MATRIX

Matrix Holdings Limited

美力時集團有限公司

(Incorporated in Bermuda with limited liability)

Stock Code: 1005

2006 Annual Report

OUR MISSION

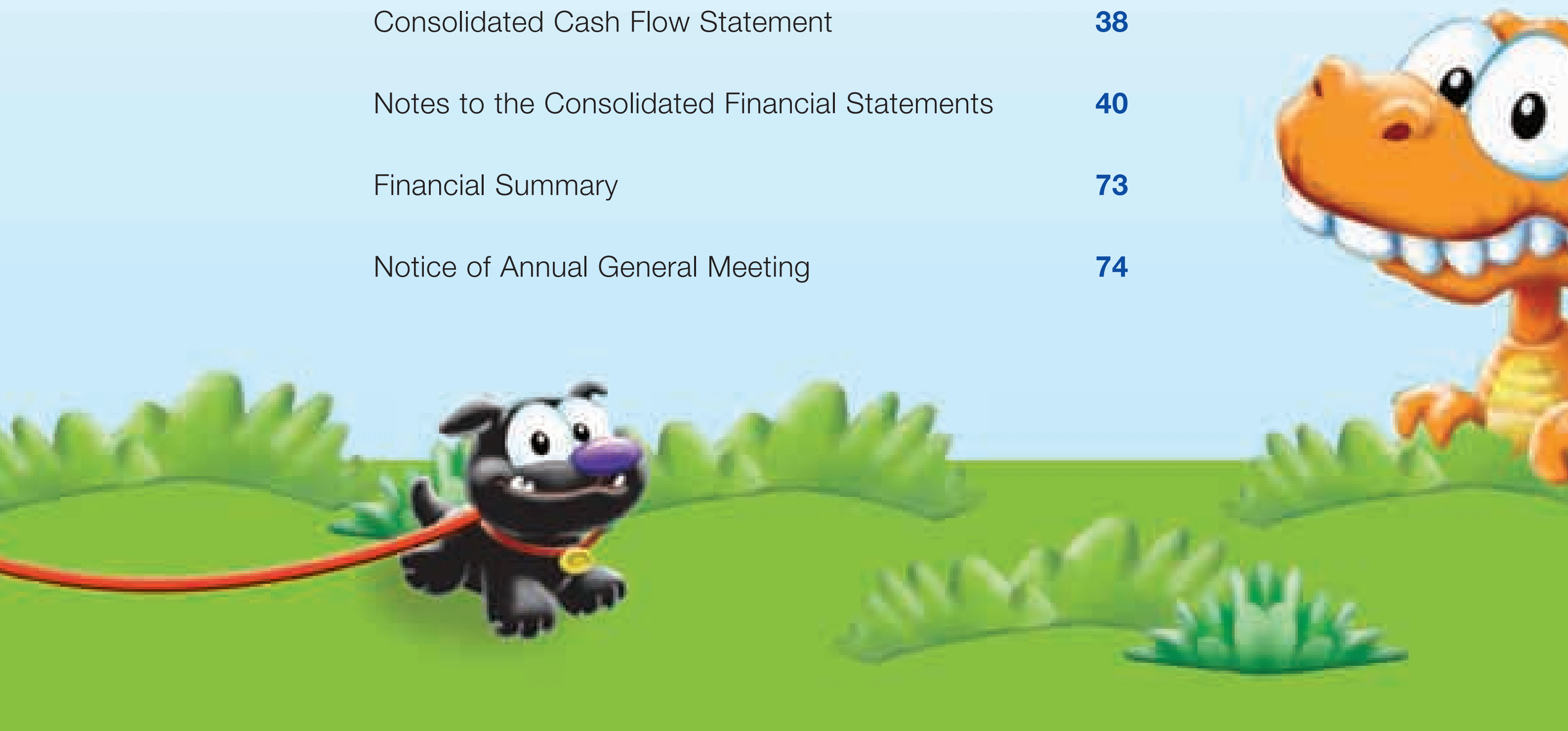
- To enhance customer satisfaction through delivery of high quality products that meet world safety standard

- 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

Danang City, Vietnam

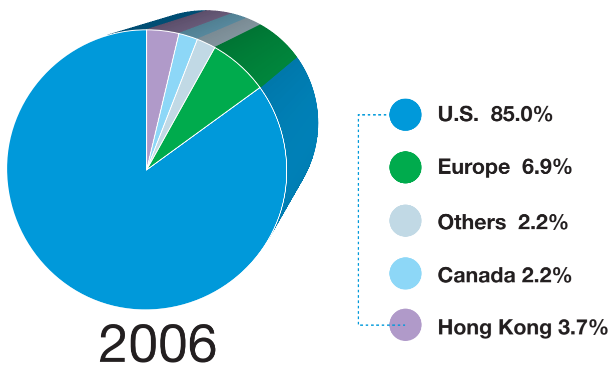
MATRIX is a well-established manufacturer of plastic, die-cast and plush toys, with vertically integrated production process including mould making, manufacturing and design. Currently, the Group operates four plants — two in Danang City, Vietnam, one in Zhongshan and one in Shenzhen, the PRC, with total production capacity of approximately 1.5 million units per day. As at 31st December, 2006, the Group employed approximately 19,000 staff in Hong Kong, Macau, PRC, Vietnam, United States of America, Canada and Europe. The Shelcore Companies, well-established US-based toy companies designing, manufacturing and selling plastic toys for infant and pre-school children for almost 30 years, were merged into the Group since 2005.

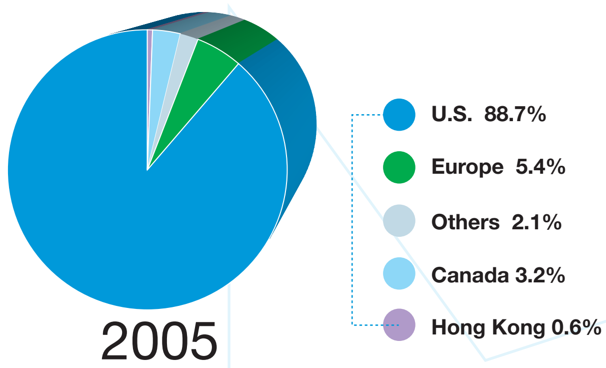
Zhongshan, the PRC

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

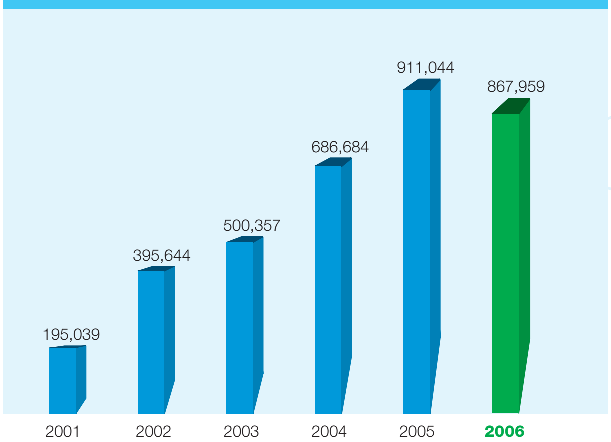
(HK$'000, except where otherwise stated)	2006	2005	% Change
CONSOLIDATED			
Turnover	**867,959**	911,044	-4.7
Profit attributable to equity holders of the Company	**100,646**	140,929	-28.6
Basic earnings per share	**HK17 cents**	HK24 cents	-29.2
Dividend per share			
Interim, paid	**HK8 cents**	HK8 cents	—
Special, declared	**HK3 cents**	HK3 cents	—
Final, proposed	**HK9 cents**	HK9 cents	—
Gross Profit Margin (%)	**32.0**	32.6	
Net Profit Margin (%)	**11.6**	15.5	
Gearing Ratio (%)	**4.5**	0.0	
Current Ratio	**1.50**	1.74	
Quick Ratio	**0.62**	0.88	

TURNOVER BREAKDOWN BY MARKET

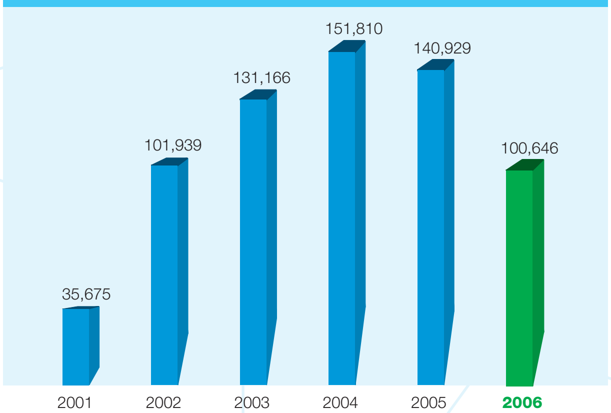




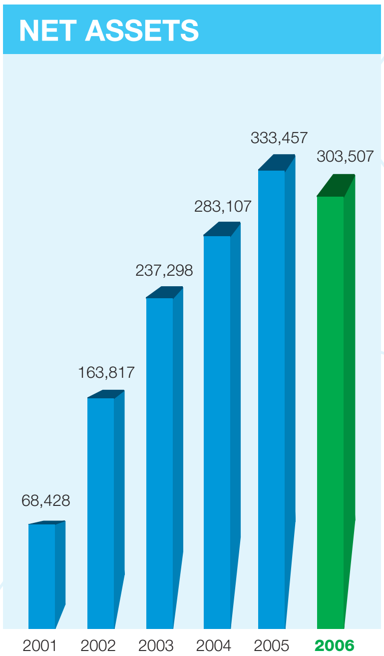
TURNOVER

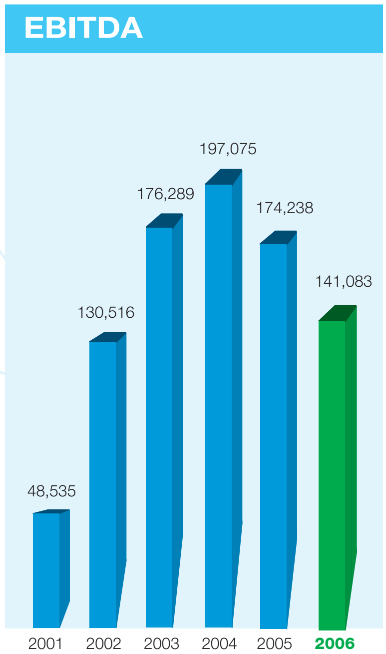


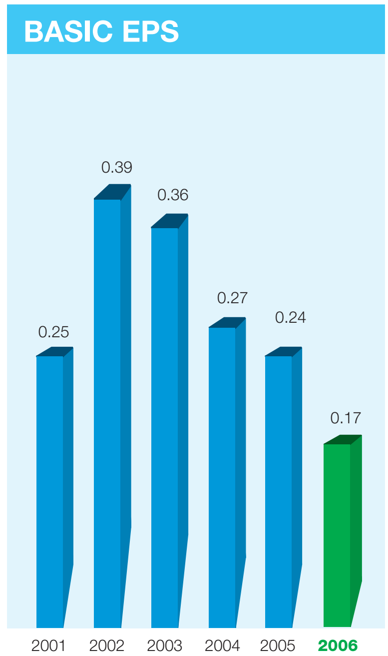
PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY



Financial Highlights







DEFINITIONS

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

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

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

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

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

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

AUDITOR

Deloitte Touche Tohmatsu
35th Floor
One Pacific Place
88 Queensway
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, 2006.

During the year under review, the Group recorded a decrease of consolidated turnover by 4.7% amounted to approximately HK$867,959,000 and a drop in the profit attributable to equity holders of the Company by 28.6% amounted to approximately HK$100,646,000.

The global toy industry and retail toy businesses remained difficult in the past year. In common with many toy manufacturers, the Group's profit had been squeezed by the shortage and unstable supply of labour as well as increase in minimum wages in the Pearl River Delta Region, the increase in other Renminbi-denominated production costs owing to the appreciation of Renminbi currency rate and the exorbitant oil prices that kept material costs high. Besides, the sustained pricing pressure of the customers of infant and pre-school children products resulting from the intensified retail competition had aggravated the difficult operating environment to the Group. These adverse market conditions inevitably affected the profitability of the Group.

In addition, having been adversely affected by the conservative ordering policy by certain customers and the sales policy and seasonal nature of the customers' orders for the infant and pre-school children products, the purchase orders and delivery date of toy products were deferred that causing seasonal low sales turnover and weighting down the Group's overall performance.

To compensate the adverse impact brought by the above unfavourable factors, the Group reinforced the cost control and implemented production management measures including sharing of quality control, warehousing and distribution capabilities, particularly subsequent to the amalgamation of the Original Design Manufacturing ("ODM") operation. In addition, the Group adjusted the price of products as much as possible to reduce the cost pressure and strengthened the factory management by integrating and relocating the warehouse and plant operations.

Looking forward, the Group would continue to implement various business plans such as developing retail business in the PRC potential markets and grow strategically through acquisitions in the forthcoming years. With the groundwork being laid on our core toy manufacturing business and the Group's sound financial position, it is optimistic that the Group would be able to maintain a steady 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 to the Group continuing to deliver sustainable returns to all our stakeholders in future.

Cheng Yung Pun
Chairman

Hong Kong, 18th April, 2007

RESULTS

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

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

DIVIDENDS

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

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

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

BUSINESS REVIEW

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

Management Discussion and Analysis

TOYS OPERATION

Manufacturing

PRC Plant

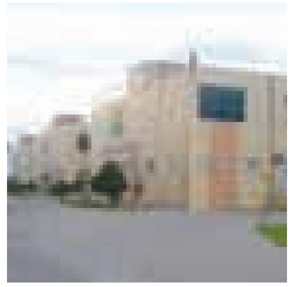
Zhongshan — Plant

Zhongshan Plant — Warehouse

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

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

Vietnam Plant



Danang City — First Plant

Danang City, Second Plant — Leisure Centre

Danang City, Second Plant — Production Workshop

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

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

Danang City — Second Plant

Shelcore Operation

U.S.A. — Office

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

During the year under review, the Group continued to reduce operation costs by minimizing outsourcing and integrating ODM production operation to maximize manufacturing profits. In addition, the Group continued to maximize the full potential of the distribution channels spanning over the existing markets in North America and those newly developed markets by implementing emerging market pricing strategy and effective advertising and promotion campaigns so as to reposition the Group as truly global company and strengthen its brand awareness during the year under review.

H. K. — Showroom

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

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

Retail Business

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

SHELCORE

SHAKE 'N BOBBLES

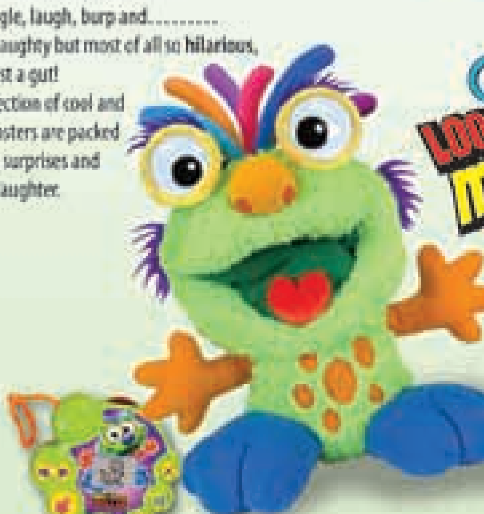
Come into this action-filled world of cool bobble kids and bring their world to life with a touch on their head! Shake 'N Bobbles is a fantasy world of fun characters, vehicles and play sets that come to life through actions, lights, sounds and music.

Welcome to this preschool-friendly world full of interaction, giggles, fun and surprise! The Toddler line presents interactive and simply fun preschool toys offering timeless cause and effect play. With its new character styling, when kids touch 'em, turn 'em, twist 'em, roll 'em, put 'em, take 'em, nest 'em, stack 'em, sort 'em, push 'em, pull 'em, pound 'em, they are sure to love 'em!

An exciting new way for kids to have fun and learn faster at the same time! The exclusive use of vocal and natural sound will entertain and capture a child's attention for hours and hours of fun and learning. Each toy, rich with vocal and natural sounds is designed to engage and stimulate children at an early age.

This is a premium styled brand of juvenile play toys designed to stimulate and engage a baby in their earliest years. The line is segmented into three developmental stages so that mom can select the toys that are perfect for her baby.

Loonie Goonies are a work of art.
They giggle, laugh, burp and..........
A little naughty but most of all so **hilarious**,
You'll bust a gut!
This collection of cool and silly monsters are packed with fun surprises and endless laughter.



Management Discussion and Analysis

PRINTING OPERATION

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

MARKETING AND PROMOTIONAL OPERATION

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

FINANCIAL REVIEW

Liquidity and Financial Resources

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

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

During the year, net cash generated from operating activities amounted to approximately HK$85,840,000 (2005: HK$224,919,000). The Group has maintained an adequate level of cash flows for its business operations and capital expenditures.

Capital Expenditure

During the year, the Group acquired property, plant and equipment at a cost of approximately HK$36,854,000 (2005: HK$46,766,000 directly and HK$48,234,000 through the acquisition of subsidiaries) to further enhance and upgrade the production capacity. These capital expenditures were financed primarily by cash flow generated from operations.

Assets and Liabilities

At 31st December, 2006, the Group had total assets of approximately HK$528,789,000 (2005: HK$512,691,000), total liabilities of approximately HK$225,282,000 (2005: HK$179,234,000) and equity attributable to equity holders of the Company of approximately HK$303,507,000 (2005: HK$333,457,000). The net assets of the Group decreased 9.0% (2005: increased 17.8%) to approximately HK$303,507,000 as at 31st December, 2006 (2005: HK$333,457,000).

Sales of Properties

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

FINANCIAL REVIEW (CONTINUED)

Repurchase of Shares

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

Exchange Rate Risk

Several subsidiaries of the Company have foreign currency sales, which expose the Group to foreign currency risk. Certain bank balances, trade receivables and trade payables of the Group are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

NUMBER OF EMPLOYEES AND REMUNERATION POLICIES

As at 31st December, 2006, the Group had a total of approximately 19,000 (2005: 17,000) employees in Hong Kong, Macau, PRC, Vietnam, U.S.A., Canada and Europe. The Group provides its employees with competitive remuneration packages commensurate to the level of pay established by the market trend in comparable businesses. A share option scheme was adopted for selected participants (including full time employees) as incentives or rewards for their contributions to the business and operation of the Group. A mandatory provident fund scheme and respective local retirement benefit schemes are also in place.

PROSPECTS

Numerous challenges in the coming years would be expected to encounter on both plastic and plush toy businesses and the infant and pre-school children toy market. Increasing expenses, in particular, the increase in the rental expenses as operation costs, increase in labour costs and other expenses due to the appreciation in Renminbi currency rate, would adversely affect the Group. To face up to this challenge and intensified toy markets competition, the Group would dedicate its efforts to broaden its worldwide and local distribution and network, to secure its niche in the premium toy market, to enrich its product mix and to adopt further cost-saving measures. The Group showed great resilience amid the adverse global toy markets conditions.

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

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

Apart from its Original Equipment Manufacturing ("OEM") products, the Group committed to the development of new products and would continue in product diversification in ODM. The ODM's research and development team in a cost effective location was reorganized to increase efficiency and creativity for new product design. With the reinforcement of such product development team, the Group is enabled to develop its own branded name and licensed products in the international markets, targeting North America, Latin America, Eastern Europe, Australia, Spain, South Africa and the PRC. Product diversification would facilitate business expansion and reduce the Group's dependence on limit branded product mix, providing greater flexibility and increased operating profit. Sales of own branded

PROSPECTS (CONTINUED)

products accounts for an increasing percentages of total sales and development of new products including Sunny Steps, Toddler, Shake 'N Bobbles, NASCAR, Loonie Goonies, Sound beginnings and Sheltek for lines extension in the current branded lines.

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

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

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

Biographies of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Cheng Yung Pun

Aged 55, 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 26 years' extensive experience in plastic toys manufacturing, property development and investment. Mr. Cheng is also director of Suncorp Investments Group Limited which has an interest in the shares of the Company. He is the father of Ms. Cheng Wing See, Nathalie, executive Director of the Company.

Mr. Yu Sui Chuen

Aged 51, 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 26 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 33, is responsible in managing of procurement of the Group. Ms. Cheng has over 9 years' extensive experience in procurement in the plastic toys field. Ms. Cheng is the 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 58, was appointed to the board as an independent non-executive director and a chairman of the audit committee and remuneration committee of the company. Dr. Loke has over 31 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, Wealthmark International (Holdings) Limited and Winfair Investment Company Limited, companies listed on The Stock Exchange of Hong Kong Limited. He joined the Company in the year 2004.

Mr. Mak Shiu Chung, Godfrey

Aged 44, was appointed to the board as an independent non-executive director and a member of the audit committee and remuneration committee of the Company. 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 DeTeam Company Limited (formerly known as Angels Technology Company Limited), and has over 16 years of experiences in the field of corporate finance. He joined the Company in the year 2000.

Mr. Wan Hing Pui

Aged 76, was appointed to the board as an independent non-executive director and a member of the audit committee and remuneration committee of the Company. Mr. Wan has over 48 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). He joined the Company in the year 2004.

CHIEF EXECUTIVE OFFICER

Mr. Michael Adam Greenberg

Aged 47, 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 26 years' extensive experience in product development, marketing and manufacturing of toy businesses.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Board of Directors (the "Board") of Matrix Holdings Limited (the "Company") had adopted its own code on corporate governance practices which incorporates all the code provisions in the Code on Corporate Governance Practices (the "CGP Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company had applied the principles of the CGP Code and its own code since their adoption, with an exception of code provision A.4.1 as stated in the CGP Code, in order to protect and enhance the benefits of shareholders. Following sustained development 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 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.

The principal functions of the Board are to make decision on the strategic development 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, 2005 and for the six months ended 30th June, 2006 respectively; and approved the scrip dividend alternate.

BOARD OF DIRECTORS (CONTINUED)

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. 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. During the year under review, the Board held twenty-two board meetings which were attended by all directors namely Mr. Cheng Yung Pun, Mr. Yu Sui Chuen, Ms. Cheng Wing See, Nathalie, Dr. Loke Yu alias Loke Hoi Lam, Mr. Mak Shiu Chung, Godfrey and Mr. Wan Hing Pui.

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 three days before the regular board meetings or such other period as agreed. Sufficient information was also supplied by the management to the Board to enable it to make informed decisions, which are made in the best interests of the Company.

APPOINTMENTS AND RE-ELECTION OF DIRECTORS

In accordance with the Bye-laws of the Company, every director should be subject to retirement by rotation at least once every three years. All Directors appointed to fill a casual vacancy should be subject to election by shareholders at the first annual general meeting after their appointment and that one-third of the Directors should be subject to retirement and re-election every year. Accordingly, though none of the existing non-executive (including independent non-executive) Directors of the Company is appointed for a specific term, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the CGP Code as all non-executive Directors are subject to retirement provisions under the Company's Bye-laws.

In considering the nomination of a new director, the Board will review its own size, structure and composition to ensure that it has a balance of expertise, skills and experience appropriate to the requirements of the Company. Where vacancies on the Board exist or an additional director is considered necessary, the Chairman will identify suitable candidates and propose the appointment of such candidates to the Board for consideration and 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 and approved if such appointment considered suitable. The Board also considers that the existing human resources policy in recruitment of new senior staff, to certain circumstance, is 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.

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 practices.

The Chairman is appointed by the Board and his responsibilities are, inter alia, the leadership and effective running of the Board, ensuring that all key 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, inter alia, running the Group's business, and implementation of the Group's strategy in achieving the overall commercial objectives.

DIRECTORS' SECURITIES TRANSACTIONS

The Company had adopted a code of conduct regarding securities transactions by directors on no less exacting than the terms and required standard contained in the Model Code for Securities Transactions by Directors set out in Appendix 10 of the Listing Rules (the "Model Code"). Having made specific enquiry of all the Directors, the Company had obtained confirmation from all the Directors that they have complied with the required standard set out in the Model Code and the code of conduct regarding securities transactions by directors adopted by the Company.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The financial statements of the Company for the year ended 31st December, 2006 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.

REMUNERATION COMMITTEE (CONTINUED)

The principal duties of Remuneration Committee include, inter alia, reviewing and making recommendation to the Board of the remuneration policy; making 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 held one meeting reviewing the directors' remuneration which was attended by all committee members namely Dr. Loke Yu alias Loke Hoi Lam, Mr. Mak Shiu Chung, Godfrey and Mr. Wan Hing Pui. 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.

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 twice a year and is chaired by Dr. Loke Yu alias Loke Hoi Lam. 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 authorisation of non-audit services provided by the external auditors.

AUDIT COMMITTEE (CONTINUED)

During the year under review, the Audit Committee had held three meetings which were attended by all committee members namely Dr. Loke Yu alias Loke Hoi Lam, Mr. Mak Shiu Chung, Godfrey and Mr. Wan Hing Pui, to have financial review; to review interim and annual reports before submission to the Board in accordance with the accounting policies and practices, relevant accounting standards, the Listing Rules and the legal requirements; to review the external auditors' engagement letter; to discuss 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 Audit Committee discharged their duties in accordance with their terms of reference (containing the minimum prescribed duties). These specific terms of reference are available on request or on the website: www.matrix.hk.com.

AUDITOR'S REMUNERATION

During the year under review, the fees paid or payable to the auditor of the Company, Messrs. Deloitte Touche Tohmatsu were approximately HK$1,549,000 and HK$395,000 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$10,000.

INTERNAL CONTROL

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

An Internal Control Committee comprises members of the management which 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 for safeguarding assets against unauthorised use or disposition, controlling over capital expenditure, maintaining proper accounting records and ensuring the reliability of financial information used for business and publication etc. 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. Through the timely distribution of press releases, the Group has also kept the public abreast of its latest developments. Meetings 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, www.hkex.com.hk.

The directors of the Company have pleasure in presenting their annual report together with the audited consolidated financial statements of the Company for the year ended 31st December, 2006.

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 20 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The five largest customers of the Group together accounted for approximately 84.0% of the Group's turnover, with the largest customer accounted for approximately 72.7%. The aggregate purchases attributable to the Group's five largest suppliers were approximately 38.1% of total purchases of the Group, with the largest supplier accounted for approximately 13.7%.

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, 2006 are set out in the consolidated income statement on page 35.

During the year, the directors have declared an interim dividend of HK8 cents to be satisfied by cash and, with an alternative to the shareholders to elect to receive such dividend (or part thereof) by way of scrip dividend by allotment of new shares in the Company, credited as fully paid. The total amount of scrip dividend credited as fully paid shares and total cash dividend paid during the year were approximately HK$4,510,000 and HK$41,474,000 respectively. In addition, a special dividend of HK3 cents per share, amounting to HK$17,315,000 was declared to the shareholders during the year.

The directors now recommend the payment of a final dividend of HK9 cents per share, amounting to approximately HK$51,944,000, to the shareholders on the register of members on 29th May, 2007 and the remaining retained profits in the Company, amounting to approximately HK$119,129,000.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group spent approximately HK$22,068,000 on plant and machinery and HK$3,539,000 on properties to expand and upgrade its production capacity.

Details of these and other movements during the year in the property, plant and equipment of the Group are set out in note 17 to the consolidated financial statements.

SHARE CAPITAL

The Company issued 2,360,967 ordinary shares of HK$0.10 each for interim scrip dividend during the year under review. The new shares rank pari passu with the existing shares in all respects.

Details of the movements in share capital of the Company during the year are set out in note 27 to the consolidated financial statements.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the year, the Company repurchased certain of its own shares through The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), details of which are set out in note 27 to the consolidated financial statements.

RESERVES

Movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 37.

Reserves of the Company as at 31st December, 2006 available for distribution, calculated under the Companies Act 1981 of Bermuda (as amended), amounted to HK$174,734,000 (2005: HK$158,597,000).

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

	2006	2005
	HK$'000	HK$'000
Contributed surplus	**3,661**	3,661
Retained profits	**171,073**	154,936
	174,734	158,597

RESERVES (CONTINUED)

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.

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 73.

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

DIRECTORS (CONTINUED)

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. Yu Sui Chuen and Mr. Wan Hing Pui retire and, being eligible, offers 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 (the "Listing Rules") on the Stock Exchange. The Company considers all of the independent non-executive directors are independent.

DIRECTORS'/CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Details of related party transactions during the year are set out in note 34 to the consolidated 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, 2006, 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/ chief executive		Nature of interests	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Cheng Yung Pun	*(director)*	Corporate interest (Note)	409,918,800	71.02%
Yu Sui Chuen	*(director)*	Personal interest	628,000	0.11%
Cheng Wing See, Nathalie	*(director)*	Personal interest	700,000	0.12%
Michael Adam Greenberg	*(chief executive)*	Personal interest	794,000	0.14%

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.

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

Long Positions in Underlying Shares of the Company

Share Option

Name of director/ chief executive	Number of underlying shares attached to the share options: Outstanding at beginning of year	Exercised during year	Outstanding at end of year	Exercise price HK$	Exercise period
Yu Sui Chuen *(director)*	2,922,000 (Note 1)	—	2,922,000	2.34	27th January, 2006 to 26th January, 2009
Michael Adam Greenberg *(chief executive)*	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 Sui Chuen, a director of the Company, has beneficial interests in 2,922,000 underlying shares (representing 0.51% 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. Michael Adam Greenberg, a chief executive officer of the Company, has beneficial interests in 5,846,000 underlying shares (representing 1.01% 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.

During the year, there were no options granted to the directors, employees and other parties.

Particulars of the Company's Share Option Scheme are set out in note 35 to the consolidated 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, 2006.

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

Other than as disclosed in the section "Directors' and Chief Executives' Interests and Short Positions 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, was a party to any arrangements to enable the directors of the Company and their associates to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2006, 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 and short positions in the issued share capital of the Company:

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	409,918,800	71.02%
Veer Palthe Voûte NV	Beneficial owner	46,077,099	8.02%
Dresdner Bank Aktiengesellschaft (Note 2)	Interest held by controlled corporations	46,077,099	8.02%
Allianz SE (Note 3)	Interest held by controlled corporations	46,077,099	8.02%

Notes:

(1) Suncorp is wholly owned by Mr. Cheng Yun 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 SE.

SUBSTANTIAL SHAREHOLDERS (CONTINUED)

Long Positions in Ordinary Shares of the Company (Continued)

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, 2006.

SHARE OPTION SCHEME

The share option scheme of the Company was adopted on 17th December, 2002 (the "Scheme") to comply with the 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 4.07% of the existing issued share capital of the Company (being adjusted for the effects on the Company's repurchase of its own shares and issue of share capital owing to the scrip dividend in January and October 2006 respectively) 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;

SHARE OPTION SCHEME (CONTINUED)

(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;

(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 35 to the consolidated financial statements.

8,768,000 underlying shares in respect of the share options had been 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 during the year under review.

As at 31st December, 2006, the total number of shares available for issue under the Company's share option scheme was 23,504,000 shares which represented 4.07% 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

The Board had adopted its own code on corporate governance practices in which incorporates all code provisions in the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules (the "CGP Code").

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 CGP Code except the deviation from the code provision A.4.1 that none of the existing non-executive directors of the Company is appointed for a specific term. However, as all the non-executive directors of the Company (including independent non-executive) are subject to retirement provision under the Company's Bye-laws, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the CGP Code.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31st December, 2006.

POST BALANCE SHEET EVENTS

Details of significant events occurring after the balance sheet date are set out in note 37 to the consolidated financial statements.

OTHER REQUIRED DISCLOSURE PURSUANT TO RULE 13.18 OF THE LISTING RULES

One of the Group's banking facilities provided by a bank in an aggregate amount of HK$35,000,000 (the "Facility") had been expired on 30th November, 2006 and was renewed effective from 1st December, 2006 to any date if such facilities be terminated. 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.

AUDITOR

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

By order of the Board
Cheng Yung Pun
Chairman

Hong Kong, 18th April, 2007

Deloitte.
德勤

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 (collectively referred to as the "Group") set out on pages 35 to 72, which comprise the consolidated balance sheet as at 31st December, 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit 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. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

Independent Auditor's Report

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards 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 consolidated financial statements which explains that in October 1999 there was a court judgment in connection with a claim made by a trade creditor, which had subsequently been settled. According to the court judgment, the Company did not hold the legal ownership of MPMZ, an indirect wholly owned major subsidiary of the Company. The Company has made an application for a judicial review of the judgment regarding the ownership of MPMZ. The directors, based on independent legal advice, are of the opinion that the aforesaid judgment can be overruled and will have no material impact on the financial position and operations of the Group.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, 18th April, 2007

Consolidated Income Statement

For the year ended 31st December, 2006

	Notes	2006 HK$'000	2005 HK$'000
Turnover	9	**867,959**	911,044
Cost of sales		**(590,531)**	(613,981)
Gross profit		**277,428**	297,063
Other income	10	**6,206**	4,221
Distribution and selling costs		**(90,357)**	(77,396)
Administrative expenses		**(88,724)**	(87,570)
Finance costs	11	**(503)**	(35)
Impairment loss recognised in respect of goodwill	18	**—**	(807)
Discount on acquisition of subsidiaries	29	**—**	3,390
Profit before taxation	12	**104,050**	138,866
Income tax (charge) credit	14	**(3,404)**	1,931
Profit for the year		**100,646**	140,797
Attributable to:			
Equity holders of the Company		**100,646**	140,929
Minority interest		**—**	(132)
		100,646	140,797
Earnings per share — Basic	16	**HK$0.17**	HK$0.24

Consolidated Balance Sheet

At 31st December, 2006

	Notes	2006 HK$'000	2005 HK$'000
Non-current assets			
Property, plant and equipment	17	**198,297**	207,947
Prepaid lease payments	19	**1,111**	1,143
Deferred tax assets	28	**344**	380
		199,752	209,470
Current assets			
Inventories	21	**192,556**	149,295
Trade and other receivables	22	**99,467**	58,704
Prepaid lease payments	19	**32**	32
Held-for-trading investments	23	**820**	942
Pledged bank deposit	24	**5,291**	51,990
Bank balances and cash	24	**30,871**	42,258
		329,037	303,221
Current liabilities			
Trade and other payables	25	**130,393**	100,445
Dividend payable		**17,315**	17,542
Tax payable		**58,680**	56,432
Bank overdrafts	26	**13,525**	—
		219,913	174,419
Net current assets		**109,124**	128,802
Total assets less current liabilities		**308,876**	338,272
Capital and reserves			
Share capital	27	**57,716**	58,472
Reserves		**245,791**	274,985
Equity attributable to equity holders of the Company		**303,507**	333,457
Non-current liabilities			
Deferred tax liabilities	28	**5,369**	4,815
		308,876	338,272

The consolidated financial statements on pages 35 to 72 were approved and authorised for issue by the Board of Directors on 18th April, 2007 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, 2006

	Attributable to equity holders of the Company										
	Share capital HK$'000	Share premium HK$'000	Special reserve HK$'000	Shareholders' contribution HK$'000	Share options reserve HK$'000	Asset revaluation reserve HK$'000	Translation reserve HK$'000	Retained profits HK$'000	Total HK$'000	Minority interest HK$'000	Total HK$'000
At 1st January, 2005	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 (Note 15)	—	—	—	—	—	—	—	(99,403)	(99,403)	—	(99,403)
Special dividend payable (Note 15)	—	—	—	—	—	—	—	(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
Currency translation difference recognised directly in equity and income recognised directly in equity	—	—	—	—	—	—	(422)	—	(422)	—	(422)
Release of revaluation surplus upon disposal of property, plant and equipment	—	—	—	—	—	(2,612)	—	2,612	—	—	—
Profit for the year	—	—	—	—	—	—	—	100,646	100,646	—	100,646
Total recognised income and expenses for the year	—	—	—	—	—	(2,612)	(422)	103,258	100,224	—	100,224
Issues of shares pursuant to scrip dividend	236	(236)	—	—	—	—	—	4,510	4,510	—	4,510
Recognition of equity-settled share based payments	—	—	—	—	812	—	—	—	812	—	812
Dividend paid (Note 15)	—	—	—	—	—	—	—	(97,716)	(97,716)	—	(97,716)
Special dividend payable (Note 15)	—	—	—	—	—	—	—	(17,315)	(17,315)	—	(17,315)
Shares repuchased and cancelled	(992)	(19,473)	—	—	—	—	—	—	(20,465)	—	(20,465)
At 31st December, 2006	57,716	35,999	771	6,901	2,437	32,427	(11,330)	178,586	303,507	—	303,507

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 the group reorganisation in 1994.

Consolidated Cash Flow Statement

For the year ended 31st December, 2006

	Notes	2006 HK$'000	2005 HK$'000
OPERATING ACTIVITIES			
Profit before taxation		**104,050**	138,866
Adjustments for:			
(Gain) loss on disposal of property, plant and equipment		**(648)**	69
Loss on fair value changes on held-for-trading investments		**122**	447
Interest income		**(730)**	(590)
Interest expenses		**503**	35
Depreciation		**36,530**	35,205
Gain on disposal of subsidiaries		**(715)**	—
Revaluation deficit on property, plant and equipment		**—**	804
Impairment loss on goodwill		**—**	807
Share-based payment expenses		**812**	1,625
Discount on acquisition of subsidiaries		**—**	(3,390)
Amortisation of prepaid lease payments		**32**	30
Operating cash flows before movements in working capital		**139,956**	173,908
(Increase) decrease in inventories		**(43,261)**	42,980
(Increase) decrease in trade and other receivables		**(41,214)**	19,918
Increase (decrease) in trade and other payables		**31,457**	(14,392)
Effect of foreign exchange rate changes		**37**	(464)
Cash generated from operations		**86,975**	221,950
Income taxes (paid) refund		**(632)**	3,004
Interest paid		**(503)**	(35)
NET CASH FROM OPERATING ACTIVITIES		**85,840**	224,919
INVESTING ACTIVITIES			
Interest received		**730**	590
Proceeds from disposal of property, plant and equipment		**10,011**	259
Purchases of property, plant and equipment		**(36,854)**	(46,766)
Acquisition of subsidiaries	29	**—**	(54,134)
Disposal of subsidiaries	30	**(125)**	—
Decrease (increase) in pledged bank deposit		**46,699**	(46,979)
NET CASH FROM (USED IN) INVESTING ACTIVITIES		**20,461**	(147,030)

Consolidated Cash Flow Statement

For the year ended 31st December, 2006

	Notes	2006 HK$'000	2005 HK$'000
FINANCING ACTIVITIES			
Dividends paid		**(110,748)**	(116,945)
Repayment of obligations under a finance lease		**—**	(173)
Repayment of bank borrowings		**—**	(8,201)
Increase of bank overdrafts		**13,525**	—
Repurchase of shares		**(20,465)**	—
NET CASH USED IN FINANCING ACTIVITIES		**(117,688)**	(125,319)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(11,387)**	(47,430)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**42,258**	89,688
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by			
Bank balances and cash		**30,871**	42,258

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2006

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 address of the registered office and principal place of business of the Company are disclosed in the corporate information section of this annual report.

The principal activities of the Company are investment holding and those of its principal subsidiaries are set out in note 20.

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

2. BASIS OF PREPARATION OF CONSOLIDATION

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

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

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

4. POTENTIAL IMPACT OF NEW STANDARDS NOT YET EFFECTIVE

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

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

[1] Effective for annual periods beginning on or after 1st January, 2007.
[2] Effective for annual periods beginning on or after 1st January, 2009.
[3] Effective for annual periods beginning on or after 1st March, 2006.
[4] Effective for annual periods beginning on or after 1st May, 2006.
[5] Effective for annual periods beginning on or after 1st June, 2006.
[6] Effective for annual periods beginning on or after 1st November, 2006.
[7] Effective for annual periods beginning on or after 1st March, 2007.
[8] Effective for annual periods beginning on or after 1st January, 2008.

5. CHANGES OF ACCOUNTING ESTIMATES

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

6. 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 the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") 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.

6. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from the activities.

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 changes 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.

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under *HKFRS 3 Business Combinations* are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with *HKFRS 5 Non-Current Assets Held for Sale and Discontinued Operations*, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

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.

6. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment

Leasehold land and buildings and plant and machinery are stated in the consolidated 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 any 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.

Any revaluation increase arising on revaluation of leasehold land and buildings and plant and machinery is credited to the asset revaluation reserve, 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 consolidated 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 consolidated 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	10%–20%
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 form 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 consolidated 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 assets 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.

6. 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 operating leases.

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.

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classifications, leasehold land which title is not expected to pass to the lessee by the end of the lease term is classified as an operating lease unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is classified as a finance lease.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) 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.

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 Group (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.

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the period in which they are incurred.

6. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

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 consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes items of income or expense 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 recognised on differences between the carrying amounts of assets and liabilities in the consolidated 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.

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 consolidated 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 as an expense when employees have rendered service entitling them to the contributions.

6. 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 of the Group represents held-for-trading investments. 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 bank 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 the 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.

6. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (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 accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

Financial liabilities including trade and other payables, dividend payable and bank overdrafts are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

Repurchase of shares

The repurchased shares will be cancelled during the year and the issued share capital of the Company is reduced by the nominal value thereof. The premium payable on repurchase of the shares will be charged to the share premium account.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

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 each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in profit or loss, with a corresponding adjustment to 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 forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained profits.

7. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies which are described in note 6, management has made the following estimates that have significant effects 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 its property, plant and equipment on a straight line basis over their estimated useful lives as set out in note 6 to the consolidated financial statements, commencing from the date the items of property, plant and equipment are put into their intended use. The estimated useful lives and the dates the items of property, plant and equipment are put into use reflects the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the property, plant and equipment. The Group assesses the residual value and useful lives of the property, plant and equipment on a regular basis and if the expectation differs from the original estimate, such difference will impact the depreciation charge in the year in which such estimate has been changed.

Income taxes

As at 31st December, 2006, a deferred tax asset of HK$344,000 in relation to unused tax losses and other taxable temporary differences have been recognised in the Group's consolidated balance sheet. No deferred tax asset has been recognised on the tax losses of approximately HK$37,378,000 due to unpredictability of future profit streams. 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 consolidated income statement for the period in which such a reversal or additional recognition takes place.

8. FINANCIAL INSTRUMENTS

(a) Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, pledged bank deposit, bank balances, trade and other payables, dividend payable and bank overdrafts. Details of these financial instruments are disclosed in respective notes. The risk associated with these financial instruments and the policies 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.

Currency risk

Several subsidiaries of the Company have foreign currency sales and purchases, which expose the Group to foreign currency risk. Certain bank balances, pledged bank deposit, trade receivables and trade payables of the Group are denominated in foreign currencies and the amounts are disclosed in notes 24, 22 and 25 respectively. 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.

8. FINANCIAL INSTRUMENTS (Continued)

(a) Financial risk management objectives and policies (Continued)

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, 2006 in relation to each class of recognised financial assets is the carrying amounts of those assets 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 five largest customers of the Group together accounted for approximately 84.0% of the Group's turnover, therefore, the Group's credit risk on its trade receivables is concentrated on a few of its major customers, the Group has policies in place to ensure that sales of products are made to those customers with good credit history.

(b) Fair value

The fair value of financial assets and financial liabilities are determined as follows:

— the fair value of held-for-trading investments which are traded on active liquid markets are determined with reference to quoted market bid prices; and

— the fair value of other financial assets and financial liabilities are determined based on discounted cash flow analysis or using prices from observable current market transactions.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

9. SEGMENT INFORMATION

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

The Group's customers are mainly located in the United States of America ("United States"). The following table provides an analysis of the Group's segment information by geographical location of the Group's customers:

2006

	United States HK$'000	Europe HK$'000	Canada HK$'000	Hong Kong HK$'000	Others HK$'000	Consolidated HK$'000
TURNOVER						
External sales	737,507	59,663	19,505	32,234	19,050	867,959
RESULTS						
Segment results	197,388	19,728	4,252	1,817	7,121	230,306
Unallocated income						5,363
Unallocated expenses						(131,116)
Finance costs						(503)
Profit before taxation						104,050
Income tax charge						(3,404)
Profit for the year						100,646
ASSETS						
Segment assets	215,589	16,992	8,559	9,039	6,280	256,459
Unallocated corporate assets						272,330
						528,789
LIABILITIES						
Segment liabilities	72,700	4,380	943	2,749	2,408	83,180
Unallocated corporate liabilities						142,102
						225,282

9. SEGMENT INFORMATION (Continued)

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

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

9. SEGMENT INFORMATION (Continued)

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

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

10. OTHER INCOME

	2006	2005
	HK$'000	HK$'000
Interest income on bank deposits	**730**	590
Gain on disposal of subsidiaries	**715**	—
Gain on disposal of property, plant and equipment	**648**	—
Others	**4,113**	3,631
	6,206	4,221

11. FINANCE COSTS

	2006	2005
	HK$'000	HK$'000
Interest on bank overdrafts	**503**	28
Finance lease charges	**—**	7
	503	35

12. PROFIT BEFORE TAXATION

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

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

13. DIRECTORS' EMOLUMENTS AND EMPLOYEES' EMOLUMENTS

Directors' emoluments

The emoluments paid or payable to each of the six (2005: six) directors are as follows:

2006

		Other emoluments			
	Fees HK$'000	Salaries and allowances HK$'000	Contributions to MPFS HK$'000	Other benefits (Note) HK$'000	Total HK$'000
Executive directors					
Cheng Yung Pun	—	1,050	12	—	1,062
Yu Sui Chuen	—	1,008	47	270	1,325
Cheng Wing See, Nathalie	—	283	12	—	295
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 2006	198	2,341	71	270	2,880

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

Directors' emoluments (Continued)

2005

		Other emoluments			
	Fees HK$'000	Salaries and allowances HK$'000	Contributions to MPFS HK$'000	Other benefits (Note) HK$'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

Note: Other benefits represent employees share option benefits.

No director waived any emoluments in the two years ended 31st December, 2006.

Employees' emoluments

Of the five individuals with the highest emoluments in the Group, one (2005: one) are directors of the Company whose emoluments are included in the above disclosures. The emoluments of the remaining four (2005: four) individuals are as follows:

	2006 HK$'000	2005 HK$'000
Salaries and allowances	**11,507**	15,845
Contributions to retirement benefit schemes and MPFS	**292**	394
	11,799	16,239

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

Employees' emoluments (Continued)

Their emoluments are within the following bands:

	2006 No. of employees	2005 No. of employees
HK$1,000,001 to HK$1,500,000	**1**	—
HK$1,500,001 to HK$2,000,000	**2**	2
HK$6,000,001 to HK$6,500,000	**—**	1
HK$6,500,001 to HK$7,000,000	**—**	1
HK$7,000,001 to HK$7,500,000	**1**	—
	4	4

14. INCOME TAX CHARGE (CREDIT)

	2006 HK$'000	2005 HK$'000
Current tax:		
Hong Kong	**3,233**	3,027
Other jurisdictions	**316**	223
	3,549	3,250
Overprovision in prior years:		
Hong Kong	**(4)**	(5,889)
Other jurisdictions	**(730)**	—
	(734)	(5,889)
Deferred tax:		
Current year (Note 28)	**589**	708
Taxation charge (credit) attributable to the Company and its subsidiaries	**3,404**	(1,931)

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

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

14. INCOME TAX CHARGE (CREDIT) (Continued)

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

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

	2006 HK$'000	2005 HK$'000
Profit before taxation	**104,050**	138,866
Tax at the average income tax rate (Note)	**14,499**	20,405
Tax effect of expenses not deductible for tax purpose	**2,953**	4,630
Tax effect of income not taxable for tax purpose	**(12,487)**	(18,966)
Overprovision in respect of prior year	**(734)**	(5,889)
Tax effect of tax losses not recognised	**72**	72
Utilisation of tax losses	**(891)**	(2,239)
Others	**(8)**	56
Tax charge (credit) for the year	**3,404**	(1,931)

Note: The weighted average applicable tax rate for different jurisdictions is approximately 14% (2005: 14%). The weighted average applicable tax rate represents the weighted average tax rate in different jurisdictions in which the Group operates and is calculated on the basis of the profit or loss before taxation arising in these jurisdictions and on the statutory rates applicable.

15. DIVIDENDS

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

15. DIVIDENDS (Continued)

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

	2006 HK$'000	2005 HK$'000
Dividends:		
Cash	41,474	—
Shares (Note 31)	4,510	—
	45,984	—

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

16. EARNINGS PER SHARE

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

Earnings

	2006 HK$'000	2005 HK$'000
Earnings for the purposes of basic earnings per share	100,646	140,929

Number of shares

	2006 '000	2005 '000
Weighted average number of ordinary shares for the purposes of basic earnings per share	575,763	584,720

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

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

17. 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, 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
Exchange adjustments	(201)	—	(229)	—	(29)	—	(459)
Additions	3,539	846	22,068	9,149	1,252	—	36,854
Disposals	(8,610)	(930)	(60)	—	(187)	—	(9,787)
Disposal of subsidiaries	—	(115)	—	—	(325)	—	(440)
At 31st December, 2006	104,580	14,612	86,952	33,244	8,807	718	248,913
Comprising							
At cost	—	14,612	—	33,244	8,807	718	57,381
At valuation	104,580	—	86,952	—	—	—	191,532
	104,580	14,612	86,952	33,244	8,807	718	248,913
DEPRECIATION AND IMPAIRMENT LOSSES							
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
Exchange adjustments	(7)	—	(46)	—	(13)	—	(66)
Provided for the year	3,922	2,126	18,770	10,046	1,602	64	36,530
Eliminated on disposals	(87)	(181)	(36)	—	(120)	—	(424)
Eliminated on disposal of subsidiaries	—	(63)	—	—	(159)	—	(222)
At 31st December, 2006	3,828	3,989	18,688	19,543	3,850	718	50,616
CARRYING VALUES							
At 31st December, 2006	100,752	10,623	68,264	13,701	4,957	—	198,297
At 31st December, 2005	109,852	12,704	65,173	14,598	5,556	64	207,947

17. PROPERTY, PLANT AND EQUIPMENT (Continued)

The leasehold land and buildings are situated on land, under medium term leases, their carrying values are analysed below:

	2006 HK$'000	2005 HK$'000
In Hong Kong	—	8,610
Outside Hong Kong	100,752	101,242
	100,752	109,852

The directors consider that the carrying values of the leasehold land and buildings and plant and machinery at 31st December, 2006 approximate their fair values. The Group's leasehold land and buildings and the plant and machinery in Hong Kong and the PRC 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 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.

At 31st December, 2006, 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 values would have been approximately HK$60,980,000 (2005: HK$69,886,000) and HK$54,204,000 (2005: HK$50,930,000) respectively.

The Group has pledged its land and buildings having a net book value of approximately HK$56,912,000 (2005: HK$ 59,580,000) to a bank for banking facilities granted to the Group.

18. GOODWILL

In the prior year, 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.

19. PREPAID LEASE PAYMENTS

	2006 HK$'000	2005 HK$'000
The Group's prepaid lease payments comprise:		
Leasehold land outside Hong Kong under medium term lease	1,143	1,175
Analysed for reporting purposes as:		
Current	32	32
Non-current	1,111	1,143
	1,143	1,175

20. LIST OF SUBSIDIARIES

Details of the principal subsidiaries at 31st December, 2006 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 Enterprises (Macao Commercial Offshore) Company Limited	Macau	MOP100,000	Quota capital	100%	Purchasing and trading of gifts and novelties
Keyhinge Holdings Limited	Hong Kong	HK$10,000	Ordinary share	100%	Investment holding
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$9,538,863	Capital contribution	100%	Manufacture of gifts and novelties
Keysuccess International Limited	The British Virgin Islands	US$1	Ordinary share	100%	Investment holding
Matrix Development Group Limited	The British Virgin Islands	US$10	Ordinary share	100%	Investment holding
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
Matrix Manufacturing Vietnam Company Limited	Vietnam	US$3,800,000	Capital contribution	100%	Manufacture of gifts and novelties

20. LIST OF 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 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
Maxguard Limited	The British Virgin Islands	US$10	Ordinary share	100%	Investment holding
Mediaway Technology Company Limited	PRC*	HK$500,000	Paid up registered capital	100%	Products research and development
Shelcore Hong Kong Limited	Hong Kong	HK$10,000	Ordinary share	100%	Manufacture and trading of toys
Shelcore, Inc.	United States of America	US$1,000	Common stock	100%	Trading
Shelcore Canada Limited	Canada	CAD957,085	Common share	100%	Trading
Toytrix Company Limited	Hong Kong	HK$2	Ordinary share	100%	Manufacture of printing materials

* 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.

21. INVENTORIES

	2006 HK$'000	2005 HK$'000
Raw materials	**55,799**	43,693
Work in progress	**52,850**	33,781
Finished goods	**83,907**	71,821
	192,556	149,295

22. TRADE AND OTHER RECEIVABLES

The trade and other receivables include trade receivables of approximately HK$85,377,000 (2005: HK$46,021,000). The Group allows a credit period of 14 days to 90 days to its trade customers.

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

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

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

23. HELD-FOR-TRADING INVESTMENTS

The investments represent equity securities listed in the United States which are stated at quoted market bid price.

24. PLEDGED BANK DEPOSIT AND BANK BALANCES

The pledged bank deposit was to secure bank facilities granted to the Group and is therefore classified as a current asset. The pledged bank deposit carried interest at average fixed rate of 3.5% (2005: 3.0%) per annum and will be released upon the settlement of the bank borrowings. The bank balances carried interest at prevailing interest rates.

The bank balances of approximately HK$15,909,000 (2005: HK$34,866,000) are denominated in the United States dollar which is not the functional currency of the relevant group entities.

25. TRADE AND OTHER PAYABLES

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

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

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

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

26. BANK OVERDRAFTS

Bank overdrafts carry interest at market rates ranging from 3.15% to 7.25% per annum.

27. SHARE CAPITAL

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

27. SHARE CAPITAL (Continued)

Notes:

(a) On 16th October, 2006, the Company issued and allotted a total of 2,360,967 shares of HK$0.1 each in the Company at par to the shareholders who elected to receive shares in the Company in lieu of cash payment for the 2006 interim dividend. These shares rank *pari passu* in all respects with other shares then in issue. The details of the scrip dividend alternate are set out in note 31.

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

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

The shares repurchased were cancelled.

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

28. DEFERRED TAXATION

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

	Accelerated tax depreciation HK$'000	Accelerated accounting depreciation HK$'000	Revaluation of property, plant and equipment HK$'000	Retirement benefit obligation HK$'000	Tax losses HK$'000	Others HK$'000	Total HK$'000
At 1st January, 2005	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 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
Charge (credit) to income for the year	123	188	(522)	38	784	(22)	589
Exchange difference	—	2	(4)	—	3	—	1
At 31st December, 2006	3,064	(201)	2,507	(32)	(257)	(56)	5,025

28. DEFERRED TAXATION (Continued)

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:

	2006	2005
	HK$'000	HK$'000
Deferred tax liabilities	**5,369**	4,815
Deferred tax assets	**(344)**	(380)
	5,025	4,435

At the balance sheet date, the Group had unused estimated tax losses of HK$42,275,000 (2005: HK$57,095,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK$4,897,000 (2005: HK$9,422,000) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses of HK$37,378,000 (2005: HK$47,673,000) due to the unpredictability of future profit streams. Included in year 2005 unrecognised tax losses are losses of HK$10,216,000 that expired in 2006. Other tax losses may be carried forward indefinitely.

29. 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 the "Shelcore Companies"). The acquisition has been accounted for by the purchase method of accounting. The Shelcore Companies are principally engaged in the manufacturing and trading of infant and pre-school children toys.

29. ACQUISITION OF SUBSIDIARIES (Continued)

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 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 31st December, 2005.

If the acquisition had been completed on 1st January, 2005, the total turnover of the Group for the year 2005 would have been approximately HK$919.9 million, and profit for the year 2005 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 2005 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.

30. DISPOSAL OF SUBSIDIARIES

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

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

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

31. MAJOR NON-CASH TRANSACTIONS

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

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

32. OPERATING LEASE COMMITMENTS

	2006 HK$'000	2005 HK$'000
Minimum lease payments in respect of land and buildings under operating leases recognised in the consolidated income statement for the year	**9,283**	5,323

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

	2006 HK$'000	2005 HK$'000
Within one year	**5,822**	6,325
In the second to fifth year inclusive	**1,669**	5,799
After five years	**4,311**	4,582
	11,802	16,706

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

33. CAPITAL COMMITMENTS

	2006 HK$'000	2005 HK$'000
Capital expenditure in respect of the acquisition of property, plant and equipment		
— contracted for but not provided in the consolidated financial statements	**7,548**	6,688
— authorised but not contracted for	**547**	1,114

34. RELATED PARTY TRANSACTIONS

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

	2006 HK$'000	2005 HK$'000
Rental paid or payable to a related company	**144**	144
Purchases of plant and equipment from a related company	**709**	703

Mr. Cheng Yung Pun, a director of the Company, has beneficial interests in the related companies.

Compensation of key management personnel

The remunerations of directors and other members of key management in respect of the year are as follows:

	2006 HK$'000	2005 HK$'000
Salaries and other short-term employee benefits	**9,340**	8,136
Termination benefits	**83**	138
Share-based payments	**812**	1,625
	10,235	9,899

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

35. 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.

35. SHARE BASED PAYMENT TRANSACTION (Continued)

Equity-settled share option scheme (Continued)

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, 2006, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 8,768,000 (2005: 8,768,000), representing 1.52% (2005: 1.50%) of the shares of the Company in issue at that date. Options may be exercised at any time from 27th January, 2006 to 26th January, 2009.

Details of specific category of share options are as follows:

Option type	**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:

Option type	**Outstanding at 1st January, 2006**	**Granted during year**	**Exercised during year**	**Outstanding at 31st December, 2006**
2005	**8,768,000**	**—**	**—**	**8,768,000**
Exercisable at the end of the year				**8,768,000**

Option type	Outstanding at 1st January, 2005	Granted during year	Exercised during year	Outstanding at 31st December, 2005
2005	—	8,768,000	—	8,768,000

No option was granted, exercised, lapsed or cancelled during the year ended 31st December, 2006. The estimated fair value of the options granted on 27th October, 2005 was HK$2,437,000.

35. SHARE BASED PAYMENT TRANSACTION (Continued)

Equity-settled share option scheme (Continued)

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

	Option type 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 subjective 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$812,000 for the year ended 31st December, 2006 (2005: HK$1,625,000) in relation to share options granted by the Company.

36. 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 employees.

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.

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 the consolidated income statement of approximately HK$5,306,000 (2005: HK$5,259,000) represents contributions payable to the schemes by the Group at the rates specified in the rules of the various schemes.

37. POST BALANCE SHEET EVENTS

(a) On 26th February, 2007, the Company entered into a non-legally binding letter of intent in relation to the possible acquisition of the controlling equity interests in various entities involved in the business of design and sale of a range of toy products (the "Proposed Acquisition"). The Proposed Acquisition may or may not proceed and is subject to the entering into of a formal sales and purchase agreement. Details of the possible acquisition were set out in the Company's announcement made pursuant to 13.09(1) of the Listing Rules dated 21st March, 2007.

(b) Subsequent to the balance sheet date, one of the subsidiaries of the Company entered into an agreement for the construction of factory buildings in Vietnam at the cost of approximately HK$15,520,000.

Financial Summary

	Year ended 31st December,				
	2002	2003	2004	2005	**2006**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
RESULTS					
Turnover	395,644	500,357	686,684	911,044	**867,959**
Profit before taxation	114,941	157,478	177,763	138,866	**104,050**
Income tax (charge) credit	(13,002)	(26,312)	(26,137)	1,931	**(3,404)**
Profit for the year	101,939	131,166	151,626	140,797	**100,646**
Attributable to:					
Equity holders of the Company	101,939	131,166	151,810	140,929	**100,646**
Minority interest	—	—	(184)	(132)	**—**
	101,939	131,166	151,626	140,797	**100,646**
	HK$	HK$	HK$	HK$	**HK$**
Earnings per share					
Basic	0.39	0.36	0.27	0.24	**0.17**
Diluted	0.18	0.23	0.26	N/A	**N/A**

	At 31st December,				
	2002	2003	2004	2005	**2006**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
ASSETS AND LIABILITIES					
Total assets	265,992	363,748	454,007	512,691	**528,789**
Total liabilities	(102,175)	(126,450)	(170,900)	(179,234)	**(225,282)**
	163,817	237,298	283,107	333,457	**303,507**
Equity attributable to equity holders of the Company	163,817	237,298	282,975	333,457	**303,507**
Minority interest	—	—	132	—	**—**
	163,817	237,298	283,107	333,457	**303,507**

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 29th May, 2007 at 2:30 p.m. for the following purposes:-

1. To receive and consider the audited financial statements for the year ended 31st December, 2006 together with the Report of the Directors and the Independent Auditor's Report 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 (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), 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 20 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

(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

(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, 26th April, 2007

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 23rd May, 2007 (Wednesday) to 29th May, 2007 (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 22nd May, 2007.

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 2006.

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.