MATRIX

Matrix Holdings Limited

美力時集團有限公司

(Incorporated in Bermuda with limited liability)

Stock Code : 1005

Annual Report 2013

Our Mission

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

Contents

Corporate Profile

Danang City, Vietnam
– First Plant

Danang City, Vietnam
– Second Plant

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, 2013, the Group employed approximately 9,200 staff in Hong Kong, Macau, PRC, Vietnam, Australia, Mexico, 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
– 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
Cheng King Cheung
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

AUDITOR

PricewaterhouseCoopers
22nd Floor, Prince's Building, Central,
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
Level 22, Hopewell Centre
183 Queen's Road East
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
DBS Bank (Hong Kong) Limited

WEBSITE

www.irasia.com/listco/hk/matrix

STOCK CODE

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

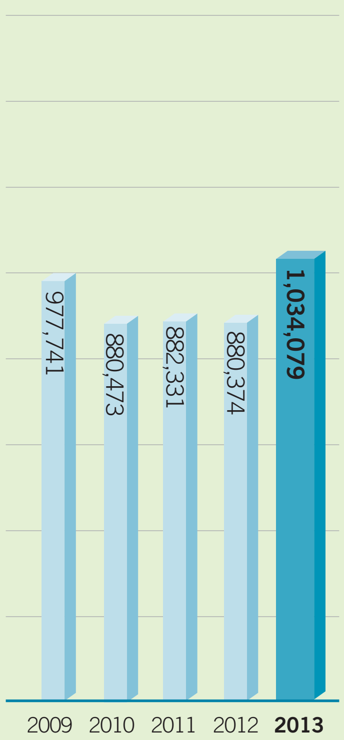
Financial Highlights

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

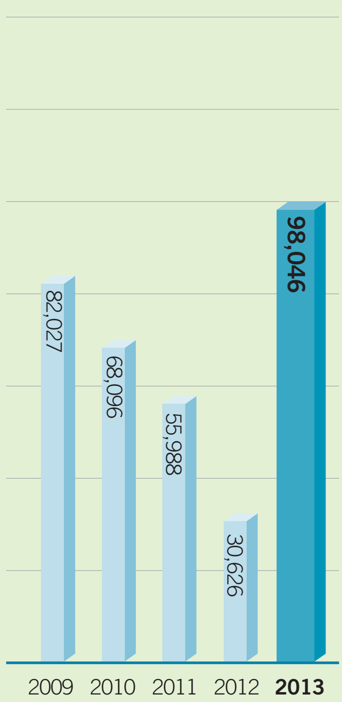
CONSOLIDATED

(HK$'000, except where otherwise stated)	**2013**	2012 (Restated)	% Change
Revenue	**1,034,079**	880,374	17.5%
Gross profit	**384,058**	302,366	27.0%
Profit for the year attributable to the owners of the Company	**98,046**	30,626	220.1%
Earnings per share – Basic	**HK13 cents**	HK4 cents	225.0%
Dividend per share			
Interim, paid	**HK2 cents**	HK1.1 cents	81.8%
Final, proposed	**HK5 cents**	HK1.3 cents	284.6%
Gross Profit Margin (%)	**37.1**	34.3	8.1%
Net Profit Margin (%)	**9.5**	3.4	179.4%
Gearing Ratio (%)	**9.7**	18.9	(48.7%)
Current Ratio	**2.5**	1.9	31.5%
Quick Ratio	**1.1**	0.8	37.5%

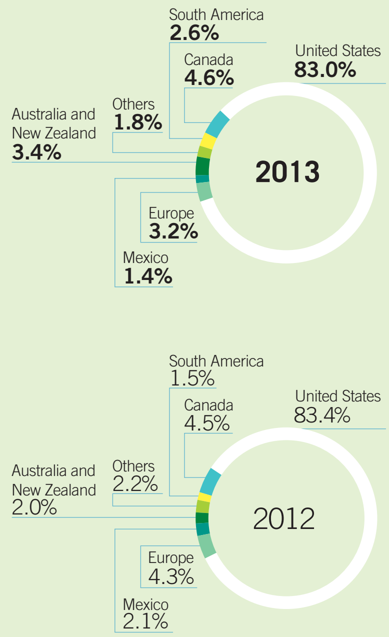
REVENUE



PROFIT ATTRIBUTABLE TO THE OWNERS OF THE COMPANY

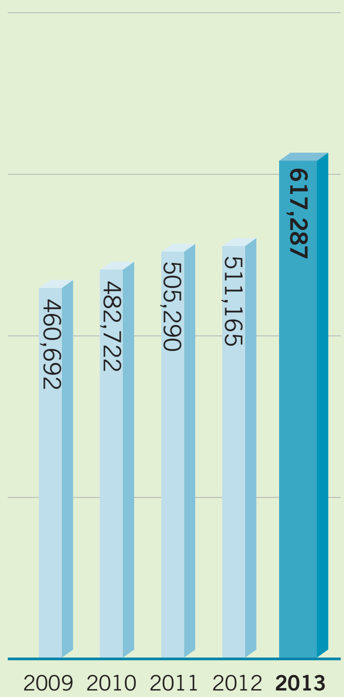


REVENUE BREAKDOWN BY MARKET

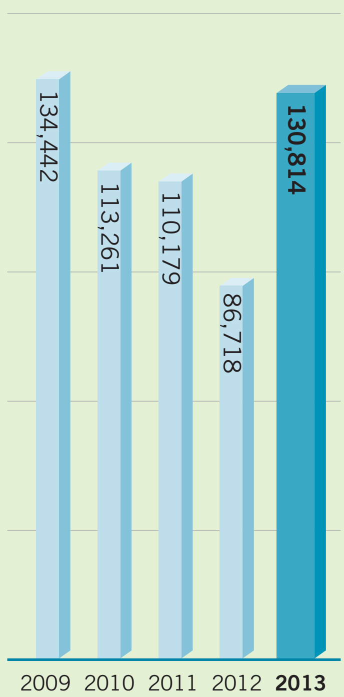


Financial Highlights

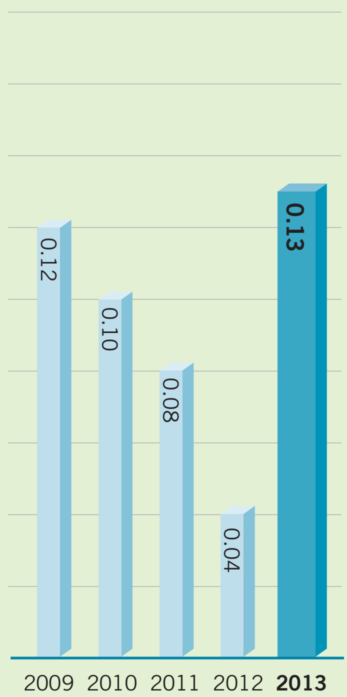
NET ASSETS



EBITDA



BASIC EARNINGS PER SHARE



DEFINITIONS

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

Chairman's Statement

To Our Shareholders,

I am pleased to present to our shareholders the annual report of Matrix Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the financial year ended 31st December, 2013.

During the year under review, the Group's recorded a consolidated revenue of approximately HK$1,034,079,000, which increased by

approximately HK$153,705,000 or 17.5% as compared with approximately HK$880,374,000 in the last year. The profit attributable to the owners of the Company increased by approximately HK$67,420,000 or 220.1% to HK$98,046,000 from approximately HK$30,626,000 last year.

During the year under review, the Group recorded an increasing financial performance as a result of maintaining a diversified strategy to motivate and simulate business growth. The Group launched various new measures to improve its product mix and values, further explored new sales channels and expanded its global coverage to generate higher sales, so as to enlarge its market share and widen its sources of revenue.

Above all, the Group continued to enrich its product lines and focus on expanding its product mix to seize every opportunity amid sales recovery in the global markets, which received inspiring market response. It also strived to expand its distribution channels, explore new markets for sale and open up sales opportunities in the global markets through participating in product exhibitions. The Group possessed its own capability for research and development, which facilitates its design of various bestselling products tailored to customers' preferences and market demands while developing its own brand and designing new products. The Group also sought for more innovative design in its

products, made use of new materials and introduced new functions so as to strengthen its product mix and widen its customer base. In order to sustain growth, the Group strengthened its cooperative partnership with existing major customers and brand licensed customers of well-known toy products in the international market, and developed new product lines for them.

Chairman's Statement

In addition, driven by an increase of sales volume, investments in developing new products and modelling, a better utilisation of fixed costs, as well as support from the well-equipped production facilities in Vietnam, there was an improvement in gross profit margin. 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 exerted by currency appreciation and continuous rise in labor costs on the establishment of production facilities in the Pearl River Delta region in China. Besides taking an active role to restructure its manpower, replacing inefficient production facilities and streamlining work processes to achieve more cost-effective production and improve the overall efficiency, the Group also optimised the procurement process and systems to further minimise and manage the costs, the profit has therefore recorded an increase.

During the year under review, the solid business foundation has enabled the Company to maintain its leading position in the industry. The core business of the Group remains the production operation in the Vietnam production facilities which provides high quality products to customers in the original equipment manufacturing business, original design manufacturing business and lighting business. 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, 20th March, 2014

Management Discussion and Analysis

RESULTS

The Board (the "Board") of Directors (the "Directors") of Matrix Holdings Limited (the "Company") hereby announces the audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31st December, 2013, together with the comparative figures for the corresponding year in 2012.

As at 31st December, 2013, the Group's consolidated revenue increased by approximately HK$153,705,000 or 17.5% to approximately HK$1,034,079,000 from HK$880,374,000 in the last year. The profit attributable to the owners of the Company increased by approximately HK$67,420,000 or 220.1% to approximately HK$98,046,000 from approximately HK$30,626,000 of last year.

With continuous efforts in building up close co-operative relationships with our major clients who possess with strong toy brands, the Group further developed its well-known brand products. We also strived to create co-operative opportunities with these clients across different product categories to boost the sales growth and upgrade product values to stimulate sales. Given the gradual improvement of employment rate, inflation in property prices and deregulation of consumer credit in major markets like North America, the US Consumer Confidence Index has improved and boosted consumption, which indicated acceleration of US economic recovery. The Group has also adopted the strategy of developing products under our self-owned brand name by designing various bestselling products tailored to customers' preferences and market demands with its own research and development capability, so as to gradually moving towards the goal of achieving more balanced income portfolio through establishment of new business. Therefore, during the year under review, we were not only benefited from the increase in sales from toy manufacturing business, our lighting products also received good response from the markets, and revenue of the Group has thus increased and generated more income.

The Group regarded the plants in Vietnam, incurring relatively low and more stable labor costs, as its key production base, which was beneficial in avoiding the endless cost pressure that arose from the factories located at the Pearl River Delta region in China. Despite an increase in marketing and other operating expenses in line with sales volume, benefiting from this strategy, the existing core business of the Group had consolidated its competitive advantages through this scale change and its average selling price had improved. Along with the tax provision of the Group recognised in prior years was reversed to the consolidated profit or loss for the year ended 31st December, 2013, the Group recorded net profit growth.

DIVIDENDS

During the year, the Company paid an interim dividend of HK2 cents in cash (2012: HK1.1 cents in cash) per share to the shareholders. The Directors had resolved to recommend the payment of a final dividend of HK5 cents (2012: HK1.3 cents) per share for the year ended 31st December, 2013, payable to shareholders whose names appear on the Register of Members of the Company on 13th May, 2014. Together with the interim dividend paid of HK2 cents per share, the total dividend per share for the year is HK7 cents (2012: HK2.4 cents).

Subject to the approval of the shareholders at the forthcoming annual general meeting, the proposed final dividend will be paid on or about 19th May, 2014 in cash.

Management Discussion and Analysis

BUSINESS REVIEW

The business operation of the Group includes the Original Design Manufacturing ("ODM") and Original Equipment Manufacturing ("OEM") based toy business, and the development, design, manufacturing and sales of the Own Brand Manufacturing ("OBM") based lighting products business, being the core business of the Group, supplemented by its key production base in Vietnam. While such diversified business platform supported the progressive growth of the Group, it also helped the Group to reduce the risks and challenges that arise from the industry in which it operates and where the market is locating.

Dedicated design, mold setting, production, control and other technologies provided by the Group to licensed overseas toy clients as well as design, research and development, and selling toys and lighting products of our own brand continued to be the growing arena of the Group. The business of entering into licensed brand production contracts with foreign well-known retailers and license holders in US to focus on high yield production lines, and exploring co-operative opportunities with various regions and product categories in an active manner have occupied a substantial proportion of the Group's revenue. Also, we provided products to well-known OEM clients and maintained close relationships in keeping up with the market trend. In addition, we strived to design and sell toys and lighting products of our own brand in expanding our business network, exploring market opportunities and promoting product image through various products, and participating in the influential international trade exhibitions to enlarge market share.

The Group will continue to manage prudently its cost and streamline its operation, and at the same time, maintain a healthy assets and liabilities position to support our development plan for our existing and new businesses.

Manufacturing operation

The Group's production plants in Vietnam have the advantages in labor costs, supply and costs over China. The production base in Vietnam is faced with less pressure from currency appreciation compared to China and its ongoing expansion in scale and production capacity can diversify production investment.

Apart from restructuring the business model and streamlining the business structure to improve the overall efficiency, the Group consolidated its production plants in Vietnam and Mainland China to reduce its cost pressure. The Group also consistently improved its operating conditions, enhanced cost control measures and increased production activities efficiency to maintain the stable development of its business. In addition, apart from reorganising its human resources structure, replacing inefficient machineries with high maintenance costs, the Group also rationalised its working process.

To cope with the increasing concerns from overseas markets on product safety and environmental protection, the Group continues to learn from and to adopt new technique and skill so as to prevent quality and safety issues and pay close attention and monitor the changes in safety standards and regulations in different markets to comply with the new requirements, so that our operating production base will move towards in becoming an increasingly stringent factory.

Management Discussion and Analysis

Segment performance

Given the economic recovery in the emerging markets and the US market that presented numerous potential opportunities and the gradual improving global demand, the Group was able to actively enrich its product categories and mix for its authorised licensing business brand "Tonka" and "My Little Pony", its self-owned brand "Gazillion ® Bubbles" and others like girls role-playing and Activities products series as well as introducing various new products series, which was the contribution of its dedicated research and development efforts. The Group has always been actively exploring new sales channels in emerging markets and appoints new distribution partners and introduces new sales plans in emerging markets in order to identify the demand for the Group's products by clients worldwide. On the other hand, the Group has endeavored to explore new markets such as Hungary, Poland and Sweden notwithstanding the uncertain selling prospects in certain developed markets, in particular the Western European markets.

Besides the consistent marketing efforts on electronic and paper media, the Group has further made use of the internet platform for its transaction. The Group continued to actively expand its distribution channels in the US, European and other countries through establishing new sales channels, such as direct sales and chain stores and online stores, as well as participating in more exhibitions and widen its client portfolio. By leveraging on its existing marketing plans for "Tonka" and "My Little Pony" products, the market demand for a new series of metal and die-cast toys of "Tonka" and "My Little Pony" products were satisfactory and the turnover increased.

The Group also closely monitored other emerging markets, reformed product mix, enriched its new products lines and mix, integrated the inventory and marketing and improved the marketing structure to expand the geographical coverage and secure new orders from clients. It also actively developed the business of its lighting brand "Viribright", studied continuously the feasibility for introducing new products, actively expanded and established new distribution channels through increasing participation in lighting products exhibitions.

In addition, toy safety is still the most concerned issue whether in developed and emerging markets. Besides the statutory requirements, the Group also focuses on quality and design to improve the value of products.

United States ("US")

The US was still a major export market for the Group's toy products. Our turnover increased by approximately HK$124,469,000 or 17.0% to HK$858,603,000 this year from approximately HK$734,134,000 last year.

With the continuous recovery in the US housing and labor markets, the economy has been moving back to its track of steady recovery. The extension of easing monetary policy and stimulating financial measures have brought about job opportunities and further reduced the unemployment rate. As a result, there has been continuous improvement in consumer confidence and increase in spending.

Management Discussion and Analysis

By drawing on the momentum of economic recovery, the Group continued its research and development to create value-added toy products that attract children. The Group has solid partnerships with its clients in the current OEM business and ODM business. In the US, as small toy retailers were forced to wind up or reorganise, large chain stores – the Group's major clients in the US, including Wal-Mart and Target, further secured the toy industry market share.

The overall performance of the metal and die-cast toys of the authorised licensing business brand – "Tonka", "My Little Pony" and the ODM business were satisfactory. In addition, orders for lighting products had substantially increased, continuously developing and exploring new distribution channels to market for its bubbles products and other girls role-playing products series, the performance of turnover was satisfactory with an increase in overall turnover. The Group will strive to maintain the authorised licensing business for major brands, enrich other product lines and retain its existing distributors and clients, including Wal-Mart, Target and Toys "R" US.

Canada

Our turnover in the Canadian market increased by approximately HK$8,330,000 or 21.3% to HK$47,525,000 this year from approximately HK$39,195,000 last year. The Canada economy was benefited from the US economic recovery and the continuous and accelerated hiking of energy and commodity prices. Although the prolonged European debt crisis has been casting doubts on the industry recovery and exports increase, by taking account of both circumstances, the GDP of Canada still increased, which had facilitated goods consumption. Furthermore, clients' demand for the authorised licensing business of the metal and die-cast toys brand – "Tonka" and "My Little Pony" increased, which has driven the turnover in Canadian market. The Group will strive to retain its existing distributors and clients, including Wal-Mart, Target and Toys "R" US.

Europe

Our turnover in Europe decreased by approximately HK$5,330,000 or 14.1% to approximately HK$32,553,000 this year from approximately HK$37,883,000 last year. The European Union ("EU") economy has seen weak economic recovery in the economic turbulence as a result of the uncertainties of the sovereign debt crisis as well as the lingering weakened corporate and consumer confidence. These gave rise to the inevitable austerity policies in which they slowed down demand and hindered exports growth and dragged down the recovery of consumption and investment. Despite the above-mentioned factors, the EU economy showed improvement in labor market and corporate and household sentiments drove the EU economy in 2013. However, at the same time, individual consumption is likely to be continuously uncertain with on-going fiscal consolidation and augmented by the unclear prospects brought about by the sovereign debt crisis, and may even affect our clients in Italy, Turkey, UK, Belgium and Switzerland. In Italy, individual consumption had reduced under high unemployment situation. Turkey witnessed the deteriorating employment prospects as well as high borrowing rates which lowered domestic demand. Despite the deficits in Belgium has improved in relative term, investors generally believe that Belgium is becoming more and more vulnerable to the Eurozone crisis. The European sovereign debt crisis will still linger UK while the government is adhering to its fiscal consolidation strategies, which will drag down the weak consumer and corporate confidence. However, at the same time, the chain effects of easing credit policies mitigates unemployment rate.

Management Discussion and Analysis

Although turnover in Russia increase slightly, and number of new clients increase with a rise in turnover in the Netherlands, Poland and Sweden, there has been a drop in product demand from clients in certain European countries, such as Turkey, Italy, Switzerland and UK, and the overall turnover in the European markets still recorded a fall. The Group still endeavors to retain its existing distributors and clients.

Mexico

Our turnover in Mexico decreased by approximately HK$4,175,000 or 22.4% to approximately HK$14,461,000 this year from approximately HK$18,636,000 last year. Even though the current US economy is rejuvenating and has pulled the Mexican economy out from the economic recession in the last two years, the overall turnover in the Mexican market recorded a decrease as it was attributable by the decrease in other products.

Australia and New Zealand

Our turnover in the Australia and New Zealand markets increased significantly by approximately HK$18,068,000 or 102.7% to approximately HK$35,668,000 this year from approximately HK$17,600,000 last year. Australia recorded economic growth in 2013. The Group entered such potential markets and laid down its foundation to seize opportunities arose from an uplift of the local consumption power. There was a an increase in orders for our lighting products and an increase in orders regained from an Australian client, plus a strong demand for Tonka products from clients offsetting the moderate decrease of other products, the overall turnover recorded a significant increase.

South America

Our turnover in South American markets increased significantly by approximately HK$12,803,000 or 94.0% to approximately HK$26,427,000 this year from HK$13,624,000 last year, which was mainly attributable to the stabilised economic conditions and the gradual picking up sales volume. In 2013, Chile's domestic demand supported the further improvement of labor market and continues to shore up confidence of consumers and investors, resulting in the continuous growth of Chile's economy. In 2013, Argentina's economy shown slightly better growth, which was mainly attributable to industrial activities resulting in the further recovery in demand and continuous commodity prices. Panama's economy gradually became steady, and consumption gradually resumed its uptrend. Demand for "Tonka" products in these South American countries such as Chile, Panama and Argentina increased, which offset the slowing down in sales in Bolivia, Venezuela, Honduras and Uruguay due to prolonged European debt crisis and lingering impact of economic uncertainties, the decrease due to the cooling down economic prosperity of relevant countries because of industrial production slowed down. At the same time, orders for lighting products recorded an increase in South American markets, and the overall turnover had increased.

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 31st December, 2013, the Group had cash and cash equivalents of approximately HK$54,536,000 (2012: HK$43,305,000). During the year under review, the Group obtained banking facilities in a total of approximately HK$126,200,000 (2012: HK$126,200,000) of which HK$95,000,000 was supported by corporate guarantee and HK$31,200,000 was secured under floating charge on certain assets of the Group.

Management Discussion and Analysis

As at 31st December, 2013, the Group had bank borrowings of approximately HK$26,275,000 (2012: HK$25,805,000). The Group's gearing ratio, representing the total debt (sum of bank borrowings and loan from ultimate holding company) divided by equity attributable to the owners of the Company, was 9.7% (2012: 18.9%).

During the year, net cash generated from operating activities amounted to approximately HK$67,210,000 (2012: HK$64,244,000). 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$34,091,000 (2012: HK$43,758,000) to further enhance and upgrade the production capacity. These capital expenditures were financed primarily by cash generated from operations. As at 31st December, 2013, capital commitment authorised but not contracted for amounted to approximately HK$224,000 (2012: HK$904,000).

Assets and Liabilities

At 31st December, 2013, the Group had total assets of approximately HK$877,388,000 (2012: HK$853,870,000), total liabilities of approximately HK$260,101,000 (2012: HK$342,705,000) and equity attributable to the owners of the Company of approximately HK$617,287,000 (2012: HK$511,165,000). The net assets of the Group increased by approximately 20.8% (2012: increased by 1.2%) to approximately HK$617,287,000 as at 31st December, 2013 (2012: HK$511,165,000).

Significant Investments and Acquisition

There was no significant investment and acquisition for the year ended 31st December, 2013.

Significant Disposal

There was no significant disposal for the year ended 31st December, 2013.

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 deposits 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 arise.

NUMBER OF EMPLOYEES AND REMUNERATION POLICIES

As at 31st December, 2013, the Group had a total of approximately 9,200 (2012: 10,600) employees in Hong Kong, Macau, PRC, Vietnam, Australia, Mexico, US and Europe. The Group provides its employees with competitive remuneration packages commensurate to the level of pay established by the market trend in comparable businesses. A share option scheme was adopted for selected participants (including full time employees) as incentives or rewards for their contributions to the business and operation of the Group. A mandatory provident fund scheme and respective local retirement benefit schemes are also in place.

Management Discussion and Analysis

PROSPECT

The Group will adhere to its diversified strategy to motivate business growth, which includes research and development of new products, consolidating the existing product portfolio, seeking new product categories and readjusting product prices to widen client base and enlarge market shares. For geographical coverage, other than traditional toy markets like North America and Europe, the Group has further expanded into another emerging market leveraged on its accumulated market experience. The implementation of these plans has generated new momentum for growth. Along with the Vietnam production base which has established new facilities and upgraded its production capacities, further accomplishment will be made.

The advantages of plants in Vietnam will still continue due to its current labor supply and labor costs as compared with those in Mainland China. The management of the Group is confident that the Group could further consolidate its own market position by grasping this opportunity when competitors with weaker strengths exit the market one after another due to cost increases, thereby grasping the American economic recovery trend and emerging market business opportunities. The Group expects that this favorable environment factor will continue, so as to further improve the impact that clients may place orders directly to other competitors having plants in South-east Asian countries. In addition, the Group will take various new measures to enhance productivity, including replacing inefficient machinery with high maintenance costs, streamlining production processes, revising working regulations and standards and exploring potential opportunities to rationally use seasonally idle production capacity. In view of the fact that Vietnam will raise its minimum wage, the management will continue to endeavor improving productivity and managing production costs.

The Group is deeply aware of the importance to invest its working capital in business development. In order to explore selling opportunities in the global market, the Group continues to develop the renowned ODM brand businesses and expand its sales and distribution networks for its self-owned brand manufacturing products, in order to provide its clients with innovative products under the brands of “Gazillion ® Bubbles” and “Tonka”. Moreover, the economic boom in its major sale markets such as US, Canada, Australia and New Zealand is expanding, which offer favorable marketing environment. For its lighting business, since many countries such as the US have started using LED to replace traditional bulbs, the Group is facing with numerous good opportunities. Therefore, the Group is cautiously optimistic about its prospect.

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

Biographies of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Cheng Yung Pun

Aged 62, 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 33 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 and Mr. Cheng King Cheung, Executive Directors of the Company.

Mr. Arnold Edward Rubin

Aged 66, 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 47 year of extensive experience in the toy industry. He is currently a member of the governance board of the International Council of Toy Industries Care Process and a member of the board of trustees of the American Toy Industry Foundation and has served as chairman of board of both the Toy Industry Association and the Toy Industry Foundation. He is the immediate past president of the International Council of Toy Industries. Mr. Rubin was induced into Toy Industry Association Hall of Fame.

Mr. Yu Sui Chuen

Aged 58, 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 33 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 40 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 four years'experience in sales and marketing. She is currently responsible for sales and marketing of the overseas'company. She is the daughter of Mr. Cheng Yung Pun, Chairman of the Company and the sister of Mr. Cheng King Cheung, Executive Director of the Company.

Mr. Cheng King Cheung

Aged 22, was appointed Executive Director of the Company on 10th October 2013. Mr. Cheng holds a bachelor's degree in Government from Franklin and Marshall College in Pennsylvania, USA. Mr. Cheng joined Funrise Inc. and Funrise Toys Limited ("the companies"), indirect wholly-owned subsidiaries of the Company, since 2010. He has about four years' experience in sales and marketing of toys. He is currently an Executive Vice President of the companies. He is a son of Mr. Cheng Yung Pun, the Chairman of the Company and a brother of Ms. Cheng Wing See, Nathalie, an Executive Director of the Company.

Biographies of Directors and Senior Management

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

Aged 57, 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 24 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 63, 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 26 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 15 years and is currently responsible for the production management.

Mr. Tsang Chung Wa

Aged 50, 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 25 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 13 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 64, is an Independent Non-executive Director of the Company. He was appointed as an Independent Non-executive director in September 2004. He also serves as the Chairman of the audit committee, and remuneration committee and a member of the nomination committee of the Company. Dr. Loke has over 38 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, The Hong Kong Institute of Directors and Hong Kong Institute of Chartered Secretaries.

Biographies of Directors and Senior Management

He is currently the company secretary of Minth Group Limited and serves as an independent non-executive Director of the following companies whose shares are listed on The Stock Exchange of Hong Kong Limited: Vodone Limited, Sino Distillery Group Limited (formerly known as Bio-Dynamic Group Limited), China Fire Safety Enterprise Group Limited, Winfair Investment Company Limited, SCUD Group Limited, Zhong An Real Estate Limited Chiho-Tiande Group Limited, Tianjin Development Holdings Limited and China Household Holdings Limited.

Mr. Mak Shiu Chung, Godfrey

Aged 51, 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 23 years of experiences in the field of corporate finance.

Mr. Wan Hing Pui

Aged 83, 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 55 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 36, was appointed as an Independent Non-executive Director and a member of the audit committee, remuneration committee and nomination committee of the Company in 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 and as Company Secretary of China Life Insurance Company Limited, whose shares are listed on the main board of the Stock Exchange.

CHIEF EXECUTIVE OFFICER

Mr. Chen Wei Qing

Aged 46, 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 25 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 further amended the Company's corporate governance code (the "CG Code") on 27th August, 2013 to reflect the recent amendments on the Appendix 14 (the "HKEx Code") of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). 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 CG Code under the HKEx Code during the year ended 2013, 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, 2013, 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 (Chairman), Mr. Arnold Edward Rubin (Vice-Chairman), Mr. Yu Sui Chuen, Ms. Cheng Wing See, Nathalie, Mr. Cheng King Cheung, 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 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, 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.

The Directors who are subject to retirement and re-election at the 2014 Annual General Meeting are set out on page 35 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 i) Ms. Cheng Wing See, Nathalie is the daughter of Mr. Cheng Yung Pun and the sister of Mr. Cheng King Cheung; and ii) Mr. Cheng King Cheung is a son of Mr. Cheng Yung Pun and a brother of Ms. Cheng Wing See, Nathalie, 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.

Corporate Governance Report

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 allow 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 fourteen board meetings (including some meetings held by video or telephone conference) in which Mr. Yu Sui Chuen, Ms. Cheng Wing See, Nathalie, Mr. Leung Hong Tai, Mr. Tse Kam Wah, Dr. Loke Yu alias Loke Hoi Lam, Mr. Wan Hing Pui and Mr. Heng Victor Ja Wei had attended all the board meetings; Mr. Cheng Yung Pun had attended thirteen board meetings; Mr. Mak Shiu Chung, Godfrey had attended twelve board meetings; Mr. Cheung Kwok Sing had attended six board meetings before he resigned on 10th October, 2013; Mr. Arnold Edward Rubin and Mr. Tsang Chung Wa had attended four board meetings; Mr. Cheng King Cheung had attended two board meetings since his appointment as director on 10th October, 2013.

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 amended its code for securities transactions by directors of listed issuers as the code of conduct governing directors' securities transactions in August, 2013 in compliance with the recently amended Appendix 10 to the Listing Rules (the "Model Code").

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 Company's own code and the amended Model Code throughout the year.

5. Directors' Continuous Training and Development Programme

Pursuant to the HKEx Code, 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 year ended 31st December, 2013, 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 (before he resigned), Mr. Cheng King Cheung (after he was appointed), 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 received regular updates on the Group's business, operations 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 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 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. For the year ended 31st December 2013, all members of the RC had attended the RC meeting.

Work done during the year

- reviewed its remuneration policy for Directors and senior management;
- reviewed the remuneration packages of executive Directors and senior management for the year 2013; and
- recommended to the Board the executive Directors' fees for the year ended 31st December, 2013 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, 2013 are provided in note 10 to the Consolidated Financial Statements in this annual report.

C. DIRECTORS' NOMINATION

1. Nomination Committee ("NC")

The NC was established in 2012. 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.

The NC will review its own size, structure and composition to ensure that the Board has a balance of ages, talents expertise, skills, experience, independent, knowledge and gender appropriate to the requirements of the Company. Where vacancies on the Board exist or an additional Director is considered necessary, the chairman of NC will identify suitable candidates and propose the appointment of such candidates to the Board for consideration and the NC will take into account the qualification, in particular any qualification as required in the Listing Rules, ability, working experience, leadership and professional ethics etc. of the candidates and approved if such appointment considered suitable. The NC 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.

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. For the year ended 31st December, 2013, all members of NC 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 and assessed the composition of the Board and make recommendation to the Board on appointment of new directors of the Company.

2. Implementation of Board Diversity policy

- The policy concerning diversity of the board adopted on 27th August, 2013. It included a mechanism on how NC oversees the conduct of the annual review of the effectiveness of the Board. In reviewing and assessing the composition of the Board, the NC will consider the benefits of all aspects of diversity, including without limitation, those described above, in order to maintain an appropriate range and balance of talents, skills experience and background on the Board. In recommending candidates for appointment to the Board, the NC will consider candidates on merit against objective criteria and with due regard for the benefits of diversity on the Board. In overseeing the conduct of the annual review of the effectiveness of the Board, the NC will consider the balance of ages, talents, skills, experience, independence, knowledge and gender on the Board and the diversity representation of the Board.

- The NC discussed and agreed annually all measurable objectives for achieving diversity on the Board and recommended them to the Board for adoption. It also reviewed annually the progress on achieving those objectives. At any given time, the Board may seek to improve one or more aspects of its diversity and measure progress accordingly.

D. ACCOUNTABILITY AND AUDIT

1. Audit Committee (“AC”)

The principal responsibilities of the AC are, inter alia, to review the appointment of external auditor 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 auditor to discuss issues and reservations (if any) arising from the interim review and final audit, and any matters the auditor suggests 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 auditor 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 auditor. Detailed terms of reference of the AC are accessible on the website of the Company and the HKEx.

Three AC members are qualified accountants. None of the AC members are members of the former or existing auditor 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. For the year ended 31st December, 2013, all members 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 auditor's engagement letter; to discuss issues during the audits of external auditor. The external auditor 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 auditor to discuss issues and reservations (if any) arising from the interim review and final audit, and any matters the auditor suggests to discuss;
- reviewed the Group's internal control system;
- served as a focal point for communication between other Directors and the external auditor 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 auditor.

Corporate Governance Report

2. Financial Reporting

The financial statements of the Company for the year ended 31st December, 2013 have been reviewed by the AC and audited by the external auditor, Messrs. PricewaterhouseCoopers. 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 auditor about their reporting responsibilities is included in the Independent Auditor's Report on pages 47 and 48 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 Group financial controller with accounting qualification and experienced finance director serve 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. PricewaterhouseCoopers, Hong Kong, were approximately HK$2,200,000 and HK$200,000 for statutory audit services rendered and non-audit services rendered (including disbursement fees) to the Group respectively.

Remuneration paid to other auditors for audit services rendered to overseas subsidiaries was approximately HK$1,600,000.

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:

- reviewed the corporate governance duties under the HKEx Code;
- amendment of the CG Code and the Company's own code for securities transactions by directors of listed issuers as the code of conduct governing directors' securities modeled on the Model Code under the Listing Rules; and
- review the compliance with the HKEx Code.

Corporate Governance Report

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.

During the year under review, there are no changes to the Company's bye-laws.

2. Annual General Meeting ("AGM")

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 particularly the INED – Mr. Mak Shiu Chung, Godfrey as he is being an INED for more than 9 years.

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, Yu Sui Chuen, Cheng Wing See, Nathalie, Tse Kam Wah, Loke Yu alias Loke Hoi Lam, Mak Shiu Chung, Godfrey, Wan Hing Pui and Heng Victor Ja Wei ((except Mr. Arnold Edward Rubin, Mr. Cheung Kwok Sing (before he resigned), Mr. Leung Hong Tai and Mr. Tsang Chung Wa, the executive Directors)) had attended the 2013 AGM of the Company held on 8th May, 2013.

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 Level 22, Hopewell Centre, 183 Queen's Road East, 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, 2013.

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 34 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The five largest customers of the Group together accounted for approximately 68.2% of the Group's turnover, with the largest customer accounted for approximately 28.3%. The aggregate purchases attributable to the Group's five largest suppliers were approximately 38.5% of total purchases of the Group, with the largest supplier accounted for approximately 19.9%.

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, 2013 are set out in the consolidated statement of comprehensive income on page 49.

During the year, the Company has paid 2012 final dividend of HK1.3 cents and the Directors have declared 2013 interim dividend of HK2 cents. Both 2012 final dividend and 2013 interim dividend were paid by cash. The total cash dividend paid during the year was approximately HK$24,939,000.

The Directors now recommend the payment of a final dividend of HK5 cents per share, amounting to approximately HK$37,791,000, to the shareholders on the register of members on 13th May, 2014 payable in cash. The remaining retained profits in the Company amounted to approximately HK$215,481,000.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group spent approximately HK$5,156,000 on plant and machinery and approximately HK$3,759,000 on leasehold improvements 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 15 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 25 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 pages 53 and 54.

Reserves of the Company as at 31st December, 2013 available for distribution, calculated under the Companies Act 1981 of Bermuda (as amended), amounted to approximately HK$253,272,000 (2012: HK$277,694,000).

Report of the Directors

RESERVES (Continued)

The Company's reserves available for distribution to the shareholders as at the statement of financial position date are set out as follows:

	2013 HK$'000	2012 HK$'000
Contributed surplus	3,661	3,661
Retained profits	249,611	274,033
	253,272	277,694

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 120.

Report of the Directors

DIRECTORS

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

Executive Directors:

Cheng Yung Pun *(Chairman)*
Arnold Edward Rubin *(Vice Chairman)*
Cheng Wing See, Nathalie
Cheung Kwok Sing (Resigned on 10th October, 2013)
Cheng King Cheung (Appointed on 10th October, 2013)
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

OTHER INFORMATION OF DIRECTORS

In the last three years, Dr. Loke Yu alias Loke Hoi Lam, independent non-executive Director ("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 and as INED of China Household Holdings Limited (a company listed on the Stock Exchange) with effect from 9th August, 2013. Mr. Heng Victor Ja Wei, INED of the Company, was appointed as Company Secretary of China Life Insurance Company Limited (a company listed on the Stock Exchange) with effect from 25th April, 2013.

The Director's emolument (including any sum receivable as Director's fee or remuneration) per month (13-month basis) of Ms. Cheng Wing See, Nathalie, Mr. Yu Sui Chuen, Mr. Cheung Kwok Sing (resigned on 10th October, 2013), Mr. Leung Hong Tai, Mr. Tsang Chung Wa, Mr. Tse Kam Wah and Mr. Chen Wei Qing (Chief Executive Officer of the Company) had been adjusted to HK$49,000, HK$110,000, HK$85,000, HK$90,000, HK$72,000, HK$90,000 and HK$85,000 respectively with effect from 1st March, 2013. In addition, the annual initial base gross salary of Mr. Arnold Edward Rubin had been adjusted to US$630,000 (equivalent to approximately HK$4,914,000) and the housing allowance adjusted to US$30,000 per annum (equivalent to approximately HK$234,000) with effect from 9th June, 2013.

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

Report of the Directors

OTHER INFORMATION OF DIRECTORS (Continued)

Directors' and chief executive's emoluments

The emoluments paid or payable to each of the twelve (2012: twelve) Directors and chief executive are as follows:

2013	Fees HK$'000	Other emoluments Salaries and allowances HK$'000	Other emoluments Contributions to pension scheme HK$'000	Total HK$'000
Executive Directors				
Cheng Yung Pun	–	1,031	–	1,031
Yu Sui Chuen	–	1,422	58	1,480
Cheng Wing See, Nathalie	–	635	15	650
Arnold Edward Rubin	–	5,058	99	5,157
Cheung Kwok Sing (resigned on 10th October 2013)	–	844	12	856
Cheng King Cheung (appointed on 10th October, 2013)	–	235	4	239
Tse Kam Wah	–	1,162	15	1,177
Leung Hong Tai	–	1,162	15	1,177
Tsang Chung Wa	–	929	15	944
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	80	–	–	80
Chief Executive				
Chen Wei Qing	–	1,091	18	1,109
Total for 2013	320	13,569	251	14,140

DIRECTORS' SERVICE CONTRACTS

In accordance with the clause 99 of the Bye-laws of the Company, Mr. Cheng Yung Pun, Mr. Arnold Edward Rubin, Mr. Tse Kam Wah and Mr. Mak Shiu Chung, Godfrey, 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. Cheng King Cheung retire and, being eligible, offer himself for re-election at the forthcoming annual general meeting. Separate resolution will be proposed at 2014 general meetings for the election of Mr. Mak Shiu Chung, Godfrey as being an INED for more than 9 years.

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.

Employment agreements were entered into between the wholly-owned subsidiaries of the Company and Mr. Arnold Edward Rubin (executive Director and vice chairman of the Company) and Mr. Cheng King Cheung (executive Director of the Company) continuing for a period of three years after their effective date for their being the president and executive vice president respectively of those subsidiaries. Save as disclosed above, 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.

Report of the Directors

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

As at 31st December, 2013, the interests and short positions of the Directors and chief executives and their respective associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or which were otherwise required to be notified to the Company and the Stock Exchange, pursuant to the Model Code for Securities Transactions by Directors of the Listing Companies were as follows:

Long Positions in Ordinary Shares of the Company

Ordinary Shares of HK$0.10 each of the Company

Name of Director/ chief executive officer	Nature of interests	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Cheng Yung Pun *(Director)*	Corporate interest *(Note 1)*	526,997,569	69.73%
Arnold Edward Rubin *(Director)*	Personal interest	90,000	0.01%
Cheng Wing See, Nathalie *(Director)*	Personal interest	723,230	0.10%
Cheng King Cheung *(Director)*	Personal interest	1,404,000	0.19%
Leung Hong Tai *(Director)*	Personal interest *(Note 2)*	6,942,000	0.92%
Tsang Chung Wa *(Director)*	Personal interest	4,124,251	0.55%
Tse Kam Wah *(Director)*	Personal interest	4,280,000	0.57%
Yu Sui Chuen *(Director)*	Personal interest	840,000	0.11%
Chen Wei Qing *(Chief Executive Officer)*	Personal interest	4,100,000	0.54%

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

Share Option

	Option type	Number of underlying shares attached to the share options: Outstanding at beginning of year	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at end of year	Exercise price HK$	Exercise period
Category 1: Directors/ Chief Executive								
Yu Sui Chuen *(Director) (Note 1)*	2009a	5,000,000	–	(2,000,000)	(3,000,000)	–	1.250	1st March, 2010 to 1st March, 2013
Leung Hong Tai *(Director) (Note 2)*	2009a	2,800,000	–	(2,800,000)	–	–	1.250	1st March, 2010 to 1st March, 2013
Tsang Chung Wa *(Director) (Note 3)*	2009a	3,000,000	–	(3,000,000)	–	–	1.250	1st March, 2010 to 1st March, 2013
Tse Kam Wah *(Director) (Note 4)*	2009a	3,000,000	–	(3,000,000)	–	–	1.250	1st March, 2010 to 1st March, 2013
Chen Wei Qing *(Chief Executive Officer) (Note 5)*	2009a	3,000,000	–	(3,000,000)	–	–	1.250	1st March, 2010 to 1st March, 2013
Cheung Kwok Sing *(Director) (Note 6)*	2009a	3,000,000	–	(3,000,000)	–	–	1.250	1st March, 2010 to 1st March, 2013
Arnold Edward Rubin *(Director) (Note 7)*	2011a	6,300,000	–	–	–	6,300,000	1.692	20th July, 2011 to 20th July, 2014
Loke Yu alias Loke Hoi Lam *(Director) (Note 8)*	2011a	300,000	–	–	–	300,000	1.692	20th July, 2011 to 20th July, 2014
Mak Shiu Chung, Godfrey *(Director) (Note 9)*	2011a	300,000	–	–	–	300,000	1.692	20th July, 2011 to 20th July, 2014
Wan Hing Pui *(Director) (Note 10)*	2011a	300,000	–	–	–	300,000	1.692	20th July, 2011 to 20th July, 2014
Total Directors/Chief Executive		27,000,000	–	(16,800,000)	(3,000,000)	7,200,000		

Report of the Directors

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

Long Positions in Underlying Shares of the Company (Continued)

Share Option (Continued)

	Option type	Number of underlying shares attached to the share options: Outstanding at beginning of year	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at end of year	Exercise price HK$	Exercise period
Category 2: Employees								
	2009a	18,430,000	–	(15,830,000)	(2,600,000)	– *(Note 11)*	1.250	1st March, 2010 to 1st March, 2013
	2009b	1,200,000	–	–	(1,200,000) *(Note 12)*	–	1.448	15th March, 2010 to 15th March, 2013
	2011a	7,500,000	–	–	–	7,500,000 *(Note 13)*	1.692	20th July, 2011 to 20th July, 2014
Total Employees		27,130,000	–	(15,830,000)	(3,800,000)	7,500,000		
Total all categories		54,130,000	–	(32,630,000)	(6,800,000)	14,700,000		

Notes:

(1) Mr. Yu Sui Chuen, Director of the Company, has exercised his share options in respect of share options granted on 1st December, 2009 pursuant to the Company's share option scheme which carries rights to subscribe for 2,000,000 underlying shares in February 2013 and the remaining share option for 3,000,000 underlying shares lapsed.

(2) Mr. Leung Hong Tai, Director of the Company, has exercised all his remaining share options in respect of share options granted on 1st December, 2009 pursuant to the Company's share option scheme which carries rights to subscribe for 2,800,000 underlying shares in February 2013.

(3) Mr. Tsang Chung Wa, Director of the Company, has exercised all his share options in respect of share options granted on 1st December, 2009 pursuant to the Company's share option scheme which carries rights to subscribe for 3,000,000 underlying shares in February 2013.

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

Long Positions in Underlying Shares of the Company (Continued)

Share Option (Continued)

Notes: (Continued)

(4) Mr. Tse Kam Wah, Director of the Company, has exercised all his share options in respect of share options granted on 1st December, 2009 pursuant to the Company's share option scheme which carries rights to subscribe for 3,000,000 underlying shares in February 2013.

(5) Mr. Chen Wei Qing, Chief Executive Officer of the Company, has exercised all his share options in respect of share options granted on 1st December, 2009 pursuant to the Company's share option scheme which carries rights to subscribe for 3,000,000 underlying shares in February 2013.

(6) Mr. Cheung Kwok Sing, being a Director of the Company before he resigned on 10th October, 2013, has exercised and his share options in respect of share options granted on 1st December, 2009, pursuant to the Company's share option scheme which carries rights to subscribe for 3,000,000 underlying shares in February 2013.

(7) Mr. Arnold Edward Rubin, Director of the Company, has beneficial interests in 6,300,000 underlying shares (representing 0.83% of issued share capital of the Company) in respect of share options granted to him on 21st April, 2011 pursuant to the Company's share option scheme.

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

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

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

(11) Share options carry rights to subscribe for 15,830,000 underlying shares in respect of share options granted on 1st December, 2009 pursuant to the Company's share option scheme were exercised in January and February 2013 and the remaining share options for 2,600,000 underlying shares lapsed.

(12) Share options carry rights to subscribe for 1,200,000 underlying shares in respect of share options granted on 15th December, 2009 pursuant to the Company's share option scheme lapsed.

(13) The 7,500,000 underlying shares (representing approximately 0.99% of issued share capital of the Company) in respect of share options were granted on 21st April, 2011 pursuant to the Company's share option scheme.

Report of the Directors

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

Long Positions in Underlying Shares of the Company (Continued)

Share Option (Continued)

The closing prices of the Company's shares on 1st December, 2009, 15th December, 2009 and 21st April, 2011 the dates of grant of the options type of 2009a, 2009b and 2011a were HK$1.25, HK$1.40 and HK$1.69 respectively.

Details of specific category of share options are as follows:

Option Type	Date of grant	Vesting period	Exercise period	Exercise price
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

During the year ended 31st December, 2013, the options carry rights to subscribe for a total of 1,300,000 shares had been exercised on 22nd January, 2013 and 31,330,000 shares had been exercised on 27th February, 2013.

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

Option Type	2009a	2009b	2011a
Weighted average share price	HK$1.129	HK$1.133	HK$1.690
Exercise price	HK$1.250	HK$1.448	HK$1.692
Expected volatility	96.00%	97.00%	99.00%
Expected life	3 years	3 years	3 years
Risk-free rate	1.50%	1.62%	1.060%
Expected dividend yield	3.81%	3.40%	4.70%

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

Long Positions in Underlying Shares of the Company (Continued)

Share Option (Continued)

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 fair value of services received under an equity-settled share-based payment arrangement is determined by reference to the fair value of share options granted at the grant date and is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve). Details of the accounting policy for equity-settled shared-based payment transactions are set out in the Group's financial statements for the year ended 31st December, 2013.

There was no option granted during the year ended 31st December, 2013 and 2012.

Particulars of the Company's 2012 Share Option Scheme are set out in Note 24 to the consolidated financial statements.

Other than as disclosed above, none of the Directors, chief executives nor their respective associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31st December, 2013.

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.

Report of the Directors

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2013, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following shareholders had notified the Company of relevant interests and short positions in the issued share capital of the Company:

Long Positions in Ordinary Shares of the Company

Ordinary Shares of HK$0.10 each of the Company

Name of shareholder	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Smart Forest *(Note 1)*	Beneficial owner	526,997,569	69.73%

Notes:

(1) Smart Forest, a company incorporated in the British Virgin Island 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, 2013.

SHARE OPTION SCHEME

The key terms of the share option scheme of the Company adopted on 4th May, 2012 (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, 2013, the total number of Shares available for issue of option under the 2012 Share Option Scheme was 71,864,731 shares which representing 9.5% of the issued share capital of the Company (after the enlarged issued share capital in 755,727,313 shares under the issue of 32,630,000 shares in respect of exercise of share option during the period from January and February 2013).

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 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.

Report of the Directors

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 24 to the consolidated financial statements.

During the year under review, the options carry rights to subscribe for 32,630,000 shares had been exercised during the period from January and February 2013.

As at 31st December, 2013, the options which have been granted and remained outstanding carry rights to subscribe for 14,700,000 shares (31st December, 2012: 54,130,000) representing 1.9% (31st December, 2012: 7.5%) 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.

COMPLIANCE OF THE CORPORATE GOVERNANCE CODE

The Board has adopted a new corporate governance code (the "CG 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.

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 HKEx Code and the CG Code except the deviation from the code provision A.4.1 that none of the existing non-executive directors of the Company is appointed for a specific term. However, as all the 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 CG Code as well. As the Company purchased an insurance cover in respect of legal action against its Directors, the deviation of the code provision A.1.8 no longer existed.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31st December, 2013.

OTHER REQUIRED DISCLOSURE PURSUANT TO RULE 13.18 OF THE LISTING RULES

With regard to the renewed facilities of up to an aggregate extent of HK$50,000,000 previously granted to two indirect wholly-owned subsidiaries of the Company by a Bank in Macau (the "Bank – MO"), the renewed facility letters have been provided by the Bank – MO on 17th January, 2014 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 – MO can request to adjust or terminate the renewed facilities.

The facility letters have been provided by a bank in Hong Kong (the "Bank – HK") regarding the banking facilities in an aggregated amount shall not exceed HK$45,000,000 (the "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 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 Facilities. The Facilities will become immediately due and repayable to the Bank – HK if such an event of default occurs.

Report of the Directors

AUDITOR

At the Annual General Meeting of the Company held on 8th May, 2013, Messrs. Deloitte Touche Tohmatsu retired as the auditor of the Company and Messrs. PricewaterhouseCoopers, Hong Kong, was appointed as the new auditor of the Company.

Messrs. PricewaterhouseCoopers will retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-appointment.

By order of the Board
Cheng Yung Pun
Chairman

Hong Kong, 20th March, 2014

Independent Auditor's Report

羅兵咸永道

TO THE SHAREHOLDERS 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 (together, the "Group") set out on pages 49 to 119, which comprise the consolidated and company statements of financial position as at 31st December, 2013, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the 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 Companies Act 1981 of Bermuda 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.

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

Independent Auditor's Report

TO THE SHAREHOLDERS 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 judgment, 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 Company and of the Group as at 31st December, 2013, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong
20th March, 2014

Consolidated Statement of Comprehensive Income

For the year ended 31st December, 2013

	Note	2013 HK$'000	2012 HK$'000 (Restated)
Revenue	5	**1,034,079**	880,374
Cost of sales	8	**(650,021)**	(578,008)
Gross profit		**384,058**	302,366
Other income	6	**1,183**	3,188
Other losses	7	**(5,110)**	(3,450)
Distribution and selling costs	8	**(157,640)**	(133,876)
Administrative expenses	8	**(120,728)**	(115,663)
Research and development costs	8	**(16,370)**	(15,916)
Operating profit		**85,393**	36,649
Finance costs	9	**(2,368)**	(2,980)
Profit before taxation		**83,025**	33,669
Income tax credit/(expense)	11	**15,021**	(3,043)
Profit for the year attributable to the owners of the Company		**98,046**	30,626
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Exchange difference arising on translation of foreign operations		**(5,754)**	2,366
Reclassification of exchange difference on deregistration of foreign operations		**–**	(409)
Other comprehensive income for the year, net of tax		**(5,754)**	1,957
Total comprehensive income for the year attributable to the owners of the Company		**92,292**	32,583
Earnings per share for profit attributable to the owners of the Company during the year (expressed in HK cents per share)			
Basic	13	**13**	4
Diluted	13	**13**	4

Details of dividend declared to owner of the Company are set out in Note 12.

The notes on pages 56 to 119 are an integral part of these financial statements.

Consolidated Statement of Financial Position

As at 31st December, 2013

	Note	As at 31st December, 2013 HK$'000	As at 31st December, 2012 HK$'000 (Restated)	As at 1st January, 2012 HK$'000 (Restated)
ASSETS				
Non-current assets				
Property, plant and equipment	*15*	**196,722**	203,396	196,205
Leasehold land and land use rights	*16*	**15,201**	15,714	16,227
Intangible assets	*17*	**96,822**	102,279	114,716
Deferred tax assets	*26*	**4,577**	6,787	8,567
Prepayments	*21*	**95**	1,039	1,948
		313,417	329,215	337,663
Current assets				
Inventories	*19*	**309,390**	295,925	247,821
Trade and other receivables and prepayments	*21*	**199,572**	178,056	156,681
Tax recoverables		**473**	7,369	7,979
Cash and cash equivalents	*22*	**54,536**	43,305	48,181
		563,971	524,655	460,662
Total assets		**877,388**	853,870	798,325
EQUITY				
Capital and reserves attributable to the owners of the Company				
Share capital	*23*	**75,573**	72,310	71,733
Reserves	*25*	**541,714**	438,855	433,557
Total equity		**617,287**	511,165	505,290

Consolidated Statement of Financial Position

As at 31st December, 2013

	Note	As at 31st December, 2013 HK$'000	As at 31st December, 2012 HK$'000 (Restated)	As at 1st January, 2012 HK$'000 (Restated)
LIABILITIES				
Non-current liabilities				
Deferred tax liabilities	*26*	**246**	1,251	3,201
Loan from ultimate holding company	*27*	**33,766**	70,674	82,669
		34,012	71,925	85,870
Current liabilities				
Trade and other payables and accruals	*28*	**167,077**	185,009	141,468
Tax payables		**32,737**	59,966	58,719
Bank borrowings	*29*	**26,275**	25,805	6,978
		226,089	270,780	207,165
Total liabilities		**260,101**	342,705	293,035
Total equity and liabilities		**877,388**	853,870	798,325
Net current assets		**337,882**	253,875	253,497
Total assets less current liabilities		**651,299**	583,090	591,160

Cheng Yung Pun
Director

Yu Sui Chuen
Director

The notes on pages 56 to 119 are an integral part of these financial statements.

Statement of Financial Position

As at 31st December, 2013

	Note	2013 HK$'000	2012 HK$'000
ASSETS			
Non-current assets			
Interests in subsidiaries	*18*	**155,756**	154,772
Current assets			
Deposits and prepayments	*21*	**262**	249
Amounts due from subsidiaries	*18(b)*	**427,734**	475,744
Cash and cash equivalents	*22*	**16**	18
Total assets		**583,768**	630,783
EQUITY			
Share capital	*23*	**75,573**	72,310
Reserves	*25*	**473,174**	465,623
Total equity		**548,747**	537,933
LIABILITIES			
Non-current liabilities			
Loan from ultimate holding company	*27*	**33,766**	70,674
		582,513	608,607
Current liabilities			
Other payables and accruals	*28*	**1,052**	650
Amounts due to subsidiaries	*18(b)*	**203**	21,526
		1,255	22,176
Total liablilities		**35,021**	92,850
Total equity and liabilities		**583,768**	630,783
Net current assets		**426,757**	453,835
Total assets less current liabilities		**582,513**	608,607

Cheng Yung Pun
Director

Yu Sui Chuen
Director

The notes on pages 56 to 119 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2013

	Attributable to the owners of the Company								
	Share capital HK$'000	**Share premium** HK$'000	**Shareholders' contribution** HK$'000 *(Note 27)*	**Share options reserve** HK$'000	**Asset revaluation reserve** HK$'000	**Other reserves** HK$'000 *(Note 25)*	**Translation reserve** HK$'000	**Retained profits** HK$'000	**Total** HK$'000
Balance at 1st January, 2012, as previously reported	71,733	118,935	22,442	42,073	80,781	820	(42,882)	250,034	543,936
Change in accounting policy *(Note 2.2)*	–	–	–	–	(80,781)	–	–	42,135	(38,646)
Balance at 1st January, 2012, as restated	71,733	118,935	22,442	42,073	–	820	(42,882)	292,169	505,290
Comprehensive income									
Profit for the year	–	–	–	–	–	–	–	30,626	30,626
Other comprehensive income									
Exchange difference arising on translation of foreign operations	–	–	–	–	–	–	2,366	–	2,366
Reclassification of exchange difference on deregistration of foreign operations	–	–	–	–	–	–	(409)	–	(409)
Total other comprehensive income for the year	–	–	–	–	–	–	1,957	–	1,957
Total comprehensive income	–	–	–	–	–	–	1,957	30,626	32,583
Total contributions by and distributions to owners of the company, recognised directly in equity									
Exercise of share options	577	10,366	–	(3,730)	–	–	–	–	7,213
Reduction due to early settlement *(note 27)*	–	–	(818)	–	–	–	–	–	(818)
Dividend *(note 12)*	–	–	–	–	–	–	–	(33,103)	(33,103)
	577	10,366	(818)	(3,730)	–	–	–	(33,103)	(26,708)
Balance at 31st December, 2012	72,310	129,301	21,624	38,343	–	820	(40,925)	289,692	511,165

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2013

	Attributable to the owners of the Company								
	Share capital HK$'000	Share premium HK$'000	Shareholders' contribution HK$'000 *(Note 27)*	Share options reserve HK$'000	Asset revaluation reserve HK$'000	Other reserves HK$'000 *(Note 25)*	Translation reserve HK$'000	Retained profits HK$'000	Total HK$'000
Balance at 1st January, 2013, as previously reported	72,310	129,301	21,624	38,343	81,537	820	(40,925)	243,611	546,621
Change in accounting policy *(Note 2.2)*	–	–	–	–	(81,537)	–	–	46,081	(35,456)
Balance at 1st January, 2013, as restated	72,310	129,301	21,624	38,343	–	820	(40,925)	289,692	511,165
Comprehensive income									
Profit for the year	–	–	–	–	–	–	–	98,046	98,046
Other comprehensive income									
Exchange difference arising on translation of foreign operations	–	–	–	–	–	–	(5,754)	–	(5,754)
Total other comprehensive expense for the year	–	–	–	–	–	–	(5,754)	–	(5,754)
Total comprehensive income	–	–	–	–	–	–	(5,754)	98,046	92,292
Total contributions by and distributions to owners of the company, recognised directly in equity									
Exercise of share options	3,263	58,618	–	(21,094)	–	–	–	–	40,787
Disposal of subsidiaries	–	–	–	–	–	(970)	–	–	(970)
Lapse of share options	–	–	–	(4,503)	–	–	–	4,503	–
Reduction due to early settlement *(Note 27)*	–	–	(1,048)	–	–	–	–	–	(1,048)
Dividend *(Note 12)*	–	–	–	–	–	–	–	(24,939)	(24,939)
	3,263	58,618	(1,048)	(25,597)	–	(970)	–	(20,436)	13,830
Balance at 31st December, 2013	75,573	187,919	20,576	12,746	–	(150)	(46,679)	367,302	617,287

The notes on pages 56 to 119 are an integral part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31st December, 2013

	Note	2013 HK$'000	2012 HK$'000
Cash flows from operating activities			
Net cash generated from operations	*30*	**72,037**	66,380
Income taxes paid		**(3,667)**	(1,343)
Interest paid		**(1,160)**	(793)
Net cash generated from operating activities		**67,210**	64,244
Cash flows from investing activities			
Interest received		**13**	17
Proceeds on disposal of property, plant and equipment		**–**	507
Purchases of property, plant and equipment		**(33,052)**	(41,810)
Prepayments for acquisition of property, plant and equipment		**(95)**	(1,039)
Withdrawal of pledged bank deposit		**–**	2,183
Net cash used in investing activities		**(33,134)**	(40,142)
Cash flows from financing activities			
Dividends paid		**(24,939)**	(37,835)
New bank borrowings raised		**156,881**	72,641
Repayments of bank borrowings		**(156,411)**	(53,814)
Repayments of loan from ultimate holding company	*27*	**(39,163)**	(15,000)
Proceeds from exercise of share options		**40,787**	7,213
Net cash used in financing activities		**(22,845)**	(26,795)
Net increase/(decrease) in cash and cash equivalents		**11,231**	(2,693)
Cash and cash equivalents at 1st January		**43,305**	45,998
Cash and cash equivalents at 31st December		**54,536**	43,305

The notes on pages 56 to 119 are an integral part of these financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2013

1. GENERAL INFORMATION

Matrix Holdings Limited (the "Company') and its subsidiaries (together 'the Group') are principally engaged in the manufacturing and trading of toys and lighting products. The principal activities of the Company are investment holding and those of its principal subsidiaries are set out in Note 34.

The Company is an exempted limited liability company incorporated in Bermuda. The address of its registered office is Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda.

The Company has its primary listing on The Stock Exchange of Hong Kong Limited.

These consolidated financial statements are presented in Hong Kong dollars ("HK$"), unless otherwise stated. These financial statements have been approved for issue by the Board of Directors on 20th March, 2014.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention except that certain financial assets and financial liabilities are carried at fair value, as appropriate.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(a) New standards and amendments to existing standards that are effective for the first time for the financial year beginning 1st January, 2013 and are relevant to the Group's operations.

HKAS 1 (Amendment)	Presentation of items of other comprehensive income
HKAS 19 (2011)	Employee benefits
HKAS 27 (2011)	Separate financial statements
HKFRS 7 (Amendment)	Disclosures – offsetting financial assets and financial liabilities
HKFRS 10	Consolidated financial statements
HKFRS 12	Disclosures of interests in other entities
HKFRS 13	Fair value measurement
Annual improvement project	Annual improvement 2009-2011 cycle

Except as described below, the application of the above new standards and the amendments in current year has had no material effect on the amounts reported or disclosed in the consolidated financial statements.

HKAS 1 (Amendment) Presentation of financial statements

The amendments to HKAS 1 introduce a grouping of items presented in other comprehensive income. 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.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

HKAS 36 Impairment of assets

Amendments to HKAS 36, 'Impairment of assets', on the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of the cash-generating units ("CGUs") which had been included in HKAS 36 by the issue of HKFRS 13. The amendment is not mandatory for the group until 1st January, 2014, however the group has decided to early adopt the amendment as of 1st January, 2013.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(b) New/revised standards and amendments to existing standards have been issued but not yet effective and have not been early adopted by the Group

The following new/revised standards and amendments to existing standards have been issued but not yet effective and have not been early adopted by the Group:

HKAS 32 (Amendment)	Offsetting financial assets and financial liabilities [(1)]
HKFRS10, HKFRS 12 and HKAS 27 Amendment	Consolidation for Investment entities [(1)]
HKAS 19 (Amendment)	Definition of benefit plans [(2)]
HKFRS 7 and HKFRS 9 (Amendments)	Mandatory effective date and transition disclosures [(2)]
Annual improvement project	Annual improvement 2012 [(2)]
Annual improvement project	Annual improvement 2013 [(2)]
HKFRS 9	Financial Instruments [(3)]

(1) Effective for annual period beginning on 1st January, 2014

(2) Effective for annual period beginning on or after 1st July, 2014

(3) Effective date to be determined

The Group intends to adopt the above new/revised standards and amendments to existing standards when they become effective. 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.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Change in accounting policies

In previous years, the Group's leasehold land and buildings and plant and machinery were carried in the consolidated statement of financial position at their revalued amounts less subsequent accumulated depreciation and impairment losses. Taking into consideration of the future business development and to align the Group's accounting policy with industry practice, the directors of the Company are of the view that it is no longer practicable for the Group to continue adopting such accounting policy whereas using the cost model under HKAS 16 would result in the consolidated financial statements providing more relevant and no less reliable information about the Group's results and financial position to the users of the financial statements. Consequently, the Group changed its accounting policy on property, plant and equipment to follow the cost model under HKAS 16 during the year and separately disclosed the leasehold land and land use rights.

This change in accounting policy has been accounted for retrospectively and the comparative figures for the corresponding comparative prior periods have been restated. This change did not result in a significant impact on the Group's consolidated net assets as at 31st December, 2013 and 2012 and the consolidated results, earnings per share (basic and diluted) and cash flows for the years ended 31st December, 2013 and 2012.

The financial impact of the change in accounting policy is summarised below:

Consolidated statement of financial position

	2013 HK$'000	2012 HK$'000	2011 HK$'000
Decrease in property, plant and equipment	**(48,695)**	(53,404)	(57,075)
Increase in leasehold land and land use rights	**14,282**	14,763	15,244
Decrease in deferred taxation liabilities	**(3,185)**	(3,185)	(3,185)
Decrease in revaluation reserve	**(81,537)**	(81,537)	(80,781)
Increase in retained profits	**46,081**	38,808	42,135

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Change in accounting policies (Continued)

Consolidated statement of comprehensive income

	2013	2012
Increase in profit (HK$'000)	**4,228**	7,273
Increase in earning per share (basic and diluted)	**HK1 cent**	HK1 cent

2.3 Consolidation

(a) Subsidiaries

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Consolidation (Continued)

(a) Subsidiaries (Continued)

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement (Note 2.7).

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(b) Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-makers, who are responsible for allocating resources and assessing performance of the operating segments, has been identified collectively as the Executive Directors who make strategic decisions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in HK$.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive income, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated income statement within 'finance income or cost'. All other foreign exchange gains and losses are presented in the consolidated statement of comprehensive income within 'other losses'.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Foreign currency translation (Continued)

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

2.6 Property, plant and equipment

Construction in progress, mainly representing buildings on which construction work has not been completed, is stated at cost, which includes development and construction expenditure, interest and other direct costs incurred during the construction period, less accumulated impairment losses, if any. No depreciation is provided for in respect of construction in progress until the construction and installation is completed. On completion, the construction in progress is transferred to the appropriate categories of property, plant and equipment.

Buildings comprise mainly factories and offices. Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Property, plant and equipment (Continued)

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated statement of comprehensive income during the financial period in which they are incurred.

Property, plant and equipment commence amortisation/depreciation from the time when the assets becomes available for their intended use. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values, where appropriate, over their estimated useful lives, as follows:

Leasehold land and buildings	25 – 50 years or over the lease term, if shorter
Leasehold improvements	10 years or over the lease term, if shorter
Plant and machinery	5 – 10 years
Motor vehicles	3 – 10 years
Moulds	3 – 10 years
Others	3 – 10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.8).

Gains and losses on disposals are determined by comparing net proceeds with carrying amount of the relevant assets and are included in the consolidated statement of comprehensive income.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the net identifiable assets of the acquired business at the date of acquisition. Goodwill on acquisition of business is included in intangible assets.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(b) Customer base

Definite-lived intangible asset including customer base acquired in a business combination, are recognised at its fair value at the acquisition date, and are being amortised over their estimated useful lives using straight-line method. The estimated useful lives of the intangibles are 6 years.

2.8 Impairment of non-financial assets

Assets that have an indefinite useful life – for example, goodwill or intangible assets not ready to use – are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9 Financial assets

The Group classifies its financial assets into loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of the Group's financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group and Company's loans and receivables comprise "trade and other receivables" and "cash and cash equivalents" in the consolidated statement of financial position.

Regular way purchases and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

2.10 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2.11 Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 Impairment of financial assets (Continued)

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan or held– to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

2.12 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in-first-out ("FIFO") method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.13 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables are expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.14 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. In the consolidated and the Company's statement of financial position, bank overdrafts are shown within borrowings in current liabilities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.15 Share capital

Ordinary shares are classified as equity. Incremental costs, net of tax, directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

2.16 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.17 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.18 Borrowings costs

General and specific 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.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.19 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference Group will not reverse in the foreseeable future. Only where there is an agreement in place that gives the group the ability to control the reversal of the temporary difference not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.19 Current and deferred income tax (Continued)

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.20 Employee benefits

(a) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(b) Bonus plans

Provisions for bonus plans due wholly within 12 months after the end of the reporting period are recognised where contractually obliged or where there is a past practice that has created a constructive obligation.

(c) Pension obligations

The Group maintains a number of defined contribution plans in the countries in which it operates. The assets of the retirement benefit are generally held in separate trustees-administered funds or insurance companies. The retirement plans are generally funded by payments from employees and by the Group.

Defined contribution plans

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.20 Employee benefits (Continued)

(d) Share-based compensation

The Group operates a share-based compensation plan, under which the entity receives services from employees as consideration for share options of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted, including any market performance conditions and excluding the impact of any service and nonmarket performance vesting conditions (for example, profitability, sales growth targets and years of service of employees).

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-market performance and service conditions. It recognises the impact of the revision of original estimates, if any, in the consolidated income statement.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(e) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of HKAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.22 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes. The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The group bases its estimates of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(i) Sales of goods are recognised when a Group entity has delivered products to the customer, the customer has accepted the products and collectability of related receivables is reasonably assured.

(ii) Dividend income is recognised when the right to receive payment is established.

(iii) Interest income is recognised on a time-proportion basis using the effective interest method.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.23 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated income statement on a straight-line basis over the period of the lease.

2.24 Dividend distributions

Dividend distributions to the Company's shareholder are recognised as a liability in the consolidated and the Company's statement of financial position in the period in which the dividends are approved by the Company's shareholder or directors, where appropriate.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's major financial instruments include trade and other receivables and prepayment, cash and cash equivalents, trade and other payables and accruals, bank borrowings and loan from ultimate holding company.

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the group's financial performance. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is thus exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the United States dollar ("USD") and Vietnamese Dong ("VND"). Foreign exchange risk arises when future commercial transactions, recognised assets, liabilities and net investment in foreign operations are denominated in a currency that is not the entity's functional currency.

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(i) Foreign exchange risk (Continued)

The Group manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures. 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 arise.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the Group's foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies.

In the opinion of the directors, the HK$ are reasonably stable with the USD under the Linked Exchange Rate System, and accordingly, the Company does not have any significant foreign exchange risk in respect of transactions or balances as denominated in the USD. Accordingly, no sensitivity analysis is performed.

At 31st December, 2013, if VND had strengthened/weakened by 5% against HK$, with all other variables held constant, the post-tax profit for the year would have been approximately HK$5,273,000 (2012: HK$5,541,000) higher/lower mainly as a result of foreign exchange gains/losses on translation of the VND denominated net monetary assets.

(ii) Cash flow and fair value interest rate risk

The Group's cash flow and fair value interest rate risk primarily relates to bank balances and bank borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. Management of the Group monitors the related interest rate risk exposure closely and will consider hedging significant interest rate risk exposure should the need arise.

At 31st December, 2013, if interest rates on borrowings had increased/decreased within 25 basis points with all other variables held constant, the impact on post-tax profit for the year would be HK$66,000 (2012: HK$65,000).

Management considers the fair value interest rate risk related to borrowings is insignificant.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2013

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk

Credit risk mainly arises from trade and other receivables and prepayment and cash and cash equivalents included in the consolidated statement of financial position. 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 Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent. At the date of statement of financial position, the Group has concentration of credit risk as 32.8% (2012: 25.0%) and 40.5% (2012: 38.6%) of the total trade and other receivables was due from the Group's largest customer and the four largest customers respectively.

The maximum exposure to credit risk without taking into account of any collateral held is represented by the carrying amount of each financial asset, in the statement of financial position after deducting any impairment allowance. The Group does not provide any guarantees which would expose the Group to credit risk.

As at 31st December, 2013, all bank balances and bank deposits were held at financial institutions with sound credit rating. Management makes periodic assessments on the recoverability of receivables and deposits, and is of the opinion that adequate provision for receivables with significant credit risk has been made.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents and the availability of funding through an adequate amount of committed credit facilities.

The Group's primary cash requirements have been for additions of and upgrades on property, plant and equipment, payment on related debts and payment for purchases and operating expenses. The Group finances its working capital requirements through a combination of internal resources and bank borrowings, as necessary.

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure it maintains sufficient cash and cash equivalents and has available funding through adequate amount of committed credit facilities to meet its working capital requirements.

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(c) Liquidity risk (Continued)

The table below analyses the Group's and the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	On demand or less than 1 month HK$'000	Between 1 to 3 months HK$'000	Between 4 to 12 months HK$'000	Between 1 to 5 years HK$'000	Total undiscounted cash flow HK$'000
Group					
As at 31st December, 2013					
Trade and other payables and accruals	**114,111**	**52,966**	**–**	**–**	**167,077**
Bank borrowings	**–**	**26,517**	**–**	**–**	**26,517**
Loan from ultimate holding company	**–**	**–**	**–**	**33,791**	**33,791**
	114,111	**79,483**	**–**	**33,791**	**227,385**
As at 31st December, 2012					
Trade and other payables and accruals	116,155	68,854	–	–	185,009
Bank borrowings	–	25,955	–	–	25,955
Loan from ultimate holding company	–	–	–	72,958	72,958
	116,155	94,809	–	72,958	283,922

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2013

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(c) Liquidity risk (Continued)

	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
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Company					
As at 31st December, 2013					
Other payables and accruals	**1,052**	**–**	**–**	**–**	**1,052**
Amounts due to subsidiaries	**203**	**–**	**–**	**–**	**203**
	1,255	**–**	**–**	**–**	**1,255**
As at 31st December, 2012					
Other payables and accruals	650	–	–	–	650
Amounts due to subsidiaries	21,526	–	–	–	21,526
	22,176	–	–	–	22,176

The exposure relating to off-balance sheet item, financial guarantee, is HK$95,000,000 (2012: HK$95,000,000).

3. FINANCIAL RISK MANAGEMENT (Continued)

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions. In order to maintain or adjust the capital structure, the Group may adjust the dividend payments to shareholders, return capital to shareholders, issue of new shares as well as the issue of new debts or the repayment of existing debts.

The Group also monitors capital on the basis of gearing ratio and the compliance of covenants of its borrowings. The gearing ratio is calculated as total debt divided by equity attributable to owners of the Company. Total debt is total borrowings (including bank borrowings and loan from ultimate holding company as shown in the consolidated statement of financial position). Equity attributable to owners of the Company is "total equity", as shown in the consolidated statement of financial position.

The table below analyses the Group's capital structure as at 31st December, 2013 and 2012:

	2013 **HK$'000**	2012 HK$'000 (Restated)
Total borrowings	**60,041**	96,479
Total equity	**617,287**	511,165
Gearing ratio	**9.7%**	18.9%

The Group's strategy is to maintain a solid capital base to support the operations and development of its business in the long term.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2013

3. FINANCIAL RISK MANAGEMENT (Continued)

3.3 Fair value estimation

The carrying amounts of the Group's financial assets, including cash and cash equivalents, trade and other receivables and prepayment, the Group's financial liabilities, including trade and other payables and accruals, bank borrowings and loan from ultimate holding company, approximate their fair values due to their short maturities.

The nominal values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are set out below.

(a) Useful lives, residual values and depreciation of property, plant and equipment

The Group's management determines the estimated useful lives, residual values and related depreciation for the Group's property, plant and equipment with reference to the estimated periods that the Group intends to derive future economic benefits from the use of these assets. Management will revise the depreciation charges where useful lives are different to previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives and actual residual values may differ from estimated residual values. Periodic review could result in a change in depreciable lives and residual values and therefore depreciation expense in future periods.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

(b) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions in response to severe industry cycle. Management reassesses these estimates at each balance sheet date.

(c) Impairment of non-financial assets

The Group tests annually whether goodwill has suffered any impairment (Note 17). Other non-financial assets including property, plant and equipment and other intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts of have been determined based on value-in-use calculations or fair value less costs to sell. These calculations require the use of judgment and estimates.

Management judgment is required in the area of asset impairment particularly in assessing: (i) whether an event has occurred that may indicate that the related asset values may not be recoverable; (ii) whether the carrying value of asset can be supported by the recoverable amount, being the higher of fair value less costs to sell and net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management in assessing impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test and as a result affect the Group's financial condition and results of operations. If there is a significant adverse change in the projected performance and resulting future cash flow projections, it may be necessary to take an impairment charge to the consolidated income statement.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2013

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

(d) Current and deferred income taxes

The Group is subject to income taxes in Hong Kong, Mainland China, the United States, Vietnam and other jurisdictions. Judgment is required in determining the provision for income taxes in each of these jurisdictions. There are transactions and calculations during the ordinary course of business for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such as differences will impact the income tax and deferred income tax provisions in the period in which such determination is made.

Deferred income tax assets relating to temporary differences and tax losses are recognised when management considers it is probable that future taxable profits will be available to utilise against the temporary differences or tax losses. Where the expectations are different from the original estimate, such differences will impact the recognition of deferred income tax assets and liabilities and taxation charges in the period in which such estimates have been changed.

(e) Consolidation of a subsidiary

In October 1999, there was a court judgment in connection with a claim made by a trade creditor. The Group's legal ownership of Matrix Plastic Manufacturing (Zhongshan) Co., Ltd. ("MPMZ"), an indirect wholly owned subsidiary of the Company, may be affected by the court judgment. The Directors of the Company, based on independent legal advice, are of the opinion that the aforesaid judgment will have no material impact on Group's control in MPMZ. Accordingly, MPMZ continues to be treated as an indirectly held subsidiary of the Company and the financial result of MPMZ had been included in the consolidated financial statements.

(f) Adoption of cost model for property, plant and equipment

The Group has changed its accounting policy on property, plant and equipment from revaluation model to cost model under HKAS 16 during the year. In accordance to HKAS 8, the Group shall change an accounting policy only if the change results in providing reliable and more relevant information. Judgment is required in determining what is considered to be more relevant information about the Group's results and financial position to the users of the financial statements. The Group has determined that comparability to industry peers would provide more relevant information and as such the accounting policy has been changed.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2013

5. REVENUE AND SEGMENT INFORMATION

The chief operating decision-makers ("CODM") has been identified as the Executive Directors. Reportable segments are reported in a manner consistent with internal reports of the Group that are regularly reviewed by the CODM in order to assess performance and allocate resources. The CODM assess the performance of the reportable segments based on the profit or loss generated.

There were two main businesses of the Group, including toys and lighting business. CODM did not consider the lighting business as separate segment for the year as it is at early stage of operations and is not material to the Group.

Therefore, 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.

CODM assesses the performance of the operating segments based on segment results. Finance income and costs, corporate income and expenses are not included in the results for each operating segment that is reviewed by the CODM. Other information provided to the CODM is measured in a manner consistent with that in the consolidated financial statements.

Assets of reportable segments exclude property, plant and equipment, intangible assets, deferred income tax assets and corporate assets, all of which are managed on a central basis. Liabilities of reportable segments exclude current and deferred income tax liabilities, short-term borrowings and other corporate liabilities. These are part of the reconciliation to total assets and liabilities of the consolidated statement of financial position.

The revenue from external parties, assets and liabilities, reported to the CODM is measured in a manner consistent with that in the consolidated statement of comprehensive income and financial position.

Segment revenues and results

For the year ended 31st December, 2013

	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 *(Note)* HK$'000	Consolidated HK$'000
TURNOVER								
External sales	858,603	32,553	14,461	47,525	26,427	35,668	18,842	1,034,079
RESULTS								
Segment profit	155,195	5,337	2,271	10,775	3,741	5,691	2,722	185,732
Unallocated income								370
Unallocated expenses								(100,709)
Finance costs								(2,368)
Profit before taxation								83,025

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2013

5. REVENUE AND SEGMENT INFORMATION (Continued)

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 *(Note)* HK$'000	Consolidated HK$'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								(98,486)
Finance costs								(2,980)
Profit before taxation								33,669

Note: All other locations include People's Republic of China (the "PRC") (including Hong Kong), Brazil, Korea, Asia Pacific and others. These locations are considered by the CODM as one operating segment.

Segment profit represents the profit before taxation 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 CODM for the purposes of resource allocation and performance assessment.

Segments assets and liabilities

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

As at 31st December, 2013

	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 *(Note)* HK$'000**	**Consolidated HK$'000**
ASSETS								
Segment assets	**413,157**	**14,711**	**4,948**	**17,392**	**13,229**	**13,696**	**27,144**	**504,277**
Property, plant and equipment								**196,722**
Leasehold land and land use rights								**15,201**
Unallocated and other corporate assets								**161,188**
Total assets								**877,388**
LIABILITIES								
Segment liabilities	**89,456**	**2,871**	**1,328**	**4,192**	**2,331**	**3,161**	**15,755**	**119,094**
Unallocated and other corporate liabilities								**141,007**
Total liabilities								**260,101**

5. REVENUE AND SEGMENT INFORMATION (Continued)

Segments assets and liabilities (Continued)

As at 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
ASSETS								
Segment assets	359,536	25,074	10,620	20,167	7,806	10,647	32,223	466,073
Property, plant and equipment								203,396
Leasehold land and land use rights								15,714
Unallocated and other corporate assets								168,687
Total assets								853,870
LIABILITIES								
Segment liabilities	112,562	5,308	2,611	5,492	1,909	2,466	15,176	145,524
Unallocated and other corporate liabilities								197,181
Total liabilities								342,705

For the purposes of monitoring segment performances and allocating resources between segments, only inventories, trade receivables and certain other receivables are allocated to segment assets, and only trade payables and certain other payables and accruals are allocated to segment liabilities.

Other segment information

No analysis of capital expenditures, depreciation, amortisation of leasehold land and land use rights and amortisation of intangible assets is disclosed for both years as these items are not included in segment assets nor segment results and are not reviewed by the CODM regularly.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2013

5. REVENUE AND SEGMENT INFORMATION (Continued)

Revenue from major products

	2013 HK$'000	2012 HK$'000
Toys	**947,944**	827,181
Lighting products	**86,135**	53,193
	1,034,079	880,374

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:

	2013 HK$'000	2012 HK$'000
Hong Kong	**1,313**	413
Vietnam	**118,246**	113,424
United States	**10,467**	6,145
PRC	**81,873**	100,149
Other countries	**119**	18
	212,018	220,149

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

5. REVENUE AND SEGMENT INFORMATION (Continued)

Information about major customers

For the year ended 31st December, 2013, there are 2 customers (2012: 2 customers) in the United States with revenue contributing to approximately 28.3% and 24.1% (2012: 32.0% and 26.4%) of total sales of the Group. There is no other customer contributing over 10% of total sales of the Group.

6. OTHER INCOME

	2013 **HK$'000**	2012 HK$'000
Interest income on bank deposits	**13**	17
Sales of scrap materials	**357**	3,023
Others	**813**	148
	1,183	3,188

7. OTHER LOSSES

	2013 **HK$'000**	2012 HK$'000
Net exchange losses	**5,110**	3,450

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2013

8. EXPENSES BY NATURE

	2013 HK$'000	2012 HK$'000 (Restated)
Raw materials and consumables used	**363,542**	361,208
Change in inventories of finished goods and work-in-progress	**(13,544)**	(65,485)
Allowance for obsolete inventories	**–**	13,908
Employee benefit expense	**291,018**	276,457
Depreciation of property, plant and equipment	**39,964**	36,910
Amortisation of intangible assets	**5,457**	12,437
Operating lease expenses	**14,213**	13,703
Loss on disposal of property, plant and equipment	**–**	234
Advertising costs	**15,887**	15,426
Auditor's remuneration	**4,000**	3,401
Amortisation of leasehold land and land use rights	**513**	513
Royalty expenses	**43,127**	29,939
Marketing expenses	**23,414**	22,131
Freight charges	**29,269**	26,232
Other expenses	**127,899**	96,449
	944,759	843,463
Representing:		
Cost of sales	**650,021**	578,008
Distribution and selling costs	**157,640**	133,876
Administrative expenses	**120,728**	115,663
Research and development cost	**16,370**	15,916
	944,759	843,463

9. FINANCE COSTS

	2013 HK$'000	2012 HK$'000
Interest on:		
Bank borrowings wholly repayable within five years	**1,161**	793
Imputed interest expense on non-current interest-free loan from ultimate holding company	**1,207**	2,187
	2,368	2,980

10. EMPLOYEE BENEFIT EXPENSE

Employee benefits expense, including directors' emoluments, represents:

	2013 HK$'000	2012 HK$'000
Wages, salaries and bonuses	**277,653**	263,901
Retirement benefits – defined contribution plans	**1,702**	2,576
Staff welfare	**11,663**	9,980
	291,018	276,457

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2013

10. EMPLOYEE BENEFIT EXPENSE (Continued)

(a) Retirement benefits – defined contribution plans

The Group has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme (the "MPF Scheme"), a defined contribution scheme managed by an independent trustee. Under the MPF Scheme, each of the Group and its Hong Kong employees makes monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation. Both the Group's and the employees' contributions are subject to a cap of HK$1,250 per month.

The Group has no further obligations for post-retirement benefits in relation to its Hong Kong employees beyond the contributions to the MPF Scheme.

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.

During the year ended 31st December, 2013, the aggregate amount of the Group's contributions to the aforementioned pension schemes was approximately HK$1,702,000 (2012: HK$2,576,000). As at 31st December, 2013, the Group was not entitled to any forfeited contributions to reduce its future contributions (2012: nil).

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2013

10. EMPLOYEE BENEFIT EXPENSE (Continued)

(b) Directors' and chief executive's emoluments

The remuneration of every director of the Company and chief executive for the year ended 31st December, 2013 is set out below:

	Fees HK$'000	Salaries and allowances HK$'000	Contributions to pension scheme HK$'000	Total HK$'000
Executive Directors				
Cheng Yung Pun	–	1,031	–	1,031
Yu Sui Chuen	–	1,422	58	1,480
Cheng Wing See, Nathalie	–	635	15	650
Arnold Edward Rubin	–	5,058	99	5,157
Tse Kam Wah	–	1,162	15	1,177
Leung Hong Tai	–	1,162	15	1,177
Cheung Kwok Sing *(Note 1)*	–	844	12	856
Tsang Chung Wa	–	929	15	944
Cheng King Cheung *(Note 2)*	–	235	4	239
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 i)	80	–	–	80
Chief Executive				
Chen Wei Qing ("Mr. Chen") (Note ii)	–	1,091	18	1,109
	320	13,569	251	14,140

Notes:

1. Resigned on 10th October, 2013

2. Appointed on 10th October, 2013

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2013

10. EMPLOYEE BENEFIT EXPENSE (Continued)

(b) Directors' and chief executive's emoluments

The remuneration of every director of the Company and chief executive for the year ended 31st December, 2012 is set out below:

	Fees HK$'000	Salaries and allowances HK$'000	Contributions to pension scheme 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 i)*	–	–	–	–
Chief Executive				
Chen Wei Qing ("Mr. Chen") *(Note ii)*	–	974	14	988
	240	12,824	204	13,268

Notes:

i) 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.

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

No director or chief executive waived or agreed to waive any emoluments during the year ended 31st December, 2013.

10. EMPLOYEE BENEFIT EXPENSE (Continued)

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include one (2012: two) director whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining four (2012: three) individuals during the year are as follows:

	2013 HK$'000	2012 HK$'000
Salaries and allowances	**7,806**	5,288
Contributions to retirement benefit schemes and MPF Scheme	**330**	153
	8,136	5,441

Their emoluments are within the following bands:

	Number of Individuals	
	2013	2012
HK$1,500,001 to HK$2,000,000	**3**	2
HK$2,000,001 to HK$2,500,000	**–**	1
HK$2,500,001 to HK$3,000,000	**1**	–
	4	3

For 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.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2013

11. INCOME TAX CREDIT/(EXPENSE)

	2013 HK$'000	2012 HK$'000 (Restated)
Current tax:		
– Hong Kong	**(625)**	(192)
– Other jurisdictions	**(1,330)**	(2,999)
Over/(under) provision in prior years *(Note iv)*		
– Hong Kong	**18,017**	12
– Other jurisdictions	**201**	(30)
Deferred tax *(Note 26)*	**(1,242)**	166
	15,021	(3,043)

(i) Hong Kong profits tax has been provided for at the rate of 16.5% (2012: 16.5%) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

(ii) Pursuant to the relevant Vietnam enterprise income tax rules and regulations, enterprise income tax incentives granted to certain subsidiaries of the Company have been terminated since the year ended 31st December, 2012. The applicable tax rates for subsidiaries operate in Vietnam range from 7.5% to 25% for the year (2012: 7.5% to 25%).

(iii) The applicable US enterprise income tax rate for subsidiaries operate in the United States of America is 34% since the date of operation.

11. INCOME TAX CREDIT/(EXPENSE) (Continued)

(iv) In prior years, the tax position of certain subsidiaries of the Group was under audit by the Hong Kong Inland Revenue Department ("IRD"). Additional tax assessments on certain subsidiaries were issued by the 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 in prior years. The Company submitted a settlement proposal to the IRD in 2011. After several meetings and discussions with the IRD, the settlement proposal was accepted by the IRD. During the year, the IRD issued final tax assessments to the above-mentioned subsidiaries and agreed to settle the outstanding tax payable by installments, a reversal of tax provision approximately HK$18,000,000 has been made in the consolidated profit or loss for the year ended 31st December, 2013.

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

	2013 HK$'000	2012 HK$'000 (Restated)
Profit before taxation	**83,025**	33,669
Tax calculated at the applicable domestic tax rate of respective companies *(Note)*	**(6,369)**	(3,683)
Tax effects of:		
– Expenses not deductible for tax purpose	**(19,850)**	(12,725)
– Income not taxable for tax purpose	**41**	104
– Profit which are exempted from tax or under tax concessions	**18,997**	12,027
– Utilisation of previously unrecognised tax losses	**5,137**	3,259
– Tax losses for which no deferred income tax assets was recognised	**(1,030)**	(1,907)
Over/(under) provision in prior years *(Note (iv))*	**18,218**	(18)
Others	**(123)**	(100)
	15,021	(3,043)

Note: The weighted average applicable tax rate was 7.7% (2012: 10.9%). The fluctuation in the weighted average applicable tax rate arose mainly because of the change in the relative profitability of the companies within the Group.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2013

12. DIVIDENDS

The dividends paid in 2013 and 2012 were HK$24,939,000 (HK3.3 cents per share) and HK$33,103,000 (HK4.6 cents per share) respectively. A dividend in respect of the year ended 31st December, 2013 of HK5 cents (2012: HK1.3 cents) per share, amounting to approximately HK$37,791,000 (2012: HK$9,824,000), is to be proposed at the forthcoming annual general meeting. These financial statements do not reflect this dividend payable as the final dividend was proposed after the date of settlement of financial position and will be accounted for in equity as an appropriation of retained profits in the year ending 31st December, 2014 when approved at the forthcoming Annual General Meeting.

	2013 **HK$'000**	2012 HK$'000
Interim dividend paid of HK2 cents (2012: HK1.1 cents) per ordinary share	**15,115**	7,915
Final dividend proposed of HK5 cents (2012: HK1.3 cents) per ordinary share	**37,791**	9,824
	52,906	17,739

13. EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to the owners of the Company by the weighted average number of ordinary shares in issue during the year.

	2013	2012 (Restated)
Profit for the year attributable to owners of the Company *(HK$'000)*	**98,046**	30,626
Weighted average number of ordinary shares in issue *(thousands)*	**750,760**	719,497
Basic earnings per share *(HK cents)*	**13**	4

13. EARNINGS PER SHARE (Continued)

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares (i.e. share options). A calculation is made in order to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2013	2012 (Restated)
Profit for the year attributable to the owners of the Company *(HK$'000)*	**98,046**	30,626
Weighted average number of ordinary shares for the purpose of basic earnings per share *(thousands)*	**750,760**	719,497
Effect of dilutive potential ordinary shares:		
Share options *(thousands)*	**2,734**	13,477
Weighted average number of ordinary shares for diluted earnings per share *(thousands)*	**753,494**	732,974
Diluted earnings per share *(HK cents)*	**13**	4

14. (LOSS)/PROFIT ATTRIBUTABLE TO THE OWNERS OF THE COMPANY

The loss attributable to the owners of the Company is dealt with in the financial statements of the Company to the extent of HK$3,986,000 in 2013 (2012: profit of HK$20,712,000).

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2013

15. PROPERTY, PLANT AND EQUIPMENT – GROUP

	Buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Moulds HK$'000	Others HK$'000	Construction in progress HK$'000	Total HK$'000
At 1st January, 2013							
Cost, as restated	135,597	30,670	147,094	90,448	21,290	–	425,099
Accumulated depreciation and impairment, as restated	(32,674)	(16,765)	(96,822)	(57,595)	(17,847)	–	(221,703)
Net book amount, as restated	102,923	13,905	50,272	32,853	3,443	–	203,396
Year ended 31st December, 2013							
Opening net book amount, as previously reported	155,329	13,905	51,270	32,853	3,443	–	256,800
Change in accounting policy *(Note 2.2)*	(52,406)	–	(998)	–	–	–	(53,404)
Opening net book amount, as restated	102,923	13,905	50,272	32,853	3,443	–	203,396
Exchange adjustments	(1,303)	4	451	–	47	–	(801)
Additions	943	2,816	5,156	18,227	6,949	–	34,091
Disposals	–	–	–	–	–	–	–
Depreciation	(4,859)	(3,365)	(15,825)	(13,180)	(2,735)	–	(39,964)
Transfer	–	–	–	–	–	–	–
Closing net book account	97,704	13,360	40,054	37,900	7,704	–	196,722
At 31st December, 2013							
Cost	134,972	33,495	150,114	108,675	28,297	–	455,553
Accumulated depreciation and impairment	(37,268)	(20,135)	(110,060)	(70,775)	(20,593)	–	(258,831)
Net book amount	97,704	13,360	40,054	37,900	7,704	–	196,722
At 1st January, 2012							
Cost, as restated	124,708	33,004	138,287	86,147	20,983	2,764	405,893
Accumulated depreciation and impairment, as restated	(29,174)	(18,044)	(81,329)	(63,626)	(17,515)	–	(209,688)
Net book amount, as restated	95,534	14,960	56,958	22,521	3,468	2,764	196,205

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2013

15. PROPERTY, PLANT AND EQUIPMENT – GROUP (Continued)

	Buildings HK$'000	Leasehold improve-ments HK$'000	Plant and machinery HK$'000	Moulds HK$'000	Others HK$'000	Construction in progress HK$'000	Total HK$'000
Year ended 31st December, 2012							
Opening net book amount, as previously reported	147,673	14,960	61,894	22,521	3,468	2,764	253,280
Change in accounting policy *(Note 2.2)*	(52,139)	–	(4,936)	–	–	–	(57,075)
Opening net book amount, as restated	95,534	14,960	56,958	22,521	3,468	2,764	196,205
Exchange adjustments	552	–	474	–	25	33	1,084
Additions	4,558	786	10,939	21,149	3,353	2,973	43,758
Disposals	–	–	(638)	(56)	(16)	(31)	(741)
Depreciation	(3,407)	(1,894)	(17,461)	(10,761)	(3,387)	–	(36,910)
Transfer	5,686	53	–	–	–	(5,739)	–
Closing net book account, as restated	102,923	13,905	50,272	32,853	3,443	–	203,396
At 31st December, 2012							
Cost, as restated	135,597	30,670	147,094	90,448	21,290	–	425,099
Accumulated depreciation and impairment, as restated	(32,674)	(16,765)	(96,822)	(57,595)	(17,847)	–	(221,703)
Net book amount, as restated	102,923	13,905	50,272	32,853	3,443	–	203,396

Depreciation expense is analysed as follows:

	2013 HK$'000	2012 HK$'000 (Restated)
Cost of sales	**35,355**	33,497
Distribution and selling costs	**110**	–
Administrative expenses	**4,499**	3,413
	39,964	36,910

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2013

15. PROPERTY, PLANT AND EQUIPMENT – GROUP (Continued)

As at 31st December, 2013, buildings of approximately HK$31,412,000 (2012: HK$32,465,000) together with leasehold land and land use rights disclosed in Note 16 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 (2012: same).

16. LEASEHOLD LAND AND LAND USE RIGHTS – GROUP

The Group's interests in leasehold land and land use rights are analysed as follows:

	2013 HK$'000	2012 HK$'000 (Restated)
At 1st January	**15,714**	16,227
Amortisation	**(513)**	(513)
At 31st December	**15,201**	15,714

As at 31st December, 2013 and 2012, all of the above leasehold land and land use rights of the Group are outside Hong Kong and held on leases of between 10 and 50 years.

Leasehold land and land use rights of approximately HK$14,281,000 (2012: HK$14,763,000) 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 (Note 15).

17. INTANGIBLE ASSETS – GROUP

	Goodwill HK$'000	Customer base HK$'000	Total HK$'000
Cost			
At 1st January, 2012, 31st December, 2012 and 2013	96,822	74,620	171,442
Accumulated amortisation and impairment			
At 1st January, 2012	–	56,726	56,726
Charge for the year	–	12,437	12,437
At 31st December, 2012	–	69,163	69,163
Charge for the year	–	5,457	5,457
At 31st December, 2013	–	74,620	74,620
Carrying amount			
At 31st December, 2013	96,822	–	96,822
At 31st December, 2012	96,822	5,457	102,279

Customer base of the Group was acquired as part of a business combination in 2007. The intangible asset has finite useful life. Customer base is amortised on a straight-line basis over 6 years.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2013

17. INTANGIBLE ASSETS – GROUP (Continued)

Impairment tests for goodwill

Goodwill is allocated to the Group's cash-generating unit ("CGU") in the manufacture and trading of toys in the United States market. The Group performs impairment tests on goodwill annually, or more frequently if there is any indication that it may be impaired, by comparing the recoverable amount to the carrying amount as at the date of statement of financial position.

The recoverable amount of the CGU has been determined based on a value in use calculation. The calculation used cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using a zero percent growth rate. Management determined budgeted gross margin based on past performance and its expectations of the market development. The pre-tax discount rate applied to the cash flow projection is 15.7% (2012: 12.9%) and it reflects specific risks relating to the relevant operating unit. The sales growth rate applied to cash flow projection is ranging from 5% to 10% (2012: 3% to 14%). Based on the value in the calculation, there is no impairment loss on goodwill for the year ended 31st December, 2013 (2012: same).

Management believes that any reasonably foreseeable change in any of the above key assumptions would not cause the carrying amount of goodwill to exceed the recoverable amount significantly.

18. INTERESTS IN SUBSIDIARIES AND AMOUNT DUE FROM AND TO SUBSIDIARIES – COMPANY

	2013 HK$'000	2012 HK$'000
Unlisted investments, at cost	**88,090**	88,090
Less: impairment	**(88,089)**	(88,089)
	1	1
Amounts due from subsidiaries *(Note a)*	**155,755**	154,771
Interests in subsidiaries	**155,756**	154,772

Notes:

(a) These balances are unsecured, interest-free and not expected to be repayable and considered as part of net investment.

(b) Amounts due from/(to) subsidiaries are unsecured, interest-free and repayable on demand.

(c) Particulars of the principal subsidiaries of the Company are set out in Note 34.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2013

19. INVENTORIES – GROUP

	2013 HK$'000	2012 HK$'000
Raw materials	**102,327**	102,406
Work in progress	**55,154**	45,303
Finished goods	**151,909**	148,216
	309,390	295,925

The cost of inventories recognised as expense and included in "cost of sales" amounted to HK$650,021,000 (2012: HK$578,008,000).

20. FINANCIAL INSTRUMENTS BY CATEGORY

(a) Group

	2013 HK$'000	2012 HK$'000
Financial assets – loan and receivables		
Trade and other receivables	**194,993**	164,934
Cash and cash equivalents	**54,536**	43,305
	249,529	208,239
Financial liabilities – other financial liabilities at amortised cost		
Trade and other payables	**167,077**	185,009
Bank borrowings	**26,275**	25,805
Loan from ultimate holding company	**33,766**	70,674
	227,118	281,488

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2013

20. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

(b) Company

	2013 HK$'000	2012 HK$'000
Financial assets – loan and receivables		
Amounts due from subsidiaries	427,734	475,744
Cash and cash equivalents	16	18
	427,750	475,762

	2013 HK$'000	2012 HK$'000
Financial liabilities – other financial liabilities at amortised cost		
Other payables	1,052	650
Amounts due to subsidiaries	203	21,526
Loan from ultimate holding company	33,766	70,674
	35,021	92,850

21. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	Group		Company	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade receivables	**176,982**	154,111	**–**	–
Less: Allowance for doubtful debts	**(4,346)**	(4,834)	**–**	–
	172,636	149,277	**–**	–
Prepayments	**4,579**	13,122	**262**	249
Deposits and other receivables	**22,452**	16,696	**–**	–
	199,667	179,095	**262**	249
Less: non-current portion: Prepayments	**(95)**	(1,039)	**–**	–
Current portion	**199,572**	178,056	**262**	249

The carrying amounts of trade and other receivables and prepayments approximate their fair values.

The Group allows a credit period of 14 to 90 days to its trade customers. An ageing analysis of trade receivables is as follows:

	2013	2012
	HK$'000	HK$'000
0 – 60 days	**142,565**	141,115
61 – 90 days	**23,692**	7,382
More than 90 days	**6,379**	780
	172,636	149,277

As of 31st December, 2013, trade receivables of HK$140,685,000 (2012: HK$134,370,000) were fully performing.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2013

21. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS (Continued)

As of 31st December, 2013, trade receivables of HK$27,605,000 (2012: HK$10,073,000) were past due but not impaired. These relate to a number of independent customers for whom there is no significant financial difficulty and based on past experience, the overdue amounts can be recovered. The aging analysis of these trade receivables is as follows:

	2013 HK$'000	2012 HK$'000
0 – 60 days	**25,743**	10,016
61 – 90 days	**1,433**	31
More than 90 days	**429**	26
	27,605	10,073

As of 31st December, 2013, trade receivables of HK$4,346,000 (2012: HK$4,834,000) were impaired. The amount of the provision was HK$4,346,000 as of 31st December, 2013 (2012: HK$4,834,000). The ageing of these receivables is more than 90 days. The individually impaired trade receivables have either been placed under liquidation or in severe financial difficulties.

The carrying amounts of the Group's trade and other receivables and prepayments are denominated in the following currencies:

	2013 HK$'000	2012 HK$'000
HK$	**9,897**	3,861
US$	**176,697**	151,047
Other currencies	**13,073**	24,187
	199,667	179,095

21. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS (Continued)

Movement in the Group's provision for impairment of trade receivables are as follows:

	2013 **HK$'000**	2012 HK$'000
At 1st January	**4,834**	4,834
Amounts written off as uncollectible	**(644)**	–
Allowance for trade receivables	**156**	–
At 31st December	**4,346**	4,834

The other classes within trade and other receivables and prepayments do not contain impaired assets. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Group does not hold any collateral as security.

22. CASH AND CASH EQUIVALENTS

	Group		**Company**	
	2013 **HK$'000**	2012 HK$'000	**2013** **HK$'000**	2012 HK$'000
Cash at bank and on hand	**54,536**	43,305	**16**	18
Denominated in:				
HK$	**3,424**	4,162	**16**	18
US$	**47,512**	36,789	**–**	–
Other currencies	**3,600**	2,354	**–**	–
	54,536	43,305	**16**	18

Cash at banks earns interest at floating rates based on daily bank deposit rates.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2013

23. SHARE CAPITAL

	Number of shares (thousands)	Ordinary shares HK$'000
At 1st January, 2012	717,327	71,733
Employee share option scheme:		
– Proceeds from share issued	5,770	577
At 31st December, 2012	723,097	72,310
Employee share option scheme:		
– Proceeds from share issued	32,630	3,263
At 31st December, 2013	755,727	75,573

The total authorised number of ordinary shares is 1,000 million shares (2012: 1,000 million shares) with a par value of HK$0.1 per share (2012: HK$0.1 per share). All issued shares are fully paid.

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

During the year ended 31st December, 2013, the Company issued and allotted a total of 32,630,000 ordinary shares (2012: 5,770,000 ordinary shares) at the exercise price of HK$1.25 each (2012: 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. The total net proceeds were HK$40,787,000 (2012: HK$7,213,000).

24. EQUITY SETTLED SHARE-BASED PAYMENT TRANSACTIONS

Pursuant to the Company's share option scheme (the "Scheme"), the Company may grant options to eligible persons including executives or officers, directors of the Group, full time employees, 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.

24. EQUITY SETTLED SHARE-BASED PAYMENT TRANSACTIONS (Continued)

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

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.

Movements in the number of share options outstanding and their weighted average exercise prices are as follows:

	2013		2012	
	Average exercise price in HK$ per share option	**Options (thousands)**	Average exercise price in HK$ per share option	Options (thousands)
At 1st January	**1.37**	**54,130**	1.36	59,900
Exercised	**1.25**	**(32,630)**	1.25	(5,770)
Expired	**1.28**	**(6,800)**	–	–
At 31st December	**1.69**	**14,700**	1.37	54,130

As at 31st December, 2013 and 2012, all of the share options outstanding were exercisable. Options exercised in 2013 resulted in 32,630,000 shares (2012: 5,770,000 shares) being issued at a weighted average price of HK$1.25 each (2012: HK$1.25 each). The related weighted average share price at the dates of exercise was HK$1.66 (2012: HK$1.78) per share.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2013

24. EQUITY SETTLED SHARE-BASED PAYMENT TRANSACTIONS (Continued)

Details of the share options outstanding at the end of the year are as follows:

Option Type	Date of grant	Vesting period	Exercise period	Exercise price in HK$ per share option	Options (thousands)	
					2013	2012
2009a	1st December, 2009	3 months	1st March, 2010 to 1st March, 2013	HK$1.250	–	38,230
2009b	15th December, 2009	3 months	15th March, 2010 to 15th March, 2013	HK$1.448	–	1,200
2011a	21st April, 2011	3 months	20th July, 2011 to 20th July, 2014	HK$1.692	**14,700**	14,700
					14,700	54,130

As at 31st December, 2013, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 14,700,000 (2012: 54,130,000), representing 1.9% (2012: 7.5%) of the shares of the Company in issue at that date.

There was no option granted during the year ended 31st December, 2013 and 2012.

25. RESERVES – GROUP AND COMPANY

(a) Group

(i) Movements in the reserves of the Group are set out in the consolidated statement of changes in equity.

(ii) Other reserves mainly comprise statutory reserve in PRC and Macao legal reserve.

(iii) The shareholders' contribution represented the deemed contribution arising from the loan from ultimate holding company which is non-current and interest-free. The details of loan from ultimate holding company are set out in Note 27.

25. RESERVES – GROUP AND COMPANY (Continued)

(b) Company

	Share capital HK$'000	Share premium HK$'000	Shareholders' contribution HK$'000 *(Note (a) (iii))*	Contributed surplus HK$'000	Share Option reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1st January, 2012	71,733	118,935	21,103	3,661	42,073	286,424	543,929
Profit and total comprehensive income for the year	–	–	–	–	–	20,712	20,712
Exercise of share options	577	10,366	–	–	(3,730)	–	7,213
Release of deemed contribution from ultimate holding company *(Note 27)*	–	–	(818)	–	–	–	(818)
Dividends *(Note 12)*	–	–	–	–	–	(33,103)	(33,103)
At 31st December, 2012	72,310	129,301	20,285	3,661	38,343	274,033	537,933
Loss and total comprehensive expense for the year	–	–	–	–	–	(3,986)	(3,986)
Exercise of share options	3,263	58,618	–	–	(21,094)	–	40,787
Lapse of share options	–	–	–	–	(4,503)	4,503	–
Release of deemed contribution from ultimate holding company *(Note 27)*	–	–	(1,048)	–	–	–	(1,048)
Dividends *(Note 12)*	–	–	–	–	–	(24,939)	(24,939)
At 31st December, 2013	75,573	187,919	19,237	3,661	12,746	249,611	548,747

26. DEFERRED INCOME TAX – GROUP

Deferred income tax is calculated in full on temporary differences under the liability method using the applicable tax rates.

The following amounts, determined after appropriate offsetting, are shown in the consolidated statement of financial position:

	Group	
	2013 HK$'000	2012 HK$'000 (Restated)
Deferred tax liabilities	**246**	1,251
Deferred tax assets	**(4,577)**	(6,787)
	(4,331)	(5,536)

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2013

26. DEFERRED INCOME TAX – GROUP (Continued)

The movement in net deferred income tax (assets)/liabilities is as follows:

	Group					
	Temporary difference on 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, 2012, as previously reported	(1,399)	3,185	2,964	(4,307)	(2,624)	(2,181)
Change in accounting policy *(Note 2.2)*	–	(3,185)	–	–	–	(3,185)
At 1st January, 2012, as restated	(1,399)	–	2,964	(4,307)	(2,624)	(5,366)
(Credit)/debit to profit or loss	54	–	(2,052)	2,005	(173)	(166)
Exchange difference	–	–	–	–	(4)	(4)
At 31st December, 2012	(1,345)	–	912	(2,302)	(2,801)	(5,536)
At 1st January, 2013, as previously reported	(1,345)	3,185	912	(2,302)	(2,801)	(2,351)
Change in accounting policy *(Note 2.2)*	–	(3,185)	–	–	–	(3,185)
At 1st January, 2013, as restated	(1,345)	–	912	(2,302)	(2,801)	(5,536)
(Credit)/debit to profit or loss	803	–	(912)	1,958	(607)	1,242
Exchange difference	–	–	–	–	(37)	(37)
At 31st December, 2013	(542)	–	–	(344)	(3,445)	(4,331)

Note: The amount mainly represents the temporary differences arising from the different bases in reporting expenses with tax authorities in the subsidiaries operating in the United States and Vietnam.

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. As at 31st December, 2013, the Group had unrecognised tax losses of approximately HK$23,000,000 (2012: HK$18,800,000) to be carried forward against future taxable income. The tax losses may be carried forward indefinitely.

27. LOAN FROM ULTIMATE HOLDING COMPANY

The amount is unsecured and interest-free. As at 31st December, 2013, the ultimate holding company agreed the amount of HK$33,766,000 (2012: HK$70,674,000) repayable by 31st January, 2015 (2012: 31st January, 2014).

For the year ended 31st December, 2013, the group early settled the loan from ultimate holding company to the extent of HK$39,163,000 (2012: HK$15,000,000). The difference between the principal amount repaid and its corresponding carrying amount at the date of settlement, amounting to approximately HK$1,048,000 (2012: HK$818,000) was debited to equity (Note 25(b)).

28. TRADE AND OTHER PAYABLES AND ACCRUALS

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

	Group		Company	
	2013 HK$'000	2012 HK$'000	**2013 HK$'000**	2012 HK$'000
Trade payables	**91,213**	123,362	**–**	–
Other payables and accruals	**75,864**	61,647	**1,052**	650
	167,077	185,009	**1,052**	650

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

	Group		Company	
	2013 HK$'000	2012 HK$'000	**2013 HK$'000**	2012 HK$'000
0 – 60 days	**58,255**	54,508	**–**	–
61 – 90 days	**14,065**	50,227	**–**	–
More than 90 days	**18,893**	18,627	**–**	–
	91,213	123,362	**–**	–

The carrying amounts of trade and other payables and accruals approximate their fair values.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2013

28. TRADE AND OTHER PAYABLES AND ACCRUALS (Continued)

The carrying amounts of the trade and other payables and accruals are denominated in the following currencies:

	Group		Company	
	2013 HK$'000	2012 HK$'000	**2013 HK$'000**	2012 HK$'000
HK$	**59,582**	86,838	**1,052**	650
US$	**46,299**	28,766	**–**	–
Other currencies	**61,196**	69,405	**–**	–
	167,077	185,009	**1,052**	650

29. BANK BORROWINGS – GROUP

	2013 HK$'000	2012 HK$'000
Unsecured	**23,935**	22,685
Secured	**2,340**	3,120
	26,275	25,805

At 31st December, 2013 and 2012, the Group's bank borrowings were denominated in US$ and HK$ and repayable within one year. The carrying value of the bank borrowings approximated its fair value (2012: same).

As at 31st December, 2013, the effective interest rate of the bank borrowings was 5.5% (2012: 5.3%) per annum.

As at 31st December, 2013, 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$216,002,000 (2012: HK$144,000,000) to a bank for banking facilities with credit limit of HK$31,200,000 (2012: HK$31,200,000) granted to it.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2013

30. CONSOLIDATED STATEMENT OF CASH FLOWS

	2013 HK$'000	2012 HK$'000 (Restated)
Profit before taxation	**83,025**	33,669
Adjustments for:		
Loss on disposal of property, plant and equipment	**–**	234
Interest income	**(13)**	(17)
Interest expenses	**2,368**	2,980
Depreciation of property, plant and equipment	**39,964**	36,910
Amortisation of intangible assets	**5,457**	12,437
Amortisation of leasehold land and land use rights	**513**	513
Allowance for obsolete inventories	**–**	13,908
Allowance for trade receivables	**156**	–
Gain on disposal of subsidiaries	**(970)**	–
	130,500	100,634
Changes in working capital		
Increase in inventories	**(16,650)**	(58,854)
Increase in trade and other receivables and prepayment	**(21,758)**	(21,375)
(Decrease)/increase in trade and other payables and accruals	**(20,055)**	45,975
Net cash generated from operations	**72,037**	66,380

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2013

31. CAPITAL COMMITMENTS

At the end of the reporting period, the Group had the following capital commitment:

	2013 HK$'000	2012 HK$'000
Capital expenditure in respect of the acquisition of property, plant and equipment:		
Contracted but not provided for	–	–
Authorised but not contracted for	224	904

As at 31st December, 2013, the Company had no capital commitment (2012: same)

32. OPERATING LEASE COMMITMENTS

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:

	2013 HK$'000	2012 HK$'000
No later than 1 year	16,786	14,254
Later than 1 year and no later than 5 years	35,854	15,307
Later than 5 years	21,102	18,075
	73,742	47,636

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.

As at 31st December, 2013, the Group and the Company had no material contingent liabilities.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2013

33. RELATED PARTY TRANSACTIONS

The group is controlled by Smart Forest Limited (incorporated in the British Virgin Islands ("BVI")), which owns 69.73% of the company's shares. The remaining 30.27% of the shares are widely held. The ultimate parent of the group is Smart Forest Limited (incorporated in the British Virgin Islands ("BVI")). The ultimate controlling party of the group is Mr Cheng Yung Pun.

During the year, the Group disposed of the entire interest in an indirectly wholly-owned subsidiary, to a director of a subsidiary with nil consideration. There was no gain or loss on such disposal as the Group.

In addition to the transactions and balances disclosed elsewhere in these financial statements, there were no related party transactions that the Group entered during the year.

Key management compensation

	2013 **HK$'000**	2012 HK$'000
Salaries and other short-term employee benefits	**13,569**	12,824
Post-employment benefits	**251**	204
	13,820	13,028

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2013

34. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the principal subsidiaries at 31st December, 2013 and 2012 are as follows:

Name of subsidiary	Place of incorporation/ operation	Particulars of issued/ paid-in capital	Interest held		Principal activities
			2013 indirect	2012 indirect	
Funrise Distribution Company	The United States	US$1,000 common shares	**100%**	100%	Wholesale distribution and importation of toy and sales of accessories connected with its product ranges
Funrise, Inc.	The United States	US$7,500 common shares	**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 shares HK$90,000 ordinary shares HK$10,000 redeemable shares	**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 Vietnam Company Limited	Vietnam	US$5,951,000 contributed legal capital	**100%**	100%	Manufacture of toys
Keyhinge Toys Vietnam Joint Stock Company	Vietnam	US$10,261,000 contributed legal capital	**100%**	100%	Manufacture of toys and lighting products
Associated Manufacturing Vietnam Company Limited	Vietnam	US$10,000,000 issued US$9,008,000 fully paid contributed legal capital	**100%**	100%	Manufacture of toys

34. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ operation	Particulars of issued/ paid-in capital	Interest held		Principal activities
			2013 indirect	2012 indirect	
Matrix Vinh Company Limited	Vietnam	US$4,849,000 contributed legal capital	100%	100%	Manufacture of toys
Matrix Resources Enterprise Limited	Hong Kong	HK$10,000 ordinary shares	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
Matrix Lighting Limited	British Virgin Islands	US$10 ordinary shares	100%	100%	Trading of lighting products
Viribright Lighting Inc.	The United States	US$10,000 shares	100%	100%	Trading of lighting products

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.

Financial Summary

	Year ended 31st December,				
	2009 HK$'000 (Restated)	2010 HK$'000 (Restated)	2011 HK$'000 (Restated)	2012 HK$'000 (Restated)	**2013** **HK$'000**
RESULTS					
Turnover	977,741	880,473	882,331	880,374	**1,034,079**
Profit before taxation	75,987	59,434	56,288	33,669	**83,025**
Income tax credit/(expense)	6,040	8,662	(300)	(3,043)	**15,021**
Profit for the year	82,027	68,096	55,988	30,626	**98,046**
Attributable to:					
The owners of the Company	82,027	68,096	55,988	30,626	**98,046**
Non-controlling interests	–	–	–	–	**–**
	82,027	68,096	55,988	30,626	**98,046**
	HK$	HK$	HK$	HK$	**HK$**
Earnings per share					
Basic	0.12	0.10	0.08	0.04	**0.13**
Diluted	N/A	0.10	0.08	0.04	**0.13**

	2009 HK$'000 (Restated)	2010 HK$'000 (Restated)	2011 HK$'000 (Restated)	2012 HK$'000 (Restated)	**2013** **HK$'000**
Total assets	821,133	785,827	798,325	853,870	**877,388**
Total liabilities	(360,441)	(303,105)	(293,035)	(342,705)	**(260,101)**
	460,692	482,722	505,290	511,165	**617,287**
Equity attributable to the owners of the Company	460,692	482,722	505,290	511,165	**617,287**

Note: The restatement in 2009, 2010 and 2011 is based on the management's estimation for the impact of the adoption of cost model of property, plant and equipment.

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