

MATRIX

MATRIX HOLDINGS LIMITED

美力時集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 1005)

2006 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, 2006 as follows:

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31ST DECEMBER, 2006

	Notes	2006 HK\$'000	2005 HK\$'000
Turnover	5	867,959	911,044
Cost of sales		<u>(590,531)</u>	<u>(613,981)</u>
Gross profit		277,428	297,063
Other income		6,206	4,221
Distribution and selling costs		(90,357)	(77,396)
Administrative expenses		(88,724)	(87,570)
Finance costs		(503)	(35)
Impairment loss recognised in respect of goodwill		—	(807)
Discount on acquisition of subsidiaries		<u>—</u>	<u>3,390</u>
Profit before taxation	6	104,050	138,866
Income tax (charge) credit	7	<u>(3,404)</u>	<u>1,931</u>
Profit for the year		<u><u>100,646</u></u>	<u><u>140,797</u></u>
<i>Attributable to:</i>			
Equity holders of the Company		100,646	140,929
Minority interest		<u>—</u>	<u>(132)</u>
		<u><u>100,646</u></u>	<u><u>140,797</u></u>
Earnings per share — Basic	9	<u><u>HK\$0.17</u></u>	<u><u>HK\$0.24</u></u>

CONSOLIDATED BALANCE SHEET
AT 31ST DECEMBER, 2006

	<i>Notes</i>	2006 HK\$'000	2005 HK\$'000
Non-current assets			
Property, plant and equipment	10	198,297	207,947
Prepaid lease payments		1,111	1,143
Deferred tax assets		344	380
		<u>199,752</u>	<u>209,470</u>
Current assets			
Inventories		192,556	149,295
Trade and other receivables	11	99,467	58,704
Prepaid lease payments		32	32
Held-for-trading investments		820	942
Pledged bank deposit		5,291	51,990
Bank balances and cash		30,871	42,258
		<u>329,037</u>	<u>303,221</u>
Current liabilities			
Trade and other payables	12	130,393	100,445
Dividend payable		17,315	17,542
Tax payable		58,680	56,432
Bank overdrafts		13,525	—
		<u>219,913</u>	<u>174,419</u>
Net current assets		<u>109,124</u>	<u>128,802</u>
Total assets less current liabilities		<u>308,876</u>	<u>338,272</u>
Capital and reserves			
Share capital	13	57,716	58,472
Reserves		245,791	274,985
Equity attributable to equity holders of the Company		303,507	333,457
Non-current liabilities			
Deferred tax liabilities		5,369	4,815
		<u>308,876</u>	<u>338,272</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

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

The consolidated financial statements have been prepared on the historical cost basis except for certain property, plant and equipment and financial instruments, which are measured at revalued amounts or fair values.

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

In the current year, the Group has applied, for the first time, a number of new standard, amendments and interpretations (“new HKFRSs”) issued by HKICPA, which are either effective for accounting periods beginning on or after 1st December, 2005 or 1st January, 2006. The adoption of the new HKFRSs has had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

3. POTENTIAL IMPACT OF NEW STANDARDS NOT YET EFFECTIVE

The Group has not early applied the following new standards, amendment or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendment or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital Disclosures ¹
HKFRS 7	Financial Instruments: Disclosures ¹
HKFRS 8	Operating Segments ²
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies ³
HK(IFRIC)-Int 8	Scope of HKFRS 2 ⁴
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives ⁵
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment ⁶
HK(IFRIC)-Int 11	HKFRS 2 — Group and Treasury Share Transactions ⁷
HK(IFRIC)-Int 12	Service Concession Arrangements ⁸

¹Effective for annual periods beginning on or after 1st January, 2007.

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

³Effective for annual periods beginning on or after 1st March, 2006.

⁴Effective for annual periods beginning on or after 1st May, 2006.

⁵Effective for annual periods beginning on or after 1st June, 2006.

⁶Effective for annual periods beginning on or after 1st November, 2006.

⁷Effective for annual periods beginning on or after 1st March, 2007.

⁸Effective for annual periods beginning on or after 1st January, 2008.

4. CHANGES OF ACCOUNTING ESTIMATES

In previous years, certain plant and machinery was depreciated over their estimated useful lives of five to seven years. Management reviewed the economic useful lives of the plant and machinery during the year and determined that with effect from 1st January, 2006, such plant and machinery are to be depreciated over their estimated useful lives of ten years. In the opinion of the directors, the change reflects management’s current best estimate of the economic useful lives of plant and machinery based on their previous experiences of these assets. This change, which has been applied prospectively, has resulted in a decrease in the depreciation charge for the year of approximately HK\$12,044,000.

5. SEGMENT INFORMATION

The Group is mainly engaged in the manufacture and trading of gift items, novelties and infant and pre-school children toys. The nature of products, the production processes and the methods used to distribute the products to customers in different geographical areas are similar. Accordingly, no analysis on the basis of business segment is presented. The Group’s production facilities are located in the People’s Republic of China other than Hong Kong (the “PRC”) and the Socialist Republic of Vietnam (“Vietnam”). The directors of the Company consider the geographical segments by location of customers as the primary source of the Group’s risks and returns.

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

The following is an analysis of the carrying amounts of segment assets and additions to property, plant and equipment analysed by the geographical area in which the assets are located:

	Carrying amounts of segment assets		Additions to property, plant and equipment	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
PRC	282,138	238,910	22,801	76,395
Vietnam	118,774	109,903	13,576	6,190
Hong Kong	99,443	132,789	344	9,419
Macau	18,462	19,489	9	—
United States	8,231	7,745	124	2,990
Canada	70	3,475	—	6
Europe	1,327	—	—	—
	<u>528,445</u>	<u>512,311</u>	<u>36,854</u>	<u>95,000</u>

6. PROFIT BEFORE TAXATION

	2006	2005
	HK\$'000	HK\$'000
Profit before taxation has been arrived at after charging:		
Auditors' remuneration	1,559	1,574
Amortisation of prepaid lease payments	32	30
Loss on fair value changes on held-for-trading investments	122	447
Depreciation of property, plant and equipment	36,530	35,205
Revaluation deficit in respect of property, plant and equipment	—	804
Net exchange loss	177	2,143
Research and development costs (including staff costs of HK\$10,877,000 (2005: HK\$9,143,000))	17,730	14,886
Staff costs (<i>Note</i>)	<u>233,481</u>	<u>196,864</u>

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

7. INCOME TAX CHARGE (CREDIT)

	2006	2005
	HK\$'000	HK\$'000
Current tax:		
Hong Kong	3,233	3,027
Other jurisdictions	<u>316</u>	<u>223</u>
	<u>3,549</u>	<u>3,250</u>
Overprovision in prior years:		
Hong Kong	(4)	(5,889)
Other jurisdictions	<u>(730)</u>	<u>—</u>
	<u>(734)</u>	<u>(5,889)</u>
Deferred tax:		
Current year	<u>589</u>	<u>708</u>
Taxation charge (credit) attributable to the Company and its subsidiaries	<u>3,404</u>	<u>(1,931)</u>

Hong Kong Profits Tax is calculated at 17.5% (2005: 17.5%) on the estimated assessable profit for the year.

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

The tax position of the Group is currently being reviewed by the Hong Kong Inland Revenue Department (“IRD”). As a matter of IRD’s practice, IRD has issued assessments to certain subsidiaries in respect of the year of assessment 2000/2001. The Group has filed an objection against such assessments. Although the review is still at a preliminary fact-finding stage, the directors are of the opinion that the outcome of the review would not result in material impact on the consolidated financial statements.

8. DIVIDENDS

	2006 <i>HK\$’000</i>	2005 <i>HK\$’000</i>
Dividends recognised as distribution during the year		
Prior year final, paid — HK9 cents (2005: HK9 cents) per share	51,732	52,625
Interim, paid — HK8 cents (2005: HK8 cents) per share	45,984	46,778
Special, declared — HK3 cents (2005: HK3 cents) per share	<u>17,315</u>	<u>17,542</u>
	<u><u>115,031</u></u>	<u><u>116,945</u></u>

During the year, a scrip dividend alternate was offered to shareholders in respect of the 2006 interim dividend. The scrip dividend alternate was accepted by some of the shareholders as follows:

	2006 <i>HK\$’000</i>	2005 <i>HK\$’000</i>
Dividends:		
Cash	41,474	—
Shares (<i>Note 15</i>)	<u>4,510</u>	<u>—</u>
	<u><u>45,984</u></u>	<u><u>—</u></u>

The final dividend of HK9 cents (2005: HK9 cents) per share amounting to approximately HK\$51,944,000 (2005: HK\$51,732,000) has been proposed by the directors and is subject to approval by the shareholders in the annual general meeting. The proposed final dividend for 2006 will be payable in cash with a scrip dividend alternate.

9. EARNINGS PER SHARE

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

Earnings

	2006 <i>HK\$’000</i>	2005 <i>HK\$’000</i>
Earnings for the purposes of basic earnings per share	<u>100,646</u>	<u>140,929</u>

Number of shares

	2006 <i>’000</i>	2005 <i>’000</i>
Weighted average number of ordinary shares for the purposes of basic earnings per share	<u>575,763</u>	<u>584,720</u>

The weighted average number of ordinary shares for the purpose of basic earnings per share has been adjusted for the effects of the repurchase of shares and scrip dividend in January and October 2006 respectively.

Diluted earnings is not shown as the exercise price of the share options outstanding is higher than the average market price for shares for both 2006 and 2005.

10. PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired property, plant and equipment at a cost of approximately HK\$36,854,000 (2005: HK\$46,766,000 directly and HK\$48,234,000 through the acquisition of subsidiaries).

11. TRADE AND OTHER RECEIVABLES

The trade and other receivables include trade receivables of approximately HK\$85,377,000 (2005: HK\$46,021,000). 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 at the balance sheet date:

	2006 HK\$'000	2005 HK\$'000
0-60 days	76,073	40,734
61-90 days	6,999	1,443
> 90 days	<u>2,305</u>	<u>3,844</u>
	<u><u>85,377</u></u>	<u><u>46,021</u></u>

Included in the Group's trade receivables are receivables of approximately HK\$83,932,000 (2005: HK\$43,900,000) denominated in the United States dollar which is not the functional currency of the relevant group entities.

12. TRADE AND OTHER PAYABLES

The trade and other payables include trade payables of approximately HK\$83,931,000 (2005: HK\$57,434,000).

The following is an aged analysis of trade payables at the balance sheet date:

	2006 HK\$'000	2005 HK\$'000
0-60 days	62,143	53,944
61-90 days	15,160	2,723
> 90 days	<u>6,628</u>	<u>767</u>
	<u><u>83,931</u></u>	<u><u>57,434</u></u>

Included in the Group's trade payables are payables of approximately HK\$5,537,000 (2005: HK\$8,199,000) denominated in the Japanese Yen which is not the functional currency of the relevant group entities.

13. SHARE CAPITAL

	Number of shares		Nominal value	
	2006 '000	2005 '000	2006 HK\$'000	2005 HK\$'000
Ordinary shares of HK\$0.1 each				
Authorised				
At the beginning and end of the year	<u>1,000,000</u>	<u>1,000,000</u>	<u>100,000</u>	<u>100,000</u>
Issued and fully paid				
At the beginning of the year	584,720	584,720	58,472	58,472
Issued in lieu of cash dividend (Note a)	2,361	—	236	—
Shares repurchased and cancelled (Note b)	<u>(9,924)</u>	<u>—</u>	<u>(992)</u>	<u>—</u>
At the end of the year	<u><u>577,157</u></u>	<u><u>584,720</u></u>	<u><u>57,716</u></u>	<u><u>58,472</u></u>

Notes:

- (a) On 16th October, 2006, the Company issued and allotted a total of 2,360,967 shares of HK\$0.1 each in the Company at par to the shareholders who elected to receive shares in the Company in lieu of cash payment for the 2006 interim dividend. These shares rank *pari passu* in all respects with other shares then in issue. The details of the scrip dividend alternate are set out in note 15.

- (b) During the year, the Company repurchased a total of 9,924,000 ordinary shares of the Company of HK\$0.10 each on the Stock Exchange as follows:

Month of repurchase	Number of ordinary shares	Price per share		Aggregate consideration paid HK\$'000
		Highest HK\$	Lowest HK\$	
January 2006	9,924,000	2.15	1.98	20,465

The shares repurchased were cancelled.

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

14. DISPOSAL OF SUBSIDIARIES

Certain subsidiaries were disposed on 29th June, 2006. The net liabilities of the subsidiaries at the date of disposal are as follows:

	<i>HK\$'000</i>
Net liabilities disposed of	
Property, plant and equipment	218
Trade and other receivables	451
Bank balances and cash	125
Trade and other payables	<u>(1,509)</u>
	(715)
Gain on disposal of subsidiaries	<u>715</u>
Cash consideration	<u>—</u>
Net cash outflow arising on disposal:	
Bank balances and cash disposed of	<u>(125)</u>

The subsidiaries disposed of during the year did not have any significant impact on the cash flows, turnover and profit of the Group for the year.

15. MAJOR NON-CASH TRANSACTIONS

During the year, the directors have declared an interim dividend of HK8 cents to be satisfied by cash and, with an alternative to the shareholder to elect to receive such dividend (or part thereof) by way of scrip dividend by allotment of new shares in the Company, credited as fully paid. The market price for the purpose of the scrip dividend was determined at HK\$1.91 per share, which is equivalent to the average closing prices of the shares quoted on the Stock Exchange for the five consecutive trading days, from 30th August, 2006 to 5th September, 2006.

As a result, 2,360,967 shares were issued to the shareholders who had elected to receive new shares in the Company in lieu of cash dividend. An amount of HK\$236,000 equal to the nominal value of the shares issued is credited to share capital and approximately HK\$4,510,000 is credited to retained profits as if the shareholders had forgone their dividends and accepted a bonus issue of share in the place of those dividends.

SUMMARY OF THE AUDITORS' REPORT

The followings are the extraction from the auditors' report with modification:

Without qualifying our opinion, we draw attention to the basis of preparation of consolidation which explains that in October 1999 there was a court judgment in connection with a claim made by a trade creditor, which had subsequently been settled. According to the court judgment, the Company did not hold the legal ownership of Matrix Plastic Manufacturing (Zhongshan) Co., Ltd. ("MPMZ"), an indirect wholly owned major subsidiary of the Company. The Company has made an application for a judicial review of the judgment regarding the ownership of MPMZ. The directors, based on independent legal advice, are of the opinion that the aforesaid judgment can be overruled and will have no material impact on the financial position and operations of the Group.

BASIS OF PREPARATION OF CONSOLIDATION

In October 1999, there was a court judgment in connection with a claim made by a trade creditor, which had subsequently been settled. According to the court judgment, the Company did not hold the legal ownership of MPMZ, an indirect wholly owned major subsidiary of the Company. The Company has made an application for a judicial review of the judgment regarding the ownership of MPMZ. In 2002, the Company received an acknowledgement from Zhongshan Intermediate People's Court that Guangdong High People's Court has transferred the Company's application to Zhongshan Intermediate People's Court for processing. The directors, based on independent legal advice, are of the opinion that the aforesaid judgment can be overruled and will have no material impact on the financial position and operations of the Group. Accordingly, MPMZ continues to be treated as an indirect subsidiary of the Company.

RESULTS

For the year ended 31st December, 2006, the Group encountered a drop in both consolidated turnover and the profit attributable to equity holders of the Company in 4.7% amounted to HK\$867,959,000 as compared to the last year's HK\$911,044,000 and in 28.6% amounted to HK\$100,646,000 as compared to the last year's HK\$140,929,000 respectively. The basic earnings per share was HK17 cents (2005: HK24 cents).

Both consolidated turnover and profit attributable to equity holders of the Company decreased as a result of the intensified retail price competition, increase in oil prices and the continual rising in labour cost as well as other production costs in the PRC. However, the Group mapped out various measures to meet the challenges. The efficient production management measures and cost control were put in place to keep abreast the profitability of the Group.

DIVIDENDS

During the year, the Company paid an interim dividend of HK8 cents in cash with a scrip dividend alternate (2005: HK8 cents in cash) per share and declared a special dividend of HK3 cents (2005: HK3 cents) per share to the shareholders. The Directors had resolved to recommend the payment of final dividend of HK9 cents (2005: HK9 cents) per share for the year ended 31st December, 2006, payable to shareholders whose names appear on the Register of Members of the Company on 29th May, 2007 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 credited as fully paid in lieu of cash. Together with the interim dividend and special dividend paid and declared of HK8 cents and HK3 cents per share respectively, the total dividend per share for the year is HK20 cents (2005: HK20 cents).

The scrip dividend alternate is conditional upon (a) the issue price of a new share to be issued pursuant thereto being not less than the nominal value of a share of the Company; (b) the approval of the proposed final dividend at the forthcoming annual general meeting; and (c) the granting by the Listing Committee of the Stock Exchange of the listing of and permission to deal in the new shares to be issued pursuant thereto. The issue price of the new shares to be issued under the 2006 final scrip dividend alternate will be fixed after the Company's annual general meeting equivalent to the average closing price of the shares of the Company quoted on the Stock Exchange for the five consecutive trading days to be determined by the Directors. Thereafter, a press announcement setting out the basis of allotment of new shares and the issue price of new shares under the 2006 final scrip dividend alternate will be published. A circular containing details of the 2006 final scrip dividend alternate and the form of election will be mailed to shareholders of the Company in due course.

Definitive share certificates in respect of the scrip dividend and cheques (for those shareholders who do not elect for scrip dividend) are expected to be despatched to shareholders on or about 6th July, 2007.

BUSINESS REVIEW

In common with many toy manufacturers, the Group faced retail challenges and cost pressures that negatively impacted its profitability. The infant and pre-school children toy market was characterized by customers' conservative order policy in the first half-year and the sustained pricing pressure. Overall profitability of the Group was further affected as a result of increased investments in the product portfolio expansion and development and marketing of new toy brands. Nevertheless, consistent with the Group's strategic objective on long-term growth, plans were put in place to diversify the product portfolio and develop retail business in the PRC.

TOYS OPERATION

Manufacturing

PRC Plant

During the year under review, a number of plastic injection machines were further installed in the plant to meet the production of varieties of toy products and to boost the toy productivity. An additional production spaces was constructed for enhancing production capacity and an increase in warehouse space enabled the factory to accommodate more raw materials and finished goods inventories so as to improve the logistics operation.

With continuous enhancing cost-effectiveness of production, the Group has established its own production line for producing electronic components. This backward integration in overall production has accomplished the Group's aim at providing 'one-stop-shop' production line and vertical integration manufacturing.

Vietnam Plant

To cope with the development of the Group and the needs on increasing production capacity to meet the customers' demand on varieties of products, the Group's third production plant had been planned to construct in Danang City, Vietnam. With such a giant manufacturing momentum of the Group, this new production plant contributed to meet future customers' orders.

The Group is conscious of adhering to its strict production code of conduct and takes social responsibility on providing comfortable working place and leisure centre to ensure our staff working in a humanity environment. Frequent human resources and social activities were taken place to enhance the loyalty of our workers. In addition, the Group strives to ensure that the working conditions in its plant such as safety standards, staff employment terms and environment conditions, meet international standards.

Shelcore Operation

Toy retail market that was continuously characterized by intensified retail prices competition threatened against the Group's existing customers. Despite that, the Group has extended its distribution network to other international markets and gained exposure to its newly developed markets mainly Latin America, Eastern Europe, Australia, Spain, South Africa and the PRC. During the year under review, the Original Design Manufacturing ("ODM") business has struggled with top-line sales growth and implemented emerging market price strategy. In year 2006, the Group emphasized the introduction of new products and the enhancement and expansion of existing product portfolio in the ODM business.

During the year under review, the Group continued to reduce operation costs by minimizing outsourcing and integrating ODM production operation to maximize manufacturing profits. In addition, the Group continued to maximize the full potential of the distribution channels spanning over the existing markets in North America and those newly developed markets by implementing

emerging market pricing strategy and effective advertising and promotion campaigns so as to reposition the Group as truly global company and strengthen its brand awareness during the year under review.

Based on the Group's strong manufacturing expertise and its expansion of a team of well-trained and highly skilled engineers to handle the development and improvement of its innovative products, the product mix was enlarged to enhance the satisfaction and appeal to its customers.

The Group continued to use licensed trademarks to enrich the styles of its own branded products. The additional licences in year 2006 accounted for an increasing percentage of the sales of new licensed products reflecting the growth of the development of licensed products. The Group would continue to identify potential licences for additional trademarks to offer a broader choice of licensed products for enhancing the satisfaction to its customers. Product research and development and marketing activities for new branded products are being largely invested.

Retail Business

With strong manufacturing foothold, financial and operational support from the Group, the Group revitalized its 'Shelcore' brandname worldwide by opening a total of 8 new retail stores in Beijing and Chengdu, the PRC. Effective market studies and product research and development are crucial to the success as the toys with new design were launched to meet demand of these new markets.

PRINTING OPERATION

The printing operation continued to expand its customer base and bring in a stable source of revenue to the Group. The Group's companies continued to have internal consumption of this vertical integrated printing arm of the Group.

MARKETING AND PROMOTIONAL OPERATION

During the year under review, owing to marketing and promotional operation did not achieve the expected market share in the promotional industry in the PRC, the Company had disposed of its marketing and promotional operation on 29th June, 2006.

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 31st December, 2006, the Group had bank balances and cash of approximately HK\$30,871,000 (2005: HK\$42,258,000) and pledged bank deposit of approximately HK\$5,291,000 (2005: HK\$51,990,000) secured for banking facilities granted. During the year under review, the Group obtained banking facilities in a total of approximately HK\$40,000,000 (2005: HK\$81,000,000) secured by fixed deposits and corporate guarantee given by the Company.

As at 31st December, 2006, the Group had bank overdrafts of approximately HK\$13,525,000 (2005: Nil). The Group's gearing ratio, representing the total debt divided by equity attributable to equity holders of the Company, was 4.5% (2005: Nil).

During the year, net cash generated from operating activities amounted to approximately HK\$85,840,000 (2005: HK\$224,919,000). 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\$36,854,000 (2005: HK\$46,766,000 directly and HK\$48,234,000 through the acquisition of subsidiaries) 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, 2006, the Group had total assets of approximately HK\$528,789,000 (2005: HK\$512,691,000), total liabilities of approximately HK\$225,282,000 (2005: HK\$179,234,000) and equity attributable to equity holders of the Company of approximately HK\$303,507,000 (2005: HK\$333,457,000). The net assets of the Group decreased 9.0% (2005: increased 17.8%) to approximately HK\$303,507,000 as at 31st December, 2006 (2005: HK\$333,457,000).

Sales of Properties

In the current year, the Group disposed of certain of its vacant properties at a sales proceeds of approximately HK\$10,000,000 with a gain amounting to approximately HK\$1,344,000, which has been recognised directly in the income statement during the year. The revaluation surplus of the disposed properties amounted to approximately HK\$2,612,000 was released and transferred from asset revaluation reserve to retained profits directly upon the disposal.

Repurchase of Shares

During the year ended 31st December, 2006, the Company repurchased a total of 9,924,000 ordinary shares of the Company of HK\$0.10 each on the Stock Exchange at an aggregate consideration (including expenses) of approximately HK\$20,465,000. The repurchased shares were subsequently cancelled and the issued share capital of the Company was reduced by the par value thereof.

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, 2006, the Group had a total of approximately 19,000 (2005: 17,000) employees in Hong Kong, Macau, PRC, Vietnam, U.S.A., Canada and Europe. The Group provides its employees with competitive remuneration packages commensurate to the level of pay established by the market trend in comparable businesses. A share option scheme was adopted for selected participants (including full time employees) as incentives or rewards for their contributions to the business and operation of the Group. A mandatory provident fund scheme and respective local retirement benefit schemes are also in place.

PROSPECTS

Numerous challenges in the coming years would be expected to encounter on both plastic and plush toy businesses and the infant and pre-school children toy market. Increasing expenses, in particular, the increase in the rental expenses as operation costs, increase in labour costs and other expenses due to the appreciation in Renminbi currency rate, would adversely affect the Group. To face up to this challenge and intensified toy markets competition, the Group would dedicate its efforts to broaden its worldwide and

local distribution and network, to secure its niche in the premium toy market, to enrich its product mix and to adopt further cost-saving measures. The Group showed great resilience amid the adverse global toy markets conditions.

In addition, a third plant in Vietnam would be completed in coming year. Upon construction of this new plant, the overall production efficiency of the Group would be further enhanced.

The Group would continue to implement its strategic plan on expanding its customer base, conduct effective market studies and product research and development so as to expand the mass merchandise markets.

Apart from its Original Equipment Manufacturing (“OEM”) products, the Group committed to the development of new products and would continue in product diversification in ODM. The ODM’s research and development team in a cost effective location was reorganized to increase efficiency and creativity for new product design. With the reinforcement of such product development team, the Group is enabled to develop its own branded name and licensed products in the international markets, targeting North America, Latin America, Eastern Europe, Australia, Spain, South Africa and the PRC. Product diversification would facilitate business expansion and reduce the Group’s dependence on limit branded product mix, providing greater flexibility and increased operating profit. Sales of own branded products accounts for an increasing percentages of total sales and development of new products including Sunny Steps, Toddler, Shake ‘N Bobbles, NASCAR, Loonie Goonies, Sound beginnings and Sheltek for lines extension in the current branded lines.

The Group would continuously diversify toy products to meet the customers’ appeal and revitalize the Shelcore’s brand worldwide with extended distribution network and would develop retail network in the PRC by further setting up new retail stores in Chongqing and Suzhou. With all the above in place, including a steady foothold in the retail toy market, the Group would be poised to obtain global recognition in the international toy market and phases of metamorphosis in terms of production and marketing. The Group would continue to review business and enterprise with its expansion plans with a view to achieving rational return in scale, structure and profitability.

‘Shelcore’ is one of the leading designers, developers and marketers of innovative products for infants in its major market — North America. Product support through investing in advertising and brand promotion programs would have reward. Effective market studies and product research and development are crucial to the success of the launch of new toys to meet demand of those new markets. The marketing efforts supported with public relations, marketing, advertising and promotional campaigns as well as continuous media presence offering another way for the Group to increase its market share.

Though the operating conditions is challenging, the Group is dedicated to strive for the best performance by implementing its strategy to produce high quality products with competitive prices. Besides, the Group will continue to strengthen its core business, streamline its existing operations and control its costs. The Group is confident all these efforts can sustain its business return.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the year, the Company repurchased certain of its own shares through the Stock Exchange, details of which are set out in note 13 to the consolidated financial statements.

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 except the deviation from the code provision 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 regarding securities transactions by directors adopted by the Company.

ANNUAL GENERAL MEETING

The annual general meeting ("AGM") of the Company will be held at Kowloon Room I, Mezzanine Floor, Kowloon Shangri-La Hotel, 64 Mody Road, Tsimshatsui East, Kowloon, Hong Kong on 29th May, 2007 at 2:30 p.m.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 23rd May, 2007 to 29th May, 2007 (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, Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East Wanchai, Hong Kong, for registration not later than 4:00 p.m. on 22nd May, 2007.

REVIEW OF ACCOUNTS

The Audit Committee has reviewed the Group's audited consolidated financial statements for the year ended 31st December, 2006, 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 2006 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. Yu Sui Chuen and Ms. Cheng Wing See, Nathalie as executive Directors and Dr. Loke Yu alias Loke Hoi Lam, Mr. Mak Shiu Chung, Godfrey and Mr. Wan Hing Pui as independent non-executive Directors.

By Order of the Board
Cheng Yung Pun
Chairman

Hong Kong, 18th April, 2007

* *For identification purpose only*