financial assets		
United States dollars ("USD")	**57,003**	77,301

In addition, four (2010: three) subsidiaries of the Company with functional currency of Vietnamese Dong ("VND") have foreign currency transactions that are denominated in USD, which expose the subsidiaries to risk of fluctuation of USD.

Sensitivity analysis

As HKD is pegged to USD, the Group does not expect any significant foreign currency exposure arising from the fluctuation of the USD/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 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.

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:

	2011	2010
	HK$'000	HK$'000
Increase in post-tax profit for the year	**6,723**	5,779

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.

7. FINANCIAL INSTRUMENTS (Continued)

(B) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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 27 for the details of the obligations under finance leases) and pledged bank deposit (see note 24 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 26 for details of the unsecured bank borrowings) and bank balances (see note 24 for details of the bank balances).

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

The Group did 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 and the exposure to interest rate risk of bank borrowings outstanding at 31st December, 2011 are insignificant. Hence, no sensitivity analysis is presented for the year ended 31st December, 2010 and 2011.

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, 2011 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.

7. FINANCIAL INSTRUMENTS (Continued)

(B) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk (Continued)

The five largest customers of the Group together accounted for approximately 83.5% (2010: 82.3%) 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$115,811,000 (2010: HK$112,922,000) 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 ("US"), which accounted for 96.0% (2010: 91.2%) of the total trade receivables as at 31st December, 2011.

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. Management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The Group relies on bank borrowings as one of the sources of liquidity. As at 31st December, 2011, the Group had a total of unutilised overdraft and short-term bank loan facilities of approximately HK$43,022,000 (2010: HK$50,000,000).

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.

7. FINANCIAL INSTRUMENTS (Continued)

(B) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

***Liquidity risk** (Continued)*

	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
2011							
Non-derivative financial liabilities							
Trade and other payables and accruals	**–**	**92,262**	**49,206**	**–**	**–**	**141,468**	**141,468**
Unsecured bank borrowings	**5%**	**–**	**7,036**	**–**	**–**	**7,036**	**6,978**
Loan from ultimate holding company	**3%**	**–**	**–**	**–**	**87,958**	**87,958**	**82,669**
		92,262	**56,242**	**–**	**87,958**	**236,462**	**231,115**
2010							
Non-derivative financial liabilities							
Trade and other payables and accruals	–	109,060	44,873	–	–	153,933	153,933
Obligations under finance leases	12.4%	224	447	1,291	–	1,962	1,847
Loan from ultimate holding company	3%	–	–	–	87,958	87,958	84,337
		109,284	45,320	1,291	87,958	243,853	240,117

(C) FAIR VALUE

The fair value of 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 and New Zealand, Hong Kong and all other locations. 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.

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, 2011	US	Europe	Mexico	Canada	Australia and New Zealand	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	756,660	19,822	13,848	34,754	15,576	10,355	31,316	882,331
RESULTS								
Segment profit	138,812	1,226	1,262	5,632	2,088	1,245	3,416	153,681
Unallocated income								13,360
Unallocated expenses								(115,494)
Finance costs								(3,181)
Profit before taxation								48,366

8. SEGMENT INFORMATION (Continued)

SEGMENT REVENUES AND RESULTS (Continued)

For the year ended 31st December, 2010	US	Europe	Mexico	Canada	Australia and New Zealand	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

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

The accounting policies of the operating segments are the same as the Group's accounting policies as described in note 4. Segment profit 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.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2011

8. SEGMENT INFORMATION (Continued)

SEGMENTS ASSETS AND LIABILITIES

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

At 31st December, 2011	US HK$'000	Europe HK$'000	Mexico HK$'000	Canada HK$'000	Australia and New Zealand HK$'000	Hong Kong HK$'000	All other locations HK$'000	Consolidated HK$'000
ASSETS								
Segment assets	340,217	6,287	3,889	10,948	5,487	4,498	13,036	384,362
Property, plant and equipment								253,280
Other corporate assets								202,514
Consolidated assets								840,156
LIABILITIES								
Segment liabilities	81,481	1,849	1,205	3,029	1,358	928	3,232	93,082
Unallocated corporate liabilities								203,138
Consolidated liabilities								296,220

At 31st December, 2010	US HK$'000	Europe HK$'000	Mexico HK$'000	Canada HK$'000	Australia and New Zealand 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

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.

8. SEGMENT INFORMATION (Continued)

OTHER SEGMENT INFORMATION

No other segment information is disclosed for the year ended 31st December, 2011 as no item is included in the measure of segment profit or segment assets.

For the year ended 31st December, 2011	US HK$'000	Europe HK$'000	Mexico HK$'000	Canada HK$'000	Australia and New Zealand HK$'000	Hong Kong HK$'000	All other locations HK$'000	Consolidated HK$'000
Amounts included in the measure of segment profit or loss or segment assets:								
Allowance for obsolete inventories	456	-	-	-	-	-	-	456

For the year ended 31st December, 2010	US HK$'000	Europe HK$'000	Mexico HK$'000	Canada HK$'000	Australia and New Zealand 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)

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

	2011 HK$'000	2010 HK$'000
Toys	**864,710**	845,545
Lighting products	**17,621**	2,975
Others	**–**	31,953
	882,331	880,473

GEOGRAPHICAL INFORMATION

The Group's operations are located in Hong Kong, Vietnam, US, 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	
	2011 HK$'000	2010 HK$'000
Hong Kong	**660**	638
Vietnam	**94,137**	69,642
US	**6,289**	6,810
The PRC	**155,064**	169,512
Other countries	**29**	72
	256,179	246,674

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

INFORMATION ABOUT MAJOR CUSTOMERS

For the year ended 31st December, 2011, there are two customers in US with revenue contributing approximately 49.1% and 21.4% (2010: 46.1% and 24.3%) 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.

9. OTHER INCOME

	2011 HK$'000	2010 HK$'000
Interest income on bank deposits	**83**	136
Sales of scrap materials	**3,957**	–
Others	**770**	704
	4,810	840

10. FINANCE COSTS

	2011 HK$'000	2010 HK$'000
Interest on:		
Bank borrowings wholly repayable within five years	**540**	397
Finance leases	**115**	455
Imputed interest expense on non-current interest-free loans from ultimate holding company	**2,526**	2,518
	3,181	3,370

11. OTHER GAINS AND LOSSES

	2011 HK$'000	2010 HK$'000
Loss on fair value changes of held-for-trading investments	**–**	(125)
Net exchange gain	**12,760**	5,203
Written off of trade receivables	**–**	(58)
Impairment loss on goodwill *(note 20)*	**–**	(13,000)
Net gain on acquisition of subsidiaries *(note 31)*	**–**	52
	12,760	(7,928)

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For the year ended 31st December, 2011

12. PROFIT BEFORE TAXATION

	2011 **HK$'000**	2010 HK$'000
Profit before taxation has been arrived at after (crediting) charging:		
Gain on disposal of property, plant and equipment	**(198)**	(136)
Revaluation deficit (reversed) recognised on property, plant and equipment *(note 17)*	**(389)**	3,225
Cost of inventories recognised as an expense	**571,920**	550,780
Allowance for obsolete inventories (included in cost of inventories recognised)	**456**	–
Auditor's remuneration	**3,333**	3,241
Amortisation of prepaid lease payments	**32**	32
Depreciation of property, plant and equipment	**45,021**	44,759
Impairment of property, plant and equipment *(note 17)*	**1,174**	1,225
Amortisation of intangible assets (included in cost of sales)	**12,437**	12,437
Research and development costs (including staff costs of HK$2,957,000 (2010: HK$2,723,000)) *(Note a)*	**8,562**	14,314
Staff costs *(Note b)*	**281,333**	259,121

Notes:

a. The research and development costs of approximately HK$5,374,000 (2010: HK$9,909,000) 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.

13. DIRECTORS' EMOLUMENTS AND EMPLOYEES' EMOLUMENTS

DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the eleven (2010: ten) Directors are as follows:

		Other emoluments			
2011	**Fees**	**Salaries and allowances**	**Contributions to MPFS**	**Other benefits** *(Note a)*	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Executive Directors					
Cheng Yung Pun	–	1,020	–	–	1,020
Yu Sui Chuen	–	1,248	58	–	1,306
Cheng Wing See, Nathalie	–	558	12	–	570
Arnold Edward Rubin	–	4,727	57	5,463	10,247
Cheung Kwok Sing	–	966	12	–	978
Tse Kam Wah	–	1,020	12	–	1.032
Leung Hong Tai	–	1,020	12	–	1.032
Tsang Chung Wa *(Note b)*	–	816	12	–	828
Independent non-executive Directors					
Loke Yu alias Loke Hoi Lam	80	–	–	260	340
Mak Shiu Chung, Godfrey	80	–	–	260	340
Wan Hing Pui	80	–	–	260	340
Total for 2011	240	11,375	175	6,243	18,033

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

DIRECTORS' EMOLUMENTS (Continued)

		Other emoluments			
2010	Fees	Salaries and allowances	Contributions to MPFS	Other benefits *(Note a)*	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

No Director waived any emoluments in each of the two years ended 31st December, 2011.

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

EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, one (2010: five) is Director of the Company whose emoluments are included in the above disclosures. The total emoluments of the remaining four individuals (2010: nil) received and receivable for the year ended 31st December, 2011 were as follows:

	2011 **HK$'000**	2010 HK$'000
Salaries and allowances	**6,544**	–
Contributions to retrieved benefit schemes and MPFS	**175**	–
Other benefits *(Note a)*	**6,504**	–
	13,223	–

Their emoluments are within the following bands:

	2011 **HK$'000**	2010 HK$'000
HK$1,500,001 to HK$2,000,000	**2**	–
HK$2,000,001 to HK$2,500,000	**1**	–
HK$7,500,001 to HK$8,000,000	**1**	–
	4	–

Note a: Other benefits represent employees share option benefits.

Note b: The disclosed emoluments for this Director represent the emoluments received or receivable after the appointment of directorship on 11th January, 2011.

14. INCOME TAX (EXPENSE) CREDIT

	2011 HK$'000	2010 HK$'000
Current tax:		
Hong Kong	(346)	(380)
Other jurisdictions	(1,954)	(141)
	(2,300)	(521)
(Under) over provision in prior years		
Hong Kong	3	142
Other jurisdictions	(747)	10
	(744)	152
Deferred tax:		
Current year *(note 29)*	2,744	9,031
Taxation (expense) credit attributable to the Company and its subsidiaries	(300)	8,662

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 Matrix Manufacturing Vietnam Company Limited ("MVN") and Keyhinge Toys Vietnam Joint Stock Company ("KVN"), the applicable Vietnam enterprise income tax rate is 10% during their operating periods. MVN is eligible for exemption from Vietnam enterprise income tax for four years from the first profit-making year followed by a 50% reduction in the Vietnam enterprise income tax for the next four years. For the year ended 31st December, 2011, MVN applied the tax rate of 5% (2010: 5%) on the estimated assessable profit as it is the seventh year since its first profit-making year. KVN applied the tax rate of 10% (2010: 10%) on the estimated assessable profit. The applicable Vietnam enterprise income tax rate for Associated Manufacturing Vietnam Company Limited ("AVN") is 15% for twelve years starting from the date of operation and followed by 25% thereafter. 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, 2011 is the fourth profit-making year of AVN and thus AVN is exempted from Vietnam enterprise income tax for the year ended 31st December, 2011 and 2010. The applicable Vietnam enterprise income tax rate for Matrix Vinh Company Limited ("VVN") is 25% since the date of operation from 1st April, 2011.

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 applicable US enterprise income tax rate for US subsidiaries is 34% since the date of operation.

14. INCOME TAX (EXPENSE) CREDIT (Continued)

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. In March 2011, the IRD issued protective assessments to certain subsidiaries in respect of year of assessment for 2004/2005 amounting to approximately HK$50,097,000 (in which HK$24,786,000 were issued on the same profits assessed but to two different entities on an alternative basis). The tax demanded for the year of assessment for 2004/2005 of HK$42,835,000 was heldover unconditionally by the IRD. Subsequently the IRD further issued collection notice to the relevant companies to demand for the outstanding tax payment, as no settlement was made on those taxes not heldover. The balance payable by the subsidiary of the Company, Besco Enterprises Limited ("BEL") of approximately HK$7,262,000 remains unsettled up to the date of this report. Based on the tax assessment dated 30th November, 2011, BEL is liable to pay the amount together with the surcharge of approximately HK$8,388,000. On 19th August, 2009, the IRD lodged a legal claim to a subsidiary of the Company, Shelcore Hong Kong Limited ("SHK") 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. Based on the court order dated 21st January, 2011, SHK is liable to pay the tax amount together with the interest and penalty of approximately HK$2,706,000. The Directors have not made such tax provision because the settlement proposal submitted to IRD has covered SHK and BEL and no further tax provision is required. The Company had 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 and Directors of the Group had several meetings and discussions with the case officers of the IRD and settlement proposal was submitted to the IRD. However, recently the IRD had verbally advised that the settlement proposal was not accepted by them and has proposed another settlement base for our consideration. Hence, the IRD has requested further submission of documents for assessing the tax status of such subsidiaries of the settlement proposal. Due to the additional request of information, the Directors cannot ascertain the timetable for the settlement of the final assessments for the years of assessments from 2000/2001 to 2009/2010. As at 31st December, 2011, the Group had made a tax provision in respect of these subsidiaries for the relevant years of assessment of approximately HK$56,500,000 (2010: HK$56,500,000). Apart from consulting tax advisors, the Directors have further reassessed the situation and consulted the legal advisors about the aforesaid cases, and are still of the view that the Group's provision of HK$56,500,000 is sufficient for the case settlement in future. The IRD may impose a penalty and there is no reasonable basis to determine any amount of tax penalty payable at the moment.

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14. INCOME TAX (EXPENSE) CREDIT (Continued)

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

	2011 **HK$'000**	2010 HK$'000
Profit before taxation	**48,366**	52,696
Tax charge at the weighted average income tax rate *(Note)*	**(2,320)**	(3,452)
Tax effect of expenses not deductible for tax purpose	**(12,861)**	(10,646)
Tax effect of income not taxable for tax purpose	**391**	228
Tax effect of profit which are exempted from tax or under tax	**15,185**	15,711
(Under) over provision in respect of prior years	**(744)**	152
Tax effect of tax losses not recognised	**(1,058)**	(1,133)
Tax effect of utilisation of tax losses previously not recognised	**415**	823
Recognition of previously unrecognised tax losses	**-**	4,656
Others	**692**	2,323
Tax (expense) credit for the year	**(300)**	8,662

Note: The weighted average applicable tax rate of 4.8% (2010: 6.5%) represents the weighted average tax rate in different jurisdictions in which the Group operates and is calculated on the basis of the profit or loss before taxation arising in these jurisdictions and on the statutory rates applicable.

15. DIVIDENDS

	2011 **HK$'000**	2010 HK$'000
Dividends recognised as distribution during the year		
2010 final, paid – HK 5 cents (2010: 2009 final, paid – HK 5 cents) per share	**35,615**	35,615
2011 interim, paid – HK 1.1 cents (2010: 2010 interim, paid – HK 3 cents) per share	**7,890**	21,369
	43,505	56,984

The scrip dividend alternative was accepted by some of the shareholders in respect of the 2010 final dividend. A total of 5,033,085 scrip dividend shares for the dividend of approximately HK$7,831,000 were issued to the shareholders on 17th June, 2011 and the rest of approximately HK$27,784,000 was paid to the shareholders as cash dividend. The 2011 interim dividend were declared and paid as cash dividend.

The final dividend of HK 3.5 cents (2010: HK 5 cents) per share amounting to approximately HK$25,112,000 (2010: 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 2011 will be payable in cash.

16. 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:

	2011 HK$'000	2010 HK$'000
Earnings		
Earnings for the purposes of basic and diluted earnings per share (profit for the year attributable to owners of the Company)	**48,066**	61,358

	2011 '000	2010 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**717,327**	712,294
Effect of dilutive potential ordinary shares:		
Share options	**7,395**	1,623
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**724,722**	713,917

The weighted average number of ordinary shares for the purpose of basic earnings per share has been adjusted for the effects of the scrip dividend in June 2011.

The computation of diluted earnings per share for the year ended 31st December, 2011 and 2010 does not assume the exercise of certain share options of the Company because the exercise price of these share options was higher than the average prices of the Company's shares.

17. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress HK$'000	Leasehold land and buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Moulds HK$'000	Furniture and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
COST OR VALUATION								
At 1st January, 2010	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
Exchange adjustments	(8)	(2,847)	(98)	(3,861)	–	(367)	–	(7,181)
Additions	2,664	17,492	1,765	17,292	15,870	2,111	–	57,194
Disposals	–	(54)	(1,218)	(8,697)	–	(1,183)	–	(11,152)
Surplus on revaluation	–	(1,331)	–	(5,201)	–	–	–	(6,532)
At 31st December, 2011	**2,764**	**147,673**	**33,004**	**61,894**	**86,147**	**20,038**	**945**	**352,465**
Comprising								
At cost	2,764	–	33,004	–	86,147	20,038	945	142,898
At valuation	–	147,673	–	61,894	–	–	–	209,567
	2,764	147,673	33,004	61,894	86,147	20,038	945	352,465
DEPRECIATION AND IMPAIRMENT								
At 1st January, 2010	–	–	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
Exchange adjustments	–	(425)	(44)	(1,557)	–	(267)	–	(2,293)
Provided for the year	–	5,557	3,512	21,226	11,671	2,974	81	45,021
Reversal of revaluation deficit recognised in profit or loss	–	–	–	(389)	–	–	–	(389)
Impairment loss recognised in profit or loss	–	–	–	–	1,174	–	–	1,174
Eliminated on disposals	–	(23)	(791)	(5,251)	–	(390)	–	(6,455)
Eliminated on revaluation	–	(5,109)	–	(14,029)	–	–	–	(19,138)
At 31st December, 2011	**-**	**-**	**18,044**	**-**	**63,626**	**16,943**	**572**	**99,185**
CARRYING VALUES								
At 31st December, 2011	**2,764**	**147,673**	**14,960**	**61,894**	**22,521**	**3,095**	**373**	**253,280**
At 31st December, 2010	108	134,413	17,188	62,361	19,496	4,851	454	238,871

17. PROPERTY, PLANT AND EQUIPMENT (Continued)

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

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

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 were fully impaired and impairment losses of HK$1,174,000 (2010: HK$1,225,000) were 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, 2011 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, 2011 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.

As at 31st December, 2011, based on the valuation reports provided by RHL and FCC, the revaluation amount of certain plant and machinery previously recognised a revaluation deficit were above their carrying amount. A reversal of revaluation deficit of approximately HK$389,000 is recognised in profit or loss. As at 31st December, 2010, the revaluation amount of certain plant and machinery were below their carrying amount. A revaluation deficit of approximately HK$3,225,000 is recognised in profit or loss.

17. PROPERTY, PLANT AND EQUIPMENT (Continued)

At 31st December, 2011, had all of the leasehold land and buildings and plant and machinery of the Group been carried at historical cost less accumulated depreciation and accumulated impairment losses, their carrying values would have been approximately HK$66,534,000 (2010:HK$52,925,000) and HK$42,554,000 (2010: HK$48,960,000) respectively.

As at 31st December, 2010, the carrying value of leasehold improvements of HK$17,188,000 included an amount of HK$3,822,000 in respect of assets held under finance leases (see note 27).

The Group has pledged its leasehold land and buildings having a carrying value of approximately HK$73,987,000 (2010: HK$70,104,000) to a bank for banking facilities granted to the Group.

As at 31st December, 2011 and 2010, the land and buildings of approximately HK$62,716,000 and HK$59,176,000 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 in prior years and HK$4,472,000 was paid by the Group during the year ended 31st December, 2011. Based on independent legal advice, the Directors are of the opinion that the land and building being frozen by the Court will be released upon the settlement of all the legal claim and do not have material impact on the financial position and operations of the Group.

18. PREPAID LEASE PAYMENTS

	2011 **HK$'000**	2010 HK$'000
The Group's prepaid lease payments comprise:		
Leasehold land outside Hong Kong under medium term	**983**	1,015
Analysed for reporting purposes as:		
Current	**32**	32
Non-current	**951**	983
	983	1,015

19. GOODWILL

	2011 HK$'000
CARRYING AMOUNT	
At 1st January,	109,822
Impairment loss recognised	(13,000)
At 31st December, 2010 and 2011	**96,822**

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

20. IMPAIRMENT TESTING ON GOODWILL

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

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

The recoverable amount of the CGU has been determined based on a value in use calculation. The calculation is based on financial budgets approved by management covering a five-year period. A key assumption for the value in use calculations is that the budgeted growth rate increased by 14% (2010: 10%) in the first year, 11% (2010: 3%) in the second and third year, and 3% each year for the next two 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% (2010: 9.16%) and it reflects specific risks relating to the relevant operating unit. Based on the value in the calculation, there is no impairment loss on goodwill for the year ended 31st December, 2011 (31st December, 2010: an impairment loss of HK$13,000,000 was recognised).

21. INTANGIBLE ASSET

	Customer base HK$'000
COST	
At 1st January, 2010, and 31st December, 2010 and 2011	**74,620**
AMORTISATION AND IMPAIRMENT	
At 1st January, 2010	31,852
Charge for the year	12,437
At 31st December, 2010	44,289
Charge for the year	12,437
At 31st December, 2011	**56,726**
CARRYING AMOUNT	
At 31st December, 2011	**17,894**
At 31st December, 2010	30,331

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

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

22. INVENTORIES

	2011 HK$'000	2010 HK$'000
Raw materials	**119,787**	106,123
Work in progress	**11,972**	18,147
Finished goods	**116,062**	97,565
	247,821	221,835

23. TRADE AND OTHER RECEIVABLES

	2011 HK$'000	2010 HK$'000
Trade receivables	131,589	127,895
Less: Allowance for doubtful debts	(4,834)	(5,153)
	126,755	122,742
Other receivables, deposits and prepayments	29,926	24,422
Total trade and other receivables	156,681	147,164

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.

	2011 HK$'000	2010 HK$'000
0 – 60 days	110,002	103,701
61 – 90 days	16,005	18,303
> 90 days	748	738
	126,755	122,742

Included in the Group's trade receivables are receivables of approximately HK$24,075,000 (2010: HK$39,216,000) denominated in 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$120,485,000 and HK$117,639,000 as at 31st December, 2011 and 2010 respectively, which are neither past due nor impaired.

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

23. TRADE AND OTHER RECEIVABLES (Continued)

TRADE RECEIVABLES (Continued)

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

	2011 HK$'000	2010 HK$'000
0 – 60 days	5,924	4,541
61 – 90 days	–	464
> 90 days	346	98
	6,270	5,103

MOVEMENT IN THE ALLOWANCE FOR DOUBTFUL DEBTS

	2011 HK$'000	2010 HK$'000
Balance at beginning of the year	5,153	8,740
Reversal of allowance for trade receivables	–	(2,331)
Amounts written off as uncollectible	(319)	(1,256)
Balance at end of the year	4,834	5,153

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of approximately HK$4,834,000 (2010: HK$5,153,000) which have either been placed under liquidation or in severe financial difficulties. The Group does not hold any collateral over these balances.

24. PLEDGED BANK DEPOSIT AND BANK BALANCES AND CASH

As at 31st December, 2011, the pledged bank deposit carried interest at average fixed rate of 0.17% (2010: 0.17%) per annum. The bank balances carried interest at prevailing interest rates. As at 31st December, 2011, the pledged bank deposit of approximately HK$2,183,000 (2010: HK$2,177,000) for a short term bank facilities was denominated in USD, foreign currency of the relevant Group entities.

The bank balances of approximately HK$30,744,000 (2010: HK$35,908,000) are denominated in USD, foreign currency of the relevant Group entities.

At 31st December, 2011, the bank balances and cash of approximately HK$3,862,000 (2010: HK$6,053,000) was denominated in Renminbi ("RMB") which is not freely convertible into other currencies.

25. TRADE AND OTHER PAYABLES AND ACCRUALS

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

	2011 HK$'000	2010 HK$'000
Trade payables	**76,805**	92,891
Other payables and accruals	**64,663**	61,042
	141,468	153,933

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

	2011 HK$'000	2010 HK$'000
0 – 60 days	**48,505**	73,806
61 – 90 days	**21,421**	15,831
> 90 days	**6,879**	3,254
	76,805	92,891

Other payables and accruals include HK$4,732,000 (2010: nil) dividend payable as at 31st December, 2011.

26. UNSECURED BANK BORROWINGS

	2011 HK$'000	2010 HK$'000
Bank loans	**6,978**	–

At 31st December, 2011, bank loans were repayable within one year and bear variable interest at Hong Kong Interbank Offered Rate less 0.25% which is approximately 5% per annum.

27. OBLIGATIONS UNDER FINANCE LEASES

The Group leased certain of its leasehold improvements under finance leases in previous years. The average lease term was 5 years. Interest rates underlying all obligations under finance leases were fixed at respective contract dates ranging from 8.00% to 13.00% (2010: 8.00% to 13.00%) per annum. These leases had no terms of renewal. No arrangement had been entered into for contingent rental payments.

	Minimum lease payments		**Present value of minimum lease payments**	
	2011 HK$'000	2010 HK$'000	**2011 HK$'000**	2010 HK$'000
Amounts payable under finance leases				
Within one year	–	1,962	–	1,847
	–	1,962	–	1,847
Less: future finance charges	–	(115)	–	–
Present value of lease obligations	–	1,847	–	1,847
Less: Amount due for settlement within 12 months (shown under current liabilities)			–	(1,847)
Amount due for settlement after 12 months			–	–

The Group's obligations under finance leases were secured by the lessor's charge over the leased assets. All the Group's obligations under finance leases were fully settled in current year and the charge over the leased assets has been released.

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28. SHARE CAPITAL

	Number of shares		Share capital	
	2011	2010	**2011**	2010
	'000	'000	**HK$'000**	HK$'000
Ordinary shares of HK$0.1 each				
Authorised				
At the beginning and end of the year	**1,000,000**	1,000,000	**100,000**	100,000
Issued and fully paid				
At the beginning of the year	**712,294**	712,294	**71,229**	71,229
Issue in lieu of cash dividend *(Note)*	**5,033**	–	**504**	–
At the end of the year	**717,327**	712,294	**71,733**	71,229

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

Note: On 17th June, 2011, the Company issued and allotted a total of 5,033,085 ordinary shares of HK$0.10 each in the Company at par value to the shareholders who elected to receive shares in the Company in lieu of cash payment for the 2010 final dividend. These shares issued rank pari passu with the existing shares in all respects. The details of the scrip dividend alternative are set out in notes 15 and 39.

29. DEFERRED TAXATION

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

	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, 2010	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)
(Credit) debit to profit or loss	(737)	–	(2,052)	694	(649)	(2,744)
Charge to other comprehensive income	–	542	–	–	–	542
Exchange difference	–	(2)	–	–	28	26
At 31st December, 2011	**(1,399)**	**3,185**	**2,964**	**(4,307)**	**(2,624)**	**(2,181)**

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

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:

	2011 HK$'000	2010 HK$'000
Deferred tax liabilities	**6,386**	8,558
Deferred tax assets	**(8,567)**	(8,563)
	(2,181)	(5)

At the end of the reporting period, the Group had unused estimated tax losses of HK$31,449,000 (2010: HK$29,732,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK$12,703,000 (2010: HK$14,744,000) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses of HK$18,746,000 (2010: HK$14,988,000) due to the unpredictability of future profit streams. The tax losses may be carried forward indefinitely.

30. LOANS FROM ULTIMATE HOLDING COMPANY

The amounts are unsecured, interest-free and repayable on 31st January, 2014. On 30th June, 2011, the repayment date of loans of approximately HK$73,427,000 and HK$14,531,000 due for settlement on 31st May, 2012 and 30th June, 2012 was both extended to 31st January, 2014. The fair value of the loan from ultimate holding company is determined based on an effective interest rate of 3.0% (2010: 3.0%) per annum at initial recognition. The difference between the principal amounts of the loans of HK$73,427,000 and HK$14,531,000 and their fair value determined on 30th June, 2011 amounted to approximately HK$3,530,000 and HK$664,000 respectively have been credited to equity as deemed contribution from ultimate holding company.

31. 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 an independent third party 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 KVN which is principally engaged in the manufacture of toys in Vietnam (Max Smart, Keyhinge Holdings Limited and KVN 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 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, Waterfront agreed to sell Max Smart Group to the Group at a nominal consideration of HK$1.00.

The Group would 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.

31. 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 would 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 was 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.

32. OPERATING LEASE COMMITMENTS

	2011 HK$'000	2010 HK$'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	**13,410**	15,187

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:

	2011 HK$'000	2010 HK$'000
Within one year	**13,266**	10,188
In the second to fifth years inclusive	**14,983**	18,098
After five years	**16,892**	12,551
	45,141	40,837

Operating lease payments represent rentals payable by the Group for its factory, office premises, showrooms 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, showrooms and retail shops. The rentals are fixed throughout the lease period.

33. CAPITAL COMMITMENTS

	2011 HK$'000	2010 HK$'000
Capital expenditure in respect of the acquisition of property, plant and equipment authorised but not contracted for	**2,003**	4,929

34. RELATED PARTY TRANSACTIONS

The loans from ultimate holding company is disclosed in note 30.

COMPENSATION OF KEY MANAGEMENT PERSONNEL

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

	2011	2010
	HK$'000	HK$'000
Salaries and other short-term employee benefits	**12,341**	11,081
Post-employment benefits	**187**	172
Share-based payments	**5,463**	8,189
	17,991	19,442

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

35. SHARE BASED PAYMENT TRANSACTIONS

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 advisors 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.

35. SHARE BASED PAYMENT TRANSACTIONS (Continued)

EQUITY-SETTLED SHARE OPTION SCHEME (Continued)

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 of 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.

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, 2011, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 59,900,000 (2010: 49,200,000), representing 8.4% (2010: 6.9%) 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
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
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
2011a	21st April, 2011	3 months	20th July, 2011 to 20th July, 2014	HK$1.692

35. SHARE BASED PAYMENT TRANSACTIONS (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, 2010	Expired/ Lapsed during year	Outstanding at 1st January, 2011	Expired/ Lapsed during year	Granted during year	Outstanding at 31st December, 2011
2007a	6,300,000	(6,300,000)	–	–	–	–
2007b	6,500,000	(6,500,000)	–	–	–	–
2007c	2,000,000	–	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
2011a	–	–	–	–	14,700,000	14,700,000
	62,000,000	(12,800,000)	49,200,000	(4,000,000)	14,700,000	59,900,000
Exercisable at the end of the year 2011						**59,900,000**
Exercisable at the end of the year 2010						49,200,000
Weighted average exercise price	HK$1.42	HK$1.94	HK$1.29	HK$1.69	HK$1.69	HK$1.36

On 21st April, 2011, there were 14,700,000 share options granted to staff of the Group. The estimated fair value of the options granted was HK12,747,000. There was no option granted during the year ended 31st December, 2010.

35. SHARE BASED PAYMENT TRANSACTIONS (Continued)

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

Option Type	2011a
Weighted average share price	HK$1.690
Exercise price	HK$1.692
Expected volatility	99.00%
Expected life	3 years
Risk-free rate	1.060%
Expected dividend yield	4.70%

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$12,747,000 for the year ended 31st December, 2011 (2010: HK$19,697,000) in relation to share options granted by the Company.

36. RETIREMENT BENEFIT SCHEMES AND MANDATORY PROVIDENT FUND

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

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

Eligible employees in Macau currently participate in a social security fund scheme operated by the local government. The contributions are fixed for domestic employees who meet certain eligibility requirements.

36. 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 US for all domestic employees who meet certain eligibility requirements as to age and length of service.

The retirement benefits cost charged to profit or loss in the consolidated statement of comprehensive income approximately HK$3,792,000 (2010: HK$2,799,000) represents contributions payable to the schemes by the Group at the rates specified in the rules of the various schemes.

37. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the principal subsidiaries at 31st December, 2011 and 31st December, 2010 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
				2011 indirect	2010 indirect	
Funrise Distribution Company	US	US$1,000	Common share	**100%**	100%	Wholesale distribution and importation of toy and sales of accessories connected with its product ranges.
Funrise Toys Limited ("Funrise Toys")	Hong Kong	HK$10,000 (Preference) HK$90,000 (Ordinary) HK$10,000 (Redeemable)	Preference share Ordinary share Redeemable share	**100%**	100%	Wholesale distribution and importation of toy and sales of accessories connected with its product ranges.
Keyhinge Enterprises (Macao Commercial Offshore) Company Limited	Macau	MOP100,000	Quota capital	**100%**	100%	Purchase and trading of toys
Matrix Manufacturing Limited	British Virgin Island	US$1	Ordinary share	**100%**	100%	Manufacture of toys

37. 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
				2011 indirect	2010 indirect	
MVN	Vietnam	US$5,721,000	Capital contribution	**100%**	100%	Manufacture of toys
KVN	Vietnam	US$9,766,000	Capital contribution	**100%**	98%	Manufacture of toys
AVN	Vietnam	US$10,000,000 (Issued) US$8,890,000 (Fully paid)	Capital contribution	**100%**	100%	Manufacture of toys
VVN	Vietnam	US$2,818,000	Capital contribution	**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 a)*	US$5,910,000	Capital contribution	**100%**	100%	Manufacture of toys

Note:

(a) 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.

38. CONTINGENT LIABILITIES

A. LEGAL CLAIM

i. 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").

Plaintiff A alleged its complaint against Funrise, Inc. by bringing adversary proceeding to avoid and recover the monetary value of all such preferential transfer (the "Transfer") made by Debtor A to Funrise, Inc. arising from the Debtor's bankruptcy.

The total potential claim is approximately US$115,000 against Funrise, Inc. (total equivalent to HK$897,000). The Directors believe, based on legal advice, Funrise, Inc. has 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.

ii. Pursuant to an arbitral award made on 2nd March, 2012 between Matrix Distribution Limited ("MDL") and Global Brands (Football) Pte Limited (In Creditors' Voluntary Liquidation) ("GB") in respect of disputes arising out of a Supply Appointment Agreement entered into between the companies dated 5th October, 2007 ("Award"), the arbitrator ordered and directed the following: (i) MDL's claims are dismissed; (ii) MDL is to pay to GB within 28 days of the date of the Award the sum of US$7,000,000; and (iii) MDL is to pay to GB interest to be calculated at the prime lending rate of the Bank of China (Hong Kong) Limited in Hong Kong from time to time in effect for loans made in US dollar to commercial borrowers in Hong Kong as follows: (a) on the amount of US$3,500,000 from 1st May, 2009 until the date of the Award; (b) on the amount of US$3,500,000 from 30th June, 2010 until the date of the Award; (c) on the amount of US$7,000,000 from the day after the date of the Award until payment. The arbitrator also ordered and directed the parties to attempt to reach an agreement on costs.

38. CONTINGENT LIABILITIES (Continued)

A. LEGAL CLAIM (Continued)

ii. (Continued)

MDL is a limited liability company incorporated in the British Virgin Islands. As at 31st December, 2011, MDL had net liabilities and did not own any significant assets. The Directors anticipate that MDL may be put into liquidation by GB. The Directors are of the opinion that any liquidation of MDL will not affect the financial position of the Group as a whole, or the Company itself. None of the other companies within the Group, including the Company and MDL's intermediate holding company, have any contractual commitment to GB. The Directors therefore consider, after receiving legal advice, that (i) the likelihood of GB making a successful legal claim against any of the companies within the Group is remote; and (ii) the possibility of any transfer of economic benefits in settlement of the claim of US$7,000,000 is remote and thus no provision of US$ 7,000,000 has been made in the consolidated financial statements.

GB and its former directors represented to MDL that it was an exclusive licensee for footballs bearing trademarks of the Federation Internationale de Football Association ("FIFA"). Based on these representations, MDL entered into several agreements (including the Supply Appointment Agreement) with GB for the manufacture and distribution of such footballs and paid GB sums totaling US$8,070,000. However, MDL subsequently discovered that the agreement between FIFA and GB did not grant GB an exclusive license for footballs bearing the FIFA trademarks, contrary to the representations made to MDL. MDL would not have entered into agreements with GB and paid money to them if it had known that GB was not an exclusive licensee. Based on these representations, MDL has sought legal advice on applying to set aside the Award and to pursue their own rights against GB and its former directors and the legal advisor is in the process of doing further research as to whether a settling aside application can be made as of the date of this report. The Company will publish further announcement(s) as and when required under the Listing Rules.

Save and except for the matter 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 14.

39. MAJOR NON CASH TRANSACTIONS

(a) Pursuant to the Circular issued by the Company dated 18th May, 2011, the shareholders might elect to receive the 2010 final dividend in the form of cash or in the form of new shares of the Company or a combination of both. The market value of the scrip dividend was determined at HK$1.556 per share, which is equivalent to the average closing prices of the shares quoted on the Stock Exchange for the five consecutive trading days from 28th April, 2011 to 5th May, 2011, both days inclusive. Finally, a total of 5,033,085 ordinary shares were issued to the shareholders who had elected to receive new shares in the Company in lieu of cash dividend. A total amount of approximately HK$504,000 equal to the nominal value of the shares issued is credited to share capital and approximately HK$7,831,000 is credited to retained profits as if the shareholders had foregone their dividends and accepted a bonus issue of share in the place of those dividends.

(b) Funrise Toys was acquired by the Group in 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 into 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 paid by the former shareholders directly to the plaintiff. 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.

FINANCIAL SUMMARY

	Year ended 31st December,				
	2007	2008	2009	2010	**2011**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
RESULTS					
Turnover	1,218,759	1,273,548	977,741	880,473	**882,331**
Profit (loss) before taxation	61,861	(36,645)	70,832	52,696	**48,366**
Income tax (charge) credit	(2,200)	(734)	6,040	8,662	**(300)**
Profit (loss) for the year	59,661	(37,379)	76,872	61,358	**48,066**
Attributable to:					
Owners of the Company	59,667	(37,361)	76,872	61,358	**48,066**
Non-controlling interests	(6)	(18)	–	–	**–**
	59,661	(37,379)	76,872	61,358	**48,066**
	HK$	HK$	HK$	HK$	**HK$**
Earnings (loss) per share					
Basic	0.09	(0.05)	0.11	0.09	**0.07**
Diluted	N/A	N/A	N/A	0.09	**0.07**

	At 31st December,				
	2007	2008	2009	2010	**2011**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Total assets	992,329	910,817	848,879	823,976	**840,156**
Total liabilities	(533,867)	(493,101)	(363,087)	(305,750)	**(296,220)**
	458,462	417,716	485,792	518,226	**543,936**
Equity attributable to owners of the Company	456,811	417,716	485,792	518,226	**543,936**
Non-controlling interests	1,651	–	–	–	**–**
	458,462	417,716	485,792	518,226	**543,936**

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 4th May, 2012 at 2:30 p.m. for the following purposes:–

1. To receive and consider the audited financial statements for the year ended 31st December, 2011 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 (the "Directors") 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 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 any option granted under any share option scheme or similar arrangement for the time being adopted by the Company; 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 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 may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognized regulatory body or any stock exchange in, any territory applicable to the Company)."

B. "**THAT**

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

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

(c) for the purposes of this Resolution:

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

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

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

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

C. "**THAT** conditional upon the passing of the Resolutions set out in paragraph 5A and 5B of the notice convening this meeting, the general mandate granted to the Directors 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 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."

Notice of
Annual General Meeting

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

A. "**THAT** subject to the terms and conditions upon (i) the Bermuda Monetary Authority granting its permission for the grant of options and the issue of shares upon exercise of options under the share option Scheme of the Company (the "2012 Share Option Scheme") if so required, a copy of which marked "A" is produced to the meeting for the purposes of identification signed by the Chairman thereof; and (ii) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the shares at par value 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 2012 Share Option Scheme, the 2012 Share Option Scheme be is hereby approved and adopted and the Board of Directors of the Company be and is hereby authorized to do all such acts and to enter into all such transactions, arrangements and agreements as may be necessary or expedient in order to give full effect to the 2012 Share Option Scheme including but without limitation:

(i) to administer the 2012 Share Option Scheme under which options will be granted to participants eligible under the 2012 Share Option Scheme to subscribe for shares of the Company;

(ii) to modify and/or amend the 2012 Share Option Scheme from time to time provided that such modification and/or amendment is effected in accordance with the provisions of the 2012 Share Option Scheme relating to modification and/or amendment;

(iii) to issue and allot from time to time such number of shares in the capital of the Company as may be required to be issued pursuant to the exercise of the options under the 2012 Share Option Scheme provided always that the total number of shares subject to the 2012 Share Option Scheme;

(iv) to make applications at the appropriate time or times to the Stock Exchange and any other stock exchange upon which the issued shares of the Company may for the time being be listed, for listing of and permission to deal in any shares which may hereafter from time to time be issued and allotted pursuant to the exercise of the options under the 2012 Share Option Scheme; and

(v) to consent, if it so deems fit and expedient, to such conditions, modifications and/or variations as may be required or imposed by the relevant authorities in relation to the 2012 Share Option Scheme.

B. "**THAT** the operation of the share option scheme adopted by the Company at the general meeting held on 17th December, 2002 (the "2002 Share Option Scheme") be and is hereby terminated and that no further options shall be offered or granted pursuant to the terms of the 2002 Share Option Scheme but the options had been granted, if any, during the life of the 2002 Share Option Scheme shall continue to be valid and exercisable in accordance with their terms of issue and in all other respects the provisions of the 2002 Share Option Scheme shall remain in full force and effect."

SPECIAL RESOLUTION

7. To consider as special business and, if thought fit, pass with or without amendments, the following resolutions as a Special Resolution:–

"**THAT** the Bye-laws of the Company be amended by as follows:–

(a) By adding the following new Bye-law 41(D):

"Notwithstanding the provisions of Bye-law 41 (A) to (C) above, any shares or securities which are listed on a Designated Stock Exchange may be transferred in accordance with the rules and regulations of that Designated Stock Exchange."

(b) By deleting the Bye-law 44(iii) in its entirety and substituting it with the following new Bye-law 44(iii):–

"if applicable, the instrument of transfer is properly stamped or in the case of an electronic share transfer the Company is provided with evidence that the proper stamp duty in relation to the transfer has been paid; and"

(c) By deleting the Bye-law 56 in its entirety and substituting it with the following new Bye-law 56:

"56 (A) Subject to Bye-Law 56(B) below, the Company shall in each year hold a general meeting as its annual general meeting in addition to any other meetings in that year and shall specify the meetings as such in the notice calling it and not more than 15 months shall elapse between the date of one annual general meeting of the Company and that of the next (save and except for the annual general meeting for 1999). The annual general meeting shall be held at such time and place as the Directors shall appoint. All general meetings other than annual general meetings shall be called special general meetings.

(B) The Company may, by resolution of the Company in general meeting, elect to dispense with the holding of annual general meetings (i) for the year in which it is made and any subsequent year or years, (ii) for a specified number of years, or (iii) indefinitely and such election shall be subject to the provisions of the Act."

(d) By deleting the Bye-law 66 in its entirety and substituting it with the following new Bye-law 66:–

"The Chairman shall preside as chairman at every general meeting of the Company."

(e) By deleting the Bye-law 67 in its entirety and substituting it with the following new Bye-law 67:–

"If at any meeting the Chairman is not present within 15 minutes after the time appointed for holding the meeting or is willing to act as chairman, the Directors present shall choose one of their number as chairman and if only one Director shall be present he shall, if willing to act, preside as chairman. If no Director shall be present or if all the Directors present decline to take the chair or if the chairman chosen shall retire from the chair, then the members present shall choose one of their own number to be the chairman."

(f) By deleting the Bye-law 69 in its entirety and substituting it with the following new Bye-law 69:–

(i) "At any general meeting a resolution put to the vote at the meeting shall be decided by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. For the purpose of this Bye-Law, procedural and administrative matters are those that (i) are not on the agenda of the general meeting or in any supplementary circular to shareholders; and (ii) relate to the chairman's duties to maintain the orderly conduct of the meeting and/or allow the business of the meeting to be properly and effectively dealt with, whilst allowing all shareholders a reasonable opportunity to express their views."

(ii) Where a show of hands is allowed, before or on the declaration of the result of the show of hands, a poll may be demanded by:

(a) at least 3 members present in person or by proxy or authorized representative for the time being entitled to vote at the meeting;

(b) any member or members present in person or by proxy or authorized representative and holding between them not less than one-tenth of the total voting rights of all the members having the right to attend and vote at the meeting; or

(c) any member or members present in person or by proxy or authorized representative and holding shares in the Company conferring a right to attend and vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

A demand by a person or by proxy for a member or in the case of a member being a corporation by its duly authorized representative shall be deemed to be the same as a demand by the member".

(g) By adding the following new Bye-law 69A:

"Where a resolution is voted on by a show of hands, a declaration by the chairman that a resolution has been carried, or carried unanimously, or by a particular majority, or not carried by a particular majority, or lost, and an entry to that effect made in the minute book of the Company, shall be conclusive evidence of the facts without proof of the number or proportion of the votes recorded for or against the resolution."

(h) By adding the following new Bye-law 69B:

"The result of the poll shall be deemed to be the resolution of the meeting. The Company shall only be required to disclose the voting figures on a poll if such disclosure is required by the rules of the Designated Stock Exchange."

Notice of Annual General Meeting

(i) By deleting the Bye-law 74 in its entirety and substituting it with the following new Bye-law 74:–

"Subject to any rights or restrictions for the time being attached to any class or classes of shares, at any general meeting on a show of hands every member present in person or by proxy or authorised representative shall have one vote, and on a poll every member present in person or by proxy or by authorised representative shall have one vote for each share of which he is the holder and which is fully paid up or credited as fully paid up (but so that no amount paid up or credited as paid up on a share in advance of calls or instalments shall be treated for the purpose of this Bye-Law as paid up on the share). A person entitled to cast more than one vote upon a poll need not use all his votes or cast all the votes he uses in the same way."

(j) By deleting the Bye-law 89 in its entirety and substituting it with the following new Bye-law 89:–

"No person, other than a retiring Director, shall unless recommended by the Directors for election, be eligible for election to the office of Director at any general meeting, unless notice in writing by any 2 or more shareholders entitled to attend and vote at the meeting holding at the date of the deposit of the notice in aggregate not less than one-tenth of such of the paid up capital of the Company (not being the person to be proposed) for which such notice is given of his intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected shall have been given to the Company at least 7 days before the date of the general meeting appointed for such election. The period for lodgment of the notice required under this Bye-Law shall commence no earlier than the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven (7) days prior to the date of such general meeting."

(k) By deleting the Bye-law 102 in its entirety and substituting it with the following new Bye-law 102:–

"Unless otherwise determined by an ordinary resolution of the Company, the number of Directors shall not be less than 2 and more than 20."

(l) By deleting the Bye-law 107 in its entirety and substituting it with the following new Bye-law 107:–

"The Directors shall as soon as possible after the statutory meeting and after each annual general meeting elect one of their number to be the Chairman. In addition, the Directors may from time to time appoint one or more of their body to the office of Managing Director, Joint Managing Director, Deputy Managing Director or other Executive Director, General Manager, Joint General Manager and/or such other office in the management or business of the Company on such terms and for such period as they may determine and, without prejudice to the terms of any contract entered into in any particular case, may at any time revoke any such appointment.

(m) By deleting the Bye-law 112(E) in its entirety.

(n) By deleting the Bye-law 112(H)(iii) in its entirety.

(o) By deleting the Bye-law 112(I) in its entirety.

(p) By deleting the Bye-law 112(J) in its entirety.

(q) By deleting the Bye-law 113 in its entirety and substituting it with the following new Bye-law 113:–

"The Directors may meet together for the dispatch of business, adjourn and otherwise regulate their meetings and proceedings as they think fit. Questions arising at any meeting shall be decided by a majority of votes and in the case of an equality of votes the chairman shall have a second or casting vote. A Director may, and the Secretary on the requisition of a Director shall, at any time summon a meeting of the Directors. Notice thereof shall be given to each Director and alternate Director in writing or by telex or telegram or via electronic mail at the address/email address from time to time notified to the Company by such Director or alternate Director or verbally (including in person or by telephone) or in such other manner as the Directors may from time to time determine provided that notice need not be given to any Director or alternate Director for the time being absent from Hong Kong. A Director may waive notice of any meeting either prospectively or retrospectively. A meeting of the Directors or a committee of Directors may be held by means of such telephone, electronic or other communication facilities as permit all persons participating in the meeting to communicate with each other simultaneously and instantaneously, and participation in such a meeting shall constitute presence in person at such meeting."

(r) By deleting the Bye-law 118 in its entirety and substituting it with the following new Bye-law 118:–

The Chairman shall preside as chairman at meetings of Directors. If at any meeting the Chairman is not present within 5 minutes after the time appointed for holding the same, the Directors present shall choose one of their number to be chairman of the meeting.

(s) By deleting the Bye-law 160 in its entirety and substituting it with the following new Bye-law 160:–

"Auditors shall be appointed and removed and their duties regulated in accordance with the Bye-Laws, the Listing Rules and the provisions of the Act. The Directors shall have power to fill any casual vacancy before the end of their period of office and fix the remuneration of the Auditors so appointed."

(t) By deleting the Bye-law 163(A)(2) in its entirety and substituting it with the following new Bye-law 163(A)(2):–

"Any notice or document (including any Corporate Communication or a share certificate) may be served on or delivered to any member of the Company either (1) personally or (2) by sending it through the post in a prepaid envelope or wrapper addressed to such member at his registered address as appearing in the register or by leaving it at that address addressed to the member or (3) as the case may be, by transmitting it to any such address or transmitting it to any telex or facsimile transmission number or electronic number or address or website supplied by him to the Company for giving of notice or document to him or which the person transmitting the notice or document reasonably and bona fide believes at the relevant time will result in such notice or document being duly received by the member or (4) by publishing it by way of advertisement in the newspapers, or (5) by placing it on the Designated Stock Exchange's website or the Company's website and giving to the member a notice stating that the notice or other document is available there (a "notice of availability"). The notice of availability may be given to the member by any of the means set out above other than by posting it on a website. In case of joint holders of a share, all notices shall be given to that one of the joint holders whose name stands first in the register and notice so given shall be sufficient notice to all the joint holders. Notwithstanding the foregoing, the Company may deem consent on the part of a member to a corporate communication being made available to him on the Company's website if such deemed consent is permitted by the Listing Rules."

(u) By deleting the Bye-law 164 in its entirety and substituting it with the following new Bye-law 164:–

"Any notice or other document (including any Corporate Communication or a share certificate):

(A) if sent by mail, postage prepaid, shall be deemed to have been served or delivered on the day following that on which the letter, envelope, or wrapper containing the same is put into the post. In proving such service it shall be sufficient to prove that the letter, envelope or wrapper containing the notice or document was properly addressed and put into the post as prepaid mail;

(B) if sent by electronic communication, shall be deemed to be given on the day on which it is transmitted from the server of the Company or its agent. A notice placed on the Company's website or the website of the Designated Stock Exchange, is deemed given by the Company to a member on the day following that on which a notice of availability is deemed served on the member;

(C) if served by advertisement, shall be deemed to have been served on the day of issue of the official publication and/or newspapers in which the advertisement is published;

(D) if served or delivered in any other manner contemplated by these Articles, shall be deemed to have been served or delivered at the time of personal service or delivery or, as the case may be, at the time of the relevant despatch or transmission; and in proving such service or delivery a certificate in writing signed by the Secretary or other officer of the Company or other person appointed by the Board as to the act and time of such service, delivery, despatch or transmission shall be conclusive evidence thereof; and

(E) may be given to a member either in the English language or the Chinese language, subject to due compliance with all applicable Statutes, rules and regulations.

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. In order to qualify for attending and voting at the above meeting or any adjournment thereof, the register of members of the Company will be closed from 2nd May, 2012 to 4th May, 2012, both days inclusive, during which period no transfer of shares can be registered. 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 4:30 p.m. on 30th April, 2012.

5. In addition, in order to qualify for the proposed final dividends, subject to approval at the above meeting and adjournment thereof, the register of members of the Company will also be closed on 10th May, 2012, on such date no transfer of shares can be registered. 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 4:30 p.m. on 9th May, 2012.

6. An explanatory statement containing further details regarding the proposed Resolutions 5B set out in the notice convening the above meeting will be sent to members of the Company together with the annual report 2011.

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

Pursuant to Rule 13.39 of the Listing Rules, all votes of the shareholders at the annual general meeting must be take by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. Therefore, all resolutions proposed to be approved at the AGM will be taken by poll.

This annual report is published in both English and Chinese. Should any conflict regarding meaning arises, the English version shall prevail.