MATRIX

Matrix Holdings Limited

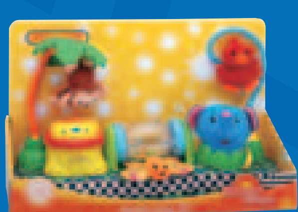
美力時集團有限公司

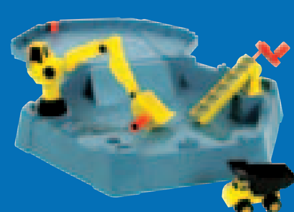
(Incorporated in Bermuda with limited liability)
Stock Code : 1005

Annual Report 2008

OUR MISSION

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





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CORPORATE PROFILE

Zhongshan, the PRC

Danang City, Vietnam

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. As at 31st December, 2008, the Group employed approximately 14,000 staff in Hong Kong, Macau, PRC, Vietnam, United States of America and Europe. The Shelcore and the Funrise Group, well-established toy companies designing, manufacturing and selling plastic toys were merged into the Group since 2005 and 2007 respectively.

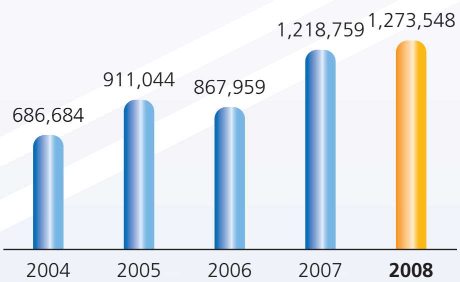
FINANCIAL HIGHLIGHTS

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

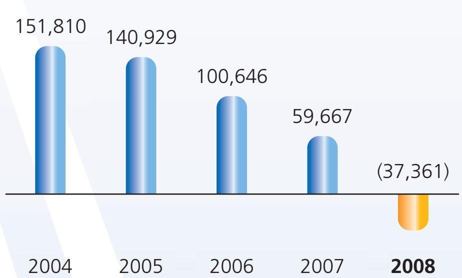
CONSOLIDATED

(HK$000, except where otherwise stated)	**2008**	2007	% Change
Turnover	**1,273,548**	1,218,759	4.5%
Gross profit	**373,674**	361,152	3.5%
Operation profit before exceptional items	**41,457**	59,661	(30.5%)
Exceptional items:			
Impairment loss on prepaid royalty	**(62,946)**	–	–
Adjustment to goodwill	**(3,031)**	–	–
Allowance for amounts due from the disposed subsidiaries, net of gain on disposal	**(12,859)**	–	–
(Loss) profit attributable to equity holders of the Company	**(37,361)**	59,667	(162.6%)
(Loss) earnings per share – Basic	**(HK$0.05)**	HK$0.09	(155.6%)
Dividend per share			
Interim, paid	**HK2 cents**	HK8 cents	
Final, proposed	**HK1 cent**	HK3 cents	
Gross Profit Margin (%)	**29.3**	29.6	(1.0%)
Net (Loss) Profit Margin (%)	**(2.9)**	4.9	(159.2%)
Gearing Ratio (%)	**52.0**	46.1	12.8%
Current Ratio	**1.35**	1.13	19.5%
Quick Ratio	**0.75**	0.59	27.1%

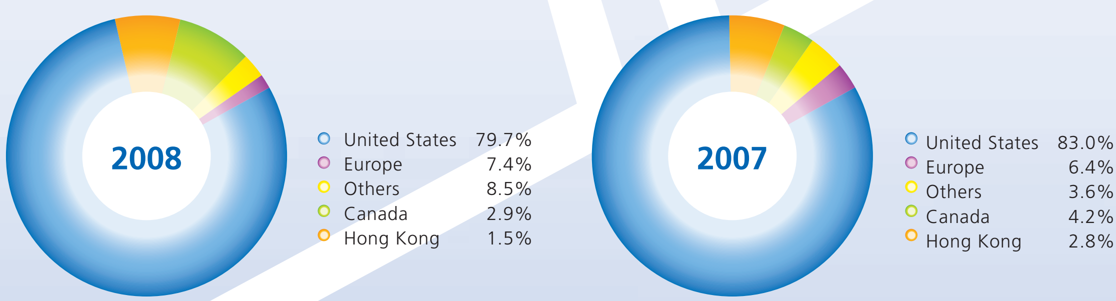
TURNOVER



PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

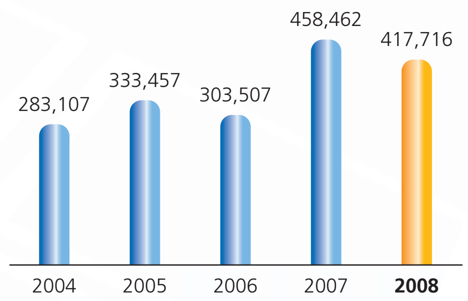


TURNOVER BREAKDOWN BY MARKET

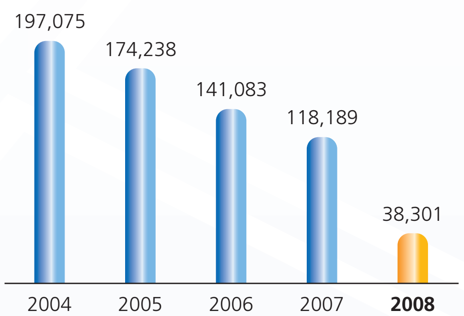


FINANCIAL HIGHLIGHTS

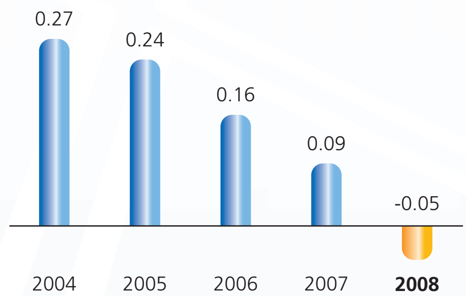
NET ASSETS



EBITDA



BASIC EPS



DEFINITIONS

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

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

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

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

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

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 Fulcrum Group (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke HM08
Bermuda

BRANCH SHARE REGISTRAR IN HONG KONG

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

PRINCIPAL PLACE OF BUSINESS

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

STOCK CODE

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

CHAIRMAN'S STATEMENT

To Our Shareholders,

I have pleasure in presenting to our shareholder the annual report of Matrix Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the financial year ended 31st December, 2008.

During the year under review, the Group recorded an increase of consolidated turnover by 4.5% amounted to HK$1,273,548,000, an operation profits of HK$41,457,000 but a loss attributable to equity holders of the Company amounted to HK$37,361,000 as compared to a profit amounted to HK$59,667,000 for the year ended 31st December, 2007. The loss is principally due to an impairment loss of approximately HK$62,946,000 resulting from an prepaid royalty made to Global Brand Group Pte. Ltd. based on a Supply Appointment Agreement in accordance with the accounting policies.

In the first half year 2008, China's adjustment of its processing trade policy, reduction in export rebate rate, and tightening of regulations and enforcement with regard to clean production and environmental protection have caused an impact on the Group's processing trade business in the mainland China base as such adjustment has led to rise in purchasing price of raw materials, led to increase in customs duty deposit and higher fees incurred for investing in mainland factory production facilities for environmental protection purpose. In addition, increase in prices of gasoline and diesel oil and electricity tariffs in mid-year 2008 have put additional upward pressure on manufacturing prices; accelerating pace of RMB appreciation had negatively impacted on manufacturers as most manufacturers still received USD payments for their export and that appreciation of the RMB means that the part of production costs settled in RMB would increase in terms of the USD, thus eating into the export margin. In addition, increase in average wage appeared to be accelerating caused by the shortage of labour and in particular, subsequent to the adoption of new Labour contract by PRC government in Pearl River Region. Notwithstanding, the sales performance remain stable for the first half year period.

However, in the second half year 2008, it was turned to the situation that toy manufacturing industry was hard hit by the global economy turning badly hit by the recent financial tsunami, with the United Kingdom already in a recession and the United States on the brink of a recession. The global retail markets were weak due to the bad sentiments of consumers hobbled by job losses and sinking home values. The Toy Industry in US was down 4% in 2008 through November versus a year ago based on NPD statistics which adversely affected the sales performance of the Group.

In addition, the US harsh condition has led the recent dramatic closures and liquidation of numerous toy manufactures in the Guangdong Province. To some certain extent, this has shaken financier's confidence in toy industry and the Group as well. To maintain the Group in healthy financial position, the tightening of credit policies was implemented in the Group which has led to the Group winding down business with certain low-margin customers which resulted in concentration of few major customers.

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 and enhanced its development on new range of products. For the second half year, the prices of gasoline and diesel oil were gradually decreasing and the stable pace of RMB appreciation had rectified the negative impact of the first half year.

In addition, strengthening the quality control team to ensure product quality, consolidating various plants in Vietnam by disposing the old and inefficient one, 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 capacities to develop new high margin product lines 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 to rectify the harsh economic condition causing the slow growth rate of the Group.

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.

Cheng Yung Pun
Chairman

Hong Kong, 26th March, 2009

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS

For the year ended 31st December, 2008, the Group's consolidated turnover was increased to HK$1,273,548,000 as compared to the last year's HK$1,218,759,000. The operation profits was HK$41,457,000 but a loss attributable to equity holders of the Company amounted to HK$37,361,000 as compared to the last year's profit HK$59,667,000 respectively. The loss is principally due to an impairment loss of approximately HK$62,946,000 resulting from an advance payment made to Global Brand Group Pte. Ltd. based on a Supply Appointment Agreement in accordance with the accounting policies. The additional non-operating or non-cash items in a total amount of HK$33,421,000 including the adjustment to goodwill, allowance for amounts due from the disposed subsidiaries, net of gain on disposal, amortization of intangible assets for the acquisition of Funrise Group in June 2007 and imputed interest on loan from a shareholder, resulted in further reduction of the profit of the Group. The basic loss per share was HK5 cents (2007 basic earnings per share: HK9 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. Though there is the slowdown in economic activities in US markets causing consumers to curtail spending on discretionary purchases, the lower US sales were partially offset by the growth in the other non-US markets mainly Latin America, Brazil, Venezuela and the Asian Region to certain extent. Profitability of the Group was significantly affected by the decline in US Sales for the second half year and strong cost pressures from PRC manufacturers for the first half year. Escalating raw materials, labour, utilities costs and combined with the introduction of new testing requirements in PRC resulted in increased production cost and negatively impacted gross profit. Margins were also adversely affected by the higher proportion of lower margin sales to international distributors when compared to the reduced level of direct to customer sales, appreciation of RMB exchange rate, higher inflation rate in Vietnam and PRC and stringent processing trade policies introduced by the PRC government.

DIVIDENDS

During the year, the Company paid an interim dividend of HK2 cents in cash with a scrip dividend alternate (2007: interim dividend HK8 cents in cash with the scrip dividend alternate) per share to the shareholders. The Directors had resolved to recommend the payment of a final dividend of HK1 cent (2007: HK3 cents) per share for the year ended 31st December, 2008, payable to shareholders whose names appear on the Register of Members of the Company on 12th May, 2009. Together with the interim dividend paid of HK2 cents per share, the total dividend per share for the year is HK3 cents (2007: HK11 cents). Subject to the approval of the Shareholders at the forthcoming annual general meeting, the proposed final dividend will be paid on or about 3rd June, 2009.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

For the year ended 31st December, 2008, the Group's PRC manufacturing plants had to deal with increase in wages, social security contributions and other welfare benefits with the newly Labour Contract Law being implemented, complementing social security system among workers were compulsory resulting in the amount of contributions to various schemes being increased in line with the wage increased; the prolonged appreciation of Renminbi, the high crude oil and electricity price and reduction of the value added tax rebate on goods exported from the PRC led to the increase in direct cost such as raw materials and salaries and production cost as well, common to all producers particularly those located in the Pearl River Delta Region.

Amid the sluggishness of US and European markets, the business environment remains competitive and challenging. The tougher testing requirements and slack US economy made customers more conservative in placing orders.

Under these circumstances, the Group had to bear high production costs and the limited scope of price increase due to economic slowdown in major markets.

MANUFACTURING OPERATION

PRC Plant

During the year under review, the Group continued to restructure its production regime to improve production efficiency and cost-effectiveness in the PRC plant. To alleviate pressure from rising labour costs in coastal areas of the Pearl River Delta Region, the Group reduced production of Zhongshan plant and concentrated on production activities outside PRC such as expanding the production base in Vietnam to enjoy the comparatively lower labour cost in this country.

Zhongshan, PRC – Production Plant

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.

MANAGEMENT DISCUSSION AND ANALYSIS

Vietnam Plant

Due to the deteriorating manufacturing environment in the PRC, the development of the plants located in Vietnam becomes crucial. In order to improve the overall toy manufacturing production efficiency, the Group had disposed of the Group's oldest and less efficient production plant and constructed a new production plant in Danang City, Vietnam. With relatively more advanced technology and machinery in this new plant, it was expected that the overall efficiency of the production plant would improve. Preparatory work on the new plant started in early 2008 and around HK$13,006,000 had been invested in this new facilities.

Danang City, Vietnam – Second Plant

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.

Danang City, Vietnam – Third Plant

TOY OPERATION

Funrise and Shelcore Businesses

In year 2008, the sales and administration perspective and product perspective of Shelcore Group with Funrise Group were integrated which resulted the opening of new distribution channels for both groups. Notwithstanding, toy retailers were faced with a difficult year, as the US, the epicenter of the global financial crisis, has been already in recession since December 2008. The consumers have become more conservative in view of the financial crises and a lack of confidence in the economy. Evidently consumers were not in the mood for shopping, notwithstanding the US$700 billion rescue package and interest rate cuts. Plunging home values and vagaries of the stock market have not only made shoppers feel less wealthy, but indeed obstructed the sources of financing for lavish spending. Tighter credits, along with meager income gains and rising job concerns, have further made it more difficult to consume. While loosening their purse strings, consumers tended to be more frugal and practical than in past seasons. Accordingly, the sales in the U.S and European market were reduced as compared with the same corresponding period 2007 and that the worldwide sales were also decreased. However, the phenomenon of trading down has been ubiquitous, and mass merchandisers and discounters, notably the Funrise Group's major customer Wal-Mart, were once again favoured over department stores, as well as luxury stores, which were barely dented in recent seasons. In USA market, most of this decrease come from the small to mid size customers with lower profit margins. Wal-Mart, Target and Toys R Us remained as the largest customers in 2008.

Faced with increasing economic hardship, the customers have general kept spending tight, despite various rescue measures and interest rate cuts as well as declining inflation and energy prices. For the Europe as a whole, economic activity was fairly performed in the early part of year 2008, but the growth momentum has slowed abruptly as the US financial crisis has spread to Europe and then around the globe. The attendant rising joblessness and the weakening of the European currencies have eroded its domestic consumption and import absorption power. The faltering Eastern Europe housing market and harder-to-get credits have further curbed consumers' ability and willingness to spend money in stores. Accordingly, the decrease of sales was from France, Denmark, Poland and the Czech Republic. In Russia, the economy has been increasing impaired by the global financial crisis and falling oil prices and therefore that the sales were also decreased due to losses of lower margin customers.

In UK, a VAT reduction and increasing numbers of continental bargain hunters capitalizing on a weak pound were dragged by the financial crisis and bursting of the housing bubble and with the credit crunch driving the market away from high-end toys and back to value-for-money basics. Therefore, the sales were increased in year 2008.

As regards Latin America, Brazil and Venezuela, notwithstanding the knock-on effect of the US financial crisis, characterized by increased financial costs and deterioration of expectation, tend to have blighted sales across the region, the sales in Latin America, Brazil and Venezuela performed satisfactory.

The Asian region is unlikely to be the worst-hit among the different regions on US financial crisis, in Asia or Far East markets, the sales were also with dramatic increase.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 31st December, 2008, the Group had bank balances and cash of approximately HK$22,316,000 (2007: HK$27,854,000) and pledged bank deposit of approximately HK$5,001,000 (2007: HK$5,606,000) secured for banking facilities granted. During the year under review, the Group obtained banking facilities in a total of approximately HK$184,380,000 (2007: HK$190,220,000) secured by pledged bank deposit and corporate guarantee given by the Company.

As at 31st December, 2008, the Group had bank overdrafts and bank loans of approximately HK$13,764,000 and HK$58,677,000 respectively (2007: bank overdrafts and bank loans are HK$514,000 and HK$115,612,000 respectively). The Group's gearing ratio, representing the total debt divided by equity attributable to equity holders of the Company, was 52.0% (2007: 46.1%).

During the year, net cash generated from operating activities amounted to approximately HK$96,746,000 (2007: HK$49,102,000). 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$57,496,000 (2007: HK$83,079,000) 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, 2008, the Group had total assets of approximately HK$910,817,000 (2007: HK$992,329,000), total liabilities of approximately HK$493,101,000 (2007: HK$533,867,000) and equity attributable to equity holders of the Company of approximately HK$417,716,000 (2007: HK$456,811,000). The net assets of the Group decreased 8.9% (2007: increased 51.1%) to approximately HK$417,716,000 as at 31st December, 2008 (2007: HK$458,462,000).

Significant Investments and Acquisition

There was no significant investment and acquisition for the year ended 31st December, 2008.

Significant Disposal

On 1st July, 2008, the Group has disposed of 100% issued share capital of Max Smart Investment Limited ("Max Smart") for a cash consideration of HK$1 million. Max Smart is an investment holding company whose only asset is the entire interests in Keyhinge Holdings Limited ("Keyhinge"). Keyhinge, in turn, is an investment holding company which holds 98% of the equity interests in the Vietnam Company which engages in the manufacture of gifts and novelties in Vietnam. For further details, please refer to the circular of the Company dated 31st July, 2008.

Except for the significant disposal as disclosed above, there was no significant investment and acquisition for the year ended 31st December, 2008.

Capital Commitment

As at 31st December, 2008, the Group had capital commitments of contracted, but not provided for and authorised but not contracted for amounted to HK$616,000. (2007: HK$3,293,000) and HK$150,000 (2007: HK$2,060,000) respectively.

Contingent Liabilities

A. *Legal Claim*

1) 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 service agreement. On 14th February, 2008, this former Chief Executive Officer lodged a counter claim for approximately HK15,167,000. 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.

2) On 14th January, 2009, Wictle Offset Printing Company Limited lodged a claim to a subsidiary of the Group for approximately HK$258,000 for long outstanding trade payables. The Company is in the process of gathering further information and the directors believe that the 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.

B. *Additional tax assessments*

The tax position of certain subsidiaries of the Company is currently being reviewed by IRD, as set out in note 14 to the 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.

MANAGEMENT DISCUSSION AND ANALYSIS

NUMBER OF EMPLOYEES AND REMUNERATION POLICIES

As at 31st December, 2008, the Group had a total of approximately 14,000 (2007: 17,000) employees in Hong Kong, Macau, PRC, Vietnam, United States of America 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

Overshadowed by the lingering financial crisis, prospects for the US, UK and the global economy are bleak in year ahead. Despite the pump-priming measures pledged by the new administration in US, complete recovery of the financial sector will be a long drawn-out process. Evidently, bank recapitalisation, leverage cutback and restoration of confidence in US and UK markets will take considerable time. As credit problems persist, corrections of the housing market underlined by dwindling sales and prices would likely drag on for quite a while. Outside the financial and housing sectors, corporate profit and investment will also be undercut by tighter credits, faltering overseas demand compounded with a firm US dollar, as well as sustained retrenchment of the household section.

The Group would specifically eliminating or reducing the volume of business with the Group's lower margin customers, many of which are international distributors and that it offset the decrease in sales with a significant increase in profit margin. The Group would focus on major customers which provided value-for-money basics products were favoured over department stores as well as luxury stores and focus on the key brands in 2009, including Tonka, Gazillion Bubbles and Shelcore and expected that some of products like Tonka would remain average performance. The Group planned on margin increase as the Group would target on losing the lowest margin accounts. In European, Middle East and Russia markets were expected that the sales would be down approximately as most of the volume decrease would be from lower margin accounts. Most countries in Europe including Russia would have lower volume of sales and the Group continues to use many distributors throughout Europe.

Notwithstanding, 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 to certain extent offset the negative impact from various external factors. In addition, the prices of gasoline and diesel oil were gradually decreasing and the stable pace of RMB appreciation which lessen the heavy burden on the increasing production cost for the Group as a toy manufacturer.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Cheng Yung Pun

Aged 57, 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 28 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 the father of Ms. Cheng Wing See, Nathalie, executive Director of the Company.

Mr. Arnold Edward Rubin

Aged 61, 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 42 year's of extensive experience in the toy industry. He is currently an advisor to the Toy Industry Association Board of Directors and has served as Chairman of both the Toy Industry Association and Toy Industry Foundation. He is currently serving as a member of the board of the International Counsel of Toy Industries. He joined the Company in year 2007.

Mr. Yu Sui Chuen

Aged 53, 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 28 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 35, is responsible in managing of procurement of the Group. Ms. Cheng has over 11 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 59, was appointed an independent non-executive director and the chairman of the audit committee and remuneration committee of the Company. He has over 36 years of experience in accounting and auditing for private and public companies; financial consultancy; and corporate management. He holds a Master of Business Administration Degree from Universiti Teknologi Malaysia and a Doctor of Business Administration Degree from University of South Australia. 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 Zmay Holdings Limited, Vodone Limited, Bio-Dynamic Group Limited, Winfair Investment Company Limited and China Fire Safety Enterprise Group Holdings Limited, companies listed on the Stock Exchange of Hong Kong. He joined the Company in the year 2004.

Mr. Mak Shiu Chung, Godfrey

Aged 46, 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 18 years of experiences in the field of corporate finance. He joined the Company in the year 2000.

Mr. Wan Hing Pui

Aged 78, 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 50 years of experiences in auditing, taxation and financial management consultancy services. He is an Associate Member of The Institute of Chartered Accountants in England and Wales, a Fellow of Hong Kong Institute of Certified Public Accountants and The Taxation Institute of Hong Kong. He is a sole proprietor of H.P. Wan & Co., a firm of Certified Public Accountants (Practising). He joined the Company in the year 2004.

CHIEF EXECUTIVE OFFICER

Mr. Chen Wei Qing

Aged 41, was appointed as the chief executive officer of the Company in May 2008. Mr. Chen is responsible for new product development and manufacturing operations of the Group. Mr. Chen was the Head of Factory Plant of Vietnam and China Plant of the Company and he has about 20 years' extensive experience in product development and manufacturing of toy.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Board of Directors (the "Board") of Matrix Holdings Limited (the "Company") had adopted an amended code on corporate governance practices on 28th December, 2008 in accordance with the newly amended Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") which incorporates all the code provisions in the Code on Corporate Governance Practices (the "CGP Code") as set out in Appendix 14 to the Listing Rules as amended from time to time.

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

BOARD OF DIRECTORS

The Board serving the important function of guiding the management, currently comprises four executive directors, namely Mr. Cheng Yung Pun ("Mr. Cheng") (Chairman), Mr. Arnold Edward Rubin (Vice-Chairman, Mr. Yu Sui Chuen and Ms. Cheng Wing See, Nathalie ("Ms. Cheng") 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.

BOARD OF DIRECTORS (Continued)

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.

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, 2007 and for the six months ended 30th June, 2008 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 eight board meetings in which Mr Arnold Edward Rubin, Mr. Yu Sui Chuen, Ms. Cheng Wing See, Nathalie and Dr. Loke Yu alias Loke Hoi Lam had attended all the board meetings and Mr. Cheng Yung Pun, Mr. Mak Shiu Chung, Godfrey and Mr. Wan Hing Pui had attended seven board meetings.

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

APPOINTMENTS AND RE-ELECTION OF DIRECTORS

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

In considering the nomination of a new director, the Board will review its own size, structure and composition to ensure that it has a balance of expertise, skills and experience appropriate to the requirements of the Company. Where vacancies on the Board exist or an additional director is considered necessary, the Chairman will identify suitable candidates and propose the appointment of such candidates to the Board for consideration and the Board will take into account the qualification, in particular any qualification as required in the Listing Rules, ability, working experience, leadership and professional ethics of the candidates and approved if such appointment considered suitable. The Board also considers that the existing human resources policy in recruitment of new senior staff, to certain circumstance, is applicable to nomination of a new director. 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

The roles of Chairman and Chief Executive Officer ("CEO") are segregated and performed by separate individual, Mr. Cheng Yung Pun and Mr. Chen Wei Qing respectively, to ensure a balance of power and authority. The role of Chairman and the CEO are governed by the Chairman Mandate and CEO Mandate (containing the minimum prescribed duties) and stated in the Company's own code on corporate governance practices.

The Chairman is appointed by the Board and his responsibilities are, inter alia, the leadership and effective running of the Board, ensuring that all key and appropriate issues are discussed by the Board in a timely and constructive manner and ensure that Directors receive adequate information, which must be complete and reliable, in a timely manner. The CEO is appointed by the Board and is delegated with the authority and his principal responsibilities are, inter alia, running the Group's business, and implementation of the Group's strategy in achieving the overall commercial objectives.

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, 2008 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.

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

The Company has received from each of the independent non-executive directors, 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. The Company considers all of the independent non-executive directors are independent.

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.

REMUNERATION COMMITTEE (Continued)

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 amended specific terms of reference of the Remuneration Committee (adopted on 29th December, 2008 and contained the minimum prescribed duties) in accordance with the newly amended Listing Rules 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.

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.

AUDIT COMMITTEE (Continued)

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

The Audit Committee discharged their duties according to the amended specific terms of reference (adopted on 29th December, 2008 and contained the minimum prescribed duties) in accordance with the newly amended Listing Rules. These specific terms of reference are available on request or on the website: www.matrix.hk.com.

AUDITOR'S REMUNERATION

During the year under review, the fees paid or payable to the auditor of the Company, Messrs. Deloitte Touche Tohmatsu were approximately HK$2,000,000 and HK$ 82,000 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$745,000.

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. The Qualified Accountant still served the Board in the Group to overseeing the Group's financial reporting procedure internal controls and compliance with the accounting-related requirements under the Listing Rules. Notwithstanding, the Board will consider the adequacy of resources, qualifications and experience of staff of the Company's accounting and financing reporting function and their training programmes and budget in due course.

INTERNAL CONTROL (Continued)

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

INVESTOR RELATIONS

During the year under review, the Group has proactively enhanced its corporate transparency and communications with its shareholders and the investment community through its mandatory interim and final reports. Through the timely distribution of press releases, the Group has also kept the public abreast of its latest developments.

COMMUNICATION WITH SHAREHOLDERS

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

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

The circular to shareholders dispatched together with the annual report includes relevant details of proposed resolutions, including biographies of each candidates standing for re-election. In order to comply with the newly amended CGP Code, the forthcoming annual general meeting will be held voting by way of a poll and that all shareholders will be given a notice for 20 clear business day or 21 days (whichever is later). The results of the poll in general meetings from time to time will be published on the Company's website and website of The Stock Exchange of Hong Kong Limited, www.hkex.com.hk.

REPORT OF THE DIRECTORS

The directors of the Company have pleasure in presenting their annual report together with the audited consolidated financial statements of the Company for the year ended 31st December, 2008.

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 42 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The five largest customers of the Group together accounted for approximately 71% of the Group's turnover, with the largest customer accounted for approximately 46%. The aggregate purchases attributable to the Group's five largest suppliers were approximately 33% of total purchases of the Group, with the largest supplier accounted for approximately 14%.

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, 2008 are set out in the consolidated income statement on page 38.

During the year, the Company has paid a 2007 final dividend of HK3 cents and the directors have declared a 2008 interim dividend of HK2 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$20,186,000 and HK$13,738,000 respectively.

The directors now recommend the payment of a final dividend of HK1 cent per share, amounting to approximately HK$7,123,000, payable in cash to the shareholders on the register of members on 12th May, 2009. The remaining retained profits in the Company is amounting to approximately HK$209,432,000.

PROPERTY, PLANT AND EQUIPMENT

Certain of the Group's leasehold land and buildings were revalued at 31st December, 2008. The revaluation resulted in a surplus over book values amounting to approximately HK$5,388,000, which has been credited directly to the asset revaluation reserve.

During the year, the Group spent approximately HK$13,150,000 on plant and machinery and approximately HK$2,264,000 on leasehold land and buildings to expand and upgrade its production capacity.

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

SHARE CAPITAL

The Company issued 14,042,976 and 25,395,902 ordinary shares of HK$0.10 each for 2007 final scrip dividend and 2008 interim scrip dividend respectively during the year under review. 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 31 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 40.

Reserves of the Company as at 31st December, 2008 available for distribution, calculated under the Companies Act 1981 of Bermuda (as amended), amounted to approximately HK$220,216,000 (2007: HK$130,862,000).

REPORT OF THE DIRECTORS

RESERVES (Continued)

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

	2008 HK$'000	2007 HK$'000
Contributed surplus	3,661	3,661
Retained profits	216,555	127,201
	220,216	130,862

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

Keyhinge Toys Vietnam Joint Stock Company has entered an administration support service agreement with an indirect wholly owned subsidiary of the Company for a period of two years starting from 1st July, 2008. Messrs. Cheng Yung Pun, Yu Sui Chuen and Cheng Wing See, Nathalie, directors of that subsidiary received management services fees amounting to HK$46,800 during the year.

REPORT OF THE DIRECTORS

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 108.

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)*
Yu Sui Chuen
Cheng Wing See, Nathalie

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, Mr. Cheng Yung Pun, Mr. Mak Shiu Chung and Mr. Wan Hing Pui retire and, being eligible, offers themselves for re-election at the forthcoming annual general meeting.

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

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

The Company has received from each of the independent non-executive directors, 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 39 to the consolidated financial statements.

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

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

As at 31st December, 2008, the interests and short positions of the directors and chief executives and their respective associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or which were otherwise required to be notified to the Company and the Stock Exchange, pursuant to the Model Code for Securities Transactions by Directors of the Listing Companies were as follows:

Long Positions in Ordinary Shares of the Company

Ordinary Shares of HK$0.10 each of the Company

Name of director/ chief executive officer	Nature of interests	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Cheng Yung Pun *(Director)*	Corporate interest *(Note)*	458,211,518	64.33%
Yu Sui Chuen *(Director)*	Personal interest	668,000	0.09%
Cheng Wing See, Nathalie *(Director)*	Personal interest	723,230	0.10%
Chen Wei Qing *(Chief Executive Officer)*	Personal interest	1,100,000	0.15%

Note:

The shares are held by Suncorp Investments Group Limited ("Suncorp"), a company incorporated in the British Virgin Islands. The entire issued share capital of Suncorp is wholly owned by Mr. Cheng Yung Pun.

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

Long Positions in Underlying Shares of the Company

Share Option

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

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 0.41% 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. Arnold Edward Rubin, a director of the Company, has beneficial interests in 6,300,000 underlying shares (representing 0.88% of issued share capital of the Company) in respect of share options granted to him on 8th June, 2007 pursuant to the Company's share option scheme.

(3) The 2,133,333 underlying shares (representing approximately 0.3% 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.

(4) The 6,500,000 underlying shares (representing approximately 0.91% 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.

(5) The 2,000,000 underlying shares (representing approximately 0.28% 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.

(6) The 2,000,000 underlying shares (representing approximately 0.28% 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.

(7) The 2,000,000 underlying shares (representing approximately 0.28% 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 40 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, 2008.

ARRANGEMENTS TO PURCHASE SHARES AND DEBENTURES

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

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2008, 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	458,211,518	64.33%
Dresdner VPV N.V.	Investment Manager	45,361,084	6.37%
Dresdner Bank Aktiengesellschaft *(Note 2)*	Interest held by controlled corporations	45,361,084	6.37%
Allianz SE *(Note 3)*	Interest held by controlled corporations	45,361,084	6.37%

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 Dresdner VPV N.V., which is wholly-owned by Dresdner Bank Luxembourg S.A. Dresdner Bank Luxembourg S.A. is in turn wholly-owned by Dresdner Bank Aktiengesellschaft, which is owned as to 81.1% by Allianz Finanzbeteiligungs GmbH. Allianz Finanzbeteiligungs GmbH is wholly-owned by Allianz SE.

(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.

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, 2008.

SHARE OPTION SCHEME

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

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

(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) At the 2008 annual general meeting ("AGM") of the Company which was held on 29th May, 2008, the refreshment of the Scheme mandate limit was approved, based on 672,855,350 shares in issue at the date of resolution passed in the AGM and assume no further shares are issued or repurchased up to the date of the AGM, the Company was allowed to grant further options under the Scheme for subscription of up to a total of 67,285,535 shares representing 9.45% 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 2008 respectively) 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;

SHARE OPTION SCHEME (Continued)

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

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

(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 40 to the consolidated financial statements.

No 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, 2008, the total number of shares available for issue under the Company's share option scheme was 67,285,535 shares which represented 9.45% 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").

Since 5th May, 2008, Mr. Chen Wei Qing has been appointed as the Chief Executive Officer ("CEO") of the Company 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.

None of the directors of the Company is aware of information that would reasonably indicate the Company is not or was not for any part of the year under review, in compliance with the CGP Code and its own code except the deviation from the Code A.4.1 that none of the existing non-executive directors of the Company is appointed for a specific term. However, as all the non-executive directors of the Company (including independent non-executive) are subject to retirement provision under the Company's Bye-laws. The Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the CGP Code.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31st December, 2008.

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") to the Company's various subsidiaries (the "Borrowers") had been revised on 5th January, 2009 that the Facility was revised to an aggregate amount of HK$85,000,000 (the "Facility") which was effective from 5th January, 2009 to any date if such facilities be terminated by the Bank. Throughout the term of the Facility, (i) Mr. Cheng Yung Pun ("Mr. Cheng"), 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 (whether directly or indirectly) and that (ii) unless and until the revised Facilities (together with interest thereon and any fees, charges and other sums payable to the Bank) are fully repaid and the Bank are under no further liability to the Borrowers under the revised Facility Letter, the Company shall not repay or pay any of and Suncorp, a company wholly owned by Mr. Cheng) may not demand, recover or accept repayment or payment of the loan amount of not less than HK$89 millions due to Suncorp from the Company (including interest thereon and any other sums payable).

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, 26th March, 2009

INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

德勤 • 關黃陳方會計師行
香港金鐘道88號
太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

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

We have audited the consolidated financial statements of Matrix Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 38 to 43, which comprise the consolidated balance sheet as at 31st December, 2008, 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 Acts 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.

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, 2008 and of the Group's loss 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, 26th March, 2009

CONSOLIDATED INCOME STATEMENT

For the year ended 31st December, 2008

	NOTES	2008 HK$'000	2007 HK$'000
Turnover	8	**1,273,548**	1,218,759
Cost of sales		**(899,874)**	(857,607)
Gross profit		**373,674**	361,152
Other income	9	**12,470**	6,539
Distribution and selling costs		**(180,292)**	(132,994)
Administrative expenses		**(145,171)**	(165,571)
Finance costs	10	**(11,924)**	(7,054)
Impairment loss on prepaid royalty	11	**(62,946)**	–
Allowance for trade receivables	23	**(5,874)**	(211)
Written off of trade receivables		**(692)**	–
Adjustment to goodwill	19	**(3,031)**	–
Allowance for amounts due from the disposed subsidiaries, net of gain on disposal	35	**(12,859)**	–
(Loss) profit before taxation	12	**(36,645)**	61,861
Income tax charge	14	**(734)**	(2,200)
(Loss) profit for the year		**(37,379)**	59,661
Attributable to:			
Equity holders of the Company		**(37,361)**	59,667
Minority interest		**(18)**	(6)
		(37,379)	59,661
(Loss) earnings per share – Basic	16	**(HK$0.05)**	HK$0.09

CONSOLIDATED BALANCE SHEET

At 31st December, 2008

	NOTES	2008 HK$'000	2007 HK$'000 (Restated)
Non-current assets			
Property, plant and equipment	17	**267,399**	287,690
Prepaid lease payments	18	**1,047**	1,079
Goodwill	19	**136,548**	115,488
Intangible asset	21	**55,205**	67,642
Deferred tax assets	32	**314**	478
Prepaid royalty		**–**	39,546
		460,513	511,923
Current assets			
Inventories	22	**198,676**	229,819
Trade and other receivables	23	**198,559**	215,010
Prepaid lease payments	18	**32**	32
Tax recoverable		**6,632**	1,952
Held-for-trading investments	24	**29**	133
Amounts due from the disposed subsidiaries	25	**19,059**	–
Pledged bank deposit	26	**5,001**	5,606
Bank balances and cash	26	**22,316**	27,854
		450,304	480,406
Current liabilities			
Trade and other payables and accruals	27	**200,449**	230,237
Tax payable		**58,246**	58,024
Amount due to ultimate holding company	28	**738**	18,500
Unsecured bank borrowings	29	**72,441**	116,126
Obligations under finance leases	30	**1,928**	1,587
		333,802	424,474
Net current assets		**116,502**	55,932
Total assets less current liabilities		**577,015**	567,855
Capital and reserves			
Share capital	31	**71,229**	67,286
Reserves		**346,487**	389,525
Equity attributable to equity holders of the Company		**417,716**	456,811
Minority interest		**–**	1,651
		417,716	458,462
Non-current liabilities			
Deferred tax liabilities	32	**16,377**	16,577
Obligations under finance leases	30	**4,045**	5,769
Loan from a shareholder	33	**138,877**	87,047
		159,299	109,393
		577,015	567,855

The consolidated financial statements on pages 38 to 107 were approved and authorised for issue by the Board of Directors on 26th March, 2009 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, 2008

	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, 2007	57,716	35,999	771	6,901	2,437	32,427	–	(11,330)	178,586	303,507	–	303,507
Exchange difference arising on translation of foreign operations	–	–	–	–	–	–	–	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 *(note 33)*	–	–	–	9,008	–	–	–	–	–	9,008	–	9,008
Partial disposal of equity interest in a subsidiary	–	–	–	–	–	–	–	–	–	–	1,657	1,657
Dividend paid *(note 15)*	–	–	–	–	–	–	–	–	(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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December, 2008

	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
Exchange difference arising on translation of foreign operations	–	–	–	–	–	–	–	(14,629)	–	(14,629)	–	(14,629)
Deferred tax liability arising on revaluation of land and buildings, and plant and machinery	–	–	–	–	–	(808)	–	–	–	(808)	–	(808)
Surplus on revaluation of land and buildings, and plant and machinery	–	–	–	–	–	5,535	–	–	–	5,535	–	5,535
Net income recognised directly in equity	–	–	–	–	–	4,727	–	(14,629)	–	(9,902)	–	(9,902)
Disposal of subsidiaries *(note 35)*	–	–	–	–	–	(6,847)	–	13,859	6,847	13,859	–	13,859
Loss for the year	–	–	–	–	–	–	–	–	(37,361)	(37,361)	(18)	(37,379)
Total recognised income and expenses for the year	–	–	–	–	–	(2,120)	–	(770)	(30,514)	(33,404)	(18)	(33,422)
Issue of shares pursuant to scrip dividend	3,943	(3,943)	–	–	–	–	–	–	21,990	21,990	–	21,990
Recognition of equity-settled share based payments	–	–	–	–	788	–	–	–	–	788	–	788
Deemed contribution from a shareholder *(note 33)*	–	–	–	5,455	–	–	–	–	–	5,455	–	5,455
Disposal of subsidiaries *(note 35)*	–	–	–	(6,901)	–				6,901	–	(1,633)	(1,633)
Dividend paid *(note 15)*	–	–	–	–	–	–	–	–	(33,924)	(33,924)	–	(33,924)
At 31st December, 2008	**71,229**	**119,439**	**771**	**14,463**	**7,207**	**45,945**	**49**	**(11,379)**	**169,992**	**417,716**	**–**	**417,716**

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. The transfer reached half of the quota capital of that subsidiary as at 31st December, 2007. This reserve is not distributable to the shareholders.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December, 2008

	2008 HK$'000	2007 HK$'000
OPERATING ACTIVITIES		
(Loss) profit before taxation	**(36,645)**	61,861
Adjustments for:		
Loss on disposal of property, plant and equipment	**856**	223
Loss on fair value changes of held-for-trading investments	**104**	687
Interest income	**(287)**	(1,209)
Interest expenses	**11,924**	7,054
Depreciation of property, plant and equipment	**50,585**	42,296
Amortisation of intangible asset	**12,437**	6,978
Allowance for amounts due from the disposed subsidiaries, net of gain on disposal	**12,859**	–
Share-based payment expenses	**788**	5,607
Amortisation of prepaid lease payments	**32**	32
Impairment loss recognised on property, plant and equipment	**147**	–
Impairment loss on prepaid royalty	**62,946**	–
Loss on partial disposal of equity interest in a subsidiary	**–**	134
Allowance for trade receivables	**5,874**	211
Written off of trade receivables	**692**	–
Adjustment to goodwill	**3,031**	–
Operating cash flows before movements in working capital	**125,343**	123,874
Decrease (increase) in inventories	**26,844**	(28,074)
Increase in trade and other receivables	**(18,287)**	(18,643)
Decrease in amounts due from the disposed subsidiaries	**3,084**	–
Decrease in trade and other payables and accruals	**(27,420)**	(17,416)
Cash generated from operations	**109,564**	59,741
Income taxes paid	**(5,988)**	(6,213)
Interest paid	**(6,830)**	(4,426)
NET CASH FROM OPERATING ACTIVITIES	**96,746**	49,102

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December, 2008

	NOTES	2008 HK$'000	2007 HK$'000
INVESTING ACTIVITIES			
Interest received		**287**	1,209
Proceeds on disposal of property, plant and equipment		**243**	2,427
Purchases of property, plant and equipment		**(57,496)**	(83,079)
Acquisition of subsidiaries	*34*	**–**	(178,552)
Disposal of subsidiaries	*35*	**50**	–
Partial disposal of equity interest in a subsidiary		**–**	1,523
Increase in prepaid royalty		**(23,400)**	(39,546)
Decrease (increase) in pledged bank deposit		**605**	(315)
NET CASH USED IN INVESTING ACTIVITIES		**(79,711)**	(296,333)
FINANCING ACTIVITIES			
Dividends paid		**(11,934)**	(51,605)
Repayments of obligations under finance leases		**(1,383)**	(911)
New bank loans raised		**477,648**	248,467
Repayments of bank borrowings		**(534,583)**	(139,059)
Proceeds from issue of shares		**–**	99,550
Expenses on issue of shares		**–**	(2,597)
Increase (decrease) in bank overdrafts		**13,250**	(21,558)
Advance from ultimate holding company		**738**	18,500
Repayments to ultimate holding company		**(18,500)**	–
Loan from a shareholder		**52,191**	93,427
NET CASH (USED IN) FROM FINANCING ACTIVITIES		**(22,573)**	244,214
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(5,538)**	(3,017)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**27,854**	30,871
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by Bank balances and cash		**22,316**	27,854

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2008

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 42.

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 FINANCIAL STATEMENTS

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 OR REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are or have become effective.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC) – Int 11	HKFRS 2: Group and Treasury Share Transactions
HK(IFRIC) – Int 12	Service Concession Arrangements
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

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

The adoption of these new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

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

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKAS 1 (Revised)	Presentation of Financial Statements[2]
HKAS 23 (Revised)	Borrowing Costs[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
HKAS 39 (Amendment)	Eligible Hedged Items[3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[2]
HKFRS 3 (Revised)	Business Combinations[3]
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments[2]
HKFRS 8	Operating Segments[2]
HK(IFRIC) – Int 9 & HKAS 39 (Amendments)	Embedded Derivatives[4]
HK(IFRIC) – Int 13	Customer Loyalty Programmes[5]
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate[2]
HK(IFRIC) – Int 16	Hedges of a Net investment in a Foreign Operation[6]
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners[3]
HK(IFRIC) – Int 18	Transfers of Assets from Customers[7]

1 *Effective for annual periods beginning on or after 1st January, 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1st July, 2009*

2 *Effective for annual periods beginning on or after 1st January, 2009*

3 *Effective for annual periods beginning on or after 1st July, 2009*

4 *Effective for annual periods ending on or after 30th June, 2009*

5 *Effective for annual periods beginning on or after 1st July, 2008*

6 *Effective for annual periods beginning on or after 1st October, 2008*

7 *Effective for transfers on or after 1st July, 2009*

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

The adoption of HKFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is on or after 1st January, 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group'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, amendments and interpretations will have no material impact on the results and the financial position of the Group.

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 and up to the effective date of disposal, as appropriate.

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

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

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.

In respect of the acquisition of subsidiaries, 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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill (Continued)

***Goodwill arising on acquisitions on or after 1st January, 2005** (Continued)*

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.

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 on initial recognition.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 dealt with 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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leasing (Continued)

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated 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 classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

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.

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 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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Retirement benefits scheme

Payments 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.

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 ("FVTPL") and loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective Interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees 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 to the net carrying amount on initial recognition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2008

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

***Financial assets** (Continued)*

Effective Interest method (Continued)

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

Financial assets at fair value through profit or loss

Financial assets at FVTPL of the Group comprise of held-for-trading investments.

A financial asset is classified as held for trading if:

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

- it is 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 FVTPL 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.

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, amounts due from the disposed subsidiaries, pledged bank deposit and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans and receivables (Continued)

Impairment of financial assets

Financial assets, other than those at FVTPL, 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 affected.

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.

Impairment loss 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. Such impairment loss will not be reversed in subsequent periods.

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

For financial assets measured at amortised cost, 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.

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 to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities including trade and other payables, amount due to ultimate holding company, bank borrowings, obligations under finance leases 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.

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.

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.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Equity-settled share-based payment transactions

Share options granted to employees of the Group

The fair value of services received under an equity-settled share-based payment arrangement is determined by reference to the fair value of share options granted at the grant date. The fair value of services received 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.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies which are described in note 4, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from 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 17 to the consolidated financial statements, commencing from the date the items of property, plant and equipment are put into their intended use. The estimated useful lives and the dates the items of property, plant and equipment are put into use 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 and goodwill

Determining whether intangible asset relating to customer base and goodwill acquired are impaired require an estimation of the value in use of the cash-generating units that contain goodwill and the customer base. The estimation of the value in use of the cash-generating units requires the Group to estimate the future net cash flows expected to arise from the unit, and a suitable discount rate in order to calculate the present value. The discount rate represents rate that reflects current market assessments of time value of money and the risks specific to the asset. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31st December, 2008, the carrying amount of customer base is approximately HK$55,205,000 (2007: HK$67,642,000) and the carrying amount of goodwill is approximately HK$136,548,000 (2007: HK$115,488,000). Details of the recoverable amount calculation of goodwill are disclosed in note 19.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Income taxes

As at 31st December, 2008, a deferred tax asset of HK$314,000 (2007: HK$478,000) 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$139,664,000 (2007: HK$127,865,000) 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 34, 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 28, 29, 30 and 33 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 debts.

7. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2008 HK$'000	2007 HK$'000 (Restated)
Financial assets		
Loans and receivables		
(including cash and cash equivalents)	**224,859**	225,363
Held-for-trading investments	**29**	133
	224,888	225,496
Financial liabilities		
Amortised cost	**377,774**	388,644
Obligations under finance leases	**5,973**	7,356
	383,747	396,000

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, amounts due from the disposed subsidiaries, pledged bank deposit, bank balances and cash, trade and other payables, 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 and other receivables, pledged bank deposit, bank balances, trade and other payables and unsecured bank borrowings and the amounts are disclosed in notes 23, 26, 27 and 29 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.

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	
	2008 HK$'000	2007 HK$'000 (Restated)	**2008 HK$'000**	2007 HK$'000 (Restated)
United States Dollars ("USD")	**107,059**	137,595	**13,584**	17,619
Japanese Yen ("Yen")	**–**	5,606	**–**	14,630
Euro ("EUR")	**13,064**	13,064	**13,064**	13,064

In addition, two subsidiaries of the Company with functional currency of Vietnam Dollar has foreign currency transactions within the Group that are denominated in USD, which expose the subsidiaries to foreign currency risk.

Sensitivity analysis

As Hong Kong Dollar is pegged to USD, the Group does not expect any significant foreign currency exposure arising from the fluctuation of the USD/HKD exchange rates. As at 31st December, 2008, as the carrying amounts of the Group's Euro denominated monetary assets and liabilities netoff each other, the Group does not expect any significant foreign currency exposure arising from the fluctuation of the EUR/HKD exchange rates.

7. FINANCIAL INSTRUMENTS (Continued)

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

Currency risk *(Continued)*

Sensitivity analysis (Continued)

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:

	2008 **HK$'000**	2007 HK$'000
Decrease in profit for the year	**–**	(500)

The following table details the Vietnam subsidiaries' sensitivity to a 5% increase and decrease in VND against USD. 5% is the sensitivity rate used by management in the assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding USD denominated amount due from the fellow subsidiary and adjusts its translation at the year end for a 5% change in USD rates. A positive number below indicates decrease in loss/increase in profit for the year where USD strengthens 5% against VND. For a 5% weakening of USD against VND there would be an equal and opposite impact on the loss/profit for the year below:

	2008 **HK$'000**	2007 HK$'000
Decrease in loss/increase in profit for the year	**4,667**	2,508

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

7. FINANCIAL INSTRUMENTS (Continued)

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

Interest rate risk

The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note. The Group is exposed to fair value interest rate risk in relation to fixed rate borrowings (see note 30 for the details of the obligations under finance leases) and pledged bank deposits (see note 26 for the details of the pledged bank deposits). The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of interest rate arising from the Group's variable-rate bank borrowings (see note 29 for details of the unsecured bank borrowings) and bank balances (see note 26 for details of the bank balances).

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.

Sensitivity analysis

The sensitivity analyses below were determined based on the exposure to interest rates for the non-derivative instruments at the balance sheet date. For variable-rate bank balances and bank borrowings, the analysis is prepared assuming the amount of asset and liability outstanding at the balance sheet date was outstanding for the whole year. A 50 basis point increase or decrease represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's loss for the year would increase/decrease by HK$250,000 (2007: the Group's profit for the year would decrease/increase by HK$441,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank balances and bank borrowings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2008

7. FINANCIAL INSTRUMENTS (Continued)

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

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, 2008 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 71% (2007: 64%) 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$87,341,000 (2007: HK$30,275,000) 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.

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, 2008, the Group has available a total of unutilised overdraft and short-term bank loan facilities of approximately HK$111,939,000 (2007: HK$74,094,000).

7. FINANCIAL INSTRUMENTS (Continued)

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

Liquidity risk *(Continued)*

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
2008							
Non-derivative financial liabilities							
Trade and other payables	–	73,510	47,079	45,129	–	165,718	165,718
Unsecured bank borrowings	3.00%	31,094	41,632	–	–	72,726	72,441
Obligations under finance leases	12.40%	226	451	2,030	4,676	7,383	5,973
Amount due to ultimate holding company	–	738	–	–	–	738	738
Loan from a shareholder	3.00%	–	–	–	145,618	145,618	138,877
		105,568	89,162	47,159	150,294	392,183	383,747
2007							
Non-derivative financial liabilities (Restated)							
Trade and other payables	–	58,762	70,086	38,123	–	166,971	166,971
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	5.20%	–	–	–	93,427	93,427	87,047
		125,107	139,721	40,076	100,562	405,466	396,000

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 to 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.

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:

2008

	United States HK$'000	Europe HK$'000	Canada HK$'000	Hong Kong HK$'000	Others *(Note a)* HK$'000	Consolidated HK$'000
TURNOVER						
External sales	1,015,086	94,661	36,587	18,903	108,311	1,273,548
RESULTS						
Segment results	155,896	9,548	2,655	1,262	(2,151)	167,210
Unallocated income						11,623
Unallocated expenses						(140,608)
Impairment loss on prepaid royalty						(62,946)
Finance costs						(11,924)
Loss before taxation						(36,645)
Income tax charge						(734)
Loss for the year						(37,379)
ASSETS						
Property, plant and equipment *(Note b)*						267,399
Other segment assets	305,355	17,221	5,825	29,958	26,132	384,491
Total segment assets						651,890
Unallocated corporate assets						258,927
						910,817
LIABILITIES						
Segment liabilities	110,484	20,275	2,289	2,645	7,389	143,082
Unallocated corporate liabilities						350,019
						493,101

8. SEGMENT INFORMATION (Continued)

2007 (Restated)

	United States HK$'000	Europe HK$'000	Canada HK$'000	Hong Kong HK$'000	Others *(Note a)* 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						
Property, Plant and equipment *(Note b)*						287,690
Other segment assets	396,490	21,337	10,721	26,931	18,983	474,462
Total segment assets						762,152
Unallocated corporate assets						230,177
						992,329
LIABILITIES						
Segment liabilities	134,009	22,639	1,510	2,216	2,977	163,351
Unallocated corporate liabilities						370,516
						533,867

Notes:

a. The others include the PRC (other than Hong Kong), Russia, Australia, Brazil, Taiwan and Korea etc.

b. Property, plant and equipment cannot be allocated by location of customers as in the opinion of the directors, there is no appropriate basis on which allocation can be made.

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.

8. SEGMENT INFORMATION (Continued)

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	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
PRC	**283,076**	286,520	**40,870**	15,939
Vietnam	**167,228**	163,698	**14,685**	58,132
Hong Kong	**93,074**	124,070	**151**	31,632
Macau	**41,362**	16,790	**169**	6
United States	**65,538**	169,123	**1,600**	13,044
Others	**1,612**	1,951	**21**	266
	651,890	762,152	**57,496**	119,019

9. OTHER INCOME

	2008 HK$'000	2007 HK$'000
Interest income on bank deposits	**287**	1,209
Net exchange gain	**5,156**	–
Reversal of overprovision on allowance for customer claims	**3,937**	–
Others	**3,090**	5,330
	12,470	6,539

10. FINANCE COSTS

	2008 HK$'000	2007 HK$'000
Interest on:		
Bank borrowings wholly repayable within five years	**5,820**	3,757
Finance leases	**1,010**	669
Imputed interest expense on non-current interest-free loan from a shareholder	**5,094**	2,628
	11,924	7,054

11. IMPAIRMENT LOSS ON PREPAID ROYALTY

As at the balance sheet date, the directors reviewed the carrying amount of the prepaid royalty to determine whether there is any indication that this asset has suffered an impairment loss. In the opinion of the directors of the Company, due to the uncertainty about the market conditions in coming years, this prepaid royalty may not be probable to bring cash inflows or economic benefits to the Group in the future and the recoverable amount of the prepaid royalty is estimated to be much less than its carrying amount, thus impairment loss is recognised for the full amount of prepaid royalty.

12. (LOSS) PROFIT BEFORE TAXATION

	2008 **HK$'000**	2007 HK$'000
(Loss) profit before taxation has been arrived at after charging:		
Loss on partial disposal of equity interest in a subsidiary	**–**	134
Loss on disposal of property, plant and equipment	**856**	223
Impairment loss recognised on property, plant and equipment	**147**	–
Auditor's remuneration	**2,381**	3,052
Amortisation of prepaid lease payments	**32**	32
Loss on fair value changes of held-for-trading investments	**104**	687
Depreciation of property, plant and equipment	**50,585**	42,296
Amortisation of intangible assets included in cost of sales	**12,437**	6,978
Net exchange loss included in administrative expenses	**–**	4,991
Research and development costs (including staff costs of HK$5,951,000 (2007: HK$9,455,000)) included in administrative expenses	**15,638**	21,662
Staff costs *(Note)*	**294,574**	309,240

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.

13. DIRECTORS' EMOLUMENTS AND EMPLOYEES' EMOLUMENTS

Directors' emoluments

The emoluments paid or payable to each of the seven (2007: seven) directors are as follows:

2008	Fees HK$'000	Other emoluments Salaries and allowances HK$'000	Other emoluments Contributions to MPFS HK$'000	Total HK$'000
Executive directors				
Cheng Yung Pun	–	975	12	987
Yu Sui Chuen	–	1,175	63	1,238
Cheng Wing See, Nathalie	–	533	12	545
Arnold Edward Rubin	–	4,746	54	4,800
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 2008	216	7,429	141	7,786

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

Directors' emoluments (Continued)

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

Note: Other benefits represent employees share option benefits.

No director waived any emoluments in the two years ended 31st December, 2008.

Employees' emoluments

Of the five individuals with the highest emoluments in the Group, one (2007: one) is director of the Company whose emoluments are included in the above disclosures. The emoluments of the remaining four (2007: four) individuals are as follows:

	2008	2007
	HK$'000	HK$'000
Salaries and allowances	**6,705**	10,639
Contributions to retirement benefit schemes and MPFS	**144**	284
	6,849	10,923

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

Employees' emoluments (Continued)

Their emoluments are within the following bands:

	2008 No. of employees	2007 No. of employees
HK$1,500,001 to HK$2,000,000	3	3
HK$2,000,001 to HK$2,500,000	1	–
HK$5,500,001 to HK$6,000,000	–	1
	4	4

14. INCOME TAX CHARGE

	2008 HK$'000	2007 HK$'000
Current tax:		
Hong Kong	1,827	2,223
Other jurisdictions	–	1,501
	1,827	3,724
Overprovision in prior years:		
Hong Kong	(391)	–
Deferred tax:		
Current year *(note 32)*	136	(1,524)
Attributable to a change in tax rate *(note 32)*	(838)	–
	(702)	(1,524)
Taxation charge attributable to the Company and its subsidiaries	734	2,200

14. INCOME TAX CHARGE (Continued)

On 26th June, 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. Therefore, Hong Kong Profits Tax is calculated at 16.5% (2007: 17.5%) on the estimated assessable profit for the year. 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 realized or the liability is settled, resulting in a deferred tax credit of approximately HK$838,000 reported in the current year.

According to the Investment License granted by Vietnam tax 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. Matrix Manufacturing Vietnam Company Limited is eligible for exemption from Vietnam enterprise income tax for four years from the first profit-making year followed by a 50% reduction in the Vietnam enterprise income tax for the next four years. Associated Manufacturing Vietnam Company Limited is eligible for exemption from Vietnam enterprise income tax for three years from the first profit-making year followed by a 50% reduction in the Vietnam enterprise income tax for the next seven years.

Taxation arising in other jurisdictions 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 held over unconditionally as agreed by the IRD. The tax demanded for 2001/2002 for the amount of HK$4,713,000 was held over on condition that the subsidiaries purchased an equal amount of tax reserve certificates, and the amount of HK$12,965,000 was held over unconditionally. In March, 2009, IRD has issued assessments to certain subsidiaries in respect of the years of assessment from 2002/2003 to 2007/2008 amounting to approximately HK$158,116,000. The directors of the Company strongly disagree these assessments and will file an objection against such assessments on the grounds that these assessments from IRD were excessive on the basis that certain income under assessment neither arose in, nor was derived from, Hong Kong. The Company has appointed a tax advisor to assist the Group in handling this tax review. The tax review by IRD is still at the fact-finding stage, and accordingly, the ultimate outcome of the matter cannot presently be determined. As at 31st December, 2008, the Group had made a tax provision in respect of these subsidiaries in respect of these years of assessment of approximately HK$56,500,000 (2007: HK$56,500,000).

14. INCOME TAX CHARGE (Continued)

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

	2008 HK$'000	2007 HK$'000
(Loss) profit before taxation	**(36,645)**	61,861
Tax at the weighted average income tax rate *(Note)*	**(8,319)**	8,143
Tax effect of expenses not deductible for tax purpose	**16,538**	2,715
Tax effect of income not taxable for tax purpose	**(1,940)**	(4,458)
Tax effect of profit which are exempt from tax	**(6,404)**	(5,291)
Overprovision in respect of prior year	**(391)**	–
Tax effect of tax losses not recognised	**8,696**	1,140
Decrease in opening deferred tax liability resulting from a decrease in applicable tax rate	**(838)**	–
Utilisation of tax losses previously not recognised	**(6,613)**	–
Others	**5**	(49)
Tax charge for the year	**734**	2,200

Note: 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.

15. DIVIDENDS

	2008 HK$'000	2007 HK$'000
Dividends recognised as distribution during the year		
Prior year final, paid – HK3 cents (2007: HK9 cents) per share	**20,186**	56,894
Interim, paid – HK2 cents (2007: HK8 cents) per share	**13,738**	52,136
	33,924	109,030

Scrip dividend alternate was offered to shareholders in respect of the 2007 final dividend and 2008 and 2007 interim dividend. The scrip dividend alternate was accepted by some of the shareholders as follows:

	2008 HK$'000	2007 HK$'000
Dividends:		
Cash	**11,934**	34,290
Shares *(note 31)*	**21,990**	74,740
	33,924	109,030

The final dividend of HK1 cent (2007: HK3 cents) per share amounting to approximately HK$7,123,000 (2007: HK$20,186,000) has been proposed by the directors and is subject to approval by the shareholders in the annual general meeting. The proposed final dividend for 2008 will be payable in cash.

16. (LOSS) EARNINGS PER SHARE

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

	2008 HK$'000	2007 HK$'000
(Loss) earnings for the purposes of basic (loss) earnings per share	(37,361)	59,667

Number of shares	2008 '000	2007 '000
Weighted average number of ordinary shares for the purposes of basic (loss) earnings per share	711,837	695,287

The weighted average number of ordinary shares for the purpose of basic (loss) earnings per share has been adjusted for the effects of the scrip dividend in July and November 2008 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 2008 and 2007.

17. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress	Leasehold land and buildings	Leasehold improvements	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, 2007	–	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 34)*	–	–	10,930	–	22,830	1,981	199	35,940
Disposals	–	–	(2,046)	(21)	–	(1,187)	(199)	(3,453)
Surplus on revaluation	–	7,660	–	–	–	–	–	7,660
At 31st December, 2007	28,174	115,667	26,130	123,612	60,541	17,527	718	372,369
Exchange adjustments	(1,495)	(1,851)	(76)	(4,942)	–	(472)	–	(8,836)
Additions	508	2,264	6,054	13,150	32,424	3,096	–	57,496
Disposals	–	–	(1,796)	(106)	–	(1,091)	–	(2,993)
Disposal of subsidiaries	–	(13,095)	–	(27,358)	–	(839)	–	(41,292)
Transfer	(26,978)	25,667	1,282	–	–	29	–	–
Surplus on revaluation	–	(686)	–	(32,136)	–	–	–	(32,822)
At 31st December, 2008	**209**	**127,966**	**31,594**	**72,220**	**92,965**	**18,250**	**718**	**343,922**
Comprising								
At cost	209	–	31,594	–	92,965	18,250	718	143,736
At valuation	–	127,966	–	72,220	–	–	–	200,186
	209	127,966	31,594	72,220	92,965	18,250	718	343,922
DEPRECIATION AND IMPAIRMENT LOSSES								
At 1st January, 2007	–	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
Exchange adjustments	–	(296)	(59)	(1,691)	–	(224)	–	(2,270)
Provided for the year	–	5,461	2,299	17,438	20,755	4,632	–	50,585
Impairment loss recognised in the income statement	–	–	–	147	–	–	–	147
Eliminated on disposals	–	–	(866)	(88)	–	(940)	–	(1,894)
Eliminated on disposal of subsidiaries	–	(2,634)	–	(13,207)	–	(526)	–	(16,367)
Eliminated on revaluation	–	(2,531)	–	(35,826)	–	–	–	(38,357)
At 31st December, 2008	**–**	**–**	**8,336**	**–**	**58,680**	**8,789**	**718**	**76,523**
CARRYING VALUES								
At 31st December, 2008	**209**	**127,966**	**23,258**	**72,220**	**34,285**	**9,461**	**–**	**267,399**
At 31st December, 2007	28,174	115,667	19,168	90,385	22,616	11,680	–	287,690

17. PROPERTY, PLANT AND EQUIPMENT (Continued)

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

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

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

The Group's plant and machinery in the PRC and Vietnam at 31st December, 2008 were revalued by RHL Appraisal Ltd. ("RHL"), Chartered Surveyors and FCC Control and Fumigation Company, Danang Branch ("FCC"), Chartered Surveyors respectively. The Group's plant and machinery has been fair valued using direct comparison approach by making reference to comparable sales transactions as available in the relevant market and depreciated replacement cost method by making reference on the cost required to reproduce or replace in new condition the equipment appraised in accordance with current market prices for similar equipment and deducting for physical deterioration and all relevant forms of obsolescence and optimisation. Both RHL and FCC are not connected with the Group.

The Group's leasehold land and buildings in the PRC and Vietnam at 31st December, 2008 were revalued by RHL and FCC respectively. The land portion of the leasehold land and buildings has been fair valued using direct comparison approach by making reference to comparable sales transactions 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, 2008, 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$59,231,000 (2007: HK$60,658,000) and HK$71,837,000 (2007: HK$76,277,000) respectively.

17. PROPERTY, PLANT AND EQUIPMENT (Continued)

As at 31st December, 2008, the carrying value of leasehold improvements of HK$23,258,000 (2007: HK$19,168,000) includes an amount of HK$5,883,000 (2007: HK$6,933,000) in respect of assets held under finance leases *(see note 30)*.

The Group has pledged its leasehold land and buildings having a carrying value of approximately HK$64,676,000 (2007: HK$64,230,000) to a bank for banking facilities granted to the Group.

18. PREPAID LEASE PAYMENTS

	2008 HK$'000	2007 HK$'000
The Group's prepaid lease payments comprise:		
Leasehold land outside Hong Kong		
under medium term lease	**1,079**	1,111
Analysed for reporting purposes as:		
Current	**32**	32
Non-current	**1,047**	1,079
	1,079	1,111

19. GOODWILL

	HK$'000
CARRYING AMOUNTS	
At 1st January, 2007	–
Arising on acquisition of subsidiaries *(note 34)*	115,488
At 31st December, 2007	115,488
Arising on acquisition of subsidiaries *(note 34 (d))*	24,091
Adjustment to goodwill due to utilisation of pre-acquisition tax losses	(3,031)
At 31st December, 2008	**136,548**

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

20. IMPAIRMENT TESTING ON GOODWILL

For the purposes of impairment testing, goodwill set out in note 19 has been allocated to the cash generating unit ("CGU") in the manufacture and trading of gift items, novelties, and infant and pre-school children toys for mainly United States market.

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

The recoverable amount of the CGU 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 using a stable growth rate of 3%. A key assumption for the value in use calculations is that the budgeted growth rate decreased by 20% in the first year, increased by 5% each year for the next three years and increased by 3% from the fifth years onwards 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 9.17% (2007: 8%) and it reflects specific risks relating to the relevant operating unit. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the CGU to exceed the aggregate recoverable amount of the CGU.

21. INTANGIBLE ASSET

	Customer base
	HK$'000
COST	
At 1st January, 2007	–
Arising on acquisition of subsidiaries *(note 34)*	74,620
At 31st December, 2007 and 2008	**74,620**
AMORTISATION AND IMPAIRMENT	
At 1st January, 2007	–
Charge for the year	6,978
At 31st December, 2007	6,978
Charge for the year	12,437
At 31st December, 2008	**19,415**
CARRYING AMOUNT	
At 31st December, 2008	**55,205**
At 31st December, 2007	67,642

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

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

22. INVENTORIES

	2008 HK$'000	2007 HK$'000
Raw materials	**89,958**	74,318
Work in progress	**26,906**	31,061
Finished goods	**81,812**	124,440
	198,676	229,819

23. TRADE AND OTHER RECEIVABLES

	2008 HK$'000	2007 HK$'000 (Restated)
Trade receivables	**153,028**	132,531
Less: allowance for doubtful debts	**(6,085)**	(211)
	146,943	132,320
Other receivables	**51,616**	82,690
Total trade and other receivables	**198,559**	215,010

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:

	2008 HK$'000	2007 HK$'000
0 – 60 days	**114,597**	95,521
61 – 90 days	**26,124**	16,390
> 90 days	**6,222**	20,409
	146,943	132,320

Included in the Group's trade receivables are receivables of approximately HK$102,121,000 (2007: HK$103,635,000) denominated in the United States dollar, foreign currency of the relevant group entities.

23. TRADE AND OTHER RECEIVABLES (Continued)

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$78,102,000 and HK$96,984,000 as at 31st December, 2008 and 2007 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.

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

	2008 HK$'000	2007 HK$'000
0 – 60 days	62,306	12,022
61 – 90 days	4,011	9,985
> 90 days	2,524	13,329
	68,841	35,336

Movement in the allowance for doubtful debts

	2008 HK$'000	2007 HK$'000
Balance at beginning of the year	211	–
Impairment losses recognised on trade receivables	5,874	211
Balance at end of the year	6,085	211

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of approximately HK$6,085,000 (2007: HK$211,000) which have either been placed under liquidation or in severe financial difficulties.

23. TRADE AND OTHER RECEIVABLES (Continued)

Other receivables

As at 31st December, 2008, included in the Group's other receivables is a receivable from former shareholders of a subsidiary of approximately HK$13,493,000 (2007: HK$13,493,000) that related to a legal case *(see note 34(e))*.

One of the former shareholders of that subsidiary is an existing director of the Company. The amount due from the director disclosed pursuant to section 161B of the Companies Ordinance is as follows:

Director	**Terms of the receivable**	**Balance at 31/12/2008**	**Balance at 1/1/2008**	**Maximum amount outstanding during the year**
		HK$'000	HK$'000	HK$'000
Arnold Edward Rubin	Unsecured, repayable on demand, interest free	13,493	13,493	13,493

As at 31st December, 2008, included in the Group's other receivables are receivables of approximately HK$13,064,000 (2007: HK$13,064,000) and HK$429,000 (2007: HK$429,000) denominated in Euro and the United States dollar respectively, foreign currency of the relevant group entities, details of which are set out in note 34(e).

As at 31st December, 2007, included in the Group's other receivables are receivables of approximately HK$26,314,000 denominated in the United States dollar, foreign currency of the relevant group entities, details of which are set out in note 34(c).

24. HELD-FOR-TRADING INVESTMENTS

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

25. AMOUNTS DUE FROM THE DISPOSED SUBSIDIARIES

The amounts are unsecured, interest-free and repayable within one year.

26. 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 0.01% (2007: 2.07%) per annum and will be released upon the settlement of the bank borrowings. The bank balances carries interest at prevailing interest rates.

The bank balances of approximately HK$5,509,000 (2007: HK$7,217,000) and nil (2007: HK$5,606,000) are denominated in the United States dollar and Japanese Yen respectively, foreign currency of the relevant group entities.

At 31st December, 2008, the bank balances and cash of approximately HK$7,772,000 (2007: HK$4,867,000) were denominated in RMB which is not freely convertible into other currencies.

27. TRADE AND OTHER PAYABLES AND ACCRUALS

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

	2008 **HK$'000**	2007 HK$'000 (Restated)
Trade payables	**107,549**	119,423
Other payables and accruals	**92,900**	110,814
	200,449	230,237

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:

	2008 **HK$'000**	2007 HK$'000
0 – 60 days	**46,964**	79,181
61 – 90 days	**27,715**	17,136
> 90 days	**32,870**	23,106
	107,549	119,423

27. TRADE AND OTHER PAYABLES AND ACCRUALS (Continued)

As at 31st December, 2008, included in the Group's other payables are payables of approximately HK$13,064,000 and HK$429,000 denominated in Euro and the United States dollar respectively, foreign currency of the relevant group entities. As at 31st December, 2007, included in the Group's trade and other payables are payables of approximately HK$14,630,000, HK$13,064,000 and HK$429,000 denominated in the Japanese Yen, Euro and the United States dollar respectively, foreign currency of the relevant group entities.

28. AMOUNT DUE TO ULTIMATE HOLDING COMPANY

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

29. UNSECURED BANK BORROWINGS

	2008 **HK$'000**	2007 HK$'000
Bank overdrafts	**13,764**	514
Bank loans	**58,677**	115,612
	72,441	116,126

Bank overdrafts and bank loans are repayable within one year and bear variable interest ranging from 0.75% to 5.50% (2007: 3.49% to 8.25%) per annum.

The Group's borrowings were all denominated in Hong Kong dollars except for bank loans of approximately HK$13,155,000 (2007: HK$17,190,000) which were denominated in United States dollar, foreign currency of the relevant group entities.

30. 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% (2007: 8.00% to 13.00%). These leases have no terms of renewal. No arrangement has been entered into for contingent rental payments.

	Minimum lease payments		Present value of minimum lease payments	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Amounts payable under finance leases				
Within one year	**2,707**	2,604	**1,928**	1,587
In more than one year but not more than two years	**2,707**	2,604	**2,227**	1,839
In more than two years but not more than five years	**1,969**	4,531	**1,818**	3,930
	7,383	9,739	**5,973**	7,356
Less: future finance charges	**(1,410)**	(2,383)	**–**	–
Present value of lease obligations	**5,973**	7,356	**5,973**	7,356
Less: Amount due for settlement within 12 months (shown under current liabilities)			**(1,928)**	(1,587)
Amount due for settlement after 12 months			**4,045**	5,769

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

31. SHARE CAPITAL

	Number of shares		Nominal value	
	2008	2007	**2008**	2007
	'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	**672,855**	577,157	**67,286**	57,716
Issue of new subscription shares *(Note a)*	**–**	55,000	**–**	5,500
Issued in lieu of cash dividend *(Note b & c)*	**39,439**	40,698	**3,943**	4,070
At the end of the year	**712,294**	672,855	**71,229**	67,286

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 Investments Group Limited, 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 10th July, 2008 and 17th November, 2008, the Company issued and allotted a total of 14,042,976 shares and 25,395,902 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 2007 final dividend and 2008 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 36.

c. 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 36.

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

32. 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 HK$'000	Accelerated accounting depreciation HK$'000	Revaluation of property, plant and equipment HK$'000	Intangible assets HK$'000	Retirement benefit obligation HK$'000	Tax losses HK$'000	Others HK$'000	Total HK$'000
At 1st January, 2007	3,064	(201)	2,507	–	(32)	(257)	(56)	5,025
(Credit) charge to income for the year	(228)	133	(84)	(1,211)	–	–	(134)	(1,524)
Acquisition of subsidiaries *(note 34)*	–	–	–	13,059	–	–	–	13,059
Credit to equity for the year due to change in tax rate *(note 14)*	–	–	(460)	–	–	–	–	(460)
Exchange difference	–	–	–	–	–	(1)	–	(1)
At 31st December, 2007	2,836	(68)	1,963	11,848	(32)	(258)	(190)	16,099
Charge (credit) to income for the year	1,987	51	–	(2,052)	(54)	–	204	136
Charge to equity for the year	–	–	808	–	–	–	–	808
Disposal of subsidiaries *(note 35)*	–	(108)	(126)	–	40	9	17	(168)
Credit to consolidated income statement for the year due to change in tax rate *(note 14)*	(162)	–	–	(676)	–	–	–	(838)
Exchange difference	–	5	(9)	–	6	21	3	26
At 31st December, 2008	**4,661**	**(120)**	**2,636**	**9,120**	**(40)**	**(228)**	**34**	**16,063**

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:

	2008 HK$'000	2007 HK$'000
Deferred tax liabilities	**16,377**	16,577
Deferred tax assets	**(314)**	(478)
	16,063	16,099

At the balance sheet date, the Group had unused estimated tax losses of HK$144,173,000 (2007: HK$132,762,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK$4,509,000 (2007: HK$4,897,000) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses of HK$139,664,000 (2007: HK$127,865,000) due to the unpredictability of future profit streams. Other tax losses may be carried forward indefinitely.

33. LOAN FROM A SHAREHOLDER

The amount is unsecured, interest-free and not due for settlement within two years from the balance sheet date. As at 31st December, 2008, the shareholder agreed not to request settlement of HK$145,618,000 within two years from the balance sheet date. As at 31st December, 2007, the shareholder agreed not to request settlement of HK$93,427,000 within two years from 31st December, 2007. The fair value of the loan from a shareholder is determined based on an effective interest rate of 3.0% (2007: 5.2%) per annum on the balance sheet date. The difference between the principal amount of the loan and its fair value, determined on the balance sheet date amounted to approximately HK$5,455,000 (2007: HK$9,008,000) has been credited to equity as deemed contribution from a shareholder.

34. ACQUISITION OF SUBSIDIARIES

In 2007, the Group acquired all the equity interests of each of Funrise Holdings, LLC, Funrise, Inc. and Code 3 Collectibles LLC (together referred to as the "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 had 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.

34. ACQUISITION OF SUBSIDIARIES (Continued)

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** (restated)
	HK$'000	HK$'000	HK$'000
Net assets acquired:			
Property, plant and equipment	35,940	–	35,940
Intangible asset	–	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	(113,233)	–	(113,233)
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)
	(23,005)	61,561	38,556
Goodwill *(Note a)*			115,488
			154,044
Total cost of acquisition comprised			
Adjusted Initial Consideration *(Note c)*			149,526
Contingent consideration *(Note e)*			(13,493)
Directly attributable costs			18,011
			154,044
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

34. ACQUISITION OF SUBSIDIARIES (Continued)

The 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 from the date of completion to 31st December, 2007.

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) The 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 the Funrise Group was attributable to the anticipated profitability from the Funrise Group and the anticipated future operating synergies from the combination.

b) Included in the Initial Consideration of HK$193,851,000, was 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 had not been settled at 31st December, 2007 and the balance was included in trade and other payables.

c) According to the sales and purchase agreement ("purchase agreement"), the Initial Consideration was 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 the 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 had not been achieved, the Initial Consideration was adjusted downward by approximately HK$26,314,000. The amount was determined based on the directors' best estimation and was subject to the final agreement of the vendors of the Funrise Group. The balance was included in trade and other receivables as at 31st December, 2007. Details of the conditional adjustments are set out in the circular to shareholders dated 30th June, 2007 issued by the Company.

34. ACQUISITION OF SUBSIDIARIES (Continued)

d) On 25th September, 2008, the Company entered into an agreement as to consideration adjustments with the former shareholders of the Funrise Group. The Company and the former shareholders of the Funrise Group agreed that the net sales adjustment in accordance with Clause 3.3.3 of the Purchase Agreement shall not apply in adjusting the Initial Consideration because the changes in the operation of the Funrise Group after acquisition have affected the Funrise Group to achieve the predetermined level of net turnover as set out in note (c) above. The initial consideration was adjusted upward by HK$24,091,000. The difference in the amount between the total cost of acquisition as at 31st December, 2007 and revised consideration was adjusted to the goodwill arising on consolidation.

e) On 25th June, 2002, judgment was made by the court in France against a subsidiary within the Funrise Group regarding the termination of an agency agreement. The amount awarded to the plaintiff by the court to be paid by that subsidiary was approximately HK$13,493,000. The subsidiary has filed an appeal against the judgment.

In order to activate the formal appeal process, the full amount of HK$13,493,000 has to be settled by the subsidiary on or before 14th December, 2009, otherwise the case will be treated as conclusive and the subsidiary is liable for HK$13,493,000. Based on the relevant sales and purchase agreement, the former shareholders of the Funrise Group will indemnify the Group the claim against that subsidiary so that, if the liability crystalises, the former shareholders will pay the Group the amount paid by the Group to settle the liability.

During the year, it was determined that crystallization of the liability is probable. As a result, full provision of HK$13,493,000 has been included in trade and other payables as at 31st December, 2008 (2007: restated by the same amount of HK$13,493,000). In addition, a receivable of HK$13,493,000 has been included in trade and other receivables as at 31st December, 2008 (2007: restated by the same amount of HK$13,493,000). Corresponding adjustments are recognised in goodwill and hence there has been no impact on the carrying amount of goodwill.

35. DISPOSAL OF SUBSIDIARIES

The entire equity interest in Max Smart Investment Limited, Keyhinge Holdings Limited and Keyhinge Toys Vietnam Joint Stock Company (together referred to as the "disposed subsidiaries") were disposed of on 1st July, 2008. The net liabilities of the subsidiaries at the date of disposal are as follows:

	HK$'000
Net liabilities disposed of	
Property, plant and equipment	24,925
Inventories	4,299
Trade and other receivables	181
Tax recoverable	122
Bank balances and cash	950
Trade and other payables	(6,533)
Amounts due to the Group *(Note)*	(59,033)
Deferred tax liabilities	(168)
Minority interests	(1,633)
	(36,890)
Net liabilities disposed of	36,890
Cash consideration	1,000
Release of translation reserve	(13,859)
Gain on disposal of subsidiaries	24,031
Allowance for amounts due from the disposed subsidiaries	(36,890)
	(12,859)
Net cash inflow arising on disposal:	
Cash consideration received	1,000
Bank balances and cash disposed of	(950)
	50

The disposed subsidiaries did not have any significant impact on the cash flows, turnover and loss of the Group in 2008.

Note: Pursuant to the sales and purchase agreement entered on 26th June, 2008, the purchaser of the disposed subsidiaries (the "purchaser") irrevocably undertakes and shall procure the members of the disposed subsidiaries to make full payment of all the amounts due to the Group on or before 31st December, 2009. The purchaser also provided an indemnity to the Group for the settlement of the amounts due to the Group.

35. DISPOSAL OF SUBSIDIARIES (Continued)

The amounts due to the Group as at 1st July, 2008 was HK$59,033,000. The directors of the Company are of the opinion that under the current global economic condition and the financial resources of the disposed subsidiaries, an impairment of approximately HK$36,890,000 was made on the amounts due from the disposed subsidiaries at initial recognition. The amounts due from the disposed subsidiaries after impairment as at 1st July, 2008 amounted to approximately HK$22,143,000. The terms of the amounts due from the disposed subsidiaries are disclosed in note 25.

36. MAJOR NON-CASH TRANSACTIONS

Year ended 31st December, 2008

During the year ended 31st December, 2008, the directors declared a final dividend in 2007 of HK3 cents and an interim dividend in 2008 of HK2 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$0.904 and HK$0.366 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 23rd May, 2008 to 29th May, 2008 and from 30th September, 2008 to 8th October, 2008, respectively.

As a result, 39,438,878 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$3,944,000 equal to the nominal value of the shares issued is credited to share capital and approximately HK$21,990,000 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.

The entire equity interest of the disposed subsidiaries were disposed of on 1st July, 2008. The amounts due to the Group as at 1st July, 2008 was HK$59,033,000. The directors of the Company are of the opinion that under the current global economic condition and the financial resources of the disposed subsidiaries, an impairment of approximately HK$36,890,000 was made on the amounts due from disposed subsidiaries at initial recognition. The terms of the amounts due from the disposed subsidiaries are disclosed in note 25.

36. MAJOR NON-CASH TRANSACTIONS (Continued)

Year ended 31st December, 2007

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.

A subsidiary has made a legal claim provision of approximately HK$13,493,000 in relation to a legal proceeding in France. The same amount of receivable is recognised in the balance sheet because the former shareholders of this subsidiary have indemnified the Group for any loss incurred in relation to this legal case. The details is disclosed in note 34(e).

37. OPERATING LEASE COMMITMENTS

	2008 **HK$'000**	2007 HK$'000
Minimum lease payments in respect of land and buildings under operating leases recognised in the consolidated income statement for the year	**25,018**	16,766

37. OPERATING LEASE COMMITMENTS (Continued)

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

	2008 HK$'000	2007 HK$'000
Within one year	19,040	13,094
In the second to fifth years inclusive	30,687	14,150
After five years	4,379	16,611
	54,106	43,855

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.

38. CAPITAL COMMITMENTS

	2008 HK$'000	2007 HK$'000
Capital expenditure in respect of the acquisition of property, plant and equipment		
– contracted for but not provided in the consolidated financial statements	616	3,293
– authorised but not contracted for	150	2,060

39. RELATED PARTY TRANSACTIONS

The amount due from a director, amounts due from the disposed subsidiaries, amount due to ultimate holding company and loan from a shareholder are disclosed in notes 23, 25, 28 and 33 respectively.

39. RELATED PARTY TRANSACTIONS (Continued)

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

	2008 HK$'000	2007 HK$'000
Rental paid or payable to related companies *(Note a)*	696	192
Subcontracting fees paid or payable to the disposed subsidiaries *(Note b)*	18,267	–
Purchase of finished goods from the disposed subsidiaries *(Note b)*	20,015	–
Sales of raw materials to the disposed subsidiaries *(Note b)*	(9,332)	–
Service fee charged to the disposed subsidiaries *(Note b)*	(47)	–

Notes:

a. Mr. Cheng Yung Pun and Arnold Edward Rubin, directors of the Company, have beneficial interests in the related companies.

b. Mr. Cheng Yung Pun, Ms. Nathalie, Cheng Wing See and Mr. Yu Sui Chuen, directors of the Company, are also directors of the disposed subsidiaries but have no beneficial interests in the disposed subsidiaries.

Compensation of key management personnel

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

	2008 HK$'000	2007 HK$'000
Salaries and other short-term employee benefits	8,068	11,407
Post-employment benefits	151	95
Share-based payments	–	1,977
	8,219	13,479

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

40. 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, 2008, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 23,855,333 (2007: 23,855,333), representing 3.35% (2007: 3.55%) of the shares of the Company in issue at that date.

40. 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

40. SHARE BASED PAYMENT TRANSACTION (Continued)

Equity-settled share option scheme (Continued)

The following table discloses movements of the Company's share options held by directors, former chief executive and employees in 2008 and 2007:

Option Type	Outstanding at 1st January, 2007	Granted during year 2007	Lapsed during year 2007	Outstanding at 31st December, 2007 and 2008
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 2008				**23,855,333**
Exercisable at the end of the year 2007				17,855,333
Weighted average Exercise price	HK$2.34	HK$1.86	HK$2.34	HK$1.92

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	4.22%	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%

40. SHARE BASED PAYMENT TRANSACTION (Continued)

Equity-settled share option scheme (Continued)

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

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

The Group recognised the total expense of approximately HK$788,000 for the year ended 31st December, 2008 (2007: HK$5,607,000) in relation to share options granted by the Company.

41. RETIREMENT BENEFIT SCHEMES AND MANDATORY PROVIDENT FUND

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

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

Eligible employees in 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$3,895,000 (2007: HK$7,827,000) represents contributions payable to the schemes by the Group at the rates specified in the rules of the various schemes.

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the principal subsidiaries at 31st December, 2008 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
				2008	2007	
Associated Manufacturing Vietnam Company Limited	Vietnam	USD7,954,335	Capital contribution	**100%**	100%	Manufacture of gifts and novelties
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
Matrix Manufacturing Vietnam Company Limited	Vietnam	US$4,976,549	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

42. 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 2008	2007	Principal activities
Toytrix Company Limited	Hong Kong	HK$2	Ordinary share	**100%**	100%	Manufacture of printing materials
Funrise, Inc.	USA	US$7,500	Common share	**100%**	100%	Wholesale distribution and importation of toys and sales of accessories connected with its product ranges
Code 3 Collectibles LLC ("Code 3 LLC")	USA	N/A *(Note 2)*	Membership *(Note 2)*	**100%**	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%**	100%	Wholesaling, importing and exporting of toys & sales of accessories connected with its product ranges
Code 3 Collectibles (HK) Limited	Hong Kong	HK$10,000 (Ordinary) HK$1,630 (redeemable)	Ordinary share Redeemable share	**100%**	100%	Wholesaling, importing and exporting of toys & sales of accessories connected with its product ranges

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 authorised or issued share capital for Code 3 LLC.

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.

43. CONTINGENT LIABILITIES

A. Legal Claim

1) 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 service agreement. On 14th February, 2008, this former Chief Executive Officer lodged a counter claim for approximately HK15,167,000. 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.

2) On 14th January, 2009, Wictle Offset Printing Company Limited lodged a claim to a subsidiary of the Group for approximately HK$258,000 for long outstanding trade payables. The Company is in the process of gathering further information and the directors believe that the 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.

B. Additional tax assessments

The tax position of certain subsidiaries of the Company is currently being reviewed by IRD, as set out in note 14.

FINANCIAL SUMMARY

	Year ended 31st December,				
	2004 HK$'000	2005 HK$'000	2006 HK$'000	2007 HK$'000	**2008** **HK$'000**
RESULTS					
Turnover	686,684	911,044	867,959	1,218,759	**1,273,548**
Profit (loss) before taxation	177,763	138,866	104,050	61,861	**(36,645)**
Income tax (charge) credit	(26,137)	1,931	(3,404)	(2,200)	**(734)**
Profit (loss) for the year	151,626	140,797	100,646	59,661	**(37,379)**
Attributable to:					
Equity holders of the Company	151,810	140,929	100,646	59,667	**(37,361)**
Minority interest	(184)	(132)	–	(6)	**(18)**
	151,626	140,797	100,646	59,661	**(37,379)**
	HK$	HK$	HK$	HK$	**HK$**
Earnings (loss) per share					
Basic	0.27	0.24	0.16	0.09	**(0.05)**
Diluted	0.26	N/A	N/A	N/A	**N/A**

	At 31st December,				
	2004 HK$'000	2005 HK$'000	2006 HK$'000	2007 HK$'000	**2008** **HK$'000**
ASSETS AND LIABILITIES					
Total assets	454,007	512,691	528,789	992,329	**910,817**
Total liabilities	(170,900)	(179,234)	(225,282)	(533,867)	**(493,101)**
	283,107	333,457	303,507	458,462	**417,716**
Equity attributable to equity holders of the Company	282,975	333,457	303,507	456,811	**417,716**
Minority interest	132	–	–	1,651	**–**
	283,107	333,457	303,507	458,462	**417,716**

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the Annual General Meeting of Matrix Holdings Limited (the "Company") will be held at Garden Room A&B, 2/F., Hotel Nikko Hong Kong, 72 Mody Road, Tsimshatsui East, Kowloon, Hong Kong on 12th May, 2009 at 2:30 p.m. for the following purposes:–

1. To receive and consider the audited financial statements for the year ended 31st December, 2008 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 resolution as an ordinary resolution:–

ORDINARY RESOLUTION

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; or (iv) an issue of shares in lieu of the whole or part of the dividend on shares of the Company in accordance with the Bye-laws of the Company, shall not exceed 20 per cent of the aggregate nominal amount of the issued share capital of the Company at the date of passing this Resolution, and the said approval shall be limited accordingly; and

(d) for the purposes of this Resolution:

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

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

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

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

"Rights Issue" means an offer of shares or offer or issue of warrants or options to subscribe for shares open for a period fixed by the Directors 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

(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."

SPECIAL RESOLUTION

6. To consider as special business and, if thought fit, pass with or without amendments, the following resolution as a special resolution:–

"That the existing bye-laws of the Company be amended as follows:–

(a) by adding into the existing Bye-Law 1 the following new definition of "business day" immediately following the existing definition of "Bermuda":–

""business day" means any day on which the Designated Stock Exchange is open for the business of dealing in securities. For the avoidance of doubt, where the Designated Stock Exchange is closed for business in dealing in securities in Hong Kong on a business day for the reason of a number 8 or higher typhoon signal, black rainstorm warning, such day shall for the purposes of these Bye-Laws, be counted as a business day;"

(b) by deleting the existing definition of "special resolution" in Bye-Law 1 in its entirety and substituting it with the following new definition of "special resolution":–

""special resolution" means a resolution passed by not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, by duly authorised corporate representative or, where proxies are allowed, by proxy, at a general meeting of the Company at which a quorum is present and of which notice has been given in accordance with Bye-Law 58, specifying the intention to propose the resolution as a special resolution, has been duly given, provided that if it is so agreed by a majority in number of the members having the right to attend and vote at any such meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right, a resolution may be proposed and passed as a special resolution at a meeting of which notice has been given for shorter than the period required under Bye-Law 58."

(c) by deleting the existing Bye-Law 58 in its entirety and substituting it with the following new Bye-Law 58:–

"58. Subject always to the requirement that a meeting called for the passing of a special resolution shall be called by at least clear 21 days' notice in writing and a meeting of the Company other than an annual general meeting or a meeting for the passing of a special resolution shall be called by at least clear 14 days' notice in writing, an annual general meeting shall be called by not less than 20 clear business days' notice and any other general meeting shall be called by not less than 10 clear business days' notice. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given and shall specify the place, the day and the hour of meeting and, in case of special business, the general nature of that business. The notice convening an annual general meeting shall specify the meeting as such and the notice convening a meeting to pass a special resolution shall specify the intention to propose the relevant resolution as a special resolution."

(d) by deleting the existing Bye-Law 69 in its entirety and substituting it with the following new Bye-Law 69:–

"69. At any general meeting a resolution put to the vote at the meeting shall be decided on a poll."

(e) deleting the existing Bye-Law 70 in its entirety and substituting it with the following new Bye-Law 70:–

"70. Subject to Bye-Law 73, a poll shall be taken in such manner (including the use of ballot or voting papers or tickets or scrutineers) and at such time and place as the chairman of the meeting may direct and the result of the poll shall be deemed to be the resolution of the meeting at which the poll was taken."

(f) deleting the existing Bye-Law 71 in its entirety and substituting it with the following new Bye-Law 71:–

"71. All questions submitted to a meeting shall be decided by a simple majority of votes except where a greater majority is required by the Bye-Laws or by the Statutes. In the event of an equality of votes, the chairman of the meeting shall be entitled to a second or casting vote."

NOTICE OF ANNUAL GENERAL MEETING

(g) deleting the existing Bye-Law 72 in its entirety.

(h) deleting the existing Bye-Law 73 in its entirety and substituting it with the following new Bye-Law 73:–

"73. Any poll to be taken on the election of a chairman of a meeting or on any questions of adjournment shall be taken forthwith at the meeting and without adjournment."

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

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

(j) deleting the existing Bye-Law 77 in its entirety and substituting it with the following new Bye-Law 77:–

"77. A member of unsound mind or in respect of whom an order has been made by any court having jurisdiction in lunacy may vote by his committee, receiver, curator bonis or other person in the nature of a committee, receiver, curator bonis or other person may vote by proxy."

(k) deleting the existing Bye-Law 83 in its entirety and substituting it with the following new Bye-Law 83:–

"83. The instrument appointing a proxy to vote at a general meeting shall be deemed to confer authority to vote on any amendment of a resolution put to the meeting for which it is given as the proxy thinks fit."

(l) deleting the existing Bye-Law 86(B) in its entirety and substituting it with the following new Bye-Law 86(B):–

"86(B) If a Clearing House (or its nominee(s)) is a member of the Company, it may appoint such person or persons as it thinks fit to act as its proxy or proxies or as its corporate representative or representatives at any meeting of the Company or at any meeting of any class of members of the Company, provided that, if more than one proxy or corporate representative is so appointed, the proxy form or appointment shall specify the number and class of shares in respect of which each such person is so appointed. The person so appointed under the provisions of this Bye-Law shall be deemed to have been duly appointed without the need of producing any documents of title, notarized appointment and/or further evidence for substantiating the facts that it is duly appointed and be entitled to exercise the same rights and powers on behalf of the Clearing House (or its nominee(s)) which he represents as that Clearing House (or its nominee(s)) could exercise as if it were an individual member.""

By Order of the Board
Lai Mei Fong
Company Secretary

Hong Kong, 3rd April, 2009

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 6th May, 2009 (Wednesday) to 12th May, 2009 (Tuesday), 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 5th May, 2009.

5. An explanatory statement containing further details regarding the proposed Resolutions set out in the notice (except Resolutions 1 to 4) convening the above meeting will be sent to members of the Company together with the annual report 2008.

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

7. Pursuant to Rule 13.39 of the Listing Rules, the chairman of the meeting will demand a poll for all the resolutions set out in the notice of the annual general meeting.