

# Notes to the Financial Statements

For the year ended 31st December, 2004

## 1. GENERAL

The Company was incorporated in Bermuda on 24th November, 1993 as an exempted company under the Companies Act 1981 of Bermuda (as amended). The Company is a public limited company and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate holding company is Suncorp Investments Group Limited ("Suncorp"), a company incorporated in the British Virgin Islands.

The principal activities of the Company are investment holding and those of its principal subsidiaries are set out in note 17.

## 2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

In October 1999, there was a court judgment regarding the ownership of Matrix Plastic Manufacturing (Zhongshan) Co., Ltd. ("MPMZ"), an indirect wholly-owned major subsidiary of the Company, in connection with a claim made by a trade creditor, which had subsequently been settled. The Company has made an application for a judicial review of the judgment regarding the ownership of MPMZ. In 2002, the Company received an acknowledgement from Zhongshan Intermediate People's Court that Guangdong High People's Court has transferred the Company's application to Zhongshan Intermediate People's Court for processing. The directors have sought independent legal advice and are of the opinion that the aforesaid judgment can be overruled and will have no material impact on the financial position and operations of the Group. Accordingly, MPMZ is still treated as an indirect subsidiary of the Company.

## 3. ADOPTION OF NEW HONG KONG FINANCIAL REPORTING STANDARDS

The Hong Kong Institute of Certified Public Accountants (the "HKICPA") issued a number of new or revised Hong Kong Financial Reporting Standard ("HKFRS") and Hong Kong Accounting Standards ("HKAS") (hereinafter collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1st January, 2005. In the current year, the Group resolved to early adopt the following new HKFRSs:

HKFRS 3	Business Combinations
HKAS 36	Impairment of Assets

The adoption of HKFRS 3 and HKAS 36 has resulted in the Group ceasing annual amortisation of goodwill and to test for goodwill annually at the cash generating unit.

The early adoption of HKFRS 3 and HKAS 36 has had no material effect on the results for prior accounting periods. Accordingly, no prior year adjustment has been required. However, as a result of the adoption of HKFRS 3 and HKAS 36, the profit of the Group for the current year has been increased by approximately HK\$40,000.

# Notes to the Financial Statements

For the year ended 31st December, 2004

## 4. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the HKICPA issued a number of new HKFRSs which are effective for accounting periods beginning on or after 1st January, 2005. Except for early adoption of HKFRS 3 and HKAS 36 as mentioned in note 3, the Group has not early adopted the remaining new HKFRSs in the financial statements for the year ended 31st December, 2004.

In relation to those new HKFRSs that have not been early adopted by the Group (other than HKFRS 3 and HKAS 36 as mentioned in note 3), the Group has commenced considering these remaining new HKFRSs but is not yet in a position to determine whether these HKFRSs would have a significant impact on how the results of operations and financial position of the Group are prepared and presented. These remaining HKFRSs may result in changes in the future as to how the results and financial positions are prepared and presented.

## 5. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of certain property, plant and equipment and investments in securities.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year.

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

### Goodwill

Goodwill arising on acquisitions on or after 1st January, 2004 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of a subsidiary at the date of acquisition. Goodwill is carried at cost less accumulated impairment losses.

Goodwill is tested annually for impairment, and whenever there is an indication that the cash generating unit to which the goodwill is allocated may be impaired. An impairment loss is determined by comparing the carrying amount of the cash generating unit, including the goodwill, with the recoverable amount of the cash generating unit. Where the recoverable amount of the cash generating unit is less than the carrying amount, an impairment loss is recognised in the income statement. Where goodwill forms part of a cash generating unit and part of the operation within that unit are disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

# Notes to the Financial Statements

For the year ended 31st December, 2004

## 5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment losses.

### Turnover

Turnover represents the amounts received and receivable for goods sold, less returns, to outside customers during the year.

### Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

### Property, plant and equipment

Leasehold land and buildings and plant and machinery are stated in the balance sheet at their revalued amount, being the fair value on the basis of their existing use at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

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

Other assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost or valuation of items of property, plant and equipment, over their estimated useful lives, using the straight line method, at the following rates per annum:

Leasehold land	2% or over the lease term, if shorter
Buildings	2% - 4% or over the lease term, if shorter
Leasehold improvement	2% or over the lease term, if shorter
Plant and machinery	20%
Furniture and equipment	10% - 20%
Motor vehicle	30%

# Notes to the Financial Statements

For the year ended 31st December, 2004

## 5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Property, plant and equipment (Continued)

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

### Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets, other than goodwill as stated above, to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

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

### Investments in securities

Investments in securities are recognised on a trade-date basis and initially measured at cost.

At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

All securities other than held-to-maturity debt securities are measured at subsequent reporting dates at fair value.

Where securities are held for trading purposes, unrealised gains and losses are included in net profit or loss for the year. For other securities, unrealised gains and losses are dealt with in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for the year.

# Notes to the Financial Statements

For the year ended 31st December, 2004

## 5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Leased assets

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair values at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

All other leases are classified as operating leases and the annual rentals are charged to the income statement on a straight line basis over the relevant lease term.

### Foreign currencies

Transactions in foreign currencies are initially recorded at the rates prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

On consolidation, the assets and liabilities of subsidiaries which are denominated in currencies other than Hong Kong dollars are translated at the rates ruling on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or expenses in the period in which the operation is disposed of.

### Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible.

# Notes to the Financial Statements

For the year ended 31st December, 2004

## 5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Taxation (Continued)

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

### Retirement benefits scheme

The retirement benefits costs representing the contributions payable in respect of the current year to the Mandatory Provident Fund Scheme ("MPFS") and other schemes by the Group, are charged to the income statement as they fall due.

# Notes to the Financial Statements

For the year ended 31st December, 2004

## 6. SEGMENT INFORMATION

The Group is mainly engaged in the manufacture and trading of gifts and novelties. The nature of products, the production processes and the methods used to distribute the products to customers in different geographical areas are similar. Accordingly, no analysis on the basis of business segment is presented. The Group's production facilities are located in the People's Republic of China (the "PRC") (other than Hong Kong) and the Socialist Republic of Vietnam ("Vietnam"). The directors of the Company consider the geographical segments by location of customers as primary source of the Group's risks and returns.

The Group's customers are mainly located in United States. The following table provides an analysis of the Group's segment information by geographical location of the Group's customers:

### 2004

	United States HK\$'000	Canada HK\$'000	Taiwan HK\$'000	Hong Kong HK\$'000	Others HK\$'000	Consolidated HK\$'000
REVENUE						
External sales	618,711	17,594	4,534	43,570	2,275	686,684
RESULTS						
Segment results	196,398	4,675	1,197	11,749	696	214,715
Unallocated income and expenses						(36,863)
Profit from operations						177,852
Finance costs						(89)
Profit before taxation						177,763
Taxation						(26,137)
Profit after taxation						151,626
Minority interest						184
Net profit for the year						151,810
ASSETS						
Segment assets	162,158	3,298	231	26,561	931	193,179
Unallocated corporate assets						260,828
						454,007
LIABILITIES						
Segment liabilities	57,471	1,138	869	8,534	724	68,736
Unallocated corporate liabilities						102,164
						170,900
OTHER INFORMATION						
Unallocated additions to property, plant and equipment						14,790
Unallocated depreciation						19,039
Unallocated loss on disposal of property, plant and equipment						20
Unallocated bad debt written off						975

# Notes to the Financial Statements

For the year ended 31st December, 2004

## 6. SEGMENT INFORMATION (Continued)

### 2003

	United States HK\$'000	Canada HK\$'000	Taiwan HK\$'000	Hong Kong HK\$'000	Others HK\$'000	Consolidated HK\$'000
<b>REVENUE</b>						
External sales	448,983	14,824	11,713	23,254	1,583	500,357
<b>RESULTS</b>						
Segment results	166,018	4,043	3,476	8,554	508	182,599
Unallocated income and expenses						(23,968)
Profit from operations						158,631
Finance costs						(1,153)
Profit before taxation						157,478
Taxation						(26,312)
Net profit for the year						131,166
<b>ASSETS</b>						
Segment assets	120,163	1,559	1,196	12,111	313	135,342
Unallocated corporate assets						228,406
						363,748
<b>LIABILITIES</b>						
Segment liabilities	35,379	262	12	1,671	13	37,337
Unallocated corporate liabilities						89,113
						126,450
<b>OTHER INFORMATION</b>						
Unallocated additions to property, plant and equipment						30,564
Unallocated depreciation						17,658
Unallocated loss on disposal of property, plant and equipment						35

# Notes to the Financial Statements

For the year ended 31st December, 2004

## 6. SEGMENT INFORMATION (Continued)

The following is an analysis of the carrying amount of segment assets and additions to property, plant and equipment analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
PRC	217,272	166,922	3,926	16,155
Vietnam	109,823	77,801	10,766	14,250
Hong Kong	107,602	82,573	62	159
Macau	17,386	36,452	36	–
	<b>452,083</b>	<b>363,748</b>	<b>14,790</b>	<b>30,564</b>

## 7. OTHER OPERATING INCOME

	2004 HK\$'000	2003 HK\$'000
Interest income on bank deposits	565	647
Net exchange gain	–	5,927
Others	1,530	1,902
	<b>2,095</b>	<b>8,476</b>

## 8. PROFIT FROM OPERATIONS

	2004 HK\$'000	2003 HK\$'000
Profit from operations has been arrived at after charging:		
Auditors' remuneration		
– current year	775	728
– underprovision in previous year	24	138
Bad debt written off	975	–
Loss on disposal of property, plant and equipment	20	35
Unrealised loss on investments in securities	530	–
Depreciation of property, plant and equipment		
– owned assets	18,912	17,531
– assets held under a finance lease	127	127
	<b>19,039</b>	<b>17,658</b>
Net exchange loss	11	–
Staff costs (including wages and directors' remuneration)	112,138	91,244

# Notes to the Financial Statements

For the year ended 31st December, 2004

## 9. FINANCE COSTS

	2004 HK\$'000	2003 HK\$'000
Interest on convertible loan stock	73	1,091
Finance lease charges	16	24
Interest on bank overdraft	-	38
	<b>89</b>	1,153

## 10. DIRECTORS' EMOLUMENTS AND EMPLOYEES' EMOLUMENTS

### Directors' emoluments

Directors' emoluments are analysed as follows:

	2004 HK\$'000	2003 HK\$'000
Fees		
Independent non-executive directors	149	120
Other emoluments (executive directors)		
Salaries and allowances	2,139	2,202
Contributions to MPFS	65	60
	<b>2,353</b>	2,382

Directors' emoluments are within the following bands:

	Number of directors	
	2004	2003
Nil to HK\$1,000,000	6	5
HK\$1,000,001 to HK\$1,500,000	1	1

No director waived any emoluments in the two years ended 31st December, 2004.

### Employees' emoluments

Of the five individuals with the highest emoluments in the Group, two (2003: two) were directors of the Company whose emoluments are included in the above disclosures. The emoluments of the remaining three (2003: three) individuals are as follows:

	2004 HK\$'000	2003 HK\$'000
Salaries and allowances	2,362	2,029
Contributions to MPFS	25	24
	<b>2,387</b>	2,053

All employees' emoluments are within nil to HK\$1,000,000 band.

# Notes to the Financial Statements

For the year ended 31st December, 2004

## 11. TAXATION

	2004 HK\$'000	2003 HK\$'000
Current tax:		
Hong Kong	<b>26,335</b>	24,147
Other jurisdiction	<b>912</b>	1,277
	<b>27,247</b>	25,424
Under (over) provision in prior year:		
Hong Kong	<b>95</b>	(1,014)
Deferred tax:		
Current year (Note 27)	<b>(1,205)</b>	1,902
<b>Taxation attributable to the Company and its subsidiaries</b>	<b>26,137</b>	26,312

Hong Kong Profits Tax is calculated at 17.5% (2003: 17.5%) on the estimated assessable profit for the year.

According to the Investment License granted by Vietnam authority to the Vietnam subsidiaries, the Vietnam enterprise income tax rate is 10% on the estimated assessable profits during the operating period. The Vietnam subsidiaries are eligible for exemption from Vietnam enterprise income tax for four years from the first profit-making year followed by a 50% reduction in the Vietnam enterprise income tax for the next four years.

Vietnam enterprise income tax is calculated at 5% (2003: 5%) on the estimated assessable profit for the year.

According to the Investment License, the tax for transferring profits of Vietnam subsidiaries outside Vietnam is calculated at 3% on the profits transferred. With the revision in tax regulation of Vietnam in current year, no tax will be charged for any profits transferred outside Vietnam.

# Notes to the Financial Statements

For the year ended 31st December, 2004

## 11. TAXATION (Continued)

The tax charge for the year can be reconciled to the profit before taxation per the income statement as follows:

	Hong Kong		Other jurisdictions		Total	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Profit before taxation	<b>140,967</b>	133,109	<b>36,796</b>	24,369	<b>177,763</b>	157,478
Tax at the domestic income tax rate (Note)	<b>24,669</b>	23,294	<b>4,101</b>	3,182	<b>28,770</b>	26,476
Tax effect of expenses not deductible for tax purpose	<b>909</b>	1,114	<b>222</b>	339	<b>1,131</b>	1,453
Tax effect of income not taxable for tax purpose	<b>(290)</b>	(1,104)	<b>(2,106)</b>	(8)	<b>(2,396)</b>	(1,112)
Under (over) provision in respect of prior year	<b>95</b>	(1,014)	-	-	<b>95</b>	(1,014)
Tax effect of tax losses/ deferred tax assets not recognised	<b>822</b>	1,530	<b>171</b>	138	<b>993</b>	1,668
Utilisation of tax losses/ deferred tax assets previously not recognised	<b>(143)</b>	(28)	<b>(2,176)</b>	(2,540)	<b>(2,319)</b>	(2,568)
Others	<b>(137)</b>	1,376	-	33	<b>(137)</b>	1,409
Tax effect for the year	<b>25,925</b>	25,168	<b>212</b>	1,144	<b>26,137</b>	26,312

Note: The weighted average applicable tax rate for other jurisdictions was 11% (2003: 13%). The weighted average applicable tax rate represents the weighted average tax rate of the operations in different jurisdictions on the basis of the relative amounts of net profit or loss before taxation and the relevant statutory rates.

# Notes to the Financial Statements

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## 12. DIVIDENDS

	2004 HK\$'000	2003 HK\$'000
Ordinary shares:		
Interim, paid – HK8 cents (2003: HK8 cents) per share	46,778	25,818
Special, declared – HK3 cents (2003: HK3 cents) per share	17,542	13,882
Final, proposed – HK9 cents (2003: HK9 cents) per share	52,625	52,625
	<b>116,945</b>	92,325

The final dividend of HK9 cents (2003: HK9 cents) per share has been proposed by the directors and is subject to approval by the shareholders in the annual general meeting.

## 13. EARNINGS PER SHARE

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

### Earnings

	2004 HK\$'000	2003 HK\$'000
Earnings for the purposes of basic earnings per share	151,810	131,166
Effect of dilutive potential ordinary shares:		
Interest on convertible loan stock	73	1,091
Earnings for the purposes of diluted earnings per share	<b>151,883</b>	132,257

### Number of shares

	2004 '000	2003 '000
Weighted average number of ordinary shares for the purposes of basic earnings per share	570,013	366,830
Effect of dilutive potential ordinary shares:		
Convertible loan stock	14,707	217,890
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<b>584,720</b>	584,720

# Notes to the Financial Statements

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## 14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK\$'000	Leasehold improvement HK\$'000	Plant and machinery HK\$'000	Furniture and equipment HK\$'000	Motor vehicle HK\$'000	Total HK\$'000
<b>THE GROUP</b>						
COST OR VALUATION						
At 1st January, 2004	82,097	5,686	67,580	3,893	423	159,679
Exchange adjustments	(216)	–	(281)	(24)	–	(521)
Additions	801	648	12,046	1,295	–	14,790
Acquired on acquisition of subsidiaries	–	127	–	320	–	447
Disposals	(470)	–	(649)	–	–	(1,119)
<b>At 31st December, 2004</b>	<b>82,212</b>	<b>6,461</b>	<b>78,696</b>	<b>5,484</b>	<b>423</b>	<b>173,276</b>
Comprising						
At cost	25,012	6,461	71,833	5,484	423	109,213
At valuation– 31st December, 2001	57,200	–	6,863	–	–	64,063
	82,212	6,461	78,696	5,484	423	173,276
DEPRECIATION AND IMPAIRMENT LOSSES						
At 1st January, 2004	5,464	472	24,990	1,195	254	32,375
Exchange adjustments	(17)	–	(125)	(2)	–	(144)
Provided for the year	2,646	141	15,180	945	127	19,039
Eliminated on disposals	(470)	–	(405)	–	–	(875)
<b>At 31st December, 2004</b>	<b>7,623</b>	<b>613</b>	<b>39,640</b>	<b>2,138</b>	<b>381</b>	<b>50,395</b>
NET BOOK VALUES						
<b>At 31st December, 2004</b>	<b>74,589</b>	<b>5,848</b>	<b>39,056</b>	<b>3,346</b>	<b>42</b>	<b>122,881</b>
At 31st December, 2003	76,633	5,214	42,590	2,698	169	127,304

Leasehold land is held outside Hong Kong on medium term leases.

# Notes to the Financial Statements

For the year ended 31st December, 2004

## 14. PROPERTY, PLANT AND EQUIPMENT (Continued)

The Group's leasehold land and buildings in the PRC and the plant and machinery as at 31st December, 2001 were revalued by RHL Appraisal Ltd., Chartered Surveyors, at open market value on a continued use basis. RHL Appraisal Ltd. is not connected with the Group. The directors consider that the open market value of the leasehold land and buildings and plant and machinery at 31st December, 2004 was not significantly different from their carrying values.

At 31st December, 2004, had all of the leasehold land and buildings and plant and machinery of the Group been carried at historical cost less accumulated depreciation and accumulated impairment losses, their carrying amounts would have been HK\$51,341,000 (2003: HK\$54,574,000) and HK\$37,004,000 (2003: HK\$40,382,000) respectively.

The motor vehicle is held under a finance lease.

The Group has pledged land and buildings having a net book value of approximately HK\$52,928,000 (2003: HK\$ 54,352,000) to a bank for general banking facilities.

## 15. GOODWILL

	<b>THE GROUP</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
<b>COST</b>		
Arising on acquisition of subsidiaries and at 31st December, 2004	<b>807</b>	–

In the opinion of the directors, no material impairment loss noted for goodwill as at 31st December, 2004.

## 16. DEPOSIT FOR ACQUISITION OF INVESTMENTS IN SUBSIDIARIES

In November 2004, the Group entered into agreements to acquire certain assets of Shelcore, Inc. and Shelcore Hong Kong Limited and the entire issued shared capital of each of Shelcore, Inc., Shelcore Hong Kong Limited, Shelcore Canada Limited and Shelcore UK Limited (together referred to as "Shelcore Companies"). Up to balance sheet date, the Group paid US\$1,275,000 (approximately HK\$9,945,000) to shareholders of Shelcore Companies and presented the amount paid as "deposit for acquisition of investment in subsidiaries".

The acquisition was completed on 27th January, 2005. The carrying amounts and fair values of Shelcore Companies at the date of acquisition have not yet been finalized. In the opinion of the directors, the disclosure for the financial information is impracticable.

# Notes to the Financial Statements

For the year ended 31st December, 2004

## 17. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	88,090	88,090
Less: Impairment losses recognised	(88,089)	(88,089)
	1	1
Amounts due from subsidiaries	302,987	153,878
Less: Allowance	(43,901)	(43,901)
	259,086	109,977
	259,087	109,978

The cost of the unlisted shares is based on the book value of the underlying net tangible assets of the subsidiaries attributable to the Group as at the date on which the Company became the ultimate holding company of the Group under the group reorganisation in 1994.

Details of the principal subsidiaries at 31st December, 2004 are as follows:

Name of subsidiary	Place/ country of incorporation or registration/ operation	Issued and fully paid share capital/ registered capital/ contributed legal capital	Class of share held	Proportion of nominal value of issued capital/ registered capital/ contributed legal capital held by the Company	Principal activities
Associated Traders Hong Kong Limited	Hong Kong	HK\$10,000	Ordinary	100%	Trading of gifts and novelties
Besco Enterprises Limited	Hong Kong	HK\$10,000	Ordinary	100%	Manufacture of gifts and novelties
Goldpex Technology Limited	The British Virgin Islands	US\$10	Ordinary	100%	Products design
Keengold Enterprises Limited	The British Virgin Islands	US\$10	Ordinary	100%	Investment holding

# Notes to the Financial Statements

For the year ended 31st December, 2004

## 17. INTERESTS IN SUBSIDIARIES (Continued)

Name of subsidiary	Place/ country of incorporation or registration/ operation	Issued and fully paid share capital/ registered capital/ contributed legal capital	Class of share held	Proportion of nominal value of issued capital/ registered capital/ contributed legal capital held by the Company	Principal activities
Keyhinge Holdings Limited	Hong Kong	HK\$10,000	Ordinary	100%	Trading of gifts and investment holding
Keyhinge Procurement Limited	Hong Kong	HK\$10,000	Ordinary	100%	Purchasing
Keyhinge Toys Company Limited	The British Virgin Islands	US\$10	Ordinary	100%	Trading of gifts and novelties
Keyhinge Toys Vietnam Company Limited	Vietnam	US\$5,537,408	Capital contribution	100%	Manufacture of gifts and novelties
Matrix International Holdings Limited	The British Virgin Islands	US\$6	Ordinary	100%	Investment holding
Matrix Investments Group Limited	The British Virgin Islands	US\$10	Ordinary	100%	Investment holding
Matrix Manufacturing Limited	The British Virgin Islands	US\$1	Ordinary	100%	Investment holding
Matrix Manufacturing Vietnam Company Limited	Vietnam	US\$3,750,661	Capital contribution	100%	Manufacture of gifts and novelties
Matrix Plastic Manufacturing (Zhongshan) Co., Ltd	PRC	US\$5,910,000	Capital contribution	100%	Manufacture of gifts and novelties
Matrix Resources Enterprise Limited	Hong Kong	HK\$10,000	Ordinary	100%	Provision of management services

# Notes to the Financial Statements

For the year ended 31st December, 2004

## 17. INTERESTS IN SUBSIDIARIES (Continued)

Name of subsidiary	Place/ country of incorporation or registration/ operation	Issued and fully paid share capital/ registered capital/ contributed legal capital	Class of share held	Proportion of nominal value of issued capital/ registered capital/ contributed legal capital held by the Company	Principal activities
Toytrix Company Limited	Hong Kong	HK\$2	Ordinary	100%	Manufacture of printing materials
Matrix Development Group Limited	The British Virgin Islands	US\$10	Ordinary	100%	Investment holding
Matrix Media Communications Limited	Hong Kong	HK\$2	Ordinary	100%	Investment holding
深圳智又盈投資顧問有限公司 (formerly known as 深圳市智又盈投資顧問有限公司)	PRC*	RMB2,775,000	Paid up share capital	70%	Marketing and promotional services
Keyhinge Enterprises (Macao Commercial Offshore) Company Limited (formerly known as Matrix Enterprises (Macao Commercial Offshore) Company Limited)	Macau	MOP100,000	Quota capital	100%	Purchasing and trading of gifts and novelties
Keysuccess International Limited	The British Virgin Islands	US\$1	Ordinary	100%	Investment holding
Maxguard Limited	The British Virgin Islands	US\$10	Ordinary	100%	Investment holding

\* Sino-foreign equity joint venture

# Notes to the Financial Statements

For the year ended 31st December, 2004

## 17. INTERESTS IN SUBSIDIARIES (Continued)

The above table lists the 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.

All of the subsidiaries are owned indirectly by the Company except for Matrix International Holdings Limited, Matrix Investments Group Limited and Matrix Development Group Limited which are owned directly.

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

## 18. INVENTORIES

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Raw materials	53,143	21,012
Work in progress	29,161	22,631
Finished goods	83,958	67,214
	<b>166,262</b>	110,857

All of the inventories above are carried at cost.

## 19. TRADE AND OTHER RECEIVABLES

The trade and other receivables include trade receivables of HK\$44,574,000 (2003: HK\$34,917,000). The Group allows a credit period of 14 to 60 days to its trade customers.

The following is an aged analysis of trade receivables at the balance sheet date:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
0 - 60 days	44,239	34,871
61 - 90 days	141	–
> 90 days	194	46
	<b>44,574</b>	34,917

# Notes to the Financial Statements

For the year ended 31st December, 2004

## 20. INVESTMENTS IN SECURITIES

The amount represents equity investments listed in United States of America, stated at market value.

## 21. PLEDGED BANK DEPOSIT

The amount represents deposit pledged to a bank to secure a banking facility granted to the Group and is therefore classified as a current asset.

## 22. TRADE AND OTHER PAYABLES

The trade and other payables include trade payables of HK\$71,536,000 (2003: HK\$40,924,000).

The following is an aged analysis of trade payables at the balance sheet date:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
0 - 60 days	69,482	40,213
61 - 90 days	1,603	174
> 90 days	451	537
	<b>71,536</b>	40,924

## 23. SHARE CAPITAL

	Number of shares			
	2004 '000	2003 '000	2004 HK\$'000	2003 HK\$'000
<b>Ordinary shares of HK\$ 0.1 each</b>				
Authorised				
At the beginning of the year	700,000	700,000	70,000	70,000
Increased at 20th April, 2004	300,000	–	30,000	–
At the end of the year	<b>1,000,000</b>	700,000	<b>100,000</b>	70,000
<b>Issued and fully paid</b>				
At the beginning of the year	462,720	322,720	46,272	32,272
Conversion of convertible loan stock	122,000	140,000	12,200	14,000
At the end of the year	<b>584,720</b>	462,720	<b>58,472</b>	46,272

During the year, the Company issued 122,000,000 (2003: 140,000,000) new shares to Suncorp as mentioned in note 25 below. The new shares rank pari passu with the existing shares in all respects.

# Notes to the Financial Statements

For the year ended 31st December, 2004

## 24. RESERVES

	Share premium HK\$'000	Contributed surplus HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
<b>THE COMPANY</b>				
At 1st January, 2003	55,708	3,661	39,270	98,639
Net profit for the year	–	–	107,682	107,682
Dividends paid	–	–	(54,863)	(54,863)
Special dividend declared	–	–	(13,882)	(13,882)
At 31st December, 2003	55,708	3,661	78,207	137,576
Net profit for the year	–	–	190,460	190,460
Dividends paid	–	–	(99,403)	(99,403)
Special dividend declared	–	–	(17,542)	(17,542)
<b>At 31st December, 2004</b>	<b>55,708</b>	<b>3,661</b>	<b>151,722</b>	<b>211,091</b>

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.

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

	2004 HK\$'000	2003 HK\$'000
Contributed surplus	3,661	3,661
Accumulated profits	151,722	78,207
	<b>155,383</b>	81,868

# Notes to the Financial Statements

For the year ended 31st December, 2004

## 25. CONVERTIBLE LOAN STOCK

### THE GROUP AND THE COMPANY

The convertible loan stock issued on 30th April, 2000 carried an interest at 5% per annum on the principal amount from time to time and should be payable annually in arrears. The convertible loan stock was unsecured and could be converted into new shares by the holder at a pre-determined fixed price of HK\$0.10 per share from 23rd May, 2001 to 30th April, 2005. At the end of its five years term, all the outstanding amount of the convertible loan stock must be converted into new shares in the Company at a pre-determined fixed price of HK\$0.10 per share. Suncorp has the entire interest in the convertible loan stock.

During the year, Suncorp has converted an aggregate amount of HK\$12,200,000 (2003: HK\$14,000,000) convertible loan stock into 122,000,000 (2003: 140,000,000) shares of HK\$0.10 each in the Company. All convertible loan stock had been converted in the current year.

## 26. OBLIGATIONS UNDER A FINANCE LEASE

	THE GROUP			
	Minimum lease payments		Present value of minimum lease payments	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Within one year	120	121	113	106
In the first to second year inclusive	61	182	60	173
	181	303	173	279
Less: Future finance charges	(8)	(24)	-	-
Present value of lease obligations	173	279	173	279
Less: Amount due for settlement within 12 months shown under current liabilities			(113)	(106)
Amount due for settlement after 12 months			60	173

It is the Group's policy to lease its motor vehicle under finance lease. The lease term is 4 years. For the year ended 31st December, 2004, the effective borrowing rate was 3.68% per annum. Interest rate is fixed at the contract date. The lease is on a fixed repayment basis and no arrangement has been entered into for contingent rental payments.

The Group's obligations under a finance lease are secured by the lessor's charge over the leased asset.

# Notes to the Financial Statements

For the year ended 31st December, 2004

## 27. DEFERRED TAXATION

The following are the major deferred tax liabilities and (assets) recognised and movements thereon during the current and prior reporting periods:

### THE GROUP

	Accelerated tax depreciation HK\$'000	Accelerated accounting depreciation HK\$'000	Revaluation of property, plant and equipment HK\$'000	Retirement benefit obligation HK\$'000	Tax losses HK\$'000	Others HK\$'000	Total HK\$'000
At 1st January, 2003	-	-	1,955	-	-	-	1,955
Charge (credit) to income for the year	2,035	(103)	-	(43)	-	13	1,902
Credit to equity for the year	-	-	(163)	-	-	-	(163)
Eliminated on disposals of other receivables	-	-	-	-	-	(13)	(13)
Effect of change in tax rate charged to equity	-	-	183	-	-	-	183
At 31st December, 2003	2,035	(103)	1,975	(43)	-	-	3,864
Charge (credit) to income for the year	575	(203)	-	(80)	(1,330)	(167)	(1,205)
Exchange difference	-	2	-	-	-	-	2
<b>At 31st December, 2004</b>	<b>2,610</b>	<b>(304)</b>	<b>1,975</b>	<b>(123)</b>	<b>(1,330)</b>	<b>(167)</b>	<b>2,661</b>

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

	2004 HK\$'000	2003 HK\$'000
Deferred tax liabilities	4,585	3,864
Deferred tax assets	(1,924)	-
	<b>2,661</b>	<b>3,864</b>

# Notes to the Financial Statements

For the year ended 31st December, 2004

## 27. DEFERRED TAXATION (Continued)

At the balance sheet date, the Group has unused estimated tax losses of HK\$49,049,000 (2003: HK\$44,990,000) available for offset against future profits. A deferred tax asset had been recognised in respect of HK\$11,166,000 (2003: Nil) of such losses. No deferred tax asset has been recognised in respect of the remaining estimated tax losses of HK\$37,883,000 (2003: HK\$44,990,000) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of HK\$17,349,000 (2003: HK\$25,409,000) that will expire in 2005. Other losses may be carried forward indefinitely.

The Company has no material deferred taxation for the year and at the balance sheet date.

## 28. ACQUISITION OF SUBSIDIARIES

On 31st October, 2004, the Group acquired 70% interest in 深圳智又盈投資顧問有限公司 (formerly known as 深圳市智又盈投資顧問有限公司) (“深圳智又盈”) and its subsidiary. The acquisition has been accounted for by the purchase method. The amount of goodwill arising as a result of the acquisition was HK\$807,000.

	<b>Carrying amounts recognised under HKFRSs</b>	<b>Fair values</b>
	HK\$'000	HK\$'000
Net assets acquired		
Property, plant and equipment	447	447
Trade and other receivables	1,670	1,670
Bank balances and cash	1,261	1,261
Trade and other payables	(2,322)	(2,322)
Minority interest	(316)	(316)
	740	740
Goodwill		807
Total consideration		1,547
Satisfied by:		
Cash		1,547
Net cash outflow arising on acquisition:		
Cash consideration		(1,547)
Bank balances and cash acquired		1,261
		(286)

# Notes to the Financial Statements

For the year ended 31st December, 2004

## 28. ACQUISITION OF SUBSIDIARIES (Continued)

The subsidiary acquired during the year did not contribute significantly to the Group's cash flows, turnover and profit from operations.

Unaudited pro forma turnover and results of operations for 深圳智又盈 have not been presented as the amounts were insignificant to the Group.

## 29. MAJOR NON-CASH TRANSACTION

During the year ended 31st December, 2004, convertible loan stock of HK\$12,200,000 (2003: HK\$14,000,000) was converted into 122,000,000 (2003: 140,000,000) shares of HK\$0.10 each in the Company.

## 30. CONTINGENT LIABILITIES

### THE COMPANY

The Company had given guarantee to a bank in respect of general facilities granted to its subsidiary which had not been utilised at the balance sheet date.

## 31. OPERATING LEASE COMMITMENTS

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Minimum lease payments in respect of land and buildings under operating leases recognised in the income statement for the year	<b>2,267</b>	3,645

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Within one year	<b>1,162</b>	955
In the second to fifth year inclusive	<b>1,329</b>	720
After five years	<b>4,250</b>	4,636
	<b>6,741</b>	6,311

Operating lease payments represent rentals payable by the Group for its factory properties and office properties. Leases are negotiated for a term of 8 to 20 years for factory properties and a term of 1 to 3 years for office properties. The rentals are fixed throughout the lease period.

# Notes to the Financial Statements

For the year ended 31st December, 2004

## 32. CAPITAL COMMITMENTS

	<b>THE GROUP</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements	<b>1,677</b>	68
Capital expenditure in respect of the acquisition of subsidiaries contracted for but not provided in the financial statements	<b>58,114</b>	–

## 33. RELATED PARTY TRANSACTIONS

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

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Interest paid or payable on convertible loan stock to ultimate holding company (Note a)	<b>73</b>	1,091
Rental paid or payable to a related company (Note b)	<b>144</b>	160
Purchases of plant and equipment from a related company (Note c)	<b>920</b>	–

Notes:

- a. The interest paid or payable on convertible loan stock to Suncorp is calculated at 5% per annum on the principal amount outstanding from time to time and shall be payable annually in arrears.
- b. The rental paid or payable to a related company is determined in accordance with a tenancy agreement entered between a wholly owned subsidiary of the Group and a related company.
- c. The consideration paid to a related company is according to the relevant contract signed.

Mr. Cheng Yung Pun, a director of the Company, has beneficial interest in Suncorp and the related companies.

# Notes to the Financial Statements

For the year ended 31st December, 2004

## 34. SHARE OPTION SCHEME

Pursuant to the Company's share option scheme (the "Scheme"), the Company's directors may grant options to any full-time employees, executives or officers, directors of the Group and any suppliers, consultants, agents or advisers who have contributed to the business and operation of the Group to subscribe for the shares in the Company at a price equal to the highest of (i) the official closing price of the shares as stated in the Stock Exchange's daily quotation sheets on the date of grants; (ii) the average of the official closing price of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share.

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

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.

No options have been granted since the establishment of the Scheme.

## 35. RETIREMENT BENEFIT SCHEMES AND MANDATORY PROVIDENT FUND

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

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

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

The retirement benefits cost charged to income statement of approximately HK\$2,339,000 (2003: HK\$1,862,000) represents contributions payable to the schemes by the Group at the rates specified in the rules of the various schemes.

## 36. POST BALANCE SHEET EVENT

On 16th November, 2004, the Group entered into agreements to acquire Shelcore Companies for a total consideration of US\$8.5 million (approximately HK\$66.3 million) from third parties. The Shelcore Companies are US-based toy companies specializing in the design, manufacturing and sale of plastic toys for infant and pre-school children. The acquisition was successfully completed in January 2005.