MATRIX HOLDINGS LIMITED
美力時集團有限公司 *

(Incorporated in Bermuda with limited liability)

(Stock Code: 1005)

2009 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, 2009 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31ST DECEMBER, 2009

	NOTES	**2009** **HK$'000**	2008 *HK$'000*
Turnover	3	**977,741**	1,273,548
Cost of sales		**(588,996)**	(899,874)
Gross profit		**388,745**	373,674
Other income		**4,970**	12,470
Distribution and selling costs		**(131,110)**	(180,292)
Administrative expenses		**(154,948)**	(145,171)
Finance costs		**(6,445)**	(11,924)
Impairment loss on prepaid royalty		**–**	(62,946)
Allowance for trade receivables		**(3,502)**	(5,874)
Written off of trade receivables		**(152)**	(692)
Adjustment to goodwill		**(3,726)**	(3,031)
Impairment loss on goodwill		**(23,000)**	–
Allowance for amounts due from the disposed subsidiaries, net of gain on disposal		**–**	(12,859)
Profit (loss) before taxation	4	**70,832**	(36,645)
Income tax credit (charge)	5	**6,040**	(734)
Profit (loss) for the year		**76,872**	(37,379)

* *For identification purpose only*

	NOTE	2009 HK$'000	2008 HK$'000
Other comprehensive income			
Exchange difference arising on translation of foreign operations		**(6,184)**	(14,629)
Release of translation reserve on deregistration of foreign operations		**1,262**	–
Release of translation reserve on disposal of foreign operations		**–**	13,859
Gain on revaluation of land and buildings, and plant and machinery		**6,642**	5,535
Deferred tax liability arising on revaluation of land and buildings, and plant and machinery		**(12)**	(808)
Other comprehensive income for the year (net of tax)		**1,708**	3,957
Total comprehensive income (expense) for the year		**78,580**	(33,422)
Profit (loss) for the year attributable to:			
Owners of the Company		**76,872**	(37,361)
Minority interest		**–**	(18)
		76,872	(37,379)
Total comprehensive income (expense) attributable to:			
Owners of the Company		**78,580**	(33,404)
Minority interest		**–**	(18)
		78,580	(33,422)
Earnings (loss) per share – Basic	*7*	**HK$0.11**	(HK$0.05)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31ST DECEMBER, 2009

	NOTES	**2009** **HK$'000**	2008 HK$'000
Non-current assets			
Property, plant and equipment	*8*	**240,290**	267,399
Prepaid lease payments		**1,015**	1,047
Goodwill		**109,822**	136,548
Intangible asset		**42,768**	55,205
Deferred tax assets		**3,918**	314
		397,813	460,513
Current assets			
Inventories		**181,068**	198,676
Trade and other receivables	*9*	**163,998**	198,559
Prepaid lease payments		**32**	32
Tax recoverable		**7,560**	6,632
Held-for-trading investments		**125**	29
Amounts due from the disposed subsidiaries		**20,596**	19,059
Pledged bank deposit		**5,002**	5,001
Bank balances and cash		**72,685**	22,316
		451,066	450,304
Current liabilities			
Trade and other payables and accruals	*10*	**167,378**	200,449
Tax payable		**58,077**	58,246
Amount due to ultimate holding company		**–**	738
Unsecured bank borrowings		**24,661**	72,441
Obligations under finance leases		**2,227**	1,928
		252,343	333,802
Net current assets		**198,723**	116,502
Total assets less current liabilities		**596,536**	577,015

	NOTE	2009 HK$'000	2008 HK$'000
Capital and reserves			
Share capital	*11*	**71,229**	71,229
Reserves		**414,563**	346,487
Equity attributable to owners of the Company		**485,792**	417,716
Non-current liabilities			
Deferred tax liabilities		**12,869**	16,377
Obligations under finance leases		**1,847**	4,045
Loan from ultimate holding company		**96,028**	138,877
		110,744	159,299
		596,536	577,015

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

In October 1999, there was a court judgement in connection with a claim made by a trade creditor. According to the court judgement, 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 judgement 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 judgement 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 indirectly held subsidiary of the Company.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following new and revised standards, amendments to standards and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

HKAS 1 (Revised 2007)	Presentation of financial statements
HKAS 23 (Revised 2007)	Borrowing costs
HKAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or associate
HKFRS 2 (Amendment)	Vesting conditions and cancellations
HKFRS 7 (Amendment)	Improving disclosures about financial instruments
HKFRS 8	Operating segments
HK(IFRIC) – INT 9 & HKAS 39 (Amendments)	Embedded derivatives
HK(IFRIC) – INT 13	Customer loyalty programmes
HK(IFRIC) – INT 15	Agreements for the construction of real estate
HK(IFRIC) – INT 16	Hedges of a net investment in a foreign operation
HK(IFRIC) – INT 18	Transfers of assets from customers
HKFRSs (Amendment)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning or after 1st July, 2009
HKFRSs (Amendments)	Improvement to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39

Except as described below, the adoption of the new and revised HKFRSs has had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

New and revised HKFRSs affecting presentation and disclosure only

HKAS 1 (Revised 2007) Presentation of financial statements

HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.

HKFRS 8 Operating segments

HKFRS 8 is a disclosure standard that requires the identification of operating segments to be performed on the same basis as financial information that is reported internally for the purpose of allocating resources between segments and assessing their performance. The predecessor standard, HKAS 14 "Segment reporting", required the identification of two sets of segments (business and geographical) using a risks and returns approach. In the past, the Group's primary reporting format was geographical segments by location of customers. The application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14 *(see note 3)*.

New and revised HKFRSs affecting the reported results and/or financial position

HKAS 23 (Revised 2007) Borrowing costs

In previous years, the Group expensed all borrowing costs that were directly attributable to the acquisition, construction or production of a qualifying asset when they were incurred. HKAS 23 (Revised 2007) removes the option previously available to expense all borrowing costs when incurred. The adoption of HKAS 23 (Revised 2007) has resulted in the Group changing its accounting policy to capitalise all borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying assets as part of the cost of the qualifying asset. The Group has applied the revised accounting policy to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1st January, 2009 in accordance with the transitional provisions in HKAS 23 (Revised 2007). The revised accounting policy has been applied prospectively from 1st January, 2009 and does not have a material effect on the reported results and financial position of the Group for the current or prior accounting periods.

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)	Amendment to HKFRS 5 as part of improvements to HKFRSs May 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs April 2009[2]
HKAS 24 (Revised)	Related party disclosures[6]
HKAS 27 (Revised)	Consolidated and separate financial statements[1]
HKAS 32 (Amendment)	Classification of rights issues[4]
HKAS 39 (Amendment)	Eligible hedged items[1]
HKFRS 1 (Amendment)	Additional exemptions for first-time adopters[3]
HKFRS 1 (Amendment)	Limited exemption from comparative HKFRS 7 Disclosures for first-time adopters[5]
HKFRS 2 (Amendment)	Group cash-settled share-based payment transactions[3]
HKFRS 3 (Revised)	Business combinations[1]
HKFRS 9	Financial instruments[7]
HK(IFRIC) – INT 14 (Amendment)	Prepayments of a minimum funding requirement[6]
HK(IFRIC) – INT 17	Distributions of non-cash assets to owners[1]
HK(IFRIC) – INT 19	Extinguishing financial liabilities with equity instruments[5]

[1] *Effective for annual periods beginning on or after 1st July, 2009.*

[2] *Effective for annual periods beginning on or after 1st July, 2009 and 1st January, 2010, as appropriate.*

[3] *Effective for annual periods beginning on or after 1st January, 2010.*

[4] *Effective for annual periods beginning on or after 1st February, 2010.*

[5] *Effective for annual periods beginning on or after 1st July, 2010.*

[6] *Effective for annual periods beginning on or after 1st January, 2011.*

[7] *Effective for annual periods beginning on or after 1st January, 2013.*

The application 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.

HKFRS 9 “Financial instruments” introduces new requirements for the classification and measurement of financial assets and will be effective from 1st January, 2013, with earlier application permitted. The standard requires all recognised financial assets that are within the scope of HKAS 39 “Financial instruments: Recognition and measurement” to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. In addition, under HKFRS 9, changes in fair value of equity investments are generally recognised in other comprehensive income, with only dividend income recognised in profit or loss. The application of HKFRS 9 might affect the classification and measurement of the Group’s financial assets.

The Directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the consolidated financial statements.

3. SEGMENT INFORMATION

The Group has adopted HKFRS 8 Operating Segments with effect from 1st January, 2009. HKFRS 8 is a disclosure standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker, being the Chairman, in order to allocate resources to segments and assessing their performance. In contrast, the predecessor standard (HKAS 14, Segment Reporting) required an entity to identify two sets of segments (business and geographical) using a risks and returns approach. In the past, the Group’s primary reporting format was geographical segments. The application of HKFRS 8 has not resulted in a redesignation of the Group’s reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14. Nor has the adoption of HKFRS 8 changed the basis of measurement of segment profit or loss.

The Group currently organised into five operating segments based on the location of customers – United States, Europe, Canada, Hong Kong and others. These revenue streams are the basis of the internal reports about components of the Group that are regularly reviewed by the Chairman, the chief operating decision maker in order to allocate resources to segments and to assess their performance.

Segment revenues and results

The following is an analysis of the Group's revenue and results by operating segment based on geographical location of customers:

For the year ended 31st December, 2009

	United States	**Europe**	**Canada**	**Hong Kong**	**All other locations** *(Note)*	**Consolidated**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
TURNOVER						
External sales	**874,077**	**27,069**	**17,867**	**5,743**	**52,985**	**977,741**
RESULTS						
Segment profit	**228,039**	**2,977**	**2,320**	**676**	**990**	**235,002**
Unallocated income						**1,255**
Unallocated expenses						**(135,980)**
Impairment loss on goodwill						**(23,000)**
Finance costs						**(6,445)**
Profit before taxation						**70,832**

For the year ended 31st December, 2008

	United States	Europe	Canada	Hong Kong	All other locations *(Note)*	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 profit (loss)	165,790	9,548	2,655	1,223	(896)	178,320
Unallocated income						513
Unallocated expenses						(140,608)
Impairment loss on prepaid royalty						(62,946)
Finance costs						(11,924)
Loss before taxation						(36,645)

Note: All other locations include the People's Republic of China ("PRC") (other than Hong Kong), Russia, Australia, Brazil, Taiwan, Korea and others. These locations are considered by the chief operating decision maker as one operating segment.

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment profit (loss) represents the profit (loss) earned by each segment without allocation of investment income, other non operating income, central administration costs and finance costs. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

Segments assets and liabilities

The following is an analysis of the Group's assets and liabilities by operating segment based on geographical location of customers:

At 31st December, 2009	United States *HK$'000*	Europe *HK$'000*	Canada *HK$'000*	Hong Kong *HK$'000*	All other locations *HK$'000*	Consolidated *HK$'000*
ASSETS						
Segment assets	**281,225**	**5,365**	**3,326**	**27,300**	**19,798**	**337,014**
Property, plant and equipment						**240,290**
Other corporate assets						**271,575**
Consolidated assets						**848,879**
LIABILITIES						
Segment liabilities	**93,718**	**15,809**	**721**	**2,241**	**2,980**	**115,469**
Unallocated corporate liabilities						**247,618**
Consolidated liabilities						**363,087**

At 31st December, 2008	United States *HK$'000*	Europe *HK$'000*	Canada *HK$'000*	Hong Kong *HK$'000*	All other locations *HK$'000*	Consolidated *HK$'000*
ASSETS						
Segment assets	305,355	17,221	5,825	29,958	26,132	384,491
Property, plant and equipment						267,399
Other corporate assets						258,927
Consolidated assets						910,817
LIABILITIES						
Segment liabilities	110,484	20,275	2,289	2,645	7,389	143,082
Unallocated corporate liabilities						350,019
Consolidated liabilities						493,101

For the purposes of monitoring segment performances and allocating resources between segments:

- All assets are allocated to operating segments other than property, plant and equipment, intangible asset, goodwill, prepaid lease payments, deferred tax assets, held-for-trading investments, tax recoverable, bank balances and cash, pledged bank deposit and other receivables, deposits and prepayment.

- All liabilities are allocated to operating segments other than other payables and accruals, tax payable, amount due to ultimate holding company, unsecured bank borrowings, obligations under finance leases, loan from ultimate holding company and deferred tax liabilities.

4. PROFIT (LOSS) BEFORE TAXATION

	2009	2008
	HK$'000	*HK$'000*
Profit (loss) before taxation has been arrived at after charging:		
Loss on disposal of property, plant and equipment	**7,427**	856
Revaluation deficit recognised on property, plant and equipment	**2,362**	147
Cost of inventories recognised as an expense	**588,996**	899,874
Auditor's remuneration	**2,833**	3,126
Amortisation of prepaid lease payments	**32**	32
Loss on fair value changes of held-for-trading investments	**–**	104
Depreciation of property, plant and equipment	**44,727**	50,585
Amortisation of intangible assets included in cost of sales	**12,437**	12,437
Research and development costs (including staff costs of HK$2,195,000 (2008: HK$5,951,000)) included in administrative expenses	**7,775**	15,638
Staff costs *(Note)*	**209,636**	295,362

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

5. INCOME TAX CREDIT (CHARGE)

	2009	2008
	HK$'000	*HK$'000*
Current tax:		
Hong Kong	**(340)**	(1,827)
Other jurisdictions	**(753)**	–
	(1,093)	(1,827)
(Under) overprovision in prior years:		
Hong Kong	**(104)**	391
Other jurisdictions	**103**	–
	(1)	391
Deferred tax:		
Current year	**7,134**	(136)
Attributable to a change in tax rate	**–**	838
	7,134	702
Taxation credit (charge) attributable to the Company and its subsidiaries	**6,040**	(734)

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% of the estimated assessable profit for both years.

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 profit during their operating periods. Matrix Manufacturing Vietnam Company Limited ("MVN") 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. For the year ended 31st December, 2009, MVN applied the tax rate of 5% on the estimated assessable profit as it is the fifth year since its first profit-making year. Associated Manufacturing Vietnam Company Limited ("AVN") 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. The year ended 31st December, 2009 is the first profit-making year of AVN.

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

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1st January, 2008 onwards.

The tax position of the Group is currently under audit by the Hong Kong Inland Revenue Department ("IRD"). The IRD issued estimated assessments to certain subsidiaries in respect of the years of assessment 2000/2001 and 2001/2002 with tax payable amounting to approximately HK$2,345,000 and HK$17,678,000 respectively. The Group filed an objection against such assessments for 2000/2001 and 2001/2002 and the whole tax demanded of HK$2,345,000 for 2000/2001 was heldover unconditionally 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 by the IRD. In March, 2009, IRD 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 Group filed objections to the IRD against such assessments on the grounds that these assessments were excessive, and 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 audit. The IRD is still at the fact-finding stage, and accordingly, the ultimate outcome of the matter cannot presently be determined. As at 31st December, 2009, the Group had made a tax provision in respect of these subsidiaries for the years of assessment approximately HK$56,500,000 (2008: HK$56,500,000). The Directors are of the view after taking advice from professional tax advisers that the amount of tax payable presented in the consolidated financial statements is sufficient to meet the settlement of tax audit. The IRD may impose a penalty and there is no reasonable basis to determine any amount of tax penalty payable at the moment.

6. DIVIDENDS

	2009	2008
	HK$'000	*HK$'000*
Dividends recognised as distribution during the year		
Prior year final, paid – HK1 cent (2008: HK3 cents) per share	**7,123**	20,186
Interim, paid – HK2 cents (2008: HK2 cents) per share	**14,246**	13,738
	21,369	33,924

The 2008 final dividend and 2009 interim dividend were declared and paid as cash dividend. Scrip dividend alternate was offered to shareholders in respect of the 2007 final dividend and 2008 interim dividend. The scrip dividend alternate was accepted by some of the shareholders as follows:

	2008
	HK$'000
Dividends:	
Cash	11,934
Shares	21,990
	33,924

The final dividend of HK5 cents (2008: HK1 cent) per share amounting to approximately HK$35,615,000 (2008: HK$7,123,000) has been proposed by the Directors and is subject to approval by the shareholders in the annual general meeting. The proposed final dividend for 2009 will be payable in cash.

7. EARNINGS (LOSS) PER SHARE

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

	2009	2008
	HK$'000	*HK$'000*
Earnings (loss) for the purposes of basic and diluted earnings (loss) per share (profit (loss) for the year attributable to owners of the Company)	**76,872**	(37,361)

Number of shares

	2009	2008
	'000	*'000*
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**712,565**	711,837

For the year ended 31st December, 2008, the weighted average number of ordinary shares for the purpose of basic loss 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 was higher than average market price for shares for both 2009 and 2008.

8. PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired property, plant and equipment at a cost of approximately HK$24,550,000 (2008: HK$57,496,000) directly.

9. TRADE AND OTHER RECEIVABLES

	2009	2008
	HK$'000	*HK$'000*
Trade receivables	**129,890**	153,028
Less: allowance for doubtful debts	**(8,740)**	(6,085)
	121,150	146,943
Other receivables	**42,848**	51,616
Total trade and other receivables	**163,998**	198,559

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 presented based on the invoice date at the end of the reporting period.

	2009	2008
	HK$'000	*HK$'000*
0 – 60 days	**107,626**	114,597
61 – 90 days	**12,757**	26,124
> 90 days	**767**	6,222
	121,150	146,943

Included in the Group's trade receivables are receivables of approximately HK$34,522,000 (2008: HK$102,121,000) denominated in the USD, 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.

	2009	2008
	HK$'000	*HK$'000*
Trade payables	**92,022**	107,549
Other payables and accruals	**75,356**	92,900
	167,378	200,449

The credit period taken for trade purchases is 30 to 60 days. The following is an aged analysis of trade payables presents based on the invoice date at the end of the reporting period:

	2009	2008
	HK$'000	*HK$'000*
0 – 60 days	**77,868**	46,964
61 – 90 days	**10,624**	27,715
> 90 days	**3,530**	32,870
	92,022	107,549

11. SHARE CAPITAL

	Number of shares		Share capital	
	2009	2008	**2009**	2008
	'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	**712,294**	672,855	**71,229**	67,286
Issued in lieu of cash dividend *(Note)*	**–**	39,439	**–**	3,943
At the end of the year	**712,294**	712,294	**71,229**	71,229

Note: 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.

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

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 judgement in connection with a claim made by a trade creditor. According to the court judgement, 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 judgement regarding the ownership of MPMZ. The Directors, based on independent legal advice, are of the opinion that the aforesaid judgement 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 indirectly held subsidiary of the Company.

BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

In October 1999, there was a court judgement in connection with a claim made by a trade creditor. According to the court judgement, 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 judgement 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 judgement 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 indirectly held subsidiary of the Company.

RESULTS

For the year ended 31st December, 2009, the Group's consolidated turnover was decreased to HK$977,741,000 as compared to the last year's HK$1,273,548,000 and a profit attributable to owners of the Company amounted to HK$76,872,000 as compared to the last year's loss incurred in HK$37,361,000 respectively. The basic earnings per share was HK11 cents (2008 basic loss per share: HK5 cents). The decrease of sales was due to the Group's stopped taking small volume orders, decrease of customers with credit crisis and cash flow problem. The customers also placing orders in conservative approach due to economic downturn. However, the profit turnaround is mainly attributable to (i) no further impairment loss resulting from a prepaid royalty was made this year as compared to last year; (ii) improvement of gross profit margins due to the reduction of material prices under the economic downturn; and (iii) tighter cost control measures implemented by the Group.

DIVIDENDS

During the year, the Company paid an interim dividend of HK2 cents in cash (2008: interim dividend HK2 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 HK5 cents (2008: HK1 cent) per share for the year ended 31st December, 2009, payable to shareholders whose names appear on the Register of Members of the Company on 27th May, 2010. Together with the interim dividend paid of HK2 cents per share, the total dividend per share for the year is HK7 cents (2008: HK3 cents).

BUSINESS REVIEW

The business environment remains very challenging in year 2009. The slack United States economy made customers more conservative in placing orders and weakened the merchandise demand. The weakening of the Euro currency against the US dollar also dampened demand in European markets. The tougher testing requirements and ever-more stringent quality standards imposed by both United States government and the major customers had eaten into the Group's profit margin.

The Group had to cut down the sales to customers with long credit period and finance problem to avoid loss and simultaneously limited scope of price increase due to economic slowdown which dragged down the sales. However, reduction of material prices along with the stringent cost control by the Group and improvement in production efficiency of factories by restructuring, the Group has been turnaround in year 2009.

MANUFACTURING OPERATION

During the year under review, the Company continues to have internal restructuring and vigorously downsizing its Zhongshan factory, gradually shifting the manufacturing operation to the most cost-effectiveness production area in Vietnam. This movement of production base better positions the Group to alleviate pressure from rising labour costs in coastal areas of the Pearl River Delta Region, to enjoy better production efficiency at markedly reduced administrative expenses at cost-effectiveness production area and to reap greater economies of scale and it expects to take up more orders and contribute to revenue of the Group.

TOY BUSINESS

United States and Canada

To avoid loss, the Group is decreasing any accounts with low gross profit margin. In addition, sales in festive seasons for the year under review were below the solid gain achieved in the past few years. Sales got off to an unexpectedly firm start amid retailers aggressive tactics on deeper discounts and longer business hours as the mass merchandise customers become more conservative and lack of confidence in the economy. To be sure, retailers were faced with a difficult holiday season, as the United States, the epicentre of the global financial crisis, has been already in recession since December 2008. To worsen the situation, a severe winter storm spreading across the country, was another negative factor. Notwithstanding the US$700 billion in United States rescue package and interest rate cuts, mass merchandise customers still not eager to have consuming. 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 in United States market. Tighter credits, along with rising job concerns, have further made it more difficult to consume. Well aware of the thrifty consumer mindset, retailers cut their inventories, adopted a generous product return policy, and resorted to a string of big bargains and heavy promotions, to an extent seemingly more aggressive than those of recent years, thus significantly eating into profit margins. Under this weak business environment, the sales in Shelcore preschool line and Bubble sales decreased; but, the sales of Tonka and that of Activities item's Cutie Boutique line were slightly increased.

However, since prudence was generally the watchword for holiday shoppers, the phenomenon of trading down has been ubiquitous, and mass merchandisers and discount stores (our major customers) were once again favoured over department stores, as well as luxury stores, which were barely dented in second half year orders for our goods. Also, the sale of toys in original equipment manufacturing business remains stable and generates stable source of revenue for the Group's breakeven at minimal.

Europe

The attendant rising joblessness and the weakening of the European currencies against US dollars have eroded its domestic consumption and import absorption power as the faltering European housing market and harder-to-get credits have further curbed consumers' ability and willingness to spend money in stores. Also, there is a strategic direction of the Group to substantial decrease customers with credit crisis as well as a concerted effort to reduce risk with customers who could not pay for merchandise via letter of credit which further adversely affected European market's performance.

Hong Kong

Hong Kong sales decreased as the performance of Hong Kong market was adversely affected by economic downturn.

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 31st December, 2009, the Group had bank balances and cash of approximately HK$72,685,000 (2008: HK$22,316,000) and pledged bank deposit of approximately HK$5,002,000 (2008: HK$5,001,000) secured for banking facilities granted. During the year under review, the Group obtained banking facilities in a total of approximately HK$135,000,000 (2008: HK$184,380,000) secured by fixed deposits and corporate guarantee given by the Company.

As at 31st December, 2009, the Group had bank loans of approximately HK$24,661,000 (2008: bank overdrafts and bank loans of HK$13,764,000 and HK$58,677,000 respectively). The Group's gearing ratio, representing the total debt divided by equity attributable to owners of the Company, was 25.7% (2008: 52.0%).

During the year, net cash generated from operating activities amounted to approximately HK$192,510,000 (2008: HK$96,746,000). 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$24,550,000 (2008: HK$57,496,000) 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, 2009, the Group had total assets of approximately HK$848,879,000 (2008: HK$910,817,000), total liabilities of approximately HK$363,087,000 (2008: HK$493,101,000) and equity attributable to owners of the Company of approximately HK$485,792,000 (2008: HK$417,716,000). The net assets of the Group increased approximately 16.3% (2008: decreased 8.9%) to approximately HK$485,792,000 as at 31st December, 2009 (2008: HK$417,716,000).

Significant Investments and Acquisition

There was no significant investment and acquisition for the year ended 31st December, 2009.

Significant Disposal

There was no significant disposal for the year ended 31st December, 2009.

Capital Commitment and Contingent Liabilities

As at 31st December, 2009, the Group had capital commitments of contracted for, but not provided and authorised but not contracted for amounted to approximately HK$221,000 (2008: HK$616,000) and HK$916,000 (2008: HK$150,000) respectively.

Contingent Liabilities

A. Legal Claim

1. On 2nd November, 2007, the Company and its subsidiary lodged a claim for HK$14,000,000 compensation from a former Chief Executive Officer of the Group for the breach of service agreement. On 14th February, 2008, this former Chief Executive Officer lodged a counter claim for approximately HK$15,167,000. The Directors believe, based on legal advice, 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 19th August, 2009, IRD lodged a legal claim to Shelcore Hong Kong Limited for tax settlement payment of approximately HK$2,403,000 in relation to the additional tax assessment issued by IRD on 16th March, 2009 for the year of assessment 2002/2003. The details of the additional tax assessment issued by IRD is set out in note 5.

3. On 20th August, 2009, IRD lodged a legal claim to Besco Enterprises Limited for tax settlement payment of approximately HK$821,000 in relation to the additional tax assessment issued by IRD on 16th March, 2009, for the year of assessment 2002/2003. The details of the additional tax assessment issued by IRD is set out in note 5.

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.

Subsequent Event

On 15th January, 2010, a subsidiary of the Company entered into an agreement regarding the sale and purchase of the entire issued share capital of Max Smart Investment Limited ("Max Smart") with Waterfront Investments Management Limited (the "Vendor"). The Vendor agreed to sell the entire issued share capital of Max Smart for a total consideration of HK$1.00. The Company has commenced considering the fair value of the net assets acquired in this transaction but is not yet in a position to disclose the finalised financial information of the acquisition completed on 1st February, 2010. In the opinion of Directors, the amounts due from the disposed subsidiaries of HK$20,596,000 will be recovered from the fair value of the net assets of the disposed subsidiaries to be acquired. No significant goodwill is expected to be generated from the acquisition. The major assets of Max Smart include both non-monetary and monetary assets and liabilities.

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, 2009, the Group had a total of approximately 8,600 (2008: 14,000) 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

In view of the downturn of economy and the market sentiment in toy business remains gloomy, the management would strive for business diversification and develop businesses other than toy business to maximize the shareholder's value. The management has done thorough research and analysis on various investment opportunities that energy-saving sector would be the future promising industry that could provide sound investment potential and prospect for the Group. Also, due to eco-awareness, it is in best interests of the shareholders to introduce a new lighting business to the Group as long as it was managed by a management team with ample and extensive experience. The Company has established a division on the new business of developing and manufacturing LED lighting bulb and the newly developed products were well equipped for launch.

On the other side, the positive effect of economic downturn and ever-more stringent quality standards do it favour to the larger and reputable manufacturers as the new requirements, coupled with the financial downturn that dried up credit and sales, wiped out smaller manufacturers in China and buyers seek to reduce risk by consolidating their vendor to our Group, one of the reputable manufacturers. In addition, our Group puts its effort to continue relationships for bubble licensing in order to strengthen its existing Bubble items, continues to strength its key brands on extending product category of its existing Tonka items and Cutie Boutique lines, streamline operational procedures without sacrificing controls, improve operational and production efficiency.

Looking ahead, business conditions continue to remain challenging in future years and management will adopt a cost-conscious approach towards managing its current business. The Group placed emphasis on modernizing and scrutinizing production methods to increase efficiency and to maximize productivity. The Group continues to develop high value added products and integrates technology with its toy products to emphasize higher margin customers while trying to grow internationally maintaining solid margin.

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").

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 Sunshine Hotel, Imperial Banquet Room IV-V, 2/F., Imperial Wing, 1 Jiabin Road, Shenzhen, China on 27th May, 2010 at 2:30 p.m.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 20th May, 2010 to 27th May, 2010 (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 19th May, 2010.

REVIEW OF ACCOUNTS

The Audit Committee has reviewed the Group's audited consolidated financial statements for the year ended 31st December, 2009, 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 2009 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, Ms. Cheng Wing See, Nathalie, Mr. Cheung Kwok Sing, Mr. Leung Hong Tai and Mr. Tse Kam Wah 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, 18th March, 2010