




MATRIX

Matrix Holdings Limited

美力時集團有限公司

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

Annual Report 2007

Funrise SHELCORE







Our Mission

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

Contents

Corporate Profile

MATRIX is a well-established manufacturer of plastic, die-cast and plush toys, with vertically integrated production process including mould making, manufacturing and design. Currently, the Group operates three plants – two in Danang City, Vietnam and one in Zhongshan, the PRC with total production capacity of approximately 1.5 million units per day. As at 31st December, 2007, the Group employed approximately 17,000 staff in Hong Kong, Macau, PRC, Vietnam, United States and Europe. The Shelcore and the Funrise Group, well-established toy companies designing, manufacturing and selling plastic toys have been merged into the Group since 2005 and 2007 respectively.

Danang City, Vietnam

Zhongshan, the PRC

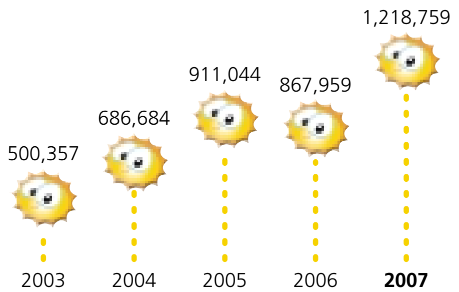
Financial Highlights

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

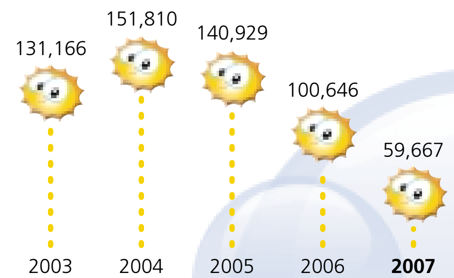
CONSOLIDATED

(HK$'000, except where otherwise stated)	**2007**	2006	% Change
Turnover	**1,218,759**	867,959	40.4
Profit attributable to equity holders of the Company	**59,667**	100,646	(40.7)
Basic earnings per share	**HK$0.09**	HK$0.16	(43.8)
Dividend per share			
Interim, paid	**HK8 cents**	HK8 cents	–
Special, paid	**–**	HK3 cents	–
Final, proposed	**HK3 cents**	HK9 cents	(66.7)
Gross Profit Margin (%)	**29.6**	32.0	(7.5)
Net Profit Margin (%)	**4.9**	11.6	(57.8)
Gearing Ratio (%)	**46.1**	4.5	924.4
Current Ratio	**1.14**	1.50	(24.0)
Quick Ratio	**0.58**	0.62	(6.5)

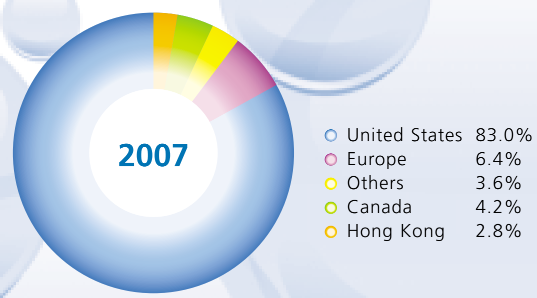
TURNOVER

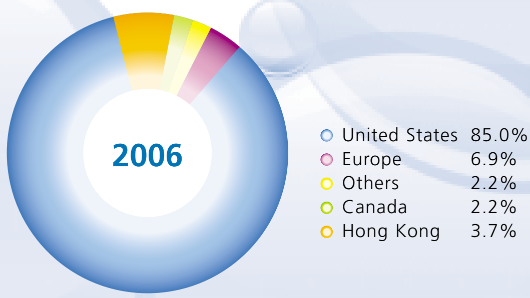


PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY



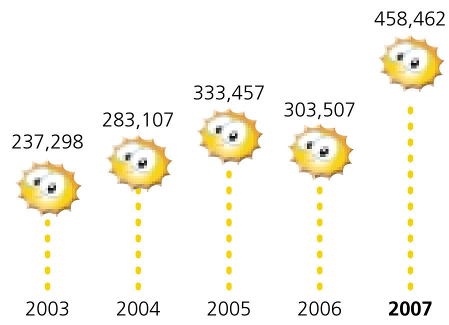
TURNOVER BREAKDOWN BY MARKET



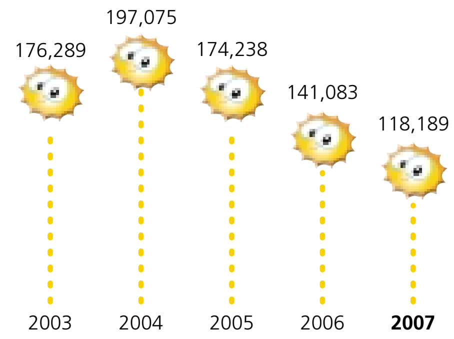


Financial Highlights

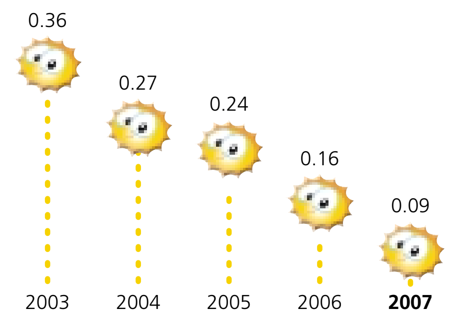
NET ASSETS



EBITDA



BASIC EPS



DEFINITIONS

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

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

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

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

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

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Cheng Yung Pun *(Chairman)*
Arnold Edward Rubin *(Vice Chairman)*
Yu Sui Chuen
Cheng Wing See, Nathalie

Independent Non-executive Directors

Loke Yu alias Loke Hoi Lam
Mak Shiu Chung, Godfrey
Wan Hing Pui

AUDIT COMMITTEE & REMUNERATION COMMITTEE

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

QUALIFIED ACCOUNTANT

Chan Yue Lam

COMPANY SECRETARY

Lai Mei Fong

AUDITOR

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

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

SHARE REGISTRAR

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke HM08
Bermuda

BRANCH SHARE REGISTRAR IN HONG KONG

Tricor Secretaries Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong

PRINCIPAL PLACE OF BUSINESS

Room No. 1008
10th Floor, Tsim Sha Tsui Centre
66 Mody Road
Tsim Sha Tsui East
Kowloon, Hong Kong

PRINCIPAL BANKER

Bank of China (Hong Kong) Limited

WEBSITE

www.irasia.com/listco/hk/matrix/index.htm

STOCK CODE

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

THE SHAKE 'N BOBBLES SHAPE SORTER DUMP TRUCK

Sort the colorful shapes into the dump body of the truck and press the bobble-head driver's head. Watch and listen as the giggling driver "Mongo" and the dump truck shake and bobble to life! The truck will travel a few feet, stop, raise the dump body to dump the blocks, lower it and travel forward some more! All while the truck is playing fun truck sounds

SHAKE 'N BOBBLES CRASH BARRELS ROADWAY

Set the Shake 'N Bobbles Racer into the cockpit, place the car onto the launch ramp, hit his head and let him rip through the Shake 'N Bobbles junkyard track. With a different feature on each section of track, you'll never know what to expect with this wild ride!

SHELCORE

SHAKE 'N BOBBLES PIRATE SHIP

A fun and interactive Shake 'N Bobbles Pirate Ship that rocks while anchored at "sea." Includes treasure chest, mechanical cannon, 2 Shake 'N Bobbles Pirates and a shark. Press the fish button to hear the pirate songs and listen to the seagulls and the sounds of the sea!

LIL' ROCK-STAR CHOPPER POPPER

We took the classic version of an upright popper and tricked it out! Get your toddler's motor running with this motorcycle inspired Chopper Popper that play's "Smoke on the Water" in the style of a classic lullaby.

LIL' ROCKSTAR ROCK MY GUITAR

This guitar shaped activity center, designed with a rock influence, will keep your child busy! Strum the center wheel for a rock n' roll sound; press the various shaped buttons for lights and sounds. This guitar will also play two classic rock songs "Smoke on the Water" and "Bad to the Bone" in a lullaby version.

BEAUTY STAR STATION VANITY CASE W/BRACELET CHARM ASSORTMENT

The Truly Charmed Beauty Star Station is a large vanity case that stores all your make-up and includes a light-up mirror for easy travel. Each case in this assortment is designed with cool colors and graphics and come with its very own lip gloss charm bracelet.

Chairman's Statement

To Our Shareholders,

I have pleasure in presenting 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, 2007.

During the year under review, the Group recorded an increase of consolidated turnover by 40.4% amounted to approximately HK$1,219 million and a drop in the profit attributable to equity holders of the Company by 40.7% amounted to approximately HK$60 million.

Given China's increase in labour costs, utilities costs, appreciation of Renminbi ("RMB") exchange rate, soaring raw material prices and reduction of the export Value Added Tax ("VAT") rebate in the past two years, the profit margin of most of the manufacturers has been cut to hair's breath as such additional cost pressures amid the deteriorating operating environment in the factories in China, particulary in the Pearl River Delta Region ("PRD") where most manufacturers clustered.

Labour costs that comprise wages, social security contributions and other welfare benefits have increased in the past two years added burden to the manufacturers. Guangdong is stepping up efforts to fully implement a social security system among workers. The amount of contributions to various schemes by the employer for each worker has increased in line with the wage rise. Utilities costs have also gone up in the past few years. In Zhongshan, both off-peak and peak-hour electricity tariffs were soared. The RMB exchange rate had crept up against the US dollar and against the yen which eat into the export margins. Moreover, insufficient supply of migrant workers in the PRD who mainly engaging in lower-end work has pushed up the wage levels of these workers. In most cases, the manufacturers need to offer above the minimum wage in order to attract new workers or retain existing ones. China's latest move to reduce the export VAT rebate and processing trade's import tax preferential treatment will add extra cost pressures to the manufacturers. In addition, the restricted category of processing trade is required to pay a deposit of the amount of tariffs and VAT payable. This poses a burden on the cash flow of processing trade companies and all together burdened the administration cost.

Moreover, soaring raw material prices in the international market have also hit the manufacturers. The increase in raw material prices like the prices of metal, plastic and electronic components imposed a widespread impact across different industries and cause uncertainties to manufacturers particularly in between providing quotations and formal contracts, which may undermine the profit margin.

Chairman's Statement

The Group focused on conquering such harsh conditions and therefore streamlined production line to maximize productivity, reinforced the cost control and implemented production management measures. The enhancement of the Enterprise Resources Planning ("ERP") system to integrate data sources and processes in the Group into a unified system in order to provide detailed and accurate order forecast, material and production planning to minimize cost on working capital and reduce wastage. This system can also enable the sharing of quality control, warehousing and distribution capabilities, particularly subsequent to the amalgamation of the Funrise Group and Shelcore Group operation. In addition, strengthening the quality control team to ensure product quality, integrating and relocating the warehouse and plant operations and renovation of plant enable the Group re-engineering the factory management and production flow with the objective to improve production efficiency. Moreover, The Group has been consciously strengthening the research and development capacities to develop new high margin product series with competitive pricing, upgrading its existing products by putting the measures and effort in place in enriching product lines and improving product design and features for broadening customer and revenue base.

There seems a rising trend that overseas buyers are pressed to seriously consider sharing more of the burden of cost increases before quality suppliers are being forced out of business. The Group is passing pricing pressure to the customers by adjusting the prices of products as much as possible as there is a rising pressure in export prices due to escalating production costs.

In addition, the seasonal low sales turnover had not prolonged as the sales towards the second half of the year 2007 boosted the Group's turnover and narrowed down the negative impact of the first half year's performance.

The acquisition of the Funrise Group was completed on 8th June, 2007. This Acquisition is important for the Company to enhance its development in the retail toy business, particularly in the United States and other potential toy markets in the worldwide. It has not only expanded our product range to youngster and children, but also broaden our revenue source and customer base. The Funrise Group's long operating history allows the Company to substantially enhance its market position in the United States and enable the Company to tap into the Funrise Group's extensive global distribution network and utilize its strong marketing power.

Not resting on our laurels, the Group will continue to look for strategic business opportunities to spearhead its top line and bottom line growth. The Company will strive for a better return to our shareholders. Looking forward, the Group would continue to implement various business plans such as growing strategically through acquisitions in the forthcoming years. With the groundwork being laid on our core toy manufacturing business and the Group's sound financial position, it is optimistic that the Group would be able to maintain a steady return.

In conclusion, I would like to express my deepest gratitude to all our stakeholders, including shareholders, customers, business partners and suppliers, for their continued support and for their confidence in the Group. My sincere appreciation also goes to the management and all our staff's indispensable and enthusiastic contributions and their commitment to ensuring we master every challenge faced by the Group for the year. I look forward to the Group continuing to deliver sustainable returns to all our stakeholders in future.

Cheng Yung Pun
Chairman

Hong Kong, 21st April, 2008

Management Discussion and Analysis

RESULTS

For the year ended 31st December, 2007, the Group's consolidated turnover was increased to HK$1,218,759,000 as compared to the last year's HK$867,959,000 but encountered a drop in the profit attributable to equity holders of the Company in 40.7% amounted to HK$59,667,000 as compared to the last year's HK$100,646,000 respectively. The basic earnings per share was HK9 cents (2006: HK16 cents).

The increase in consolidated turnover as compared to the last year was mainly attributable to a result of the inclusion of turnover contribution from a newly acquired Funrise Group since 8th June, 2007. The decrease in the profit attributable to the equity holders of the Company was due to the squeeze of profit margin of the Group by the increase in labour costs, utilities costs, appreciation of Renminbi exchange rate, soaring raw material and oil prices and stringent processing trade policies introduced by the PRC government. In addition, the exceptional expenses in amount of HK$13,314,000 including the share-based payment expenses, amortisation of intangible assets net of deferred tax, imputed interest on loan from a shareholder and loss on partial disposal of equity interest in a subsidiary had reduced the profit of the Group.

DIVIDENDS

During the year, the Company paid an interim dividend of HK8 cents in cash with a scrip dividend alternate (2006: interim dividend HK8 cents in cash with the scrip dividend alternate and special dividend HK3 cents in cash) per share to the shareholders. The Directors had resolved to recommend the payment of a final dividend of HK3 cents (2006: HK9 cents) per share for the year ended 31st December, 2007, payable to shareholders whose names appear on the Register of Members of the Company on 29th May, 2008 with a scrip dividend alternate to offer the right to shareholders to elect to receive such final dividend wholly or partly by allotment of new shares in the Company, credited as fully paid in lieu of cash. Together with the interim dividend paid of HK8 cents per share, the total dividend per share for the year is HK11 cents (2006: HK20 cents).

The scrip dividend alternate is conditional upon (a) the issue price of a new share to be issued pursuant thereto being not less than the nominal value of a share of the Company; (b) the approval of the proposed final dividend at the forthcoming annual general meeting; and (c) the granting by the Listing Committee of the Stock Exchange of the listing of and permission to deal in the new shares to be issued pursuant thereto. The issue price of the new shares to be issued under the 2007 final scrip dividend alternate will be fixed after the Company's annual general meeting equivalent to the average closing price of the shares of the Company quoted on the Stock Exchange for the five consecutive trading days to be determined by the Directors. Thereafter, a press announcement setting out the basis of allotment of new shares and the issue price of new shares under the 2007 final scrip dividend alternate will be published. A circular containing details of the 2007 final scrip dividend and the form of election will be mailed to shareholders in due course.

Definitive share certificates in respect of the scrip dividend and cheques (for those shareholders who do not elect for scrip dividend) are expected to despatch to shareholders on or about 10th July, 2008.

Management Discussion and Analysis

BUSINESS REVIEW

The business environment remains unfavourable to traditional labour-intensive toy manufacturers, particularly the plant located at the Pearl River Delta region with labour, material and utility costs climbing rapidly beginning in year 2006 and electricity, water and labour shortages widespread. Adding to the woes, the accelerating appreciation of Renminbi currency against the Hong Kong dollar, the stringent processing trade policy imposed on the processing plant and fierce price competition compounded the situation. However, the Group believes that it can emerge a stronger player as it would further develop its major production base in Vietnam, upgrades and expands its production capacity and continues to enhance a range of research and development based industrial discipline.

MANUFACTURING OPERATION

PRC Plant

As more players exit the field due to the additional cost pressure persist in the Pearl River Delta Region and overseas buyers are more willing to pay for quality products from reputable manufacturer, the production capacity in the Zhongshan plant is becoming more valuable. Therefore, the Group's continuously put its effort on enhancing cost-effectiveness of production, streamline the production line and enhance vertically integrated toy development, for example, encouraging its backward integration in overall production by manufacturing electronic components with objective to have 'one-stop-shop' production process line.

The Group is conscious of adhering to the government's strict social security scheme and minimum wage policy. In addition, the Group strives to ensure that the working conditions in its plant such as safety standards, staff employment terms and environment conditions, meet international standards.

Zhongshan, PRC — Production Plant

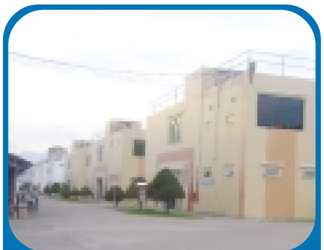
Zhongshan, PRC — Warehouse

Management Discussion and Analysis

Vietnam Plant

To cope with the development of the Group, the construction of the Group's third production plant in Danang City, Vietnam was almost completed. With such a giant manufacturing momentum of the Group, this new production plant contributed to meet future customers' orders and the production capacity is expected to increase by about 25%. In addition, the renovation on the Group's first plant was completed and that the factory management by integrating and relocating the warehouse and plant operations was strengthened.

The Group is conscious of adhering to its strict production code of conduct and takes social responsibility on providing comfortable working place and leisure centre to ensure our staff working in a humanity environment. The Company's policy has always been to remunerate its employee in line with industry standards or over the standard such as providing production bonus, meal allowance, and housing allowance to the workers. Frequent human resources and social activities were taken place to enhance the loyalty of our workers. With some of the Company's major customers are renowned multinational companies, higher stringent requirements on human rights conditions, safety standards, terms of employment and working environment had been imposed in production plants in Vietnam.


Danang City, Vietnam — First Plant


Danang City, Vietnam — Second Plant


Danang City, Vietnam — Third Plant

TOY OPERATION

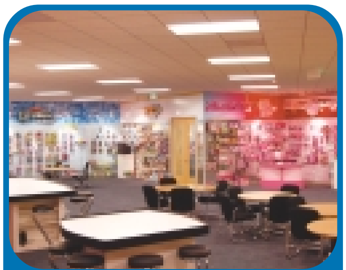
Shelcore Business

During the year under review, the integration of both sales and administration perspective and product perspective of Shelcore Group with Funrise Group was taken place. It looks positive as the Group's operation costs was reduced by integrating these two groups' production, distribution and marketing operation to maximize profits. By this integration, new channels of distribution for both Shelcore Group and Funrise Group were opened and the Group is able to implement a series of cost saving measures by sharing of distribution capabilities and removal of duplicative overheads.

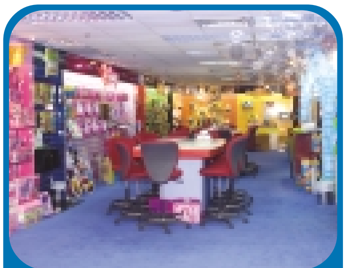
Shelcore Group has great strides in all of categories as well as improving tremendously with packaging. The scope of its business has been expanded from traditional marketing into licensing, entertainment and events. A major leap forward has been made with licensing of famous brand and strengthening its own label. The sales in Shelcore Group has steadily growth and second half year performed better than the first half year 2007. Public relation has continued to place the products in toy tests with solid results.

Management Discussion and Analysis

U.S.A — Funrise Office



U.S.A — Showroom



H.K. — Showroom

Funrise Business

Consistent with the Group's stated strategic objective on long-term development and diversification of the Group's product portfolio, the Group completed the acquisition of the entire equity interests of the Funrise Group, one of the leading designers, marketers and distributors of high quality toys, on 8th June, 2007. The Funrise Group is principally engaged in the design, sales and distribution of quality, innovative toys under proprietary and licensed brands and is a multi-category toy company offering basic toy products featuring established brand names. Its products are sold throughout the world primarily by mass-market retailers. The Funrise Group sources substantially all of its products from various original equipment manufacturers in Asia, many of which have served the Funrise Group since its founding in 1987. Its core property portfolio includes, Gazillion Bubbles®, Nylint®, Home Arcade, and Play'n Pretty® as well as international licensed brands such as Disney©, Tonka® and ZOOOOS™, amongst others. Funrise Group has offices in Van Nuys, Hong Kong, United Kingdom and France. The Funrise Group holds various intellectual properties for toys products, including patents and trademarks for proprietary and licensed brands. Therefore, this Acquisition will expand considerably the product range and design capability of the Group thereby broadening the Group's revenue source and customer base.

Though international toy retail market was continuously characterized by intensified price competition and threatened by recent toy recalls in Northern America, net sales of the Funrise Group for second half year of 2007 have been positive as compared to prior year 2006.

Funrise's international outlook shows potential growth through new accounts and new market segments in United States, Canada, Europe, Middle East and United Kingdom. Effective market promotions by launching TV advertisement and advertisement placement in magazines and video demonstration in kid websites have positive impact on the sales of both Shelcore brand and Funrise brand. In addition, the partnership with a famous licensor's bubbles as part of the Funrise Group's Gazillion Bubble business has proven to be a great strategic partnership as it enabled Funrise Group to maintain shelf space at retailers' with both basic bubbles product as well as keep the foothold on licensed products with the number one license for pre-school bubbles.

Soccer Ball Business

One of the subsidiary of the Company has successfully entered into a Supply Appointment Agreement and Margin Share Agreement in year 2007 with Global Brands Group Pte. Ltd. ("GBG") (the "Agreements"). Pursuant to the Agreements, this subsidiary has been appointed as the worldwide exclusive manufacturer and supplier of The Federation Internationale de Football Association ("FIFA") official licensed footballs (soccer balls) as well as being appointed on a non-exclusive basis with respect to football skills products and supply of premium footballs sold on behalf of GBG. The appointment also provides this subsidiary an opportunity to distribute footballs and football skills products subject to certain criteria met. The appointment is in place for an initial term from 2007 to 2010 and a further term from 2011 to 2014 provided certain criteria met. The Company believes that it will benefit from the FIFA's popularity and world-class brand image.

Management Discussion and Analysis

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 31st December, 2007, the Group had bank balances and cash of approximately HK$27,854,000 (2006: HK$30,871,000) and pledged bank deposit of approximately HK$5,606,000 (2006: HK$5,291,000) secured for banking facilities granted. During the year under review, the Group obtained banking facilities in a total of approximately HK$212,860,000 (2006: HK$40,000,000) secured by fixed deposits and corporate guarantee given by the Company.

As at 31st December, 2007, the Group had bank overdrafts and bank loans of approximately HK$514,000 and HK$115,612,000 respectively (2006: bank overdrafts of HK$13,525,000). The Group had obligations under finance leases HK$7,356,000 (2006: nil) and loan from a shareholder HK$87,047,000 (2006: nil). The Group's gearing ratio, representing the total debt divided by equity attributable to equity holders of the Company, was 46.1% (2006: 4.5%).

During the year, net cash generated from operating activities amounted to approximately HK$9,556,000 (2006: HK$85,840,000). The Group has maintained an adequate level of cash flows for its business operations and capital expenditures.

Capital Expenditure

During the year, the Group acquired property, plant and equipment at a cost of approximately HK$83,079,000 (2006: HK$36,854,000) to further enhance and upgrade the production capacity. These capital expenditures were financed primarily by cash flow generated from operations.

Assets and Liabilities

At 31st December, 2007, the Group had total assets of approximately HK$978,836,000 (2006: HK$528,789,000), total liabilities of approximately HK$520,374,000 (2006: HK$225,282,000) and equity attributable to equity holders of the Company of approximately HK$456,811,000 (2006: HK$303,507,000). The net assets of the Group increased 51.1% (2006: decreased 9.0%) to approximately HK$458,462,000 as at 31st December, 2007 (2006: HK$303,507,000).

Significant Investments and Acquisition

On 8th June, 2007, the Group has completed the acquisition of Funrise Group, in accordance with the sales and purchase agreement in respect of the purchase of the equity interests of Funrise Group dated 25th April, 2007. For further details, please refer to the circular of the Company dated 30th June, 2007. The acquisition was financed by the net proceeds from a subscription of shares in an amount of approximately HK$96.95 million and a shareholder's loan granted by Suncorp Investments Group Limited ("Suncorp") in an amount of approximately HK$93.43 million.

Except for the significant investments and acquisition as disclosed above, there was no significant investment and acquisition for the year ended 31st December, 2007.

Management Discussion and Analysis

Capital Commitment

As at 31st December, 2007, the Group had capital commitments of contracted, but not provided for amounted to HK$3,293,000. (2006: HK$7,548,000).

Contingent Liabilities

Legal Claim

For details of contingent liabilities, please refer to note 41 to the consolidated financial statements.

Exchange Rate Risk

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

NUMBER OF EMPLOYEES AND REMUNERATION POLICIES

As at 31st December, 2007, the Group had a total of approximately 17,000 (2006: 19,000) employees in Hong Kong, Macau, PRC, Vietnam, United States and Europe. The Group provides its employees with competitive remuneration packages commensurate to the level of pay established by the market trend in comparable businesses. A share option scheme was adopted for selected participants (including full time employees) as incentives or rewards for their contributions to the business and operation of the Group. A mandatory provident fund scheme and respective local retirement benefit schemes are also in place.

PROSPECTS

The Group would continue to focus on efforts to keep itself ahead of mordernizing its operations and encouraging innovation. The Group invested in the latest technologies and machinery for toy manufacturing, enforce the manpower in the Research & Development center in cost-effective area and enhanced a supply chain management system by a leading ERP solutions provider. As these were put in place, it would increase value to the customers and make the Group be one of the most efficient manufacturers and trusted business partners. 'One-stop-shop' production line is planned to put in place in Vietnam plant in order to achieve the cost effectiveness of production. Facing the fast development in Vietnam, the labour supply becomes tightened and the Group will keep pace on this change by reviewing staff reward from time to time.

Enjoying considerable economies of scale from the synergies of the amalgamation of the Funrise Group is expected as the Company's existing manufacturing foothold will absorb the Funrise Group's manufacturing operation. Under this situation, a series of cost saving measures, centralization of purchases of raw materials, manufacturing and shipping and efficient inventory management measures can be carried out at various stages of production. The Group continued to enjoy from its prudent production policies as well as the leverage on Funrise's and Shelcore's extensive distribution network so as to diversify the Group of any country risk. More diversified customer base and wider range of Funrise's and Shelcore's products, such congruence in management philosophies would further make optimistic future return.

Management Discussion and Analysis

In addition, new toy line accessories including a blender, a mixer and smoothie maker, a line of pre-school toys and instruments and developing items under various licensed product have been launched to enrich Shelcore's and Funrise's new offerings in various categories of product which will meet the demand of the new market segments.

There has been a significant focus on the safety of products coming out of China. Most recently with regard to lead content in paint and magnets included in toys. Though the Group had not been involved in the recent toy recall issue, efforts will continuously be put in place in enhancing safety precaution and quality control and implementing a stringent quality standard on material sourcing and production procedures to prevent unsafe product from being manufactured and exported.

It is expected that business with major customers will be growth in 2008. In addition, the Shelcore pre-school line was selected to continue running in year 2008. In addition, a secured business under the private label program for pre-school and business in some brands such as Gazillion is expected to grow as well. Specifically with the new distributor in new market, the Group expects to see an increase in Funrise business in some of new markets such as Eastern European countries. Business in France and Spain through new channels of distribution using Shelcore's previous distributors is also looking promising.

Prospects for the year 2008 look optimistic, as retail sales on product lines including Gazillion Bubbles and licensed bubble products improved. Specifically, the Gazillion Bubble BBQ is expected to be selected by most of the major retailers in the United States. Funrise Group will continue to strengthen its research and development and creative teams and focus on its market development in United States, Canada, Europe, Middle East, United Kingdom and Australia.

GBG is a Singapore based brand management company which has been appointed by FIFA as both its worldwide exclusive licensing representative and store operator for FIFA branded retail destination. FIFA created the International framework that makes football the world's most popular sport. GBG will be developing ongoing licensing programmes that not only include the 2010 and 2014 FIFA World Cup TM, but also other FIFA events such as the FIFA Women's World Cup, the annual FIFA Beach Soccer World Championship, the FIFA Futsal World Championship, FIFA U-17 World Championship and FIFA World Youth Championship. GBG has also been granted the right to use FIFA historic marks for the development of product collections for the FIFA World Stores. The Company is expected to benefit from the FIFA's popularity and world-class brand image.

Biographies of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Cheng Yung Pun

Aged 56, is the Chairman of the Company since the year 2000. Mr. Cheng is responsible for the overall corporate policy and development strategy as well as overseeing the Group's overall management. Mr. Cheng has an in-depth of knowledge and experimentalism of operations in Greater China. Mr. Cheng has more than 27 years' extensive experience in plastic toys manufacturing, property development and investment. Mr. Cheng is also a director of Suncorp Investments Group Limited which has an interest in the shares of the Company. He is a father of Ms. Cheng Wing See, Nathalie, executive Director of the Company.

Mr. Arnold Edward Rubin

Aged 60, is responsible for the marketing development and assisting the Chairman in overall strategies, management and operations of the Group as a Vice Chairman of the Company. Mr. Rubin has over thirty-five years extensive experience in toy industry. He is the past chairman of Toy Industry Association and the current chairman of the Toy Industry Foundation and a director of International Counsil of Toy Industries in USA. He joined the Company in the year 2007.

Mr. Yu Sui Chuen

Aged 52, is responsible for overseeing the finance and administration of the Group and assisting the Chairman in the strategic planning. Mr. Yu holds a Higher Diploma in Business Administration majoring in Accounting. Mr. Yu has over 27 years' experience in finance management and administration of which nearly 10 years as a member of the management committee of a listed company. He joined the Company in the year 2000.

Ms. Cheng Wing See, Nathalie

Aged 34, is responsible in managing of procurement of the Group. Ms. Cheng has over 10 years' extensive experience in procurement in the plastic toys field. Ms. Cheng is a daughter of Mr. Cheng Yung Pun, Chairman of the Company. She joined the Company in the year 2000.

Biographies of Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Loke Yu alias Loke Hoi Lam

Aged 58, was appointed an independent non-executive director and the chairman of the audit committee and remuneration committee of the Company. He has over 35 years of experience in accounting and auditing for private and public companies; financial consultancy; and corporate management. He holds a Master of Business Administration Degree from Universiti Teknologi Malaysia and a Doctor of Business Administration Degree from University of South Australia. Dr. Loke is a fellow of The Institute of Chartered Accountants in England and Wales; Hong Kong Institute of Certified Public Accountants; and The Hong Kong Institute of Directors. He is also an Associate member of The Institute of Chartered Secretaries and Administrators and a member of Malaysian Institute of Accountants. He is currently the Chairman of MHL Consulting Limited and serves as an independent non-executive director of several companies listed on the Stock Exchange of Hong Kong Limited. He joined the Company in the year 2004.

Mr. Mak Shiu Chung, Godfrey

Aged 45, was appointed to the board as an independent non-executive director and a member of the audit committee and remuneration committee of the Company. Mr. Mak holds a Bachelor of Science degree in business studies from Bradford University School of Management, UK and a Master of Business Administration degree from the University of Wales, UK. 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 Chairman of DeTeam Company Limited and has over 17 years of experiences in the field of corporate finance. He joined the Company in the year 2000.

Mr. Wan Hing Pui

Aged 77, was appointed to the board as an independent non-executive director and a member of the audit committee and remuneration committee of the Company. Mr. Wan has over 49 years of experiences in auditing, taxation and financial management consultancy services. He is an Associate Member of The Institute of Chartered Accountants in England and Wales, a Fellow of Hong Kong Institute of Certified Public Accountants, The Taxation Institute of Hong Kong and The Association of Chartered Certified Accountants in the United Kingdom. He is a sole proprietor of H.P. Wan & Co., a firm of Certified Public Accountants (Practising). He joined the Company in the year 2004.

Corporate Governance Report

CODE ON CORPORATE GOVERNANCE PRACTICES

The Board of Directors (the "Board") of Matrix Holdings Limited (the "Company") had adopted its own code on corporate governance practices which incorporates all the code provisions in the Code on Corporate Governance Practices (the "CGP Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company had applied the principles of the CGP Code and its own code since their adoption, with an exception of code provisions A.2.1. and A.4.1 as stated in the CGP Code, in order to protect and enhance the benefits of shareholders. Following sustained development of the Company, the Board and its executive management will continue to monitor the governance policies to ensure that such policies meet the general rules and standards.

BOARD OF DIRECTORS

The Board serving the important function of guiding the management, currently comprises four executive directors, namely Mr. Cheng Yung Pun (Chairman), Mr. Arnold Edward Rubin (Vice-Chairman), Mr. Yu Sui Chuen and Ms. Cheng Wing See, Nathalie and three independent non-executive directors ("INEDs") (collectively the "Directors") required under Rule 3.10(1) of the Listing Rules, namely Dr. Loke Yu alias Loke Hoi Lam, Mr. Mak Shiu Chung, Godfrey and Mr. Wan Hing Pui who represent almost half of the Board and include two with appropriate professional qualifications and accounting and related financial expertise required under Rule 3.10(2) of the Listing Rules. Save as Ms. Cheng is the daughter of Mr. Cheng, there is no financial, business, family or other material/relevant relationship between the Directors. The Company considers that the Board has the necessary skills and experience appropriate for discharging their duties as Directors in the best interest of the Company and that the current board size as adequate for its present operations.

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

The Directors as aforesaid, accompanied by their respective biographical details, are listed in the section of "Biographies of Directors and Senior Management" in this report and that the INEDs are expressly identified in all of the Company's publication such as circular, announcement or relevant corporate communications in which the names of Directors of the Company are disclosed.

Corporate Governance Report

BOARD OF DIRECTORS (Continued)

The principal functions of the Board are to make decision on the strategic development of the Company; to oversee the management of the business and affairs of the Group; to supervise the management of the business and affairs with the objective of enhancing the Company and shareholders' value with the proper delegation of the power to the management for its day-to-day operation of the Company, implementation of the budgets and strategic plans and development of the organisation of the Company for implementing the Board's decision. During the year under review, the Board has reviewed, inter alia, the performance of the Group and formulated business strategy of the Group; reviewed and approved the annual and interim results of the Group for the year ended 31st December, 2006 and for the six months ended 30th June, 2007 respectively; and approved the scrip dividend alternate.

The Board conducts meeting on a regular basis and on an ad hoc basis, as required by business needs. The Bye-laws of the Company allows board meetings to be conducted by way of telephone or videoconference. Any resolutions to be passed by way of written resolutions circulated to and signed by all Directors from time to time when necessary unless any matters in which a substantial shareholder or a Director or their respective associates has a conflict of interest. During the year under review, the Board held sixteen board meetings which were attended by all directors namely Mr. Cheng Yung Pun, Mr. Arnold Edward Rubin (attend the meeting since his appointment on 17th July, 2007), Mr. Yu Sui Chuen, Ms. Cheng Wing See, Nathalie, Dr. Loke Yu alias Loke Hoi Lam, Mr. Mak Shiu Chung, Godfrey and Mr. Wan Hing Pui.

In the said board meetings, sufficient fourteen-day notices for regular board meetings and notice in reasonable days for non-regular board meetings were given to all Directors so as to ensure that each of them had an opportunity to attend the meetings, and agendas and accompanying board papers were given to all Directors in a timely manner before the appointed date of the board meetings and at least three days before the regular board meetings or such other period as agreed. Sufficient information was also supplied by the management to the Board to enable it to make informed decisions, which are made in the best interests of the Company.

Corporate Governance Report

APPOINTMENTS AND RE-ELECTION OF DIRECTORS

In accordance with the Bye-laws of the Company, every director should be subject to retirement by rotation at least once every three years. All Directors appointed to fill a casual vacancy should be subject to election by shareholders at the first annual general meeting after their appointment and that one-third of the Directors should be subject to retirement and re-election every year. Accordingly, though none of the existing non-executive (including independent non-executive) Directors of the Company is appointed for a specific term, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the CGP Code as all non-executive Directors are subject to retirement provisions under the Company's Bye-laws.

In considering the nomination of a new director, the Board will review its own size, structure and composition to ensure that it has a balance of expertise, skills and experience appropriate to the requirements of the Company. Where vacancies on the Board exist or an additional director is considered necessary, the Chairman will identify suitable candidates and propose the appointment of such candidates to the Board for consideration and the Board will take into account the qualification, in particular any qualification as required in the Listing Rules, ability, working experience, leadership and professional ethics of the candidates and approved if such appointment considered suitable. The Board also considers that the existing human resources policy in recruitment of new senior staff, to certain circumstance, is applicable to nomination of a new director. Furthermore, as the Board is responsible for selection and approval of candidates for appointment as directors to the Board, the Company has not established a Nomination Committee for the time being.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr. Michael Adam Greenberg is no longer the chief executive officer of the Company since Nov 2007. In order to balance the power and authority among CEO and the Chairman and to rectify the deviation of the Code A.2.1 of the CGP Code, the Company will use its best endeavours to seek a suitable candidate to assume such position as soon as practicable.

The Chairman of the Board is appointed by the Board and now performed by Mr. Cheng Yung Pun. The role of Chairman is governed by the Chairman Mandate (containing the minimum prescribed duties) and stated in the Company's own code on corporate governance practices. 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 will be appointed by the Board and will be delegated with the authority and his principal responsibility will be, inter alia, running the Group's business, and implementation of the Group's strategy in achieving the overall commercial objectives.

Corporate Governance Report

DIRECTORS' SECURITIES TRANSACTIONS

The Company had adopted a code of conduct regarding securities transactions by directors on no less exacting than the terms and required standard contained in the Model Code for Securities Transactions by Directors set out in Appendix 10 of the Listing Rules (the "Model Code"). Having made specific enquiry of all the Directors, the Company had obtained confirmation from all the Directors that they have complied with the required standard set out in the Model Code and the code of conduct for securities transactions by directors adopted by the Company.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The financial statements of the Company for the year ended 31st December, 2007 have been reviewed by the Audit Committee and audited by the external auditors, Messrs. Deloitte Touche Tohmatsu. The Directors acknowledge their responsibility for preparing the financial statements of the Group and presenting a balanced, clear and comprehensive assessment of the Group's performance and prospects. They are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The Directors ensure the preparation of the financial statements of the Group are in accordance with statutory requirements and applicable accounting standards. The Directors also ensure the publication of the financial statements of the Group in a timely manner.

REMUNERATION COMMITTEE

The Board has established a Remuneration Committee comprising three INEDs, namely Dr. Loke Yu alias Loke Hoi Lam, Mr. Mak Shiu Chung, Godfrey and Mr. Wan Hing Pui, appointed by the Board and is chaired by Dr. Loke Yu alias Loke Hoi Lam, which meets at least once a year.

The principal duties of Remuneration Committee include, inter alia, reviewing and making recommendation to the Board the remuneration policy; making recommendation to the Board of the remuneration of non-executive directors; and determination of the remuneration of the executive director and members of the Senior Management. The overriding objective of the remuneration policy is to ensure that the Company is able to attract, retain, and motivate a high-calibre team which is essential to the success of the Company.

The specific terms of reference of the Remuneration Committee (containing the minimum prescribed duties) are adopted and which are available on request or on the website: www.matrix.hk.com.

The Remuneration Committee consults the Chairman and/or CEO about their proposal relating to the remuneration of other executive Directors and has access to professional advice where necessary. No Directors and executives can determine his own remuneration. During the year under review, the Remuneration Committee held one meeting reviewing the directors' remuneration which was attended by all committee members namely Dr. Loke Yu alias Loke Hoi Lam, Mr. Mak Shiu Chung, Godfrey and Mr. Wan Hing Pui. Minutes of Remuneration Committee Meeting are kept by a duly appointed secretary of the meeting. Draft and final versions of minutes of the meeting are sent to all members of the Committee for their comment and records respectively, in both cases within a reasonable time after the meeting.

Corporate Governance Report

AUDIT COMMITTEE

The Audit Committee, comprising three INEDs namely Dr. Loke Yu alias Loke Hoi Lam, Mr. Mak Shiu Chung, Godfrey and Mr. Wan Hing Pui, appointed by the Board who have extensive experience in financial matters, meets at least twice a year and is chaired by Dr. Loke Yu alias Loke Hoi Lam. Two Audit Committee members are qualified accountants. None of the Audit Committee members are members of the former or existing auditors of the Company.

The principal responsibilities of the Audit Committee are, inter alia, to review the appointment of external auditors on an annual basis including a review of the audit scope and approval of the audit fees; to ensure continuing auditor objectivity and to safeguard independence of the Company's auditors; to meet the external auditors to discuss issues and reservations (if any) arising from the interim review and final audit, and any matters the auditors suggest to discuss; to review the Group's internal control system; to review the annual and interim report and quarterly result (if any) prior to approval by the Board in accordance with the accounting policies and practices and relevant accounting standards, the Listing Rules and the legal requirements; to serve as a focal point for communication between other Directors and the external auditors in respect of the duties relating to financial and other reporting, internal controls, external audit, and such other matters as the Board determines from time to time; to consider major findings of internal review and management's response and ensure proper arrangement in place for the fair and independent review of such concerns and appropriate follow up action; to devise a framework for the type and authorisation of non-audit services provided by the external auditors.

During the year under review, the Audit Committee had held two meetings which were attended by all committee members namely Dr. Loke Yu alias Loke Hoi Lam, Mr. Mak Shiu Chung, Godfrey and Mr. Wan Hing Pui, to have financial review; to review interim and annual reports before submission to the Board in accordance with the accounting policies and practices, relevant accounting standards, the Listing Rules and the legal requirements; to review the external auditors' engagement letter; to discuss issues during the audits of external auditors. The external auditors and the senior executives are invited to attend the meeting for annual financial statements. Minutes of Audit Committee Meeting are kept by a duly appointed secretary of the meetings. Draft and final versions of minutes of the meeting are sent to all members of the committee for their comment and records respectively, in both cases within a reasonable time after the meetings.

The Audit Committee discharged their duties in accordance with their terms of reference (containing the minimum prescribed duties). These specific terms of reference are available on request or on the website: www.matrix.hk.com.

Corporate Governance Report

AUDITOR'S REMUNERATION

During the year under review, the fees paid or payable to the auditor of the Company, Messrs. Deloitte Touche Tohmatsu were approximately HK$2,492,000 and HK$5,870,000 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$560,000.

INTERNAL CONTROL

The Board has overall responsibilities for maintaining sound and effective internal control system of the Group. The Board has conducted a review of the effectiveness of the system of internal control of the Group including the relevant financial, operational and compliance controls and risk management procedures and has delegated to the management the implementation of such systems of internal controls.

An Internal Control Committee comprises members of the management which was established for conducting a review of the internal control of the Group which cover the material controls including financial, operational and compliance controls and risk management functions. Procedures have been set up for safeguarding assets against unauthorised use or disposition, controlling over capital expenditure, maintaining proper accounting records and ensuring the reliability of financial information used for business and publication etc. The management throughout the Group maintains and monitors the internal control system on an ongoing basis.

INVESTOR RELATIONS

During the year under review, the Group has proactively enhanced its corporate transparency and communications with its shareholders and the investment community through its mandatory interim and final reports. Through the timely distribution of press releases, the Group has also kept the public abreast of its latest developments. Meetings have been organised to enhance the investors' understanding of the Group's business and production operations.

COMMUNICATION WITH SHAREHOLDERS

The annual general meeting provides a useful forum for shareholders to exchange views with the Board. The Chairman as well as chairman of the Audit and Remuneration Committees and members of the Committees are pleased to answer shareholders' questions.

Separate resolutions are proposed at general meetings on each substantially separate issue, including the election of individual directors.

Details of poll voting procedures and the rights of shareholders to demand a poll are included in the circular to shareholders dispatched together with the annual report. The circular also includes relevant details of proposed resolutions, including biographies of each candidates standing for re-election. The results of the poll of the 2007 Annual General Meeting of the Company are published in the newspapers and on the website of the Stock Exchange, www.hkex.com.hk.

Report of the Directors

The directors of the Company have pleasure in presenting their annual report together with the audited consolidated financial statements of the Company for the year ended 31st December, 2007.

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 40 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The five largest customers of the Group together accounted for approximately 64% of the Group's turnover, with the largest customer accounted for approximately 51%. The aggregate purchases attributable to the Group's five largest suppliers were approximately 37% of total purchases of the Group, with the largest supplier accounted for approximately 16%.

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, 2007 are set out in the consolidated income statement on page 39.

During the year, the Company has paid a 2006 final dividend of HK9 cents and the directors have declared a 2007 interim dividend of HK8 cents, both were to be satisfied by cash and, with an alternative to the shareholders to elect to receive such dividends (or part thereof) by way of scrip dividend by allotment of new shares in the Company, credited as fully paid. The total amount of scrip dividend credited as fully paid shares and total cash dividend paid during the year were approximately HK$74,740,000 and HK$34,290,000 respectively.

The directors now recommend the payment of a final dividend of HK3 cents per share, amounting to approximately HK$20,186,000, to the shareholders on the register of members on 29th May, 2008 and the remaining retained profits in the Company, amounting to approximately HK$107,015,000.

Report of the Directors

PROPERTY, PLANT AND EQUIPMENT

Certain of the Group's leasehold land and buildings were revalued at 31st December, 2007. The revaluation resulted in a surplus over book values amounting to approximately HK$15,178,000, which has been credited directly to the asset revaluation reserve.

During the year, the Group spent approximately HK$36,570,000 on plant and machinery and approximately HK$3,356,000 on leasehold land and buildings to expand and upgrade its production capacity. Through acquisition of subsidiaries, the Group acquired property, plant and machinery of approximately HK$35,940,000.

Details of these and other movements during the year in the property, plant and equipment of the Group are set out in note 16 to the consolidated financial statements.

SHARE CAPITAL

The Company issued 19,545,643 and 21,152,740 ordinary shares of HK$0.10 each for 2006 final scrip dividend and 2007 interim scrip dividend respectively during the year under review. On 7th May, 2007, pursuant to a subscription agreement dated 24th April, 2007, the Company issued a total of 55,000,000 ordinary shares of HK$0.10 each in the Company at a price of HK$1.81 per share to Suncorp Investments Group Limited ("Suncorp"), the ultimate holding company of the Company. The new shares rank pari passu with the existing shares in all respects.

Details of the movements in share capital of the Company during the year are set out in note 29 to the consolidated financial statements.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the listed shares of the Company.

RESERVES

Movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 41.

Reserves of the Company as at 31st December, 2007 available for distribution, calculated under the Companies Act 1981 of Bermuda (as amended), amounted to approximately HK$130,862,000 (2006: HK$174,734,000).

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

	2007 ***HK$'000***	2006 *HK$'000*
Contributed surplus	**3,661**	3,661
Retained profits	**127,201**	171,073
	130,862	174,734

Report of the Directors

RESERVES (Continued)

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 94.

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) (appointed on 17th July, 2007)*
Yu Sui Chuen
Cheng Wing See, Nathalie

Report of the Directors

DIRECTORS (Continued)

Independent non-executive directors:

Loke Yu alias Loke Hoi Lam
Mak Shiu Chung, Godfrey
Wan Hing Pui

DIRECTORS' SERVICE CONTRACTS

In accordance with the clause 99 of the Bye-laws of the Company, Ms. Cheng Wing See, Nathalie (executive director) and Dr. Loke Yu alias Loke Hoi Lam (independent non-executive director) 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. Arnold Edward Rubin (executive director and vice chairman) retires and, being eligible, offers himself for re-election at the forthcoming annual general meeting.

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

An employment agreement was entered into between one of the wholly-owned subsidiaries of the Company and Mr. Arnold Edward Rubin, executive director and vice chairman of the Company commencing from 8th June, 2007 and continuing for a period of three years thereafter for his being the president of this subsidiary. Save as disclosed above, none of the directors being proposed for re-election at the forthcoming annual general meeting has an unexpired service contract with the Company or an of its subsidiaries that is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

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

DIRECTORS'/CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Details of related party transactions during the year are set out in note 37 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, 2007, 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	Nature of interests	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Cheng Yung Pun	Corporate interest *(Note)*	400,039,614	59.45%
Yu Sui Chuen	Personal interest	668,000	0.10%
Cheng Wing See, Nathalie	Personal interest	700,000	0.10%

Note: The shares are held by Suncorp, a company incorporated in the British Virgin Islands. The entire issued share capital of Suncorp is wholly owned by Mr. Cheng Yung Pun.

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

Share Option

	Option type	Number of underlying shares attached to the share options: Outstanding at beginning of year	Granted during year	Exercised during the year	Lapsed during year	Outstanding at end of year	Exercise price HK$	Exercise period
Category 1: Directors and former chief executive								
Yu Sui Chuen *(director)*	2005	2,922,000 *(Note 1)*	–	–	–	2,922,000	2.340	27th January, 2006 to 26th January, 2009
Michael Adam Greenberg *(former chief executive)*	2005	5,846,000	–	–	(5,846,000) *(Note 2)*	–	2.340	27th January, 2006 to 26th January, 2009
Arnold Edward Rubin *(director)*	2007a	–	6,300,000 *(Note 3)*	–	–	6,300,000	1.934	6th September, 2007 to 6th September, 2010
Total directors and former chief executive		8,768,000	6,300,000	–	(5,846,000)	9,222,000		
Category 2: Employees								
	2007a	–	2,133,333 *(Note 4)*	–	–	2,133,333	1.934	6th September, 2007 to 6th September, 2010
	2007b	–	6,500,000 *(Note 5)*	–	–	6,500,000	1.944	15th October, 2007 to 15th October, 2010
	2007c	–	2,000,000 *(Note 6)*	–	–	2,000,000	1.684	11th February, 2008 to 11th February, 2011
	2007d	–	2,000,000 *(Note 7)*	–	–	2,000,000	1.656	21st February, 2008 to 21st February, 2011
	2007e	–	2,000,000 *(Note 8)*	–	–	2,000,000	1.700	10th March, 2008 to 10th March, 2011
Total employees		–	14,633,333	–	–	14,633,333		
Total all categories		8,768,000	20,933,333	–	(5,846,000)	23,855,333		

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)

Notes:

(1) Mr. Yu Sui Chuen, a director of the Company, has beneficial interests in 2,922,000 underlying shares (representing 0.43% of issued share capital of the Company) in respect of share options granted to him on 27th October, 2005 pursuant to the Company's share option scheme.

(2) Mr. Michael Adam Greenberg is no longer the chief executive officer of the Company since Nov 2007.

(3) Mr. Arnold Edward Rubin, a director of the Company, has beneficial interests in 6,300,000 underlying shares (representing 0.94% of issued share capital of the Company) in respect of share options granted to him on 8th June, 2007 pursuant to the Company's share option scheme.

(4) The 2,133,333 underlying shares (representing approximately 0.32% of issued share capital of the Company) in respect of share options were granted on 8th June, 2007 pursuant to the Company's share option scheme.

(5) The 6,500,000 underlying shares (representing approximately 0.97% of issued share capital of the Company) in respect of share options were granted on 17th July, 2007 pursuant to the Company's share option scheme.

(6) The 2,000,000 underlying shares (representing approximately 0.3% of issued share capital of the Company) in respect of share options were granted on 13th November, 2007 pursuant to the Company's share option scheme.

(7) The 2,000,000 underlying shares (representing approximately 0.3% of issued share capital of the Company) in respect of share options were granted on 23rd November, 2007 pursuant to the Company's share option scheme.

(8) The 2,000,000 underlying shares (representing approximately 0.3% of issued share capital of the Company) in respect of share options were granted on 11th December, 2007 pursuant to the Company's share option scheme.

The closing prices of the Company's shares on 8th June, 2007, 17th July, 2007, 13th November, 2007, 23rd November, 2007 and 11th December, 2007, the dates of grant of the options type of 2007a, 2007b, 2007c, 2007d and 2007e, were HK$1.92, HK$1.90, HK$1.65, HK$1.61 and HK$1.7 respectively.

Particulars of the Company's Share Option Scheme are set out in note 38 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, 2007.

Report of the Directors

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

Other than as disclosed in the section "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying shares and Debentures", at no time during the year was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries, was a party to any arrangements to enable the directors of the Company and their associates to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2007, 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
Suncorp *(Note 1)*	Beneficial owner	400,039,614	59.45%
Veer Palthe Voûte NV	Investment Manager	55,053,090	8.71%
Dresdner Bank Aktiengesellschaft *(Note 2)*	Interest held by controlled corporations	55,053,090	8.71%
Allianz SE *(Note 3)*	Interest held by controlled corporations	55,053,090	8.71%
Hang Seng Bank Trustee International Limited *(Note 4)*	Trustee	63,000,000	9.66%
Cheah Company Limited *(Note 4)*	Interest held by controlled corporations	63,000,000	9.66%
Cheah Capital Management Limited *(Note 4)*	Interest held by controlled corporations	63,000,000	9.66%

Report of the Directors

SUBSTANTIAL SHAREHOLDERS (Continued)

Long Positions in Ordinary Shares of the Company (Continued)

Ordinary Shares of HK$0.10 each of the Company (Continued)

Name of shareholder	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Value Partners Group Limited *(Note 4)*	Interest held by controlled corporations	63,000,000	9.66%
Value Partners Limited *(Note 4)*	Investment Manager	63,000,000	9.66%
Cheah Cheng Hye *(Note 5)*	Founder of discretionary trust	63,000,000	9.66%
To Hau Yin *(Note 6)*	Spouse of Mr. Cheah Cheng Hye	63,000,000	9.66%

Notes:

(1) Suncorp, a company incorporated in the British Virgin Islands which is wholly owned by Mr. Cheng Yung Pun, director of the Company.

(2) These Shares are held by Veer Palthe Voûte NV, which is through Dresdner Bank Luxembourg S.A., 100% held by Dresdner Bank Aktiengesellschaft.

(3) These Shares are held by Veer Palthe Voûte NV, which is through Dresdner Bank Luxembourg S.A., 100% held by Dresdner Bank Aktiengesellschaft, which in turn is, through Allianz Finanzbeteiligungs GmbH, 81.10% held by Allianz SE.

(4) Value Partners Limited is wholly owned by Value Partners Group Limited which in turn is owned as to 35.65% by Cheah Capital Management Limited. Cheah Capital Management Limited is wholly owned by Cheah Company Limited which in turn is wholly owned by Hang Seng Bank Trustee International Limited. Hang Seng Bank Trustee International Limited is a trustee of The C H Cheah Family Trust. Accordingly, Value Partners Group Limited, Cheah Capital Management Limited, Cheah Company Limited, Hang Seng Bank Trustee International Limited and The C H Cheah Family Trust are deemed to be interested in all the shares in which Value Partners Limited is interested pursuant to the Securities and Futures Ordinance ("SFO").

(5) Mr. Cheah Cheng Hye, the founder of The C H Cheah Family Trust, is deemed to be interested in 63,000,000 shares in pursuant to SFO.

(6) Ms. To Hau Yin being the wife of Mr. Cheah Cheng Hye is deemed to be interested in 63,000,000 shares in pursuant to SFO.

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, 2007.

Report of the Directors

SHARE OPTION SCHEME

The share option scheme of the Company was adopted on 17th December, 2002 (the "Scheme") to comply with the requirements of Chapter 17 of the Listing Rules effected on 1st September, 2001. The key terms of the Scheme are summarised herein below:

(i) The purpose of the Scheme is to enable the Company to grant options to selected participants as incentives or rewards for their contribution to the Company and/or the subsidiaries (as defined in the Scheme);

(ii) The participants of the Scheme include any full-time employee, executives or officers, directors of the Company or any of the subsidiaries and any suppliers, consultants, agents or advisers who have contributed to the Group;

(iii) The total number of shares available for issue under the Scheme is 2,570,667 which represents 0.38% of the existing issued share capital of the Company (being adjusted for the effects on the issue of share capital owing to the scrip dividend in July and November 2007 respectively and subscription of shares in May 2007) as at the date of this annual report;

(iv) The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company at the date of adoption of the Scheme, unless approval from the Company's shareholders has been obtained. The number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes of the Company must not exceed 30% of the shares in issue from time to time;

(v) Unless approved by shareholders in general meeting, no participants shall be granted an option if the total number of shares issued and to be issued upon exercise of the options granted and to be granted to such participant in any 12-month period up to the date of the latest grant would exceed 1% of the issued share capital of the Company from time to time. Options granted to a substantial shareholders or an independent non-executive director in excess of 0.1% of the Company's share capital in issue for the time being and with a value in excess of HK$5 million must be approved in advance by the Company's shareholders;

(vi) An option may be exercised in accordance with the terms of the Scheme at any time during a period to be notified by the Board to each grantee. Unless otherwise determined by the Board at its sole discretion, there is no requirement of a minimum period for which an option must be held or a performance target which must be achieved before an option can be exercised;

Report of the Directors

SHARE OPTION SCHEME (Continued)

(vii) A non-refundable remittance of HK$1 by way of consideration for the grant of an option is required to be paid by each grantee upon acceptance of the option;

(viii) The subscription price payable upon exercising any particular option granted under the Scheme is determined based on a formula: P = N x Ep, where "P" is the subscription price; "N" is the number of shares to be subscribed; and "Ep" is the exercise price of the highest of (a) the nominal value of a share in the Company on the date of grant; (b) the official closing price of shares of the Company as stated in the daily quotation sheets of the Stock Exchange on the date of grant; and (c) the average of the official closing price of shares of the Company as stated in the daily quotation sheets of the Stock Exchange for the five business days immediately preceding the date of grant and as adjusted pursuant to the clauses of the Scheme; and

(ix) The life of the Scheme is until the tenth anniversary of the adoption date of the Scheme.

Particulars of the Company's share option scheme are set out in note 38 to the consolidated financial statements.

23,855,333 underlying shares in respect of the share options had been granted as disclosed in the Section "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" are not exercised, cancelled or lapsed during the year under review.

As at 31st December, 2007, the total number of shares available for issue under the Company's share option scheme was 2,570,667 shares which represented 0.38% of the issued share capital of the Company.

EMOLUMENT POLICY

A Remuneration Committee is set up for reviewing the Group's emolument policy and structure for all remuneration of the directors and senior management of the Group, having regard to the Group's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as incentive to directors and eligible employees, details of the scheme is set out as "Share Option Scheme" above.

Report of the Directors

COMPLIANCE OF THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Board had adopted its own code on corporate governance practices in which incorporates all code provisions in the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules (the "CGP Code").

None of the directors of the Company is aware of information that would reasonably indicate the Company is not or was not for any part of the year under review, in compliance with the CGP Code and its own code except the deviation from the following code provision of the CGP Code:

1. Code A.2.1. that Mr. Michael Adam Greenberg is no longer the chief executive officer of the Company since Nov 2007. In order to balance the power and authority among CEO and the Chairman and to rectify the deviation of the Code A.2.1 of the CGP Code, the Company will use its best endeavours to seek a suitable candidate to assume such position as soon as practicable.

2. Code A.4.1 that none of the existing non-executive directors of the Company is appointed for a specific term. However, as all the non-executive directors of the Company (including independent non-executive) are subject to retirement provision under the Company's Bye-laws, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the CGP Code.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31st December, 2007.

OTHER REQUIRED DISCLOSURE PURSUANT TO RULE 13.18 OF THE LISTING RULES

One of the Group's banking facilities provided by a bank in an aggregate amount of HK$40,000,000 (the "Facility") had been renewed effective from 1st December, 2006 to any date if such facilities be terminated. Throughout the term of the Facility, Mr. Cheng Yung Pun, the controlling shareholder of the Company, is required to retain his control over the Company not less than 51% of the Company's issued share capital.

AUDITOR

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

By order of the Board
Cheng Yung Pun
Chairman

Hong Kong, 21st April, 2008

Independent Auditor's Report

Deloitte.
德勤

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

We have audited the consolidated financial statements of Matrix Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 39 to 93, which comprise the consolidated balance sheet as at 31st December, 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements 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. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

Independent Auditor's Report

AUDITOR'S RESPONSIBILITY (Continued)

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's 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 and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31st December, 2007 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.

OWNERSHIP OF MATRIX PLASTIC MANUFACTURING (ZHONGSHAN) CO., LTD. ("MPMZ")

Without qualifying our opinion, we draw attention to note 2 to the consolidated financial statements which explains that in October 1999 there was a court judgment in connection with a claim made by a trade creditor. According to the court judgment, the Company did not hold the legal ownership of MPMZ, an indirect wholly owned major subsidiary of the Company. The Company has made an application for a judicial review of the judgment regarding the ownership of MPMZ. The directors, based on independent legal advice, 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 and accordingly have continued to treat MPMZ as an indirect subsidiary.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, 21st April, 2008

Consolidated Income Statement

For the year ended 31st December, 2007

	NOTES	2007 HK$'000	2006 HK$'000
Turnover	8	**1,218,759**	867,959
Cost of sales		**(857,607)**	(590,531)
Gross profit		**361,152**	277,428
Other income	9	**6,539**	6,206
Distribution and selling costs		**(132,994)**	(90,357)
Administrative expenses		**(165,782)**	(88,724)
Finance costs	10	**(7,054)**	(503)
Profit before taxation	11	**61,861**	104,050
Income tax charge	13	**(2,200)**	(3,404)
Profit for the year		**59,661**	100,646
Attributable to:			
Equity holders of the Company		**59,667**	100,646
Minority interest		**(6)**	–
		59,661	100,646
Earnings per share – Basic	15	**HK$0.09**	HK$0.16

Consolidated Balance Sheet

At 31st December, 2007

	NOTES	2007 HK$'000	2006 HK$'000
Non-current assets			
Property, plant and equipment	16	**287,690**	198,297
Prepaid lease payments	17	**1,079**	1,111
Goodwill	18	**115,488**	–
Intangible assets	20	**67,642**	–
Deferred tax assets	30	**478**	344
Prepaid royalty		**39,546**	–
		511,923	199,752
Current assets			
Inventories	21	**229,819**	192,556
Trade and other receivables	22	**201,517**	99,467
Prepaid lease payments	17	**32**	32
Tax recoverable		**1,952**	–
Held-for-trading investments	23	**133**	820
Pledged bank deposit	24	**5,606**	5,291
Bank balances and cash	24	**27,854**	30,871
		466,913	329,037
Current liabilities			
Trade and other payables	25	**216,744**	130,393
Dividend payable		**–**	17,315
Tax payable		**58,024**	58,680
Amount due to ultimate holding company	26	**18,500**	–
Unsecured bank borrowings	27	**116,126**	13,525
Obligations under finance leases	28	**1,587**	–
		410,981	219,913
Net current assets		**55,932**	109,124
Total assets less current liabilities		**567,855**	308,876
Capital and reserves			
Share capital	29	**67,286**	57,716
Reserves		**389,525**	245,791
Equity attributable to equity holders of the Company		**456,811**	303,507
Minority interest		**1,651**	–
		458,462	303,507
Non-current liabilities			
Deferred tax liabilities	30	**16,577**	5,369
Obligations under finance leases	28	**5,769**	–
Loan from a shareholder	31	**87,047**	–
		109,393	5,369
		567,855	308,876

The consolidated financial statements on pages 39 to 93 were approved and authorised for issue by the Board of Directors on 21st April, 2008 and are signed on its behalf by:

Cheng Yung Pun
Chairman

Yu Sui Chuen
Director

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2007

	Attributable to equity holders of the Company											
	Share capital HK$'000	Share premium HK$'000	Special reserve HK$'000 (Note 1)	Shareholders' contribution HK$'000	Share options reserve HK$'000	Asset revaluation reserve HK$'000	Legal reserve HK$'000 (Note 2)	Translation reserve HK$'000	Retained profits HK$'000	Total HK$'000	Minority Interest HK$'000	Total HK$'000
At 1st January, 2006	58,472	55,708	771	6,901	1,625	35,039	–	(10,908)	185,849	333,457	–	333,457
Currency translation difference	–	–	–	–	–	–	–	(422)	–	(422)	–	(422)
Release of revaluation surplus upon disposal of property, plant and equipment	–	–	–	–	–	(2,612)	–	–	2,612	–	–	–
Profit for the year	–	–	–	–	–	–	–	–	100,646	100,646	–	100,646
Total recognised income and expenses for the year	–	–	–	–	–	(2,612)	–	(422)	103,258	100,224	–	100,224
Issues of shares pursuant to scrip dividend	236	(236)	–	–	–	–	–	–	4,510	4,510	–	4,510
Recognition of equity-settled share based payments	–	–	–	–	812	–	–	–	–	812	–	812
Dividend paid *(Note 14)*	–	–	–	–	–	–	–	–	(97,716)	(97,716)	–	(97,716)
Special dividend payable *(Note 14)*	–	–	–	–	–	–	–	–	(17,315)	(17,315)	–	(17,315)
Shares repurchased and cancelled	(992)	(19,473)	–	–	–	–	–	–	–	(20,465)	–	(20,465)
At 31st December, 2006	57,716	35,999	771	6,901	2,437	32,427	–	(11,330)	178,586	303,507	–	303,507
Currency translation difference	–	–	–	–	–	–	–	721	–	721	–	721
Reversal of deferred tax on asset revaluation reserve due to the change of tax rate	–	–	–	–	–	460	–	–	–	460	–	460
Surplus on revaluation of land and buildings	–	–	–	–	–	15,178	–	–	–	15,178	–	15,178
Net income recognised directly in equity	–	–	–	–	–	15,638	–	721	–	16,359	–	16,359
Profit for the year	–	–	–	–	–	–	–	–	59,667	59,667	(6)	59,661
Total recognised income and expenses for the year	–	–	–	–	–	15,638	–	721	59,667	76,026	(6)	76,020
Issue of new subscription shares	5,500	94,050	–	–	–	–	–	–	–	99,550	–	99,550
Issue of shares pursuant to scrip dividend	4,070	(4,070)	–	–	–	–	–	–	74,740	74,740	–	74,740
Transaction costs attributable to issue of shares	–	(2,597)	–	–	–	–	–	–	–	(2,597)	–	(2,597)
Recognition of equity-settled share based payments	–	–	–	–	5,607	–	–	–	–	5,607	–	5,607
Share option lapsed	–	–	–	–	(1,625)	–	–	–	1,625	–	–	–
Transfer of reserve	–	–	–	–	–	–	49	–	(49)	–	–	–
Deemed contribution from a shareholder	–	–	–	9,008	–	–	–	–	–	9,008	–	9,008
Partial disposal of equity interest in a subsidiary	–	–	–	–	–	–	–	–	–	–	1,657	1,657
Dividend paid *(Note 14)*	–	–	–	–	–	–	–	–	(109,030)	(109,030)	–	(109,030)
At 31st December, 2007	**67,286**	**123,382**	**771**	**15,909**	**6,419**	**48,065**	**49**	**(10,609)**	**205,539**	**456,811**	**1,651**	**458,462**

Notes:

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

(2) In accordance with the provisions of the Macao Commercial Code, one of the subsidiaries of the Company is required to transfer a minimum of 25% of its profit for the year to a legal reserve on the appropriation of profits to dividends until the reserve equals half of the quota capital of that subsidiary. This reserve is not distributable to the shareholders.

Consolidated Cash Flow Statement

For the year ended 31st December, 2007

	NOTES	2007 HK$'000	2006 HK$'000
OPERATING ACTIVITIES			
Profit before taxation		**61,861**	104,050
Adjustments for:			
Loss (gain) on disposal of property, plant and equipment		**223**	(648)
Loss on fair value changes of held-for-trading investments		**687**	122
Interest income		**(1,209)**	(730)
Interest expenses		**7,054**	503
Depreciation of property, plant and equipment		**42,296**	36,530
Amortisation of intangible assets		**6,978**	–
Gain on disposal of subsidiaries		**–**	(715)
Share-based payment expenses		**5,607**	812
Amortisation of prepaid lease payments		**32**	32
Loss on partial disposal of equity interest in a subsidiary		**134**	–
Impairment loss on trade and other receivables		**211**	–
Operating cash flows before movements in working capital		**123,874**	139,956
Increase in inventories		**(28,074)**	(43,261)
Increase in trade and other receivables		**(18,844)**	(41,214)
Increase in prepaid royalty		**(39,546)**	–
(Decrease) increase in trade and other payables		**(17,797)**	31,457
Effect of foreign exchange rate changes		**582**	37
Cash generated from operations		**20,195**	86,975
Income taxes paid		**(6,213)**	(632)
Interest paid		**(4,426)**	(503)
NET CASH FROM OPERATING ACTIVITIES		**9,556**	85,840
INVESTING ACTIVITIES			
Interest received		**1,209**	730
Proceeds from disposal of property, plant and equipment		**2,427**	10,011
Purchases of property, plant and equipment		**(83,079)**	(36,854)
Acquisition of subsidiaries	32	**(178,552)**	–
Disposal of subsidiaries	33	**–**	(125)
Partial disposal of equity interest in a subsidiary		**1,523**	–
(Increase) decrease in pledged bank deposit		**(315)**	46,699
NET CASH (USED IN) FROM INVESTING ACTIVITIES		**(256,787)**	20,461

Consolidated Cash Flow Statement

For the year ended 31st December, 2007

	2007	2006
	HK$'000	*HK$'000*
FINANCING ACTIVITIES		
Dividends paid	**(51,605)**	(110,748)
Repayment of obligations under finance leases	**(911)**	–
New bank loans raised	**248,467**	–
Repayment of bank loans	**(139,059)**	–
Proceeds from issue of shares	**99,550**	–
Expenses on issue of shares	**(2,597)**	–
(Decrease) increase in bank overdrafts	**(21,558)**	13,525
Repurchase of shares	**–**	(20,465)
Advance from ultimate holding company	**18,500**	–
Loan from a shareholder	**93,427**	–
NET CASH FROM (USED IN) FINANCING ACTIVITIES	**244,214**	(117,688)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(3,017)**	(11,387)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**30,871**	42,258
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by		
Bank balances and cash	**27,854**	30,871

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

1. GENERAL

The Company was incorporated in Bermuda on 24th November, 1993 as an exempted company under the Companies Act 1981 of Bermuda (as amended). The Company is a public limited company and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its parent and ultimate holding company is Suncorp Investments Group Limited ("Suncorp"), a company incorporated in the British Virgin Islands. The address of the registered office and principal place of business of the Company are disclosed in the corporate information section of this annual report.

The principal activities of the Company are investment holding and those of its principal subsidiaries are set out in note 40.

The consolidated financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

2. BASIS OF PREPARATION OF CONSOLIDATION

In October 1999, there was a court judgment in connection with a claim made by a trade creditor. According to the court judgment, the Company did not hold the legal ownership of Matrix Plastic Manufacturing (Zhongshan) Co., Ltd ("MPMZ"), an indirect wholly owned major subsidiary of the Company. The Company has made an application for a judicial review of the 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, based on independent legal advice, 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 continues to be treated as an indirect subsidiary of the Company.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, the following new standard, amendment and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning 1st January, 2007.

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment

The adoption of these new HKFRSs had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior year adjustment has been required.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

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

The Group has applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7 retrospectively. Certain information presented in prior year under the requirements of HKAS 32 has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

The Group has not early applied the following new and revised standards, amendment or interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of Financial Statements [1]
HKAS 23 (Revised)	Borrowing Costs [1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements [2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations [1]
HKFRS 3 (Revised)	Business Combinations [2]
HKFRS 8	Operating Segments [1]
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions [3]
HK(IFRIC)-Int 12	Service Concession Arrangements [4]
HK(IFRIC)-Int 13	Customer Loyalty Programmes [5]
HK(IFRIC)-Int 14	HKAS19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction [4]

[1] *Effective for annual periods beginning on or after 1st January, 2009.*
[2] *Effective for annual periods beginning on or after 1st July, 2009.*
[3] *Effective for annual periods beginning on or after 1st March, 2007.*
[4] *Effective for annual periods beginning on or after 1st January, 2008.*
[5] *Effective for annual periods beginning on or after 1st July, 2008.*

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1st July, 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The directors of the Company anticipate that the application of the other new or revised standards, amendment and interpretations will have no material impact on the results and the financial position of the Group.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain property, plant and equipment and financial instruments, which are measured at revalued amounts or fair values, as explained in the accounting policies set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from the activities.

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

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations

The acquisition of business is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under *HKFRS 3 Business Combinations* are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Goodwill

Goodwill arising on acquisitions on or after 1st January, 2005

Goodwill arising on an acquisition of a business for which the agreement date is on or after 1st January, 2005 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 the relevant subsidiaries at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of subsidiaries is presented separately in the consolidated balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Revenue from sales of goods is recognised when goods are delivered and title has passed.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Property, plant and equipment

Leasehold land and buildings held for use in the production or supply of good or services, or for administrative purposes other than construction in progress and plant and machinery are stated in the consolidated 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 any subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on revaluation of leasehold land and buildings and plant and machinery is credited to the asset revaluation reserve, 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 consolidated 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 consolidated 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 retained profits.

Other property, plant and equipment (other than construction in progress) are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost or fair value of items of property, plant and equipment other than construction in progress, over their estimated useful lives and after taking into account of their estimated residual value, using the straight line method.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

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

At each balance sheet date, the Group reviews the carrying amounts of its assets 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 loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classifications. Leasehold land for which title is not expected to pass to the lessee by the end of the lease term is classified as an operating lease unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire contract is classified as a finance lease.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the year in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the year, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the year in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1st January, 2005 are treated as assets and liabilities of that foreign operation and translated at the rate if exchange prevailing at the balance sheet date. Exchange differences arising are recognized in the translation reserve.

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the period in which they are incurred.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes items of income or expense that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, 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 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.

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 year when the liability is settled or the asset is realised. Deferred tax is charged or credited in the consolidated 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 is calculated using the first-in, first-out method.

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 as an expense when employees have rendered service entitling them to the contributions.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of the two categories, including financial assets at fair value through profit or loss and loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective Interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or where appropriate, a shorter period.

Interest income is recognised on an effective interest basis for debt instruments.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss of the Group comprise of held-for-trading investments.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or

- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

- it is a derivative that is not designated and effective as a hedging instrument.

At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excluded any dividend or interest earned on the financial assets.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, pledged bank deposit and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

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

- significant financial difficulty of the issuer or counterparty; or

- default or delinquency in interest or principal payments; or

- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments and observable changes in national or local economic conditions that correlate with default on receivables.

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans and receivables (Continued)

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. Interest expense is recognised on an effective interest basis.

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities including trade and other payables, amount due to ultimate holding company, unsecured bank borrowings and loan from a shareholder, are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Repurchase of shares

The repurchased shares will be cancelled during the year and the issued share capital of the Company is reduced by the nominal value thereof. The premium payable on repurchase of the shares will be charged to the share premium account.

Scrip dividends

For shares issued by the Company as alternative to a cash dividend, such scrip dividend is accounted for using the capitalisation method. The cash amount of the dividend foregone by the shareholders is written back in reserves and an amount equal to the nominal value of the share issued is credited to share capital and debited to share premium account.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans and receivables (Continued)

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

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

Equity-settled share-based payment transactions

Share options granted to employees of the Group

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognised in profit or loss, with a corresponding adjustment to share options reserve.

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained profits.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies which are described in note 4, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from the estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Depreciation

The Group depreciates its property, plant and equipment on a straight line basis over their estimated useful lives as set out in note 16 to the consolidated financial statements, commencing from the date the items of property, plant and equipment are put into their intended use. The estimated useful lives and the dates the items of property, plant and equipment are put into use reflects the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the property, plant and equipment. The Group assesses the residual value and useful lives of the property, plant and equipment on a regular basis and if the expectation differs from the original estimate, such difference will impact the depreciation charge in the year in which such estimate has been changed.

Estimated impairment of intangible assets

Determining whether intangible asset relating to customer base acquired is impaired requires an estimation of the value in use of the customer base. The value in use of the customer base requires the Group to estimate the future net cash flows expected to arise from the sales made from the customer base and a suitable discount rate in order to calculate the present value. The discount rate represents rate that reflects current market assessments of time value of money and the risks specific to the asset. As at 31st December, 2007, the carrying amount of customer base is approximately HK$67,642,000 (2006: nil).

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

5. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31st December, 2007, the carrying amount of goodwill is approximately HK$115,488,000 (2006: nil). Details of the recoverable amount calculation are disclosed in note 19.

Income taxes

As at 31st December, 2007, a deferred tax asset of HK$478,000 (2006: HK$344,000) in relation to unused tax losses and other taxable temporary differences have been recognised in the Group's consolidated balance sheet. No deferred tax asset has been recognised on the tax losses of approximately HK$127,865,000 (2006: HK$37,378,000) due to unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less or more than expected, a reversal or additional recognition of deferred tax asset may arise, which would be recognised in the consolidated income statement. In respect of the acquisition of subsidiaries set out in note 32, if a deferred tax asset of the acquiree which was not recognised at the time of the business combination is subsequently recognised, the resulting credit will be taken to the profit or loss for the period. At the same time, the carrying amount of goodwill will be reduced to the amount at which it would have been carried if the deferred tax asset had been recognised as an identifiable asset at the time of the combination and the resulting write-off is charged to profit in the same period.

6. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debts disclosed in notes 26, 27, 28 and 31 respectively, equity attributable to equity holders of the Company, comprising issued share capital, reserves and retained profits.

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

7. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2007 HK$'000	2006 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**211,870**	130,441
Held-for-trading investments	**133**	820
	212,003	131,261
Financial liabilities		
Amortised cost	**375,151**	108,292
Obligations under finance leases	**7,356**	–
	382,507	108,292

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, pledged bank deposit, bank balances, trade and other payables, dividend payable, unsecured bank borrowings, amount due to ultimate holding company, obligations under finance leases and loan from a shareholder. Details of these financial instruments are disclosed in respective notes. The risk associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

Several subsidiaries of the Company have foreign currency sales and purchases, which expose the Group to foreign currency risk. Foreign exchange risk is the risk of loss due to adverse movement in foreign exchange rate relating to foreign currency denominated trade receivables, pledged bank deposit and bank balances, trade payable and unsecured bank borrowings and the amounts are disclosed in notes 22, 24, 25 and 27 respectively. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

7. FINANCIAL INSTRUMENTS (Continued)

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

Currency risk (Continued)

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

	Assets		**Liabilities**	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
United States Dollars ("USD")	**137,166**	99,841	**17,190**	–
Japanese Yen ("Yen")	**5,606**	–	**14,630**	5,537

Sensitivity analysis

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

The following table details the Group's sensitivity to a 5% increase and decrease in HKD against Yen. 5% is the sensitivity rate used by management in the assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding Yen denominated monetary items and adjusts its translation at the year end for a 5% change in Yen rates. A negative number below indicates a decrease in profit for the year where Yen strengthens 5% against HKD. For a 5% weakening of Yen against HKD there would be an equal and opposite impact on the profit for the year below:

	2007	2006
	HK$'000	*HK$'000*
Decrease in profit for the year	**(500)**	(277)

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

7. FINANCIAL INSTRUMENTS (Continued)

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

Interest rate risk

The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note. The Group is exposed to fair value interest rate risk in relation to fixed rate borrowings (see note 28 for the details of the obligations under finance leases). The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of interest rate arising from the Group's variable-rate bank borrowings.

The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arises (see note 27 for details of the unsecured bank borrowings).

Sensitivity analysis

For the year ended 31st December, 2007, if the interest rate of unsecured bank borrowings had been 50 basis point higher/lower, the Group's profit would decrease/increase by approximately HK$581,000 (2006: HK$68,000).

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31st December, 2007 in relation to each class of recognised financial assets is the carrying amounts of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the Group has monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regards, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The five largest customers of the Group together accounted for approximately 64% (2006: 84%) of the Group's turnover, therefore, the Group's credit risk on its trade receivables is concentrated on a few major customers which accounted for approximately HK$30,275,000 (2006: HK$64,550,000) as at the balance sheet date, the Group has policies in place to ensure that sales of products are made to those customers with good credit history.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

7. FINANCIAL INSTRUMENTS (Continued)

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

Liquidity risk

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

The Group relies on bank borrowings as a significant source of liquidity. As at 31st December, 2007, the Group has available a total of unutilised overdraft and short-term bank loan facilities of approximately HK$74,094,000 (2006: HK$21,475,000).

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. It has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Weighted average effective interest rate	Less than 1 month	Between 1 to 3 months	Between 4 to 12 months	Between 1 to 5 years	Total undiscounted cash flow	Total carrying amount
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2007							
Non-derivative financial liabilities							
Trade and other payables	**–**	**58,762**	**70,086**	**24,630**	**–**	**153,478**	**153,478**
Unsecured bank borrowings	**4.74%**	**47,628**	**69,201**	**–**	**–**	**116,829**	**116,126**
Obligations under finance leases	**12.40%**	**217**	**434**	**1,953**	**7,135**	**9,739**	**7,356**
Amount due to ultimate holding company	**–**	**18,500**	**–**	**–**	**–**	**18,500**	**18,500**
Loan from a shareholder	**–**	**–**	**–**	**–**	**93,427**	**93,427**	**87,047**
		125,107	**139,721**	**26,583**	**100,562**	**391,973**	**382,507**
2006							
Non-derivative financial liabilities							
Trade and other payables	–	46,788	39,442	8,537	–	94,767	94,767
Unsecured bank borrowings	5.85%	13,591	–	–	–	13,591	13,525
		60,379	39,442	8,537	–	108,358	108,292

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

7. FINANCIAL INSTRUMENTS (Continued)

(c) Fair value

The fair value of financial assets and financial liabilities are determined as follows:

– the fair value of held-for-trading investments which are traded on active liquid markets are determined with reference to quoted market bid prices; and

– the fair value of other financial assets and financial liabilities are determined based on discounted cash flow analysis or using prices from observable current market transactions.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

8. SEGMENT INFORMATION

The Group is mainly engaged in the manufacturing and trading of gift items, novelties and infant and pre-school children toys. 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 other than Hong Kong (the "PRC") and the Socialist Republic of Vietnam ("Vietnam"). The directors of the Company consider the geographical segments by location of customers as the primary source of the Group's risks and returns.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

8. SEGMENT INFORMATION (Continued)

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

2007

	United States HK$'000	Europe HK$'000	Canada HK$'000	Hong Kong HK$'000	Others HK$'000	Consolidated HK$'000
TURNOVER						
External sales	1,011,665	78,417	51,196	34,304	43,177	1,218,759
RESULTS						
Segment results	162,175	21,453	8,742	2,921	6,658	201,949
Unallocated income						5,556
Unallocated expenses						(138,590)
Finance costs						(7,054)
Profit before taxation						61,861
Income tax charge						(2,200)
Profit for the year						59,661
ASSETS						
Segment assets	396,490	21,337	10,721	26,931	18,983	474,462
Unallocated corporate assets						504,374
						978,836
LIABILITIES						
Segment liabilities	134,009	9,146	1,510	2,216	2,977	149,858
Unallocated corporate liabilities						370,516
						520,374

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

8. SEGMENT INFORMATION (Continued)

2006

	United States	Europe	Canada	Hong Kong	Others	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
TURNOVER						
External sales	737,507	59,663	19,505	32,234	19,050	867,959
RESULTS						
Segment results	197,388	19,728	4,252	1,817	7,121	230,306
Unallocated income						5,363
Unallocated expenses						(131,116)
Finance costs						(503)
Profit before taxation						104,050
Income tax charge						(3,404)
Profit for the year						100,646
ASSETS						
Segment assets	215,589	16,992	8,559	9,039	6,280	256,459
Unallocated corporate assets						272,330
						528,789
LIABILITIES						
Segment liabilities	72,700	4,380	943	2,749	2,408	83,180
Unallocated corporate liabilities						142,102
						225,282

No analysis of capital expenditures, depreciation and non-cash expenses by location of customers is disclosed for both years as in the opinion of the directors, there is no appropriate basis on which allocation can be made.

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

	Carrying amounts of segment assets		**Additions to property, plant and equipment**	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
PRC	**128,675**	121,100	**15,939**	22,801
Vietnam	**62,477**	52,051	**58,132**	13,576
Hong Kong	**106,797**	79,522	**31,632**	344
Macau	**16,771**	1,641	**6**	9
United States	**157,950**	1,916	**13,044**	124
Canada	**18**	70	**–**	–
Europe	**1,774**	159	**266**	–
	474,462	256,459	**119,019**	36,854

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

9. OTHER INCOME

	2007	2006
	HK$'000	*HK$'000*
Interest income on bank deposits	**1,209**	730
Gain on disposal of subsidiaries	**–**	715
Gain on disposal of property, plant and equipment	**–**	648
Others	**5,330**	4,113
	6,539	6,206

10. FINANCE COSTS

	2007	2006
	HK$'000	*HK$'000*
Interest on:		
Bank borrowings wholly repayable within five years	**3,757**	503
Finance leases	**669**	–
Imputed interest expense on non-current interest-free loan from a shareholder	**2,628**	–
	7,054	503

11. PROFIT BEFORE TAXATION

	2007	2006
	HK$'000	*HK$'000*
Profit before taxation has been arrived at after charging (crediting):		
Loss on partial disposal of equity interest in a subsidiary	**134**	–
Loss (gain) on disposal of property, plant and equipment	**223**	(648)
Impairment loss on trade and other receivables	**211**	–
Auditor's remuneration	**3,052**	1,559
Amortisation of prepaid lease payments	**32**	32
Loss on fair value changes of held-for-trading investments	**687**	122
Depreciation of property, plant and equipment	**42,296**	36,530
Amortisation of intangible assets included in cost of sales	**6,978**	–
Net exchange loss	**4,991**	177
Research and development costs (including staff costs of HK$9,455,000 (2006: HK$10,877,000)) included in administrative expenses	**21,662**	17,730
Staff costs *(Note)*	**309,240**	233,481

Note: Staff costs include directors' remuneration and employees benefits in respect of share options granted but excludes staff costs included in research and development costs.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

12. DIRECTORS' EMOLUMENTS AND EMPLOYEES' EMOLUMENTS

Directors' emoluments

The emoluments paid or payable to each of the seven (2006: six) directors are as follows:

2007	Fees	Other emoluments Salaries and allowances	Contributions to MPFS	Other benefits *(Note)*	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors					
Cheng Yung Pun	–	1,050	12	–	1,062
Yu Sui Chuen	–	1,260	61	–	1,321
Cheng Wing See, Nathalie	–	574	12	–	586
Arnold Edward Rubin	–	2,690	–	1,977	4,667
Independent non-executive directors					
Loke Yu alias Loke Hoi Lam	72	–	–	–	72
Mak Shiu Chung, Godfrey	72	–	–	–	72
Wan Hing Pui	72	–	–	–	72
Total for 2007	216	5,574	85	1,977	7,852

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

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

Directors' emoluments (Continued)

2006	Fees	Other emoluments Salaries and allowances	Contributions to MPFS	Other benefits *(Note)*	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors					
Cheng Yung Pun	–	1,050	12	–	1,062
Yu Sui Chuen	–	1,008	47	270	1,325
Cheng Wing See, Nathalie	–	283	12	–	295
Independent non-executive directors					
Loke Yu alias Loke Hoi Lam	66	–	–	–	66
Mak Shiu Chung, Godfrey	66	–	–	–	66
Wan Hing Pui	66	–	–	–	66
Total for 2006	198	2,341	71	270	2,880

Note: Other benefits represent employees share option benefits.

No director waived any emoluments in the two years ended 31st December, 2007.

Employees' emoluments

Of the five individuals with the highest emoluments in the Group, one (2006: one) is the director of the Company whose emoluments are included in the above disclosures. The emoluments of the remaining four (2006: four) individuals are as follows:

	2007	2006
	HK$'000	*HK$'000*
Salaries and allowances	**10,639**	11,507
Contributions to retirement benefit schemes and MPFS	**284**	292
	10,923	11,799

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

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

Employees' emoluments (Continued)

Their emoluments are within the following bands:

	2007 No. of employees	2006 No. of employees
HK$1,000,001 to HK$1,500,000	**–**	1
HK$1,500,001 to HK$2,000,000	**3**	2
HK$5,500,001 to HK$6,000,000	**1**	–
HK$7,000,001 to HK$7,500,000	**–**	1
	4	4

13. INCOME TAX CHARGE

	2007 ***HK$'000***	2006 *HK$'000*
Current tax:		
Hong Kong	**2,223**	3,233
Other jurisdictions	**1,501**	316
	3,724	3,549
Overprovision in prior years:		
Hong Kong	**–**	(4)
Other jurisdictions	**–**	(730)
	–	(734)
Deferred tax:		
Current year *(Note 30)*	**(1,524)**	589
Taxation charge attributable to the Company and its subsidiaries	**2,200**	3,404

Hong Kong Profits Tax is calculated at 17.5% (2006: 17.5%) on the estimated assessable profit for the year.

According to the Investment License granted by Vietnam authority to certain subsidiaries operating in Vietnam, the applicable Vietnam enterprise income tax rate is 10% on the estimated assessable profits during their operating periods. These 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.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

13. INCOME TAX CHARGE (Continued)

Taxation arising in other jurisdiction is calculated at the rates prevailing in the relevant jurisdictions.

On 16th March, 2007, the PRC promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the People's Republic of China. On 6th December, 2007, the State Council of PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations will change the tax rate from 33% to 25% from 1st January, 2008. The deferred tax balance has been adjusted to reflect the tax rates that are expected to apply to the respective periods when the asset is realised or the liability is settled. Accordingly, reduction in deferred tax liability in relation to revaluation of property, plant and equipment of approximately HK$460,000 has been adjusted to asset revaluation reserve.

The tax position of the Group is currently being reviewed by the Hong Kong Inland Revenue Department ("IRD"). As a matter of IRD's practice, IRD has issued assessments to certain subsidiaries in respect of the years of assessment 2000/2001 and 2001/2002 amounting to approximately HK$2,345,000 and HK$17,678,000 respectively. The Group has filed an objection against such assessments of 2000/2001 and 2001/2002 and tax demanded for 2000/2001 was heldover unconditionally as agreed by the IRD. The review is still at a preliminary fact-finding stage. The directors are of the opinion that the amount of tax payable in the consolidated financial statements is adequate and that the eventual outcome of the review would not result in material impact on the consolidated financial statements.

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

	2007	2006
	HK$'000	*HK$'000*
Profit before taxation	**61,861**	104,050
Tax at the weighted average income tax rate *(Note)*	**8,143**	14,499
Tax effect of expenses not deductible for tax purpose	**2,715**	4,815
Tax effect of income not taxable for tax purpose	**(4,458)**	(1,939)
Tax effect of profit which are exempt from tax	**(5,291)**	(12,410)
Overprovision in respect of prior year	**–**	(734)
Tax effect of tax losses not recognised	**1,140**	72
Utilisation of tax losses	**–**	(891)
Others	**(49)**	(8)
Tax charge for the year	**2,200**	3,404

Note: The weighted average applicable tax rate for different jurisdictions is approximately 13% (2006: 14%). The weighted average applicable tax rate represents the weighted average tax rate in different jurisdictions in which the Group operates and is calculated on the basis of the profit or loss before taxation arising in these jurisdictions and on the statutory rates applicable.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

14. DIVIDENDS

	2007	2006
	HK$'000	*HK$'000*
Dividends recognised as distribution during the year		
Prior year final, paid – HK9 cents (2006: HK9 cents) per share	**56,894**	51,732
Interim, paid – HK8 cents (2006: HK8 cents) per share	**52,136**	45,984
Special, paid – nil (2006: HK3 cents) per share	**–**	17,315
	109,030	115,031

Scrip dividend alternate was offered to shareholders in respect of the 2006 final dividend and 2007 and 2006 interim dividend. The scrip dividend alternate was accepted by some of the shareholders as follows:

	2007	2006
	HK$'000	*HK$'000*
Dividends:		
Cash	**34,290**	41,474
Shares *(Note 34)*	**74,740**	4,510
	109,030	45,984

The final dividend of HK3 cents (2006: HK9 cents) per share amounting to approximately HK$20,186,000 (2006: HK$56,894,000) has been proposed by the directors and is subject to approval by the shareholders in the annual general meeting. The proposed final dividend for 2007 will be payable in cash with a scrip dividend alternate.

15. EARNINGS PER SHARE

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

Earnings	**2007**	2006
	HK$'000	*HK$'000*
Earnings for the purposes of basic earnings per share	**59,667**	100,646

Number of shares	**2007**	2006
	'000	*'000*
Weighted average number of ordinary shares for the purposes of basic earnings per share	**659,237**	612,821

The weighted average number of ordinary shares for the purpose of basic earnings per share has been adjusted for the effects of the scrip dividend in July and November 2007 respectively.

Diluted earnings is not shown as the exercise price of the share options outstanding is higher than the average market price for shares for both 2007 and 2006.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

16. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress	Leasehold land and buildings	Leasehold improvement	Plant and machinery	Moulds	Furniture and equipment	Motor vehicle	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
COST OR VALUATION								
At 1st January, 2006	–	109,852	14,811	65,173	24,095	8,096	718	222,745
Exchange adjustments	–	(201)	–	(229)	–	(29)	–	(459)
Additions	–	3,539	846	22,068	9,149	1,252	–	36,854
Disposals	–	(8,610)	(930)	(60)	–	(187)	–	(9,787)
Disposal of subsidiaries	–	–	(115)	–	–	(325)	–	(440)
At 31st December, 2006	–	104,580	14,612	86,952	33,244	8,807	718	248,913
Exchange adjustments	–	71	2	111	–	46	–	230
Additions	28,174	3,356	2,632	36,570	4,467	7,880	–	83,079
Acquired on acquisition of subsidiaries *(note 32)*	–	–	10,930	–	22,830	1,981	199	35,940
Surplus on revaluation	–	7,660	–	–	–	–	–	7,660
Disposals	–	–	(2,046)	(21)	–	(1,187)	(199)	(3,453)
At 31st December, 2007	**28,174**	**115,667**	**26,130**	**123,612**	**60,541**	**17,527**	**718**	**372,369**
Comprising								
At cost	28,174	–	26,130	–	60,541	17,527	718	133,090
At valuation	–	115,667	–	123,612	–	–	–	239,279
	28,174	115,667	26,130	123,612	60,541	17,527	718	372,369
DEPRECIATION AND IMPAIRMENT LOSSES								
At 1st January, 2006	–	–	2,107	–	9,497	2,540	654	14,798
Exchange adjustments	–	(7)	–	(46)	–	(13)	–	(66)
Provided for the year	–	3,922	2,126	18,770	10,046	1,602	64	36,530
Eliminated on disposals	–	(87)	(181)	(36)	–	(120)	–	(424)
Eliminated on disposal of subsidiaries	–	–	(63)	–	–	(159)	–	(222)
At 31st December, 2006	–	3,828	3,989	18,688	19,543	3,850	718	50,616
Exchange adjustments	–	12	–	63	–	13	–	88
Provided for the year	–	3,678	3,148	14,497	18,382	2,564	27	42,296
Eliminated on disposals	–	–	(175)	(21)	–	(580)	(27)	(803)
Eliminated on revaluation	–	(7,518)	–	–	–	–	–	(7,518)
At 31st December, 2007	**–**	**–**	**6,962**	**33,227**	**37,925**	**5,847**	**718**	**84,679**
CARRYING VALUES								
At 31st December, 2007	**28,174**	**115,667**	**19,168**	**90,385**	**22,616**	**11,680**	**–**	**287,690**
At 31st December, 2006	–	100,752	10,623	68,264	13,701	4,957	–	198,297

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For the year ended 31st December, 2007

16. PROPERTY, PLANT AND EQUIPMENT (Continued)

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

Leasehold land and buildings	2% – 4% or over the lease term, if shorter
Leasehold improvement	20% or over the lease term, if shorter
Plant and machinery	10% – 20%
Furniture and equipment	10% – 33.3%
Motor vehicle	20% – 33.3%
Moulds	17% – 50%

All leasehold land and buildings are situated on land outside Hong Kong, under medium term leases.

The directors consider that the carrying values of plant and machinery at 31st December, 2007 approximate their fair values. The Group's plant and machinery in Hong Kong and the PRC at 31st December, 2005 were revalued by RHL Appraisal Ltd. ("RHL"), Chartered Surveyors, at open market value on a continued use basis. The Group's plant and machinery in Vietnam at 31st December, 2005 were revalued by FCC Control and Fumigation Company, Danang Branch ("FCC"), Chartered Surveyors, at open market value on a continued use basis. In the opinion of the directors, the fair value of the above revalued plant and machinery at 31st December, 2007 would not be significantly different from their carrying values. Accordingly, the plant and machinery were stated at valuation on 31st December, 2005 less subsequent depreciation.

The Group's leasehold land and buildings in the PRC and Vietnam at 31st December, 2007 were revalued by RHL and FCC. The land portion of the leasehold land and buildings has been fair valued using direct comparison approach by making reference to comparable sales transaction as available in the relevant market. The building portion of the leasehold land and buildings has been fair valued using depreciated replacement cost method by making reference on the construction cost required to rebuild the building and deducting for physical deterioration and all relevant forms of obsolescence and optimisation. Both RHL and FCC are not connected with the Group.

At 31st December, 2007, had all of the leasehold land and buildings and plant and machinery of the Group been carried at historical cost less accumulated depreciation and accumulated impairment losses, their carrying values would have been approximately HK$60,658,000 (2006: HK$60,980,000) and HK$76,277,000 (2006: HK$54,204,000) respectively.

As at 31st December, 2007, the carrying value of leasehold improvements of HK$19,168,000 (2006: nil) includes an amount of HK$6,933,000 (2006: nil) in respect of assets held under finance leases *(see note 28)*.

The Group has pledged its leasehold land and buildings having a carrying value of approximately HK$64,230,000 (2006: HK$56,912,000) to a bank for banking facilities granted to the Group.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

17. PREPAID LEASE PAYMENTS

	2007	2006
	HK$'000	*HK$'000*
The Group's prepaid lease payments comprise:		
Leasehold land outside Hong Kong under medium term lease	**1,111**	1,143
Analysed for reporting purposes as:		
Current	**32**	32
Non-current	**1,079**	1,111
	1,111	1,143

18. GOODWILL

	HK$'000
CARRYING AMOUNTS	
At 1st January, 2006 and 1st January, 2007	–
Arising on acquisition of subsidiaries *(note 32)*	115,488
At 31st December, 2007	**115,488**

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

19. IMPAIRMENT TESTING ON GOODWILL

For the purposes of impairment testing, goodwill set out in note 18 has been allocated to the cash generating unit ("CGU") in the manufacture and trading of gift items, novelties, and infant and pre-school children toys for United States market.

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

The recoverable amounts of the CGU have been determined based on a value in use calculation. The calculation is based on financial budgets approved by management covering a five-year period and terminal value at the end of the five-year period. A key assumption for the value in use calculations is that the budgeted growth rate gradually decreased from 5.00% to 3.00%, which is determined based on past performance and management's expectations for the market development. The discount rate applied to the cash flow projection is 8.00% and it reflects specific risks relating to the relevant operating unit.

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20. INTANGIBLE ASSETS

	Customer base
	HK$'000
COST	
At 1st January, 2006 and 1st January, 2007	–
Arising on acquisition of subsidiaries *(note 32)*	74,620
At 31st December, 2007	**74,620**
AMORTISATION AND IMPAIRMENT	
At 1st January, 2006 and 1st January, 2007	–
Charge for the year	6,978
At 31st December, 2007	**6,978**
CARRYING AMOUNT	
At 31st December, 2007	**67,642**
At 31st December, 2006	–

The intangible assets of the Group were acquired as part of a business combination in the current year.

The intangible assets have finite useful lives. Intangible assets are depreciated on a straight line basis over 6 years.

21. INVENTORIES

	2007	2006
	HK$'000	*HK$'000*
Raw materials	**74,318**	55,799
Work in progress	**31,061**	52,850
Finished goods	**124,440**	83,907
	229,819	192,556

Notes to the Consolidated Financial Statements

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22. TRADE AND OTHER RECEIVABLES

	2007	2006
	HK$'000	*HK$'000*
Trade receivables	**132,531**	85,377
Less: allowance for doubtful debts	**(211)**	–
	132,320	85,377
Other receivables	**69,197**	14,090
Total trade and other receivables	**201,517**	99,467

Trade receivables

The Group allows a credit period of 14 days to 90 days to its trade customers. The following is an aged analysis of trade receivables net of allowance for doubtful debts at the balance sheet date:

	2007	2006
	HK$'000	*HK$'000*
0 – 60 days	**95,521**	76,073
61 – 90 days	**16,390**	6,999
> 90 days	**20,620**	2,305
	132,531	85,377
Less: allowance for doubtful debts	**(211)**	–
	132,320	85,377

Included in the Group's trade receivables are receivables of approximately HK$103,635,000 (2006: HK$83,932,000) denominated in the United States dollar which is not the functional currency of the relevant group entities.

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customers. Recoverability of the existing customers is reviewed by the Group regularly. Included in the Group's trade receivable balances are receivables with aggregate carrying amount of HK$96,984,000 and HK$73,878,000 as at 31st December, 2007 and 2006 respectively, which are neither past due nor impaired.

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

22. TRADE AND OTHER RECEIVABLES (Continued)

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

	2007	2006
	HK$'000	*HK$'000*
0 - 60 days	**12,022**	4,965
61 - 90 days	**9,985**	6,534
> 90 days	**13,329**	–
	35,336	11,499

Movement in the allowance for doubtful debts

	2007	2006
	HK$'000	*HK$'000*
Balance at beginning of the year	**–**	–
Impairment losses recognised on receivables	**211**	–
Balance at end of the year	**211**	–

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of approximately HK$211,000 (2006: nil) which have either been placed under liquidation or in severe financial difficulties.

Other receivables

Included in the Group's other receivables are receivables of approximately HK$26,314,000 (2006: nil) denominated in the United States dollar, foreign currency of the relevant group entities, details of which are set out in note 32(c).

23. HELD-FOR-TRADING INVESTMENTS

The investments represent equity securities listed in the United States which are stated at quoted market bid price.

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For the year ended 31st December, 2007

24. PLEDGED BANK DEPOSIT AND BANK BALANCES AND CASH

The pledged bank deposit was to secure short term bank facilities granted to the Group and is therefore classified as a current asset. The pledged bank deposit carried interest at average fixed rate of 2.07% (2006: 3.50%) per annum and will be released upon the settlement of the bank borrowings. The bank balances carried interest at prevailing interest rates.

The bank balances of approximately HK$7,217,000 (2006: HK$15,909,000) and HK$5,606,000 (2006: nil) are denominated in the United States dollar and Japanese Yen respectively, foreign currency of the relevant group entities.

At 31st December, 2007, the bank balances and cash approximately HK$4,867,000 (2006: HK$7,010,000) were denominated in RMB which is not freely convertible into other currencies.

25. TRADE AND OTHER PAYABLES

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

	2007 ***HK$'000***	2006 *HK$'000*
Trade payables	**119,423**	83,931
Other payables	**97,321**	46,462
	216,744	130,393

The credit period taken for trade purchases is 30 to 60 days. The following is an aged analysis of trade payables at the balance sheet date:

	2007 ***HK$'000***	2006 *HK$'000*
0 – 60 days	**79,181**	62,143
61 – 90 days	**17,136**	15,160
> 90 days	**23,106**	6,628
	119,423	83,931

Included in the Group's trade payables are payables of approximately HK$14,630,000 (2006: HK$5,537,000) denominated in the Japanese Yen, foreign currency of the relevant group entities.

26. AMOUNT DUE TO ULTIMATE HOLDING COMPANY

The amount is unsecured, interest-free and repayable on demand.

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For the year ended 31st December, 2007

27. UNSECURED BANK BORROWINGS

	2007	2006
	HK$'000	*HK$'000*
Bank overdrafts	514	13,525
Bank loans	115,612	–
	116,126	13,525

Bank overdrafts and bank loans are repayable within one year and bear variable interest ranging from 3.49% to 8.25% per annum (2006: 3.15% to 7.25%).

The Group's unsecured bank borrowings were all denominated in Hong Kong dollars except for bank loans of approximately HK$17,190,000 (2006: nil) which were denominated in United States dollar, foreign currency of the relevant group entities.

28. OBLIGATIONS UNDER FINANCE LEASES

It is the Group's policy to lease certain of its leasehold improvement under finance leases. The average lease term is 5 years. Interest rates underlying all obligations under finance leases are fixed at respective contract dates ranging from 8.00% to 13.00%. These leases have no terms of renewal. No arrangement have been entered into for contingent rental payments.

	Minimum lease payments		Present value of minimum lease payments	
	2007	2006	2007	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amounts payable under finance leases				
Within one year	2,604	–	1,587	–
In more than one year but not more than two years	2,604	–	1,839	–
In more than two years but not more than five years	4,531	–	3,930	–
	9,739	–	7,356	–
Less: future finance charges	(2,383)	–	–	–
Present value of lease obligations	7,356	–	7,356	–
Less: Amount due for settlement within 12 months (shown under current liabilities)			(1,587)	–
Amount due for settlement after 12 months			5,769	–

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

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For the year ended 31st December, 2007

29. SHARE CAPITAL

	Number of shares		Nominal value	
	2007	2006	**2007**	2006
	'000	*'000*	***HK$'000***	*HK$'000*
Ordinary shares of HK$0.1 each				
Authorised				
At the beginning and end of the year	**1,000,000**	1,000,000	**100,000**	100,000
Issued and fully paid				
At the beginning of the year	**577,157**	584,720	**57,716**	58,472
Issue of new subscription shares *(Note a)*	**55,000**	–	**5,500**	–
Issued in lieu of cash dividend *(Note b)*	**40,698**	2,361	**4,070**	236
Shares repurchased and cancelled	**–**	(9,924)	**–**	(992)
At the end of the year	**672,855**	577,157	**67,286**	57,716

Notes:

a. On 7th May, 2007, pursuant to a subscription agreement dated 24th April, 2007, the Company issued a total of 55,000,000 ordinary shares of HK$0.10 each in the Company at a price of HK$1.81 per share to Suncorp, the ultimate holding company of the Company. The shares issued during the year rank pari passu with the then existing shares in all respects.

b. On 6th July, 2007 and 15th November, 2007, the Company issued and allotted a total of 19,545,643 shares and 21,152,740 shares of HK$0.10 each in the Company respectively at par to the shareholders who elected to receive shares in the Company in lieu of cash payment for the 2006 final dividend and 2007 interim dividend respectively. These shares rank pari passu in all respects with other shares then in issue. The details of the scrip dividend alternate are set out in note 34.

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

30. DEFERRED TAXATION

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

	Accelerated tax depreciation	Accelerated accounting depreciation	Revaluation of property, plant and equipment	Intangible assets	Retirement benefit obligation	Tax losses	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January, 2006	2,941	(391)	3,033	–	(70)	(1,044)	(34)	4,435
Charge (credit) to income for the year	123	188	(522)	–	38	784	(22)	589
Exchange difference	–	2	(4)	–	–	3	–	1
At 31st December, 2006	3,064	(201)	2,507	–	(32)	(257)	(56)	5,025
Acquisition of subsidiaries *(Note 32)*	–	–	–	13,059	–	–	–	13,059
(Credit) charge to income for the year	(228)	133	(84)	(1,211)	–	–	(134)	(1,524)
Credit to equity for the year due to change in tax rate *(Note 13)*	–	–	(460)	–	–	–	–	(460)
Exchange difference	–	–	–	–	–	(1)	–	(1)
At 31st December, 2007	**2,836**	**(68)**	**1,963**	**11,848**	**(32)**	**(258)**	**(190)**	**16,099**

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:

	2007	2006
	HK$'000	*HK$'000*
Deferred tax liabilities	**16,577**	5,369
Deferred tax assets	**(478)**	(344)
	16,099	5,025

At the balance sheet date, the Group had unused estimated tax losses of HK$132,762,000 (2006: HK$42,275,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK$4,897,000 (2006: HK$4,897,000) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses of HK$127,865,000 (2006: HK$37,378,000) due to the unpredictability of future profit streams. Other tax losses may be carried forward indefinitely.

31. LOAN FROM A SHAREHOLDER

The amount is unsecured and interest-free. As at 31st December, 2007, the shareholder agreed not to request settlement within two years from the balance sheet date. However, on application of HKAS 39 Financial Instrument – Recognition and Measurement, the fair value of loan from a shareholder is determined based on an effective interest rate of 5.20% (2006: nil) per annum on initial recognition. The difference between the principal amount of the loan and its fair value, determined on initial recognition amounted to approximately HK$9,008,000 has been credited to equity as deemed contribution from a shareholder.

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For the year ended 31st December, 2007

32 ACQUISITION OF SUBSIDIARIES

On 8th June, 2007 (the date of completion), the Group acquired all the equity interests of each of Funrise Holdings, LLC, Funrise, Inc. and Code 3 Collectibles LLC (together referred to as "Funrise Group") for a total consideration ("Initial Consideration") and directly attributable costs of HK$193,851,000. The paid Initial Consideration need to be reduced by approximately HK$26,314,000 in accordance with the sales and purchase agreement as explained in note c below. The acquisition has been accounted for by the purchase method of accounting. The Funrise Group is principally engaged in the design, sales and distribution of quality, innovative toys under proprietary and licensed brands.

The net assets acquired in the transaction, and the goodwill arising, are as follows:

	Acquiree's carrying amount before combination	**Fair value adjustments**	**Fair values**
	HK$'000	*HK$'000*	*HK$'000*
Net assets acquired:			
Property, plant and equipment	35,940	–	35,940
Intangible assets	–	74,620	74,620
Inventories	9,189	–	9,189
Trade and other receivables	57,103	–	57,103
Tax recoverable	123	–	123
Bank balances and cash	10,891	–	10,891
Trade and other payables	(99,740)	–	(99,740)
Bank overdrafts	(8,547)	–	(8,547)
Bank loans	(6,204)	–	(6,204)
Obligations under finance leases	(8,267)	–	(8,267)
Deferred tax liabilities	–	(13,059)	(13,059)
	(9,512)	61,561	52,049
Goodwill *(Note a)*			115,488
			167,537
Total cost of acquisition comprised			
Adjusted Initial Consideration *(Note c)*			149,526
Directly attributable costs			18,011
			167,537
Net cash outflow arising on acquisition:			
Initial Consideration and directly attributable cost paid *(Note b)*			189,443
Bank balances and cash acquired			(10,891)
			178,552

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

32 ACQUISITION OF SUBSIDIARIES (Continued)

Funrise Group contributed approximately HK$323 million to the Group's turnover and loss of approximately HK$12 million to the Group's profit before taxation for the period between the date of completion and the balance sheet date.

Had the acquisition been completed on 1st January, 2007, total Group's turnover for the year would have been approximately HK$1,393 million, and total Group's profit before taxation for the year would have been approximately HK$46.8 million, based on the management accounts of the companies in the Funrise Group. The pro forma information is for illustrative purposes only and is not necessarily an indicative turnover and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1st January, 2007, nor is it intended to be a projection of future results.

Notes:

a) Funrise Group is principally engaged in the design, sales and distribution of quality and innovative toys under proprietary and licensed brands. The goodwill arising on the acquisition of Funrise Group is attributable to the anticipated profitability from Funrise Group and the anticipated future operating synergies from the combination.

b) Included in the Initial Consideration of HK$193,851,000, is an amount of approximately HK$4,408,000 representing directly attributable costs incurred in the purchase of the equity interest of Funrise Group (the "Acquisition") dated 25th April, 2007 which have not been settled at the balance sheet date and the balance was included in trade and other payables.

c) According to the sales and purchase agreement, the Initial Consideration is subject to adjustments based on the net carrying values of the assets and liabilities of the Funrise Group as at both of the date of completion and 31st December, 2007, its net turnover for the year ended 31st December, 2007 and the tax deductible benefits on the professional expenses incurred in respect of the Acquisition.

   As the predetermined level of the net carrying values of the assets and liabilities of Funrise Group as at both of the date of completion and 31st December, 2007 and the predetermined level of net turnover for the year ended 31st December, 2007 have not been achieved, the Initial Consideration is adjusted downward by approximately HK$26,314,000. The amount is determined based on the directors' best calculation and is subject to the final agreement of the vendors of Funrise Group. The balance was included in trade and other receivables at the balance sheet date. Details of the conditional adjustments are set out in the circular to shareholders dated 30th June, 2007 issued by the Company.

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For the year ended 31st December, 2007

33. DISPOSAL OF SUBSIDIARIES

Certain subsidiaries were disposed of on 29th June, 2006. The net liabilities of the subsidiaries at the date of disposal are as follows:

	HK$'000
Net liabilities disposed of	
Property, plant and equipment	218
Trade and other receivables	451
Bank balances and cash	125
Trade and other payables	(1,509)
	(715)
Gain on disposal of subsidiaries	715
Cash consideration	–
Net cash outflow arising on disposal:	
Bank balances and cash disposed of	(125)

The subsidiaries disposed of did not have any significant impact on the cash flows, turnover and profit of the Group in 2006.

34. MAJOR NON-CASH TRANSACTIONS

During the year ended 31st December, 2007, the directors declared a final dividend in 2006 of HK9 cents and an interim dividend in 2007 of HK8 cents respectively to be satisfied by cash and with an alternative to the shareholder to elect to receive such dividend (or part thereof) by way of scrip dividend by allotment of new shares in the Company, credited as fully paid. The market price for the purpose of the scrip dividend was determined at HK$1.93 and HK$1.75 per share respectively, which is equivalent to the average closing prices of the shares quoted on the Stock Exchange for the five consecutive trading days, from 22nd May, 2007 to 29th May, 2007 and from 28th September, 2007 to 5th October, 2007 respectively.

As a result, 40,698,383 shares were issued to the shareholders who had elected to receive new shares in the Company in lieu of cash dividend. A total amount of approximately HK$4,070,000 equal to the nominal value of the shares issued is credited to share capital and approximately HK$74,740,000 is credited to retained profits as if the shareholders had foregone their dividends and accepted a bonus issue of share in the place of those dividends.

During the year ended 31st December, 2006, the directors have declared an interim dividend of HK8 cents to be satisfied by cash and, with an alternative to the shareholder to elect to receive such dividend (or part thereof) by way of scrip dividend by allotment of new shares in the Company, credited as fully paid. The market price for the purpose of the scrip dividend was determined at HK$1.91 per share, which is equivalent to the average closing prices of the shares quoted on the Stock Exchange for the five consecutive trading days, from 30th August, 2006 to 5th September, 2006.

As a result, 2,360,967 shares were issued to the shareholders who had elected to receive new shares in the Company in lieu of cash dividend. An amount of HK$236,000 equal to the nominal value of the shares issued is credited to share capital and approximately HK$4,510,000 is credited to retained profits as if the shareholders had foregone their dividends and accepted a bonus issue of share in the place of those dividends.

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35. OPERATING LEASE COMMITMENTS

	2007	2006
	HK$'000	*HK$'000*
Minimum lease payments in respect of land and buildings under operating leases recognised in the consolidated income statement for the year	**16,766**	9,283

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

	2007	2006
	HK$'000	*HK$'000*
Within one year	**13,094**	5,822
In the second to fifth year inclusive	**14,150**	1,669
After five years	**16,611**	4,311
	43,855	11,802

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

36. CAPITAL COMMITMENTS

	2007	2006
	HK$'000	*HK$'000*
Capital expenditure in respect of the acquisition of property, plant and equipment		
– contracted for but not provided in the consolidated financial statements	**3,293**	7,548
– authorised but not contracted for	**2,060**	547

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37. RELATED PARTY TRANSACTIONS

The amount due to ultimate holding company and loan from a shareholder are disclosed in notes 26 and 31 respectively.

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

	2007	2006
	HK$'000	*HK$'000*
Rental paid or payable to a related company	**192**	144
Purchases of plant and equipment from a related company	**–**	709

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

Compensation of key management personnel

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

	2007	2006
	HK$'000	*HK$'000*
Salaries and other short-term employee benefits	**11,407**	9,340
Post-employment benefits	**95**	83
Share-based payments	**1,977**	812
	13,479	10,235

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

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For the year ended 31st December, 2007

38. SHARE BASED PAYMENT TRANSACTION

Equity-settled share option scheme

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

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

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

As at 31st December, 2007, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 23,855,333 (2006: 8,768,000), representing 3.55% (2006: 1.52%) of the shares of the Company in issue at that date.

Notes to the Consolidated Financial Statements

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38. SHARE BASED PAYMENT TRANSACTION (Continued)

Equity-settled share option scheme (Continued)

Details of specific category of share options are as follows:

Option Type	Date of grant	Vesting period	Exercise period	Exercise price
2005	27th October, 2005	3 months	27th January, 2006 to 26th January, 2009	HK$2.340
2007a	8th June, 2007	3 months	6th September, 2007 to 6th September, 2010	HK$1.934
2007b	17th July, 2007	3 months	15th October, 2007 to 15th October, 2010	HK$1.944
2007c	13th November, 2007	3 months	11th February, 2008 to 11th February, 2011	HK$1.684
2007d	23rd November, 2007	3 months	21st February, 2008 to 21st February, 2011	HK$1.656
2007e	11th December, 2007	3 months	10th March, 2008 to 10th March, 2011	HK$1.700

The following table discloses movements of the Company's share options held by directors, ex-chief executive and employees in 2007

Option Type	Outstanding at 1st January, 2007	Granted during Year	Exercised during year	Lapsed during year *(note)*	Outstanding at 31st December, 2007
2005	**8,768,000**	**–**	**–**	**(5,846,000)**	**2,922,000**
2007a	**–**	**8,433,333**	**–**	**–**	**8,433,333**
2007b	**–**	**6,500,000**	**–**	**–**	**6,500,000**
2007c	**–**	**2,000,000**	**–**	**–**	**2,000,000**
2007d	**–**	**2,000,000**	**–**	**–**	**2,000,000**
2007e	**–**	**2,000,000**	**–**	**–**	**2,000,000**
	8,768,000	**20,933,333**	**–**	**(5,846,000)**	**23,855,333**
Exercisable at the end of the year					**17,855,333**
Weighted average Exercise price	**HK$2.34**	**HK$1.86**	**–**	**HK$2.34**	**HK$1.92**

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38. SHARE BASED PAYMENT TRANSACTION (Continued)

Equity-settled share option scheme (Continued)

The following table discloses movements of the Company's share options held by director, former chief executive and employees in 2006

Option Type	Outstanding at 1st January, 2006	Granted during year	Exercised during year	Lapsed during year	Outstanding at 31st December, 2006
2005	8,768,000	–	–	–	8,768,000
Exercisable at the end of the year					8,768,000
Weighted average Exercise price	HK$2.34	–	–	–	HK$2.34

During the year ended 31st December, 2007, options were granted on 8th June, 2007, 17th July, 2007, 13th November, 2007, 23rd November, 2007 and 11st December, 2007. The estimated fair value of the options type of 2007a, 2007b, 2007c, 2007d and 2007e granted on those dates are approximately HK$2,646,000, HK$2,010,000, HK$566,000, HK$549,000 and HK$624,000 respectively.

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

Option Type	**2005**	**2007a**	**2007b**	**2007c**	**2007d**	**2007e**
Weighted average share price	HK$2.260	HK$2.105	HK$2.099	HK$2.066	HK$2.061	HK$2.055
Exercise price	HK$2.340	HK$1.934	HK$1.944	HK$1.684	HK$1.656	HK$1.700
Expected volatility	30.00%	42.00%	43.00%	49.00%	50.00%	51.00%
Expected life	3 years	3 years	3 years	3 years	3 years	3 years
Risk-free rate	4.224%	4.55%	4.41%	3.80%	3.80%	2.98%
Expected dividend yield	8.60%	10.40%	10.50%	12.10%	12.40%	11.70%

Expected volatility was determined by using the historical volatility of the Company's share price over the previous three years.

Because the Black-Scholes pricing model requires the input of highly subjective assumptions, including the volatility of share price, changes in subjective input assumptions can materially affect the fair value estimate.

The Group recognised the total expense of approximately HK$5,607,000 for the year ended 31st December, 2007 (2006: HK$812,000) in relation to share options granted by the Company.

Note: Mr. Michael Adam Greenberg is no longer the chief executive officer of the Company since Nov 2007, hence the 5,846,000 share options granted to him are lapsed according to the Scheme.

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39. 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 employees.

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

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

The retirement benefits cost charged to the consolidated income statement of approximately HK$7,827,000 (2006: HK$5,306,000) represents contributions payable to the schemes by the Group at the rates specified in the rules of the various schemes.

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the principal subsidiaries at 31st December, 2007 are as follows:

Name of subsidiary	Place/country of incorporation or registration/ operation	Issued and fully paid share capital/ registered capital/ contributed legal capital	Class of capital held	Proportion of nominal value of issued capital/ registered capital/ contributed legal capital held by the Company		Principal activities
				2007	2006	
Associated Traders Hong Kong Limited	Hong Kong	HK$10,000	Ordinary share	**100%**	100%	Trading of gifts and novelties
Besco Enterprises Limited	Hong Kong	HK$10,000	Ordinary share	**100%**	100%	Manufacture of gifts and novelties
Keyhinge Enterprises (Macao Commercial Offshore) Company Limited	Macau	MOP100,000	Quota Capital	**100%**	100%	Purchasing and trading of gifts and novelties
Keyhinge Toys Company Limited	The British Virgin Islands	US$10	Ordinary share	**100%**	100%	Trading of gifts and novelties

Notes to the Consolidated Financial Statements

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40. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place/country of incorporation or registration/ operation	Issued and fully paid share capital/ registered capital/ contributed legal capital	Class of capital held	Proportion of nominal value of issued capital/ registered capital/ contributed legal capital held by the Company 2007	2006	Principal activities
Keyhinge Toys Vietnam Joint Stock Company	Vietnam	US$9,538,863	Capital contribution	**98%**	100%	Manufacture of gifts and novelties
Matrix Manufacturing Vietnam Company Limited	Vietnam	US$3,800,000	Capital contribution	**100%**	100%	Manufacture of gifts and novelties
Matrix Plastic Manufacturing (Zhongshan) Co., Ltd	PRC *(Note 1)*	US$5,910,000	Capital Contribution	**100%**	100%	Manufacture of gifts and novelties
Matrix Resources Enterprise Limited	Hong Kong	HK$10,000	Ordinary Share	**100%**	100%	Provision of management services
Mediaway Technology Company Limited	PRC *(Note 1)*	HK$500,000	Paid up registered Capital	**100%**	100%	Products research and development
Shelcore Hong Kong Limited	Hong Kong	HK$10,000	Ordinary Share	**100%**	100%	Manufacture and trading of toys
Shelcore, Inc.	United States of America ("USA")	US$1,000	Common Stock	**100%**	100%	Trading
Toytrix Company Limited	Hong Kong	HK$2	Ordinary Share	**100%**	100%	Manufacture of printing materials
Funrise, Inc.	USA	US$7,500	Common share	**100%**	–	Wholesale distribution and importation of toys and sales of accessories connected with its product ranges.

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40. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place/country of incorporation or registration/ operation	Issued and fully paid share capital/ registered capital/ contributed legal capital	Class of capital held	Proportion of nominal value of issued capital/ registered capital/ contributed legal capital held by the Company 2007	2006	Principal activities
Code 3 Collectibles LLC ("Code 3 LLC")	USA	N/A *(Note 2)*	Membership *(Note 2)*	**100%**	–	Wholesale distribution and importation of collectible toys
Funrise Toys Limited	Hong Kong	HK$10,000 (Preference) HK$90,000 (Ordinary) HK$10,000 (Redeemable)	Preference share Ordinary Share Redeemable Share	**100%**	–	Wholesaling, importing and exporting of toys & sales of accessories connected with product range
Funrise Toys (HK) Limited	Hong Kong	HK$1,000	Ordinary share	**100%**	–	Wholesaling, importing and exporting of toys & sales of accessories connected with product range
Code 3 Collectibles (HK) Limited	Hong Kong	HK$10,000 (Ordinary) HK$1,630 (redeemable)	Ordinary share Redeemable share	**100%**	–	Wholesaling, importing and exporting of toys & sales of accessories connected with product range

Notes:

1) Wholly owned foreign enterprise.

2) Code 3 LLC is a limited liability corporation that has members who have ownership interests. There is no authorized or issued share capital for Code 3 LLC.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

The above table lists the principal subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

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

41. CONTINGENT LIABILITIES

Legal Claim

1) A judgement was made by the court in France against a newly acquired subsidiary (see note 32) regarding the termination of an agency agreement. The amount awarded to the plaintiff by the court up to 31st December, 2007 to be paid by the group company was approximately HK$14,132,000. The subsidiary has filed an appeal against the judgment. The subsidiary also filed claims to the court against the plaintiff for the ownership of the "Funrise" Trademark to be returned to the group company. There is no further progress in respect of the case after 31st December, 2007 up to the date of this report.

   Based on the advice of the lawyers obtained by the management as at 15th April, 2008, the outcome of the proceedings cannot be reasonably ascertained at this stage. Given that the former shareholders of that subsidiary have indemnified the acquiree for any loss incurred for settling the legal claim using funds available from an escrow account which was funded by the proceeds receivable by the former shareholders of the acquiree from the Company for the sales of the subsidiary, the management of the Group is of the opinion that the aforementioned claim would not result in any material adverse effects on the financial position of the Group. Accordingly no provision is required to be made in these consolidated financial statements.

2) On 2nd November, 2007, the Company and its subsidiary lodged a claim for HK$14,000,000 compensation from a former Chief Executive Officer of the Group for the breach of agreement. On 14th February, 2008, this former Chief Executive Officer lodged a counter claim for approximately HK$15,167,000. As this case is at its early stage of the proceedings, the directors believe, based on legal advice, that the aforementioned legal action would not result in any material adverse effects on the financial position of the Group. Accordingly, no provision is required to be made in the consolidated financial statements.

Save and except for the matters specified above, the Group does not have any litigations or claims of material importance and, so far as the Directors are aware, no litigation or claims of material importance are pending or threatened by or against any companies of the Group.

Financial Summary

	Year ended 31st December,				
	2003	2004	2005	2006	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
RESULTS					
Turnover	500,357	686,684	911,044	867,959	**1,218,759**
Profit before taxation	157,478	177,763	138,866	104,050	**61,861**
Income tax (charge) credit	(26,312)	(26,137)	1,931	(3,404)	**(2,200)**
Profit for the year	131,166	151,626	140,797	100,646	**59,661**
Attributable to:					
Equity holders of the Company	131,166	151,810	140,929	100,646	**59,667**
Minority interest	–	(184)	(132)	–	**(6)**
	131,166	151,626	140,797	100,646	**59,661**
	HK$	*HK$*	*HK$*	*HK$*	***HK$***
Earnings per share					
Basic	0.36	0.27	0.24	0.16	**0.09**
Diluted	0.23	0.26	N/A	N/A	**N/A**

	At 31st December,				
	2003	2004	2005	2006	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
ASSETS AND LIABILITIES					
Total assets	363,748	454,007	512,691	528,789	**978,836**
Total liabilities	(126,450)	(170,900)	(179,234)	(225,282)	**(520,374)**
	237,298	283,107	333,457	303,507	**458,462**
Equity attributable to equity holders of the Company	237,298	282,975	333,457	303,507	**456,811**
Minority interest	–	132	–	–	**1,651**
	237,298	283,107	333,457	303,507	**458,462**

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN THAT the Annual General Meeting of Matrix Holdings Limited (the "Company") will be held at Fountains Room 1-3, LG Floor, Hotel Nikko Hong Kong, 72 Mody Road, Tsimshatsui East, Kowloon, Hong Kong on 29th May, 2008 at 2:30 p.m. for the following purposes:–

1. To receive and consider the audited financial statements for the year ended 31st December, 2007 together with the Report of the Directors and the Independent Auditor's Report thereon.

2. To declare a final dividend.

3. To re-elect directors and authorize the Board of Directors to fix their remuneration.

4. To re-appoint auditors and authorize the Board of Directors to fix their remuneration.

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

ORDINARY RESOLUTIONS

A. "THAT

(a) subject to paragraph (c) of this Resolution, pursuant to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options which might require the exercise of such powers be and is hereby generally and unconditionally approved;

(b) the approval in paragraph (a) of this Resolution shall authorize the Directors during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;

(c) the aggregate nominal amount of share capital allotted, issued or otherwise dealt with or agreed conditionally or unconditionally to be allotted, issued or otherwise dealt with (whether pursuant to an option or otherwise) by the Directors of the Company pursuant to the approval in paragraph (a) of this Resolution, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined); or (ii) an issue of shares of the Company upon the exercise of rights of subscription or conversion under the terms of any warrants of the Company or any securities which are convertible into shares of the Company; or (iii) the exercise of the share option scheme adopted and approved by the Company at the general meeting of the Company held on 17th December, 2002 (the "Share Option Scheme"); or (iv) an issue of shares in lieu of the whole or part of the dividend on shares of the Company in accordance with the Bye-laws of the Company, shall not exceed 20 per cent of the aggregate nominal amount of the issued share capital of the Company at the date of passing this Resolution, and the said approval shall be limited accordingly; and

Notice of Annual General Meeting

(d) for the purposes of this Resolution:

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

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

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

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

"Rights Issue" means an offer of shares or offer or issue of warrants or options to subscribe for shares open for a period fixed by the Directors of the Company to holders of shares whose names appear on the register of members of the Company on a fixed record date in proportion to their then holdings of such shares (subject to such exclusions or other arrangements as the Directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognized regulatory body or any stock exchange in, any territory applicable to the Company)."

B. "THAT

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

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

Notice of Annual General Meeting

(c) for the purposes of this Resolution:

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

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

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

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

C. "THAT conditional upon the passing of the Resolutions set out in paragraph 5A and 5B of the notice convening this meeting, the general mandate granted to the Directors of the Company to allot, issue and deal with additional shares of the Company pursuant to the Resolution set out in paragraph 5A of the notice convening this meeting be and is hereby extended by the addition to the aggregate nominal amount of the share capital of the Company which may be allotted, issued or otherwise dealt with or agreed conditionally or unconditionally to be allotted, issued or otherwise dealt with by the Directors of the Company pursuant to such general mandate of an amount representing the aggregate nominal amount of the shares of the Company repurchased by the Company under the authority granted pursuant to the Resolution set out in paragraph 5B of the notice convening this meeting."

6. To consider as special business and, if thought fit, pass with or without amendments, the following resolutions as an Ordinary Resolution:–

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

By Order of the Board
Lai Mei Fong
Company Secretary

Hong Kong, 29th April, 2008

Notice of Annual General Meeting

Notes:

1. A member entitled to attend and vote at the above meeting (or at any adjournment thereof) is entitled to appoint one or more proxies to attend and vote in his stead. A proxy need not be a member of the Company.

2. Where there are joint registered holders of any shares, any one of such persons may vote at the above meeting (or at any adjournment thereof), either personally or by proxy, in respect of such shares as if he were solely entitled thereto; but if more than one of such joint holders be present at the above meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof.

3. In order to be valid, the forms of proxy, together with the power of attorney or other authority (if any) under which it is signed or a certified copy of that power of attorney or authority (such certification to be made by either a notary public or a solicitor qualified to practise in Hong Kong), must be deposited with the branch share registrar of the Company in Hong Kong, Tricor Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not less than 48 hours before the time fixed for holding the above meeting or any adjournment thereof.

4. The register of members of the Company will be closed from 23rd May, 2008 (Friday) to 29th May, 2008 (Thursday), both days inclusive, during which period no transfer of shares can be registered. In order to qualify for the proposed final dividends and attending and voting at the above meeting or any adjournment thereof, all share transfers, accompanied by the relevant share certificates, must be lodged with the branch share registrar of the Company in Hong Kong, Tricor Secretaries Limited at the above address for registration not later than 4:00 p.m. on 22nd May, 2008.

5. An explanatory statement containing further details regarding the proposed Resolutions set out in the notice (except Resolutions 1 to 4 and 6) convening the above meeting will be sent to members of the Company together with the annual report 2007.

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

7. For the sake of good corporate governance practice, the Chairman intends to demand poll voting for all the resolutions set out in the notice of the annual general meeting.

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