Matrix Holdings Limited
美力時集團有限公司

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

Annual Report **2012**

Our Mission

- To **enhance customer satisfaction** through delivery of high quality products that meet **world safety standard**
- To be a **socially responsible employer** by providing **safe and pleasant** working environment to workers
- To be **environmentally responsible** in all its manufacturing processes through **recycling** and **adherence** to national and local environmental protection laws
- To optimize shareholders' return by pursuing **business growth, diversification** and **productivity enhancement**

Contents

Corporate Profile

Danang City, Vietnam –
First Plant

Zhongshan,
the PRC

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, 2012, the Group employed approximately 10,600 staff in Hong Kong, Macau, PRC, Vietnam, United States of America and Europe. The Shelcore and the Funrise Group, well-established toy companies in designing, manufacturing and selling plastic toys were merged into the Group since 2005 and 2007 respectively.

Danang City, Vietnam –
Second Plant

Danang City, Vietnam –
Third Plant

Vinh City, Vietnam –
Fourth 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
Heng Victor Ja Wei

AUDIT COMMITTEE & REMUNERATION COMMITTEE

Loke Yu alias Loke Hoi Lam *(Chairman)*
Mak Shiu Chung, Godfrey
Wan Hing Pui
Heng Victor Ja Wei

NOMINATION COMMITTEE

Cheng Yung Pun *(Chairman)*
Loke Yu alias Loke Hoi Lam
Mak Shiu Chung, Godfrey
Wan Hing Pui
Heng Victor Ja Wei

COMPANY SECRETARY

Lai Mei Fong

AUDITORS

Deloitte Touche Tohmatsu
35th Floor
One Pacific Place
88 Queensway
Hong Kong

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

SHARE REGISTRAR

Butterfield Fulcrum Group (Bermuda) Limited
26 Burnaby Street
Hamilton HM11
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)

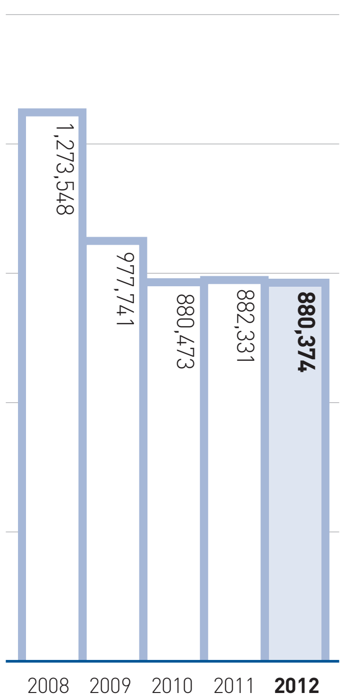
Financial Highlights

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

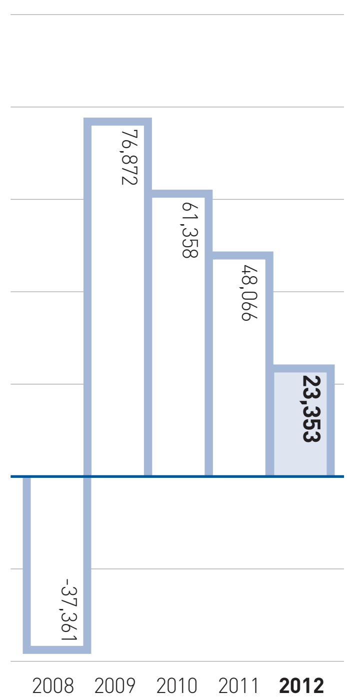
CONSOLIDATED

(HK$'000, except where otherwise stated)	**2012**	2011	% Change
Turnover	**880,374**	882,331	(0.2%)
Gross profit	**294,852**	310,411	(5.0%)
Operation profit before exceptional items	**23,353**	48,066	(51.4%)
Profit for the year attributable to owners of the Company	**23,353**	48,066	(51.4%)
Earnings per share – Basic	**HK3 cents**	HK7 cents	(57.1%)
Dividend per share			
Interim, paid	**HK1.1 cents**	HK1.1 cents	–
Final, proposed	**HK1.3 cents**	HK3.5 cents	(62.9%)
Gross Profit Margin (%)	**33.5**	35.2	(4.8%)
Net Profit Margin (%)	**2.7**	5.5	(50.9%)
Gearing Ratio (%)	**17.7**	16.5	7.3%
Current Ratio	**1.9**	2.2	(13.6%)
Quick Ratio	**0.8**	1.0	(20.0%)

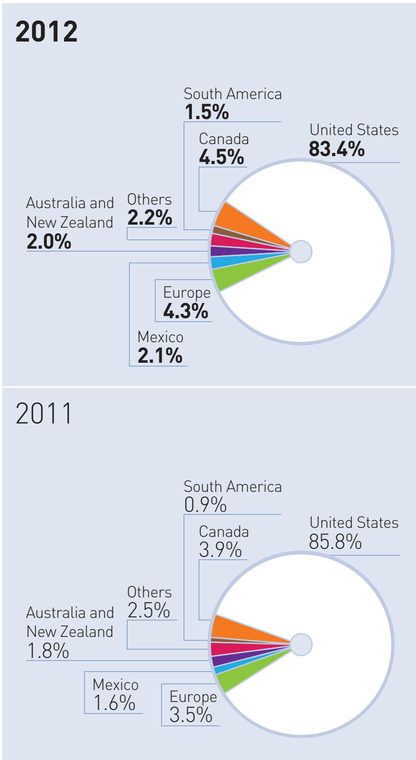
TURNOVER



PROFIT (LOSS) ATTRIBUTABLE TO OWNERS OF THE COMPANY

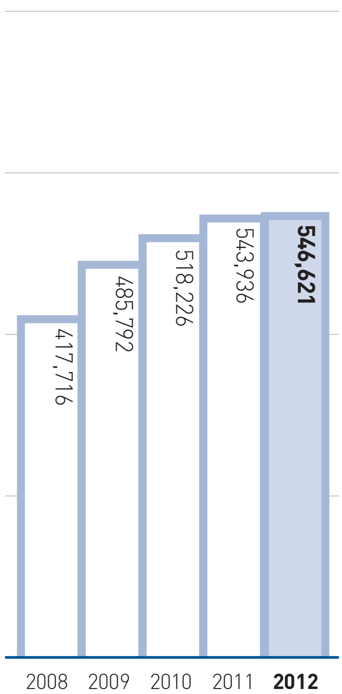


TURNOVER BREAKDOWN BY MARKET

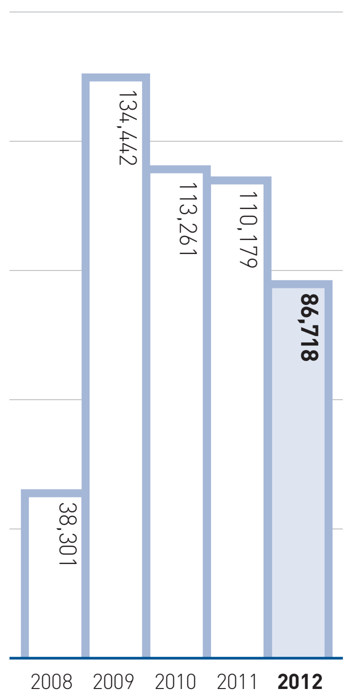


Financial Highlights

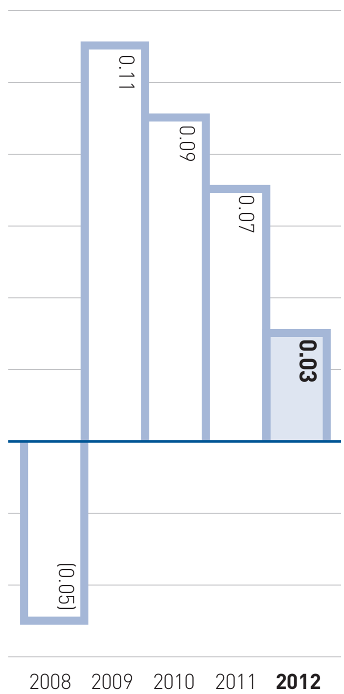
NET ASSETS



EBITDA



BASIC EARNINGS (LOSS) PER SHARE



DEFINITIONS

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

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 financial year ended 31st December, 2012.

During the year under review, the Group maintained substantially the same consolidated turnover of HK$880,374,000 when compared with HK$882,331,000 in previous year. The profit attributable to owners of the Company amounted decreased to HK$23,353,000, as compared to the last year's HK$48,066,000.

The Group's core business remains the production operation in the production facilities in Vietnam which provides high quality products to the customers in the original equipment manufacturing business, original design manufacturing business and lighting business. Back to the years earlier, the management had already foreseen the potential challenges and made decisive actions to adjust our business models. We assumed the plants in Vietnam as its key production base to mitigate the cost pressure on the establishment of production facilities in the Pearl River Delta in the PRC. During the year, the Group actively expanded its distribution channels, explored new sales channels by increasing its participation in lighting products exhibitions and enriched its product mix of its new product lines, which received inspiring market response. Besides streamlining its business structure, the Group also restructured its manpower, replaced inefficient production facilities, streamlined work processes and also studied the possibility of making use of the idle production capacity available in low seasons to achieve more cost-effective production and improve the overall efficiency. The move of its production

Chairman's Statement

base from the PRC to Vietnam helped diversifying its production investments and reduced the pressure on currency appreciation and enjoyed relatively cheaper labour costs. The solid partner relationship with major customers and brand licensed customers as well as its solid foundation in prior years enabled the Company to maintain its leading position in the industry and overcame the challenging encountered in the previous years. The Group has all along been maintaining stringent monitoring policy in production and financial management and focused on the modernization and production to improve efficiency

and productivity, expanded new product lines on a best effort basis and leveraged on the existing sales opportunities in the global market. Furthermore, the Group will continue to prudently invest and manage new and existing product mix. The Group's design, manufacturing, promotion and marketing are expected to receive positive responses from the market. 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, 21st March, 2013

Management Discussion and Analysis

RESULTS

As at 31st December, 2012, the Group maintained substantially the same consolidated turnover of HK$880,374,000 when compared with HK$882,331,000 in previous year. Profit attributable to owners of the Company was down by HK$24,713,000 or 51.4% to HK$23,353,000 from HK$48,066,000 last year. Basic earnings per share was HK3 cents (2011: basic earnings per share amounting to HK7 cents). Our clients had changed their purchase practice in 2012 and adopted a concentrated approach of placing orders in the second half year. As a result, the turnover in the second half of 2012 outperformed the first half year. Moreover, with the Group's good reputation in the industry, we continued our efforts in building up close co-operation relationships with our major clients, stabilizing sales through adopting the strategy of developing products under our self-owned brand name and further promoting our well-known brands. In addition, in order to expand the geographical coverage and secure orders from our clients, we monitored closely other emerging markets, renovated product mix and changed the sales structure. For instance, we developed the new lighting business and conducted research regarding the feasibility of new products. Although affected by the change in order placing approach, the Group still maintained substantially the same turnover when compared with last year. The decrease in profit attributable to owners of the Company was primarily due to the decrease in other income arising from the exchange gains on the foreign currency translation of our Vietnam factories, and the Company made a provision for obsolete inventories.

DIVIDENDS

During the year, the Company paid an interim dividend of HK1.1 cents in cash (2011: interim dividend HK1.1 cents in cash) per share to the shareholders. The Directors had resolved to recommend the payment of a final dividend of HK1.3 cents (2011: HK3.5 cents) per share for the year ended 31st December, 2012, payable to shareholders whose names appear on the Register of Members of the Company on 14th May, 2013. Together with the interim dividend paid of HK1.1 cents per share, the total dividend per share for the year is HK2.4 cents (2011: HK4.6 cents).

Subject to the approval of the shareholders at the forthcoming annual general meeting, the proposed final dividend will be paid on or about 21st May, 2013 in cash.

BUSINESS REVIEW

During the year under review, the Group continued its efforts in strengthening the competitiveness of its core toy and production business, and exploring the lighting products business proactively, enriching the product mix of each business segment and adding new product lines. At the same time, the Group participated in different trade fairs to increase its brand awareness and explored various new sales channels. Meanwhile, back to a year earlier, the management had already foreseen the potential challenges and made decisive actions to assume the plants in Vietnam as its key production base in replacement of its plant in China. This had benefited the Group in reducing its reliance on the plant in China where direct labour costs are higher and is impacted by significant increase in minimum wages year on year, thereby mitigating the pressure of production costs. Whilst the price of raw materials like plastics had stabilized, the Group took measures in evaluating reduction of the scale of idle production facilities and optimizing our production system to lower costs. Accordingly, as compared with last year, the Group still managed to stabilize the production costs even with a slight increase in labour costs. The Group further monitored the decrease in administrative expenses. Despite the Group took its investment model strategically as its long-term growth measure, the decrease in other income arising from the exchange gains on the foreign currency translation of our Vietnam factories, and the accounting provision for obsolete inventories, the Group recorded a profit.

MANUFACTURING OPERATION

The Group operated a total of five factories, with the major four factories located in Vietnam and the other one in Zhongshan, China. Our product research and development ("R&D") center of the Group further promoted the development of R&D and recruited talented R&D team to further improve our R&D capability, and more high value-added projects have been included to further expand and optimize our product mix to support our lighting business. As for the costs, the management kept optimizing its procurement procedures, and continued to implement stringent control over operating expenses, and restructured its manpower, replaced inefficient production facilities, streamlined work processes and also studied the possibility of making use of the idle production capacity available in low seasons, thereby achieving more cost-effective production. The Group's production base in Vietnam is currently enjoying more favourable conditions when comparing with operating the production business in China along with the complementing rationalised production lines, it continued to exert positive impact on our cost effectiveness, so as to maintain our sustainable long-term growth.

SEGMENT PERFORMANCE

The Group has always been actively exploring new sales channels, such as online blog and social media promotion, appointing new distribution partners and introducing new sales plans to identify the demand for the Group's products by clients worldwide. Apart from securing a firm foothold in traditional markets like the United States and Europe, the active distribution approach also targeted at increasing orders from customers in emerging economies and it has all along been closely monitoring other new markets, such as Bolivia and Turkey to expand our sales geographical coverage. The Group has a strong customer base, and will fully leverage on the potential advantages brought by its existing customer base in selling new products, and thus lead to a stable performance in global sales. The Group kept on adjusting its business strategy to cope with the ever changing market environment, such as some clients in major import countries has changed their practice of placing orders. While we have started producing lighting products that are less sensitive to the economic cycle, we continue to explore new business scopes and enrich our product lines to make better use of our existing production facilities to meet customers' diversified demand for our products, thereby further expanding our customer base. Apart from the core toy manufacturing and sales activities, it is worth mentioning that the lighting business has started to contribute to the turnover of the Group. In general, the overall business development of the Group is as follows:

Management Discussion and Analysis

United States ("US")

The US was still a major export market for the Group's toy products. Our turnover decreased by HK$22,526,000 or 3.0% to HK$734,134,000 this year from HK$756,660,000 last year. The Group has solid partnerships with its clients in the current Original Equipment Manufacturing ("OEM") business and Original Design Manufacturing ("ODM") business. Our new authorized licensing business, "MY LITTLE PONY" plush toys, and the overall ODM business had delivered satisfactory performance, and along with the increase in orders for lighting products, they had offset the cyclical sales impact of the adoption of concentrated order-placing approach by OEM clients that resulted a change ordering schedule and the tuning down "HOP" brand products boom by certain customers. Furthermore, the Group kept developing and exploring new distribution channels to market products for the authorized licensing business brand "TONKA", the self-owned brand "GAZILLION", and the new brand "GIRL ACTIVITIES/ROLE PLAY" products series. The Group will strive to maintain the authorized licensing business for major brands, enrich other product lines such as "MY LIFE AS PROGRAM", and retain its existing distributors and clients, including Wal-Mart, Target, Costco, Toys "R" US and Kohl's.

Canada

Our turnover in the Canadian market was increased by HK$4,441,000 or 12.8% to HK$39,195,000 this year from HK$34,754,000 last year. As one particular client increased its orders substantially and also because of economic recovery, client's demand for the authorized licensing business brand "TONKA" and the self-owned brand "GAZILLION" still continued. At the same time, with the increase in orders for lighting products, the turnover in the Canadian market increased. The Group will endeavour to retain its existing distributors and clients, including Costco, Wal-Mart and Toys "R" US.

Europe

Europe was also an important market of the Group. Our turnover increased by HK$7,281,000 or 23.8% to HK$37,883,000 this year from HK$30,602,000 last year. The demand for our products from clients in other European countries such as Denmark, Turkey and United Kingdom still continued. Besides, orders from new additional clients in France, Ukraine, Italy and Switzerland and increased orders for lighting products had offset the decreased demand for our products from clients in Russian and Belgium markets, the turnover in the European market recorded an increase. The Group will endeavour to retain its existing distributors and clients.

Mexico

Our turnover in the Mexican market increased by HK$4,788,000 or 34.6% to HK$18,636,000 this year from HK$13,848,000 last year. The increase in the region was mainly attributable to further continuous demand for TONKA and GAZILLION BUBBLES products. At the same time, orders for lighting products had increased. The Group will endeavour to retain its existing distributors and clients, such as Coppel.

Australia and New Zealand

Our turnover in the Australian and New Zealander markets increased by HK$2,024,000 or 13.0% to HK$17,600,000 this year from HK$15,576,000 last year. The increase in orders for lighting products and the increasing demand for TONKA from other clients in Australia and New Zealand had offset the impact from an Australian client's adjustment and cancellation on some of our licensed brands in response to market change. The Group will endeavour to retain its existing distributors and clients, such as TRU, Woolworths and Kmart Australia etc., and it is expected that orders will be re-secured from a certain customer.

South America

Our turnover in the South American market increased by HK$5,370,000 or 65.1% to HK$13,624,000 this year from HK$8,254,000 last year, which was mainly attributable to the stabilized economic conditions and the steady sales volume. Demand for "TONKA" and "GAZILLION" products in these South American countries such as Chile, Panama, Venezuela and Bolivia, still continued. At the same time, orders for lighting products recorded an increase, the overall turnover from the South American market had increased.

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 31st December, 2012, the Group had bank balances and cash of approximately HK$43,305,000 (2011: HK$45,998,000) and pledged bank deposit of approximately HK$nil (2011: HK$2,183,000) secured for banking facilities granted. During the year under review, the Group obtained banking facilities in a total of approximately HK$126,200,000 (2011: HK$50,000,000) of which HK$95,000,000 was provided by Corporate guarantee and HK$31,200,000 was secured under floating charge on certain assets of a group entity.

As at 31st December, 2012, the Group had bank loans of approximately HK$25,805,000 (2011: HK$6,978,000). The Group's gearing ratio, representing the total debt (sum of bank borrowings and loans from ultimate holding company) divided by equity attributable to owners of the Company, was 17.7% (2011: 16.5%).

During the year, net cash generated from operating activities amounted to approximately HK$64,244,000 (2011: HK$56,394,000). 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$43,758,000 (2011: HK$57,194,000) 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$904,000 (2011: HK$2,003,000).

Assets and Liabilities

At 31st December, 2012, the Group had total assets of approximately HK$892,511,000 (2011: HK$840,156,000), total liabilities of approximately HK$345,890,000 (2011: HK$296,220,000) and equity attributable to owners of the Company of approximately HK$546,621,000 (2011: HK$543,936,000). The net assets of the Group increased approximately 0.5% (2011: increased 5.0%) to approximately HK$546,621,000 as at 31st December, 2012 (2011: HK$543,936,000).

Significant Investments and Acquisition

There was no significant investment and acquisition for the year ended 31st December, 2012.

Significant Disposal

There was no significant disposal for the year ended 31st December, 2012.

Contingent Liabilities

For the details of the contingent liabilities, please refer to note 37 to the consolidated financial statements.

Subsequent Event

For the details of the subsequent event, please refer to note 39 to the consolidated financial statements.

Management Discussion and Analysis

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.

NUMBER OF EMPLOYEES AND REMUNERATION POLICIES

As at 31st December, 2012, the Group had a total of approximately 10,600 (2011: 11,500) 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

In the coming year, the economy of US market will remain stable, and despite the uncertainties arising from the European debt crisis still exist, the management is concerned about the toy industry worldwide and will adopt a cautious optimistic approach. The costs of labour and human resources, the prices of raw materials and energy costs, the exchange rate of US dollar and fluctuation of production costs in Vietnam will further stabilize. For the sake of long-term development in the future, the Group will focus on developing more high value-added products, such as metal and die-cast toys and will implement marketing strategies to lay a foundation for our products.

Furthermore, in light of the prevailing global environmental-friendly mentality, a number of European countries are putting their unremitting efforts in promoting environmental-friendly lighting products to replace traditional bulbs, thereby bringing outstanding market business opportunities for the new lighting business of the Group. Further to the Group's continuous marketing efforts, the Viribright lighting brand is gradually being awared and accepted by the global market. The management will actively consider the possibility of facilitating further development, and try its very best to broaden our income source and reduce the dependency over any single business segment.

Looking ahead, the Group's ultimate goal will be to continue maintain profitability and achieving cost efficiency. As such, we will closely monitor the company's development strategy so as to maximize the return for our shareholders.

Biographies of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Cheng Yung Pun

Aged 61, was appointed Chairman of the Company in September 2000 and also the chairman of the nomination committee of the Company. Mr. Cheng is responsible for the overall corporate policies and 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 32 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 65, 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 46 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 57, 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 32 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 finance and accounting management, corporate finance, legal and taxation management of the Group.

Ms. Cheng Wing See, Nathalie

Aged 39 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 three years' experience in sales and marketing. She is currently responsible for sales and marketing of the overseas' company. She is a daughter of Mr. Cheng Yung Pun, Chairman of the Company.

Mr. Cheung Kwok Sing

Aged 54, 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 25 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 13 years and is currently responsible for the marketing management of the European market.

Biographies of Directors and Senior Management

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

Aged 56, 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 23 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 62, 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 25 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 14 years and is currently responsible for the production management.

Mr. Tsang Chung Wa

Aged 49, 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 24 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 12 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 63, was appointed independent non-executive Director of the Company in September 2004 and is also the chairman of the audit committee, remuneration committee and nomination committee of the Company. Dr. Loke has over 37 years of experience in accounting and auditing for private and public companies, financial consultancy and corporate management. He holds a Master of Business Administration degree from Universiti Teknologi Malaysia and a Doctor of Business Administration degree from University of South Australia. He is a Fellow of The Institute of Chartered Accountants in England and Wales; Hong Kong Institute of Certified Public Accountants; and The Hong Kong Institute of Directors. He is also an Associate member of The Hong Kong Institute of Chartered Secretaries.

He is currently the company secretary of Minth Group Limited and serves as an independent non-executive Director of Sino Distillery Group Limited (formerly known as Bio-Dynamic Group Limited), Chiho-Tiande Group Limited, China Fire Safety Enterprise Group Limited, Scud Group Limited, Tianjin Development Holdings 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 50, was appointed independent non-executive Director in May 2000 and is also a member of the audit committee, remuneration committee and nomination 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 22 years of experiences in the field of corporate finance.

Mr. Wan Hing Pui

Aged 82, was appointed independent non-executive Director in September 2004 and is also a member of the audit committee, remuneration committee and nomination committee of the Company. Mr. Wan has over 54 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 and a Fellow of Hong Kong Institute of Certified Public Accountants. He is a sole proprietor of H.P. Wan & Co., a firm of Certified Public Accountants (Practising).

Mr. Heng Victor Ja Wei

Aged 35, was appointed as an independent non-executive Director and a member of the audit committee, remuneration committee and nomination committee of the Company on 31 December, 2012. He is a partner of Morison Heng, Certified Public Accountants. Mr. Heng holds a Master of Science degree of the Imperial College of Science, Technology and Medicine, the University of London. He is a member of and holds a Certified Public Accountant (Practising) certificate issued by The Hong Kong Institute of Certified Public Accountants and a Fellow of The Association of Chartered Certified Accountants. He serves as an independent non-executive director of China Fire Safety Enterprise Group Limited, Lee & Man Handbags Holding Limited and Lee & Man Chemical Company Limited whose shares are listed on the main board of the Stock Exchange.

CHIEF EXECUTIVE OFFICER

Mr. Chen Wei Qing

Aged 45, 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 24 years' extensive experience in product development and manufacturing toys.

Corporate Governance Report

The board of directors (the "Board") of Matrix Holdings Limited (the "Company") has adopted a code of corporate governance practices ("former CGP Code") and amended it from time to time, which is based on the principles set out in Appendix 14 (the "HKEx Code") to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). A new corporate governance code was recently adopted (the "CG Code") to replace the former CGP Code to reflect the new requirements under the revised HKEx Code effective from April 2012 (the "Revised HKEx Code"). Continuous efforts are made to review and enhance the Group's procedures in light of changes in regulations and developments in best practices. 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.

The Board is pleased to report compliance with the former CGP Code under the HKEx Code for the period up to 31st March, 2012 and the CG Code under the revised HKEx Code during the period from 1st April, 2012 to the year end 2012, except where otherwise stated in section "Report of the Directors".

A. DIRECTORS

1. The Board

The Board assumes responsibility for directing the Company and enhancing its value for shareholders in accordance with good corporate governance principles and has established relevant board committees to assist in discharging this responsibility.

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 of the Company and its subsidiaries for its day-to-day management and operation of the Group's businesses, implementation of the budgets and strategic plans and development of the organisation of the Company for implementing the Board's decision; to oversee and evaluate the conduct of the Group's businesses; to identify principal risks and ensure the implementation of appropriate measures and control systems; to review and approve important matters such as financial results and investments etc.; and to review the Company's policies and practices on corporate governance.

As at 31st December, 2012, at least one-third of the Company's board is independent non-executive directors ("INED") of which 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. Tsang Chung Wa and Mr. Tse Kam Wah and four INEDs, namely Dr. Loke Yu alias Loke Hoi Lam, Mr. Mak Shiu Chung, Godfrey, Mr. Wan Hing Pui and Mr. Heng Victor Ja Wei (collectively the "Directors"). The INEDs required under Rule 3.10(1) of the Listing Rules who represent one third of the Board and include three with appropriate professional qualifications and accounting and related financial expertise required under Rule 3.10(2) of the Listing Rules.

In accordance with the Bye-laws, the former CGP Code and the CG Code of the Company, every director should be subject to retirement by rotation at least once every three years. All Directors appointed as an additional Director or 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. Despite non-executive directors (including independent non-executive) are not appointed for a specific term as stipulated by the HKEx Code and the Revised HKEx, they are subject to retirement by rotation and re-election at the annual general meetings of the Company. As such, the Company considers that such provisions are sufficient to meet the intent of the relevant provisions of the HKEx Code and the Revised HKEx Code.

The Directors who are subject to retirement and re-election at the 2013 Annual General Meeting are set out on page 33 of this Annual Report. The independence of the INED has been assessed in accordance with the applicable Listing Rules as each of the INED has provided an annual written confirmation of independence pursuant to the Listing Rules 3.13.

The Company considers that the INEDs continue to be independent in compliance with those independence criteria under the said rule and are capable to effectively exercise independent judgment up to and as at the date of this report.

The Directors' biographical details are listed in the section of "Biographies of Directors and Senior Management" in this report. Save as Ms. Cheng is a daughter of Mr. Cheng, there is no financial, business, family or other material/relevant relationship between the Directors. The INEDs are expressly identified in all of the Company's publication such as circular, announcement or relevant corporate communications in which the names of Directors of the Company are disclosed. The 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.

2. Chairman and Chief Executive Officer ("CEO")

The roles of the Chairman and the CEO of the Company are segregated and are not held by the same person and are governed by the Chairman Mandate and CEO Mandate (containing the minimum prescribed duties) and stated in the Company's own CG Code. The primary responsibility of the Chairman is to ensure smooth and effective functioning of the Board. 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 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. Currently, Mr. Cheng Yung Pun is a Chairman and Mr. Chen Wei Qing is a CEO of the Company.

3. Board Meetings and Access of Information

The Board conducts meeting on a regular basis and on an ad hoc basis, as required by business needs. The Bye-laws of the Company allows board meetings to be conducted by way of telephone or video conference. Members of the Board receive information before the meetings about developments in the Company's business.

During the year under review, the Board held twenty board meetings (including some meetings held by video or telephone conference) in which Mr. Cheng Yung Pun, Mr. Yu Sui Chuen, Mr. Leung Hong Tai and Dr. Loke Yu alias Loke Hoi Lam had attended all the board meetings; Mr. Tse Kam Wah and Mr. Wan Hing Pui had attended nineteen board meetings; Mr. Mak Shiu Chung, Godfrey had attended eighteen board meetings; Ms. Cheng Wing See, Nathalie and Mr. Tsang Chung Wa had attended seventeen board meetings; Mr. Cheung Kwok Sing had attended fifteen board meetings; Mr. Arnold Edward Rubin had attended eight board meetings.

In the said board meetings, sufficient fourteen-day notices for regular board meetings and notice in reasonable days for non-regular board meetings were given to all Directors. Board papers are circulated prior to board meetings on a timely manner in which sufficient information was supplied by the management to the Board to enable it to make informed decisions, which are made in the best interests of the Company.

All Directors have access to the advice and services of the company secretary and upon reasonable request, independent professional advice in appropriate circumstances at the Company's expense, if any.

4. Directors' Securities Transactions

The Company had adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as the code of conduct governing Directors' securities transactions.

All Directors of the Company during the year, following specific enquiry by the Company, have confirmed that they have complied with the required standard set out in the Model Code throughout the year.

5. Directors' Continuous Training and Development Programme

Pursuant to the Revised HKEx Code which took effect on 1st April, 2012, all Directors should participate the continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the board remains informed and relevant. The Company has introduced the development programme for Directors. Each of the Directors keeps abreast of his/her responsibilities as a Director of the Company and of its conduct, and business activities and development. All Directors are updated from time to time with development in the laws and regulations applicable to the Company.

During the period from 1st April, 2012 to 31st December, 2012, all Directors of the Company namely, Mr. Cheng Yung Pun, Mr. Arnold Edward Rubin, Mr. Yu Sui Chuen, Ms. Cheng Wing See, Nathalie, 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, Godfrey, Mr. Wan Hing Pui and Mr. Heng Victor Ja Wei, and received regular updates on the Group's business, operations, risk management and corporate governance matters. Materials on new or changes to salient laws and regulations applicable to the Group were provided to the Directors. They also attended regulatory update sessions and seminars on relevant topics. All Directors are requested to provide the Company with their respective training record pursuant to the CG Code.

B. DIRECTORS' REMUNERATION

1. Remuneration Committee ("RC")

The principal duties of RC include, inter alia, reviewing the Board on the remuneration policy and structure for the remuneration of Directors and senior management, the specific remuneration packages of all executive Directors and senior management, including benefits in kind, pension rights and compensation payment, including any compensation payable for loss or termination of their office or appointment, as well as to make recommendation to the Board as described under Code B.1.2(c)(ii) of the Revised HKEx Code. The RC 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. 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. Detailed terms of reference of the RC are accessible on the website of the Company and the Exchange of Clearing Hong Kong Company Limited ("HKEx").

Membership and attendance:

The RC comprises Dr. Loke Yu alias Loke Hoi Lam as chairman, Mr. Mak Shiu Chung, Godfrey, Mr. Wan Hing Pui and Mr. Heng Victor Ja Wei (with effect from 31st December, 2012). For the year ended 31 December 2012, Dr. Loke Yu alias Loke Hoi Lam, Mr. Mak Shiu Chung, Godfrey and Mr. Wan Hing Pui had attended the RC meeting.

Work done during the year

- reviewed its terms of reference and the remuneration policy for Directors and senior management;
- reviewed the remuneration packages of executive Directors and senior management for the year 2012; and
- recommended to the Board the executive Directors' fees for the year ended 31st December, 2012 for proposing to shareholders for approval.

2. Level and Make-up of Remuneration

The Group's remuneration policy for executive Directors and senior management is linked to performance, service seniority and experience, which are reviewed from time to time to align with market/industry practices.

Details of the remuneration of the Directors for the year ended 31st December, 2012 are provided in note 13 to the Financial Statements in this annual report.

C. DIRECTORS' NOMINATION

1. Nomination Committee ("NC")

Before the NC set up, 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.

On 30th March, 2012, the NC was established. Its principal role is to make recommendations to the Board on the structure, size and composition of the Board, to review the independence of INEDs, the suitability of Directors who will stand for re-election and Directors' continuous training and development programme, to review and make recommendation to the Board the nomination policy. The overriding objective of the nomination policy is to ensure that the Company is able to nominate a right person to be director which is essential to the success of the Company. Detailed terms of reference of the NC are accessible on the website of the Company and the HKEx.

Membership and attendance:

The NC comprises Mr. Cheng Yung Pun as chairman, Dr. Loke Yu alias Loke Hoi Lam, Mr. Mak Shiu Chung, Godfrey, Mr. Wan Hing Pui and Mr. Heng Victor Ja Wei (with effect from 31st December, 2012). For the year ended 31st December, 2012, Mr. Cheng Yung Pun, Dr. Loke Yu alias Loke Hoi Lam, Mr. Wan Hing Pui and Mr. Mak Shiu Chung, Godfrey had attended the meeting.

Work done during the year

- reviewed the structure, size and composition of the Board, and is of the view that there is an appropriate and diverse mix of skills and experience;

- reviewed the independence of INEDs of the Company and confirmed that all INEDs are considered independent;

- reviewed the profile and performance of Directors who will stand for re-election at Annual General meeting and confirmed that all those Directors are suitable to stand for re-election; and

- reviewed continuous training and development programme undertaken by Directors and confirmed that an appropriate programme is in place.

D. ACCOUNTABILITY AND AUDIT

1. Audit Committee ("AC")

The principal responsibilities of the AC 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. Detailed terms of reference of the AC are accessible on the website of the Company and the Exchange of Clearing Hong Kong Company Limited ("HKEx").

Three Audit Committee members are qualified accountants. None of the Audit Committee members are members of the former or existing auditors of the Company.

Membership and attendance:

The AC comprises Dr. Loke Yu alias Loke Hoi Lam as chairman, Mr. Mak Shiu Chung, Godfrey, Mr. Wan Hing Pui and Mr. Heng Victor Ja Wei (with effect from 31st December, 2012). For the year ended 31st December, 2012, Dr. Loke Yu alias Loke Hoi Lam, Mr. Wan Hing Pui and Mr. Mak Shiu Chung, Godfrey had attended all the meetings. Finance director and group financial controller are normal attendees of the AC meetings. Where appropriate, representatives of the external auditors are invited to attend the AC meetings to present significant audit and accounting matters which they noted in the course of their audit.

Work done during the year

- interim and final financial review;

- reviewed 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;

- reviewed 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.

- reviewed the nature and scope of external audit and approved the external audit fee;

- reviewed the interim financial report, interim results announcement, the annual accounts and the annual results announcement in accordance with the accounting policies and practices and relevant accounting standards, the Listing Rules and the legal requirements;

- reviewed continuing auditor objectivity and to safeguard independence of the Company's auditors;

- met 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;

- reviewed the Group's internal control system;

- served 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;

- considered 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;

- devised a framework for the type and authorisation of non-audit services provided by the external auditors.

2. Financial Reporting

The financial statements of the Company for the year ended 31st December, 2012 have been reviewed by the AC 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 Board approves the financial statements after taking into account specific accounting matters. The Board is satisfied that appropriate accounting policies have been used in preparing the financial statements, consistently applied and complied with the relevant accounting standards. Directors ensure the preparation of the financial statements of the Group is in accordance with statutory requirements and applicable accounting standards and also ensure the publication of the financial statements of the Group in a timely manner.

The Listing Rules require listed companies to prepare annual financial statements which shall provide a true and fair view of the state of affairs of the companies and of the results of their operations and cashflows.

The Board is responsible for ensuring the maintenance of proper accounting records of the Group. It has also acknowledged its responsibility for preparing the financial statements in a timely manner.

A statement of the auditors about their reporting responsibilities is included in the Report of the Auditors on page 44 of this annual report.

3. 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.

4. Auditors' Remuneration

During the year under review, the fees paid or payable to the auditor of the Company, Messrs. Deloitte Touche Tohmatsu were approximately HK$2,455,000 and HK$192,000 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$946,000.

E. CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the following corporate governance duties as required under the HKEx Code:

- to develop and review the Company's policies and practices on corporate governance;
- to review and monitor the training and continuous professional development of Directors and senior management;
- to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- to review and Company's compliance with the HKEx Code and disclosure in the Corporate Governance Report.

During the year, the Board considered the following corporate governance matters:

- adoption of corporate governance duties under the HKEx Code;
- establishment of the Nomination Committee;
- adoption of new CG Code of the Company modeled on the Code under the Listing Rules; and
- review the compliance with the HKEx Code.

F. INVESTOR RELATIONS

1. Communication with investors

During the year under review, the Group has proactively enhanced its corporate transparency and communications with its shareholders and the potential investors 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.

The significant changes to the Company's bye-laws and that the new Bye-Laws have been adopted in the AGM held on 4th May, 2012. The proposed amendments principally reflected the recent changes brought about by the amendments to the Listing Rules on the Stock Exchange and certain housekeeping improvements. The amendments, among other things, are as follows:–

- the Company will be permitted to deem consent on the part of a Member to a corporate communication being made available to him solely on the Company's website or the Stock Exchange's website if the procedures set out in the Listing Rules and the Bye-Laws are complied with;

- the Auditors of the Company shall be appointed by the Company in annual general meeting ("AGM") from the conclusion of the meeting until the next AGM. The Auditors of the Company shall not be removed before the end of its term of office unless obtaining the Shareholders' approval in general meeting. 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;

- clarify the procedures that the shareholders can use to propose a person for election as a director;

- all resolutions at general meetings of the Company shall be decided by poll other than resolution which relates purely to a procedural or administrative matter as the chairman of the meeting may in good faith allow it to be voted on by a show of hands;

- subject to certain exceptions, a director shall not vote on any board resolution approving any contract or arrangement or any other proposal in which he/she or any of his/her associates has a material interest nor shall he be counted in the quorum present at the meeting, and the exception that a director may vote on such board resolution provided that he/she or any of his/her associates are not beneficially interested in more than 5% in the party with which the Company proposes to enter into a contract or arrangement shall be removed;

- other minor amendments for housekeeping improvements purpose.

2. Annual General Meeting

The AGM provides a useful forum for shareholders to exchange views with the Board. The Chairman as well as chairman of the Committees and their members is 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 CG Code as well, the forthcoming AGM 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 website of the Company and HKEx.

Messrs. Cheng Yung Pun, Cheung Kwok Sing, Cheng Wing See, Nathalie, Leung Hong Tai, Tse Kam Wah, Yu Sui Chuen, Loke Yu alias Loke Hoi Lam, Mak Shiu Chung, Godfrey and Wan Hing Pui, all Directors (except Mr. Arnold Edward Rubin and Mr. Tsang Chung Wa, the executive Directors) had attended the 2012 AGM of the Company held on 4th May, 2012.

3. Rights and Procedures for Shareholders to Convene Shareholders' Meetings, make enquiries and putting forward proposals at the Shareholders' Meetings

i) the procedures for the way in which shareholders can convene an extraordinary general meeting:

Pursuant to the Company's bye-laws, a special general meeting shall be convened on the written requisitionist of any 2 or more members holding at the date of the deposit of the requisition in aggregate not less than one-tenth of such of the paid up capital of the Company as at the date of the deposit carries the right of voting at general meetings of the Company. Such requisition must state the objects of the meeting and must be signed by the requisitionists and deposited at the office. If the Directors do not within 21 days from the date of the deposit of such requisition proceed duly to convene a special general meeting, the requisitionists themselves or any of them representing more than one half of the total voting rights of all of them may convene the special general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Directors, and all reasonable expenses incurred by the requisitionists as a result of the failure of the Directors to convene such a meeting shall be reimbursed to them by the Company.

ii) Make Enquiries:

In accordance with the Company's Shareholders' Communication Policy, the Shareholders direct their questions about their shareholdings to the Company's Branch Share Registrar in Hong Kong, Trior Secretaries Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong (the "Branch Share Registrar") or the Customer Service Hotline of the Branch Share Registrar at (852) 2980-1333 from 9:00 a.m. to 5:00 p.m. Monday to Friday (excluding Hong Kong public holidays) or by email at matrix1005-ecom@hk.tricorglobal.com.

Shareholders may at any time make a request for the Company's information to the extent such information is publicly available. Shareholders shall make a request to the Branch's Share Registrar for the designated email addresses and enquiry lines of the Company in order to enable them to make any query in respect of the Company.

iii) Put forward proposals:

Pursuant to the Company's bye-laws, 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.

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, 2012.

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 36 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The five largest customers of the Group together accounted for approximately 77.0% of the Group's turnover, with the largest customer accounted for approximately 32.0%. 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 13.8%.

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, 2012 are set out in the consolidated statement of comprehensive income on page 47.

During the year, the Company has paid 2011 final dividend of HK3.5 cents and the Directors have declared 2012 interim dividend of HK1.1 cents. Both 2011 final dividend and 2012 interim dividend were paid by cash. The total cash dividend paid during the year was approximately HK$33,103,000.

The Directors now recommend the payment of a final dividend of HK1.3 cents per share, amounting to approximately HK$9,824,000, to the shareholders on the register of members on 14th May, 2013 payable in cash. The remaining retained profits in the Company are amounting to approximately HK$241,879,000.

PROPERTY, PLANT AND EQUIPMENT

Certain of the Group's leasehold land and buildings were revalued at 31st December, 2012. The revaluation resulted in a surplus over book values amounting to approximately HK$4,083,000, which has been credited directly to the asset revaluation reserve.

During the year, the Group spent approximately HK$10,939,000 on plant and machinery and approximately HK$4,558,000 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 27 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 50.

Reserves of the Company as at 31st December, 2012 available for distribution, calculated under the Companies Act 1981 of Bermuda (as amended), amounted to approximately HK$251,703,000 (2011: HK$290,085,000).

Report of the Directors

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

	2012 HK$'000	2011 HK$'000
Contributed surplus	**3,661**	3,661
Retained profits	**248,042**	286,424
	251,703	290,085

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 114.

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
Heng Victor Ja Wei (appointed on 31st December, 2012)

OTHER INFORMATION OF DIRECTOR

With effect from 31st December, 2012, Mr. Heng Victor Ja Wei was appointed as an independent non-executive director ("INED") and a member of Audit Committee, Remuneration Committee and the newly established Nomination Committee (which was set up on 30th March, 2012) of the Company. During the year under review, Mr. Cheng Yung Pun, chairman of the Company was appointed as chairman of Nomination Committee and Dr. Loke Yu alias Loke Hoi Lam, Mr. Wan Hing Pui and Mr. Mak Shiu Chung, Godfrey were appointed as the members of the Nomination Committee.

In the last three years, Dr. Loke Yu alias Loke Hoi Lam, INED of the Company, was appointed as INED of Tianjin Development Holdings Limited (a company listed on the Stock Exchange) with effect from 21st December, 2012. He also 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.

In addition, the Director's emolument (including any sum receivable as Director's fee or remuneration) per month (13 months basis) 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 and Mr. Tse Kam Wah had been adjusted to HK$79,302, HK$46,494, HK$104,101, HK$80,050, HK$85,050, HK$68,040 and HK$85,050 respectively and that of Mr. Chen Wei Qing (chief executive officer of the Company) had been adjusted to HK$74,886 with effect from 1st January, 2012.

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

Report of the Directors

Directors' and chief executive's emoluments

The emoluments paid or payable to each of the twelve (2011: eleven) Directors and chief executive as follows:

2012	Fees HK$'000	Other emoluments: Salaries and allowances HK$'000	Other emoluments: Contributions to MPFS HK$'000	Total HK$'000
Executive Directors				
Cheng Yung Pun	–	1,031	–	1,031
Yu Sui Chuen	–	1,353	63	1,416
Cheng Wing See, Nathalie	–	604	14	618
Arnold Edward Rubin	–	4,727	57	4,784
Cheung Kwok Sing	–	1,041	14	1,055
Tse Kam Wah	–	1,105	14	1,119
Leung Hong Tai	–	1,105	14	1,119
Tsang Chung Wa	–	884	14	898
Independent non-executive Directors				
Loke Yu alias Loke Hoi Lam	80	–	–	80
Mak Shiu Chung, Godfrey	80	–	–	80
Wan Hing Pui	80	–	–	80
Heng Ja Wei, Victor	–	–	–	–
Chief Executive				
Chen Wei Qing	–	974	14	988
Total for 2012	240	12,824	204	13,268

DIRECTORS' SERVICE CONTRACTS

In accordance with the clause 99 of the Bye-laws of the Company, Ms. Cheng Wing See, Nathalie, Mr. Cheung Kwok Sing, Mr. Tsang Chung Wa and Mr. Wan Hing Pui, retire and, being eligible, offers themselves for re-election at the forthcoming annual general meeting. In accordance with the clause 91 of the Bye-laws of the Company, Mr. Heng Victor Ja Wei retire and, being eligible, offer himself for re-election at the forthcoming annual general meeting.

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

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 Listing Rules on 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 33 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, 2012, 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:

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

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	72.88%
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)*	4,142,000	0.57%
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	638,000	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) 1,348,000 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

		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	–	2,200,000	–	2,800,000 *(Note 3)*	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		29,200,000	–	2,200,000	–	27,000,000		

Report of the Directors

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

Long Positions in Underlying Shares of the Company (Continued)

		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 2: Employees								
	2009a	22,000,000	–	3,570,000	–	18,430,000 *(Note 11)*	1.250	1st March, 2010 to 1st March, 2013
	2009b	1,200,000 *(Note 12)*	–	–	–	1,200,000	1.448	15th March, 2010 to 15th March, 2013
	2011a	7,500,000 *(Note 13)*	–	–	–	7,500,000	1.692	20th July, 2011 to 20th July, 2014
Total Employees		30,700,000	–	3,570,000	–	27,130,000		
Total all categories		59,900,000	–	5,770,000	–	54,130,000		

Notes:

(1) Mr. Yu Sui Chuen, Director of the Company, has beneficial interests in 5,000,000 underlying shares (representing 0.69% of issued share capital of the Company as at 31st December, 2012) 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, Director of the Company, has beneficial interests in 3,000,000 underlying shares (representing 0.41% of issued share capital of the Company as at 31st December, 2012) 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, Director of the Company, has beneficial interests in 2,800,000 underlying shares (representing 0.39% of issued share capital of the Company as at 31st December, 2012 (after the share options carry rights to subscribe for 2,200,000 underlying shares was exercised in October 2012) 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)

Notes: (Continued)

(4) Mr. Tsang Chung Wa, Director of the Company, has beneficial interests in 3,000,000 underlying shares (representing 0.41% of issued share capital of the Company as at 31st December, 2012) 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, Director of the Company, has beneficial interests in 3,000,000 underlying shares (representing 0.41% of issued share capital of the Company as at 31st December, 2012) 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, chief executive officer of the Company, has beneficial interests in 3,000,000 underlying shares (representing 0.41% of issued share capital of the Company as at 31st December, 2012) 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, Director of the Company, has beneficial interests in 6,300,000 underlying shares (representing 0.87% of issued share capital of the Company as at 31st December, 2012) 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 as at 31st December, 2012) 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 as at 31st December, 2012) 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 as at 31st December, 2012) in respect of share options granted to him on 21st April, 2011 pursuant to the Company's share option scheme.

(11) The 18,430,000 underlying shares (representing approximately 2.55% of issued share capital of the Company as at 31st December, 2012) in respect of share options were granted on 1st December, 2009 pursuant to the Company's share option scheme (after the share options carry rights to subscribe for 3,570,000 underlying shares were exercised in February to December, 2012).

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

Long Positions in Underlying Shares of the Company (Continued)

Notes: (Continued)

(12) The 1,200,000 underlying shares (representing approximately 0.17% of issued share capital of the Company as at 31st December, 2012) in respect of share options were granted on 15th December, 2009 pursuant to the Company's share option scheme.

(13) The 7,500,000 underlying shares (representing approximately 1.04% of issued share capital of the Company as at 31st December, 2012) 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$1.70, HK$1.25, HK$1.40 and HK$1.69 respectively.

Particulars of the Company's Share Option Scheme are set out in note 34 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, 2012.

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, 2012, 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	72.88%

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, 2012.

SHARE OPTION SCHEME

A new share option scheme of the Company has been adopted on 4th May, 2012 (the "2012 Share Option Scheme") to replace the one adopted on 17th December, 2002 (the "2002 Share Option Scheme"). The key terms of the 2012 Share Option Scheme are summarised herein below:

(i) The purpose of the 2012 Share Option Scheme is to enable the Company to grant options to selected eligible participants as incentives and rewards for their contribution to the Company or its subsidiaries.

(ii) The eligible participants of the 2012 Share Option Scheme include any full-time employees, 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, 2012, the total number of Shares available for issue of option under the 2012 Share Option Scheme was 71,864,731 shares (after the 2012 Share Option Scheme adopted on 2012 annual general meeting ("2012 AGM") held on 4th May, 2012) which representing 9.9% of the issued share capital of the Company (after the enlarged issued share capital in 723,097,313 shares under the issue of 5,770,000 shares in respect of exercise of share option during the period from February to December, 2012).

SHARE OPTION SCHEME (Continued)

(iv) The maximum number of Shares which may be issued upon exercise of all options to be granted under the 2012 Share Option Scheme and any other share option scheme(s) of the Company must not exceed 10% of the Shares in issue ("2012 Scheme Limit") as at the date approving the adoption of 2012 Share Option Scheme in the 2012 AGM. Options lapsed in accordance with the terms of such share option scheme(s) will not be counted for the purpose of the 10% limit, unless approval from the Company's shareholders has been obtained for refreshing the 2012 Scheme Limit provided that such limit as refreshed shall not exceed 10% of the Shares in issue as at the date of such shareholders' approval. Notwithstanding the foregoing, the Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2012 Share Option Scheme and any other share option scheme(s) of the Company at any time shall not exceed 30% of the Shares in issue from time to time. No options may be granted under any scheme(s) of the Company or any of its subsidiaries if this will result in the 30% limit being exceeded.

(v) The maximum number of Shares which may be fall to be issued upon exercise of all options to be granted under the 2012 Share Option Scheme and any other share option scheme(s) of the Company (including both exercised and outstanding options) to each Eligible participant in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue as at the date of grant. Any further grant of options in excess of this 1% limit shall be subject to the issue of a circular by the Company and the approval of the Shareholders in general meeting with such eligible participant and his associates abstaining from voting. Any grant of options to a substantial Shareholder (as defined in the Listing Rules) of the Company or any the independent non-executive Director or their respective associates which result in the number of Shares issued and to be issued upon exercise of options already granted and to be granted (including options exercised, cancelled and outstanding) to such person under this Scheme and the other schemes in the 12-month period up to and including the date of offer of such grant (a) representing in aggregate over 0.1% of the Shares in issue on the date of offer; and (b) having an aggregate value, based on the closing price of the Shares as stated in the daily quotation sheets of the Stock Exchange on each date of offer, in excess of HK$5 million, such further grant of options shall be subject to the approval of the Shareholders of the Company in general meeting on a poll at which all connected persons (as defined in the Listing Rules) of the Company shall abstain from voting in favour at such general meeting.

(vi) There is no general requirement that an option must be held for any minimum period before it can be exercised but the Board is empowered to impose at its discretion any such minimum period at the time of grant of any particular option. The period during which an option may be exercised will be determined by the Board at its absolute discretion, save that no option may be exercised more than 10 years after it has been granted. The Board has the discretion to require a particular grantee to achieve certain performance targets specified at the time of grant before any option granted under the 2012 Share Option Scheme can be exercised. There is no specific performance targets stipulated under the terms of the 2012 Share Option Scheme.

SHARE OPTION SCHEME (Continued)

(vii) An offer for the grant of options must be accepted within 28 days after the option is offered to the relevant Grantee. The amount payable to the Company on acceptance of the offer of the grant of an option is HK$1.00 which is non-refundable;

(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 for a Share in respect of any particular option granted under the 2012 Share Option Scheme (which shall be payable upon exercise of the option) shall be such price as the Board in its absolute discretion shall determine, save that such price will not be less than the highest of (a) the closing price of the Shares as stated in the daily quotation sheets of the Stock Exchange on the date of offer, which must be a business day (and for this purpose shall be taken to be the date of the Board meeting at which the Board proposes to grant the options); (b) the average closing price of the Shares as stated in the daily quotation sheets of the Stock Exchange for the 5 Business Days immediately preceding the date of offer; and (c) the nominal value of a Share, and as adjusted pursuant to the clauses of the 2012 Share Option 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 34 to the consolidated financial statements.

During the year under review, the options carry rights to subscribe for 5,770,000 shares had been exercised during the period from February to December, 2012.

As at 31st December, 2012, the options which have been granted and remained outstanding carry rights to subscribe for 54,130,000 shares (31st December, 2011: 59,900,000) representing 7.5% (31st December, 2011: 8.4%) of the shares in issue. Options may be exercised at any time from for the period beginning 90 days after the date of grant of the option and ending three years thereafter. Save as disclosed above, no share options are granted, exercised, cancelled or lapsed during the year.

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.

Report of the Directors

COMPLIANCE OF THE CORPORATE GOVERNANCE CODE

The Board has adopted a code of corporate governance practices ("former CGP Code") and amended it from time to time, which is based on the principles set out in Appendix 14 (the "HKEx Code") to the Listing Rules on the Stock Exchange. A new corporate governance code was recently adopted (the "CG Code") to replace the former CGP Code to reflect the new requirements under the revised HKEx Code effective from April 2012 (the "Revised HKEx 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 former CGP Code as well as the CG Code and their own code except the deviation from i) the code provision A.4.1 that none of the existing non-executive directors of the Company is appointed for a specific term. However, as all the 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 and CG Code as well; ii) the code provision A.1.8 that the Company should arrange appropriate insurance cover in respect of legal action against its directors. The Company is now in progress of reviewing an appropriate insurance policy for the directors of the Company or together with all overseas members of the Group.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31st December, 2012.

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 (the "Bank"); 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, the renewed facility letters have been provided by the bank in Macau on 15th January, 2013 regarding the renewal of the facilities for one 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 ("Mr. Cheng", 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 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, 21st March, 2013

Independent Auditor's Report

Deloitte.
德勤

德勤 • 關黃陳方會計師行
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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 47 to 113, which comprise the consolidated statement of financial position as at 31st December, 2012, 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 audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31st December, 2012 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
(incorporated in Bermuda with limited liability)

EMPHASIS OF MATTER

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
21st March, 2013

Consolidated Statement of Comprehensive Income

For the year ended 31st December, 2012

	NOTES	2012 HK$'000	2011 HK$'000
Turnover	8	**880,374**	882,331
Cost of sales		**(585,522)**	(571,920)
Gross profit		**294,852**	310,411
Other income	9	**3,429**	4,810
Distribution and selling costs		**(133,876)**	(130,413)
Administrative expenses		**(115,663)**	(137,459)
Finance costs	10	**(2,980)**	(3,181)
Other gains and losses	11	**(3,450)**	12,760
Research and development costs		**(15,916)**	(8,562)
Profit before taxation	12	**26,396**	48,366
Income tax expense	14	**(3,043)**	(300)
Profit for the year attributable to owners of the Company		**23,353**	48,066
Other comprehensive income (expense)			
Gain on revaluation of land and buildings, and plant and machinery		**4,083**	12,606
Deferred tax arising from revaluation of land and buildings, and plant and machinery		**–**	(542)
Exchange difference arising on translation of foreign operations		**2,366**	(13,801)
Reclassification of exchange difference on deregistration of foreign operations		**(409)**	(1,886)
Other comprehensive income (expense) for the year, net of tax		**6,040**	(3,623)
Total comprehensive income for the year attributable to owners of the Company		**29,393**	44,443
Earnings per share	16		
Basic		**HK$0.03**	HK$0.07
Diluted		**HK$0.03**	HK$0.07

Consolidated Statement of Financial Position

At 31st December, 2012

	NOTES	2012 HK$'000	2011 HK$'000
Non-current assets			
Property, plant and equipment	*17*	**256,800**	253,280
Prepaid lease payments	*18*	**919**	951
Goodwill	*19*	**96,822**	96,822
Intangible asset	*21*	**5,457**	17,894
Deferred tax assets	*28*	**6,787**	8,567
Deposits paid for acquisition of property, plant and equipment		**1,039**	1,948
		367,824	379,462
Current assets			
Inventories	*22*	**295,925**	247,821
Trade and other receivables	*23*	**178,056**	156,681
Prepaid lease payments	*18*	**32**	32
Tax recoverable		**7,369**	7,979
Pledged bank deposit	*24*	**–**	2,183
Bank balances and cash	*24*	**43,305**	45,998
		524,687	460,694
Current liabilities			
Trade and other payables and accruals	*25*	**185,009**	141,468
Tax payable		**59,966**	58,719
Bank borrowings	*26*	**25,805**	6,978
		270,780	207,165
Net current assets		**253,907**	253,529
Total assets less current liabilities		**621,731**	632,991

Consolidated Statement of Financial Position

At 31st December, 2012

	NOTES	2012 HK$'000	2011 HK$'000
Capital and reserves			
Share capital	27	**72,310**	71,733
Reserves		**474,311**	472,203
Equity attributable to owners of the Company		**546,621**	543,936
Non-current liabilities			
Deferred tax liabilities	28	**4,436**	6,386
Loans from ultimate holding company	29	**70,674**	82,669
		75,110	89,055
		621,731	632,991

The consolidated financial statements on pages 47 to 113 were approved and authorised for issue by the Board of Directors on 21st March, 2013 and are signed on its behalf by:

Cheng Yung Pun
Chairman

Yu Sui Chuen
Director

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2012

	Attributable to owners of the Company									
	Share capital HK$'000	Share premium HK$'000	Special reserve HK$'000 *(Note a)*	Shareholders' contribution HK$'000 *(Note b)*	Share options reserve HK$'000	Asset revaluation reserve HK$'000	Legal reserve HK$'000 *(Note c)*	Translation reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1st January, 2011	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	–	–	–	4,194	–	–	–	–	–	4,194
Dividend declared *(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
Profit for the year	–	–	–	–	–	–	–	–	23,353	23,353
Exchange difference arising on translation of foreign operations	–	–	–	–	–	–	–	2,366	–	2,366
Reclassification of exchange difference on deregistration of foreign operations	–	–	–	–	–	–	–	(409)	–	(409)
Gain on revaluation of land and building, and plant and machinery	–	–	–	–	–	4,083	–	–	–	4,083
Transfer upon disposal of plant and machinery	–	–	–	–	–	(3,327)	–	–	3,327	–
Other comprehensive expense for the year	–	–	–	–	–	756	–	1,957	3,327	6,040
Total comprehensive income for the year	–	–	–	–	–	756	–	1,957	26,680	29,393
Exercise of share options	577	10,366	–	–	(3,730)	–	–	–	–	7,213
Release of deemed contribution from ultimate holding company *(note 29)*	–	–	–	(818)	–	–	–	–	–	(818)
Dividend declared *(note 15)*	–	–	–	–	–	–	–	–	(33,103)	(33,103)
At 31st December, 2012	72,310	129,301	771	21,624	38,343	81,537	49	(40,925)	243,611	546,621

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2012

Note:

a) 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.

b) 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 29.

c) 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, 2012

	2012 HK$'000	2011 HK$'000
OPERATING ACTIVITIES		
Profit before taxation	**26,396**	48,366
Adjustments for:		
Loss (gain) on disposal of property, plant and equipment	**234**	(198)
Interest income	**(17)**	(83)
Interest expenses	**2,980**	3,181
Depreciation of property, plant and equipment	**44,905**	45,021
Amortisation of intangible assets	**12,437**	12,437
Impairment of property, plant and equipment	**–**	1,174
Share-based payment expenses	**–**	12,747
Amortisation of prepaid lease payments	**32**	32
Reversal of revaluation deficit recognised on property, plant and equipment	**(241)**	(389)
Allowance for obsolete inventories	**13,908**	456
Operating cash flows before movements in working capital	**100,634**	122,744
Increase in inventories	**(58,854)**	(37,219)
Increase in trade and other receivables	**(21,375)**	(9,517)
Increase (decrease) in trade and other payables and accruals	**45,975**	(17,197)
Cash generated from operations	**66,380**	58,811
Income taxes paid	**(1,343)**	(1,762)
Interest paid	**(793)**	(655)
NET CASH FROM OPERATING ACTIVITIES	**64,244**	56,394

Consolidated Statement of Cash Flows

For the year ended 31st December, 2012

	2012 HK$'000	2011 HK$'000
INVESTING ACTIVITIES		
Interest received	**17**	83
Proceeds on disposal of property, plant and equipment	**507**	4,895
Purchases of property, plant and equipment	**(41,810)**	(50,962)
Deposits paid for acquisition of property, plant and equipment	**(1,039)**	(1,360)
Placement of pledged bank deposit	**–**	(6)
Withdrawal of pledged bank deposit	**2,183**	–
NET CASH USED IN INVESTING ACTIVITIES	**(40,142)**	(47,350)
FINANCING ACTIVITIES		
Dividends paid	**(37,835)**	(30,942)
Repayments of obligations under finance leases	**–**	(1,847)
New bank loans raised	**72,641**	24,224
Repayments of bank loans	**(53,814)**	(17,246)
Repayments of loan from ultimate holding company	**(15,000)**	–
Proceeds from exercise of share options	**7,213**	–
NET CASH USED IN FINANCING ACTIVITIES	**(26,795)**	(25,811)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(2,693)**	(16,767)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**45,998**	62,765
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by bank balances and cash	**43,305**	45,998

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2012

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 36.

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 amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Asset; and
Amendments to HKFRS 7	Financial Instruments: Disclosures – Transfers of Financial Assets

The application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

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

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

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009-2011 Cycle, except for the amendments HKAS 1[1]
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities[2]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
Amendment to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements: Joint Arrangements and Disclosure of Interests in other Entities: Transaction Guidance[1]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment entities[2]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[1]
HKFRS 11	Joint Arrangements[1]
HKFRS 12	Disclosure of Interests in Other Entities[1]
HKFRS 13	Fair Value Measurement[1]
HKAS 19 (as revised in 2011)	Employee Benefits[2]
HKAS 27 (as revised in 2011)	Separate Financial Statements[2]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[2]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[4]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[2]
HK(IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine[1]

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2012

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

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 Presentation of Items of Other Comprehensive Income introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to HKAS 1, a 'statement of comprehensive income' is renamed as a 'statement of profit or loss and other comprehensive income'. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require items of other comprehensive income to be grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax.

The amendments to HKAS 1 are effective for annual periods beginning on or after 1st July, 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied.

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 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 the other new and revised Standards, Amendments or Interpretations will have no material impact on the consolidated financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared 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 that are measured at revalued amounts, 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.

Income and expenses 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.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2012

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. 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;
- 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.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2012

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

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 subsequent 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.

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 recognised 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.

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

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives 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.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2012

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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 (or cash-generating unit) 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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Research and development expenditure (Continued)

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.

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, the 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.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2012

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. Income and expenses items 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)

Retirement benefits costs

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

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 before taxation' 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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

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.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are 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.

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.

Financial assets

The Group's financial assets are classified into loans and receivables. The classification depends on the nature and purpose of the financial assets and is determinated at the time of initial recognition.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

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.

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.

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.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2012

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans and receivables (Continued)

Impairment of loans and receivables (Continued)

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, for instance, the counter party is in the process of liquidation or already closed down, 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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans and receivables (Continued)

Financial liabilities and equity instruments (Continued)

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.

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.

Financial liabilities

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

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 (legal or constructive) 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.

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, 2012, depreciation of property, plant and equipment of approximately HK$44,905,000 (2011: HK$45,021,000) was recognised.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2012

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, 2012 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, 2012, the carrying amount of leasehold land and buildings and plant and machinery are approximately HK$155,329,000 and HK$51,270,000 respectively (2011: HK$147,673,000 and HK$61,894,000 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 unit that contain goodwill and the customer base. The calculation of the value in use of the cash-generating unit 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 the 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 for the year ended 31st December, 2012 and 2011. Details of the recoverable amount calculation of the cash-generating unit containing goodwill and the customer base are disclosed in note 20.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Income taxes

As at 31st December, 2012, a deferred tax asset of HK$6,787,000 (2011: HK$8,567,000) in relation to unused tax losses and other deductible 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$18,800,000 (2011: HK$18,746,000) 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 and 29 respectively, and equity attributable to owners of the Company, comprising issued share capital, reserves and retained profits.

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2012

7. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2012	2011
	HK$'000	HK$'000
Financial assets		
Loans and receivables		
(including cash and cash equivalents)	**208,239**	190,347

	2012	2011
	HK$'000	HK$'000
Financial liabilities		
Amortised cost	**281,488**	231,115

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, pledged bank deposits, bank balances and cash, trade and other payables and accruals, bank borrowings and loans 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 as 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, 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)

Certain trade and other receivables and bank balances are denominated in foreign currencies other than the functional currency of the respective group entities. In particular, four (2011: four) 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. 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	
	2012	2011
	HK$'000	HK$'000
Financial assets		
United States dollars ("USD")	**101,308**	57,003

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 a 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:

	2012	2011
	HK$'000	HK$'000
Increase in post-tax profit for the year	**5,541**	6,723

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.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2012

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 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 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 arise.

The Group did not have any pledged bank deposit as at 31st December, 2012. 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, 2012 are insignificant. Hence, no sensitivity analysis is presented for the year ended 31st December, 2012 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, 2012 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 delegated a team responsible for determination of credit limits, credit approvals and other 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 77.0% (2011: 83.5%) 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$137,061,000 (2011: HK$115,811,000) 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 90 % (2011: 96 %) of the total trade receivables as at 31st December, 2012.

Liquidity risk

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

The Group relies on bank borrowings as one of the sources of liquidity. As at 31st December, 2012, the Group had a total of unutilised overdraft and short-term bank loan facilities of approximately HK$100,395,000 (2011: HK$43,022,000).

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.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2012

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
2012							
Non-derivative financial liabilities							
Trade and other payables and accruals	**–**	**116,155**	**68,854**	**–**	**–**	**185,009**	**185,009**
Bank borrowings	**5.3%**	**–**	**25,955**	**–**	**–**	**25,955**	**25,805**
Loans from ultimate holding company	**3.0%**	**–**	**–**	**–**	**72,958**	**72,958**	**70,674**
		116,155	**94,809**	**–**	**72,958**	**283,922**	**281,488**
2011							
Non-derivative financial liabilities							
Trade and other payables and accruals	–	92,262	49,206	–	–	141,468	141,468
Bank borrowings	5.0%	–	7,036	–	–	7,036	6,978
Loans from ultimate holding company	3.0%	–	–	–	87,958	87,958	82,669
		92,262	56,242	–	87,958	236,462	231,115

(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, for the year ended 31st December, 2012, the Group's operating segments under HKFRS 8 are – the United States, Europe, Mexico, Canada, South America, Australia and New Zealand and all other locations. South America is presented as a separate reportable segment, starting from the year ended 31st December, 2012, due to its significant revenue stream, while Hong Kong is included in all other locations as the revenue generated from Hong Kong has decreased to HK$2,639,000 for the year ended 31st December, 2012 from HK$10,355,000 for the year ended 31st December, 2011. Russia is included in Europe for the year ended 31st December, 2012 rather than included in all other locations as was for the year ended 31st December, 2011 because of management's marketing strategy to view Europe as a whole. Segment information for the year ended 31st December, 2011, has been restated to conform with current year presentation. 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, 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, 2012

	United States	Europe	Mexico	Canada	South America	Australia and New Zealand	All other locations *(Note)*	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TURNOVER								
External sales	734,134	37,883	18,636	39,195	13,624	17,600	19,302	880,374
RESULTS								
Segment profit	116,533	3,153	1,778	5,856	1,132	2,083	1,560	132,095
Unallocated income								3,040
Unallocated expenses								(105,759)
Finance costs								(2,980)
Profit before taxation								26,396

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2012

8. SEGMENT INFORMATION (Continued)

Segment revenues and results (Continued)

For the year ended 31st December, 2011

	United States	Europe	Mexico	Canada	South America	Australia and New Zealand	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	30,602	13,848	34,754	8,254	15,576	22,637	882,331
RESULTS								
Segment profit	138,812	2,954	1,262	5,632	950	2,088	1,983	153,681
Unallocated income								13,360
Unallocated expenses								(115,494)
Finance costs								(3,181)
Profit before taxation								48,366

Note: All other locations include the PRC (including Hong Kong), Brazil, Taiwan, Korea, Asia Pacific 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 pre-tax profit earned by each segment without allocation of investment income, other non operating income, central administration costs and finance costs. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

8. SEGMENT INFORMATION (Continued)

Segments assets and liabilities

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

At 31st December, 2012	United States HK$'000	Europe HK$'000	Mexico HK$'000	Canada HK$'000	South America HK$'000	Australia and New Zealand HK$'000	All other locations HK$'000	Consolidated HK$'000
ASSETS								
Segment assets	**359,536**	**25,074**	**10,620**	**20,167**	**7,806**	**10,647**	**32,223**	**466,073**
Property, plant and equipment								**256,800**
Unallocated and other corporate assets								**169,638**
Consolidated assets								**892,511**
LIABILITIES								
Segment liabilities	**112,562**	**5,308**	**2,611**	**5,492**	**1,909**	**2,466**	**15,176**	**145,524**
Unallocated and other corporate liabilities								**200,366**
Consolidated liabilities								**345,890**

At 31st December, 2011	United States HK$'000	Europe HK$'000	Mexico HK$'000	Canada HK$'000	South America HK$'000	Australia and New Zealand HK$'000	All other locations HK$'000	Consolidated HK$'000
ASSETS								
Segment assets	340,217	10,709	3,889	10,948	2,318	5,487	10,794	384,362
Property, plant and equipment								253,280
Unallocated and other corporate assets								202,514
Consolidated assets								840,156
LIABILITIES								
Segment liabilities	81,481	2,787	1,205	3,029	718	1,358	2,504	93,082
Unallocated and other corporate liabilities								203,138
Consolidated liabilities								296,220

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.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2012

8. SEGMENT INFORMATION (Continued)

Other segment information

For the year ended 31st December, 2012	**United States HK$'000**	**Europe HK$'000**	**Mexico HK$'000**	**Canada HK$'000**	**South America HK$'000**	**Australia and New Zealand HK$'000**	**All other locations HK$'000**	**Consolidated HK$'000**
Amount included in the measure of segment profit or loss or segment assets:								
Allowance for obsolete inventories	**3,444**	**3,955**	**964**	**893**	**1,260**	**1,229**	**2,163**	**13,908**

For the year ended 31st December, 2011	United States HK$'000	Europe HK$'000	Mexico HK$'000	Canada HK$'000	South America HK$'000	Australia and New Zealand HK$'000	All other locations HK$'000	Consolidated HK$'000
Amount included in the measure of segment profit or loss or segment assets:								
Allowance for obsolete inventories	456	–	–	–	–	–	–	456

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 included in segment asset nor segment result and are not reviewed by the chief operating decision maker regularly.

8. SEGMENT INFORMATION (Continued)

Revenue from major products

	2012 **HK$'000**	2011 HK$'000
Toys	**827,181**	864,710
Lighting products	**53,193**	17,621
	880,374	882,331

Geographical information

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

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

	Non-current assets	
	2012 **HK$'000**	2011 HK$'000
Hong Kong	**413**	660
Vietnam	**109,210**	94,137
The United States	**6,145**	6,289
The PRC	**142,972**	155,064
Other countries	**18**	29
	258,758	256,179

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

Information about major customers

For the year ended 31st December, 2012, there are two customers (2011: 2 customers) in the United States with revenue contributing to approximately 32.0% and 26.4% (2011: 49.1% and 21.4%) of total sales of the Group. There is no other customer contributing over 10% of total sales of the Group.

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For the year ended 31st December, 2012

9. OTHER INCOME

	2012 **HK$'000**	2011 HK$'000
Interest income on bank deposits	**17**	83
Sales of scrap materials	**3,023**	3,957
Others	**389**	770
	3,429	4,810

10. FINANCE COSTS

	2012 **HK$'000**	2011 HK$'000
Interest on:		
Bank borrowings wholly repayable within five years	**793**	540
Finance leases	**–**	115
Imputed interest expense on non-current interest-free loans from ultimate holding company	**2,187**	2,526
	2,980	3,181

11. OTHER GAINS AND LOSSES

	2012 **HK$'000**	2011 HK$'000
Net exchange (loss) gain *(Note)*	**(3,450)**	12,760

Note: Included in the net exchange (loss) gain are the exchange gain arising from Vietnam factory operations in approximately HK$491,000 (2011: HK$15,326,000).

12. PROFIT BEFORE TAXATION

	2012 HK$'000	2011 HK$'000
Profit before taxation has been arrived at after (crediting) charging:		
Loss (gain) on disposal of property, plant and equipment	234	(198)
Reversal of revaluation deficit recognised on property, plant and equipment *(note 17)*	(241)	(389)
Cost of inventories recognised as an expense	585,522	571,920
Allowance for obsolete inventories (included in cost of inventories recognised)	13,908	456
Auditor's remuneration	3,401	3,333
Amortisation of prepaid lease payments	32	32
Depreciation of property, plant and equipment	44,905	45,021
Impairment of property, plant and equipment *(note 17)*	–	1,174
Amortisation of intangible assets (included in cost of sales)	12,437	12,437
Research and development costs (including staff costs of HK$2,875,000 (2011: HK$2,957,000))	15,916	8,562
Staff costs *(Note)*	273,582	281,333

Note:

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

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For the year ended 31st December, 2012

13. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS AND EMPLOYEES' EMOLUMENTS

Directors' and chief executive's emoluments

The emoluments paid or payable to each of the twelve (2011: eleven) Directors and chief executive as follows:

2012	Fees HK$'000	Other emoluments Salaries and allowances HK$'000	Contributions to MPFS HK$'000	Total HK$'000
Executive Directors				
Cheng Yung Pun	–	1,031	–	1,031
Yu Sui Chuen	–	1,353	63	1,416
Cheng Wing See, Nathalie	–	604	14	618
Arnold Edward Rubin	–	4,727	57	4,784
Cheung Kwok Sing	–	1,041	14	1,055
Tse Kam Wah	–	1,105	14	1,119
Leung Hong Tai	–	1,105	14	1,119
Tsang Chung Wa	–	884	14	898
Independent non-executive Directors				
Loke Yu alias Loke Hoi Lam	80	–	–	80
Mak Shiu Chung, Godfrey	80	–	–	80
Wan Hing Pui	80	–	–	80
Heng Ja Wei, Victor ("Mr. Heng") *(Note a)*	–	–	–	–
Chief Executive				
Chen Wei Qing ("Mr. Chen") *(Note b)*	–	974	14	988
Total for 2012	240	12,824	204	13,268

13. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS AND EMPLOYEES' EMOLUMENTS (Continued)

Directors' and chief executive's emoluments (Continued)

2011	Fees	Other emoluments: Salaries and allowances	Other emoluments: Contributions to MPFS	Other emoluments: Other benefits *(Note c)*	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 ("Mr. Tsang") *(Note d)*	–	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
Chief Executive					
Chen Wei Qing ("Mr. Chen") *(Note b)*	–	966	12	–	978
Total for 2011	240	12,341	187	6,243	19,011

No director or chief executive waived any emoluments in each of the two years ended 31st December, 2012.

Employees' emoluments

Of the five individuals with the highest emoluments in the Group, two (2011: one) are directors of the Company whose emoluments are included in the above disclosures. The total emoluments of the remaining three individuals (2011: four) received and receivable for the year ended 31st December, 2012 were as follows:

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2012

13. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS AND EMPLOYEES' EMOLUMENTS (Continued)

Employees' emoluments (Continued)

	2012 **HK$'000**	2011 HK$'000
Salaries and allowances	**5,288**	6,544
Contributions to retirement benefit schemes and MPFS	**153**	175
Other benefits *(Note c)*	**–**	6,504
	5,441	13,223

Their emoluments are within the following bands:

	2012 **HK$'000**	2011 HK$'000
HK$1,500,001 to HK$2,000,000	**2**	2
HK$2,000,001 to HK$2,500,000	**1**	1
HK$7,500,001 to HK$8,000,000	**–**	1
	3	4

Notes:

a) Mr. Heng was appointed as a director on 31st December, 2012 and thus, there was no director emoluments received or receivable for the year ended 31st December, 2012.

b) Mr. Chen is the chief executive of the Group and his remuneration disclosed above represents those for services rendered by him as chief executive.

c) Other benefits represent employees share option benefits.

d) Mr. Tsang was appointed on 11th January, 2011, and the amount represents the emoluments received or receivable by Mr. Tsang after the appointment of directorship.

During the both years, no emoluments were paid by the Group to the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office.

14. INCOME TAX EXPENSE

	2012 **HK$'000**	2011 HK$'000
Current tax:		
Hong Kong	**(192)**	(346)
Other jurisdictions	**(2,999)**	(1,954)
	(3,191)	(2,300)
(Under) over provision in prior years		
Hong Kong	**12**	3
Other jurisdictions	**(30)**	(747)
	(18)	(744)
Deferred tax:		
Current year *(note 28)*	**166**	2,744
Taxation expense attributable to the Company and its subsidiaries	**(3,043)**	(300)

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 was 10% during their operating periods. MVN was 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. During the year ended 31st December, 2011, the applicable tax rates for MVN and KVN were 5% and 10% respectively. MVN was in its seventh profit-making year during the year ended 31st December, 2011. The applicable Vietnam enterprise income tax rate for Associated Manufacturing Vietnam Company Limited ("AVN") was 15% for twelve years starting from the date of operation and followed by 25% thereafter. AVN was 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. During the year ended 31st December, 2011, AVN was exempted from Vietnam enterprise income tax as it was the fourth profit-making year of AVN.

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For the year ended 31st December, 2012

14. INCOME TAX EXPENSE (Continued)

Pursuant to the Circular 199/2012/TT-BTC "Guiding Implementation of the Government's Decree No.122/2011IND-CP, of 27th December, 2011, on change of the Enterprise Income Tax Incentives for Enterprises Being Enjoyed the Enterprise Income Tax Incentives by Meeting the Conditions for Incentives on the Export Rate which are terminated due to the Implementation of World Trade Organization Commitment" ("Guiding Implementation 2012"), issued by the Ministry of Finance, Vietnam on 15th November, 2012, the applicable tax rate for MVN and KVN is 15% during the remaining term of their operations while the applicable tax rate for AVN is 7.5% for calendar year from 2012 to 2016 and 25% from 2017 to end of the term of its operation. Accordingly, the applicable tax rate for MVN, KVN and AVN are 15%, 15% and 7.5% respectively for the year ended 31st December, 2012.

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.

The tax position of certain subsidiaries of the Group was under audit by the Hong Kong Inland Revenue Department ("IRD"). Additional tax assessments to certain subsidiaries were issued by IRD in the past few years in respect of the years of assessment 2000/2001 to 2007/2008. The Group filed objections against such assessments. The Company had appointed a tax advisor to assist the Group in handling this tax audit and a settlement proposal was submitted to IRD in year 2011. After several meetings and discussions with the case officers of IRD, the settlement proposal was accepted by IRD. In January 2013, IRD issued final tax assessments on certain subsidiaries, the directors of the Company considered that the tax provision brought forward from prior year is sufficient to cover the tax assessments amount, penalty, potential surcharges and interests.

14. INCOME TAX EXPENSE (Continued)

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

	2012 HK$'000	2011 HK$'000
Profit before taxation	**26,396**	48,366
Tax charge at the weighted average income tax rate *(Note)*	**(2,466)**	(2,320)
Tax effect of expenses not deductible for tax purpose	**(13,942)**	(12,861)
Tax effect of income not taxable for tax purpose	**104**	391
Tax effect of profit which are exempted from tax or under tax concessions	**12,027**	15,185
Underprovision in respect of prior years	**(18)**	(744)
Tax effect of tax losses not recognised	**(1,907)**	(1,058)
Tax effect of utilisation of tax losses previously not recognised	**3,259**	415
Others	**(100)**	692
Tax expense for the year	**(3,043)**	(300)

Note: The weighted average applicable tax rate of 9.3% (2011: 4.8%) 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.

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15. DIVIDENDS

	2012 HK$'000	2011 HK$'000
Dividends recognised as distribution during the year		
2011 final, paid – HK 3.5 cents (2011: 2010 final, paid – HK 5 cents) per share	**25,188**	35,615
2012 interim, paid – HK 1.1 cents (2011: 2011 interim, paid – HK 1.1 cents) per share	**7,915**	7,890
	33,103	43,505

The 2011 final and 2012 interim dividend were declared and paid as cash dividend.

As at 31st December, 2011, 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 final dividend of HK 1.3 cents (2011: HK 3.5 cents) per share amounting to approximately HK$9,824,000 (2011: HK$25,188,000) has been proposed by the Directors and is subjected to approval by the shareholders in the annual general meeting. The proposed final dividend for 2012 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:

	2012 **HK$'000**	2011 HK$'000
Earnings		
Earnings for the purposes of basic and diluted earnings per share (profit for the year attributable to owners of the Company)	**23,353**	48,066

	2012 **'000**	2011 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**719,497**	717,327
Effect of dilutive potential ordinary shares:		
Share options	**13,477**	7,395
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**732,974**	724,722

As at 31st December, 2011, 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 did not assume the exercise of certain share options of the Company because the exercise price of these share options was higher than the average price of the Company's shares. For the year ended 31st December, 2012, all outstanding share options have been taken into account in the calculation of diluted earnings per share as the average price of the Company's shares was higher than the exercise price of all the outstanding share options of the Company.

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For the year ended 31st December, 2012

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, 2011	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)
Deficit 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
Exchange adjustments	33	645	–	824	–	103	3	1,608
Additions	2,973	4,558	786	10,939	21,149	3,353	–	43,758
Disposals	(31)	–	(3,173)	(2,132)	(16,848)	(3,152)	–	(25,336)
Deficit on revaluation	–	(3,233)	–	(20,255)	–	–	–	(23,488)
Transfer	(5,739)	5,686	53	–	–	–	–	–
At 31st December, 2012	**–**	**155,329**	**30,670**	**51,270**	**90,448**	**20,342**	**948**	**349,007**
Comprising								
At cost	–	–	30,670	–	90,448	20,342	948	142,408
At valuation	–	155,329	–	51,270	–	–	–	206,599
	–	155,329	30,670	51,270	90,448	20,342	948	349,007
DEPRECIATION AND IMPAIRMENT								
At 1st January, 2011	–	–	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
Exchange adjustments	–	93	–	350	–	81	–	524
Provided for the year	–	6,108	1,894	22,755	10,761	3,338	49	44,905
Reversal of revaluation deficit recognised in profit or loss	–	–	–	(241)	–	–	–	(241)
Eliminated on disposals	–	–	(3,173)	(1,494)	(16,792)	(3,136)	–	(24,595)
Eliminated on revaluation	–	(6,201)	–	(21,370)	–	–	–	(27,571)
At 31st December, 2012	**–**	**–**	**16,765**	**–**	**57,595**	**17,226**	**621**	**92,207**
CARRYING VALUES								
At 31st December, 2012	**–**	**155,329**	**13,905**	**51,270**	**32,853**	**3,116**	**327**	**256,800**
At 31st December, 2011	2,764	147,673	14,960	61,894	22,521	3,095	373	253,280

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 ended 31st December, 2011, 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 were recognised. There was no impairment loss recognised on moulds during the year ended 31st December, 2012.

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, 2012 and 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, 2012 and 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, 2012, 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$241,000 (2011: HK$389,000) is recognised in profit and loss.

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For the year ended 31st December, 2012

17. PROPERTY, PLANT AND EQUIPMENT (Continued)

At 31st December, 2012, 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$64,984,000 (2011:HK$66,534,000) and HK$30,100,000 (2011: HK$42,554,000) respectively.

As at 31st December, 2012 and 2011, the land and buildings of approximately HK$62,811,000 and HK$62,716,000 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

	2012 **HK$'000**	2011 HK$'000
The Group's prepaid lease payments comprise:		
Leasehold land outside Hong Kong under medium term	**951**	983
Analysed for reporting purposes as:		
Current	**32**	32
Non-current	**919**	951
	951	983

19. GOODWILL

	2012 HK$'000
CARRYING AMOUNT	
At 1st January, 31st December, 2011 and 2012	**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% (2011: 14%) in the first year, 10% (2011: 11%) in the second and third year, and 3% (2011: 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 8.83% (2011: 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, 2012 and 2011.

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21. INTANGIBLE ASSET

	Customer base HK$'000
COST	
At 1st January, 2011, and 31st December, 2011 and 2012	**74,620**
AMORTISATION AND IMPAIRMENT	
At 1st January, 2011	44,289
Charge for the year	12,437
At 31st December, 2011	56,726
Charge for the year	12,437
At 31st December, 2012	**69,163**
CARRYING AMOUNT	
At 31st December, 2012	**5,457**
At 31st December, 2011	17,894

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

	2012 HK$'000	2011 HK$'000
Raw materials	**102,406**	119,787
Work in progress	**45,303**	11,972
Finished goods	**148,216**	116,062
	295,925	247,821

23. TRADE AND OTHER RECEIVABLES

	2012 HK$'000	2011 HK$'000
Trade receivables	**154,111**	131,589
Less: Allowance for doubtful debts	**(4,834)**	(4,834)
	149,277	126,755
Other receivables, deposits and prepayments	**28,779**	29,926
Total trade and other receivables	**178,056**	156,681

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, which approximated the respective revenue recognition dates.

	2012 HK$'000	2011 HK$'000
0 – 60 days	**141,115**	110,002
61 – 90 days	**7,382**	16,005
> 90 days	**780**	748
	149,277	126,755

Included in the Group's trade receivables are receivables of approximately HK$69,911,000 (2011: HK$24,075,000) 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$139,204,000 and HK$120,485,000 as at 31st December, 2012 and 2011 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.

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23. TRADE AND OTHER RECEIVABLES (Continued)

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

	2012 **HK$'000**	2011 HK$'000
0 – 60 days	**10,016**	5,924
61 – 90 days	**31**	–
> 90 days	**26**	346
	10,073	6,270

Movement in the allowance for doubtful debts

	2012 **HK$'000**	2011 HK$'000
Balance at beginning of the year	**4,834**	5,153
Amounts written off as uncollectible	**–**	(319)
Balance at end of the year	**4,834**	4,834

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of approximately HK$4,834,000 (2011: HK$4,834,000) 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

The group did not pledge any bank deposit as at 31st December, 2012. As at 31st December, 2011, the pledged bank deposit carried interest at average fixed rate of 0.17% per annum. As at 31st December, 2011, the pledged bank deposit of approximately HK$2,183,000 for a short term bank facility was denominated in USD, foreign currency of the relevant Group entity.

The bank balances carried interest at prevailing interest rates. The bank balances of approximately HK$31,397,000 (2011: HK$30,744,000) were denominated in USD, foreign currency of the relevant Group entities.

At 31st December, 2012, the bank balances and cash of approximately HK$415,000 (2011: HK$3,862,000) 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.

	2012 HK$'000	2011 HK$'000
Trade payables	123,362	76,805
Other payables and accruals	61,647	64,663
	185,009	141,468

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:

	2012 HK$'000	2011 HK$'000
0 – 60 days	54,508	48,505
61 – 90 days	50,227	21,421
> 90 days	18,627	6,879
	123,362	76,805

As at 31st December, 2011, other payables and accruals included dividend payable of HK$4,732,000.

26. BANK BORROWINGS

	2012 HK$'000	2011 HK$'000
Bank loans	25,805	6,978
Unsecured	22,685	6,978
Secured	3,120	–
	25,805	6,978

At 31st December, 2012, bank loans were repayable within one year and carried variable interest at an average of 5.3% (2011: 5.0%) per annum.

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For the year ended 31st December, 2012

26. BANK BORROWINGS (Continued)

As at 31st December 2012, a subsidiary of the Company provided floating charge on certain of its assets including property, plant and equipment, trade receivables and inventories which approximated to HK$144,000,000 (2011: nil) to a bank for banking facilities with credit limit of HK$31,200,000 (2011: nil) granted to it.

27. SHARE CAPITAL

	Number of shares		Share capital	
	2012	2011	**2012**	2011
	'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	**717,327**	712,294	**71,733**	71,229
Issue in lieu of cash dividend *(Note a)*	**–**	5,033	**–**	504
Exercise of share options *(Note b)*	**5,770**	–	**577**	–
At the end of the year	**723,097**	717,327	**72,310**	71,733

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

Notes

(a) 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 38.

(b) During the year ended 31st December, 2012, the Company issued and allotted a total of 5,770,000 ordinary shares of HK$0.1 each in the Company at exercise price of HK$1.25 each to certain share options holders who exercised their share options. These shares issued rank pari passu with the existing shares in all respects.

28. DEFERRED TAXATION

The following are the major deferred tax liabilities (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, 2011	(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)
(Credit) debit to profit or loss	54	–	(2,052)	2,005	(173)	(166)
Exchange difference	–	–	–	–	(4)	(4)
At 31st December, 2012	**(1,345)**	**3,185**	**912**	**(2,302)**	**(2,801)**	**(2,351)**

Note: The amount represents the temporary differences arising from deferred rent, accrued vacation and bonus in the subsidiaries operating 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:

	2012 HK$'000	2011 HK$'000
Deferred tax liabilities	**4,436**	6,386
Deferred tax assets	**(6,787)**	(8,567)
	(2,351)	(2,181)

At the end of the reporting period, the Group had unused estimated tax losses of HK$25,580,000 (2011: HK$31,449,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK$6,780,000 (2011: HK$12,703,000) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses of HK$18,800,000 (2011: HK$18,746,000) due to the unpredictability of future profit streams. The tax losses may be carried forward indefinitely.

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For the year ended 31st December, 2012

29. LOANS FROM ULTIMATE HOLDING COMPANY

The amounts are unsecured and interest-free. As at 31st December, 2012, the ultimate holding company agreed the settlement date of HK$72,958,000 (2011: HK$87,958,000) is 31st January, 2014 (2011: 31st January, 2014) from the end of the reporting period. 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 respectively 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% (2011: 3.0%) per annum on 30 June 2011. 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. For the year ended 31st December, 2012, the group early settled HK$15,000,000 of the loan and the difference between the principal amount repaid and its carrying amount at the date of repayment, amounting to approximately HK$818,000 has been released from deemed contribution from the ultimate holding company.

30. DECONSOLIDATION OF A SUBSIDIARY

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 MDL's claims are dismissed and need to pay certain sum of money to GB. No settlement payments were made by MDL to GB subsequent to the arbitration award. The details of the Award and the related contingent liabilities are set out in note 37 (i) to the consolidated financial statements. In April 2012, the Group was informed that the liquidator of GB applied to the High Court in Hong Kong to wind up MDL and the hearing was scheduled in June 2012. On 15th June, 2012, GB applied to the Eastern Caribbean Supreme Court in the High Court of Justice British Virgin Islands (the "Court") for liquidation order on MDL as MDL was a limited liability company incorporated in the British Virgin Islands. On 16th July, 2012, the Court issued an order liquidating MDL pursuant to Section 162 of the British Virgin Islands Insolvency Act, 2003 and a liquidator was appointed for MDL.

As a result of the appointment of the liquidator, the Group was no longer able to exercise any control over MDL as the liquidator has been empowered and authorized by the Court, among other things, to take possession and control of any and all of MDL's assets and liabilities and to manage, operate and carry on the business of MDL at the sole discretion of the liquidator. MDL has ceased to be subsidiary of the Group immediately after the appointment of the liquidator.

On 16th July, 2012, apart from the liabilities of the amounts due to Group entities of approximately HK$64,798,000 and deposits received of approximately HK$120,000, MDL has no other assets and liabilities. The net liabilities of MDL on 16th July, 2012 approximated to HK$64,918,000. The deconsolidation of MDL has no material impact on the results and cash flow of the Group.

31. OPERATING LEASE COMMITMENTS

	2012 **HK$'000**	2011 HK$'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	**13,703**	13,410

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:

	2012 **HK$'000**	2011 HK$'000
Within one year	**14,254**	13,266
In the second to fifth years inclusive	**15,307**	14,983
After five years	**18,075**	16,892
	47,636	45,141

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.

32. CAPITAL COMMITMENTS

	2012 **HK$'000**	2011 HK$'000
Capital expenditure in respect of the acquisition of property, plant and equipment authorised but not contracted for	**904**	2,003

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33. RELATED PARTY TRANSACTIONS

The loans from ultimate holding company is disclosed in note 29.

Compensation of key management personnel

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

	2012	2011
	HK$'000	HK$'000
Salaries and other short-term employee benefits	**12,824**	12,341
Post-employment benefits	**204**	187
Share-based payments	**–**	5,463
	13,028	17,991

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

34. 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.

34. 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, 2012, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 54,130,000 (2011: 59,900,000), representing 7.5% (2011: 8.4%) 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
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

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34. 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, 2011	Granted during year	Expired/ Lapsed during year	Outstanding at 31st December, 2011	Exercised during the year	Outstanding at 31st December, 2012
2007c	2,000,000	–	(2,000,000)	–	–	–
2007e	2,000,000	–	(2,000,000)	–	–	–
2009a	44,000,000	–	–	44,000,000	(5,770,000)	38,230,000
2009b	1,200,000	–	–	1,200,000	–	1,200,000
2011a	–	14,700,000	–	14,700,000	–	14,700,000
	49,200,000	14,700,000	(4,000,000)	59,900,000	(5,770,000)	54,130,000
Exercisable at the end of the year 2012						**54,130,000**
Exercisable at the end of the year 2011						59,900,000
Weighted average exercise price	HK$1.29	HK$1.69	HK$1.69	HK$1.36	HK$1.25	HK$1.37

In respect of the share options exercised during the year, the weighted average share price at the dates of exercise was HK$1.78 (2011: nil).

There was no option granted during the year ended 31st December, 2012. On 21st April, 2011, there were 14,700,000 share options granted to directors and staff of the Group. The estimated fair value of the options granted was HK$12,747,000.

The fair value was calculated using the Black-Scholes pricing model. The inputs into the model were 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%

34. SHARE BASED PAYMENT TRANSACTIONS (Continued)

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 HK$12,747,000 for the year ended 31st December, 2011 in relation to share options granted by the Company.

35. 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.

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

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

The retirement benefits cost charged to profit or loss in the consolidated statement of comprehensive income approximately HK$2,576,000 (2011: HK$3,792,000) represents contributions payable to the schemes by the Group at the rates specified in the rules of the various schemes.

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36. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the principal subsidiaries at 31st December, 2012 and 2011 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
				2012 indirect	2011 indirect	
Funrise Distribution Company	USA	US$1,000	Common share	**100%**	100%	Wholesale distribution and importation of toy and sales of accessories connected with its product ranges
Funrise, Inc.	USA	US$7,500	Common share	**100%**	100%	Wholesale distribution and importation of toy and sales of accessories connected with its product ranges
Funrise Toys Limited	Hong Kong	HK$10,000 (Preference) HK$90,000 (Ordinary) HK$10,000 (Redeemable)	Preference share Ordinary share Redeemable share	**100%**	100%	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 lights
MVN	Vietnam	US$5,801,000	Contributed legal capital	**100%**	100%	Manufacture of toys
KVN	Vietnam	US$10,261,000	Contributed legal capital	**100%**	100%	Manufacture of toys
AVN	Vietnam	US$10,000,000 (Issued) US$8,963,000 (Fully paid)	Contributed legal capital	**100%**	100%	Manufacture of toys

36. 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
				2012 indirect	2011 indirect	
VVN	Vietnam	US$4,849,000	Contributed legal capital	**100%**	100%	Manufacture of toys
Matrix Resources Enterprise Limited	Hong Kong	HK$10,000	Ordinary share	**100%**	100%	Provision of management services
Matrix Plastic Manufacturing (Zhongshan) Co., Ltd. ("MPMZ")	PRC *(Note)*	US$5,910,000	Registered capital	**100%**	100%	Manufacture of toys

Note: MPMZ is a wholly foreign owned 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.

Except for the redeemable shares in Funrise Toys Limited, none of the subsidiaries had issued any debt securities during the year ended or at 31st December, 2012 and 2011.

37. CONTINGENT LIABILITIES

(i) Pursuant to the Award made on 2nd March, 2012 between MDL and GB in respect of disputes arising out of a Supply Appointment Agreement entered into between the companies dated 5th October, 2007, 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$7,000,000; and (iii) MDL is to pay to GB interest to be calculated at the prime lending rate of the Bank of China (Hong Kong) Limited in Hong Kong from time to time in effect for loans made in US$ 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.

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37. CONTINGENT LIABILITIES (Continued)

(i) (Continued)

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 totalling 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 considered to apply to set aside the Award and to pursue their own rights against GB and its former directors. Therefore, no settlement payments were made by MDL to GB subsequent to the arbitration award.

As at 31st December, 2011, MDL had net liabilities and did not own any significant assets. The Directors anticipated that MDL might be put into liquidation by GB. The Directors were of the opinion that any liquidation of MDL would 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, had any contractual commitment to GB. The Directors therefore considered, after receiving legal advice, that (i) the likelihood of GB making successful legal claim against any of the companies within the Group was remote; and (ii) the possibility of any transfer of economic benefits in settlement of the claim of US$7,000,000 was remote and thus no provision of US$7,000,000 had been made in the consolidated financial statements for the year ended 31st December, 2011.

During the year ended 31st December, 2012, the Group received further information that contrary to what GB had represented to the Group, GB never had the exclusive rights to use FIFA trademarks on footballs. This further justifies the Directors' belief that the agreement between FIFA and GB had never granted to GB an exclusive right for footballs bearing FIFA trademarks in the first place. Accordingly, the Directors consider that they would have grounds to argue that the Supply Appointment Agreement would be void and the Award would be invalid. The Directors therefore continue to have a view that the Group should not provide for any liability in respect of the Award. As further described in note 30, the Group was informed that the liquidator of GB had applied to the courts of Hong Kong and the BVI for the winding up of MDL. In view of the liquidation, and further to legal advice received by the Group, the Directors decided not to take any further action to attempt to get the Award set aside.

37. CONTINGENT LIABILITIES (Continued)

(ii) 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 was made in the consolidated financial statements as at 31st December, 2011. During the year ended 31st December, 2012, a settlement agreement has been reached between Plaintiff A and Funrise, Inc. amounting to US$10,000 which would be settled by Funrise, Inc. in 2013.

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.

38. MAJOR NON CASH TRANSACTION

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.

39. EVENT AFTER THE REPORTING PERIOD

Subsequent to 31st December, 2012, the Company issued and allotted a total of 32,630,000 ordinary shares of HK$0.1 each in the Company at exercise price of HK$1.25 to certain share options holders who exercised their share options. These shares issued rank pari passu with the existing shares in all respects.

Financial Summary

	Year ended 31st December,				
	2008	2009	2010	2011	**2012**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
RESULTS					
Turnover	1,273,548	977,741	880,473	882,331	**880,374**
(Loss) profit before taxation	(36,645)	70,832	52,696	48,366	**26,396**
Income tax (charge) credit	(734)	6,040	8,662	(300)	**(3,043)**
(Loss) profit for the year	(37,379)	76,872	61,358	48,066	**23,353**
Attributable to:					
Owners of the Company	(37,361)	76,872	61,358	48,066	**23,353**
Non-controlling interests	(18)	–	–	–	**–**
	(37,379)	76,872	61,358	48,066	**23,353**
	HK$	HK$	HK$	HK$	**HK$**
(Loss) earnings per share					
Basic	(0.05)	0.11	0.09	0.07	**0.03**
Diluted	N/A	N/A	0.09	0.07	**0.03**

	At 31st December,				
	2008	2009	2010	2011	**2012**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Total assets	910,817	848,879	823,976	840,156	**892,511**
Total liabilities	(493,101)	(363,087)	(305,750)	(296,220)	**(345,890)**
	417,716	485,792	518,226	543,936	**546,621**
Equity attributable to owners of the Company	417,716	485,792	518,226	543,936	**546,621**