Matrix Holdings Limited

美力時集團有限公司

(Incorporated in Bermuda with limited liability)

Stock Code : 1005

Annual Report 2005

OUR MISSION

- To enhance customer satisfaction through delivery of high quality products that meet world safety standard
- To be a socially responsible employer by providing safe and pleasant working environment to workers
- To be environmentally responsible in all its manufacturing processes through recycling and adherence to national and local environmental protection laws
- To optimize shareholders' return by pursuing business growth, diversification and productivity enhancement

CONTENTS

Corporate Profile

Zhongshan,
the PRC

Danang City,
Vietnam

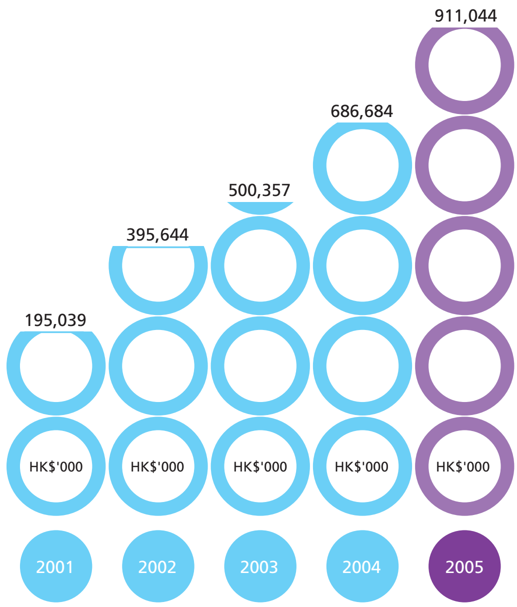
MATRIX is a well-established manufacturer of plastic, die-cast and plush toys, with vertically integrated production process including mould making, manufacturing and design. Currently, the Group operates four plants – two in Danang City, Vietnam, one in Zhongshan and one in Shenzhen, the PRC, with total production capacity of 1.5 million units per day. As at 31st December, 2005, the Group employed approximately 17,000 staff in Hong Kong, Macau, PRC, United States of America, Canada and Vietnam. In January 2005, the Group has successfully acquired the Shelcore Companies, well-established US-based toy company which has been designing, manufacturing and selling plastic toys for infant and pre-school children, for almost 30 years.

Financial Highlights

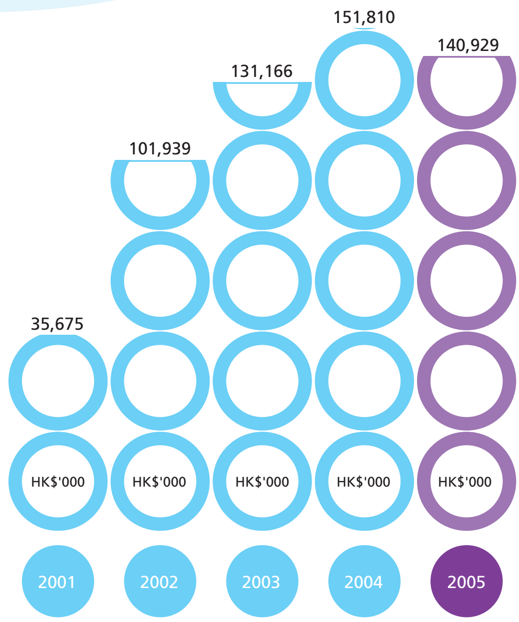
Financial Highlights and Key Ratios as of the Year Ended 31st December:

(HK$'000, except where otherwise stated)	2005	2004	% Change
CONSOLIDATED			
Turnover	**911,044**	686,684	+32.7
Profit attributable to equity holders of the Company	**140,929**	151,810	–7.2
Basic earnings per share	**HK$0.24**	HK$0.27	–11.1
Diluted earnings per share	**N/A**	HK$0.26	N/A
Dividend per share			
Interim, paid	**HK8 cents**	HK8 cents	–
Special, declared	**HK3 cents**	HK3 cents	–
Final, proposed	**HK9 cents**	HK9 cents	–
Gross Profit Margin (%)	**32.6**	31.6	
Net Profit Margin (%)	**15.5**	22.1	
Gearing Ratio (%)	**0.00**	0.00	
Current Ratio	**1.74**	1.92	
Quick Ratio	**0.88**	0.92	

TURNOVER

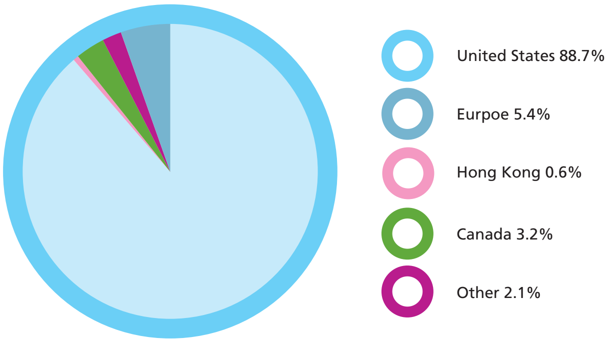


PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

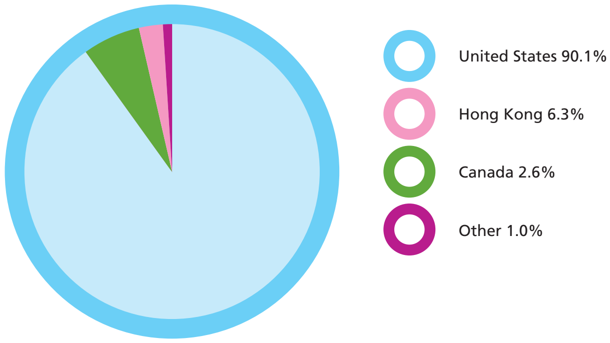


Financial Highlights

TURNOVER BREAKDOWN BY MARKET

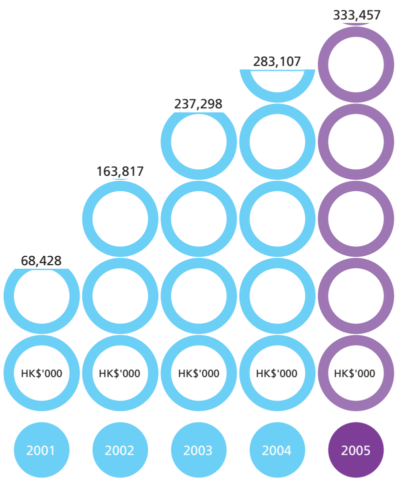


2005

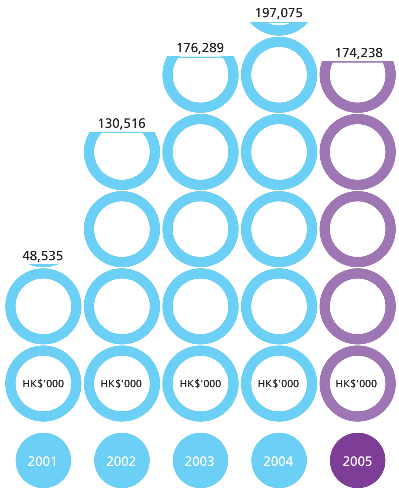


2004

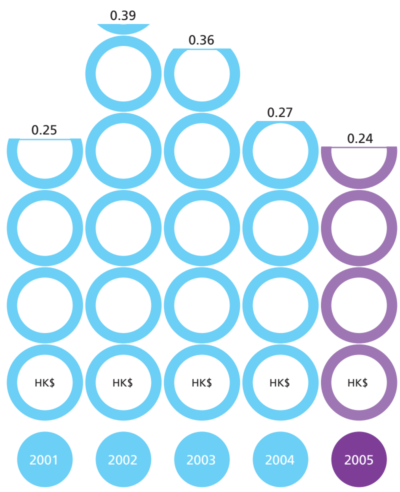
NET ASSETS



EBITDA



BASIC EPS



DEFINITIONS

Gross Profit Margin (%) $= \dfrac{\text{Gross Profit}}{\text{Turnover}} \times 100\%$

Net Profit Margin (%) $= \dfrac{\text{Profit attributable to equity holders of the Company}}{\text{Turnover}} \times 100\%$

Gearing Ratio (%) $= \dfrac{\text{Total Debt}}{\text{Equity attributable to equity holders of the Company}} \times 100\%$

Current Ratio $= \dfrac{\text{Current Assets}}{\text{Current Liabilities}}$

Quick Ratio $= \dfrac{\text{Current Assets excluding Inventories}}{\text{Current Liabilities}}$

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Cheng Yung Pun *(Chairman)*
Yu Sui Chuen
Cheng Wing See, Nathalie

Independent Non-executive Directors

Loke Yu alias Loke Hoi Lam
Mak Shiu Chung, Godfrey
Wan Hing Pui

AUDIT COMMITTEE & REMUNERATION COMMITTEE

Loke Yu alias Loke Hoi Lam *(Chairman)*
Mak Shiu Chung, Godfrey
Wan Hing Pui

QUALIFIED ACCOUNTANT

Chu Chor Lin

COMPANY SECRETARY

Lai Mei Fong

AUDITORS

Deloitte Touche Tohmatsu
26th Floor
Wing On Centre
111 Connaught Road Central
Hong Kong

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

SHARE REGISTRAR

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke HM08
Bermuda

BRANCH SHARE REGISTRAR IN HONG KONG

Secretaries Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong

PRINCIPAL PLACE OF BUSINESS

Room 901
9th Floor, East Ocean Centre
98 Granville Road
Tsimshatsui East
Kowloon, Hong Kong

PRINCIPAL BANKER

Bank of China (Hong Kong) Limited

WEBSITE

www.matrix.hk.com

STOCK CODE

1005 (Main Board of The Stock Exchange of Hong Kong Limited)

Chairman's Statement

To Our Shareholders,

I have pleasure in presenting to our shareholder the annual report of Matrix Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the financial year ended 31st December, 2005.

During the year under review, the Group recorded an increase of consolidated turnover by 32.7% amounted to HK$911 million and a drop in the profit attributable to equity holders of the Company by 7.2% amounted to HK$141 million. This remarkable improvement in consolidated turnover compared to year 2004 was attributed to the inclusion of the turnover contribution from the newly-acquired Shelcore Companies' Original Design Manufacturing ("ODM") operations and its roll-out of new product lines across the United States and its other newly-developed markets in Europe since 2005. On the other hand, the Group's profit was adversely affected by the continual rising in commodity prices as well as labor cost and other production costs in Mainland China and the competition in retail toy business.

The climate of the global toy industry and retail toy business had been proven challenging in year 2005. In common with many toy manufacturers, the Group profit margins had been squeezed by the shortage and unstable supply of public facilities in Mainland China, the increase in government-mandated minimum wage in Zhongshan, adverse impact on future tax treatment of processing arrangement in Mainland China, the increase in RMB denominated expenses owing to the growth of currency rate of RMB in the PRC, the exorbitant oil prices that kept material costs high, and competition between toy retailers to make sustained pricing pressure which are the major threats to the profitability of the Group.

Nevertheless, enjoying considerable economies of scale from the synergies of the amalgamation of the Shelcore Companies' ODM operation early this year allowed its principally injection moulded plastic toys adding onto the Company's existing manufacturing operations which enabled the Group to further implement a series of cost saving and inventory management measures at various stages of production including larger purchases of raw materials at lower costs, removal of duplicative overheads, and sharing of quality control, warehousing and distribution capabilities. The Group continued to enjoy from its prudent production policies as well as the leverage on Shelcore's extensive distribution network, in particular in United States so as to diversify the Group of customer risk. More diversified customer base and wider range of Shelcore's products, such congruence in management philosophies would further make optimistic future return.

In conclusion, I would like to express my deepest gratitude to all our stakeholders, including shareholders, customers, business partners and suppliers, for their continued support and for their confidence in the Group. My sincere appreciation also goes to the management and all our staff's indispensable and enthusiastic contributions and their commitment to ensuring we master every challenge faced by the Group for the year. I look forward the Group continuing to deliver sustainable returns to all our stakeholders in future.

Cheng Yung Pun
Chairman

Hong Kong, 16th March, 2006

Management Discussion and Analysis

RESULTS

For the year ended 31st December, 2005, the Group attained a modest surge of 32.7% in turnover amounted to HK$911,044,000 (2004: HK$686,684,000) which was driven by the turnover contribution from the Shelcore Companies' Original Design Manufacturing ("ODM") operations as well as the steady growth of the Group's Original Equipment Manufacturing ("OEM") operations. The profit attributable to equity holders of the Company was dropped by 7.2% to HK$140,929,000 (2004: HK$151,810,000) by which the basic earnings per share was HK24 cents (2004: HK27 cents).

Comparing to the year 2004, the drop in profit was primarily attributable to the hike in commodity prices as well as increase in labour cost and other operating expenses in Mainland China since 2004. Although the Group enjoyed a growth in turnover due to inclusion of Shelcore Companies' sales turnover, competition between toy retailers, customers of the Shelcore Companies resulting sustained pricing pressure which had an adverse impact on the Group's result. However, benefits of synergies from the amalgamation and considerable economies of scale after implementation of a series of cost saving, prudent production policies and inventory management measures, the Group was able to mitigate to a certain extent the negative impact and negotiate for more competitive raw material prices.

DIVIDENDS

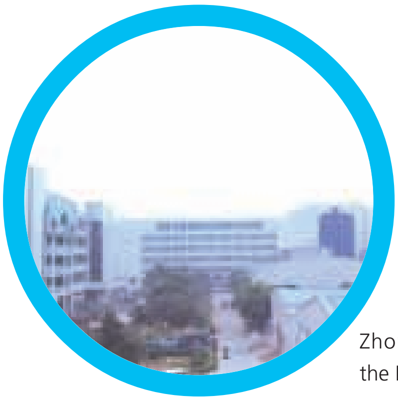
During the year, the Company paid an interim dividend of HK8 cents (2004: HK8 cents) and declared a special dividend of HK3 cents (2004: HK3 cents) per share to the shareholders. The Directors recommended the payment of a final dividend of HK9 cents (2004: HK9 cents) per share in respect of the year ended 31st December, 2005 (Based on 574,796,000 shares at this announcement date in an amount of approximately HK$51,732,000). 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 (2004: HK20 cents). Subject to the approval of the shareholders at the forthcoming annual general meeting, the proposed final dividend will be paid on or about 3rd May, 2006.

BUSINESS REVIEW

In January 2005, the Group had successfully completed the acquisition of the Shelcore Companies, well-established US-based toy companies with ODM operations specialising in the design, manufacture and sales of plastic toys for infant and pre-school children.

With the Group's implementation of a series of cost saving and inventory measures, to certain extent, the adverse effect of the threats of the Group of being a toy manufacturer could be minimised. Accordingly, the OEM business maintained stable growth with the same level of year 2004 whilst the ODM on the other hand encountered a changing environment.

Management Discussion and Analysis



Zhongshan, the PRC

Zhongshan, the PRC

TOYS MANUFACTURING OPERATION

Original Equipment Manufacturing

PRC

The Group's strong manufacturing foothold in Zhongshan, the People's Republic of China ("PRC") is well-equipped with fully-integrated and centralised facilities for molding, welding, spray painting, printing and assembly which enabled the Group's OEM business sustained to strive and achieve stable growth to enhance the manufacturing process and the customer appeal and satisfaction as well.

First and foremost, the capacity of the Zhongshan plant had been augmented subsequent to the installation of a number of plastic injection machines amounted to approximately HK$20 million to boost its production of plastic toys. During the year under review, the newly-constructed warehouse with a total gross floor area of approximately 5,000 square metres at Zhongshan Plant commenced operation in order to accommodate more raw materials and finished goods inventory to meet the increasing orders from customers.

Management Discussion and Analysis

Danang City, Vietnam – First Plant

Danang City, Vietnam – Second Plant

Vietnam

To enhance production efficiency, the renovation of the Group's first Vietnam plant for improving the factory floor layout and ensuring more systematic physical production flow is underway and is scheduled to complete by mid-2006. Upon completion of the renovation of plant, the overall production efficiency of the Group, who is one of the first movers in the Asian regional toy industry, would be further enhanced.

The improved business environment in Vietnam including the development of structural road networks and enhanced shipping and logistic facilities provided, and stable supply of public facilities, enables the Group having further development in Vietnam.

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 function and 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.

Management Discussion and Analysis

U.S.A. –
Office

U.S.A. –
Showroom

Original Design Manufacturing

The acquisition of Shelcore Companies in January 2005 not only expanded the Group's toy product portfolio by including infant and pre-school children toys, but also provided a new diversified source of revenue, and allowed the Group to gain exposure to the global toy industry with a pool of potential customers by leverage on Shelcore Companies' extensive worldwide distribution network.

The benefits from the amalgamation of operation and corporate structural reorganisation after the acquisition of the Shelcore Companies have been reflected as the profitability of the Shelcore Companies was enhanced and the result of the Shelcore Companies was improved during the year under review. The Group continued to maximise the full potential of the distribution channels spanning over 60 countries by introducing new toys for infant and pre-school children market. In addition, due to the positive response from the newly-developed markets such as United Kingdom, France, Germany and Spain, additional sales force had been employed to further strengthen the Group's marketing efforts in opening up other new markets in Europe. Other than the United States and European markets, a retail business market in the PRC would be worthwhile to build up.

Management Discussion and Analysis

PRINTING OPERATION

To maximise the use of printing machines, the Group had utilised the excess capacity to develop the network of external customers and bring in a new source of revenue to the Group. In the year 2005, the external customers' orders have been increased.

The Group has widened the variety of printed products and therefore in addition to the Group's internal consumption and supplementing the packaging function in the overall production process, the enlarged range of finalised products could better meet external customer demands and satisfaction as well.

As the Group believes the demand from external users will be increasing, complemented by the Group's internal demand, this operation will have a positive contribution to the Group in the forthcoming years.

MARKETING AND PROMOTIONAL OPERATION

The business promotional operation of the Group has not yet achieved the expected market shares in the promotional industry in the PRC during the year under review. The management would continue to observe the potential market segment of its business promotional operation.

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 31st December, 2005, the Group had bank balances and cash of HK$42,258,000 (2004: HK$89,688,000) and pledged bank deposit of HK$51,990,000 (2004: HK$5,011,000) secured for banking facilities granted. During the year under review, the Group was granted banking facilities in a total of HK$81,000,000 (2004: HK$5,000,000) secured by fixed deposits and corporate guarantee given by the Company.

The Group's gearing ratio, representing the total debt divided by equity attributable to equity holders of the Company, was not applicable as the Group did not have any bank loans or borrowings as at 31st December, 2005 and 2004.

During the year, the Group financed its operations with internally generated cash flows. Net cash generated from operating activities amounted to approximately HK$225 million (2004: HK$151 million). The Group has consistently maintained a healthy financial position during the year.

Capital Expenditure

During the year, the Group acquired property, plant and equipment at a cost of HK$46,766,000 (2004: HK$14,790,000) directly and HK$48,234,000 (2004: HK$447,000) through the acquisition of subsidiaries to expand and upgrade the production capacity. These capital expenditures were primarily funded by internal resources.

Management Discussion and Analysis

Assets and Liabilities

At 31st December, 2005, the Group had total assets of HK$512,691,000 (2004: HK$454,007,000), total liabilities of HK$179,234,000 (2004: HK$170,900,000) and shareholders' equity of HK$333,457,000 (2004: HK$282,975,000). The net assets of the Group increased 17.8% (2004: 19.3%) to HK$333,457,000 as at 31st December, 2005 (2004: HK$283,107,000). Certain of the Group's fixed assets were revalued at year-end date, the revaluation resulted in an increase in value, which has been reflected in the financial statements.

Exchange Rate Risk

Several subsidiaries of the Company have foreign currency sales, which expose the Group to foreign currency risk. Certain bank balances, pledged bank deposit and trade receivables 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, 2005, the Group had a total of approximately 17,000 (2004: 15,000) employees in Hong Kong, Macau, PRC, Vietnam, U.S.A. and Canada. 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.

Management Discussion and Analysis

PROSPECTS

Looking forward, the Group will continue to implement effective cost-saving measures and study ways to streamline its ODM business so as to further improve the overall efficiency, and thereby enhancing the competitiveness of its toy businesses. As the global crude oil prices have shown signs of stabilising, the profit margins will be expected to remain stable and not be squeezed further. Moreover, benefits from the amalgamation of the two OEM and ODM businesses as well as corporate reorganisation of Shelcore Companies are gradually materialised. In addition, the Shelcore Companies' ODM business is targeted to become profitable after completion of corporate restructuring and launch of new product lines by enhancing the research and development campaign of the Company.

Shelcore Companies' international outlook shows potential growth through new accounts and new market segments in Europe. The recruitment of expert toy sales and marketing team in Europe enhances its product and market development and brand re-enforcement which may better off result in future. With plans to enhance its research and development efforts, in particular reinforcing the product development team in a cost effective location, the Group will increase the varieties of its ODM toy products for the sales in its retail chain stores. All these moves will definitely enhance the Group's competitiveness. In addition, with financial and operational support from the Group, there is full confidence of revitalising the Shelcore Toys brandname worldwide – including opening brand new retail stores in major cities in the PRC. Effective market studies and product search 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 and promotional campaigns as well as continuous media presence offering another way for the Group to increase its market share, in particular, in North America.

The management will closely monitor the impact of the implemented government-mandated minimum wage, the shortage and unstable supply of public facilities, the impact on future tax treatment of processing arrangement and the recent growth of currency rate of RMB in the PRC and aim at devising a measure for the Group to minimise the adverse effect of those factors on the Group's profitability continuously.

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 tighten cost control measures and inventory measures. The Group is confident all these efforts can sustain and enhance its business growth.

Biographies of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Cheng Yung Pun

Aged 54, is the Chairman of the Company since the year 2000. Mr. Cheng is responsible for the overall corporate policy and development strategy as well as overseeing the Group's overall management. Mr. Cheng has an in-depth of knowledge and experimentalism of operations in Greater China. Mr. Cheng has more than 25 years' extensive experience in plastic toys manufacturing, property development and investment. Mr. Cheng is a father of Ms. Cheng Wing See, Nathalie, executive Director of the Company.

Mr. Yu Sui Chuen

Aged 50, is responsible for overseeing the finance and administration of the Group and assisting the Chairman in the strategic planning. Mr. Yu holds a Higher Diploma in Business Administration majoring in Accounting. Mr. Yu has over 25 years' experience in finance management and administration of which nearly 10 years as a member of the management committee of a listed company. He joined the Company in the year 2000.

Ms. Cheng Wing See, Nathalie

Aged 32, is responsible in managing of procurement of the Group. Ms. Cheng has over 8 years' extensive experience in procurement in the plastic toys field. Ms. Cheng is a daughter of Mr. Cheng Yung Pun, Chairman of the Company. She joined the Company in the year 2000.

Biographies of Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Loke Yu alias Loke Hoi Lam

Aged 57, was appointed to the board as an independent non-executive director and a chairman of the audit committee of the company in the year of 2004. Dr. Loke has over 30 years of experience in accounting and auditing for private and public companies, financial consultancy and corporate management. He holds a Master of Business Administration Degree from Universiti Teknologi Malaysia and a Doctor of Business Administration Degree from University of South Australia. He is a Fellow of The Institute of Chartered Accountants in England and Wales; Hong Kong Institute of Certified Public Accountants; and The Hong Kong Institute of Directors. He is also an Associate member of The Hong Kong Institute of Chartered Secretaries and a member of Malaysian Institute of Accountants. He is Chairman of MHL Consulting Limited and serves as an independent non-executive director of Shandong Molong Petroleum Machinery Company Limited, United Metals Holdings Limited, New Chinese Medicine Holdings Limited, Yanion International Holdings Limited and Wealthmark International (Holdings) Limited, companies listed on The Stock Exchange of Hong Kong Limited.

Mr. Mak Shiu Chung, Godfrey

Aged 43, was appointed to the board as an independent non-executive director and a member of the audit committee of the Company in the year of 2000. Mr. Mak holds a Bachelor of Science degree in business studies from Bradford University School of Management, UK and a Master of Business Administration degree from the University of Wales, UK. He is a Member of the Hong Kong Securities Institute; a Member of The Chartered Institute of Marketing and an Associate of The Institute of Chartered Secretaries and Administrators. Mr. Mak is currently the Executive Director of Huafeng Textile International Group Limited and Angels Technology Company Limited, and has over 15 years of experiences in the field of corporate finance.

Mr. Wan Hing Pui

Aged 75, was appointed to the board as an independent non-executive director and a member of the audit committee of the Company in the year of 2004. Mr. Wan has over 47 years of experiences in auditing, taxation and financial management consultancy services. He is an Associate Member of The Institute of Chartered Accountants in England and Wales, a Fellow of Hong Kong Institute of Certified Public Accountants, The Taxation Institute of Hong Kong and The Association of Chartered Certified Accountants in the United Kingdom. He is a sole proprietor of H.P. Wan & Co., a firm of Certified Public Accountants (Practising).

CHIEF EXECUTIVE OFFICER

Mr. Michael Adam Greenberg

Aged 46, was appointed as the chief executive officer of the Company in April 2005. Mr. Greenberg is responsible for new product development, marketing and manufacturing operations of the Group. Mr. Greenberg was the Chief Operation Officer of the Shelcore Companies before joined the Group and he has more than 25 years' extensive experience in product development, marketing and manufacturing of toy businesses.

Corporate Governance Report

CODE ON CORPORATE GOVERNANCE

The Code on Corporate Governance Practices (the "Code") was introduced to Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") which was in force for accounting periods commencing on or after 1st January, 2005 with the exceptions in respect of the code provision C.2 on internal controls and the disclosure requirements in the Corporate Governance Report relating to the internal control. Appropriate actions were duly taken by the director including the appointment of a chief executive officer in 2005 and the amendments made to the Company's Bye-laws to the effect that every director should be subject to retirement by rotation at least once every three years, to put Matrix Holdings Limited (the "Company") in compliance of code provisions in the Code. The Board of Directors (the "Board") of the Company had adopted its own code on corporate governance practices which incorporates all the code provisions in this newly promulgated Code.

The Company had applied the principles of the said Code and its own code since their adoption, with an exception of code provision A.4.1 as stated herein, in order to protect and enhance the benefits of shareholders. Following sustained development and growth of the Company, the Board and its executive management will continue to monitor the governance policies to ensure that such policies meet the general rules and standards.

BOARD OF DIRECTORS

The Board serving the important function of guiding the management, currently comprises three executive directors, namely Mr. Cheng Yung Pun (Chairman), Mr. Yu Sui Chuen and Ms. Cheng Wing See, Nathalie and three independent non-executive directors ("INEDs") (collectively the "Directors") required under Rule 3.10(1) of the Listing Rules, namely Dr. Loke Yu alias Loke Hoi Lam, Mr. Mak Shiu Chung, Godfrey and Mr. Wan Hing Pui who represent half of the Board and include two with appropriate professional qualifications and accounting and related financial expertise required under Rule 3.10(2) of the Listing Rules. Save as Ms. Cheng is the daughter of Mr. Cheng, there is no financial, business, family or other material/relevant relationship between the Directors. The Company considers that the Board has the necessary skills and experience appropriate for discharging their duties as Directors in the best interest of the Company and that the current board size as adequate for its present operations.

Each of the Directors keeps abreast of his/her responsibilities as a Director of the Company and of the conduct, business activities and development of the Company. All Directors are updated from time to time with development in the laws and regulations applicable to the Company and each of the INEDs has made an annual confirmation that he complied with the independence criteria set out in Rule 3.13 of the Listing Rules. The Directors consider that all the three INEDs to be independent under these independence criteria and are capable to effectively exercise independent judgment.

The Directors as aforesaid, accompanied by their respective biographical details, are listed in the section of "Biographies of Directors and Senior Management" in this annual report and that the INEDs are expressly identified in all of the Company's publication such as circular, announcement or relevant corporate communications in which the names of Directors of the Company are disclosed.

Corporate Governance Report

BOARD OF DIRECTORS (Continued)

The principal functions of the Board are to make decision on the objectives, strategic plans, budgets and management structure of the Company; to oversee the management of the business and affairs of the Group; to supervise the management of the business and affairs with the objective of enhancing the Company and shareholders' value with the proper delegation of the power to the management for its day-to-day operation of the Company, implementation of the budgets and strategic plans and development of the organisation of the Company for implementing the Board's decision. During the year under review, the Board has reviewed, inter alia, the performance of the Group and formulated business strategy of the Group; reviewed and approved the annual and interim results of the Group for the year ended 31st December, 2004 and 30th June, 2005 respectively; approved the change of principal place of address of the Company in Hong Kong; reviewed and approved the grant of share option; reviewed internal controls taken by the Group; and reviewed the amendments to the Bye-laws.

The Board conducts meeting on a regular basis and on an ad hoc basis, as required by business needs. The Bye-laws of the Company allows board meetings to be conducted by way of telephone or videoconference and any resolutions to be passed by way of written resolutions circulated to and signed by all Directors from time to time when necessary unless any matters in which a substantial shareholder or a Director or their respective associates has a conflict of interest. The Board held a total of eight Board Meetings during the year under review. The attendance record of each Director at the Board Meetings is disclosed below in this report.

In the said Board Meetings, sufficient fourteen-day notices for regular board meetings and notice in reasonable days for non-regular board meetings were given to all Directors so as to ensure that each of them had an opportunity to attend the meetings, and agendas and accompanying board papers were given to all Directors in a timely manner before the appointed date of the Board meetings and at least 3 days before the regular board meetings. Sufficient information was also supplied by the management to the Board to enable it to make decisions, which are made in the best interests of the Company.

APPOINTMENTS AND RE-ELECTION OF DIRECTORS

In compliance with the code provision A.4.2 in the Code, the amendments to the Company's Bye-laws were passed in the 2005 annual general meeting of the Company held on 20th April, 2005. The Company's Bye-laws were amended to the effect that every Director should be subject to retirement by rotation at least once every three years. In accordance with the Bye-laws of the Company, at the first general meeting after the newly appointed Directors their appointment and that one-third of the directors should be subject to retirement and re-election every year. Though none of the existing non-executive (including independent non-executive) Directors of the Company is appointed for a specific term, the Company still considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the code as all directors are subject to retirement provisions under the newly amended Company's Bye-laws.

In considering the nomination of a new director, the Board will take into account the qualification, in particular any qualification as required in the Listing Rules, ability, working experience, leadership and professional ethics of the candidates. The Board considers that the existing human resource policy in recruitment of new senior staff is also applicable to nomination of a new director. Furthermore, as the Board is responsible for selection and approval of candidates for appointment as directors to the Board, the Company has not established a Nomination Committee for the time being.

Corporate Governance Report

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of Chairman and Chief Executive Officer ("CEO") are segregated and performed by separate individual, Mr. Cheng Yung Pun and Mr. Michael Adam Greenberg respectively, to ensure a balance of power and authority. The role of Chairman and the CEO are governed by the Chairman Mandate and CEO Mandate (containing the minimum prescribed duties) and stated in the Company's own code on corporate governance.

Chairman of the Board is appointed by the Board and his principal responsibility is for the leadership and effective running of the Board, ensuring that all keys and appropriate issues are discussed by the Board in a timely and constructive manner and ensure that Directors receive adequate information, which must be complete and reliable, in a timely manner. The CEO is appointed by the Board and is delegated with the authority and his principal responsibility is for running the Group's business, and implementation of the Group's strategy in achieving the overall commercial objectives.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by directors and relevant employees, on exactly the terms and required standard contained in the Model Code for Securities Transactions by Directors set out in Appendix 10 of the Listing Rules. Having made specific enquiry of all the Directors, all the Directors confirmed that they have complied with the required standard set out in the Model Code and the code of conduct regarding securities transactions by directors and relevant employees adopted by the Company.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The financial statements of the Company for the year ended 31st December, 2005 have been reviewed by the Audit Committee and audited by the external auditors, Messrs. Deloitte Touche Tohmatsu. The Directors acknowledge their responsibility for preparing the financial statements of the Group and presenting a balanced, clear and comprehensive assessment of the Group's performance and prospects. They are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The Directors ensure the preparation of the financial statements of the Group are in accordance with statutory requirements and applicable accounting standards. The Directors also ensure the publication of the financial statements of the Group in a timely manner.

REMUNERATION COMMITTEE

The Board has established a Remuneration Committee comprising three INEDs, namely Dr. Loke Yu alias Loke Hoi Lam, Mr. Mak Shiu Chung, Godfrey and Mr. Wan Hing Pui, appointed by the Board and is chaired by Dr. Loke Yu alias Loke Hoi Lam, which meets at least once a year.

Corporate Governance Report

REMUNERATION COMMITTEE (Continued)

The principal duties of Remuneration Committee, inter alia, include formulation of the remuneration policy; review and recommending to the Board the annual remuneration policy; make recommendation to the Board of the remuneration of non-executive Directors; and determination of the remuneration of the executive Director and members of the Senior Management. The overriding objective of the remuneration policy is to ensure that the Company is able to attract, retain, and motivate a high-calibre team which is essential to the success of the Company.

The specific terms of reference of the Remuneration Committee (containing the minimum prescribed duties) are adopted and which are available on request or on the website: www.matrix.hk.com.

The Remuneration Committee consults the Chairman and/or CEO about their proposal relating to the remuneration of other executive Directors and has access to professional advice where necessary. No Directors and executives can determine his own remuneration. During the year under review, the Remuneration Committee has held one meeting for review and approval of the grant of share option to the CEO and one of the executive Directors prior to the approval of the Board. Minutes of Remuneration Committee Meeting are kept by a duly appointed secretary of the meeting. Draft and final versions of minutes of the meeting are sent to all members of the Committee for their comment and records respectively, in both cases within a reasonable time after the meeting. The attendance of the committee members at meetings of the Remuneration Committee, on a name basis, is disclosed below in this report.

AUDIT COMMITTEE

The Audit Committee, comprising three INEDs namely Dr. Loke Yu alias Loke Hoi Lam, Mr. Mak Shiu Chung, Godfrey and Mr. Wan Hing Pui, appointed by the Board who have extensive experience in financial matters, meets at least two times a year. Two Audit Committee members are qualified accountants. None of the Audit Committee members are members of the former or existing auditors of the Company.

The principal responsibilities of the Audit Committee are, inter alia, to review the appointment of external auditors on an annual basis including a review of the audit scope and approval of the audit fees; to ensure continuing auditor objectivity and to safeguard independence of the Company's auditors; to meet the external auditors to discuss issues and reservations (if any) arising from the interim review and final audit, and any matters the auditors suggest to discuss; to review the Group's internal control system; to review the annual and interim report and quarterly result (if any) prior to approval by the Board in accordance with the accounting policies and practices and relevant accounting standards, the Listing Rules and the legal requirements; to serve as a focal point for communication between other Directors and the external auditors in respect of the duties relating to financial and other reporting, internal controls, external audit, and such other matters as the Board determines from time to time; to consider major findings of internal review and management's response and ensure proper arrangement in place for the fair and independent review of such concerns and appropriate follow up action; to devise a framework for the type and authorization of non-audit services provided by the external auditors.

Corporate Governance Report

AUDIT COMMITTEE (Continued)

During the year under review, the Audit Committee had held three meetings for reviewing quarterly results, interim and annual reports respectively before submission to the Board in accordance with the accounting policies and practices, relevant accounting standards, the Listing Rules and the legal requirements; reviewing the external auditors' engagement letter; discussing issues during the audits of external auditors. The external auditors and the senior executives are invited to attend the meeting for annual financial statements. Minutes of Audit Committee Meeting are kept by a duly appointed secretary of the meetings. Draft and final versions of minutes of the meeting are sent to all members of the committee for their comment and records respectively, in both cases within a reasonable time after the meetings. The attendance record of the committee members meetings of the Audit Committee, on a name basis, is disclosed below in this report.

The Audit Committee discharged their duties in accordance with their terms of reference. These specific terms of reference are available on request or on the website: www.matrix.hk.com.

The table as below summarized the attendance of each Director at the meetings of Board, Audit Committee and Remuneration Committee:

Attendance Record of individual Directors at meetings in 2005

	Board	Attendance Rate	Audit Committee	Attendance Rate	Remuneration Committee	Attendance Rate
Number of Meetings	**8**		**3**		**1**	
Executive Directors						
Cheng Yung Pun *(Chairman)*	7	87.5%	N/A	N/A	N/A	N/A
Yu Sui Chuen	8	100%	N/A	N/A	N/A	N/A
Cheng Wing See, Nathalie	8	100%	N/A	N/A	N/A	N/A
INEDs						
Loke Yu alias Loke Hoi Lam	7	87.5%	3	100%	1	100%
Mak Shiu Chung, Godfrey	7	87.5%	3	100%	1	100%
Wan Hing Pui	7	87.5%	3	100%	1	100%

AUDITOR'S REMUNERATION

During the year, the fees paid or payable to the auditors of the Company, Messrs. Deloitte Touche Tohmatsu were approximately HK$1,523,000 and HK$2,627,000 for statutory audit services rendered and non-audit services rendered (including disbursement fees) to the Group respectively.

Remuneration paid to other auditors for audit services rendered to overseas subsidiaries was approximately HK$51,000.

Corporate Governance Report

INTERNAL CONTROL

The Board has overall responsibilities for maintaining sound and effective internal control system of the Group. The Board has delegated to the management the implementation of such systems of internal controls as well as the review of relevant financial, operational and compliance controls and risk management procedures.

An Internal Control Committee composites member of the management was established for conducting a review of the internal control of the Group which cover the material controls including financial, operational and compliance controls and risk management functions. Procedures have been set up, inter alia, for safeguarding assets against unauthorized use or disposition, controlling over capital expenditure, maintaining proper accounting records and ensuring the reliability of financial information used for business and publication. The management throughout the Group maintains and monitors the internal control system on an ongoing basis.

INVESTOR RELATIONS

During the year under review, the Group has proactively enhanced its corporate transparency and communications with its shareholders and the investment community through its mandatory interim and final reports as well as voluntary third quarter review announcement. Through the timely distribution of press releases, the Group has also kept the public abreast of its latest developments. Regular meetings and plant visits have been organised to enhance the investors' understanding of the Group's business and production operations.

COMMUNICATION WITH SHAREHOLDERS

The annual general meeting provides a useful forum for shareholders to exchange views with the Board. The Chairman as well as Chairman of the Audit and Remuneration Committees and members of the Committees are pleased to answer shareholders' questions.

Separate resolutions are proposed at general meetings on each substantially separate issue, including the election of individual directors.

Details of poll voting procedures and the rights of shareholders to demand a poll are included in the circular to shareholders dispatched together with the annual report. The circular also includes relevant details of proposed resolutions, including biographies of each candidates standing for re-election. The results of the poll are published in the newspapers and on the website of The Stock Exchange of Hong Kong Limited, www.hkex.com.hk.

Report of the Directors

The directors of the Company have pleasure in presenting their annual report together with the audited financial statements of the Company for the year ended 31st December, 2005.

PRINCIPAL ACTIVITIES

The Company is an investment holding company.

The principal activities of its subsidiaries are the manufacture and distribution of gifts, novelties items and infant and pre-school children toys. The analysis of the principal activities and geographical locations of the operations of the Company and its subsidiaries during the financial year are set out in note 19 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The five largest customers of the Group together accounted for approximately 87.3% of the Group's turnover, with the largest customer accounted for approximately 71.0%. The aggregate purchases attributable to the Group's five largest suppliers were less than 30% of total purchases of the Group.

At no time during the year did any director, any associate of a director, or any shareholder, which to the knowledge of the directors owned more than 5% of the Company's share capital, have any beneficial interests in these customers or suppliers.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2005 are set out in the consolidated income statement on page 33.

An interim dividend of HK8 cents per share and a special dividend of HK3 cents per share, amounting to approximately HK$46,778,000 and HK$17,542,000 respectively, were paid and declared to the shareholders during the year respectively.

The directors now recommend the payment of a final dividend of HK9 cents per share, amounting to approximately HK$51,732,000, to the shareholders on the register of members on 25th April, 2006 and the retention of the remaining profit in the Company for the year, amounting to HK$103,204,000.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group spent approximately HK$28,161,000 on plant and equipment and HK$5,375,000 on properties to expand and upgrade its production capacity. Through acquisition of subsidiaries, the Group acquired property, plant and machinery at a cost of approximately HK$48,234,000. Certain of the Group's property, plant and equipment were revalued at 31st December, 2005, the revaluation resulted in a surplus and a deficit amounting to approximately HK$26,788,000 and HK$804,000 respectively, which has been credited directly to the other asset revaluation reserve and debited directly to the income statement respectively.

Details of these and other movements during the year in the property, plant and equipment of the Group are set out in note 16 to the financial statements.

Report of the Directors

SHARE CAPITAL

Details of the share capital of the Company during the year are set out in note 25 to the financial statements.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares.

RESERVES

Movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 35.

Reserves of the Company as at 31st December, 2005 available for distribution, calculated under the Companies Act 1981 of Bermuda (as amended), amounted to HK$158,597,000 (2004: HK$155,383,000).

The Company's reserves available for distribution to the shareholders as at the balance sheet date are set out as follows:

	2005 HK$'000	2004 HK$'000
Contributed surplus	**3,661**	3,661
Retained profits	**154,936**	151,722
	158,597	155,383

The contributed surplus of the Company represents the difference between the nominal amount of the share capital issued by the Company and the book value of the underlying consolidated net tangible assets of subsidiaries acquired as a result of a group reorganisation.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

(a) it is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

Report of the Directors

MANAGEMENT CONTRACTS

During the year, no contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered or existed.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 74.

DIRECTORS

The directors of the Company during the year and up to the date of this report are:

Executive directors:

Cheng Yung Pun (Chairman)
Yu Sui Chuen
Cheng Wing See, Nathalie

Independent non-executive directors:

Loke Yu alias Loke Hoi Lam
Mak Shiu Chung, Godfrey
Wan Hing Pui

DIRECTORS' SERVICE CONTRACTS

In accordance with the clause 99 of the Bye-laws of the Company, Mr. Cheng Yung Pun and Mr. Mak Shiu Chung, Godfrey retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The term of office of each independent non-executive director is the period up to his retirement by rotation in accordance with the Company's Bye-laws.

None of the directors being proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

The Company has received from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules"). The Company considers all of the independent non-executive directors are independent.

Report of the Directors

DIRECTORS'/CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Details of related party transactions during the year are set out in note 32 to the financial statements.

Save as disclosed above, no other contracts of significance to which the Company, its holding company or any of its subsidiaries was a party and in which a director or a controlling shareholder of the Company had a material interest, whether directly or indirectly in any contract, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the directors have any interests in competing business to the Group.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31st December, 2005, the interests and short positions of the directors and chief executives and their respective associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or which were otherwise required to be notified to the Company and the Stock Exchange, pursuant to the Model Code for Securities Transactions by Directors of the Listing Companies were as follows:

Long Positions in Ordinary Shares of the Company

Ordinary Shares of HK$0.10 each of the Company

Name of director	Nature of interests	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Cheng Yung Pun	Corporate interest (Note)	405,826,800	69.41%
Yu Sui Chuen	Personal interest	604,000	0.10%
Cheng Wing See, Nathalie	Personal interest	700,000	0.12%

Note: The shares are held by Suncorp Investments Group Limited ("Suncorp"), a company incorporated in the British Virgin Islands. The entire issued share capital of Suncorp is wholly owned by Mr. Cheng Yung Pun.

Report of the Directors

Long Positions in Underlying Shares of the Company

Share Option

Name of director/ chief executive	Outstanding at beginning of year	Number of underlying shares attached to the share options: Granted during year	Exercised during year	Outstanding at end of year	Exercise price HK$	Exercise period
Yu Sui Chuen	–	2,922,000 (Note 1)	–	2,922,000	2.34	27th January, 2006 to 26th January, 2009
Michael Adam Greenberg	–	5,846,000 (Note 2)	–	5,846,000	2.34	27th January, 2006 to 26th January, 2009
Total	–	8,768,000	–	8,768,000		

Notes:

(1) Mr. Yu, a director of the Company, has beneficial interests in 2,922,000 underlying shares (representing 0.5% of issued share capital of the Company) in respect of share options granted to him on 27th October, 2005 pursuant to the Company's share option scheme.

(2) Mr. Greenberg, a chief executive officer of the Company, has beneficial interests in 5,846,000 underlying shares (representing 1.0% of issued share capital of the Company) in respect of share options granted to him on 27th October, 2005 pursuant to the Company's share option scheme.

The closing price of the Company's shares immediately before 27th October, 2005, the date of grant of the 2005 options, was HK$2.325.

Particulars of the Company's share option scheme are set out in note 33 to the financial statements.

Other than as disclosed above, none of the directors, chief executives nor their respective associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31st December, 2005.

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

Other than as disclosed in the section "Directors' and Chief Executives' Interests and Short Postions in Shares, Underlying Shares and Debentures", at no time during the year was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the directors nor the chief executive, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

Report of the Directors

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2005, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following shareholders had notified the Company of relevant interests in the issued share capital of the Company were as follows:

Long Positions in Ordinary Shares of the Company

Ordinary Shares of HK$0.10 each of the Company

Name of shareholder	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Suncorp (Note 1)	Beneficial owner	405,826,800	69.41%
Veer Palthe Voûte NV	Beneficial owner	29,882,000	5.11%
Dresdner Bank Aktiengesellschaft (Note 2)	Interest held by controlled corporations	29,882,000	5.11%
Allianz Aktiengesellschaft (Note 3)	Interest held by controlled corporations	29,882,000	5.11%

Notes:

(1) Suncorp is wholly owned by Mr. Cheng Yung Pun, director of the Company.

(2) The Shares are held by Veer Palthe Voûte NV, which is through Dresdner Bank Luxembourg S.A., 100% held by Dresdner Bank Aktiengesellschaft.

(3) The Shares are held by Veer Palthe Voûte NV, which is through Dresdner Bank Luxembourg S.A., 100% held by Dresdner Bank Aktiengesellschaft, which in turn is, through Allianz Finanzbeteiligungs GmbH, 81.10% held by Allianz Aktiengesellschaft.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31st December, 2005.

Report of the Directors

SHARE OPTION SCHEME

The share option scheme of the Company was adopted on 17th December, 2002 (the "Scheme") to comply with the new requirements of Chapter 17 of the Listing Rules effected on 1st September, 2001. The key terms of the Scheme are summarised herein below:

(i) The purpose of the Scheme is to enable the Company to grant options to selected participants as incentives or rewards for their contribution to the Company and/or the subsidiaries (as defined in the Scheme);

(ii) The participants of the Scheme include any full-time employee, executives or officers, directors of the Company or any of the subsidiaries and any suppliers, consultants, agents or advisers who have contributed to the Group;

(iii) The total number of shares available for issue under the Scheme is 23,504,000 which represents 4.09% of the existing issued share capital of the Company (being adjusted for the effects on the Company's purchase of its own shares in January 2006) as at the date of this annual report;

(iv) The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company at the date of adoption of the Scheme, unless approval from the Company's shareholders has been obtained. The number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes of the Company must not exceed 30% of the shares in issue from time to time;

(v) Unless approved by shareholders in general meeting, no participants shall be granted an option if the total number of shares issued and to be issued upon exercise of the options granted and to be granted to such participant in any 12-month period up to the date of the latest grant would exceed 1% of the issued share capital of the Company from time to time. Options granted to a substantial shareholders or an independent non-executive director in excess of 0.1% of the Company's share capital in issue for the time being and with a value in excess of HK$5 million must be approved in advance by the Company's shareholders;

(vi) An option may be exercised in accordance with the terms of the Scheme at any time during a period to be notified by the Board to each grantee. Unless otherwise determined by the Board at its sole discretion, there is no requirement of a minimum period for which an option must be held or a performance target which must be achieved before an option can be exercised;

(vii) A non-refundable remittance of HK$1 by way of consideration for the grant of an option is required to be paid by each grantee upon acceptance of the option;

Report of the Directors

SHARE OPTION SCHEME (Continued)

(viii) The subscription price payable upon exercising any particular option granted under the Scheme is determined based on a formula: P = N x Ep, where "P" is the subscription price; "N" is the number of shares to be subscribed; and "Ep" is the exercise price of the highest of (a) the nominal value of a share in the Company on the date of grant; (b) the official closing price of shares of the Company as stated in the daily quotation sheets of the Stock Exchange on the date of grant; and (c) the average of the official closing price of shares of the Company as stated in the daily quotation sheets of the Stock Exchange for the five business days immediately preceding the date of grant and as adjusted pursuant to the clauses of the Scheme; and

(ix) The life of the Scheme is until the tenth anniversary of the adoption date of the Scheme.

Particulars of the Company's share option scheme are set out in note 33 to the financial statements.

During the year ended 31st December, 2005, 8,768,000 underlying shares in respect of the share options granted to Mr. Yu Sui Chuen and Mr. Michael Adam Greenberg as disclosed in the Section "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" are not exercised, cancelled or lapsed.

As at 31st December, 2005, the total number of shares available for issue under the Company's share option scheme was 23,504,000 shares which represented 4.02% of the issued share capital of the Company.

EMOLUMENT POLICY

A Remuneration Committee is set up for reviewing the Group's emolument policy and structure for all remuneration of the directors and senior management of the Group, having regard to the Group's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as incentive to directors and eligible employees, details of the scheme is set out as "Share Option Scheme" above.

COMPLIANCE OF THE CODE ON CORPORATE GOVERNANCE PRACTICES

As stated in the Company's interim report for the six months ended 30th June, 2005, the Board had adopted its own code on corporate governance in which incorporates all code provisions in the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules (the "Code"). The Board had also reviewed and proposed the amendments to the Company's Bye-laws. At the annual general meeting of the Company held on 20th April, 2005, a special resolution was passed to amend the Company's Bye-laws so that every director, including those appointed for a specific term should be subject to retirement by rotation at least once every three years in compliance with the code provision A.4.2. In compliance with the code provision A.2.1, a chief executive officer was appointed and this role is performed by a separate individual other than the chairman of the Company.

Report of the Directors

COMPLIANCE OF THE CODE ON CORPORATE GOVERNANCE PRACTICES (Continued)

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 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 directors of the Company (executive and 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 Code.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31st December, 2005.

POST BALANCE SHEET EVENT

Details of a significant event occurring after the balance sheet date are set out in note 35 to the financial statements.

OTHER REQUIRED DISCLOSURE PURSUANT TO RULE 13.18 OF THE LISTING RULES

One of the Group's banking facilities made with a bank on 21st December, 2005 in an aggregate amount of HK$35,000,000 (the "facility") will expire on 30th November, 2006. Throughout the term of the facility, Mr. Cheng Yung Pun, the controlling shareholder of the Company, is required to retain his control over the Company not less than 51% of the Company's issued share capital.

AUDITORS

The financial statements have been audited by Messrs. Deloitte Touche Tohmatsu who retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

By order of the Board
Cheng Yung Pun
Chairman

Hong Kong, 16th March, 2006

Auditors' Report

Deloitte.
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TO THE SHAREHOLDERS OF MATRIX HOLDINGS LIMITED
美力時集團有限公司
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Matrix Holdings Limited (the "Company") and its subsidiaries (hereafter collectively referred to as the "Group") from pages 33 to 73 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors of the Company are responsible for the preparation of consolidated financial statements which give a true and fair view. In preparing consolidated financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those consolidated financial statements and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the consolidated financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the consolidated financial statements, and of whether the accounting policies are appropriate to the circumstances of the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the consolidated financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

Auditors' Report

OPINION

In our opinion the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31st December, 2005 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

OWNERSHIP OF MATRIX PLASTIC MANUFACTURING (ZHONGSHAN) CO., LTD. ("MPMZ")

Without qualifying our opinion, we draw attention to note 2 to the financial statements which explains that in October 1999 there was a court judgment regarding the ownership of MPMZ, an indirect wholly-owned major subsidiary of the Company, in connection with a claim made by a trade creditor, which had subsequently been settled. The Company has made an application for a judicial review of the judgment regarding the ownership of MPMZ. The directors have sought independent legal advice and 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.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, 16th March, 2006

Consolidated Income Statement

For the year ended 31st December, 2005

	NOTES	2005 HK$'000	2004 HK$'000
Turnover	8	**911,044**	686,684
Cost of sales		**(613,981)**	(469,696)
Gross profit		**297,063**	216,988
Other income	9	**4,221**	2,095
Distribution and selling costs		**(77,396)**	(3,681)
Administrative expenses		**(87,570)**	(37,550)
Finance costs	10	**(35)**	(89)
Impairment loss recognised in respect of goodwill	17	**(807)**	–
Discount on acquisition of subsidiaries	28	**3,390**	–
Profit before taxation	11	**138,866**	177,763
Income tax credit (charge)	13	**1,931**	(26,137)
Profit for the year		**140,797**	151,626
Attributable to:			
Equity holders of the Company		**140,929**	151,810
Minority interest		**(132)**	(184)
		140,797	151,626
Dividends	14	**116,052**	116,945
Earnings per share	15		
Basic		**HK$0.24**	HK$0.27
Diluted		**N/A**	HK$0.26

Consolidated Balance Sheet

At 31st December, 2005

	NOTES	2005 HK$'000	2004 HK$'000
Non-current assets			
Property, plant and equipment	16	**207,947**	122,881
Goodwill	17	**–**	807
Prepaid lease payments	18	**1,143**	–
Deferred tax assets	27	**380**	1,924
Deposit for acquisition of investments in subsidiaries		**–**	9,945
		209,470	135,557
Current assets			
Inventories	20	**149,295**	166,262
Trade and other receivables	21	**58,704**	56,100
Prepaid lease payments	18	**32**	–
Held for trading investments	22	**942**	–
Investment in securities	22	**–**	1,389
Pledged bank deposit	23	**51,990**	5,011
Bank balances and cash	23	**42,258**	89,688
		303,221	318,450
Current liabilities			
Trade and other payables	24	**100,445**	93,307
Obligations under a finance lease	26	**–**	113
Dividend payable		**17,542**	17,542
Tax payable		**56,432**	55,293
		174,419	166,255
Net current assets		**128,802**	152,195
Total assets less current liabilities		**338,272**	287,752
Capital and reserves			
Share capital	25	**58,472**	58,472
Reserves		**274,985**	224,503
Equity attributable to equity holders of the Company		**333,457**	282,975
Minority interest		**–**	132
Total equity		**333,457**	283,107
Non-current liabilities			
Obligations under a finance lease	26	**–**	60
Deferred tax liabilities	27	**4,815**	4,585
		4,815	4,645
		338,272	287,752

The financial statements on pages 33 to 73 were approved and authorised for issue by the Board of Directors on 16th March, 2006 and are signed on its behalf by:

Cheng Yung Pun
Chairman

Yu Sui Chuen
Director

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2005

	Attributable to equity holders of the Company										
	Share capital	Share premium	Special reserve	Shareholders' contribution	Share options reserve	Other asset revaluation reserve	Translation reserve	Retained profits	Total	Minority interest	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1st January, 2004	46,272	55,708	771	6,901	–	9,309	(8,663)	127,000	237,298	–	237,298
Currency translation difference recognised directly in equity	–	–	–	–	–	–	(1,388)	–	(1,388)	–	(1,388)
Profit for the year	–	–	–	–	–	–	–	151,810	151,810	(184)	151,626
Total recognised income and expenses for the year	–	–	–	–	–	–	(1,388)	151,810	150,422	(184)	150,238
Dividend paid	–	–	–	–	–	–	–	(99,403)	(99,403)	–	(99,403)
Arising from acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	316	316
Special dividend declared	–	–	–	–	–	–	–	(17,542)	(17,542)	–	(17,542)
Conversion of convertible loan stock	12,200	–	–	–	–	–	–	–	12,200	–	12,200
At 31st December, 2004	58,472	55,708	771	6,901	–	9,309	(10,051)	161,865	282,975	132	283,107
Currency translation difference recognised directly in equity	–	–	–	–	–	–	(857)	–	(857)	–	(857)
Surplus on revaluation of property, plant and equipment	–	–	–	–	–	26,788	–	–	26,788	–	26,788
Deferred tax liability arising on revaluation of property, plant and equipment	–	–	–	–	–	(1,058)	–	–	(1,058)	–	(1,058)
Net income recognised directly in equity	–	–	–	–	–	25,730	(857)	–	24,873	–	24,873
Profit for the year	–	–	–	–	–	–	–	140,929	140,929	(132)	140,797
Total recognised income and expenses for the year	–	–	–	–	–	25,730	(857)	140,929	165,802	(132)	165,670
Recognition of equity-settled share based payments	–	–	–	–	1,625	–	–	–	1,625	–	1,625
Dividend paid	–	–	–	–	–	–	–	(99,403)	(99,403)	–	(99,403)
Special dividend declared	–	–	–	–	–	–	–	(17,542)	(17,542)	–	(17,542)
At 31st December, 2005	58,472	55,708	771	6,901	1,625	35,039	(10,908)	185,849	333,457	–	333,457

The special reserve of the Group represents the difference between the nominal amount of the share capital issued by the Company and the aggregate nominal amount of the share capital of subsidiaries acquired in exchange under a group reorganisation in 1994.

Consolidated Cash Flow Statement

For the year ended 31st December, 2005

	NOTE	2005 HK$'000	2004 HK$'000
OPERATING ACTIVITIES			
Profit before taxation		**138,866**	177,852
Adjustments for:			
Loss on disposal of property, plant and equipment		**69**	20
Unrealised loss on held for trading investments		**447**	–
Unrealised loss on investments in securities		**–**	530
Interest income		**(590)**	(565)
Interest expenses		**35**	–
Depreciation		**35,205**	19,039
Bad debt written off		**–**	975
Revaluation deficit on property, plant and equipment		**804**	–
Impairment loss on goodwill		**807**	–
Share-based payment expenses		**1,625**	–
Discount on acquisition of subsidiaries		**(3,390)**	–
Amortisation of prepaid lease payments		**30**	–
Operating cash flows before movements in working capital		**173,908**	197,851
Decrease (increase) in inventories		**42,980**	(55,405)
Decrease (increase) in trade and other receivables		**19,918**	(13,061)
(Decrease) increase in trade and other payables		**(14,392)**	33,880
Effect of foreign exchange rate changes		**(464)**	(1,009)
Cash generated from operations		**221,950**	162,256
Income taxes refund (paid)		**3,004**	(10,508)
Interest paid		**(35)**	(750)
NET CASH FROM OPERATING ACTIVITIES		**224,919**	150,998
INVESTING ACTIVITIES			
Interest received		**590**	565
Proceeds from disposal of property, plant and equipment		**259**	224
Purchases of property, plant and equipment		**(46,766)**	(14,790)
Purchases of investments in securities		**–**	(1,919)
Acquisition of subsidiaries	28	**(54,134)**	(286)
Deposit paid for acquisition of subsidiaries		**–**	(9,945)
(Increase) decrease in pledged bank deposit		**(46,979)**	24,216
NET CASH USED IN INVESTING ACTIVITIES		**(147,030)**	(1,935)
FINANCING ACTIVITIES			
Dividends paid		**(116,945)**	(113,285)
Repayment of obligations under a finance lease		**(173)**	(106)
Repayment of bank borrowings		**(8,201)**	–
CASH USED IN FINANCING ACTIVITIES		**(125,319)**	(113,391)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(47,430)**	35,672
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**89,688**	54,016
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**42,258**	89,688
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances and cash		**42,258**	89,688

Notes to the Financial Statements

For the year ended 31st December, 2005

1. GENERAL

The Company was incorporated in Bermuda on 24th November, 1993 as an exempted company under the Companies Act 1981 of Bermuda (as amended). The Company is a public limited company and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its parent and ultimate holding company is Suncorp Investments Group Limited ("Suncorp"), a company incorporated in the British Virgin Islands.

The principal activities of the Company are investment holding and those of its principal subsidiaries are set out in note 19.

The financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

In October 1999, there was a court judgment regarding the ownership of Matrix Plastic Manufacturing (Zhongshan) Co., Ltd. ("MPMZ"), an indirect wholly-owned major subsidiary of the Company, in connection with a claim made by a trade creditor, which had subsequently been settled. 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 have sought independent legal advice and 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 is still treated as an indirect subsidiary of the Company.

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for accounting periods beginning on or after 1st January, 2005, other than HKFRS 3 "Business Combinations", HKAS 36 "Impairment of Assets" and HKAS 38 "Intangible Assets" that had been early adopted for the year ended 31st December, 2004. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of the minority interest has been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting years are prepared and presented:

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES (Continued)

Financial Instruments

In the current year, the Group has applied HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 39, which is effective for annual periods beginning on or after 1st January, 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The principal effect resulting from the implementation of HKAS 39 is summarised below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

By 31st December, 2004, the Group classified and measured its debt and equity securities in accordance with the alternative treatment of Statement of Standard Accounting Practice 24 ("SSAP 24"). Under SSAP 24, investments in debt or equity securities are classified as "trading securities", "non-trading securities" or "held-to-maturity investments" as appropriate. Both "trading securities" and "non-trading securities" are measured at fair value. Unrealised gains or losses of "trading securities" are reported in the profit or loss for the period in which gains or losses arise. Unrealised gains or losses of "non-trading securities" are reported in equity until the securities are sold or determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the profit or loss for that period. From 1st January, 2005 onwards, the Group classifies and measures its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method.

On 1st January, 2005, trading securities reported under SSAP 24 was classified as held for trading investment of "financial assets at fair value through profit or loss" category upon the adoption of the HKAS 39. Accordingly, no adjustment to retained profits at 1st January, 2005 was required.

Notes to the Financial Statements

For the year ended 31st December, 2005

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES (Continued)

Owner-occupied Leasehold Interest in Land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the revaluation model. In the current year, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are classified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment. This change in accounting policy does not have effect to prior periods because the amount of land and buildings cannot be allocated reliably between the land and buildings elements at 31st December, 2004.

4. POTENTIAL IMPACT OF NEW STANDARDS NOT YET EFFECTIVE

The Group has not early applied the following Standards or Interpretations ("Ints") that have been issued but are not yet effective. The directors of the Company anticipate that the application of these Standards or Ints will have no material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures[2]
HKAS 21 (Amendment)	Net Investment in a Foreign Operation[2]
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions[2]
HKAS 39 (Amendment)	The Fair Value Option[2]
HKAS 39 & HKFRS 4 (Amendments)	Financial Guarantee Contracts[2]
HKFRS 6	Exploration for and Evaluation of Mineral Resources[2]
HKFRS 7	Financial Instruments: Disclosures[1]
HK(IFRIC)-Int 4	Determining whether an Arrangement Contains a Lease[2]
HK(IFRIC)-Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds[2]
HK(IFRIC)-Int 6	Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment[3]
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]

[1] Effective for annual periods beginning on or after 1st January, 2007.
[2] Effective for annual periods beginning on or after 1st January, 2006.
[3] Effective for annual periods beginning on or after 1st December, 2005.
[4] Effective for annual periods beginning on or after 1st March, 2006.

Notes to the Financial Statements

For the year ended 31st December, 2005

5. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing of the Listing of Securities on 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, as explained in the accounting policies set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of change in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Goodwill

Goodwill arising on acquisitions of subsidiaries for which the agreement date in on or after 1st January, 2004 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of a subsidiary at the date of acquisition. Goodwill is carried at cost less accumulated impairment losses and presented separately in the balance sheet.

Notes to the Financial Statements

For the year ended 31st December, 2005

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill (Continued)

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Excess of an acquirer's interest in the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over cost ("discount on acquisitions").

A discount on acquisition arising on an acquisition of subsidiaries for which an agreement date is on or after 1st January, 2005 represents the excess of the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination. Discount on acquisition is recognised immediately in profit or loss.

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Property, plant and equipment

Leasehold land and buildings and plant and machinery are stated in the balance sheet at their revalued amount, being the fair value on the basis of their existing use at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

Any revaluation increase arising on revaluation of leasehold land and buildings and plant and machinery is credited to the other asset revaluation reserves, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is charged as an expense to the income statement to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

Other assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost or valuation of items of property, plant and equipment, over their estimated useful lives, using the straight line method, at the following rates per annum:

Leasehold land and buildings	2% – 4% or over the lease term, if shorter
Leasehold improvement	2% or over the lease term, if shorter
Plant and machinery	14% – 33.3%
Furniture and equipment	10% – 20%
Motor vehicle	30% – 33.3%
Moulds	33.3%

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets, other than goodwill as stated above, to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.

Notes to the Financial Statements

For the year ended 31st December, 2005

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operation leases.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than functional currency of that entity (foreign currencies) are recorded in its functional currency at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the year in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the year except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the year, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the year in which the foreign operation is disposed of.

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Retirement benefits scheme

The retirement benefits costs representing the contributions payable in respect of the current year to the Mandatory Provident Fund Scheme ("MPFS") and other schemes by the Group, are charged to the income statement as they fall due.

Notes to the Financial Statements

For the year ended 31st December, 2005

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of the two categories, including financial assets at fair value through profit or loss and, loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, pledged deposit and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are mainly financial liabilities other than financial liabilities at fair value through profit and loss ("other financial liabilities"). The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Other financial liabilities

Other financial liabilities including trade and other payables and dividend payable are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Equity-settled share-based payment transactions

Share options granted to employees of the Group

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained profits.

6. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies which are described in note 5, management has made the following estimates that have significant effect on the amounts recognised in the financial statements. The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also discussed below.

Depreciation

The Group depreciates the property, plant and equipment on a straight line basis over the estimated useful life as set out in note 16 to the financial statements, commencing from the date the property, plant and equipment is placed into intended use. The estimated useful life and the dates the Group places the property, plant and equipment into use reflects the directors' estimate of the periods that the Group intend to derive future economic benefits from the use of the Group's property, plant and equipment.

Income taxes

As at 31st December, 2005, a deferred tax asset of HK$380,000 in relation to unused tax losses has been recognised in the Group's balance sheet. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less or more than expected, a reversal or additional recognition of deferred tax asset may arise, which would be recognised in the income statement for the period in which such a reversal or additional recognition takes place.

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade and other receivables, pledged bank desposit, bank balances and cash, trade and other payables, and dividend payable. Details of these financial instruments are disclosed in respective notes. The risk associated with these financial instruments and the polices on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) *Currency risk*

Several subsidiaries of the Company have foreign currency sales, which expose the Group to foreign currency risk. Certain bank balances, pledged bank deposit and trade receivables 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.

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Market risk (Continued)

(ii) Interest rate risk

The Group's bank balances have exposure to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank balances.

In addition, the Group has exposure to fair value interest rate risk through the impact of the rate changes on pledged bank balances which are carried at fixed interest rate. The directors consider the Group's exposure to interest rate risk is not significant as interest bearing bank balances are within short maturity periods.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31st December, 2005 in relation to each class of recognised financial assets is the carrying amount of those asset as stated in the consolidated balance sheet. In order to minimise the credit risk, the Group has monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regards, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The Group's credit risk on its trade receivables is concentrated over some of its major customers, the Group has policies in place to ensure that sales of products are made to those customers with an appropriate credit history.

Notes to the Financial Statements

For the year ended 31st December, 2005

8. SEGMENT INFORMATION

The Group is mainly engaged in the manufacture and trading of gifts, 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 (the "PRC") (other than Hong Kong) and the Socialist Republic of Vietnam ("Vietnam"). The directors of the Company consider the geographical segments by location of customers as primary source of the Group's risks and returns.

The Group's customers are mainly located in United States. The Europe segment is a new geographical segment in the year ended 31st December, 2005. The following table provides an analysis of the Group's segment information by geographical location of the Group's customers:

2005

	United States HK$'000	Europe HK$'000	Canada HK$'000	Hong Kong HK$'000	Others HK$'000	Consolidated HK$'000
TURNOVER						
External sales	808,258	49,334	28,881	5,098	19,473	911,044
RESULTS						
Segment results	247,466	22,623	9,206	1,191	8,452	288,938
Unallocated income						6,754
Unallocated expenses						(156,791)
Finance costs						(35)
Profit before taxation						138,866
Income tax credit						1,931
Profit for the year						140,797
ASSETS						
Segment assets	135,043	5,636	5,541	20,121	3,451	169,792
Unallocated corporate assets						342,899
						512,691
LIABILITIES						
Segment liabilities	34,463	–	1,034	8	676	36,181
Unallocated corporate liabilities						143,053
						179,234

Notes to the Financial Statements

For the year ended 31st December, 2005

8. SEGMENT INFORMATION (Continued)

2004

	United States HK$'000	Canada HK$'000	Hong Kong HK$'000	Others HK$'000	Consolidated HK$'000
TURNOVER					
External sales	618,711	17,594	43,570	6,809	686,684
RESULTS					
Segment results	196,398	4,675	11,749	1,893	214,715
Unallocated income					1,892
Unallocated expenses					(38,755)
Finance costs					(89)
Profit before taxation					177,763
Income tax charge					(26,137)
Profit for the year					151,626
ASSETS					
Segment assets	162,158	3,298	26,561	1,162	193,179
Unallocated corporate assets					260,828
					454,007
LIABILITIES					
Segment liabilities	57,471	1,138	8,534	1,593	68,736
Unallocated corporate liabilities					102,164
					170,900

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 in allocating the capital expenditures, depreciation and amortisation and non-cash expenses by location of customers.

Notes to the Financial Statements

For the year ended 31st December, 2005

8. SEGMENT INFORMATION (Continued)

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

	Carrying amount of segment assets		Additions to property, plant and equipment	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
PRC	**238,910**	217,272	**76,395**	4,373
Vietnam	**109,903**	109,823	**6,190**	10,766
Hong Kong	**132,789**	107,602	**9,419**	62
Macau	**19,489**	17,386	**–**	36
United States	**7,745**	–	**2,990**	–
Canada	**3,475**	–	**6**	–
	512,311	452,083	**95,000**	15,237

9. OTHER INCOME

	2005	2004
	HK$'000	HK$'000
Interest income on bank deposits	**590**	565
Others	**3,631**	1,530
	4,221	2,095

10. FINANCE COSTS

	2005	2004
	HK$'000	HK$'000
Interest on convertible loan stock	**–**	73
Finance lease charges	**7**	16
Interest on bank overdraft	**28**	–
	35	89

Notes to the Financial Statements

For the year ended 31st December, 2005

11. PROFIT BEFORE TAXATION

	2005 HK$'000	2004 HK$'000
Profit before taxation has been arrived at after charging:		
Auditors' remuneration		
– current year	**1,445**	775
– underprovision in previous year	**129**	24
Amortisation of prepaid lease payments	**30**	–
Bad debt written off	**–**	975
Loss on disposal of property, plant and equipment	**69**	20
Unrealised loss on held for trading investments	**447**	–
Unrealised loss on investments in securities	**–**	530
Depreciation of property, plant and equipment		
– owned assets	**35,205**	18,912
– assets held under a finance lease	**–**	127
	35,205	19,039
Revaluation deficit in respect of property, plant and equipment	**804**	–
Net exchange loss	**2,143**	11
Employees share option benefits	**1,625**	–
Staff costs (including wages and directors' remuneration)	**204,382**	112,138

Notes to the Financial Statements

For the year ended 31st December, 2005

12. DIRECTORS' EMOLUMENTS AND EMPLOYEES' EMOLUMENTS

Directors' emoluments

The emoluments paid or payable to each of the six (2004: seven) directors were as follows:

2005		Other emoluments			
	Fees HK$'000	Salaries and allowances HK$'000	Contributions to MPFS HK$'000	Other benefits (Note a) HK$'000	Total HK$'000
Executive directors					
Cheng Yung Pun	–	975	12	–	987
Yu Sui Chuen	–	926	47	542	1,515
Cheng Wing See, Nathalie	–	251	11	–	262
Independent non-executive directors					
Loke Yu alias Loke Hoi Lam	66	–	–	–	66
Mak Shiu Chung, Godfrey	66	–	–	–	66
Wan Hing Pui	66	–	–	–	66
Total for 2005	198	2,152	70	542	2,962

2004		Other emoluments		
	Fees HK$'000	Salaries and allowances HK$'000	Contributions to MPFS HK$'000	Total HK$'000
Executive directors				
Cheng Yung Pun	–	1,013	12	1,025
Yu Sui Chuen	–	870	42	912
Cheng Wing See, Nathalie	–	256	11	267
Independent non-executive directors				
Loke Yu alias Loke Hoi Lam (Note b)	17	–	–	17
Mak Shiu Chung, Godfrey	66	–	–	66
Wan Hing Pui (Note b)	17	–	–	17
Heng Kwoo Seng (Note c)	49	–	–	49
Total for 2004	149	2,139	65	2,353

Notes to the Financial Statements

For the year ended 31st December, 2005

12. DIRECTORS' EMOLUMENTS AND EMPLOYEES' EMOLUMENTS (Continued)

Directors' emoluments (Continued)

Notes:

(a) Other benefits represent employees share option benefits.
(b) Appointed on 30th September, 2004.
(c) Resigned on 30th September, 2004.

No director waived any emoluments in the two years ended 31st December, 2005.

Employees' emoluments

Of the five individuals with the highest emoluments in the Group, one (2004: two) was director of the Company whose emoluments are included in the above disclosures. The emoluments of the remaining four (2004: three) individuals are as follows:

	2005 HK$'000	2004 HK$'000
Salaries and allowances	**15,845**	2,362
Contributions to retirement benefit schemes and MPFS	**394**	25
	16,239	2,387

Their emoluments were within the following bands:

	2005 No. of employees	2004 No. of employees
HK$nil to HK$1,000,000	**–**	3
HK$1,500,001 to HK$2,000,000	**2**	–
HK$6,000,001 to HK$6,500,000	**1**	–
HK$6,500,001 to HK$7,000,000	**1**	–
	4	3

Notes to the Financial Statements

For the year ended 31st December, 2005

13. TAXATION

	2005 HK$'000	2004 HK$'000
Current tax:		
Hong Kong	**3,027**	26,335
Other jurisdiction	**223**	912
	3,250	27,247
(Over) under provision in prior years:		
Hong Kong	**(5,889)**	95
Deferred tax:		
Current year (Note 27)	**708**	(1,205)
Taxation (credit) charge attributable to the Company and its subsidiaries	**(1,931)**	26,137

Hong Kong Profits Tax is calculated at 17.5% (2004: 17.5%) on the estimated assessable profit for the year.

According to the Investment License granted by Vietnam authority to the Vietnam subsidiaries, the Vietnam enterprise income tax rate is 10% on the estimated assessable profits during the operating period. The Vietnam 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.

Vietnam enterprise income tax is calculated at 10% (2004: 5%) on the estimated assessable profit for the year.

Notes to the Financial Statements

For the year ended 31st December, 2005

13. TAXATION (Continued)

The tax (credit) charge for the year can be reconciled to the profit before taxation per the income statement as follows:

	Total	
	2005 HK$'000	2004 HK$'000
Profit before taxation	**138,866**	177,763
Tax at the average income tax rate (Note)	**20,405**	28,770
Tax effect of expenses not deductible for tax purpose	**4,630**	1,131
Tax effect of income not taxable for tax purpose	**(18,966)**	(2,396)
(Over) under provision in respect of prior year	**(5,889)**	95
Tax effect of tax losses/deferred tax assets not recognised	**72**	993
Utilisation of tax losses/deferred tax assets previously not recognised	**(2,239)**	(2,319)
Others	**56**	(137)
Tax effect for the year	**(1,931)**	26,137

Note: The weighted average applicable tax rate for other jurisdictions was 14% (2004: 11%). The weighted average applicable tax rate represents the weighted average tax rate of the operations in different jurisdictions on the basis of the relative amounts of profit or loss before taxation and the relevant statutory rates.

14. DIVIDENDS

	2005 HK$'000	2004 HK$'000
Ordinary shares:		
Interim, paid – HK8 cents (2004: HK8 cents) per share	**46,778**	46,778
Special, declared – HK3 cents (2004: HK3 cents) per share	**17,542**	17,542
Final, proposed – HK9 cents (2004: HK9 cents) per share	**51,732**	52,625
	116,052	116,945

The final dividend of HK9 cents (2004: HK9 cents) per share has been proposed by the directors and is subject to approval by the shareholders in the annual general meeting.

Notes to the Financial Statements

For the year ended 31st December, 2005

15. 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

	2005 HK$'000	2004 HK$'000
Earnings for the purposes of basic earnings per share	**140,929**	151,810
Effect of dilutive potential ordinary shares:		
Interest on convertible loan stock	–	73
Earnings for the purposes of diluted earnings per share	**140,929**	151,883

Number of shares

	2005 '000	2004 '000
Weighted average number of ordinary shares for the purposes of basic earnings per share	**584,720**	570,013
Effect of dilutive potential ordinary shares:		
Convertible loan stock	–	14,707
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**N/A**	584,720

The computation of diluted earnings per share does not assume the exercise of the Company's outstanding share options as the exercise price of those options is higher than the average market price for shares for 2005.

Notes to the Financial Statements

For the year ended 31st December, 2005

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK$'000	Leasehold improvement HK$'000	Plant and machinery HK$'000	Moulds HK$'000	Furniture and equipment HK$'000	Motor vehicle HK$'000	Total HK$'000
COST OR VALUATION							
At 1st January, 2004	82,097	5,686	67,580	–	3,893	423	159,679
Exchange adjustments	(216)	–	(281)	–	(24)	–	(521)
Additions	801	648	12,046	–	1,295	–	14,790
Acquired on acquisition of subsidiaries	–	127	–	–	320	–	447
Disposals	(470)	–	(649)	–	–	–	(1,119)
At 1st January, 2005	82,212	6,461	78,696	–	5,484	423	173,276
Exchange adjustments	(209)	2	(333)	–	(24)	–	(564)
Additions	5,375	3,219	28,161	8,126	1,885	–	46,766
Acquired on acquisition of subsidiaries	19,698	5,350	5,296	16,116	1,479	295	48,234
Disposals	–	(221)	(282)	(147)	(728)	–	(1,378)
Revaluation	2,776	–	(46,365)	–	–	–	(43,589)
At 31st December, 2005	109,852	14,811	65,173	24,095	8,096	718	222,745
Comprising							
At cost	–	14,811	–	24,095	8,096	718	47,720
At valuation – 31st December, 2005	109,852	–	65,173	–	–	–	175,025
	109,852	14,811	65,173	24,095	8,096	718	222,745
DEPRECIATION AND IMPAIRMENT LOSSES							
At 1st January, 2004	5,464	472	24,990	–	1,195	254	32,375
Exchange adjustments	(17)	–	(125)	–	(2)	–	(144)
Provided for the year	2,646	141	15,180	–	945	127	19,039
Eliminated on disposals	(470)	–	(405)	–	–	–	(875)
At 1st January, 2005	7,623	613	39,640	–	2,138	381	50,395
Exchange adjustments	(22)	–	(157)	–	–	–	(179)
Provided for the year	3,240	1,704	19,271	9,611	1,106	273	35,205
Eliminated on disposals	–	(210)	(22)	(114)	(704)	–	(1,050)
Eliminated on revaluation	(10,841)	–	(58,732)	–	–	–	(69,573)
At 31st December, 2005	–	2,107	–	9,497	2,540	654	14,798
CARRYING VALUES							
At 31st December, 2005	109,852	12,704	65,173	14,598	5,556	64	207,947
At 31st December, 2004	74,589	5,848	39,056	–	3,346	42	122,881

The carrying value of leasehold land and buildings, under medium term leases, shown above comprises:

	2005 HK$'000	2004 HK$'000
Land in Hong Kong	**8,610**	–
Land outside Hong Kong	**101,242**	74,589
	109,852	74,589

Notes to the Financial Statements

For the year ended 31st December, 2005

16. PROPERTY, PLANT AND EQUIPMENT (Continued)

The Group's leasehold land and buildings and the plant and machinery in Hong Kong and the PRC as at 31st December, 2005 were revalued by RHL Appraisal Ltd., Chartered Surveyors, at open market value on a continued use basis. The Group's leasehold land and buildings and the plant and machinery in Vietnam as at 31st December, 2005 were revalued by FCC Control and Fumigation Company, Danang Branch, Chartered Surveyors, at open market value on a continued use basis. Both RHL Appraisal Ltd. and FCC Control and Fumigation Company, Danang Branch are not connected with the Group. The revaluation resulted in a surplus and a deficit amounting to approximately HK$26,788,000 and HK$804,000 respectively.

At 31st December, 2005, had all of the leasehold land and buildings and plant and machinery of the Group been carried at historical cost less accumulated depreciation and accumulated impairment losses, their carrying amounts would have been HK$69,886,000 (2004: HK$51,341,000) and HK$50,930,000 (2004: HK$37,004,000) respectively.

In 2004, the motor vehicle was held under a finance lease.

The Group has pledged land and buildings having a net book value of approximately HK$59,580,000 (2004: HK$52,928,000) to a bank for general banking facilities granted to the Group.

17. GOODWILL

As at 31st December, 2005, the directors reassessed the recoverable amount of goodwill arising on acquisition of subsidiaries. Due to continuous losses made by these subsidiaries, the directors, by discounting the future cash flow generated from the subsidiaries with reference to the average borrowing rate of the Group, considered the goodwill of approximately HK$807,000 was fully impaired.

18. PREPAID LEASE PAYMENTS

	2005	2004
	HK$'000	HK$'000
The Group's prepaid lease payments comprise:		
Leasehold land outside Hong Kong under medium term lease	**1,175**	–
Analysed for reporting purposes as:		
Current	**32**	–
Non-current	**1,143**	–
	1,175	–

Notes to the Financial Statements

For the year ended 31st December, 2005

19. INTERESTS IN SUBSIDIARIES

Details of the principal subsidiaries at 31st December, 2005 are as follows:

Name of subsidiary	Place/country of incorporation or registration/ operation	Issued and fully paid share capital/ registered capital/ contributed legal capital	Class of capital held	Proportion of nominal value of issued capital/ registered capital/ contributed legal capital held by the Company	Principal activities
Associated Traders Hong Kong Limited	Hong Kong	HK$10,000	Ordinary share	100%	Trading of gifts and novelties
Besco Enterprises Limited	Hong Kong	HK$10,000	Ordinary share	100%	Manufacture of gifts and novelties
Goldpex Technology Limited	The British Virgin Islands	US$10	Ordinary share	100%	Products design
Keengold Enterprises Limited	The British Virgin Islands	US$10	Ordinary share	100%	Investment holding
Keyhinge Holdings Limited	Hong Kong	HK$10,000	Ordinary share	100%	Trading of gifts and investment holding
Keyhinge Procurement Limited	Hong Kong	HK$10,000	Ordinary share	100%	Purchasing
Keyhinge Toys Company Limited	The British Virgin Islands	US$10	Ordinary share	100%	Trading of gifts and novelties
Keyhinge Toys Vietnam Company Limited	Vietnam	US$5,504,956	Capital contribution	100%	Manufacture of gifts and novelties
Matrix International Holdings Limited	The British Virgin Islands	US$6	Ordinary share	100%	Investment holding
Matrix Investments Group Limited	The British Virgin Islands	US$10	Ordinary share	100%	Investment holding
Matrix Manufacturing Limited	The British Virgin Islands	US$1	Ordinary share	100%	Investment holding

Notes to the Financial Statements

For the year ended 31st December, 2005

19. INTERESTS IN SUBSIDIARIES (Continued)

Name of subsidiary	Place/country of incorporation or registration/ operation	Issued and fully paid share capital/ registered capital/ contributed legal capital	Class of capital held	Proportion of nominal value of issued capital/ registered capital/ contributed legal capital held by the Company	Principal activities
Matrix Manufacturing Vietnam Company Limited	Vietnam	US$3,800,000	Capital contribution	100%	Manufacture of gifts and novelties
Matrix Plastic Manufacturing (Zhongshan) Co., Ltd	PRC **	US$5,910,000	Capital contribution	100%	Manufacture of gifts and novelties
Matrix Resources Enterprise Limited	Hong Kong	HK$10,000	Ordinary share	100%	Provision of management services
Toytrix Company Limited	Hong Kong	HK$2	Ordinary share	100%	Manufacture of printing materials
Matrix Development Group Limited	The British Virgin Islands	US$10	Ordinary Share	100%	Investment holding
Matrix Media Communications Limited	Hong Kong	HK$2	Ordinary share	100%	Investment holding
深圳智又盈投資顧問有限公司	PRC *	RMB2,775,000	Paid up registered capital	70%	Marketing and promotional services
Keyhinge Enterprises (Macao Commercial Offshore) Company Limited	Macau	MOP100,000	Quota capital	100%	Purchasing and trading of gifts and novelties
Keysuccess International Limited	The British Virgin Islands	US$1	Ordinary share	100%	Investment holding
Maxguard Limited	The British Virgin Islands	US$10	Ordinary share	100%	Investment holding

19. INTERESTS IN SUBSIDIARIES (Continued)

Name of subsidiary	Place/country of incorporation or registration/ operation	Issued and fully paid share capital/ registered capital/ contributed legal capital	Class of capital held	Proportion of nominal value of issued capital/ registered capital/ contributed legal capital held by the Company	Principal activities
Shelcore Hong Kong Limited	Hong Kong	HK$10,000	Ordinary share	100%	Manufacture and trading of toys
Shelcore, Inc.	United States of America	USD1,000	Common stock	100%	Trading
Shelcore Canada Limited	Canada	CAD957,085	Common share	100%	Trading
Mediaway Technology Company Limited	PRC **	HK$500,000	Paid up registered capital	100%	Products research and development

* Sino-foreign equity joint venture.
** Wholly-owned foreign enterprise.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

All of the subsidiaries are owned indirectly by the Company except for Matrix International Holdings Limited, Matrix Investments Group Limited and Matrix Development Group Limited which are owned directly.

None of the subsidiaries had any debt securities outstanding at the end of the year.

Notes to the Financial Statements

For the year ended 31st December, 2005

20. INVENTORIES

	2005 HK$'000	2004 HK$'000
Raw materials	**43,693**	53,143
Work in progress	**33,781**	29,161
Finished goods	**71,821**	83,958
	149,295	166,262

All of the inventories above are carried at cost.

21. TRADE AND OTHER RECEIVABLES

The trade and other receivables include trade receivables of HK$46,021,000 (2004: HK$44,574,000). 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:

	2005 HK$'000	2004 HK$'000
0 – 60 days	**40,734**	44,239
61 – 90 days	**1,443**	141
> 90 days	**3,844**	194
	46,021	44,574

The fair value of the Group's trade and other receivables at 31st December, 2005 was approximate to the corresponding carrying amount.

Included in the Group's trade receivables, there are trade receivables of HK$43,900,000 denominated in the United States dollar other than the functional currency of the Group.

22. HELD FOR TRADING INVESTMENTS/INVESTMENT IN SECURITIES

The amount represents equity investments listed in United States of America, stated at quoted market bid price.

Notes to the Financial Statements

For the year ended 31st December, 2005

23. PLEDGED BANK DEPOSIT AND BANK BALANCES

The amount represents deposit pledged to a bank to secure a banking facility of short term borrowing granted to the Group and is therefore classified as a current asset. The pledged bank deposit carried average fixed interest rate of 3% and will be released upon the settlement of relevant bank borrowings. The bank balances carried interest at prevailing interest rates.

The fair value of pledged bank deposits and bank balances at 31st December, 2005 approximates to the corresponding carrying amount.

Included in the Group's pledged bank deposit and bank balances, there are pledged bank deposit of HK$46,872,000 denominated in the Japanese Yen and bank balances of HK$34,866,000 denominated in the United States dollar other than the functional currency of the Group.

24. TRADE AND OTHER PAYABLES

The trade and other payables include trade payables of HK$57,434,000 (2004: HK$71,536,000).

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

	2005 HK$'000	2004 HK$'000
0 – 60 days	**53,944**	69,482
61 – 90 days	**2,723**	1,603
> 90 days	**767**	451
	57,434	71,536

The fair value of the Group's trade and other payables at 31st December, 2005 approximates to the corresponding carrying amount.

25. SHARE CAPITAL

	Number of shares			
	2005 '000	2004 '000	**2005 HK$'000**	2004 HK$'000
Ordinary shares of HK$0.1 each				
Authorised				
At the beginning of the year	**1,000,000**	700,000	**100,000**	70,000
Increased at 20th April, 2004	**–**	300,000	**–**	30,000
At the end of the year	**1,000,000**	1,000,000	**100,000**	100,000
Issued and fully paid				
At the beginning of the year	**584,720**	462,720	**58,472**	46,272
Conversion of convertible loan stock	**–**	122,000	**–**	12,200
At the end of the year	**584,720**	584,720	**58,472**	58,472

Notes to the Financial Statements

For the year ended 31st December, 2005

26. OBLIGATIONS UNDER A FINANCE LEASE

	Minimum lease payments		Present value of minimum lease payments	
	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000
Within one year	–	120	–	113
In the first to second year inclusive	–	61	–	60
	–	181	–	173
Less: Future finance charges	–	(8)	–	–
Present value of lease obligations	–	173	–	173
Less: Amount due for settlement within 12 months shown under current liabilities			–	(113)
Amount due for settlement after 12 months			–	60

It was the Group's policy to lease its motor vehicle under finance lease. The lease term was 4 years. For the year ended 31st December, 2005, the effective borrowing rate was 3.68% per annum. Interest rate was fixed at the contract date. The lease was on a fixed repayment basis and no arrangement has been entered into for contingent rental payments.

The Group's obligations under a finance lease were secured by the lessor's charge over the leased asset. The fair value of the obligations under a finance lease as at 31st December, 2004, was approximate to the corresponding carrying amount.

Notes to the Financial Statements

For the year ended 31st December, 2005

27. DEFERRED TAXATION

The following are the major deferred tax liabilities and (assets) recognised and movements thereon during the current and prior reporting periods:

	Accelerated tax depreciation	Accelerated accounting depreciation	Revaluation of property, plant and equipment	Retirement benefit obligation	Tax losses	Others	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1st January, 2004	2,035	(103)	1,975	(43)	–	–	3,864
Charge (credit) to income for the year	575	(203)	–	(80)	(1,330)	(167)	(1,205)
Exchange difference	–	2	–	–	–	–	2
At 31st December, 2004	2,610	(304)	1,975	(123)	(1,330)	(167)	2,661
Charge (credit) to income for the year	331	(90)	–	52	284	131	708
Charge (credit) to equity for the year	–	–	1,058	–	–	–	1,058
Exchange difference	–	3	–	1	2	2	8
At 31st December, 2005	2,941	(391)	3,033	(70)	(1,044)	(34)	4,435

For the purposes of balance sheet presentation, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2005	2004
	HK$'000	HK$'000
Deferred tax liabilities	**4,815**	4,585
Deferred tax assets	**(380)**	(1,924)
	4,435	2,661

At the balance sheet date, the Group has unused estimated tax losses of HK$57,095,000 (2004: HK$49,049,000) available for offset against future profits. A deferred tax asset had been recognised in respect of HK$9,422,000 (2004: HK$11,166,000) of such losses. No deferred tax asset has been recognised in respect of the remaining estimated tax losses of HK$47,673,000 (2004: HK$37,883,000) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of HK$10,216,000 (2004: HK$17,349,000) that will expire in 2006. Other losses may be carried forward indefinitely.

Notes to the Financial Statements

For the year ended 31st December, 2005

28. ACQUISITION OF SUBSIDIARIES

Acquisition of Subsidiaries in 2005

On 27th January, 2005, the Group acquired 100% of the issued share capital of each of Shelcore, Inc., Shelcore Hong Kong Limited, Shelcore Canada Limited and Shelcore UK Limited (together referred to as "Shelcore Companies"). The acquisition has been accounted for by the purchase method of accounting. The principal activity of the Shelcore Companies is engaged in the manufacturing and trading of infant and pre-school children toys.

The net assets acquired in the transaction, and the discount on acquisition arising, are as follows:

	Acquirees' carrying amount before combination HK$'000	**Fair values** HK$'000
Net assets acquired		
Property, plant and equipment	48,234	48,234
Prepaid lease payments	1,205	1,205
Inventories	26,013	26,013
Trade and other receivables	22,522	22,522
Bank balances and cash	6,239	6,239
Trade and other payables	(21,530)	(21,530)
Tax payable	(774)	(774)
Bank borrowings	(8,201)	(8,201)
	73,708	73,708
Discount on acquisition of subsidiaries		(3,390)
		70,318
Satisfied by:		
Cash		60,373
Deposit for acquisition of investments in subsidiaries		9,945
		70,318
Net cash outflow arising on acquisition:		
Cash consideration		(60,373)
Cash and cash equivalents acquired		6,239
		(54,134)

The discount on acquisition arising on the above acquisition is attributable to the consideration agreed by both parties that are less than the fair value of the net assets acquired.

Notes to the Financial Statements

For the year ended 31st December, 2005

28. ACQUISITION OF SUBSIDIARIES (Continued)

Acquisition of Subsidiaries in 2005 (Continued)

Shelcore Companies contributed approximately HK$235.8 million turnover and loss of approximately HK$3.3 million to the Group's profit before tax for the year between the date of acquisition and the balance sheet date.

If the acquisition had been completed on 1st January, 2005, total turnover of the Group for the year would have been approximately HK$919.9 million, and profit for the year would have been approximately HK$133.7 million. The pro forma information is for illustrative purposes only and is not necessarily an indicative turnover and profit for the year of the Group that actually would have been achieved had the acquisition been completed on 1st January, 2005, nor is it intended to be a projection of future results.

Acquisition of Subsidiaries in 2004

On 31st October, 2004, the Group acquired 70% interest in 深圳智又盈投資顧問有限公司 (formerly known as 深圳市智又盈投資顧問有限公司) ("深圳智又盈") and its subsidiary. The acquisition has been accounted for by the purchase method. The amount of goodwill arising as a result of the acquisition was HK$807,000.

	Acquirees' carrying amount before combination HK$'000	**Fair values** HK$'000
Net assets acquired		
Property, plant and equipment	447	447
Trade and other receivables	1,670	1,670
Bank balances and cash	1,261	1,261
Trade and other payables	(2,322)	(2,322)
Minority interest	(316)	(316)
	740	740
Goodwill		807
		1,547
Satisfied by:		
Cash		1,547
Net cash outflow arising on acquisition:		
Cash consideration		(1,547)
Bank balances and cash acquired		1,261
		(286)

Notes to the Financial Statements

For the year ended 31st December, 2005

28. ACQUISITION OF SUBSIDIARIES (Continued)

Acquisition of Subsidiaries in 2004 (Continued)

The subsidiary acquired during the year of 2004 did not contribute significantly to the Group's cash flows, turnover and profit from operations.

Unaudited pro forma turnover and results of operations for 深圳智又盈 have not been presented as the amounts were insignificant to the Group.

29. MAJOR NON-CASH TRANSACTION

During the year ended 31st December, 2005, there was no major non-cash transaction.

In February 2004, convertible loan stock of HK$12,200,000 was converted into 122,000,000 shares of HK$0.10 each in the Company.

30. OPERATING LEASE COMMITMENTS

	2005	2004
	HK$'000	HK$'000
Minimum lease payments in respect of land and buildings under operating leases recognised in the income statement for the year	**5,323**	2,267

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2005	2004
	HK$'000	HK$'000
Within one year	**6,325**	1,162
In the second to fifth year inclusive	**5,799**	1,329
After five years	**4,582**	4,250
	16,706	6,741

Operating lease payments represent rentals payable by the Group for its interest in leasehold lands of factory properties and office properties. Leases are negotiated for a term of 8 to 20 years for leasehold lands of factory properties and a term of 1 to 3 years for office properties. The rentals are fixed throughout the lease period.

Notes to the Financial Statements

For the year ended 31st December, 2005

31. CAPITAL COMMITMENTS

	2005 HK$'000	2004 HK$'000
Capital expenditure in respect of the acquisition of property, plant and equipment		
– contracted for but not provide in the financial statements	**6,688**	1,677
– authorised but not contracted for	**1,114**	–
Capital expenditure in respect of the acquisition of subsidiaries contracted for but not provided in the financial statements	**–**	58,114

32. RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following related party transactions:

	2005 HK$'000	2004 HK$'000
Interest paid or payable on convertible loan stock to ultimate holding company	**–**	73
Rental paid or payable to a related company	**144**	144
Purchases of plant and equipment from a related company	**703**	920

Mr. Cheng, a director of the Company, has a beneficial interest in ultimate holding company and the related companies.

Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2005 HK$'000	2004 HK$'000
Salaries and other short term employee benefits	**8,136**	4,806
Termination benefits	**138**	111
Share-based payments	**1,625**	–
	9,899	4,917

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

33. SHARE BASED PAYMENT TRANSACTION

Equity-settled share option scheme

Pursuant to the Company's share option scheme (the "Scheme"), the Company's directors may grant options to any full time employees, executives or officers, directors of the Group and any suppliers, consultants, agents or advisers who have contributed to the business and operation of the Group to subscribe for the shares in the Company at a price equal to the highest of (i) the official closing price of the shares as stated in the Stock Exchange's daily quotation sheets on the date of grants; (ii) the average of the official closing price of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares to be issued to each participant in any twelve-month period must not exceed 1% of the share capital of the Company in issue, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK$5 million must be approved in advance by the Company's shareholders.

Options granted must be taken up not later than 28 days after the date of grant, upon payment of HK$1 per option. The period during which an option may be exercised will be determined by the board of directors of the Company at its absolute discretion, save that no option may be exercised more than 10 years after it has been granted. No option may be granted more than 10 years after the date of approval of the Scheme.

As at 31st December, 2005, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 8,768,000 (2004: nil), representing 1.5% (2004: nil) of the shares of the Company in issue at that date. Options may be exercised at any time from three months from the date of grant of the share option, 27th January, 2006 to 26th January, 2009.

Details of specific category of share options are as follows:

	Date of grant	Vesting period	Exercise period	Exercise price
2005	27th October, 2005	3 months	27th January, 2006 to 26th January, 2009	HK$2.34

The following table discloses movements of the Company's share options held by director and chief executive during the year:

	Outstanding at 1/1/05	Granted during year	Exercised during year	Outstanding at 31/12/05
2005	–	8,768,000	–	8,768,000

Notes to the Financial Statements

For the year ended 31st December, 2005

33. SHARE BASED PAYMENT TRANSACTION (Continued)

Equity-settled share option scheme (Continued)

During the year ended 31st December, 2005, options were granted on 27th October, 2005. The estimated fair value of the options granted was HK$2,437,000. No option was granted during the year ended 31st December, 2004.

The fair value was calculated using the Black-Scholes pricing model. The inputs into the model were as follows:

	2005
Weighted average share price	HK$2.26
Exercise price	HK$2.34
Expected volatility	30%
Expected life	3 years
Risk-free rate	4.224%
Expected dividend yield	8.6%

Expected volatility was determined by using the historical volatility of the Company's share price over the previous one year.

Because the Black-Scholes pricing model requires the input of highly substantive assumptions, including the volatility of share price, changes in subjective input assumptions can materially affect the fair value estimate.

The Group recognised the total expense of HK$1,625,000 for the year ended 31st December, 2005 (2004: nil) in relation to share options granted by the Company.

34. RETIREMENT BENEFIT SCHEMES AND MANDATORY PROVIDENT FUND

The Group operates a MPFS for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll cost to the scheme which is matched by the employee.

The eligible employees of the subsidiaries in the PRC are members of pension schemes operated by the Chinese local government. The subsidiaries are required to contribute certain percentages of the relevant part of the payroll of these employees to the pension schemes to fund the benefits.

Eligible employees in Vietnam currently participate in a defined contribution pension scheme operated by the local municipal government. The calculation of contributions is based on certain percentage of the employees' payroll.

Notes to the Financial Statements

34. RETIREMENT BENEFIT SCHEMES AND MANDATORY PROVIDENT FUND (Continued)

There are retirement plans established in the United States for all domestic employees who meet certain eligibility requirements as to age and length of service.

The retirement benefits cost charged to income statement of approximately HK$5,259,000 (2004: HK$2,339,000) represents contributions payable to the schemes by the Group at the rates specified in the rules of the various schemes.

35. POST BALANCE SHEET EVENT

Subsequent to the balance sheet date, the Company repurchased a total of 9,924,000 ordinary shares of the Company of HK$0.10 each through the Stock Exchange as follows:

Month of repurchase	Number of ordinary shares repurchased of HK$0.1 each	Price per share		Aggregate consideration (before expenses) paid
		Highest	Lowest	
		HK$	HK$	HK$
January 2006	9,924,000	2.15	1.98	20,369,910

The above shares were cancelled upon repurchases and the issued share capital of the Company was reduced by the par value thereof.

Financial Summary

	Year ended 31st December,				
	2001	2002	2003	2004	**2005**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
RESULTS					
Turnover	195,039	395,644	500,357	686,684	**911,044**
Profit before taxation	40,822	114,941	157,478	177,763	**138,866**
Income tax (charge) credit	(5,147)	(13,002)	(26,312)	(26,137)	**1,931**
Profit for the year	35,675	101,939	131,166	151,626	**140,797**
Attributable to:					
Equity holders of the Company	35,675	101,939	131,166	151,810	**140,929**
Minority interest	–	–	–	(184)	**(132)**
	35,675	101,939	131,166	151,626	**140,797**
	HK$	HK$	HK$	HK$	**HK$**
Earnings per share					
Basic	0.25	0.39	0.36	0.27	**0.24**
Diluted	0.06	0.18	0.23	0.26	**N/A**

	At 31st December,				
	2001	2002	2003	2004	**2005**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
ASSETS AND LIABILITIES					
Total assets	177,861	265,992	363,748	454,007	**512,691**
Total liabilities	(109,433)	(102,175)	(126,450)	(170,900)	**(179,234)**
Minority interest	–	–	–	(132)	**–**
Shareholders' equity	68,428	163,817	237,298	282,975	**333,457**

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN THAT the Annual General Meeting of Matrix Holdings Limited (the "Company") will be held at Kowloon Room I, Mezzanine Floor, Kowloon Shangri-La Hotel, 64 Mody Road, Tsimshatsui East, Kowloon, Hong Kong on 25th April, 2006 at 2:30 p.m. for the following purposes:

1. To receive and consider the audited Financial Statements for the year ended 31st December, 2005 together with the Reports of the Directors and Auditors thereon.

2. To declare a Final Dividend.

3. To re-elect Directors and authorize the Board of Directors to fix their remuneration.

4. To re-appoint Auditors and authorize the Board of Directors to fix their remuneration.

5. As special business, to consider and, if thought fit, pass with or without amendments, the following resolutions as Ordinary Resolutions-

ORDINARY RESOLUTIONS

A. "**THAT**

(a) subject to paragraph (c) of this Resolution, pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules"), the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options which might require the exercise of such powers be and is hereby generally and unconditionally approved;

(b) the approval in paragraph (a) of this Resolution shall authorize the Directors during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;

(c) the aggregate nominal amount of share capital allotted, issued or otherwise dealt with or agreed conditionally or unconditionally to be allotted, issued or otherwise dealt with (whether pursuant to an option or otherwise) by the Directors of the Company pursuant to the approval in paragraph (a) of this Resolution, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined); or (ii) an issue of shares of the Company upon the exercise of rights of subscription or conversion under the terms of any warrants of the Company or any securities which are convertible into shares of the Company; or (iii) the exercise of the share option scheme adopted and approved by the Company at the general meeting of the Company held on 17th December, 2002; or (iv) an issue of shares in lieu of the whole or part of the dividend on shares of the Company in accordance with the Bye-laws of the Company, shall not exceed 10 per cent of the aggregate nominal amount of the issued share capital of the Company at the date of passing this Resolution, and the said approval shall be limited accordingly; and

Notice of Annual General Meeting

(d) for the purposes of this Resolution:

"Relevant Period" means the period from the passing of this Resolution until whichever is the earlier of:

(i) the conclusion of the next annual general meeting of the Company; or

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the Bye-laws of the Company or any applicable law to be held; or

(iii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders of the Company in general meeting; and

"Rights Issue" means an offer of shares or offer or issue of warrants or options to subscribe for shares open for a period fixed by the Directors of the Company to holders of shares whose names appear on the register of members of the Company on a fixed record date in proportion to their then holdings of such shares (subject to such exclusions or other arrangements as the Directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognized regulatory body or any stock exchange in, any territory applicable to the Company)."

B. "**THAT**

(a) subject to paragraph (b) of this Resolution, the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) of all powers of the Company to repurchase its own shares on the Stock Exchange or any other stock exchange on which the shares of the Company may be listed and is recognized by the Securities and Future Commission and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and the requirements of the Listing Rules as amended from time to time, be and is hereby generally and unconditionally approved;

(b) the aggregate nominal amount of the shares of the Company which the Company is authorized to repurchase pursuant to the approval in paragraph (a) of this Resolution during the Relevant Period shall not exceed 10 per cent of the aggregate nominal amount of the issued share capital of the Company at the date of passing this Resolution, and the said approval shall be limited accordingly; and

Notice of Annual General Meeting

(c) for the purposes of this Resolution:

"Relevant Period" means the period from the passing of this Resolution until whichever is the earlier of:

(i) the conclusion of the next annual general meeting of the Company; or

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the Bye-laws of the Company or any applicable law to be held; or

(iii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders of the Company in general meeting."

C. "**THAT** conditional upon the passing of the Resolutions set out in paragraph 5A and 5B of the notice convening this meeting, the general mandate granted to the Directors of the Company to allot, issue and deal with additional shares of the Company pursuant to the Resolution set out in paragraph 5A of the notice convening this meeting be and is hereby extended by the addition to the aggregate nominal amount of the share capital of the Company which may be allotted, issued or otherwise dealt with or agreed conditionally or unconditionally to be allotted, issued or otherwise dealt with by the Directors of the Company pursuant to such general mandate of an amount representing the aggregate nominal amount of the shares of the Company repurchased by the Company under the authority granted pursuant to the Resolution set out in paragraph 5B of the notice convening this meeting."

By Order of the Board
Lai Mei Fong
Company Secretary

Hong Kong, 24th March, 2006

Notice of Annual General Meeting

Notes:

1. A member entitled to attend and vote at the above meeting (or at any adjournment thereof) is entitled to appoint one or more proxies to attend and vote in his stead. A proxy need not be a member of the Company.

2. Where there are joint registered holders of any shares, any one of such persons may vote at the above meeting (or at any adjournment thereof), either personally or by proxy, in respect of such shares as if he were solely entitled thereto; but if more than one of such joint holders be present at the above meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof.

3. In order to be valid, the forms of proxy, together with the power of attorney or other authority (if any) under which it is signed or a certified copy of that power of attorney or authority (such certification to be made by either a notary public or a solicitor qualified to practise in Hong Kong), must be deposited with the branch share registrar of the Company in Hong Kong, Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not less than 48 hours before the time fixed for holding the above meeting or any adjournment thereof.

4. The register of members of the Company will be closed from 20th April, 2006 (Thursday) to 25th April, 2006 (Tuesday), both days inclusive, during which period no transfer of shares can be registered. In order to qualify for the proposed final dividends and attending and voting at the above meeting or any adjournment thereof, all share transfers, accompanied by the relevant share certificates, must be lodged with the branch share registrar of the Company in Hong Kong, Secretaries Limited at the above address for registration not later than 4:00 p.m. on 19th April, 2006.

5. An explanatory statement containing further details regarding the proposed Resolutions set out in the notice (except Resolutions 1 to 4) convening the above meeting will be sent to members of the Company together with the annual report 2005.

6. The translation into Chinese language of this notice is for reference only. In case of any inconsistency, the English version shall prevail.

7. For the sake of good corporate governance practice, the Chairman intends to demand poll voting for all the resolutions set out in the notice of the annual general meeting.