MATRIX

MATRIX HOLDINGS LIMITED

美力時集團有限公司 *

(Incorporated in Bermuda with limited liability)

(Stock code: 1005)

2007 FINAL RESULTS ANNOUNCEMENT

The Board of Directors (the "Directors") of Matrix Holdings Limited (the "Company") are pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31st December, 2007 as follows:

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31ST DECEMBER, 2007

		2007	2006
	NOTES	***HK$'000***	*HK$'000*
Turnover	*3*	**1,218,759**	867,959
Cost of sales		**(857,607)**	(590,531)
Gross profit		**361,152**	277,428
Other income		**6,539**	6,206
Distribution and selling costs		**(132,994)**	(90,357)
Administrative expenses		**(165,782)**	(88,724)
Finance costs		**(7,054)**	(503)
Profit before taxation	*4*	**61,861**	104,050
Income tax charge	*5*	**(2,200)**	(3,404)
Profit for the year		**59,661**	100,646
Attributable to:			
Equity holders of the Company		**59,667**	100,646
Minority interest		**(6)**	–
		59,661	100,646
Earnings per share – Basic	*7*	**HK$0.09**	HK$0.16

* *For identification purpose only*

CONSOLIDATED BALANCE SHEET

AT 31ST DECEMBER, 2007

	NOTES	**2007** HK$'000	2006 HK$'000
Non-current assets			
Property, plant and equipment	*8*	**287,690**	198,297
Prepaid lease payments		**1,079**	1,111
Goodwill		**115,488**	–
Intangible assets		**67,642**	–
Deferred tax assets		**478**	344
Prepaid royalty		**39,546**	–
		511,923	199,752
Current assets			
Inventories		**229,819**	192,556
Trade and other receivables	*9*	**201,517**	99,467
Prepaid lease payments		**32**	32
Tax recoverable		**1,952**	–
Held-for-trading investments		**133**	820
Pledged bank deposit		**5,606**	5,291
Bank balances and cash		**27,854**	30,871
		466,913	329,037
Current liabilities			
Trade and other payables	*10*	**216,744**	130,393
Dividend payable		**–**	17,315
Tax payable		**58,024**	58,680
Amount due to ultimate holding company		**18,500**	–
Unsecured bank borrowings		**116,126**	13,525
Obligations under finance leases		**1,587**	–
		410,981	219,913
Net current assets		**55,932**	109,124
Total assets less current liabilities		**567,855**	308,876

	NOTE	2007 HK$'000	2006 HK$'000
Capital and reserves			
Share capital	*11*	**67,286**	57,716
Reserves		**389,525**	245,791
Equity attributable to equity holders of the Company		**456,811**	303,507
Minority interest		**1,651**	–
		458,462	303,507
Non-current liabilities			
Deferred tax liabilities		**16,577**	5,369
Obligations under finance leases		**5,769**	–
Loan from a shareholder		**87,047**	–
		109,393	5,369
		567,855	308,876

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

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

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

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

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

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

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

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

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

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

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

3. 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.

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

2007

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

2006

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

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

4. PROFIT BEFORE TAXATION

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

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

5. INCOME TAX CHARGE

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

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

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

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

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

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

6. DIVIDENDS

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

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

	2007	2006
	HK$'000	*HK$'000*
Dividends:		
Cash	**34,290**	41,474
Shares *(Note 13)*	**74,740**	4,510
	109,030	45,984

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

7. EARNINGS PER SHARE

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

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

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

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

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

8. PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired property, plant and equipment at a cost of approximately HK$83,079,000 (2006: HK$36,854,000) directly and approximately HK$35,940,000 (2006: nil) through the acquisition of subsidiaries.

9. TRADE AND OTHER RECEIVABLES

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

Trade receivables

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

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

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

Other receivables

Included in the Group's other receivables are receivables of approximately HK$26,314,000 (2006: nil) denominated in the United States dollar, foreign currency of the relevant group entities, details of which are set out in note 12(c).

10. TRADE AND OTHER PAYABLES

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

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

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

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

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

11. SHARE CAPITAL

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

Notes:

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

b. On 6th July, 2007 and 15th November, 2007, the Company issued and allotted a total of 19,545,643 shares and 21,152,740 shares of HK$0.10 each in the Company respectively at par to the shareholders who elected to receive shares in the Company in lieu of cash payment for the 2006 final dividend and 2007 interim dividend respectively. These shares rank pari passu in all respects with other shares then in issue. The details of the scrip dividend alternate are set out in note 13.

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

12. ACQUISITION OF SUBSIDIARIES

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

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

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

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

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

Notes:

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

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

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

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

13. MAJOR NON-CASH TRANSACTIONS

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

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

SUMMARY OF THE AUDITOR'S REPORT

The followings are the extraction from the auditor's report with modification:

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 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. 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.

BASIS OF PREPARATION OF CONSOLIDATION

In October 1999, there was a court judgment in connection with a claim made by a trade creditor. According to the court judgment, the Company did not hold the legal ownership of 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.

RESULTS

For the year ended 31st December, 2007, the Group's consolidated turnover was increased by HK$350,800,000 as compared to the last year's HK$867,959,000 but encountered a drop in the profit attributable to equity holders of the Company in HK$40,979,000 amounted to HK$59,667,000 as compared to the last year's HK$100,646,000 respectively. The basic earnings per share was HK9 cents (2006: HK16 cents).

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

DIVIDENDS

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

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

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

BUSINESS REVIEW

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

MANUFACTURING OPERATION

PRC Plant

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

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

Vietnam Plant

To cope with the development of the Group, the construction of the Group's third production plant in Danang City, Vietnam was completed and that the trial run process was conducted by the end of 2007. With such a giant manufacturing momentum of the Group, this new production plant contributed to meet future customers' orders and the production capacity is expected to increase by about 25%. In addition, the renovation on the Group's first plant was completed and that the factory management by integrating and relocating the warehouse and plant operations was strengthened.

The Group is conscious of adhering to its strict production code of conduct and takes social responsibility on providing comfortable working place and leisure centre to ensure our staff working in a humanity environment. The Group has increased the annual bonus in year 2007. The company's policy has always been to remunerate its employee in line with industry standards or over the standard such as providing production bonus, meal allowance, and housing allowance to the workers. Frequent human resources and social activities were taken place to enhance the loyalty of our workers. With some of the Company's major customers are renowned multinational companies, higher stringent requirements on human rights conditions, safety standards, terms of employment and working environment had been imposed in production plants in Vietnam.

TOY OPERATION

Shelcore Business

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

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

Funrise Business

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

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

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

Soccer Ball Business

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

FINANCIAL REVIEW

Liquidity and Financial Resources

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

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

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

Capital Expenditure

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

Assets and Liabilities

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

Significant Investments and Acquisition

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

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

Capital Commitment

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

Contingent Liabilities

Legal Claim

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

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

(2) On 2nd November, 2007, the Company and its subsidiary lodged a claim for HK$14,000,000 compensation from a former Chief Executive Officer of the Group for the breach of agreement. On 14th February 2008, this former Chief Executive Officer lodged a counter claim for approximately 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.

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.

Exchange Rate Risk

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

NUMBER OF EMPLOYEES AND REMUNERATION POLICIES

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

PROSPECTS

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

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

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

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

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

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

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

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.

COMPLIANCE OF THE CODE ON CORPORATE GOVERNANCE PRACTICE

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

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

1. Code A.2.1. that Mr. Michael Adam Greenberg had ceased to be 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, the Company will use its best endeavours to seek a suitable candidate to assume such position as soon as practicable.

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

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.

ANNUAL GENERAL MEETING

The annual general meeting ("AGM") of the Company will be held at Fountains Room 1-3, LG Floor, Hotel Nikko Hong Kong, 72 Mody Road, Tsimshatsui East, Kowloon, Hong Kong on 29th May, 2008 at 2:30 p.m.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 23rd May, 2008 to 29th May, 2008 (both days inclusive) during which period no transfer of shares can be registered. In order to qualify for the proposed final dividend and attending and voting at the above AGM, all share transfers, accompanied by the relevant share certificates, must be lodged with the Company's Branch Share Registrar in Hong Kong, Tricor Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:00 p.m. on 22nd May, 2008.

REVIEW OF ACCOUNTS

The Audit Committee has reviewed the Group's audited consolidated financial statements for the year ended 31st December, 2007, including the accounting principles and practices adopted by the Group.

PUBLICATION OF FINAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This result announcement is published on the website of the Stock Exchange. The 2007 Annual Report and Notice of AGM of the Company will be despatched to the shareholders of the Company as well as published on the website of the Stock Exchange in due course.

BOARD COMPOSITION

As at the date of this announcement, the Board comprises Mr. Cheng Yung Pun, Mr. Arnold Edward Rubin, Mr. Yu Sui Chuen and Ms. Cheng Wing See, Nathalie as executive Directors and Dr. Loke Yu alias Loke Hoi Lam, Mr. Mak Shiu Chung, Godfrey and Mr. Wan Hing Pui as independent non-executive Directors.

By Order of the Board
Cheng Yung Pun
Chairman

Hong Kong, 21st April, 2008