MATRIX

MATRIX HOLDINGS LIMITED

美力時集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 1005)

2010 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, 2010 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31ST DECEMBER, 2010

	NOTES	**2010** **HK$'000**	2009 HK$'000
Turnover	3	**880,473**	977,741
Cost of sales		**(550,780)**	(588,996)
Gross profit		**329,693**	388,745
Other income		**840**	4,612
Distribution and selling costs		**(116,288)**	(126,748)
Administrative expenses		**(138,268)**	(151,535)
Finance costs		**(3,370)**	(6,445)
Reversal of allowance (allowance) for trade receivables		**2,331**	(3,502)
Adjustment to goodwill		**–**	(3,726)
Other gains and losses		**(7,928)**	(22,794)
Research and development costs		**(14,314)**	(7,775)
Profit before taxation	4	**52,696**	70,832
Income tax credit	5	**8,662**	6,040
Profit for the year attributable to owners of the Company		**61,358**	76,872

* *For identification purpose only*

	NOTE	2010 HK$'000	2009 HK$'000
Other comprehensive income			
Exchange difference arising on translation of foreign operations		**(9,475)**	(6,184)
Release of translation reserve on deregistration of foreign operations		**(1,419)**	1,262
Gain on revaluation of land and buildings, and plant and machinery		**16,708**	6,642
Deferred tax liability arising on revaluation of land and buildings, and plant and machinery		**–**	(12)
Other comprehensive income for the year (net of tax)		**5,814**	1,708
Total comprehensive income for the year attributable to owners of the Company		**67,172**	78,580
Earnings per share	*7*		
Basic		**HK$0.09**	HK$0.11
Diluted		**HK$0.09**	N/A

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31ST DECEMBER, 2010

	NOTES	**2010** **HK$'000**	2009 *HK$'000*
Non-current assets			
Property, plant and equipment	*8*	**238,871**	240,290
Prepaid lease payments		**983**	1,015
Goodwill		**96,822**	109,822
Intangible asset		**30,331**	42,768
Deferred tax assets		**8,563**	3,918
Deposits paid for acquisition of property, plant and equipment		**6,820**	–
		382,390	397,813
Current assets			
Inventories		**221,835**	181,068
Trade and other receivables	*9*	**147,164**	163,998
Prepaid lease payments		**32**	32
Tax recoverable		**7,613**	7,560
Held-for-trading investments		**–**	125
Amounts due from the disposed subsidiaries		**–**	20,596
Pledged bank deposit		**2,177**	5,002
Bank balances and cash		**62,765**	72,685
		441,586	451,066
Current liabilities			
Trade and other payables and accruals	*10*	**153,933**	167,378
Tax payable		**57,075**	58,077
Unsecured bank borrowings		**–**	24,661
Obligations under finance leases		**1,847**	2,227
		212,855	252,343
Net current assets		**228,731**	198,723
Total assets less current liabilities		**611,121**	596,536

	NOTE	2010 HK$'000	2009 HK$'000
Capital and reserves			
Share capital	*11*	**71,229**	71,229
Reserves		**446,997**	414,563
Equity attributable to owners of the Company		**518,226**	485,792
Non-current liabilities			
Deferred tax liabilities		**8,558**	12,869
Obligations under finance leases		**–**	1,847
Loan from ultimate holding company		**84,337**	96,028
		92,895	110,744
		611,121	596,536

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2010

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 of the Company, 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 and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs issued in 2008
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009
HKAS 27 (Revised)	Consolidated and separate financial statements
HKAS 39 (Amendment)	Eligible hedged items
HKFRS 2 (Amendment)	Group cash-settled shared-based payment transactions
HKFRS 3 (Revised)	Business combinations
HK (IFRIC) – INT 17	Distributions of non-cash assets to owners
HK-INT 5	Presentation of financial statements – Classification by the borrower of a term loan that contains a repayment on demand clause

HKFRS 3 (as revised in 2008) Business Combinations

HKFRS 3 (as revised in 2008) has been applied in the current year prospectively to business combinations of which the acquisition date is on or after 1st January, 2010 in accordance with the relevant transitional provisions.

- HKFRS 3 (as revised in 2008) allows a choice on a transaction-by-transaction basis for the measurement of non-controlling interests at the date of acquisition (previously referred to as 'minority' interests) either at fair value or at the non-controlling interests' share of recognised identifiable net assets of the acquiree.

- HKFRS 3 (as revised in 2008) changes the recognition and subsequent accounting requirements for contingent consideration. Previously contingent consideration was recognised at the acquisition date only if payment of the contingent consideration was probable and it could be measured reliably; any subsequent adjustments to the contingent consideration were always made against the cost of the acquisition. Under the revised Standard, contingent consideration is measured at fair value at the acquisition date; subsequent adjustments to the consideration are recognised against the cost of acquisition only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

- HKFRS 3 (as revised in 2008) requires the recognition of a settlement gain or loss when the business combination in effect settles a pre-existing relationship between the Group and the acquiree.

- HKFRS 3 (as revised in 2008) requires acquisition-related costs to be accounted for separately from the business combination, generally leading to those costs being recognised as an expense in profit or loss as incurred, whereas previously they were accounted for as part of the cost of the acquisition.

In the current year, HKFRS 3 (as revised in 2008) has been applied in respect of the acquisition of Max Smart Investment Limited. It has had no significant effect on the consolidated financial statements.

Amendments to HKAS 17 Leases

As part of Improvements to HKFRSs issued in 2009, HKAS 17 Leases has been amended in relation to the classification of leasehold land. Before the amendments to HKAS 17, the Group was required to classify leasehold land as operating leases and to present leasehold land as prepaid lease payments in the consolidated statement of financial position. The amendments to HKAS 17 have removed such a requirement. The amendments require that the classification of leasehold land should be based on the general principles set out in HKAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee.

In accordance with the transitional provisions set out in the amendments to HKAS 17, the Group reassessed the classification of unexpired leasehold land as at 1st January, 2010 based on information that existed at the inception of the leases. The application of amendments to HKAS 17 has not affected the classification of leasehold land of the Group as at 31st December, 2010.

The adoption of the new and revised Standards, Amendments and Interpretations in current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

The Group has not early applied the following new and revised Standards, Amendments and Interpretations that have been issued but are not yet effective:

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010[1]
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets[3]
HKFRS 9	Financial Instruments[4]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[5]
HKAS 24 (As revised in 2009)	Related Party Disclosures[6]
HKAS 32 (Amendments)	Classification of Rights Issues[7]
HK (IFRIC) – Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement[6]
HK (IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[2]

[1] *Effective for annual periods beginning on or after 1st July, 2010 and 1st January, 2011, as appropriate.*

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

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

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

[5] *Effective for annual periods beginning on or after 1st January, 2012.*

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

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

HKFRS 9 *Financial Instruments* (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 *Financial Instruments* (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

- Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

- In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss is presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1st January, 2013, with earlier application permitted.

The Directors anticipate that HKFRS 9 that will be adopted in the Group's consolidated financial statements for the annual period beginning 1st January, 2013 and that the application of the new Standard may not have any significant impact on the Groups' financial assets and financial liabilities based on an analysis of the Group's financial instruments as at 31st December, 2010.

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

Information reported to the Chairman of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on geographical location of customers.

Specifically, the Group's operating segments under HKFRS 8 are – the United States, Europe, Mexico, Canada, Australia, 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 of the Company, 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, 2010

	United States	**Europe**	**Mexico**	**Canada**	**Australia**	**Hong Kong**	**All other locations** *(Note)*	**Consolidated**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
TURNOVER								
External sales	**729,708**	**35,630**	**19,666**	**35,962**	**13,928**	**4,690**	**40,889**	**880,473**
RESULTS								
Segment profit	**158,820**	**4,130**	**3,122**	**6,132**	**2,209**	**621**	**5,509**	**180,543**
Unallocated income								**5,339**
Unallocated expenses								**(116,816)**
Impairment loss on goodwill								**(13,000)**
Finance costs								**(3,370)**
Profit before taxation								**52,696**

For the year ended 31st December, 2009

	United States	Europe	Mexico	Canada	Australia	Hong Kong	All other locations *(Note)*	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
TURNOVER								
External sales	874,077	27,069	6,866	17,867	6,359	5,743	39,760	977,741
RESULTS								
Segment profit (loss)	228,039	2,977	935	2,320	964	676	(909)	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

Note: All other locations include the People's Republic of China ("PRC") (other than Hong Kong), Russia, 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 represents the profit earned by each segment without allocation of investment income, other non operating income, central administration costs, impairment loss on goodwill 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, 2010	**United States**	**Europe**	**Mexico**	**Canada**	**Australia**	**Hong Kong**	**All other locations**	**Consolidated**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
ASSETS								
Segment assets	303,689	11,574	4,217	10,470	2,994	5,872	14,486	353,302
Property, plant and equipment								238,871
Other corporate assets								231,803
Consolidated assets								823,976
LIABILITIES								
Segment liabilities	96,378	3,541	1,887	3,456	1,337	1,059	5,593	113,251
Unallocated corporate liabilities								192,499
Consolidated liabilities								305,750

At 31st December, 2009	United States	Europe	Mexico	Canada	Australia	Hong Kong	All other locations	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS								
Segment assets	281,225	5,365	1,272	3,326	1,178	27,300	17,348	337,014
Property, plant and equipment								240,290
Other corporate assets								271,575
Consolidated assets								848,879
LIABILITIES								
Segment liabilities	93,718	15,809	738	721	255	2,241	1,987	115,469
Unallocated corporate liabilities								247,618
Consolidated liabilities								363,087

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

- Only inventories, trade receivables and certain other receivables are allocated to operating segments.

- Only trade payables and certain other payables and accruals are allocated to operating segments.

4. PROFIT BEFORE TAXATION

	2010	2009
	HK$'000	*HK$'000*
Profit before taxation has been arrived at after (crediting) charging:		
(Gain) loss on disposal of property, plant and equipment	**(136)**	7,427
Revaluation deficit recognised on property, plant and equipment	**3,225**	2,362
Cost of inventories recognised as an expense	**550,780**	588,996
Auditor's remuneration	**3,241**	2,833
Amortisation of prepaid lease payments	**32**	32
Depreciation of property, plant and equipment	**44,759**	44,727
Impairment of property, plant and equipment	**1,225**	–
Amortisation of intangible assets included in cost of sales	**12,437**	12,437
Research and development costs (including staff costs of HK$2,723,000 (2009: HK$2,195,000)) *(Note a)*	**14,314**	7,775
Staff costs *(Note b)*	**259,121**	209,636

Notes:

a. The research and development costs of approximately HK$9,909,000 (2009: nil) is related to lighting products.

b. 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

	2010	2009
	HK$'000	*HK$'000*
Current tax:		
Hong Kong	**(380)**	(340)
Other jurisdictions	**(141)**	(753)
	(521)	(1,093)
Over (under) provision in prior years		
Hong Kong	**142**	(104)
Other jurisdictions	**10**	103
	152	(1)
Deferred tax:		
Current year	**9,031**	7,134
Taxation credit attributable to the Company and its subsidiaries	**8,662**	6,040

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") and Keyhinge Toys Vietnam Joint Stock Company ("KVN") are eligible for exemption from Vietnam enterprise income tax for four years from the first profit-making year followed by a 50% reduction in the Vietnam enterprise income tax for the next four years. For the year ended 31st December, 2010, MVN applied the tax rate of 5% (2009: 5%) on the estimated assessable profit as it is the sixth year since its first profit-making year and KVN applied the tax rate of 10% (2009: 10%) on the estimated assessable profit as it is the fourteenth year since its first profit-making year. The applicable Vietnam enterprise income tax rate for Associated Manufacturing Vietnam Company Limited ("AVN") is 15% since the date of operation on the estimated assessable profit for twelve years followed by 25%. AVN is eligible for exemption from Vietnam enterprise income tax for eight 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, 2010 is the third profit-making year of AVN and thus AVN is exempted from Vietnam enterprise income tax for the year ended 31st December, 2010 and 2009.

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 certain subsidiaries of the Group is currently under audit by the Hong Kong Inland Revenue Department ("IRD"). In March, 2008, 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 heldover on condition that the subsidiaries purchased an equal amount of tax reserve certificates, and the amount of HK$12,965,000 was heldover unconditionally by the IRD. In March 2009, the IRD issued assessments to certain subsidiaries in respect of the years of assessment from 2002/2003 to 2007/2008 amounting to approximately HK$163,658,000. In March, 2010, the IRD issued assessments to certain subsidiaries in respect of the year of assessment for 2003/2004 amounting to approximately HK$41,234,000. 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 whole tax demanded for the year of assessment for 2003/2004 of HK$41,234,000 was heldover unconditionally by the IRD. The Company appointed a tax advisor to assist the Group in handling this tax audit. Up to the date of this report, the tax advisor together with the management of the Group had several meetings with the case officer of the IRD and settlement proposals were submitted to the IRD. The Directors are of the opinion that the final assessments for the years of assessments from 2000/2001 to 2009/2010 will be settled soon. Since the Group has not received the final assessments, the ultimate outcome of the matter cannot presently be confirmed. As at 31st December, 2010, the Group had made a tax provision in respect of these subsidiaries for the years of assessment of approximately HK$56,500,000 (2009: HK$56,500,000). The Directors are of the view after taking advice from professional tax advisers and the understanding during the discussion with case officer of the IRD that the amount of tax payable presented in the consolidated financial statements should be sufficient for settlement of the tax audit.

6. DIVIDENDS

	2010	2009
	HK$'000	*HK$'000*
Dividends recognised as distribution during the year		
Prior year final, paid – HK5 cents (2009: HK1 cent) per share	**35,615**	7,123
Interim, paid – HK3 cents (2009: HK2 cents) per share	**21,369**	14,246
	56,984	21,369

The 2009 final dividend and 2010 interim dividend is declared and paid as cash dividend.

The final dividend of HK5 cents (2009: HK5 cents) per share amounting to approximately HK$35,615,000 (2009: HK$35,615,000) has been proposed by the Directors and is subjected to approval by the shareholders in the annual general meeting. The proposed final dividend for 2010 will be payable in cash with a scrip dividend alternate.

7. EARNINGS PER SHARE

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

Earnings

	2010	2009
	HK$'000	*HK$'000*
Earnings for the purposes of basic and diluted earnings per share (profit for the year attributable to owners of the Company)	**61,358**	76,872

Number of shares

	2010	2009
	'000	*'000*
Number of ordinary shares for the purpose of basic earnings per share	**712,294**	712,294
Effect of dilutive potential ordinary shares:		
Share options	**1,623**	
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**713,917**	

The computation of diluted earnings per share for the year ended 31st December, 2009 did not assume the exercise of the Company's share options as the exercise price of those options was higher than average market price per share for 2009.

8. PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired property, plant and equipment at a cost of approximately HK$16,552,000 (2009: HK$24,550,000) to further enhance and upgrade the production capacity.

9. TRADE AND OTHER RECEIVABLES

	2010	2009
	HK$'000	*HK$'000*
Trade receivables	**127,895**	129,890
Less: allowance for doubtful debts	**(5,153)**	(8,740)
	122,742	121,150
Other receivables	**24,422**	42,848
Total trade and other receivables	**147,164**	163,998

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.

	2010	2009
	HK$'000	*HK$'000*
0 – 60 days	**103,701**	107,626
61 – 90 days	**18,303**	12,757
> 90 days	**738**	767
	122,742	121,150

Included in the Group's trade receivables are receivables of approximately HK$39,216,000 (2009: HK$34,522,000) denominated in the United States dollar ("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.

	2010	2009
	HK$'000	*HK$'000*
Trade payables	**92,891**	92,022
Other payables and accruals	**61,042**	75,356
	153,933	167,378

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

	2010	2009
	HK$'000	*HK$'000*
0 – 60 days	**73,806**	77,868
61 – 90 days	**15,831**	10,624
> 90 days	**3,254**	3,530
	92,891	92,022

11. SHARE CAPITAL

	Number of shares 2010 and 2009	**Share capital 2010 and 2009**
	'000	***HK$'000***
Ordinary shares of HK$0.1 each		
Authorised		
At the beginning and end of the year	**1,000,000**	**100,000**
Issued and fully paid		
At the beginning and end of the year	**712,294**	**71,229**

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 1 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 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. The Directors of the Company, 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 CONSOLIDATION 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 of the Company, 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, 2010, the Group's consolidated turnover decreased by 10.0% to HK$880,473,000 as compared to the last year's HK$977,741,000 and profit for the year attributable to owners of the Company decreased by 20.2% to HK$61,358,000 as compared to last year's HK$76,872,000. The basic earnings per share was HK9 cents (2009 basic earnings per share: HK11 cents). The sales volume slightly decreased primarily as some of our customers reduced the class and quantity of their orders to strictly control their budgets and inventory levels and the Group was decreasing the acceptance of orders for low-margin products at the peak season for production to strike a balance of its profit margin which was adversely affected by the increase of production costs. The drop of profit was mainly attributable to the increase of production costs as the increase of prices of materials such as ABS plastic materials, paper packaging materials and metal materials, and the increase of labor cost (especially in the second half of the year) which set off the profit margin and the increase of research and development costs. Prices of some orders were fixed before the material price increased and due to the absence of a complete timeline to adjust our pricing during the peak season, the Group incurred additional charges. In addition, the decrease of the exchange rate of the USD and HK$ against Renminbi further affected the profit.

DIVIDENDS

During the year, the Company paid an interim dividend of HK3 cents in cash (2009: interim dividend HK2 cents in cash) per share to the shareholders. The Directors had resolved to recommend the payment of a final dividend of HK5 cents (2009: HK5 cents) per share for the year ended 31st December, 2010, payable to shareholders whose names appear on the Register of Members of the Company on 5th May, 2011 with a scrip dividend alternate to offer the right to shareholders to elect to receive such final dividend wholly or partly by allotment of new shares in the Company, credited as fully paid in lieu of cash. Together with the interim dividend paid of HK3 cents per share, the total dividend per share for the year is HK8 cents (2009: HK7 cents).

The scrip dividend alternate is conditional upon (a) the issue price of a new share to be issued pursuant thereto being not less than the nominal value of a share of the Company; (b) the approval of the proposed final dividend at the forthcoming annual general meeting; and (c) the granting by the Listing Committee of the Stock Exchange of the listing of and permission to deal in the new shares to be issued pursuant thereto. The issue price of the new shares to be issued under the 2010 final scrip dividend alternate will be fixed after the Company's annual general meeting equivalent to the average closing price of the shares of the Company quoted on the Stock Exchange for the five consecutive trading days to be determined by the Directors. Thereafter, an announcement setting out the basis of allotment of new shares and the issue price of new shares under the 2010 final scrip dividend alternate will be published. A circular containing the details of the 2010 final scrip dividend and the form of election will be mailed to shareholders in due course.

Definitive share certificates in respect of the scrip dividend and cheques (for those shareholders who do not elect for scrip dividend) will be despatched to shareholders in due course.

BUSINESS REVIEW

Overall, as the economy is recovering gradually, the Group is still optimistic on the global retail market. Although the sales volume of the Group was lower than expected, the Group strived to maintain its stability in gross profit margin. As a measure to mitigate the pressure in our costs, the Group continued to move the production base out from the Pearl River Delta Region and imposed even tighter control over our costs.

MANUFACTURING OPERATION

Manufacturers concerned China's unstable labor market very much. The severe labor shortage and the PRC's policy to introduce a salary growth mechanism affected the enterprises running plants in the Pearl River Delta Region. Therefore, the Group continued to move its production base from Zhongshan to Vietnam and manufactured in a cost-effective manner. The Group continued to coordinate the needs of technology and manpower in a timely manner, so as to manufacture toy products, and to support the research and development on the Group's new lighting products.

SEGMENT PERFORMANCES

The Group dedicated to diversify its sales channels, and meanwhile identify potential distributors and conduct research and development on new products to maintain our turnover and sales volume. The Group also devoted to stabilize and grow its lighting business to explore business opportunities. During the year under review, we achieved the following development in our operations by geographic locations:

United States ("US")

Our turnover in US decreased by 16.5%. The moderate decrease in sales of the US was mainly attributable to the drop in sales of some branded products and the original equipment manufacturing products. Some of our customers were imposing even tighter control over their budgets and inventory levels on concerns over uncertainties in consumer's appetite, marked by the decrease in the class and quantity of their purchases. Furthermore, the Group focused on operations with higher profit margins and was decreasing the acceptance of orders for low-margin products.

Canada

The sales volume of Canada increased by 101.3%. The increase was especially for "Tonka" product. The increase was mainly due to the fact that economy of Canada recovered gradually from the financial crisis, customers gradually increase purchases and that the Group strived to continue the relationship with its existing distributors and customers such as Wal-Mart Canada, Toys"R"US Canada and Costco Canada.

Europe

Our turnover in Europe increased by 31.6%. The increase in this area was mainly affected by the appreciation of European currencies against USD and the substantial increase in customers' purchases as a result of our relatively loose credit policy and that the Group strived to continue the relationship with its existing distributors and customers.

Mexico

Our turnover in Mexico sharply increased by 186.4%. The increase in this area was mainly affected by the incentive tax policy enjoyed for products imported from Vietnam and the substantial increase in customers' purchases as a result of our relatively loose credit policy.

Australia

Our turnover in Australia substantially increased by 119.0%. The increase in this area was mainly affected by the appreciation of Australian currency against USD and the increase in customers' purchases as a result of our relatively loose credit policy, and that the Group strived to continue the relationship with its existing distributors and customers such as Kmart Australia and Target Australia.

Hong Kong

Our turnover in Hong Kong decreased by 18.3%. Although the impact of the financial crisis on this area was relatively insignificant, Hong Kong was just leaving from the haze of economic uncertainty.

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 31st December, 2010, the Group had bank balances and cash of approximately HK$62,765,000 (2009: HK$72,685,000) and pledged bank deposit of approximately HK$2,177,000 (2009: HK$5,002,000) secured for banking facilities granted. During the year under review, the Group obtained banking facilities in a total of approximately HK$50,000,000 (2009: HK$135,000,000) secured by fixed deposits and corporate guarantee given by the Company.

As at 31st December, 2010, the Group had bank loans of approximately HK$nil (2009: HK$24,661,000). The Group's gearing ratio, representing the total debt divided by equity attributable to owners of the Company, was 16.6% (2009: 25.7%).

During the year, net cash generated from operating activities amounted to approximately HK$104,506,000 (2009: HK$192,510,000). The Group has maintained an adequate level of cash flows for its business operations and capital expenditures.

Capital Expenditure and commitment

During the year, the Group acquired property, plant and equipment at a cost of approximately HK$16,552,000 (2009: HK$24,550,000) to further enhance and upgrade the production capacity. These capital expenditures were financed primarily by cash flow generated from operations. Capital expenditure contracted for the year but not provided in the consolidated financial statements amounted to approximately HK$nil (2009: HK$221,000). Capital expenditure authorized for the year but not contracted for amounted to approximately HK$4,929,000 (2009: HK$916,000).

Assets and Liabilities

At 31st December, 2010, the Group had total assets of approximately HK$823,976,000 (2009: HK$848,879,000), total liabilities of approximately HK$305,750,000 (2009: HK$363,087,000) and equity attributable to owners of the Company of approximately HK$518,226,000 (2009: HK$485,792,000). The net assets of the Group increased approximately 6.7% (2009: increased 16.3%) to approximately HK$518,226,000 as at 31st December, 2010 (2009: 485,792,000).

Significant Investments and Acquisition

During the year ended 31st December, 2010, the Group acquired the entire issued capital of Max Smart Investment Limited ("Max Smart") for a cash consideration of HK$1.00. Max Smart is an investment holding Company and holds 100% equity interests in Keyhinge Holdings Limited which holds 98% of the equity interests in Keyhinge Toys Vietnam Joint Stock Company which is principally engaged in the manufacture of toys in Vietnam.

There was no other significant investment and acquisition for the year ended 31st December, 2010.

Significant Disposal

There was no significant disposal for the year ended 31st December, 2010.

Contingent Liabilities

A. Legal Claim

1. On 19th August, 2009, the IRD lodged a legal claim to a subsidiary of the Company, Shelcore Hong Kong Limited for tax settlement payment of approximately HK$2,403,000 in relation to the additional tax assessment issued by the IRD on 16th March, 2009 for the year of assessment 2002/2003. The details of the additional tax assessment issued by the IRD are set out in note 5.

2. A legal claim was filed on 10th January, 2011 against Funrise, Inc., a subsidiary of the Company by Charles M. Forman (the “Plaintiff A”), liquidator of a customer of Funrise, Inc. (the “Debtor A”). In addition, a legal claim was filed on 20th January, 2010 against Associated Traders Hong Kong Limited (“ATL”), a subsidiary of the Company by Hoop Liquidating Trust (the “Plaintiff B”), liquidator of a customer of ATL. (the “Debtor B”).

   Plaintiff A and Plaintiff B alleged their complaints against Funrise, Inc. and ATL by bringing adversary proceedings to avoid and recover the monetary value of all such preferential transfers (the “Transfers”) made by one or more of the Debtor A and the Debtor B to Funrise, Inc. and ATL arising from the Debtors’ bankruptcy.

   The total potential claims are approximately USD115,000 and USD338,000 against Funrise, Inc. and ATL respectively (total equivalent to HK$3,533,000). The Directors believe, based on legal advice, Funrise, Inc. and ATL have a meritorious defense based on a “contemporaneous exchange of value”. The aforementioned complaint 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 the IRD, details of which are 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, 2010, the Group had a total of approximately 12,000 (2009: 8,600) employees in Hong Kong, Macau, PRC, Vietnam, US and Europe. The Group provides its employees with competitive remuneration packages commensurate to the level of pay established by the market trend in comparable businesses. A share option scheme was adopted for selected participants (including full time employees) as incentives or rewards for their contributions to the business and operation of the Group. A mandatory provident fund scheme and respective local retirement benefit schemes are also in place.

PROSPECTS

The Group will continue to explore sales opportunities in the global market and to develop own-brand toys. The Group will also maintain close relationship with large retailers and renowned brand owners.

Except maintaining the relationship with the existing distributors, the Group will promptly identify new distributors to expand our distribution channels and expedite our sales and marketing effort to maintain our sales volume and obtain more market shares of international customers. The Group will dedicate itself to explore market opportunities for new product series, such as "Gazzuds" of the bubble series, new product series namely "Baby Cutique" as well as new branded series namely, "Baby Alive" and "HOP". The Group will continue to develop main brands including "Tonka", "Gazillion Bubbles" and "Shelcore", to manufacture high quality products with competitive prices while maintaining our profit margins. In addition, to maintain the relationship of strategic partnership with renowned brand owners and to maintain close relationship with large retailers will have a positive impact on the long-term business growth of the Group. The Group will continue to maintain close relationship with bubble brand holders including Sesame Street and Disney, so as to enable the Group to provide more different kinds of products with leading authorized brands to ensure continued sales of distributors. The Group will continue to maintain full support of the Code of Business Practices of the International Council of Toy Industries, and to reduce excessive packaging to protect the environment.

For our lighting business, the Hong Kong and most European governments are strongly promoting the use of environmental lighting products. For example, the deactivate using incandescent bulbs has begun by the European Union, as well as its sustainable promotion of energy saving. The best way to save energy in the area of lighting is to control and reduce its consumption. In the past few years, LEDs have gradually replaced incandescent and fluorescent bulbs in many lighting applications. While compact fluorescent bulbs are still the choice for cost-effective energy efficiency, LEDs are rapidly rising as the newest contender on the market. Given their proven ability in saving energy cost, LED lighting have come a long way from being used only for notebooks (laptops) to being widely used. As far as home lighting is concerned, new strides are being made not only in energy efficiency, but also the longevity of light sources. Because of advancing technology and improvements to the manufacturing processes, LED bulbs will soon become more affordable to the average consumers. The US Department of Energy has estimated that LED lighting could reduce U.S. energy consumption for lighting by 29% by 2025. The above issues are giving rise to huge market opportunities for LED lighting products.

The Company has started the research and development of LED lighting and is now ready to manufacture a series of LED lighting products for commercial and household users. These include the round shape A bulbs, a series of spot lights, downlights and a series of retrofit LED tubes. All our LED lighting products have been endorsed by the CE for European market in compliance with the European requirements and the UL products safety standard for the US market. We have also obtained various patents in respective areas. We have just appointed several distributors in Europe, US, Middle East and Russia and are now looking for more distributors worldwide. The Company will attend several exhibitions to promote the LED lighting products throughout the year. In the year ahead, we will further improve our capability to manufacture and develop LED lighting products and we expect this new business will bring additional benefit to the Group.

The Group will continue to strengthen its manufacturing base in Vietnam and to streamline its operational procedures, with the aim to improve production efficiency and to strictly control production costs at the same time. In addition, the Group will improve labor efficiency in our plants in Vietnam to meet delivery schedules of customers. Overall, the Group is cautiously optimistic on the future business environment.

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 5th May, 2011 at 2:30 p.m.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 28th April, 2011 to 5th May, 2011 (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 27th April, 2011.

REVIEW OF ACCOUNTS

The Audit Committee has reviewed the Group's audited consolidated financial statements for the year ended 31st December, 2010, 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 2010 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, Mr. Tsang Chung Wa 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, 17th March, 2011