**MATRIX HOLDINGS LIMITED**
**美力時集團有限公司***
*(Incorporated in Bermuda with limited liability)*
**(Stock Code: 1005)**

# 2008 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 2008 as follows:

## 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 | |

* *For identification purposes only*

## CONSOLIDATED INCOME STATEMENT

*FOR THE YEAR ENDED 31ST DECEMBER, 2008*

| | NOTES | 2008<br>HK$'000 | 2007<br>HK$'000 |
|---|---|---|---|
| Turnover | 3 | **1,273,548** | 1,218,759 |
| Cost of sales | | **(899,874)** | (857,607) |
| Gross profit | | **373,674** | 361,152 |
| Other income | | **12,470** | 6,539 |
| Distribution and selling costs | | **(180,292)** | (132,994) |
| Administrative expenses | | **(145,171)** | (165,571) |
| Finance costs | | **(11,924)** | (7,054) |
| Impairment loss on prepaid royalty | | **(62,946)** | – |
| Allowance for trade receivables | | **(5,874)** | (211) |
| Written off of trade receivables | | **(692)** | – |
| Adjustment to goodwill | | **(3,031)** | – |
| Allowance for amounts due from the disposed subsidiaries, net of gain on disposal | | **(12,859)** | – |
| (Loss) profit before taxation | 4 | **(36,645)** | 61,861 |
| Income tax charge | 5 | **(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 | 7 | **(HK$0.05)** | HK$0.09 |

## CONSOLIDATED BALANCE SHEET

*AT 31ST DECEMBER, 2008*

| | NOTES | 2008<br>HK$'000 | 2007<br>HK$'000<br>(Restated) |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | *8* | **267,399** | 287,690 |
| Prepaid lease payments | | **1,047** | 1,079 |
| Goodwill | | **136,548** | 115,488 |
| Intangible asset | | **55,205** | 67,642 |
| Deferred tax assets | | **314** | 478 |
| Prepaid royalty | | **–** | 39,546 |
| | | **460,513** | 511,923 |
| **Current assets** | | | |
| Inventories | | **198,676** | 229,819 |
| Trade and other receivables | *9* | **198,559** | 215,010 |
| Prepaid lease payments | | **32** | 32 |
| Tax recoverable | | **6,632** | 1,952 |
| Held-for-trading investments | | **29** | 133 |
| Amounts due from the disposed subsidiaries | | **19,059** | – |
| Pledged bank deposit | | **5,001** | 5,606 |
| Bank balances and cash | | **22,316** | 27,854 |
| | | **450,304** | 480,406 |
| **Current liabilities** | | | |
| Trade and other payables and accruals | *10* | **200,449** | 230,237 |
| Tax payable | | **58,246** | 58,024 |
| Amount due to ultimate holding company | | **738** | 18,500 |
| Unsecured bank borrowings | | **72,441** | 116,126 |
| Obligations under finance leases | | **1,928** | 1,587 |
| | | **333,802** | 424,474 |
| **Net current assets** | | **116,502** | 55,932 |
| **Total assets less current liabilities** | | **577,015** | 567,855 |

| | NOTE | 2008 HK$'000 | 2007 HK$'000 (Restated) |
|---|---|---|---|
| **Capital and reserves** | | | |
| Share capital | *11* | **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 | | **16,377** | 16,577 |
| Obligations under finance leases | | **4,045** | 5,769 |
| Loan from a shareholder | | **138,877** | 87,047 |
| | | **159,299** | 109,393 |
| | | **577,015** | 567,855 |

# 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 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 ("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 |

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*

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.

## 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:

**2008**

| | United States | Europe | Canada | Hong Kong | Others *(Note a)* | Consolidated |
|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'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** |

2007 (Restated)

| | United States | Europe | Canada | Hong Kong | Others *(Note a)* | 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 | | | | | | |
| 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.

## 4. (LOSS) PROFIT BEFORE TAXATION

| | **2008** | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'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.

## 5. INCOME TAX CHARGE

| | **2008** | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'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 | **136** | (1,524) |
| Attributable to a change in tax rate | **(838)** | – |
| | **(702)** | (1,524) |
| Taxation charge attributable to the Company and its subsidiaries | **734** | 2,200 |

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).

## 6. DIVIDENDS

| | **2008** | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'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** | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Dividends: | | |
| Cash | **11,934** | 34,290 |
| Shares | **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.

## 7. (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** | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| (Loss) earnings for the purposes of basic (loss) earnings per share | **(37,361)** | 59,667 |

***Number of shares***

| | **2008** | 2007 |
|---|---|---|
| | ***'000*** | *'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.

## 8. PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired property, plant and equipment at a cost of approximately HK$57,496,000 (2007: HK$83,079,000) directly.

## 9. TRADE AND OTHER RECEIVABLES

| | 2008 | 2007 |
|---|---|---|
| | *HK$'000* | *HK$'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 | 2007 |
|---|---|---|
| | *HK$'000* | *HK$'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.

## 10. TRADE AND OTHER PAYABLES AND ACCRUALS

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

| | 2008 | 2007 |
|---|---|---|
| | *HK$'000* | *HK$'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 | 2007 |
|---|---|---|
| | *HK$'000* | *HK$'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 |

## 11. 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 14.

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 part 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.

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

## 12. 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.

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 |

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.

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 charged 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.

## 13. 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 profit 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.

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 amounts due from the disposed subsidiaries after impairment as at 1st July 2008 amounted to approximately HK$22,143,000.

## 14. MAJOR NON-CASH TRANSACTIONS

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.

## 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 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 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 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.

## 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.

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***

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.

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.

## 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 3 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.

## 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 fixed deposits 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: 46.10%).

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 51.5%) 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 amounted to HK$616,000. (2007: HK$3,293,000).

## 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 5.

## 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 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.

## 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 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.

## 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 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.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 6th May 2009 to 12th May 2009 (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 5th May 2009.

## REVIEW OF ACCOUNTS

The Audit Committee has reviewed the Group's audited consolidated financial statements for the year ended 31st December 2008, 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 2008 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, 26th March 2009