THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Matrix Holdings Limited, you should at once hand this circular to the purchaser(s) or the transferee(s), or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or the transfer was effected for transmission to the purchaser(s) or the transferee(s).

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This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities in Matrix Holdings Limited.

MATRIX

MATRIX HOLDINGS LIMITED
美 力 時 集 團 有 限 公 司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 1005)

MAJOR TRANSACTION
IN RELATION TO
PROPOSED ACQUISITION OF THE FUNRISE GROUP

Financial adviser to Matrix Holdings Limited

Quam Financial Services Group Quam Capital Limited

* *For identification purpose only*

30 June 2007

CONTENTS

In this circular, the following expressions have the following meanings unless the context requires otherwise:

"Acquisition"	the acquisition of all of the equity interests of each of Funrise LLC, Funrise Inc. and Code 3 LLC pursuant to the Share Acquisition Agreement
"Announcement"	the announcement of the Company dated 27 April 2007 in relation to, inter alia, the Acquisition
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"Business Day(s)"	a day (other than a Saturday or Sunday) on which banks are opened for business in Hong Kong and in United States
"Code 3 LLC"	Code 3 Collectibles LLC, a Delaware limited liability company
"Company"	Matrix Holdings Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange
"Completion"	completion of the Share Acquisition Agreement
"Consideration"	the aggregate consideration for the Acquisition payable by Maxibase of US$23 million (equivalent to approximately HK$179.4 million) (subject to adjustments)
"Director(s)"	the director(s) of the Company
"Enlarged Group"	the Group as enlarged by the Funrise Group immediately after Completion
"Escrow Agent"	JP Morgan Chase Bank, N.A.
"Funrise Group"	Funrise LLC, Funrise Inc., Code 3 LLC and their respective subsidiaries
"Funrise Inc."	Funrise Inc., a California Corporation
"Funrise LLC"	Funrise Holdings, LLC, a Delaware limited liability company
"Group"	the Company and its subsidiaries immediately before Completion
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"Latest Practicable Date"	28 June 2007, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange

"Material Adverse Effect"	any fact, event or circumstance that, individually or when taken together with any other fact, event, or circumstance, has a material adverse effect on (i) the ability of any Vendor and any member of the Funrise Group to perform its respective obligations under any transaction agreement to which it is a party, or (ii) the business (as currently conducted by the Funrise Group or contemplated to be conducted by the Funrise Group after Completion), operations (including but not limited to results of operation), financial conditions, assets or liabilities relating to the business
"Maxibase"	Maxibase International Limited, an indirect wholly-owned subsidiary of the Company, incorporated in the British Virgin Islands with limited liability
"Placing"	unconditional placing of the Placing Shares by Quam Securities pursuant to the Placing Agreement, details of which are set out in the Announcement
"Placing Agreement"	the unconditional placing agreement dated 24 April 2007 entered into by Suncorp and Quam Securities in relation to the Placing
"Placing Shares"	108,000,000 existing Shares owned by Suncorp to be placed under the Placing
"Quam Securities"	Quam Securities Company Limited
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Law of Hong Kong)
"Share(s)"	share(s) of HK$0.10 each in the share capital of the Company
"Share Acquisition Agreement"	the conditional sale and purchase agreement dated 25 April 2007 entered into among Maxibase, the Vendors, Funrise LLC, Funrise Inc. and Code 3 LLC in relation to the Acquisition
"Shareholder(s)"	the holder(s) of the Shares
"Shareholder's Loan"	the loan granted by Suncorp to the Company in the amount of approximately HK$93.43 million with no fixed repayment terms
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Suncorp"	Suncorp Investments Group Limited, which is 100% beneficially owned by Mr. Cheng Yung Pun, the Chairman of the Company, is the controlling Shareholder holding 356,918,800 Shares (representing approximately 56.46% of the issued share capital of the Company as at the Latest Practicable Date)
"Subscription"	the conditional subscription for the Subscription Shares by Suncorp pursuant to the Subscription Agreement, details of which are set out in the Announcement
"Subscription Agreement"	the conditional subscription agreement dated 24 April 2007 entered into between the Company and Suncorp in relation to the Subscription

"Subscription Shares"	up to 55,000,000 new ordinary Shares, with an aggregate nominal value of HK$5.50 million to be subscribed by Suncorp under the Subscription Agreement
"Supplemental Agreement"	the Supplemental agreement dated 8 June 2007 entered into among the parties to the Share Acquisition Agreement
"United States" or "US"	the United States of America
"Vendors"	The A&L Rubin Family, LLC, Mr. Arnold Rubin, Mrs. Lillian Rubin, Mr. Brian Rubin, Ms. Laurie Rubin, Rubin Code 3 Family Limited Partnership, Mr. Lewis Anten, Mr. Martin Kruger, Ms. Shirley Price, Mr. Ryan Logan, and Mr. Scott Schellhase (The A&L Rubin Family, LLC and Rubin Code 3 Family Limited Partnership were, as contemplated under the Share Acquisition Agreement, liquidated prior to Completion and their assets were distributed to the other Vendors)
"HK$"	Hong Kong dollar(s), the lawful currency of Hong Kong
"US$"	United States dollar(s), the lawful currency of the United States, and the exchange rate for the purpose of this circular is US$1 = HK$7.8
"%"	per cent.

MATRIX HOLDINGS LIMITED
美力時集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 1005)

Executive Directors:
Mr. Cheng Yung Pun *(Chairman)*
Mr. Yu Sui Chuen
Ms. Cheng Wing See, Nathalie

Independent non-executive Directors:
Dr. Loke Yu alias Loke Hoi Lam
Mr. Mak Shiu Chung, Godfrey
Mr. Wan Hing Pui

Registered office:
Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

Principal place of business:
Room 901,
9th Floor, East Ocean Centre
98 Granville Road,
Tsimshatsui East,
Kowloon, Hong Kong

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION IN RELATION TO PROPOSED ACQUISITION OF THE FUNRISE GROUP

INTRODUCTION

On 27 April 2007, the Board announced that on 25 April 2007, Maxibase, an indirectly wholly-owned subsidiary of the Company, entered into the Share Acquisition Agreement with the Vendors, Funrise LLC, Funrise Inc. and Code 3 LLC pursuant to which Maxibase agreed to acquire and the Vendors agreed to sell all of the equity interests of each of Funrise LLC, Funrise Inc. and Code 3 LLC, for a total consideration of US$23 million (equivalent to approximately HK$179.4 million) (subject to adjustments).

The Acquisition constitutes a major transaction of the Company, which requires the approval by the Shareholders at a general meeting, under the Listing Rules. Since written approval has been obtained from the Suncorp pursuant to Rule 14.44 of the Listing Rules approving the transactions contemplated under the Share Acquisition Agreement, no such meeting is required to be held.

All conditions to the Share Acquisition Agreement have been fulfilled (or waived) and completion of the Share Acquisition Agreement took place on 8 June 2007.

* *For identification purpose only*

The purpose of this circular is to provide you with, among other things, further details of the Acquisition, financial information relating to the Group and the Funrise Group, the unaudited pro forma financial information on the Enlarged Group and other information as required under the Listing Rules.

THE SHARE ACQUISITION AGREEMENT (AS SUPPLEMENTED BY THE SUPPLEMENTAL AGREEMENT DATED 8 JUNE 2007)

Date

25 April 2007

Parties

(a) Maxibase as the purchaser; and

(b) The Vendors as the vendors.

Prior to the entering into of the Share Acquisition Agreement, the various entities of the Funrise Group were held by some or all of the Vendors, directly or indirectly, in varying proportions. As contemplated by the Share Acquisition Agreement and prior to the Completion, the Vendors undertook to restructure their holdings of the Funrise Group and consolidate their ownership thereof into three entities, being Funrise LLC, Funrise Inc., and Code 3 LLC, as indicated in the chart on page 10 of this circular (the "Reorganisation"). Immediately following such restructuring, and as contemplated by the Share Acquisition Agreement, the Vendors procured the various entities of the Funrise Group to reduce and consolidate the intercompany accounts of the group by way of various operations, including assignments and distributions in respect of intercompany receivables.

Subsequent to the Reorganisation, the Vendors agreed amongst themselves that save for Mr. Arnold Rubin, Mrs. Lillian Rubin and Mr. Lewis Anten (the "Continuing Vendors"), each of the other Vendors (the "Departing Vendors") would transfer all their respective equity interests in each of Funrise LLC, Funrise Inc., and Code 3 LLC to the Continuing Vendors. The main reason for such transfer was to consolidate the ownership of the various companies in the Funrise Group in order to simplify the Acquisition. Upon completion of such transfer, each of Funrise LLC, Funrise Inc., and Code 3 LLC were owned by the Continuing Vendors.

Notwithstanding the change in the Vendors, the Departing Vendors shall remain liable for all representations and warranties as set out in the Share Acquisition Agreement and continue to be bound by the provisions of the Share Acquisition Agreement.

To the best of the Director's knowledge, information and belief having made all reasonable enquiry, the Vendors and their respective ultimate beneficial owners are third parties independent of the Company and its connected persons (as defined under the Listing Rules).

Assets to be acquired

All of the equity interests of each of Funrise LLC and Code 3 LLC and all of the shares of Funrise Inc.

Consideration

The Consideration of US$23 million (equivalent to approximately HK$179.4 million) paid by Maxibase (subject to adjustment) has been determined based on arm's length negotiations amongst the Directors and the Vendors with reference to the sales levels, the distribution network of the Funrise Group in the United States and the portfolio of licenses owned by the Funrise Group. The Acquisition will provide the Company a distribution network in the United States. It will also provide the Company with a portfolio of proprietary and licensed brands which the Company considers important for its future competitiveness, whilst the historical profitability and net book value of the Funrise Group were also considered in determining the consideration level, the strategic factors outlined above were other aspects that gave the Directors reason to consider that the Consideration was fair and reasonable. The Acquisition was financed by the net proceeds from the Subscription in an amount of approximately HK$96.95 million and a Shareholder's loan granted by Suncorp in an amount of approximately HK$93.43 million. The amount over the Consideration will be used for general working capital purpose.

The Consideration was payable by Maxibase in the following manner:

(1) a deposit of US$1 million (equivalent to approximately HK$7.8 million) (the "Deposit") that before entry into the Share Acquisition Agreement has been paid to the Vendors' Hong Kong counsel;

(2) the Deposit and an amount equal to US$19.7 million (equivalent to approximately HK$153.66 million) less US$403,655 (equivalent to approximately HK$3.15 million), being the outstanding amount of the Funrise Group's credit facilities less its cash-on-hand at Completion (together with the Deposit, the "Initial Consideration"), as adjusted pursuant to the net book value adjustment mechanism below, has been paid to or to the order of the Vendors; and

(3) the remaining balance of US$2.3 million (equivalent to approximately HK$17.94 million) (the "Escrow Amount") has been paid to JP Morgan Chase Bank, N.A., as escrow agent, on the date of the Completion as retained consideration.

The net book value adjustment mechanism

The Initial Consideration shall be adjusted downwards, on a dollar for dollar basis, in accordance with the consolidated net book value (the "Closing NBV") of the Funrise Group on the date of Completion to the extent that the Closing NBV is less than zero. In the event that subsequently the audited consolidated net book value of the Funrise Group as at 31 December 2007 exceeds US$1.8 million, the amount of such excess shall be paid to the Vendors on a dollar for dollar basis to the extent that any downward adjustment to the Initial Consideration was made as a result of the Closing NBV being less than zero.

For avoidance of doubt, in no event shall the total Initial Consideration (including the Deposit), as adjusted, exceed the amount of US$20.7 million (equivalent to approximately HK$161.46 million).

The net sales adjustment mechanism and payment of the Escrow Amount

Based on the audited financial statements of the Funrise Group, the audited net book value /(deficit) of each of Funrise LLC, Funrise Inc. and Code 3 LLC as at 31 December 2006 were approximately HK$120.4 million, US$(7.1) million (equivalent to approximately HK$(55.5) million), and US$(5.6) million (equivalent to approximately HK$(43.5) million) respectively.

The Consideration shall be subject to adjustment based on the combined audited net sales of the Funrise Group for the financial year ending 31 December 2007 (the "FY2007 Net Sales") if:

(1) the amount of the FY2007 Net Sales shall be less than US$70 million (equivalent to approximately HK$546 million), the Consideration shall be reduced by an amount equal to the product obtained by multiplying the amount of such shortfall by 0.33, up to a maximum reduction of US$6.6 million (equivalent to approximately HK$51.48 million) (the "Net Sales Shortfall"); and

(2) the amount of the FY2007 Net Sales shall exceed US$102 million (equivalent to approximately HK$795.6 million), the Consideration shall be increased by an amount equal to the product obtained by multiplying the amount of such excess by 0.33, up to a maximum increase of US$6.6 million (equivalent to approximately HK$51.48 million) (the "Net Sales Surplus"). In effect, the maximum aggregate amount payable for the Acquisition is US$29.6 million (equivalent to approximately HK$230.88 million).

If there is a Net Sales Surplus, then within 10 Business Days of Escrow Payment Date (as defined below), (i) the Escrow Agent shall forthwith pay to the Vendors, the entire Escrow Amount, together with all and any interest accrued thereon; and (ii) Maxibase shall pay to the Vendors an amount equal to the excess, if any, of the Net Sales Surplus over the Escrow Amount.

If there is a Net Sales Shortfall, then (i) within 10 Business Days of the date on which the amount of the FY2007 Net Sales is determined, the Escrow Agent shall forthwith pay to Maxibase, from the escrow account, an amount equal to the lesser of the Net Sales Shortfall and the Escrow Amount, together with all and any interest accrued thereon; and (ii) if the Net Sales Shortfall is less than the Escrow Amount, the Escrow Agent shall continue to hold the balance, if any, of any amounts held in the escrow account after the payment referred to in (i) above until the Escrow Payment Date and, without 10 Business Days of the Escrow Payment Date, shall pay such balance to the Vendors, together with all and any interest accrued thereon; or (iii) if the Net Sales Shortfall is greater than the Escrow Amount, then within 10 Business Days of the date on which the amount of the FY2007 Net Sales is determined, the Vendors shall pay to Maxibase an amount equal to the excess, if any, of the Net Sales Shortfall over the Escrow Amount.

Provision of indemnities and extension of Escrow Payment Date

A specific indemnity up to a maximum aggregate amount of US$5,000,000 has been given by the Vendors in respect of a conditional licence transfer consent which has been received. This consent has been made conditional upon the continuing employment of Mr. Arnold Rubin with the Funrise Group. The licence to which this consent relates is valid up until 31 December 2008. In addition, as more time than expected is required to obtain all of the licences transfer consents, a general indemnity for the outstanding licences transfer consents has been given by the Vendors up to the full amount of the Consideration. The Directors consider that the specific and general indemnities given by the Vendors are fair and reasonable.

The Escrow Amount is to be held by the Escrow Agent as security, among other things, for the above-mentioned indemnification obligations of the Vendors until 31 December 2008 or a later date, if certain specified events occur (the "Escrow Payment Date"). In the event that there are any outstanding and unresolved claims under such indemnification obligations, the Escrow Agent shall withhold the aggregate amount subject to such claims from any payment to be made to the Vendors pursuant to the net sales adjustment mechanism pending the resolution of such claims.

Conditions precedent

(a) The obligation of Maxibase to consummate the transactions contemplated under the Share Acquisition Agreement was conditional upon the satisfaction, prior to or at Completion, of the following conditions:

(i) the warranties of the Vendors set forth in the Share Acquisition Agreement remaining true and accurate and not misleading as if given as of the date of the Share Acquisition Agreement and as of the date of the Completion and as if given at all times between the date of the Share Acquisition Agreement and the date of the Completion;

(ii) each of the Vendors having complied fully with the obligations specified in the Share Acquisition Agreement and otherwise having performed all of the covenants and agreements required to be performed by it under the Share Acquisition Agreement on or prior to the date of the Completion;

(iii) all necessary notices to or consents, approvals, waivers or authorisations required to be given by third parties to the Vendors for the Acquisition and consummation by the Vendors of the transactions contemplated under the Share Acquisition Agreement and being in full force and effect, and no applicable statute, regulation or decision which would prohibit or restrict the Acquisition, such consummation or the operation of the business of any member of the Funrise Group after Completion having been proposed, enacted or taken by any relevant governmental or official authority;

(iv) no bona fide investigation, action, suit, injunction, order or proceedings being in effect, pending or genuinely threatened as of the date of Completion before any court of competent jurisdiction or by any relevant governmental body which seeks to restrain, prohibit, impose limitations or conditions or otherwise challenge the transactions contemplated by the Share Acquisition Agreement;

(v) during the period from the date of the Share Acquisition Agreement to the date of Completion, there not having occurred, and there not being in existence on the date of Completion, any Material Adverse Effect;

(vi) the transactions contemplated in the Share Acquisition Agreement having been approved by the Shareholders in accordance with the applicable requirements under the Listing Rules; and

(vii) certain other conditions precedent to the obligation of Maxibase to consummate the transactions contemplated under the Share Acquisition Agreement having been fulfilled or waived in accordance with the terms and conditions thereof.

The above conditions are referred to as the "Purchaser's Conditions".

(b) The obligation of the Vendors to consummate the transactions contemplated under the Share Acquisition Agreement was conditional upon the satisfaction, prior to or at Completion, of the following conditions:

(i) the warranties of Maxibase remaining true and accurate and not misleading as if given as of the date of the Share Acquisition Agreement and as of the date of Completion and as if given at all times between the date of the Share Acquisition Agreement and the date of Completion;

(ii) all necessary consents required to be given by third parties to Maxibase for the consummation by Maxibase of the transactions contemplated under the Share Acquisition Agreement having been granted, and being in full force and effect, for the Acquisition, if applicable, and no applicable statute, regulation or decision which would prohibit, restrict or materially delay the Acquisition or the operation of the business to be carried on by Maxibase after the Completion having been proposed, enacted or taken by any relevant governmental or official authority;

(iii) no bona fide investigation, action, suit, injunction, order or proceedings being in effect, pending or genuinely threatened as of the date of the Completion before any court of a competent jurisdiction or by any relevant governmental body which seeks to restrain, prohibit, impose limitations or conditions or otherwise challenge the transactions contemplated by the Share Acquisition Agreement;

(iv) the transactions contemplated in the Share Acquisition Agreement having been approved by the Shareholders in accordance with the applicable requirements under the Listing Rules;

(v) Maxibase having received evidence to its satisfaction that the Funrise Group's credit facilities and have been (or shall be concurrently with the Completion) paid in full and terminated and that any security granted by any of the members of the Funrise Group in connection therewith has been (or shall be concurrently with the Completion) discharged or, at Maxibase's option, the lenders and the relevant Group member under Funrise Group's credit facilities shall have entered into amendments to the documents evidencing Funrise Group's credit facilities and shall have granted all releases and discharges deemed necessary or appropriate by Maxibase, in each case in form and substance satisfactory to Maxibase;

(vi) Maxibase having received evidence to its satisfaction that all loans by any of the Vendors to any member of the Funrise Group have been repaid in full and terminated and that no member of the Funrise Group has any liability towards any of the Vendors;

(vii) certain other conditions precedent to the obligation of the Vendors to consummate the transactions contemplated under the Share Acquisition Agreement having been fulfilled or waived in accordance with the terms and conditions thereof.

The above conditions are referred to as the "Vendors' Conditions".

Maxibase could waive any or all of the Purchaser's Conditions except the approval by the Shareholders ((a)(vi)) and the Vendors could waive any or all of the Vendors' Conditions in writing.

Completion

The Company agreed to waive in part condition (a)(iii) that all necessary licence transfer consents has to be received before Completion.

All conditions to the Share Acquisition Agreement and the Supplemental Agreement respectively have been fulfilled (or waived) on 8 June 2007 and the Completion took place on the same date. As a post-Completion undertaking, the Continuing Vendors shall present, among others, all the outstanding consents on licenses in the approved terms from each of the relevant counterparties in due course.

The Vendors confirmed that the estimated net book value of the Funrise Group at Completion amounted to US$(99,608) (equivalent to approximately HK$(777,000)). In accordance with the Share Acquisition Agreement, the Consideration paid has been adjusted downwards by the same amount.

INFORMATION ON THE FUNRISE GROUP

The Funrise Group is principally engaged in the design, sales and distribution of quality, innovative toys under proprietary and licensed brands. The Funrise Group sources substantially all of its products from various original equipment manufacturers in Asia, many of which have served the Funrise Group since its founding in 1987. The Funrise Group's core property portfolio includes, Gazillion Bubbles®, Nylint®, Home Arcade, and Play 'n Pretty® as well as international licensed brands such as Disney©, Tonka® and ZOOOOS™, amongst others. Funrise has offices in Van Nuys, California, Hong Kong, United Kingdom, and France with additional showrooms in New York City, Bentonville, and Nürnberg. The Funrise Group, post Completion, will continue to be led by its founder, Mr. Arnie Rubin, a long-term toy industry veteran who also serves as the chairman of the Toy Industry Foundation (T.I.F.) and was the former chairman of the Toy Industry Association (T.I.A.). Mr. Lewis Anten will also continue to provide legal assistance for the Funrise Group.

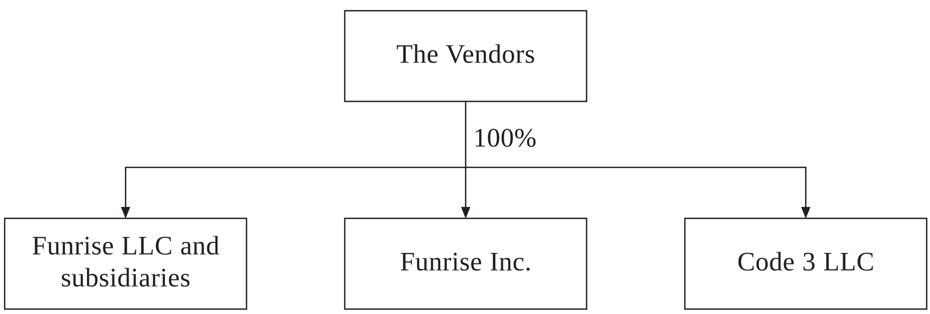
Based on the audited financial statements of the Funrise Group, the audited net book value/(deficit) of each of Funrise LLC, Funrise Inc. and Code 3 LLC as at 31 December 2006 were approximately HK$120.4 million, US$(7.1) million (equivalent to approximately HK$(55.5) million), and US$(5.6) million (equivalent to approximately HK$(43.5) million) respectively.

Based on the audited financial statements of the Funrise Group, the audited net sales of each of Funrise LLC, Funrise Inc. and Code 3 LLC for the year ended 31 December 2005 were approximately HK$607.7 million, US$15.3 million (equivalent to approximately HK$119.7 million), and US$7.9 million (equivalent to approximately HK$61.6 million) respectively. Similarly, the net sales of each of Funrise LLC, Funrise Inc. and Code 3 LLC for the year ended 31 December 2006 were approximately HK$436.4 million, US$10.9 million (equivalent to approximately HK$85.1 million), and US$3.4 million (equivalent to approximately HK$26.8 million) respectively.

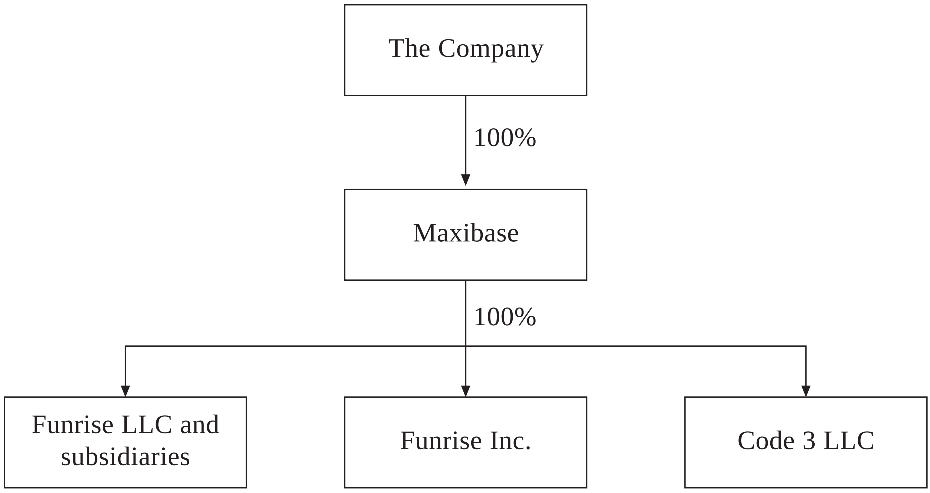
Based on the audited financial statements of the Funrise Group, the audited profit before and after taxation for the year ended 31 December 2005 were approximately HK$9.3 million and approximately HK$9 million respectively for Funrise LLC, approximately US$0.7 million (equivalent to approximately HK$5.7 million) and US$0.7 million (equivalent to approximately HK$5.7 million) respectively for Funrise Inc., and approximately US$0.5 million (equivalent to approximately HK$4.1 million) and US$0.5 million (equivalent to approximately HK$4.1 million) respectively for Code 3 LLC. Similarly, the audited loss before and after taxation for the year ended 31 December 2006 were approximately HK$54.4 million and approximately HK$54.4 million respectively for Funrise LLC, approximately US$4.2 million (equivalent to approximately HK$32.4 million) and US$4.2 million (equivalent to approximately HK$32.4 million) respectively for Funrise Inc., and approximately US$1.3 million (equivalent to approximately HK$10.3 million) and US$1.3 million (equivalent to approximately HK$10.3 million) respectively for Code 3 LLC.

Since Completion, the Company indirectly holds 100% of the equity of the Funrise Group. Set out below are the simplified ownership structures of the Funrise Group prior to and immediately following the Completion:

Simplified ownership structure immediately prior to the Completion



Simplified ownership structure immediately following the Completion



REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group is principally engaged in manufacturing and distribution of gifts, novelties items and infant and pre-school children toys.

The Funrise Group holds various intellectual properties for toys products, including patents and trademarks for proprietary and licensed brands. The Acquisition will therefore expand considerably the product range and design capability of the Group thereby broadening the Group's revenue source and customer base.

Consistent with the Group's stated strategic objective on long-term growth and diversification of the Group's product portfolio, as set out in the 2006 annual report of the Company, the Directors believe that the Group's operations and development will benefit from the Acquisition.

Based on the above, the Directors are of the view that the terms of the Acquisition are fair and reasonable and in the interests of both the Company and the Shareholders.

FINANCIAL EFFECTS OF THE ACQUISITION ON THE GROUP

As at 31 December 2006, the Group recorded an audited net asset value of approximately HK$304 million. Based on the unaudited pro forma statement of assets and liabilities of the Enlarged Group as set out in Appendix V to this circular, the unaudited pro forma consolidated net asset value of the Enlarged Group immediately after Completion is approximately HK$304 million.

Since Completion, the Funrise Group is beneficially owned as to 100% by the Company and, therefore, each of Funrise LLC, Funrise Inc. and Code 3 LLC is an indirect wholly-owned subsidiary of the Company. Accordingly, the financial results of the Funrise Group will be consolidated into those of the Group. The Directors believe that the Acquisition will contribute to the earnings base of the Group in the long run but the quantification of such impact will depend on the future performance of the Funrise Group.

IMPLICATIONS UNDER THE LISTING RULES

The Acquisition constitutes a major transaction of the Company under Chapter 14 of the Listing Rules and is conditional on approval by the Shareholders. In so far as the Company is aware, no Shareholder has any material interest in the Acquisition and will be required to abstain from voting from the resolution to approve the Acquisition. Suncorp, holder of 356,918,800 Shares (representing approximately 56.46% of the entire issued share capital of the Company) as at the Latest Practicable Date, and its ultimate beneficial owner are not interested parties in the Acquisition and their interests in the Acquisition are no different from the other Shareholders. As such, pursuant to Rule 14.44 of the Listing Rules, the written approval provided by Suncorp approving the Acquisition constitutes a valid approval and the Company is not required to convene a physical general meeting to approve the Acquisition.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information contained in the appendices to this circular.

Yours faithfully,
For and on behalf of the Board
Matrix Holdings Limited
Cheng Yung Pun
Chairman

1. AUDITED FINANCIAL INFORMATION

The following is a summary of the audited consolidated results and the assets and liabilities of the Group for each of the last five financial years ended 31 December 2006 as extracted from the respective published audited financial statement and unaudited consolidated results:

	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

The following is an extract of the audited financial statement of the Group for the year ended 31 December 2006 together with notes thereto:

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

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 repurchased 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)
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.

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.

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.

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.

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.

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.

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.

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	**Europe**	**Canada**	**Hong Kong**	**Others**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'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

2005

	United States	**Europe**	**Canada**	**Hong Kong**	**Others**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'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.

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

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

2005

	Fees	Other emoluments: Salaries and allowances	Other emoluments: Contributions to MPFS	Other emoluments: Other benefits *(Note)*	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*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	**2005**
	HK$'000	*HK$'000*
Salaries and allowances	11,507	15,845
Contributions to retirement benefit schemes and MPFS	292	394
	11,799	16,239

Their emoluments are within the following bands:

	2006	**2005**
	No. of employees	**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	**2005**
	HK$'000	*HK$'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.

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	**2005**
	HK$'000	*HK$'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	**2005**
	HK$'000	*HK$'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

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

Number of shares

	2006	**2005**
	'000	*'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

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

	2006	2005
	HK$'000	*HK$'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	2005
	HK$'000	*HK$'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

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	2005
	HK$'000	*HK$'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	**2005**
	HK$'000	*HK$'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	**2005**
	HK$'000	*HK$'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 2006	2005	Nominal value 2006	2005
	'000	*'000*	*HK$'000*	*HK$'000*
Ordinary shares of HK$0.1 each				
Authorised				
At the beginning and end of the year	1,000,000	1,000,000	100,000	100,000
Issued and fully paid				
At the beginning of the year	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

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	Lowest	Aggregate consideration paid
		HK$	*HK$*	*HK$'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	Accelerated accounting depreciation	Revaluation of property, plant and equipment	Retirement benefit obligation	Tax losses	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January, 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

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.

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

	Acquirees' carrying amount before combination	Fair values
	HK$'000	*HK$'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	**2005**
	HK$'000	*HK$'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	**2005**
	HK$'000	*HK$'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	**2005**
	HK$'000	*HK$'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	**2005**
	HK$'000	*HK$'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	**2005**
	HK$'000	*HK$'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.

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.

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.

2. MANAGEMENT DISCUSSION AND ANALYSIS OF THE PERFORMANCE OF THE COMPANY

The following is the management discussion and analysis of the Company as extracted from the annual report of the Company for the year ended 31 December 2006.

BUSINESS REVIEW

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

Toys Operation

Manufacturing

PRC Plant

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

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

Vietnam Plant

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

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

Shelcore Operation

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

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

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

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

Retail Business

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

Printing Operation

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

Marketing and Promotional Operation

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

Financial Review

Liquidity and Financial Resources

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

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

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

Capital Expenditure

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

Assets and Liabilities

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

Sales of Properties

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

Repurchase of Shares

During the year ended 31st December, 2006, the Company repurchased a total of 9,924,000 ordinary shares of the Company of HK$0.10 each on The Stock Exchange 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 products accounts for an increasing percentages of total sales and development of new products including Sunny Steps, Toddler, Shake 'N Bobbles, NASCAR, Loonie Goonies, Sound beginnings and Sheltek for lines extension in the current branded lines.

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

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

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

1. FINANCIAL INFORMATION ON FUNRISE LLC

The following is the test of a report, prepared for the purpose of incorporation in this circular, received from Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants to the Company.

Deloitte.
德勤

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Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
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30 June 2007

To the Board of Directors
Matrix Holdings Limited

Dear Sirs,

We set out below our report on the financial information regarding Funrise Holdings LLC ("Funrise Holdings") and its subsidiaries (hereinafter collectively referred to as the "Funrise Holdings Group") for each of the three years ended 31 December 2006 (the "Relevant Periods") (the "Financial Information") for inclusion in the circular of Matrix Holdings Limited (the "Company") to its shareholders dated 30 June 2007 (the "Circular") in connection with the major transaction in relation to the proposed acquisition of Funrise Holding LLC and its subsidiaries, Funrise Inc. and Code 3 Collectibles LLC (collectively referred to as the "Funrise Group").

Funrise Holdings was incorporated and registered as a limited liability company in the United States of America on 26 June 2006. Pursuant to a group reorganisation carried out subsequent to 31 December 2006 (the "Group Reorganisation"), Funrise Holdings has become the holding company of the companies comprising the Funrise Holdings Group in May 2007.

After the completion of the Group Reorganisation, Funrise Holdings has the following subsidiaries, all of which are private limited companies.

Name of subsidiary	Place and date of incorporation	Issued and fully paid share capital	Equity interest attributable to the Funrise Group	Principal activities
Funrise (Curacao) N.V. ("Funrise (Curacao)")*	The Netherlands 11 April 2007	Ordinary US$2	100%	Investment holding
Funrise (Amsterdam) Coöperatief U.A. ("Funrise Amsterdam")	The Netherlands 23 April 2007	Ordinary shares	100%	Investment holding
Funrise Toys Limited ("Funrise Toys")	Hong Kong 25 August 1992	Ordinary HK$90,000 Redeemable HK$10,000 Preference HK$10,000	100%	Wholesaling, importing and exporting of toys and sales of accessories

Name of subsidiary	Place and date of incorporation	Issued and fully paid share capital	Equity interest attributable to the Funrise Group	Principal activities
Code 3 Collectibles (HK) Limited ("Code 3 HK")	Hong Kong 11 July 1996	Ordinary HK$10,000 Redeemable HK$1,630	100%	Wholesaling, importing and exporting of toys and sales of accessories
Funrise International Limited ("Funrise International")	The United Kingdom 15 January 2002	Ordinary £100	100%	Trading of toys to third parties and provision of agency services to group companies
Funrise France SARL ("Funrise France")	France 30 August 2004	Ordinary Euro3,000	100%	Provision of agency services to group companies
Groundswell Trading Limited ("Groundswell")	Hong Kong 23 November 1993	Ordinary HK$110,000	100%	Provision of management services to group companies
Funrise Toys (HK) Limited ("Funrise HK")	Hong Kong 15 October 1992	Ordinary HK$1,000	100%	Wholesaling, importing and exporting of toys and sales of accessories
Daily Joy Enterprises Limited ("Daily Joy")	Hong Kong 15 September 1992	Ordinary HK$10,000	75%	Holding of motor boat for charter

* Directly held by Funrise Holdings

All the companies comprising the Funrise Holdings Group have adopted 31 December as their financial year end date.

The statutory financial statements of the following companies were prepared in accordance with the relevant accounting rules and regulations applicable to these entities in the places where they were incorporated and were audited by certified public accountants as follows:

Name of company	Financial year	Auditors
Funrise Toys*	Each of the years ended 31 December 2004, 2005 and 2006	KPMG
Funrise HK	Each of the years ended 31 December 2004, 2005 and 2006	KPMG
Code 3 HK	Each of the years ended 31 December 2004, 2005 and 2006	KPMG
Funrise International	Each of the years ended 31 December 2004, 2005 and 2006	HLB Vantis Audit plc
Groundswell	Each of the years ended 31 December 2004, 2005 and 2006	Michael Yam & Company

Name of company	Financial year	Auditors
Daily Joy	Each of the years ended 31 December 2004, 2005 and 2006	R. Kadir & Company

* The statutory financial statements issued by Funrise Toys for each of the years ended 31 December 2004, 2005 and 2006 were consolidation accounts which consolidated the financial statements of Funrise International and Funrise France.

Funrise Holdings was incorporated in 2006, Funrise (Curacao) and Funrise Amsterdam were incorporated in 2007 and no statutory audited financial statements have been issued. No statutory audited financial statements have been prepared for Funrise Holdings since its date of incorporation as it was incorporated in a country where there is no statutory audit requirements.

We have examined the audited financial statements or management accounts of the companies comprising the Funrise Holdings Group (the "Underlying Financial Statements") for the Relevant Periods, or since the respective dates of incorporation of the companies now comprising the Funrise Holdings Group to 31 December 2006, where this is a shorter period. Our examination was made in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The Financial Information of the Funrise Holdings Group for the Relevant Periods set out in this report has been prepared from the Underlying Financial Statements, on the basis set out in note 1 of Section (A), after making such adjustments as we consider appropriate for the purpose of preparing our report for inclusion in the Circular.

The Underlying Financial Statements are the responsibility of the directors of those companies who approve their issue. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an opinion on the Financial Information and to report our opinion to you.

In our opinion, on the basis of presentation set out in note 1 of Section A, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Funrise Holdings Group as at 31 December 2004, 2005 and 2006 and of the state of affairs of Funrise Holdings as at 31 December 2006, and of the combined results and cash flows of the Funrise Holdings Group for the Relevant Periods.

(A) FINANCIAL INFORMATION

Combined income statements

		Year ended 31 December		
		2004	**2005**	**2006**
	NOTES	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	6	441,537	607,731	436,371
Costs of sales		(326,896)	(435,355)	(337,167)
Gross profit		114,641	172,376	99,204
Other income		1,902	1,095	1,166
Selling expenses		(31,871)	(34,606)	(32,742)
Advertising and promotion expenses		(20,929)	(34,025)	(32,475)
Research and development costs		(20,954)	(17,962)	(14,966)
General and administrative expenses		(74,302)	(75,887)	(73,860)
Finance costs	7	(334)	(1,663)	(717)
(Loss) profit before taxation		(31,847)	9,328	(54,390)
Income tax expense	8	(86)	(360)	(12)
(Loss) profit for the year	9	(31,933)	8,968	(54,402)
Attributable to:				
Equity holders of Funrise Holdings		(31,942)	8,981	(54,400)
Minority interests		9	(13)	(2)
		(31,933)	8,968	(54,402)

Balance sheets

		Funrise Holdings Group As at 31 December			Funrise Holdings As at 31 December
		2004	**2005**	**2006**	**2006**
	NOTES	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets					
Property, plant and equipment	12	43,940	46,847	35,834	—
Intangible assets	13	—	—	8,500	—
		43,940	46,847	44,334	—
Current assets					
Inventories	14	4,300	3,588	291	—
Trade and other receivables	15	60,384	75,645	54,057	—
Amounts due from preference shareholders of a subsidiary	16	606	501	9	—
Loans to related parties	17	5,441	6,780	4,034	—
Amounts due from related companies	18	127,884	114,629	128,075	—
Tax recoverable		—	—	123	—
Bank balances and cash	19	7,393	9,315	8,163	—
		206,008	210,458	194,752	—
Current liabilities					
Trade and other payables	20	66,676	72,632	108,986	—
Tax payable		63	346	32	—
Amounts due to preference shareholders of a subsidiary	16	—	—	367	—
Obligations under a finance lease	21	—	141	141	—
Bank borrowings — repayable within one year	22	15,703	7,862	7,849	—
		82,442	80,981	117,375	—
Net current assets		123,566	129,477	77,377	—
Total assets less current liabilities		167,506	176,324	121,711	—
Non-current liabilities					
Obligations under a finance lease	21	—	270	129	—
Bank borrowings — repayable after one year	22	1,744	1,378	1,161	—
		1,744	1,648	1,290	—
		165,762	174,676	120,421	—
Equity					
Share capital	24	123	123	123	—
Reserves		165,489	174,416	120,163	—
Equity attributable to equity holders of Funrise Holdings		165,612	174,539	120,286	—
Minority interests		150	137	135	—
Total equity		165,762	174,676	120,421	—

Combined statements of changes in equity

	Attributable to equity holders of Funrise Holdings							
	Share capital	**Share premium**	**Translation reserves**	**Retained profits**	**Other reserves**	**Total**	**Minority interest**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000 (note)*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2004	123	770	—	194,434	2,200	197,527	141	197,668
(Loss) profit for the year	—	—	—	(31,942)	—	(31,942)	9	(31,933)
Exchange differences arising on translation of foreign operations recognised directly in equity	—	—	27	—	—	27	—	27
Total recognized income and expense for the year	—	—	27	(31,942)	—	(31,915)	9	(31,906)
At 31 December 2004	123	770	27	162,492	2,200	165,612	150	165,762
Profit (loss) for the year	—	—	—	8,981	—	8,981	(13)	8,968
Exchange differences arising on translation of foreign operations recognised directly in equity	—	—	(54)	—	—	(54)	—	(54)
Total recognized income and expense for the year	—	—	(54)	8,981	—	8,927	(13)	8,914
At 31 December 2005	123	770	(27)	171,473	2,200	174,539	137	174,676
Loss for the year	—	—	—	(54,400)	—	(54,400)	(2)	(54,402)
Exchange differences arising on translation of foreign operations recognised directly in equity	—	—	147	—	—	147	—	147
Total recognized income and expense for the year	—	—	147	(54,400)	—	(54,253)	(2)	(54,255)
At 31 December 2006	123	770	120	117,073	2,200	120,286	135	120,421

Note: The amount represents 50% share capital and share premium of Groundswell contributed by controlling shareholders. After the Group Reorganisation, Groundswell will become a wholly owned subsidiary and Funrise Holdings Group has accounted for 100% equity interest in the Groundswell during the Relevant Periods.

Combined cash flow statements

	Year ended 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
OPERATING ACTIVITIES			
(Loss) profit before taxation	(31,847)	9,328	(54,390)
Adjustments for:			
Interest income	(170)	(80)	(110)
Interest expenses	334	1,663	717
Depreciation of property, plant and equipment	25,667	23,231	21,577
Amortisation of intangible assets	—	—	1,267
Impairment loss on property, plant and equipment	4,352	2,759	1,605
Gain on disposal of property, plant and equipment	—	(25)	—
Operating cash flows before movements in working capital	(1,664)	36,876	(29,334)
(Increase) decrease in inventories	(4,300)	712	3,297
(Increase) decrease in trade and other receivables	(15,570)	(15,261)	21,588
Increase in trade and other payables	15,904	5,956	36,354
Cash (used in) generated from operations	(5,630)	28,283	31,905
Tax paid	(25)	(77)	(449)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	(5,655)	28,206	31,456
INVESTING ACTIVITIES			
Purchases of property, plant and equipment	(24,502)	(28,439)	(12,104)
Purchases of intangible assets	—	—	(9,767)
Interest received	170	80	110
Proceeds from disposal of property, plant and equipment	—	25	—
(Advance to) repayment from preference shareholders of a subsidiary	(133)	105	492
(Advance to) repayment from related parties	(1,926)	(1,339)	2,746
(Advance to) repayment from related companies	(3,671)	13,358	(13,581)
NET CASH USED IN INVESTING ACTIVITIES	(30,062)	(16,210)	(32,104)

	Year ended 31 December		
	2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*
FINANCING ACTIVITIES			
Interest paid	(334)	(1,663)	(717)
Advance from preference shareholders of a subsidiary	—	—	367
Repayment of obligations under a finance lease	—	(68)	(141)
Repayment of bank loans	(3,432)	(829)	(365)
Increase (decrease) in bank overdrafts	14,874	(7,378)	135
NET CASH FROM (USED IN) FINANCING ACTIVITIES	11,108	(9,938)	(721)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(24,609)	2,058	(1,369)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	31,988	7,393	9,315
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	14	(136)	217
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	7,393	9,315	8,163

Notes to the financial information

1. BASIS OF PRESENTATION AND PREPARATION OF FINANCIAL INFORMATION

The Financial Information of the Funrise Holdings Group has been prepared by applying the principles of merger accounting as set out in note 3. The combined income statements, combined statements of changes in equity and the combined cash flow statements include the results, changes in equity and cash flows of the companies now comprising the Funrise Holdings Group as if the group structure upon the Group Reorganisation had been in existence throughout the Relevant Periods or since the date of incorporation of the companies now comprising Funrise Holding Group, where this is a shorter period. The combined balance sheets of the Funrise Holdings Group as at 31 December 2004, 2005 and 2006 have been prepared to present the assets and liabilities of the Funrise Holdings Group as if the group structure upon the Group Reorganisation had been in existence at those dates.

The combined Financial Information is presented in Hong Kong dollars, which is the same as the functional currency of Funrise Holdings.

The principal activity of Funrise Holdings is investment holding. The previous ultimate holding company of Funrise Holdings was The A&L Rubin Family LLC a company incorporated in the United States of America ("USA"). On 8 June 2007, Suncorp Investments Group Limited and the Company became the ultimate holding company and the intermediate holding company of Funrise Holdings respectively.

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

The HKICPA issued a number of new and revised Hong Kong Accounting Standards ("HKAS(s)"), Hong Kong Financial Reporting Standards ("HKFRS(s)"), amendments and Interpretations ("INT(s)"), (herein collectively referred to as "New HKFRSs") which are effective for the financial year of the Funrise Holdings Group beginning on or prior to 1 January 2006. For the purposes of preparing and presenting the financial information of the Relevant Periods, the Funrise Holdings Group has adopted all these New HKFRSs consistency throughout the Relevant Periods.

At the date of this report, the HKICPA has issued the following new and revised standards, amendment and INTs but are not yet effective. The directors anticipate that the application of these new and revised standards, amendment and INTs will have no material impact on the results and financial position of the Funrise Holdings Group.

HKAS 1 (Amendment)	Capital disclosures[1]
HKAS 23 (Revised)	Borrowing costs[8]
HKFRS 7	Financial instruments: Disclosures[1]
HKFRS 8	Operating segments[8]
HK(IFRIC) — INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[2]
HK(IFRIC) — INT 8	Scope of HKFRS 2[3]
HK(IFRIC) — INT 9	Reassessment of embedded derivatives[4]
HK(IFRIC) — INT 10	Interim financial reporting and impairment[5]
HK(IFRIC) — INT 11	HKFRS 2 — Group and treasury share transactions[6]
HK(IFRIC) — INT 12	Service concession arrangements[7]

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

3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared under the historical cost basis and in accordance with the accounting policies set out below which are in conformity with HKFRSs. In addition, the combined Financial Information, includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Companies Ordinance. The principal accounting policies adopted are as follows:

Merger accounting for business combination under common control

The Financial Information incorporates the financial statements items of the combining entities in which the common control combination occurs as if they had been combined from the date when the combining entities first came under the control of the controlling party.

The net assets of the combining entities are combined using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The combined income statement includes the results of each of the combining entities from the earliest date presented or since the date when the combining entities first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the Financial Information are presented as if the entities had been combined at the previous balance sheet date or when they first came under common control, whichever is shorter.

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

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 sales discounts and sales returns.

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

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

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight line method.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

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

Impairment

At each balance sheet date, the Funrise Holdings Group reviews the carrying amounts of its tangible and intangible 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.

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.

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.

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

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

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 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 combined Financial Information, the assets and liabilities of the Funrise Holdings Group's foreign operations are translated into the presentation currency of the Funrise Holdings 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 combined income statement in the period in which they are incurred.

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 combined 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 Funrise Holdings Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by each 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 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 combined 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.

Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the combined income statement when the asset is derecognised.

Impairment

Intangible assets with finite useful lives are tested for impairment when there is an indication that an asset may be impaired.

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 Relevant Period to the defined contribution retirement benefit plans by the Funrise Holdings Group, are charged as an expense when employees have rendered service entitling them to the contributions.

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 are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Funrise Holdings Group's financial assets are classified as loans and receivables. The accounting policy adopted in respect of each category of financial assets is set out below.

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, amounts due from preference shareholders of a subsidiary, loans to related parties, amounts due from related companies 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.

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 Funrise Holdings 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, amounts due to preference shareholders of a subsidiary, and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by entities comprising the Funrise Holdings Group are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Funrise Holdings 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.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Funrise Holdings Group's accounting policies which are described in note 3, the management has made the following estimations that have significant effects on amounts recognised in the Financial Information. The key assumptions concerning the future, and other key sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next twelve months are discussed below.

Deferred income tax assets

The Funrise Holdings Group reviews the carrying amounts of deferred tax assets at each balance sheet date and reduces deferred tax assets to the extent that it is no longer probable that sufficient taxable income tax liability will be available to allow all or part of the deferred tax assets to be utilised or offset. Details of unused tax losses not recognised amounted to approximately HK$72,419,000 as at 31 December 2006 (see in note 23). The unused tax losses not recognised may be crystallised if the actual future profits generated are more than expected.

As at 31 December 2006, deferred tax assets of approximately HK$3,056,000 was recognised and offset against deferred tax liabilities. If there is no sufficient taxable income/tax liability available to allow all or part of deferred tax assets to be utilised or offset, a reversal of deferred tax assets may arise.

5. FINANCIAL INSTRUMENTS

Financial risk management objectives and policies

The Funrise Holdings Group's major financial instruments include trade and other receivables, loans to related parties, bank balances, trade and other payables, amounts due from related companies and bank borrowings. 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.

Market risk

Currency risk

Several companies in the Funrise Holdings Group have foreign currency sales and purchases, which expose the Funrise Holdings Group to foreign currency risk. Certain trade and other receivables amounts due from fellow subsidiaries, trade receivables, trade payables and other payables of the Funrise Holdings Group are denominated in foreign currencies and the amounts are disclosed in notes 15, 18 and 20 respectively. The Funrise Holdings 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.

Interest rate risk

The Funrise Holdings Group has exposure to cash flow interest rate risk related primarily to variable rate bank borrowings (see note 22 for details of these borrowings). It is the Funrise Holdings Group's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

Credit risk

The Funrise Holdings Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at each balance sheet date in relation to each class of recognised financial assets is the carrying amounts of those assets as stated in the combined balance sheet. The Funrise Holdings Group has concentration of credit risk with exposure to the fellow subsidiaries as disclosed in note 18. In order to minimise the credit risk, the Funrise Holdings Group has monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Funrise Holdings Group reviews the recoverable amount of each individual trade debt and the amounts due from related companies at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regards, the directors of Funrise Holdings consider that the Funrise Holdings 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.

Fair value

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 other financial assets and financial liabilities recorded at amortised cost in the combined Financial Information approximate their fair values.

6. REVENUE, BUSINESS AND GEOGRAPHICAL SEGMENTS

The Funrise Holdings Group is mainly engaged in the wholesaling, importing and exporting of toys and sales of accessories connected with its product range. 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 of business segment is presented. The directors of Funrise Holdings consider the geographical segments by location of customers as the primary source of the Funrise Holdings Group's risks and returns.

The Funrise Holdings Group's customers are mainly located in the USA. The following table provides an analysis of the Funrise Holdings Group's segment information by geographical location of its customers:

Combined income statement for the year ended 31 December 2004

	USA	**Europe**	**Others**	**Combined**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
TURNOVER				
External sales	308,582	74,987	57,968	441,537
RESULTS				
Segment results	55,330	17,326	17,249	89,905
Unallocated income				1,902
Unallocated expenses				(123,320)
Finance costs				(334)
Loss before taxation				(31,847)
Income tax expense				(86)
Loss for the year				(31,933)

Combined balance sheet as at 31 December 2004

	USA	**Europe**	**Others**	**Combined**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS				
Segment assets	35,591	11,026	4,901	51,518
Unallocated corporate assets				198,430
				249,948
LIABILITIES				
Segment liabilities	40,628	11,305	3,819	55,752
Unallocated corporate liabilities				28,434
				84,186

Combined income statement for the year ended 31 December 2005

	USA	Europe	Others	Combined
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
TURNOVER				
External sales	430,006	104,192	73,533	607,731
RESULTS				
Segment results	82,160	25,008	20,276	127,444
Unallocated income				1,095
Unallocated expenses				(117,548)
Finance costs				(1,663)
Profit before taxation				9,328
Income tax expense				(360)
Profit for the year				8,968

Combined balance sheet as at 31 December 2005

	USA	Europe	Others	Combined
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS				
Segment assets	50,025	17,696	5,847	73,568
Unallocated corporate assets				183,737
				257,305
LIABILITIES				
Segment liabilities	46,005	9,942	7,156	63,103
Unallocated corporate liabilities				19,526
				82,629

Combined income statement for the year ended 31 December 2006

	USA	Europe	Others	Combined
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
TURNOVER				
External sales	284,800	83,842	67,729	436,371
RESULTS				
Segment results	23,088	15,123	18,686	56,897
Unallocated income				1,166
Unallocated expenses				(111,736)
Finance costs				(717)
Loss before taxation				(54,390)
Income tax expense				(12)
Loss for the year				(54,402)

Combined balance sheet as at 31 December 2006

	USA	Europe	Others	Combined
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS				
Segment assets	31,319	12,393	5,884	49,596
Unallocated corporate assets				189,490
				239,086
LIABILITIES				
Segment liabilities	71,712	17,665	10,271	99,648
Unallocated corporate liabilities				19,017
				118,665

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

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

	Carrying amounts of segment assets			Additions to property, plant and equipment and intangible assets		
	2004	**2005**	**2006**	**2004**	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong	88,724	113,691	91,725	24,410	28,442	21,871
Europe	6,734	6,724	2,205	92	476	—
	95,458	120,415	93,930	24,502	28,918	21,871

7. FINANCE COSTS

	Year ended 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Interest on bank borrowings:			
— wholly repayable within five years	286	1,603	617
— not wholly repayable within five years	48	58	78
	334	1,661	695
Finance lease	—	2	22
	334	1,663	717

8. INCOME TAX EXPENSE

	Year ended 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Current tax:			
Hong Kong	40	123	12
Other jurisdictions	60	237	—
	100	360	12
Overprovision in prior years:			
Other jurisdictions	(14)	—	—
	86	360	12

Hong Kong Profits Tax is calculated at 17.5% on the estimated assessable profit for the Relevant Periods.

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

The income tax expense for the year can be reconciled to the (loss) profit per the combined income statement as follows:

	Year ended 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
(Loss) profit before taxation	(31,847)	9,328	(54,390)
Taxation at the domestic tax rate of 17.5% (2005: 17.5%, 2006: 17.5%)	(5,573)	1,632	(9,518)
Tax effect of expenses not deductible for tax purposes	562	177	854
Tax effect of income not taxable for tax purposes	(158)	(153)	(173)
Tax effect of tax losses not recognised	5,265	—	8,844
Tax effect of utilisation of tax losses previously not recognised	—	(1,378)	—
Overprovision in prior years	(14)	—	—
Effect of different tax rates of subsidiaries operating in other jurisdictions	4	82	5
Income tax expense for the year	86	360	12

9. (LOSS) PROFIT FOR THE YEAR

	Year ended 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
(Loss) profit for the year has been arrived at after charging (crediting):			
Auditors' remuneration	567	535	597
Amortisation of intangible assets (included in costs of sales)	—	—	1,267
Depreciation of property, plant and equipment	25,667	23,231	21,577
Net exchange loss (gain)	1	2,416	(641)
Staff costs:			
Salaries and other benefits	30,850	32,951	33,897
Retirement benefits schemes contributions	1,195	1,209	1,221
	32,045	34,160	35,118
Cost of inventories recognised as expenses	225,734	312,353	243,557
Impairment loss on property, plant and equipment	4,352	2,759	1,605
Gain on disposal of property, plant and equipment	—	(25)	—
Operating lease payments in respect of rented premises	5,170	5,015	4,088
Interest income on bank deposits	(170)	(80)	(110)

10. (LOSS) EARNINGS PER SHARE

(Loss) earnings per share is not presented herein as the directors of Funrise Holdings do not consider such information to be meaningful in the context of the Financial Information.

11. DIRECTORS' AND EMPLOYEES' REMUNERATION

Directors' remuneration

Funrise Holdings was incorporated in 2006 and no director was appointed after its incorporation. Therefore, there was no directors' remuneration for the Funrise Holdings Group for each of the three years ended 31 December 2006.

Employees' remuneration

Details of remuneration for the five highest paid employees of the Funrise Holdings Group for each of the three years ended 31 December 2006 are as follows:

	Year ended 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Salaries, allowances and other benefits	13,747	14,365	16,311
Contributions to retirement benefits schemes	284	312	337
	14,031	14,677	16,648

Their emoluments were within the following bands:

	Year ended 31 December		
	2004	**2005**	**2006**
	Number of employees	**Number of employees**	**Number of employees**
HK$1,000,001 to HK$1,500,000	1	1	1
HK$1,500,001 to HK$2,000,000	2	1	—
HK$2,000,001 to HK$2,500,000	1	2	3
HK$7,000,001 to HK$7,500,000	1	1	—
HK$8,000,001 to HK$8,500,000	—	—	1
	5	5	5

12. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings *HK$'000*	Moulds *HK$'000*	Furniture, fixtures and equipment *HK$'000*	Motor vehicles *HK$'000*	Vessels *HK$'000*	Total *HK$'000*
FUNRISE HOLDINGS GROUP						
COST						
At 1 January 2004	9,700	192,800	15,313	954	1,010	219,777
Exchange adjustments	—	—	17	—	—	17
Additions	76	23,487	939	—	—	24,502
Disposals	—	(681)	—	—	—	(681)
At 31 December 2004	9,776	215,606	16,269	954	1,010	243,615
Exchange adjustments	(8)	—	(21)	—	—	(29)
Additions	453	25,949	2,037	479	—	28,918
Disposals	—	—	—	(487)	—	(487)
At 31 December 2005	10,221	241,555	18,285	946	1,010	272,017
Exchange adjustments	73	—	29	—	—	102
Additions	—	11,994	110	—	—	12,104
At 31 December 2006	10,294	253,549	18,424	946	1,010	284,223
DEPRECIATION AND IMPAIRMENT LOSS						
At 1 January 2004	741	155,226	12,450	938	978	170,333
Exchange adjustments	—	—	4	—	—	4
Provided for the year	201	23,712	1,706	16	32	25,667
Impairment loss recognised in the income statement	—	4,352	—	—	—	4,352
Eliminated on disposals	—	(681)	—	—	—	(681)
At 31 December 2004	942	182,609	14,160	954	1,010	199,675
Exchange adjustments	(2)	—	(6)	—	—	(8)
Provided for the year	312	20,940	1,835	144	—	23,231
Impairment loss recognised in the income statement	—	2,759	—	—	—	2,759
Eliminated on disposals	—	—	—	(487)	—	(487)
At 31 December 2005	1,252	206,308	15,989	611	1,010	225,170
Exchange adjustments	21	—	16	—	—	37
Provided for the year	331	20,039	1,063	144	—	21,577
Impairment loss recognised in the income statement	—	1,605	—	—	—	1,605
At 31 December 2006	1,604	227,952	17,068	755	1,010	248,389
CARRYING VALUES						
At 31 December 2004	8,834	32,997	2,109	—	—	43,940
At 31 December 2005	8,969	35,247	2,296	335	—	46,847
At 31 December 2006	8,690	25,597	1,356	191	—	35,834

The above items of property, plant and equipment are depreciated on a straight-line basis, at the following rates per annum:

Leasehold land and buildings	Over the term of the leases
Furniture, fixtures and equipment	25%–33%
Motor vehicles	25% or over the term of the lease
Vessels	20%
Moulds	17% to 50%

The carrying values of the leasehold land and buildings are analysed below:

	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
In Hong Kong under medium term lease	8,777	8,595	8,413
Outside Hong Kong under short lease	57	374	277
	8,834	8,969	8,690

The directors of Funrise Holdings consider the leasehold land and the buildings elements of the properties cannot be allocated reliably, as a result, the leasehold land continues to be accounted for as property, plant and equipment.

The carrying values of motor vehicles of approximately HK$335,000 and HK$191,000 respectively as at 31 December 2005 and 2006 are held under a finance lease.

The Funrise Holdings Group pledged leasehold land and buildings having carrying values of approximately HK$8,777,000, HK$8,595,000 and HK$8,413,000 as at 31 December 2004, 2005 and 2006 respectively, to secure its bank loans.

During the Relevant Periods, the directors conducted reviews of the Funrise Holdings Group's property, plant and equipment and determined that some of the moulds were impaired. Accordingly, impairment losses of approximately HK$4,352,000, HK$2,759,000 and HK$1,605,000 have been recognised in the years ended 31 December 2004, 2005 and 2006 respectively.

13. INTANGIBLE ASSETS

	Software
	HK$'000
COST	
At 1 January 2004, 31 December 2004 and 31 December 2005	—
Addition	9,767
At 31 December 2006	9,767
AMORTISATION	
At 1 January 2004, 31 December 2004 and 31 December 2005	—
Charge for the year	1,267
At 31 December 2006	1,267
CARRYING VALUES	
At 31 December 2004 and 31 December 2005	—
At 31 December 2006	8,500

The software used in toys product was acquired from external parties, and is amortised on a straight-line basis over their estimated useful lives of 4 years.

14. INVENTORIES

All inventories are finished goods.

15. TRADE AND OTHER RECEIVABLES

	As at 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Trade receivables	28,636	54,744	37,802
Less: Accumulated impairment	(257)	(257)	(257)
	28,379	54,487	37,545
Other receivables	32,005	21,158	16,512
Trade and other receivables	60,384	75,645	54,057

The Funrise Holdings Group allows an average credit period ranging from 30 days to 60 days to its customers. An aging analysis of the Funrise Holdings Group's trade receivables at the respective balance sheet dates is as follows:

	As at 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
0–30 days	24,507	44,858	34,502
31–60 days	202	3,866	1,227
61–90 days	757	1,254	—
Over 90 days	2,913	4,509	1,816
	28,379	54,487	37,545

The trade receivables and other receivables denominated in the currencies which are not the functional currencies of the relevant group entities are as follows:

	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
United States Dollars	47,906	56,718	46,062
British Pound	1,598	5,551	2,489
Euro	—	417	511

16. AMOUNTS DUE FROM/TO PREFERENCE SHAREHOLDERS OF A SUBSIDIARY

Amounts due from/to preference shareholders of a subsidiary are unsecured, interest-free and are repayable on demand.

17. LOANS TO RELATED PARTIES

Particulars regarding the loans to related parties are as follows:

	At 1 January	**At 31 December**			**Maximum amount outstanding during the year ended 31 December**		
	2004	**2004**	**2005**	**2006**	**2004**	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Arnold Edward Rubin	3,258	4,936	5,765	3,766	4,936	5,765	5,765
Lewis Anten	257	505	1,015	268	505	1,015	1,015
	3,515	5,441	6,780	4,034			

Arnold Rubin and Lewis Anten are directors of the companies in the Funrise Holdings Group. Both are the beneficial owners of Funrise Holdings.

Loans to related parties were unsecured, non-interest bearing and were repayable on demand.

18. AMOUNTS DUE FROM RELATED COMPANIES

Amounts due from related companies are unsecured, interest-free and are repayable on demand.

The related companies refer to companies with common shareholders as Funrise Holdings.

The whole amount is denominated in United States dollars which is not the functional currency of the relevant group entities.

19. BANK BALANCES AND CASH

The bank balances carried interest at effective interest rate of 2.63%, 3.86% and 1.72% for the years ended 31 December 2004, 2005 and 2006 respectively.

20. TRADE AND OTHER PAYABLES

An aging analysis of Funrise Holdings Group's trade payables at the respective balance sheet dates is as follows:

	As at 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Trade payables aged			
0–30 days	26,040	36,052	36,862
31–60 days	315	3,258	26,964
61–90 days	42	53	7,349
Over 90 days	1,174	2,965	12,282
	27,571	42,328	83,457
Other payables	39,105	30,304	25,529
Trade and other payables	66,676	72,632	108,986

The trade payables and other payables denominated in other currencies which are not functional currencies of the relevant group entities are as follows:

	2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*
United States Dollars	30,481	25,489	34,671
British Pound	1,401	639	2,319
Euro	—	716	907

21. OBLIGATIONS UNDER A FINANCE LEASE

The Funrise Holdings Group leases its motor vehicles under a finance lease. The lease term is three years. Interest rates fixed at the contract date is 10%. No arrangements have been entered into for contingent rental payments.

	Minimum lease payments			Present value of minimum lease payments		
	2004	2005	2006	2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Amounts payable under a finance lease						
Within one year	—	163	163	—	141	141
In more than one year but not exceeding five years	—	313	150	—	270	129
	—	476	313	—	411	270
Less: future finance charges	—	(65)	(43)	—	—	—
Present value of lease obligations	—	411	270	—	411	270
Less: Amount due for settlement within 12 months (shown under current liabilities)				—	(141)	(141)
Amount due for settlement after 12 months				—	270	129

The obligations under the finance lease are denominated in Hong Kong dollars.

The Funrise Holdings Group's obligations under the finance lease are secured by the lessor's charge over the leased assets.

22. BANK BORROWINGS

	As at 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Bank overdrafts	14,874	7,496	7,631
Bank loans	2,573	1,744	1,379
	17,447	9,240	9,010
Secured	13,117	9,240	8,252
Unsecured	4,330	—	758
	17,447	9,240	9,010
Carrying amount repayable:			
On demand or within one year	15,703	7,862	7,849
More than one year but not exceeding two years	366	218	230
More than two years but not more than five years	690	728	767
More than five years	688	432	164
	17,447	9,240	9,010
Less: Amounts due within one year shown under current liabilities	(15,703)	(7,862)	(7,849)
Amounts due after one year	1,744	1,378	1,161

The bank borrowings denominated in other currencies which are not functional currencies of the relevant group entities are as follows:

	As at 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
United States Dollars	777	159	—

As at 31 December 2004, 2005 and 2006, bank loans were secured by certain leasehold land and buildings as disclosed in note 12.

The ranges of effective interest rates (which also equal to contracted interest rates) on the borrowings of the Funrise Holdings Group are as follows:

	2004	**2005**	**2006**
Effective interest rate per annum:			
Variable-rate borrowings	2.65% to 6.5%	5.3% to 9.25%	5.25% to 9%

23. DEFERRED TAXATION

The followings are the major deferred tax assets (liabilities) recognised and movement thereon during the Relevant Periods.

	Accelerated tax depreciation	Tax losses	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2004	2,759	(2,759)	—
Charge (credit) to combined income statement for the year	3,095	(3,095)	—
At 31 December 2004	5,854	(5,854)	—
Charge (credit) to combined income statement for the year	344	(344)	—
At 31 December 2005	6,198	(6,198)	—
(Credit) charge to combined income statement for the year	(3,142)	3,142	—
At 31 December 2006	3,056	(3,056)	—

At 31 December 2004, 2005 and 2006, the Funrise Holdings Group had unused tax losses of approximately HK$45,745,000, HK$39,836,000 and HK$72,419,000 available for offset against future profits respectively. A deferred tax asset had been recognised in respect of such losses amounting to HK$33,451,000, HK$35,417,000 and HK$17,463,000 as at 31 December 2004, 2005 and 2006 respectively. No deferred tax asset has been recognised in respect of the remaining tax losses of HK$12,294,000, HK$4,419,000 and HK$54,956,000 as at 31 December 2004, 2005 and 2006 respectively due to the unpredictability of future profit streams.

24. SHARE CAPITAL

Funrise Holdings was incorporated on 26 June 2006, no share capital was issued from the incorporation date to 31 December 2006.

For the purpose of this report, the share capital of the Funrise Holdings Group as at 31 December 2004, 2005 and 2006 represents the aggregate issued share capital of Funrise Toys, Code 3 HK, Groundswell and Funrise HK.

25. CONTINGENT LIABILITIES

(i) Financial guarantees issued

Guarantees were given to a subsidiary's director in respect of banking facilities extended to the said director amounting to approximately HK$2,340,000 as at 31 December 2004. No provision for financial guarantee was not accounted for as the amount included is, as in the opinion of management insignificant.

(ii) Legal claim

A judgement was made by the court in France against a subsidiary of the Funrise Holdings Group regarding the termination of an agency agreement. The amount awarded to the plaintiff by the court including accrued interest to 31 December 2006 to be paid by the group company was approximately HK$14,132,000. The subsidiary has filed an appeal against the judgment. The subsidiary's also filed claims to the court against the plaintiff for the ownership of the "Funrise" Trademark to be returned to the group company. In addition, the plaintiff filed for bankruptcy protection in year 2002, and at the time the subsidiary's lawyers submitted a serious claims of which approximately HK$4,583,000 was accepted by the liquidator which represented approximately 48% of the total claim admitted by the liquidator.

Based on the advice of the lawyers, the management of the Funrise Holdings Group is of the opinion that the aforementioned claim's pending for final judgement and it would not result in any material adverse effects on the financial position of the Funrise Holdings Group. Accordingly no provision is required to be made in these combined financial information.

26. OPERATING LEASES

Funrise Holdings Group as lessee

At the balance sheet dates, the Funrise Holdings Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of leasehold land and premises which fall due as follows:

	As at 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Within one year	4,651	3,720	3,151
In the second to fifth year inclusive	1,657	5,896	2,498
	6,308	9,616	5,649

Leases are negotiated and rentals are fixed for an average term of 2 to 6 years.

27. CAPITAL COMMITMENTS

	As at 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the Financial Information	4,034	2,212	924

28. MAJOR NON-CASH TRANSACTION

In 2005, the Funrise Holdings Group entered into a finance lease arrangement in respect of motor vehicles with a total capital value at the inception of the lease of approximately HK$479,000.

29. RELATED PARTY TRANSACTIONS

Apart from the amounts due from/to related parties and related party transaction as set out on the combined balance sheets and the related notes to the Financial Information, during the Relevant Periods, the companies comprising the Funrise Holdings Group entered into the following transactions with related companies:

	Year ended 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Sales of goods to related companies	65,758	80,226	51,059
Administrative fee paid to a related company	6,276	5,616	5,398
Legal fee paid to a shareholder of Funrise Holdings	1,018	1,035	907

Guarantees have been given to a bank by the ultimate holding company and a shareholders of Funrise Holdings in respect of banking facilities extended to the Funrise Holdings Group amounting to approximately HK$110,400,000, HK$86,300,000 and HK$32,300,000 as at 31 December 2004, 2005 and 2006 respectively.

Compensation of key management personnel

The remuneration of the key management personnel during the Relevant Periods was as follows:

	Year ended 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Short-term benefits	14,499	15,191	17,444

(B) SUBSEQUENT EVENTS

1. On 30 April 2007, the Company announced a proposed acquisition of the Funrise Group and the acquisition was completed on 8 June 2007.

2. Subsequent to 31 December 2006, the shareholders of Funrise Holdings have procured the Group Reorganisation to take place in order to facilitate the proposed acquisition.

3. On 25 May 2007, Funrise Holdings declared dividends in specie of approximately HK$94,660,000 (equivalent to US$10,700,000), the dividends in specie were effected by way of the assignment of the amounts due from related companies totalling HK$83,460,000 and the transfer of the shares of a subsidiary, Funrise Properties Limited, which was incorporated on 19 April 2007 valued at HK$11,200,000 to the Funrise Holdings Group's shareholders.

(C) SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Funrise Holdings or any of the companies now comprising the Funrise Holdings Group in respect of any period subsequent to 31 December 2006.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

2. MANAGEMENT DISCUSSION AND ANALYSIS OF THE PERFORMANCE OF FUNRISE LLC

The following discussion and analysis of the performance of Funrise LLC's operating results should be read in conjunction with the combined financial information for the three years ended 31 December 2006 set forth in the section headed "Financial information on Funrise LLC" in this appendix.

OVERVIEW

Funrise LLC serves as the holding company for the Hong Kong and European entities of the Funrise Group, which collectively source, distribute and sell toy products worldwide, principally to related entities based in the United States and Europe.

Result of past performance of Funrise LLC

Financial year ended 31 December 2004 compared to financial year ended 31 December 2003

Funrise LLC recorded net sales of HK$441,537,000 for the year ended 31 December 2004. Funrise LLC generated gross profit of HK$114,641,000, representing a gross profit margin of 26.0%. For the year ended 31 December 2004, United States and Europe market represented 70% and 17% of Funrise LLC's turnover. During 2004, financial results continued to be impacted by the aftermath of the SARS epidemic and its effect on the toy industry. From March 2003 through August 2003, the SARS epidemic limited travel from the United States to China and Hong Kong and disrupted the buying cycle in Asia. Customers such as Wal-Mart, Funrise LLC's largest customer, refused to travel to Asia. Sales efforts depend on travel to Asia, and as a result of SARS, Funrise LLC was unable to properly market its products during 2003 and into 2004. These external factors, which adversely affected sales and marketing activities, together with few new product introductions, resulted in sales that were meaningfully below sales levels in the 2000 to 2002 period and contributed to lower than expected sales levels.

Financial year ended 31 December 2005 compared to financial year ended 31 December 2004

Funrise LLC recorded net sales of HK$607,731,000 for the year ended 31 December 2005, representing an increase of approximately 37.6% over the prior year. Funrise LLC generated gross profit of HK$172,376,000, representing an increase of approximately 50.4% over the prior year and a gross profit margin of 28.4%. For the year ended 31 December 2005, United States and Europe market represented 71% and 17% of Funrise LLC's turnover. Both net sales and net income (loss) increased in 2005 versus 2004 as a result of several new product introductions and solid performance from its truck category, which includes the *Tonka*® and *Nylint*® brands. New items launched under the *Gazillion Bubbles*®, *Home Arcade and Code 3 Collectibles*® brand names generated substantial sales increases within their product segments. New product lines included *Fan Yang*™ and *Doctor Dreadful*™. The solid performance of the *Tonka*® and *Nylint*® product lines and the additional sales volume and contribution achieved by new product introductions resulted in increased net income in 2005 versus 2004.

Financial year ended 31 December 2006 compared to financial year ended 31 December 2005

Funrise LLC recorded net sales of HK$436,371,000 for the year ended 31 December 2006, representing a decrease of approximately 28.2% from the prior year. Funrise LLC generated gross profit of HK$99,204,000, representing a decrease of approximately 42.4% over the prior year and a gross profit margin of 22.7%. For the year ended 31 December 2006, United States and Europe market represented 65% and 19% of Funrise LLC's turnover. Both net sales and net income (loss) decreased in 2006 versus 2005 primarily as a result of a mediocre sales environment at retail in the toy industry during 2006 and the poor performance of two new product categories that negatively impacted total net sales and profits during the year. Sales of the *Nylint*®-branded *Rock Crawler* radio controlled vehicles decreased substantially in 2006 due to overstock situations with certain retailers of the *Rock Crawler* product. In addition to the drop in sales related to its *Rock Crawler* product, high than expected charge-backs adversely impacted profitability. Additionally, sales of *POG* products fell well below expectations and resulted in additional charges to earnings. Based upon the disappointing performance of *Rock Crawler* and *POG*, Funrise LLC discontinued these product categories in 2006. While the *Rock Crawler* and *POG* product categories adversely impacted the sales and net income (loss) during 2006, Funrise LLC experienced solid performance in its core product categories including *Tonka*®, *Gazillion Bubbles*®, *Play'N Pretty*™ and *Head Bangers*™. In addition, during the fourth quarter of 2006, Funrise LLC implemented operating cost reductions to improve profitability in future periods.

FINANCIAL REVIEW

Liquidity and Financial Resources

Funrise LLC utilises cash flow from operations, bank overdraft facilities and short term letter of credit facilities to fund its working capital, operating needs and capital expenditure requirements.

Funrise LLC has bank overdraft facilities with foreign banks of around HK$9 million, secured by certain personal property and certain stockholder, officer and related party guarantees. As of 31 December 2006, 2005 and 2004, the outstanding balance under these facilities was HK$7,631,000, HK$7,496,000, and HK$14,874,000 respectively.

At 31 December 2006, 2005 and 2004, Funrise LLC had long-term debt outstanding in the amounts of HK$1,161,000, HK$1,378,000 and HK$1,744,000 respectively.

Gearing Ratio

Funrise LLC's gearing ratio, representing the total debt divided by equity attributable to equity holders of the Funrise LLC, as of 31 December 2006, 2005 and 2004 was 7.7%, 5.5% and 10.5% respectively.

Capital Expenditures

During the three financial year ended 31 December 2006, Funrise LLC had made capital expenditures of HK$24,502,000, HK$28,918,000 and HK$21,871,000 respectively. These capital expenditures were primarily related to investments in tooling and moulds for new products and property, plant and equipment related to the operations of Funrise LLC. These capital expenditures were financed primarily by cash flow generated from operations, borrowings and certain capitalised lease obligations.

Assets and Liabilities

At 31 December 2006, 2005 and 2004, Funrise LLC had total assets of approximately HK$239,086,000, HK$257,305,000 and HK$249,948,000 respectively; total liabilities of approximately HK$118,665,000, HK$82,629,000 and HK$84,186,000 respectively; and total net worth of approximately HK$120,421,000, HK$174,676,000 and HK$165,762,000 respectively.

Exchange Rate Risk

Funrise LLC uses the US dollar as its functional currency and translates monetary assets and liabilities at year-end exchange rates, and property and equipment and non-monetary assets and liabilities at historical rates. Income and expenses were translated at the average rate in effect during each year. Adjustments resulting from the translation of these companies are included in the results of operations.

Contingent Liabilities

(i) *Royalty Commitments*

Funrise LLC has entered into contracts with various licensors, whereby it agreed to pay royalties at rates ranging between 2% and 18% on sales of any items licensed from these licensors. These licensing agreements expire in years ranging from 2006 through 2009. As of 31 December 2006, Funrise LLC has guaranteed future minimum royalty payments as follows:

Year ending 31 December	*HK$*
2007	11,252,000
2008	5,698,000
2009	273,000
Total	17,223,000

(ii) *Litigation*

A subsidiary of Funrise LLC is a defendant in a trademark infringement and termination of agency agreement lawsuit in France. The court awarded the plaintiff approximately HK$14,132,000 against which Funrise LLC has filed an appeal. The management and attorneys of Funrise LLC believe that it is probable that the appeal will be successful and there will be no material adverse effect on Funrise LLC's financial position. As of 31 December 2006, 2005 and 2004, no provision had been made in the financial statements for the purpose of this litigation.

NUMBER OF EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2006, 2005 and 2004, Funrise LLC had a total of approximately 84, 83 and 95 employees in Hong Kong, the United Kingdom and France. Funrise LLC provides compensation and benefits that are competitive within the toy industry. Principal employee benefits for full-time employees include medical insurance, dental insurance, a 401(k) plan and paid vacation, depending on tenure. Funrise LLC also provides discretionary bonuses for key executives that vary depending on the financial performance of the Funrise Group.

PROSPECTS

Based on (i) focusing resources on core product categories (Vehicles, Bubbles, Activities and Games), (ii) executing on updating the product lines in these core product categories during 2006, (iii) introducing new products within these product categories and the decision to not venture into new, more speculative product categories as the Funrise Group did in 2006, the Funrise Group has experienced solid performance from its customer base in the first quarter of 2007 and is experiencing solid indications from its customers for business in the remainder of 2007. The Funrise Group intends to continue to leverage its core product categories and selectively utilise the licenses of entertainment properties to enhance its core product offerings. Funrise LLC does not expect to make any material capital expenditure.

1. FINANCIAL INFORMATION ON FUNRISE INC.

For the purpose of this circular, the following is the text of a report prepared by Deloitte Touche Tohmatsu (Certified Public Accountants) based on the audited financial statements which were audited by Green Hasson & Janks LLP (Certified Public Accountants) for the three years ended 31 December 2006.

Deloitte.
德勤

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Deloitte Touche Tohmatsu
35/F One Pacific Place
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30 June 2007

To the Board of Directors
Matrix Holdings Limited

Dear Sirs,

We set out below our report on the financial information of Funrise Inc. ("Funrise") for each of the three years ended 31 December 2006 (the "Relevant Periods") (the "Financial Information") for inclusion in the circular of Matrix Holdings Limited (the "Company") dated 30 June 2007 (the "Circular") in connection with the major transaction in relation to the proposed acquisition of Funrise Holdings LLC and its subsidiaries, Funrise Inc. and Code 3 Collectibles LLC (collectively referred to as the "Funrise Group").

Funrise was incorporated and registered in the United States of America as an exempted company with limited liability on 2 June 1987. Funrise is principally engaged in the wholesale distribution and importation of toys and sales of accessories connected with its product range, primarily in the United States of America.

The financial statements of Funrise for the Relevant Periods (the "Underlying Financial Statements") were prepared in accordance with accounting principles generally accepted in the United States of America and were audited by Green Hasson & Janks LLP, an independent firm of certified public accountants based in the United States of America.

For the purpose of this report, we have examined the Underlying Financial Statements for the Relevant Periods in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the Hong Kong Institute of Certified Public Accountants.

The Financial Information of Funrise for the Relevant Periods set out in this report has been prepared from the Underlying Financial Statements on the basis set out in note 1 to the Financial Information after making such adjustments as we consider appropriate for the purpose of preparing our report for inclusion in the Circular.

The Underlying Financial Statements are the responsibility of the directors of Funrise. The directors of Matrix Holdings Limited are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of Funrise as at 31 December 2004, 2005 and 2006 and of the results and cash flows of Funrise for the Relevant Periods.

(A) FINANCIAL INFORMATION

Income Statements

		Year ended 31 December		
		2004	2005	2006
	Notes	*US$'000*	*US$'000*	*US$'000*
Revenue		7,701	15,344	10,911
Cost of sales		(4,616)	(9,573)	(8,329)
Gross profit		3,085	5,771	2,582
Other income		920	2,323	1,145
Selling and distribution expenses		(409)	(900)	(1,411)
Administrative expenses		(4,213)	(6,547)	(6,405)
Share of (loss) profit of a jointly controlled entity		(256)	213	64
Finance costs	7	(111)	(124)	(135)
(Loss) profit before taxation	8	(984)	736	(4,160)
Income tax expense	10	—	—	—
(Loss) profit for the year		(984)	736	(4,160)

Balance Sheets

		As at 31 December		
		2004	**2005**	**2006**
	Notes	*US$'000*	*US$'000*	*US$'000*
Non-current assets				
Property and equipment	13	673	361	1,545
Interest in a jointly controlled entity	14	418	631	695
		1,091	992	2,240
Current assets				
Inventories	15	2,493	1,697	929
Trade and other receivables	16	1,652	2,519	2,398
Amounts due from related companies	17	5,302	6,824	1,411
Amounts due from shareholders	17	395	333	—
Bank balances and cash	18	—	242	—
		9,842	11,615	4,738
Current liabilities				
Trade payables and accruals	19	812	1,470	1,373
Amounts due to related companies	17	13,463	13,934	11,351
Notes payable — within one year	21	20	11	—
Obligations under finance leases	26	—	—	184
Loans from shareholders	22	—	—	200
Bank overdrafts		34	—	28
		14,329	15,415	13,136
Net current liabilities		(4,487)	(3,800)	(8,398)
Total assets less current liabilities		(3,396)	(2,808)	(6,158)
Capital and reserves				
Share capital	20	8	8	8
Reserves		(5,168)	(4,432)	(7,126)
Deficiency in shareholders' equity		(5,160)	(4,424)	(7,118)
Non-current liabilities				
Notes payable — after one year	21	164	16	—
Loans from shareholders	22	1,600	1,600	—
Obligations under finance leases	26	—	—	960
		1,764	1,616	960
		(3,396)	(2,808)	(6,158)

Statements of Changes in Equity

The statements of changes in equity for the years ended 31 December 2004, 2005 and 2006 are set out below:

	Share capital	Shareholders' contribution reserve	Accumulated losses	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*
At 1 January 2004	10	—	(4,136)	(4,126)
Repurchase of shares	(2)	—	(48)	(50)
Loss for the year and total expenses recognised	—	—	(984)	(984)
At 31 December 2004	8	—	(5,168)	(5,160)
Profit for the year and total income recognised	—	—	736	736
At 31 December 2005	8	—	(4,432)	(4,424)
Waiver of loan from shareholders	—	1,466	—	1,466
Loss for the year and total expenses recognised	—	—	(4,160)	(4,160)
At 31 December 2006	8	1,466	(8,592)	(7,118)

Cash Flow Statements

	Year ended 31 December		
	2004	**2005**	**2006**
	US$'000	*US$'000*	*US$'000*
OPERATING ACTIVITIES			
(Loss) profit before taxation	(984)	736	(4,160)
Adjustments for:			
(Gain) loss on disposal of property and equipment	—	(548)	47
Depreciation of property and equipment	261	265	261
Finance costs	111	124	135
Bad debt recovery	—	—	(35)
Share of loss (profit) of a jointly controlled entity	256	(213)	(64)
Allowance for bad and doubtful debts	6	—	25
Operating cash flows before movements in working capital	(350)	364	(3,791)
Decrease (increase) in trade and other receivables	977	(867)	131
Increase (decrease) in trade and other payables	209	658	(97)
Increase (decrease) in inventories	(1,280)	796	768
NET CASH (USED IN) FROM OPERATING ACTIVITIES	(444)	951	(2,989)
INVESTING ACTIVITIES			
Proceeds on disposal of property and equipment	—	705	—
Purchase of property and equipment	(227)	(110)	(304)
Advance to (repayment from) related companies	1,142	(1,522)	5,413
Advance to (repayment from) shareholders	(33)	62	333
NET CASH FROM (USED IN) INVESTING ACTIVITIES	882	(865)	5,442
FINANCING ACTIVITIES			
Repayments of borrowings	(19)	(157)	(27)
(Repayment to) advance from related companies	(1,798)	471	(2,583)
Interest paid	(111)	(124)	(135)
Repayments of obligations under finance leases	—	—	(44)
New loan from shareholders raised	—	—	200
Repayment of loans from shareholders	—	—	(134)
Payment on repurchase of shares	(50)	—	—
NET CASH (USED IN) FROM FINANCING ACTIVITIES	(1,978)	190	(2,723)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,540)	276	(270)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,506	(34)	242
CASH AND CASH EQUIVALENTS AT END OF YEAR	(34)	242	(28)
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances and cash	—	242	—
Bank overdrafts	(34)	—	(28)
	(34)	242	(28)

(B) NOTES TO THE FINANCIAL INFORMATION

1. GENERAL AND BASIS OF PREPARATION

Funrise is incorporated in the United States of America as a limited liability company. Its previous ultimate holding company was The A & L Rubin Family LLC which was incorporated in United States of America. On 8 June 2007, Suncorp Investments Group Limited and the Company became the ultimate holding company and the intermediate holding company of Funrise Inc. respectively.

The Financial Information of Funrise is presented in United States dollars, which is the same as its functional currency.

Funrise is principally engaged in the wholesale distribution and importation of toys and sales of accessories connected with its product ranges.

The Financial Information of Funrise has been prepared on a going concern basis because its intermediate holding company has agreed to provide adequate funds to enable Funrise to meet in full its financial obligations as they fall due for the foreseeable future.

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

The Hong Kong Institute of Certified Public Accountants ("HKICPA") issued a number of new and revised Hong Kong Accounting Standards ("HKAS(s)"), Hong Kong Financial Reporting Standards ("HKFRS(s)"), amendments and Interpretations ("INT(s)") (herein collectively referred to as "New HKFRSs") which are effective for the financial year of Funrise beginning on or prior to 1 January 2006. For the purpose of preparing and presenting the Financial Information of the Relevant Periods, Funrise has adopted all these New HKFRSs consistently throughout the Relevant Periods.

At the date of this report, the HKICPA has issued the following new and revised standards, amendments and INTs but are not yet effective. The directors anticipate that the application of these new and revised standards, amendments and INTs will have no material impact on the results and financial position of Funrise.

HKAS 1 (Amendment)	Capital disclosures[1]
HKAS 23 (Revised)	Borrowing costs[2]
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 1 January 2007.

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared under the historical cost basis and in accordance with HKFRSs issued by HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance. The principal accounting policies adopted are as follows:

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.

Agency fee and management fee income are recognised when services are provided.

Interest in a jointly controlled entity

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of a jointly controlled entity are incorporated in the financial statements using the equity method of accounting. Under the equity method, investment in a jointly controlled entity is carried in the balance sheet at cost as adjusted for post-acquisition changes in Funrise's share of the net assets of the jointly controlled entity, less any identified impairment loss. When Funrise's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of Funrise's net investment in the jointly controlled entity), Funrise discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that Funrise has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

Property and equipment

Property and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property and equipment over their estimated useful lives and after taking into account of their estimated residual value, using the straight line method.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

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

Research costs

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

Inventories

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

Impairment

At each balance sheet date, Funrise 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. An impairment loss is recognised as an expense immediately.

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.

Retirement benefit costs

Payments to defined contribution retirement benefit plan are charged as an expenses when employees have rendered services entitling them to the contributions.

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 net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes items of income or expense that are never taxable or deductible. Funrise'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 amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from 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 profit 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 to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Foreign currencies

In preparing the financial information of Funrise, transactions in currencies other than the functional currency of Funrise (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which Funrise operates) at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are re-translated 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 re-translated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss for the year.

Borrowing costs

All other borrowing costs are recognised in profit or loss in the year in which they are incurred.

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.

Funrise as lessee

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

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

Financial instruments

Financial assets and financial liabilities are recognised on Funrise's balance sheet when Funrise 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

Funrise's financial assets are mainly loans and receivables. The accounting policy is set out below.

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, amounts due from related companies and shareholders 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.

Financial liabilities and equity

Financial liabilities and equity instruments issued by Funrise 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 Funrise 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 payables, amounts due to related companies, notes payables and loans from shareholders are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and Funrise 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 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.

Repurchase of shares

Upon repurchase of Funrise's own shares, the repurchased shares are cancelled and the issued share capital of Funrise is reduced by the nominal value thereof. The premium payable on repurchase of the shares is charged to the accumulated losses.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying Funrise's accounting policies which are described in note 3, the key assumptions concerning the key sources of estimation uncertainty at the balance sheet dates that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Allowance for bad and doubtful debts

The assessment of the allowance for bad and doubtful debts of Funrise is based on the evaluation of collectability and aging analysis of accounts, estimated future cash flows and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer and borrower. If the financial conditions of customers and borrowers of Funrise were to deteriorate, resulting in an impairment of their ability to make payments, allowances may be required.

5. FINANCIAL INSTRUMENTS

Financial risk management objectives and policies

Funrise's major financial instruments include trade and other receivables, bank balances, trade payables, amount due from/to related company, amounts due from shareholders, notes payable, loans from shareholders and obligation under finance leases. Details of these financial instruments are disclosed in the respective notes. The risks 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.

Fair value interest rate risk

Funrise's fair value interest rate risk relates primarily to fixed-rate notes payable and loans from shareholders. Funrise has not entered into interest rate swaps to hedge against its exposure to changes in fair values of the notes payable and loans from shareholders. However, the management considers the fair value interest rate risk is insignificant as the amounts of notes payable and loans from shareholders are not significant.

Credit risk

Funrise's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 December 2004, 2005 and 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the balance sheet.

The credit risk on liquid funds is limited because the counterparties are banks with high credit rating.

Funrise has concentration of credit risks with exposure limited to certain counterparties and customers. During the year ended 31 December 2004, 2005 and 2006, the aggregate receivables from two customers represents approximately 74%, 58% and 33% respectively of Funrise's trade receivables. The management closely monitors the subsequent settlement of the customers and does not grant long credit period to the counterparties. In this regard, the directors of Funrise consider that Funrise's credit risk is significantly reduced.

Liquidity risk

Funrise was in a net liabilities of approximately US$7,118,000 as at 31 December 2006. In order to ensure sufficient working capital, the management obtained financial support from the intermediate holding company as set out in note 1. In this regard, the directors of Funrise consider that Funrise's liquidity risk is significantly reduced.

Fair value

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

6. SEGMENT INFORMATION

Funrise's turnover and profit for the Relevant Periods are entirely derived from the wholesale distribution and importation of toys and sales of accessories connected with its product ranges to retail customers. Accordingly, no business segmental analysis is presented.

All significant identifiable assets and liabilities of Funrise are located in the United States of America. Accordingly, no geographical segmental analysis is presented.

7. FINANCE COSTS

	Year ended 31 December		
	2004	**2005**	**2006**
	US$'000	*US$'000*	*US$'000*
Interest on:			
Loan from shareholders	96	96	103
Notes payable	15	28	—
Finance leases	—	—	32
	111	124	135

8. (LOSS) PROFIT BEFORE TAXATION

	Year ended 31 December		
	2004	**2005**	**2006**
	US$'000	*US$'000*	*US$'000*
(Loss) profit before taxation has been arrived at after charging (crediting):			
Auditors' remuneration	—	—	—
Directors' remuneration *(note 9)*	579	600	589
Other staff costs	1,322	3,211	2,960
Contribution to retirement benefit costs	41	22	—
Total staff costs	1,942	3,833	3,549
Depreciation of property and equipment	261	265	261
Research costs	3	3	58
Cost of inventories recognised as expenses	4,616	9,573	8,329
Allowance for bad and doubtful debts	6	—	25
(Gain) loss on disposal of property and equipment	—	(548)	47
Operating lease rentals in respect of premises	303	574	757
Gain on litigation settlement	(115)	(413)	—
Agency fee income	(805)	(720)	(692)
Management fee income	—	(641)	(413)
Recovery of bad debts	—	—	(35)

9. DIRECTORS' AND EMPLOYEES' REMUNERATION

Directors' emoluments

The emoluments paid or payable to each of the 4 directors during the Relevant Periods are as follows:

For the year ended 31 December 2004

	Arnold Rubin	**Martin Kruger**	**Lewis Anten**	**Lilian Rubin**	**Total**
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Fees	—	—	—	—	—
Other emoluments					
Salaries and other benefits	337	163	74	5	579
Contributions to retirement benefits schemes	—	—	—	—	—
Total emoluments	337	163	74	5	579

For the year ended 31 December 2005

	Arnold Rubin US$'000	Martin Kruger US$'000	Lewis Anten US$'000	Lilian Rubin US$'000	Total US$'000
Fees	—	—	—	—	—
Other emoluments					
Salaries and other benefits	339	164	74	5	582
Contributions to retirement benefits schemes	6	6	6	—	18
Total emoluments	345	170	80	5	600

For the year ended 31 December 2006

	Arnold Rubin US$'000	Martin Kruger US$'000	Lewis Anten US$'000	Lilian Rubin US$'000	Total US$'000
Fees	—	—	—	—	—
Other emoluments					
Salaries and other benefits	346	160	76	7	589
Contributions to retirement benefits schemes	—	—	—	—	—
Total emoluments	346	160	76	7	589

During the Relevant Periods, no emoluments were paid by Funrise to any of the directors as an inducement to join or upon joining Funrise or as compensation for loss of office. None of the directors has waived any emoluments during the Relevant Periods.

Employees' emoluments

Of the five individuals with the highest emoluments in Funrise, two, two and one of the individuals are directors of the Company for the year ended 31 December 2004, 2005 and 2006 respectively whose emoluments are included in the disclosures as above. The emoluments of the remaining three, three and four individuals were as follows:

	2004 US$'000	2005 US$'000	2006 US$'000
Salaries and allowances	524	549	735

During the Relevant Periods, no emoluments were paid by Funrise to the above highest paid individual as an inducement to join or upon joining Funrise or as compensation for loss of office.

Their emoluments are within the following bands:

	Number of employees		
	2004	2005	2006
HK$1,000,001 to HK$1,500,000 (equivalent to US$128,000 to US$192,000)	2	2	3
HK$1,500,001 to HK$2,000,000 (equivalent to US$192,000 to US$256,000)	1	1	1
	3	3	4

10. INCOME TAX EXPENSE

Funrise has elected to file its federal and state income tax returns under the provision of Subchapter S of the Internal Revenue Code. Accordingly, no provision for federal and state income taxes has been made during the Relevant Periods. Under Californa tax rules, Funrise is a S-Corporation which is subject to a franchise tax with a tax rate of 1.5% on taxable income for the three years ended 31 December 2006 with a minimum tax of US$800.

A minimum tax of US$800 was charged to Funrise's income statement and included in administrative expenses for each of the financial year during the Relevant Periods.

No provision for deferred taxation has been recognised as the amount involved is insignificant.

11. DIVIDENDS

No dividend was paid or proposed during the Relevant Periods.

12. (LOSS) EARNINGS PER SHARE

(Loss) earnings per share is not presented herein as such information is not considered meaningful.

13. PROPERTY AND EQUIPMENT

	Building	Leasehold improvements	Computer equipment and software	Furniture and equipment	Automobiles	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
COST						
At 1 January 2004	218	1,213	628	379	107	2,545
Additions	—	80	135	12	—	227
At 31 December 2004	218	1,293	763	391	107	2,772
Additions	—	19	56	35	—	110
Disposals	(218)	—	—	—	—	(218)
At 31 December 2005	—	1,312	819	426	107	2,664
Additions	—	1,247	54	191	—	1,492
Disposals	—	(748)	(521)	(336)	—	(1,605)
At 31 December 2006	—	1,811	352	281	107	2,551
ACCUMULATED DEPRECIATION						
At 1 January 2004	52	939	495	314	38	1,838
Provided for the year	4	106	103	21	27	261
At 31 December 2004	56	1,045	598	335	65	2,099
Provided for the year	5	118	104	21	17	265
Eliminated on disposals	(61)	—	—	—	—	(61)
At 31 December 2005	—	1,163	702	356	82	2,303
Provided for the year	—	145	79	27	10	261
Eliminated on disposals	—	(748)	(521)	(289)	—	(1,558)
At 31 December 2006	—	560	260	94	92	1,006
CARRYING VALUES						
At 31 December 2004	162	248	165	56	42	673
At 31 December 2005	—	149	117	70	25	361
At 31 December 2006	—	1,251	92	187	15	1,545

The above items of property and equipment are depreciated on a straight line method at the following estimated useful lives:

Building	39 years
Leasehold improvements	The shorter of the lease terms and estimated useful lives of 5 years
Computer equipment and software	3–5 years
Furniture and equipment	7 years
Automobiles	5 years

The building of Funrise is situated outside Hong Kong on medium-term lease.

As at 31 December 2006, the carrying value of leasehold improvements and furniture and equipment of US$1,251,000 and US$187,000 includes an amount of US$980,000 and US$146,000 respectively in respect of assets held under finance leases (see note 26).

14. INTEREST IN A JOINTLY CONTROLLED ENTITY

	As at 31 December		
	2004	**2005**	**2006**
	US$'000	*US$'000*	*US$'000*
Unlisted investment, at cost	7	7	7
Share of post-acquisition profits	411	624	688
	418	631	695

As at 31 December 2006, Funrise had interest in the following jointly controlled entity:

Name of entity	Form of business structure	Place of incorporation	Principal place of operation	Class of share held	Proportion of nominal value of issued capital held by the Group %	Proportion of voting power held %	Principal activity
Groundswell Trading Limited	Incorporated	Hong Kong	Hong Kong	Ordinary	50	50	Commission agent

The summarised financial information in respect of the Funrise's jointly controlled entity is set out below:

	As at 31 December		
	2004	**2005**	**2006**
	US$'000	*US$'000*	*US$'000*
Total assets	1,150	1,683	1,630
Total liabilities	(314)	(422)	(240)
Net assets	836	1,261	1,390
Funrise's share of net assets of a jointly controlled entity	418	631	695
Revenue	3,053	3,692	3,092
(Loss) profit for the year	(512)	425	128
Funrise's share of results of a jointly controlled entity for the year	(256)	213	64

15. INVENTORIES

	As at 31 December		
	2004	**2005**	**2006**
	US$'000	*US$'000*	*US$'000*
Finished goods, at cost	2,493	1,697	929

16. TRADE AND OTHER RECEIVABLES

Funrise allows an average credit period of 30 days to its trade customers. The following is an aged analysis of trade receivables, at each balance sheet date:

	As at 31 December		
	2004	**2005**	**2006**
	US$'000	*US$'000*	*US$'000*
0–30 days	200	398	414
31–60 days	682	841	845
61–90 days	429	746	873
Over 90 days	186	339	3
Trade receivables	1,497	2,324	2,135
Other receivables	155	195	263
	1,652	2,519	2,398

17. AMOUNTS DUE FROM (TO) RELATED COMPANIES AND SHAREHOLDERS

The amounts are unsecured, non-interest bearing and repayable on demand.

The related companies refer to companies with common shareholders as Funrise.

18. BANK BALANCES AND CASH

The amounts mainly comprise of cash and balances kept under bank current accounts.

19. TRADE PAYABLES AND ACCRUALS

The following is an aged analysis of Funrise's trade payables at each balance sheet dates.

	As at 31 December		
	2004	**2005**	**2006**
	US$'000	*US$'000*	*US$'000*
0–60 days	242	924	505
61–90 days	3	30	—
Over 90 days	8	133	34
Trade payables	253	1,087	539
Accruals	559	383	834
	812	1,470	1,373

20. SHARE CAPITAL

	Number of shares	Share capital *US$'000*
Common stocks of US$10 each		
Authorised:		
At 1 January 2004, 31 December 2004, 2005 and 2006	10,000	100
Issued and fully paid:		
At 1 January 2004	1,000	10
Shares repurchased and cancelled	(250)	(2)
At 31 December 2004, 2005 and 2006	750	8

21. NOTES PAYABLE

	2004 *US$'000*	2005 *US$'000*	2006 *US$'000*
Secured note payable	184	27	—
Carrying amount repayable:			
On demand or within one year	20	11	—
More than one year but not exceeding two years	14	11	—
More than two years but not exceeding five years	29	5	—
More than five years	121	—	—
	184	27	—
Less: Amounts due within one year shown under current liabilities	(20)	(11)	—
	164	16	—

The secured notes payable of Funrise are fixed-rate borrowings that carry interest at a range of 0.9% to 8.625% per annum in respect of the year ended 31 December 2004 and at the rate of 5.9% per annum in respect of the year ended 31 December 2005 and were settled in full on the final maturity date.

22. LOANS FROM SHAREHOLDERS

The loans from shareholders as at 31 December 2004 and 2005 are unsecured, carry interest at 6% per annum and the shareholders will not demand for repayment within the next twelve months.

During the year ended 31 December 2006, US$134,000 was repaid to the shareholders. The remaining amount of US$1,466,000 was waived by the shareholders and recognised in equity as shareholder contribution reserve.

The amount outstanding as at 31 December 2006 is unsecured, interest bearing at 10% per annum and repayable on demand.

23. PLEDGE OF ASSETS

Assets with the following carrying amounts have been pledged to secure the note payable of Funrise (see note 21).

	2004	2005	2006
	US$'000	*US$'000*	*US$'000*
Automobiles	42	25	—
Building	162	—	—
	204	25	—

In addition, Funrise's obligations under finance lease (see note 26) are secured by the lessors' title to the leased assets, which have a carrying amount of US$1,126,000 as at 31 December 2006.

24. LITIGATION

Funrise has been involved in a shareholder derivative lawsuit with other shareholder as well as related companies owned by certain of Funrise's shareholders. A final judgment was issued on 2 July 1997. The shareholder who filed the derivative action subsequently filed for personal bankruptcy. In May 2004, Funrise paid US$325,000 to the bankruptcy trustee in full settlement of rights to all liens, claims and security interests or other encumbrances associated with a shareholder payable in the amount of US$1,107,522 and shareholders' receivable in the amount of US$667,535, resulting in a gain of US$114,987. In addition, Funrise paid US$50,000 to the bankruptcy trustee in full redemption of 250 shares previously held by the shareholders. In June 2005, Funrise received US$413,168 from the liquidation of assets of the shareholder from the bankruptcy court for the compensation of the litigation expenses incurred by Funrise. As all the litigation expenses had been accrued and charged to the income statement in previous years, the amount of US$413,168 received in June 2005 was credited to income statement for the year ended 31 December 2005.

25. OPERATING LEASES

Funrise as lessee

At each balance sheet date, Funrise had commitments for future minimum lease payments in respect of real estate facilities, a warehouse and a showroom under non-cancellable operating leases which fall due as follows:

	As at 31 December		
	2004	2005	2006
	US$'000	*US$'000*	*US$'000*
Within one year	593	616	547
In the second to fifth year inclusive	484	1,007	1,186
After five years	—	852	669
	1,077	2,475	2,402

Leases are non-negotiable and rentals are fixed over the lease terms ranging from 1 to 10 years.

26. OBLIGATIONS UNDER FINANCE LEASES

Funrise has leased certain of its leasehold improvements and furniture and equipment under finance leases during the year ended 31 December 2006. The average lease term is 5 years. Interest rates underlying all obligations under finance leases are fixed at respective contract dates ranging from 8.25% to 14.7%. These leases have no terms of renewal. No arrangements have been entered into for contingent rental payments.

	Minimum lease payments	Present value of minimum lease payment
	US$'000	*US$'000*
Amounts payable under finance leases		
Within one year	334	184
In more than one year but not more than two years	334	203
In more than two year but not more than three years	334	236
In more than three years but not more than four years	334	273
In more than four years but not more than five years	246	248
	1,582	1,144
Less: Future finance charges	(438)	—
Present value of lease obligations	1,144	1,144
Less: Amount due for settlement within 12 months (shown under current liabilities)		(184)
Amount due for settlement after 12 months		960

Funrise's obligations under finance leases are secured by the lessor's charge over the leased assets.

27. RELATED PARTY TRANSACTIONS

Other than the balances with related companies and shareholders as set out on the balance sheets and related notes to the Financial Information, Funrise had the following related party transactions.

		Year ended 31 December		
		2004	2005	2006
	Notes	*US$'000*	*US$'000*	*US$'000*
Trade purchases from a related company	(a)	4,795	6,905	5,332
Agency fee income received from a related company	(b)	805	720	692
Management fee income received from a related company	(c)	1,615	641	413

Notes:

(a) The transactions were entered into between Funrise and a related company with common shareholders as Funrise.

(b) Agency fee income was received from a company with common shareholders as Funrise.

(c) Management fee income was received from a company with common shareholders as Funrise.

The details of remuneration of key management personnel during the Relevant Periods are set out in note 9.

28. NON-CASH TRANSACTION

During the year 2006, the Company entered finance lease arrangements in respect of assets with a total capital value at the inception of the leases of US$1,188,000.

29. EMPLOYEE BENEFITS PLANS

(a) Retirement benefits plan

Funrise has adopted a savings and investment plan under Section 401(K) of the Internal Revenue Code in the United States of America. Full-time employees with age of 18 or above are eligible to participate in the plan. Employees are eligible to begin contributing to the plan after 90 days of employment. After completing one full year of employment, Funrise is matching US$0.50 on the dollar up to 6% of salary. Employees are fully vested after six years of employment. All employee contributions are deducted from payroll on a tax-deferred basis. Funrise contributed US$41,000, US$22,000 and nil during the years ended 31 December 2004, 2005 and 2006 to the plan.

(b) Profit sharing plan

After completing one year of employment, full-time employees with the age of 18 or above are eligible to participate in the integrated profit sharing plan. At the end of each year, Funrise will determine the amount that will be funded in the plan, based on the minimum amount of zero and the maximum amount regulated by Internal Revenue Service in the United States of America for this type of plan. The actual amount funded by Funrise between the minimum and maximum is discretionary. Employees are fully vested after six years of employment. During the Relevant Periods, Funrise funded no amount to the plan.

(C) SUBSEQUENT EVENTS

On 30 April 2007, the Company announced a proposed acquisition of the Funrise Group and the acquisition was completed on 8 June 2007.

(D) SUBSEQUENT FINANCIAL STATEMENTS

As at the date of this report, no audited financial statements of Funrise have been prepared in respect of any period subsequent to 31 December 2006.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

2. MANAGEMENT DISCUSSION AND ANALYSIS OF THE PERFORMANCE OF FUNRISE INC.

The following discussion and analysis of the performance of Funrise Inc.'s operating results should be read in conjunction with the combined financial information for the three years ended 31 December 2006 set forth in the section headed "Financial information on Funrise Inc." in this appendix.

OVERVIEW

Funrise Inc., located in Van Nuys, California, imports and distributes toys and accessories to customers in the United States and Canada. The majority of purchases are from a related company, Funrise Toys (HK) Limited, located in Hong Kong. Funrise Inc. also serves as an agent for a related company, Funrise Toys Ltd., located in Hong Kong.

Result of past performance of Funrise Inc.

Financial year ended 31 December 2004 compared to financial year ended 31 December 2003

Funrise Inc. recorded net sales of HK$60,068,000 for the year ended 31 December 2004. Funrise Inc. generated gross profit of HK$24,063,000, representing a gross profit margin of 40.1%. During 2004, financial results continued to be impacted by the aftermath of the SARS epidemic and its effect on the toy industry. From March 2003 through August 2003, the SARS epidemic limited travel from the United States to China and Hong Kong and disrupted the buying cycle in Asia. Customers such as Wal-Mart, Funrise Inc. largest customer, refused to travel to Asia. Sales efforts depend on travel to Asia, and as a result of SARS, Funrise Inc. was unable to properly market its products during 2003 and into 2004.

Financial year ended 31 December 2005 compared to financial year ended 31 December 2004

Funrise Inc. recorded net sales of HK$119,683,000 for the year ended 31 December 2005, representing an increase of approximately 99.2% over the prior year. Funrise Inc. generated gross profit of HK$45,014,000, representing an increase of approximately 87.1% over the prior year and a gross profit margin of 37.6%. Both net sales and net income (loss) increased in 2005 versus 2004 as a result of several new product introductions and solid performance from its truck category, which includes the *Tonka*® and *Nylint*® brands. New items launched under the *Gazillion Bubbles*®, *Home Arcade and Code 3 Collectibles*® brand names generated substantial sales increases within their product segments. New product lines included *Fan Yang*™ and *Doctor Dreadful*™. The solid performance of the *Tonka*® and *Nylint*® product lines and the additional sales volume and contribution achieved by new product introductions resulted in increased net income in 2005 versus 2004.

Financial year ended 31 December 2006 compared to financial year ended 31 December 2005

Funrise Inc. recorded net sales of HK$85,106,000 for the year ended 31 December 2006, representing a decrease of approximately 28.9% from the prior year. Funrise Inc. generated gross profit of HK$20,140,000, representing a decrease of approximately 55.2% over the prior year and a gross profit margin of 23.7%. Both net sales and net income (loss) decreased in 2006 versus 2005 primarily as a result of a mediocre sales environment at retail in the toy industry during 2006 and the poor performance of two new product categories that negatively impacted total net sales and profits during the year. Sales of the *Nylint*®-branded *Rock Crawler* radio controlled vehicles decreased substantially in 2006 due to overstock situations with certain retailers of the *Rock Crawler* product. In addition to the drop in sales related to its *Rock Crawler* product, high than expected charge-backs adversely impacted profitability. Additionally, sales of *POG* products fell well below expectations and resulted in additional charges to earnings. Based upon the disappointing performance of *Rock Crawler* and *POG*, Funrise Inc. discontinued these product categories in 2006. While the *Rock Crawler* and *POG* product categories adversely impacted the sales and net income (loss) during 2006, Funrise Inc. experienced solid performance in its core product categories including *Tonka*®, *Gazillion Bubbles*®, *Play'N Pretty*™ and *Head Bangers*™. In addition, during the fourth quarter of 2006, Funrise Inc. implemented operating cost reductions to improve profitability in future periods.

FINANCIAL REVIEW

Liquidity and Financial Resources

Funrise Inc. had loans payable to stockholders outstanding in the amount of HK$12,480,000, HK$12,480,000 and HK$1,560,000 at 31 December 2004, 2005, and 2006 respectively.

Funrise Inc. had long-term debt outstanding of HK$125,000 and HK$1,279,000 as of 31 December 2005 and 2004 respectively. There was no debt outstanding at 31 December 2006.

At 31 December 2006, Funrise Inc. had current and long-term capital obligations outstanding under capital leases in the amounts of HK$8,923,000. There were no capital lease obligations outstanding as at 31 December 2005 and 2004.

Gearing Ratio

Funrise Inc was in capital deficiency position as at 31 December 2004, 2005 and 2006 and was mainly financed by current accounts with related companies during the three years ended 31 December 2006.

Capital Expenditures

During the three financial year ended 31 December 2006, Funrise Inc. had made capital expenditures of HK$1,771,000, HK$858,000 and HK$11,638,000 respectively. These capital expenditures were primarily related to investments in tooling and moulds for new products and property, plant and equipment related to the operations of Funrise Inc. These capital expenditures were financed primarily by cash flow generated from operations, borrowings and certain capitalised lease obligations.

Assets and Liabilities

At 31 December 2006, 2005 and 2004, Funrise Inc. had total assets of approximately HK$54,428,000, HK$98,335,000 and HK$85,270,000 respectively; total liabilities of approximately HK$109,949,000, HK$132,842,000 and HK$125,525,000 respectively; and total stockholders' deficit of approximately HK$55,520,000, HK$34,507,000 and HK$40,248,000 respectively.

Exchange Rate Risk

Funrise Inc. uses the US dollar as their functional currency and translates monetary assets and liabilities at year-end exchange rates, and property and equipment and non-monetary assets and liabilities at historical rates. Income and expenses were translated at the average rate in effect during each year. Adjustments resulting from the translation of these companies are included in the results of operations.

Contingent Liabilities

(i) *Royalty Commitments*

Funrise Inc. has entered into contracts with various licensors, whereby it agreed to pay royalties at rates ranging between 4% and 12% on sales of any items licensed from these licensors. These licensing agreements expire in years ranging from 2007 through 2008. As of 31 December 2006, Funrise Inc. has guaranteed future minimum royalty payments as follows:

Year ending 31 December	*HK$*
2007	2,363,000
2008	211,000
Total	2,574,000

(ii) *Litigation*

In the ordinary course of conducting its business, Funrise Inc. may become involved in various lawsuits. Some of these proceedings may result in judgment being assessed against Funrise Inc. which, from time to time, may have an impact on its net income or financial position. Funrise Inc. does not believe that proceedings individually, or in the aggregate, are material to its business or financial condition.

NUMBER OF EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2006, 2005 and 2004, Funrise Inc. had a total of approximately 41, 42 and 51 employees in the United States. Funrise Inc. provides compensation and benefits that are competitive within the toy industry. Principal employee benefits for full-time employees include medical insurance, dental insurance, a 401(k) plan and paid vacation, depending on tenure. Funrise Inc. also provides discretionary bonuses for key executives that vary depending on the financial performance of the Funrise Group.

PROSPECTS

Based on (i) focusing resources on core product segments (Vehicles, Bubbles, Activities and Games), (ii) executing on updating the product lines in these core segments during 2006, (iii) introducing new products within these product segments and the decision to not venture into new, more speculative product categories as the Funrise Group did in 2006, the Funrise Group has experienced solid performance from its customer base in the first quarter of 2007 and is experiencing solid indications from its customers for business in the remainder of 2007. The Funrise Group intends to continue to leverage its core product categories and selectively utilise the licenses of entertainment properties to enhance its core product offerings. Funrise Inc. does not expect to make any material capital expenditure.

1. FINANCIAL INFORMATION ON CODE 3 LLC

For the purpose of this circular, the following is the text of a report prepared by Deloitte Touche Tohmatsu (Certified Public Accountants) based on the audited financial statements which were audited by Green Hasson & Janks LLP (Certified Public Accountants) for the three years ended 31 December 2006.

Deloitte.
德勤

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太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

30 June 2007

To the Board of Directors
Matrix Holdings Limited

Dear Sirs,

We set out below our report on the financial information regarding Code 3 Collectibles LLC ("Code 3") for each of the three years ended 31 December 2004, 2005 and 2006 (the "Relevant Periods") (the "Financial Information"), for inclusion in the circular of Matrix Holdings Limited (the "Company") dated 30 June 2007 (the "Circular") in connection with the major transaction in relation to the proposed acquisition of Funrise Holdings LLC and its subsidiaries, Funrise Inc and Code 3 Collectibles LLC (collectively referred to as the "Funrise Group").

Code 3 was incorporated and registered in the United States of America as a limited liability company on 23 January 1998. Code 3 is principally engaged in wholesale distribution and importation of collectible toys primarily in the United States of America.

The financial statements of Code 3 for the Relevant Periods (the "Underlying Financial Statements"), which were prepared in accordance with accounting principles generally accepted in the United States of America and audited by Green Hasson & Janks LLP, an independent firm of certified public accountants based in the United States of America.

We have examined the Underlying Financial Statements of Code 3 for the Relevant Periods in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the Hong Kong Institute of Certified Public Accountants.

The Financial Information of Code 3 for the Relevant Periods set out in this report has been prepared from the Underlying Financial Statements on the basis set out in note 1 to the Financial Information. No adjustment was considered necessary to the Underlying Financial Statements.

The Underlying Financial Statements are the responsibility of the directors of Code 3. The directors of Matrix Holdings Limited are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of Code 3 as at 31 December 2004, 2005 and 2006 and of the results and cash flows of Code 3 for the Relevant Periods.

(A) FINANCIAL INFORMATION

Income Statements

		Year ended 31 December		
		2004	**2005**	**2006**
	Notes	*US$'000*	*US$'000*	*US$'000*
Revenue	6	6,557	7,901	3,438
Cost of sales		(3,272)	(4,769)	(3,181)
Gross profit		3,285	3,132	257
Selling and distribution expenses		(1,999)	(1,423)	(875)
General and administrative expenses		(3,213)	(1,188)	(708)
(Loss) profit before taxation	7	(1,927)	521	(1,326)
Income tax expense	9	—	—	—
(Loss) profit for the year		(1,927)	521	(1,326)

Balance Sheets

		As at 31 December		
		2004	**2005**	**2006**
	Notes	*US$'000*	*US$'000*	*US$'000*
Non-current asset				
Property, plant and equipment	12	52	14	—
Current assets				
Inventories	13	2,600	2,024	584
Trade receivables	14	154	455	218
Prepayments		125	213	23
Amount due from a related company	15	347	692	817
Bank balances and cash	16	725	1,019	469
		3,951	4,403	2,111
Current liabilities				
Trade payables and accruals	17	193	449	342
Amount due to a related company	15	8,582	8,219	7,346
		8,775	8,668	7,688
Net current liabilities		(4,824)	(4,265)	(5,577)
		(4,772)	(4,251)	(5,577)
Capital and reserve				
Paid-in capital	18	—	—	—
Accumulated losses		(4,772)	(4,251)	(5,577)
Deficiency in shareholders' equity		(4,772)	(4,251)	(5,577)

Statements of Changes in Equity

The statements of changes in equity for the year ended 31 December 2004, 2005 and 2006 are set out below:

	Paid-in capital *US$'000*	**Accumulated losses** *US$'000*	**Total** *US$'000*
At 1 January 2004	—	(2,845)	(2,845)
Loss for the year and total expenses recognised	—	(1,927)	(1,927)
At 31 December 2004	—	(4,772)	(4,772)
Profit for the year and total income recognised	—	521	521
At 31 December 2005	—	(4,251)	(4,251)
Loss for the year and total expenses recognised	—	(1,326)	(1,326)
At 31 December 2006	—	(5,577)	(5,577)

Cash Flow Statements

	Year ended 31 December		
	2004	**2005**	**2006**
	US$'000	*US$'000*	*US$'000*
OPERATING ACTIVITIES			
(Loss) profit before taxation	(1,927)	521	(1,326)
Adjustments for:			
Allowance for bad and doubtful debts	14	54	89
Depreciation of property and equipment	105	39	14
Operating cash flows before movements in working capital	(1,808)	614	(1,223)
Decrease (increase) in trade receivables	344	(355)	148
(Increase) decrease in inventories	(939)	576	1,440
(Increase) decrease in prepayments	(106)	(88)	190
(Decrease) increase in trade payables and accruals	(495)	256	(107)
Increase (decrease) in amount due to a related company	1,468	(363)	(873)
NET CASH (USED IN) GENERATED FROM OPERATING ACTIVITIES	(1,536)	640	(425)
INVESTING ACTIVITIES			
Purchase of property and equipment	(24)	(1)	—
Increase in amount due from a related company	(347)	(345)	(125)
NET CASH USED IN INVESTING ACTIVITIES	(371)	(346)	(125)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,907)	294	(550)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	2,632	725	1,019
CASH AND CASH EQUIVALENTS AT END OF YEAR, represented by bank balances and cash	725	1,019	469

(B) NOTES TO THE FINANCIAL INFORMATION

1. GENERAL AND BASIS OF PREPARATION

Code 3 is incorporated as a limited liability company in Delaware without authorized or issued share capital and members' ownership of Code 3 is designated at the date of incorporation. During the Relevant Periods, Code 3 LLC was owned by Rubin Family Partnership and five individuals. On 8 June 2007, Suncorp Investments Group Limited and the Company became the ultimate holding company and the intermediate holding company of Code 3 respectively.

The Financial Information of Code 3 is presented in United States dollars, which is the same as the functional currency of Code 3.

Code 3 is principally engaged in the wholesale distribution and importation of collectible toys primarily in the United States of America.

The Financial Information has been prepared on a going concern basis because its intermediate holding company has agreed to provide adequate funds to enable Code 3 to meet in full its financial obligations as they fall due for the foreseeable future.

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

The Hong Kong Institute of Certified Public Accountants ("HKICPA") issued a number of new and revised Hong Kong Accounting Standards ("HKAS(s)"), Hong Kong Financial Reporting Standards ("HKFRS(s)"), amendments and Interpretations ("INT(s)"), (herein collectively referred to as "New HKFRSs") which are effective for the financial year of Code 3 beginning on or prior to 1 January 2006. For the purposes of preparing and presenting the Financial Information of the Relevant Periods, Code 3 has adopted all these New HKFRSs consistently throughout the Relevant Periods.

At the date of this report, the HKICPA has issued the following new and revised standards, amendments and INTs which are not yet effective. The directors anticipate that the application of these new and revised standards, amendments and INTs will have no material impact on the results and financial position of Code 3.

HKAS 1 (Amendment)	Capital disclosures[1]
HKAS 23 (Revised)	Borrowing costs[2]
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 1 January 2007.

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared under the historical cost basis and in accordance with HKFRSs issued by HKICPA and the disclosure requirements of Hong Kong Companies Ordinance. The principal accounting policies adopted are as follows:

Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of plant and equipment over their estimated useful lives and after taking into account of their estimated residual value, using the straight line method.

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

Research costs

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

Inventories

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

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.

Impairment

At each balance sheet date, Code 3 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. An impairment loss is recognised as an expense immediately.

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.

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 net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes items of income or expense that are never taxable or deductible. Code 3'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 amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from 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 profit 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 to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Foreign currencies

In preparing the financial information of Code 3, transactions in currencies other than the functional currency of Code 3 (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which Code 3 operates) at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss for the year.

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.

Code 3 as lessee

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.

Financial instruments

Financial assets and financial liabilities are recognised on Code 3's balance sheet when Code 3 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

Code 3's financial assets are mainly loans and receivables. The accounting policy is set out below.

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 receivables, amount due from a related company 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.

Financial liabilities and equity

Financial liabilities and equity instruments issued by Code 3 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 Code 3 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 payables and amount due to a related company, are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by Code 3 are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and Code 3 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 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.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying Code 3's accounting policies which are described in note 3, the key assumptions concerning the key sources of estimation uncertainty at the balance sheet dates that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, is discussed below.

Allowance for bad and doubtful debts

The policy for allowance for bad and doubtful debts of Code 3 is based on the evaluation of collectability and aging analysis of accounts and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer and borrower. If the financial conditions of customers and borrowers of Code 3 were to deteriorate, resulting in an impairment of their ability to make payments, allowances may be required.

5. FINANCIAL INSTRUMENTS

Financial risk management objectives and policies

Code 3's major financial instruments include trade receivables, amount due from/to a related company, bank balances and trade payables. Details of these financial instruments are disclosed in the respective notes. The risks 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.

Credit risk

Code 3's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 December 2004, 2005 and 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the balance sheet.

The Company has significant concentration of credit risk on amount due from a related company. There is no significant concentration of credit risk in trade receivables as the exposure spread over a large number of counterparties.

In order to minimise credit risk, management 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 regard, the management considers that Code 3's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit rating.

Liquidity risk

Code 3 was in a net liabilities of approximately US$5,577,000 as at 31 December 2006.

In order to ensure sufficient working capital, the management obtained financial support from its intermediate company. In this regard, the directors of the Company consider that the Company's liquidity risk is significantly reduced.

Fair value

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

6. REVENUE AND SEGMENT INFORMATION

As Code 3's operation for the Relevant Periods was entirely derived from selling of collectible toys wholly in the United States of America, no business and geographical segmental financial analysis is presented.

7. (LOSS) PROFIT BEFORE TAXATION

	Year ended 31 December		
	2004	**2005**	**2006**
	US$'000	*US$'000*	*US$'000*
(Loss) profit before taxation has been arrived at after charging:			
Auditor's remuneration	—	—	—
Allowance for bad and doubtful debts	14	54	89
Cost of inventories recognised as expense	3,272	4,769	3,181
Directors' remuneration	—	—	—
Depreciation of property and equipment	105	39	14
Research costs	105	102	59

8. DIRECTORS' AND EMPLOYEES' REMUNERATION

During the Relevant Periods, there were no directors' and employees' remuneration for Code 3.

9. INCOME TAX EXPENSE

No provision for federal income taxes is reflected in the financial statements since Code 3 is not liable for payment of such taxes pursuant to the election of limited liability company status under the Internal Revenue Code. Income of the Code 3 is allocated and taxed to its members by inclusion in their respective income tax returns.

10. DIVIDENDS

No dividend was paid or proposed during the Relevant Periods, nor has any dividend been proposed since 31 December 2006.

11. (LOSS) EARNING PER SHARE

(Loss) earning per share is not presented herein as such information is not considered meaningful.

12. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements *US$'000*	Computer equipment and software *US$'000*	Furniture and equipment *US$'000*	Total *US$'000*
COST				
At 1 January 2004	28	321	157	506
Additions	—	24	—	24
At 31 December 2004	28	345	157	530
Additions	—	1	—	1
At 31 December 2005	28	346	157	531
Disposals	(28)	(346)	(157)	(531)
At 31 December 2006	—	—	—	—
ACCUMULATED DEPRECIATION				
At 1 January 2004	14	254	105	373
Provided for the year	4	82	19	105
At 31 December 2004	18	336	124	478
Provided for the year	3	5	31	39
At 31 December 2005	21	341	155	517
Provided for the year	7	5	2	14
Eliminated on disposals	(28)	(346)	(157)	(531)
At 31 December 2006	—	—	—	—
CARRYING VALUES				
At 31 December 2004	10	9	33	52
At 31 December 2005	7	5	2	14
At 31 December 2006	—	—	—	—

The above items of property, plant and equipment are depreciated on a straight line basis at the following rates per annum:

Leasehold improvements	The shorter of the lease term and 7 years
Computer equipment and software	3 years
Furniture and equipment	7 years

13. INVENTORIES

	As at 31 December		
	2004	**2005**	**2006**
	US$'000	*US$'000*	*US$'000*
Finished goods held for sale	2,600	2,024	584

14. TRADE RECEIVABLES

The normal credit period allowed on sales of goods is 30–60 days.

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

	As at 31 December		
	2004	**2005**	**2006**
	US$'000	*US$'000*	*US$'000*
0–30 days	105	115	63
31–60 days	35	221	69
61–90 days	2	66	9
Over 90 days	12	53	77
	154	455	218

15. AMOUNT DUE FROM/TO A RELATED COMPANY

The amounts are unsecured, non interest bearing and repayable on demand.

The related companies refer to companies with common shareholders as Code 3.

16. BANK BALANCES AND CASH

The amount mainly comprises of deposits held under a bank current account.

17. TRADE PAYABLES

Trade payables principally comprise amounts outstanding for trade purchases. The normal credit period for trade purchases is 30–60 days. An aged analysis of the Code 3's trade payables at each balance sheet dates is as follows:

	As at 31 December		
	2004	**2005**	**2006**
	US$'000	*US$'000*	*US$'000*
0–30 days	53	65	22
31–60 days	—	84	20
61–90 days	—	2	8
Over 90 days	—	126	175
	53	277	225
Accruals	140	172	117
	193	449	342

18. PAID-IN CAPITAL

Code 3 is a Limited Liability Corporation that has members who have ownership interests. There is no authorized or issued share capital for Code 3.

19. OPERATING LEASES

Code 3 as lessee

Code 3 made minimum lease payments under operating leases in respect of automobiles of approximately US$105,000 and US$35,000 for the years ended 31 December 2004 and 2005. There is no minimum lease payment during the year ended 31 December 2006.

At the balance sheet date, Code 3 had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	As at 31 December		
	2004	**2005**	**2006**
	US$'000	*US$'000*	*US$'000*
Within one year	29	29	—
In the second to fifth years inclusive	76	43	—
	105	72	—

Leases were negotiated and rentals are fixed for lease term of two years and rentals are fixed for lease term of two years.

20. RELATED PARTIES TRANSACTIONS

During the Relevant Periods, Code 3 entered into the following related parties transactions:

		Year ended 31 December		
		2004	**2005**	**2006**
	Notes	*US$'000*	*US$'000*	*US$'000*
Trade purchases from a related company	(a)	3,625	3,380	1,208
Management fee paid to a related company	(b)	1,615	641	413

Notes:

(a) Code 3 made purchases from Code 3 Collectibles (HK) Limited, with common shareholders during the Relevant Periods.

(b) Code 3 paid management fee to Funrise Inc. during the Relevant Periods, a company with common shareholders as Code 3.

There was no remuneration paid or payable to directors or key management personnel during the Relevant Periods.

(C) SUBSEQUENT EVENT

On 30 April 2007, the Company announced a proposed acquisition of the Funrise Group and the acquisition was completed on 8 June 2007.

(D) SUBSEQUENT FINANCIAL STATEMENTS

As at the date of this report, no audited financial statements of Code 3 have been prepared in respect of any period subsequent to 31 December 2006.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

2. MANAGEMENT DISCUSSION AND ANALYSIS OF THE PERFORMANCE OF CODE 3 LLC

The following discussion and analysis of the performance of Code 3 LLC's operating results should be read in conjunction with the combined financial information for the three years ended 31 December 2006 set forth in the section headed "Financial information on Code 3 LLC" in this appendix.

OVERVIEW

Code 3 LLC, located in Van Nuys, California, is engaged in the wholesale distribution and importation of collectible toys primarily in the United States. Substantially all purchases are from a related company, Code 3 Collectibles (HK) Limited, located in Hong Kong.

Result of past performance of Code 3 LLC

Financial year ended 31 December 2004 compared to financial year ended 31 December 2003

Code 3 LLC recorded net sales of HK$51,145,000 for the year ended 31 December 2004. Code 3 LLC generated gross profit of HK$25,623,000, representing a gross profit margin of 50.1%. During 2004, results continued to be impacted by the aftermath of the SARS epidemic and its effect on the toy industry. From March 2003 through August 2003, the SARS epidemic limited travel from the United States to China and Hong Kong and disrupted the buying cycle in Asia.

Financial year ended 31 December 2005 compared to financial year ended 31 December 2004

Code 3 LLC recorded net sales of HK$61,628,000 for the year ended 31 December 2005, representing an increase of approximately 20.5% over the prior year. Code 3 LLC generated gross profit of HK$24,430,000, representing a decrease of approximately 4.7% over prior year and gross profit margin of 39.6%. Both net sales and gross profit increased in 2005 versus 2004 as a result of several new product introductions and solid performance from its movie-related licensed collectibles. Gross profit margin decreased principally due to high royalty expense associated with licensed products and increasing supplier costs.

Financial year ended 31 December 2006 compared to financial year ended 31 December 2005

Code 3 LLC recorded net sales of HK$26,816,000 for the year ended 31 December 2006, representing a decrease of approximately 56.5% from the prior year. Code 3 LLC generated gross profit of HK$2,005,000, representing a decrease of approximately 91.8% over prior year and gross profit margin of 7.5%. Net sales decreased due diminishing demand for Code 3 LLC's movie-related licensed collectibles. Gross profit margin decreased principally due to the rising cost of zinc, a basic material necessary for the production of die cast collectible vehicles, and close outs of slow moving inventory at lower than expected prices.

FINANCIAL REVIEW

Liquidity and Financial Resources

Code 3 LLC funds its operations through support from a related company, with common ownership in Hong Kong. During the years ended 31 December 2006, 2005 and 2004, Code 3 LLC made purchases totalling HK$9,422,000, HK$26,364,000 and HK$28,275,000 respectively.

The amount due to this related company as at 31 December 2006, 2005 and 2004 was HK$57,299,000, HK$64,108,000 and HK$66,940,000 respectively. The amount due to this related company is unsecured, non-interest bearing, and due on demand. Code 3 LLC is dependent upon the continuing support of this related party which management considers will be maintained.

Gearing Ratio

Code 3 LLC's gearing ratio, representing the total debt divided by equity attributable to equity holders of Code 3 LLC, as of 31 December 2006, 2005 and 2004 was 0%, as there was no outstanding debt.

Capital Expenditures

Code 3 LLC made no capital expenditure during the year ended 31 December 2006. During the two financial year ended 31 December 2005 and 2004, Code 3 LLC had made capital expenditures of HK$7,800 and HK$187,000 respectively. These capital expenditures were primarily related to investments in tooling and moulds for new products and property, plant and equipment related to the operations of Code 3 LLC. These capital expenditures were financed primarily by cash flow generated from operations and support from a related company.

Assets and Liabilities

At 31 December 2006, 2005 and 2004, Code 3 LLC had total assets of approximately HK$16,466,000, HK$34,453,000 and HK$31,223,000 respectively; total liabilities of approximately HK$59,966,000, HK$67,610,000 and HK$68,445,000 respectively; and total members' deficit of approximately HK$43,501,000, HK$33,158,000 and HK$37,222,000 respectively.

Exchange Rate Risk

Code 3 LLC uses the US dollar as their functional currency and translates monetary assets and liabilities at year-end exchange rates, and property and equipment and non-monetary assets and liabilities at historical rates. Income and expenses were translated at the average rate in effect during each year. Adjustments resulting from the translation of these companies are included in the results of operations.

Contingent Liabilities

(i) *Royalty Commitments*

Code 3 LLC has entered into contracts with various licensors, whereby it agreed to pay royalties at rates ranging between 3% and 18% on sales of any items licensed from these licensors. These licensing agreements expire in 2007. As of 31 December 2006, Code 3 LLC has guaranteed future minimum royalty payments as follows:

Year ending 31 December	*HK$*
2007	163,800
Total	163,800

NUMBER OF EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2006, 2005 and 2004, Code 3 LLC had no direct employees.

PROSPECTS

Code 3 LLC's prospects reflect its continued focus on die cast vehicle collectibles in the Fire and Rescue category. Based on (i) price increases to offset rising production costs, principally related to the cost of zinc and lower unit production runs, (ii) the cutback of production run unit volumes to optimize sell through to minimize residual inventory levels, and (iii) the absence of inventory close outs at discounted prices, Code 3 LLC expects to return to historical profitability levels consistent with results in 2004 and 2005. Code 3 LLC continues to benefit from sales to its substantial collector base and dealer network. Code 3 LLC intends to continue to leverage its core product categories and selectively utilize its portfolio of Fire and Rescue-related licenses to enhance its core product offerings. Code 3 LLC does not expect to make any material capital expenditure.

1. UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

Set out below is the unaudited pro forma statement of assets and liabilities of the Enlarged Group which has been prepared in accordance with Rule 4.29 of the Listing Rules, for illustration purpose only, as if the Acquisition had been completed on 31 December 2006 and based on the audited consolidated balance sheet of the Group as at 31 December 2006 and the balance sheets of Funrise LLC, Funrise Inc. and Code 3 LLC as at 31 December 2006, adjusted for the effects of the pro forma adjustments described in the notes thereto. A narrative description of the pro forma adjustments that are (i) directly attributable to the Acquisition; (ii) expected to have a continuing impact on the Group; and (iii) factually supportable, are summarised in the accompanying notes.

The unaudited pro forma statement of assets and liabilities of the Enlarged Group is based on a number of assumptions, estimates and uncertainties. The accompanying unaudited pro forma statement of assets and liabilities of the Enlarged Group does not purport to describe the actual financial position of the Enlarged Group that would have been attained had the Acquisition been completed on 31 December 2006.

The accompanying unaudited pro forma statement of assets and liabilities of the Enlarged Group should be read in conjunction with the historical financial information of the Group as set out in Appendix I to this circular.

	The Group as at 31 December 2006	**Funrise LLC**	**Funrise Inc.**	**Code 3 LLC**	**Pro forma adjustments**		**Pro forma balance**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
	(audited)	*(Note 1(a))*	*(Note 1(b))*	*(Note 1(c))*			
Non-current assets							
Property, plant and equipment	198,297	35,834	12,051	—	(8,414)	6	237,768
Intangible assets	—	8,500	—	—	268,298	6	276,798
Interest in a jointly controlled entity	—	—	5,421	—	(5,421)	3	—
Prepaid lease payments	1,111	—	—	—	—		1,111
Deferred tax assets	344	—	—	—	—		344
	199,752	44,334	17,472	—	254,463		516,021

	The Group as at 31 December 2006 *HK$'000* *(audited)*	Funrise LLC *HK$'000* *(Note 1(a))*	Funrise Inc. *HK$'000* *(Note 1(b))*	Code 3 LLC *HK$'000* *(Note 1(c))*	Pro forma adjustments *HK$'000*	*Notes*	Pro forma balance *HK$'000*
Current assets							
Inventories	192,556	291	7,246	4,555			204,648
Trade and other receivables	99,467	54,057	18,704	1,880			174,108
Amounts due from preference shareholders of a subsidiary	—	9	—	—	(9)	4	—
Loans to related parties	—	4,034	—	—	(4,034)	4	—
Amounts due from related companies	—	128,075	11,006	6,373	(145,454)	2	—
Prepaid lease payments	32	—	—	—			32
Held-for-trading investments	820	—	—	—			820
Tax recoverable	—	123	—	—			123
Pledged bank deposit	5,291	—	—	—			5,291
Bank balances and cash	30,871	8,163	—	3,658	(42,692)	4, 5, 6	—
	329,037	194,752	36,956	16,466			385,022
Current liabilities							
Trade and other payables	130,393	108,986	10,710	2,668	163,529	5, 6	416,286
Amounts due to related companies	—	—	88,538	57,299	(145,837)	2	—
Loan from shareholders	—	—	1,560	—	(1,560)	4	—
Dividend payable	17,315	—	—	—			17,315
Tax payable	58,680	32	—	—			58,712
Amounts due to preference shareholders of a subsidiary	—	367	—	—	(367)	4	—
Obligations under finance leases	—	141	1,435	—			1,576
Bank borrowings — repayable within one year	13,525	7,849	218	—	(8,067)	5	13,525
	219,913	117,375	102,461	59,967			507,414
Net current assets (liabilities)	109,124	77,377	(65,505)	(43,501)			(122,392)
Total assets less current liabilities	308,876	121,711	(48,033)	(43,501)			393,629
Non-current liabilities							
Obligations under finance leases	—	129	7,488	—			7,617
Bank borrowings — repayable after one year	—	1,161	—	—	(1,161)	5	—
Deferred tax liabilities	5,369	—	—	—	77,136	6	82,505
	5,369	1,290	7,488	—			90,122
Net assets (liabilities)	303,507	120,421	(55,521)	(43,501)			303,507

Notes:

(1) a. The figures are extracted from combined financial information set out in Appendix II to this circular.

b. The figures are extracted from financial information set out in Appendix III to this circular and translated into HK$ at the exchange rate of US$1 to HK$7.8.

c. The figures are extracted from financial information set out in Appendix IV to this circular and translated into HK$ at the exchange rate of US$1 to HK$7.8.

(2) The adjustments represent the elimination of intercompany balances among Funrise Holdings Group, Funrise Inc. and Code 3 LLC.

(3) Groundswell Trading Limited ("Groundswell") is a jointly controlled entity owned by Funrise Toys Limited and Funrise Inc. with 50% shares held by each company. Funrise Toys Limited is a wholly owned subsidiary in Funrise Holdings Group. As set out in Appendix II, the financial information of Funrise Holdings Group has been prepared by applying the principles of merger accounting, after the group reorganisation, Groundswell will become a wholly owned subsidiary and Funrise Holdings Group has accounted for 100% equity interest in Groundswell. The adjustment is to eliminate the 50% equity interest of Groundswell recorded in Funrise Inc.'s balance sheet.

(4) The adjustments represent the settlement of all loans due to and from the Vendors by the Funrise Group including amounts due from and to preference shareholders of a subsidiary, loans to related parties, and loans to shareholders of Funrise Group pursuant to the Share Acquisition Agreement.

(5) The adjustment represents the settlement of bank borrowings by Funrise Group pursuant to the Share Acquisition Agreement.

(6) The adjustment represents (i) the investment in Funrise Group with a total consideration of US$23,000,000 (equivalent to HK$179,400,000) without taking into account the consideration adjustments as set out in the Share Acquisition Agreement on pages 6 and 7 of this circular and the estimated professional fees of approximately HK$15,000,000 directly related to this acquisition and (ii) the elimination of the leasehold land and buildings of Funrise Group of approximately HK$8,414,000 which are distributed as dividends in specie upon the Group Reorganisation. No goodwill or discount on acquisition would arise from the Share Acquisition Agreement, assuming that the fair values of the assets and liabilities of Funrise Group at 31 December 2006 approximate to their carrying amounts and the excess of the aforesaid consideration paid over the assets, other than intangible assets, and liabilities of Funrise Group represents the fair values of the intangible assets acquired with recognition of the corresponding deferred tax liability arising from the Acquisition. The intangible assets include patents, a portfolio of licenses owned by the Funrise Group, a portfolio of proprietary and licensed brands and value of the Funrise Group's distribution network in the United States of America. The Group will engage professional valuer to assess the value of these intangible assets at the date of acquisition and the excess of the aforesaid consideration paid over the fair value of the assets and liabilities (including the intangible assets) of Funrise Group will be accounted for as goodwill in the Group's consolidated financial statements for the year ending 31 December 2007. The recognition of deferred tax liabilities amount of approximately HK$77,136,000 arising from the intangible assets are based on the directors' assumption that half of the intangible assets are subject to Hong Kong tax rate of 17.5% and half of the intangible assets are subject to United States of America's tax rate of 40%.

(7) To finance the consideration for the Acquisition, the Company will raise a funding of approximately HK$96,953,000 through a private placement of 55,000,000 shares at a placing price of HK$1.8 per share and approximately HK$93,427,000 from a shareholder's loan. The net proceed from the private placement and the funding from the shareholders' loan had not been reflected in the unaudited pro forma financial information of the enlarged group.

2. REPORT ON UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES

ACCOUNTANTS' REPORT
TO THE DIRECTORS OF THE MATRIX HOLDINGS LIMITED ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

We report on the unaudited pro forma financial information of Matrix Holdings Limited (" the Company") and its subsidiaries (hereinafter collectively referred to as the "Matrix Group") set out on pages V-1 to V-3 in Appendix V to the circular dated 30 June 2007 (" the Circular"), which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the acquisition of all the equity interests of Funrise Holdings LLC, Funrise Inc. and Code 3 Collectibles LLC (the "Funrise Group", together with the Matrix Group hereinafter collectively referred to as the "Enlarged Group") might have affected the financial information presented. The basis of preparation of the unaudited pro forma financial information is set out on page V-1 to the Circular.

Respective responsibilities of directors of the Company and reporting accountants

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants .

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Matrix Group and that the adjustments are appropriate for the purpose of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The unaudited pro forma financial information is for illustrative purpose only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not give an indicative financial position of the Enlarged Group as at 31 December 2006 or any future date.

Opinion

In our opinion:

a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;

b) such basis is consistent with the accounting policies of the Matrix Group; and

c) the adjustments are appropriate for the purpose of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
30 June 2007

3. INDEBTEDNESS STATEMENT

As at the close of business on 30 April 2007, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Enlarged Group had total outstanding borrowings of approximately HK$53,669,000, comprising the short-term bank borrowings, import loans, bank overdrafts, packing loan and mortgage loan of approximately HK$12,118,000, HK$14,918,000, HK$24,777,000, HK$548,000 and HK$1,308,000 respectively which were secured by fixed bank deposits, personal guarantees, land and buildings and corporate guarantee. In addition, the Enlarged Group had outstanding obligations under finance leases of approximately HK$8,293,000. The obligations under the finance leases are secured by the lessor's charge over the leased assets.

As at the close of business on 30 April 2007, the Enlarged Group had contingent liabilities in respect of a legal action in France claiming an amount of HK$14,132,000 regarding the termination of an agency agreement.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, none of the companies in the Enlarged Group had outstanding, at the close of business on 30 April 2007, any mortgages, charges or debentures, loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans, debt securities or other similar indebtedness or any hire purchase commitments, liabilities under acceptance or acceptable credits or any guarantees or other material contingent liabilities.

For the purpose of the above indebtedness statement, foreign currency amounts have been translated into Hong Kong dollars at the approximate rates of exchange prevailing at the close of business on 30 April 2007.

The Directors are not aware of any material changes in the Enlarged Group's indebtedness and contingent liabilities since the close of business on 30 April 2007.

4. WORKING CAPITAL

Taking into consideration of the net proceeds from the subscription of new shares in the Company by a shareholder, the loan advanced to the Group by a shareholder, existing banking facilities available to the Enlarged Group and cash flows from operations, the Directors are of the opinion that the Enlarged Group has sufficient working capital for its current requirements, that is for at least the next 12 months from the date of this circular.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group and the Enlarged Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts not contained in this circular, the omission of which would make any statement herein misleading.

2. SHARE CAPITAL

As at the Latest Practicable Date, the authorised and issued share capital of the Company were as follows:

Authorised:		*HK$*
1,000,000,000 Shares	Shares of HK$0.10 each	100,000,000
Issued and to be issued, fully paid or credited as fully paid		
632,156,967 Shares	Shares of HK$0.10 each	63,215,697

3. DISCLOSURE OF DIRECTORS' INTERESTS

As at the Latest Practicable Date, the interests and short position of the Directors and the chief executive of the Company in the Shares, underlying shares and debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the SFO) which were required, (i) pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") of the Listing Rules, to be notified to the Company and the Stock Exchange; or (iv) to be disclosed in this circular pursuant to the requirements of the Takeovers Code, are as follows:

Long position

Ordinary share(s) of HK$0.10 each in the share capital of the Company

Name of Director/Chief executive	Capacity and nature of interest	Number of issued ordinary shares held	Percentage of issued share capital (%)
Cheng Yung Pun *(Chairman)*	Corporate interest *(Note 1)*	356,918,800	56.46%
Yu Sui Chuen *(Director)*	Personal interest	628,000	0.10%
Cheng Wing See, Nathalie *(Director)*	Personal interest	700,000	0.11%
Michael Adam Greenberg *(Chief executive)*	Personal interest	840,000	0.13%

Notes:

1. The 356,918,800 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.

Share option

Grantee	Number of underlying shares attached to the share options outstanding at the Latest Practicable Date	Exercise price	Exercise period
Yu Sui Chuen *(Director)*	2,922,000 *(Note 1)*	2.34	27 January 2006 to 26 January 2009
Michael Adam Greenberg *(Chief executive)*	5,846,000 *(Note 2)*	2.34	27 January 2006 to 26 January 2009
Selected employees	8,433,333 *(Note 3)*	1.936	6 September 2007 to 6 September 2010
Total	17,201,333		

Notes:

1. Mr. Yu Sui Chuen, a director of the Company, has beneficial interests in 2,922,000 underlying shares (representing approximately 0.46% of issued share capital of the Company as at the Latest Practicable Date) in respect of share options granted to him on 27 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 approximately 0.92% of issued share capital of the Company as at the Latest Practicable Date) in respect of share options granted to him on 27 October 2005 pursuant to the Company's share option scheme.

3. The 8,433,333 underlying shares (representing approximately 1.33% of issued share capital of the Company as at the Latest Practicable Date) in respect of share options were granted on 8 June 2007 pursuant to the Company's Share Option Scheme.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executive of the Company or their respective associates had any interests or short positions in the Shares, underlying shares or debentures of the Company or any of its associated corporation (s) (within the meaning of Part XV of the SFO) which are required, (i) pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code of the Listing Rules, to be notified to the Company and the Stock Exchange; or (iv) to be disclosed in this circular pursuant to the requirements of the Takeovers Code.

4. INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as the Directors or chief executive of the Company are aware (other than certain Directors or chief executive of the Company or any other member of the Enlarged Group), the interests or short position of the persons or corporations in the Shares or underlying shares of the Company which fall to be disclosed to the Company under the provision of Divisions 2 and 3 of Part XV of the SFO were as follows:

Long position

Ordinary share(s) of HK$0.10 each in the share capital 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	356,918,800	56.46%
Veer Palthe Voûte NV	Beneficial owner	52,666,911	9.13%
Dresdner Bank Aktiengesellschaft *(Note 2)*	Interest held by controlled corporations	52,666,911	9.13%
Allianz SE *(Note 3)*	Interest held by controlled corporations	52,666,911	9.13%
Value Partners Limited	Beneficial owner	63,000,000	9.96%
Cheah Cheng Hye *(Note 4)*	Interest held by controlled corporations	63,000,000	9.96%
Manulife Global Fund — China Value Fund	Beneficial owner	32,814,000	5.68%

Notes:

1. Suncorp, a company incorporated in the British Virgin Islands, which is beneficially owned by Mr. Cheng Yung Pun.

2. The 52,666,911 Shares are held by Veer Palthe Voûte NV, which is through Dresdner Bank Luxembourg S.A., 100% held by Dresdner Bank Aktiengesellschaft.

3. The 52,666,911 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.

4. The 63,000,000 Shares are held by Value Partners Limited which is 35.65% held by Mr. Cheah Cheng Hye.

Save as disclosed above, as at the Latest Practicable Date, so far as the Directors or chief executive of the Company are aware, no person (other than certain Directors or chief executive of the Company or any other member of the Enlarged Group), has any interests or short position in the Shares or underlying shares of the Company which fall to be disclosed to the Company under the provision of Divisions 2 and 3 of Part XV of the SFO (including interests and short position which they are taken or deemed to have under such provision of the SFO) or who is directly or indirectly interested in 10% per cent or more of the nominal value of any class of shares carrying rights to vote in all circumstances at general meetings of any members of the Enlarged Group.

5. DIRECTORS' INTERESTS IN ASSETS

A tenancy agreement was entered into on 1 May 2005 and was renewed on 4 May 2007 after arm's length negotiation between Matrix Resources Enterprise Limited, an indirect wholly owned subsidiary of the Company, and Kwok Lung Industrial Company Limited, an associate of Mr. Cheng Yung Pun as defined under the Listing Rules, in respect of the premises in Hong Kong. The monthly rental in respect of this renewed tenancy agreement amounted to HK$18,000.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, had any direct or indirect interest in any asset which were acquired or dispose of by or leased to any member of the Enlarged Group, or proposed to be acquired or disposed of by or leased to, any member of the Enlarged Group, since 31 December 2006, the date to which the latest published audited financial statements of the Enlarged Group were made up.

6. DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors nor their respective associates had any business apart from the business of the Enlarged Group which competes or is likely to compete, either directly or indirectly with any business of the Enlarged Group.

7. DIRECTORS' INTERESTS IN CONTRACTS

Save as a tenancy agreement as disclosed in section headed "Directors' Interests in Assets' in this Appendix and the information disclosed below, as at the Latest Practicable Date, none of the Director is materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Enlarged Group subsisting at the Latest Practicable Date and which is significant in relation to the business of the Enlarged Group:

A number of sales and purchases transactions were entered between Keyhinge Enterprises (Macao Commercial Offshore) Company Limited ("KCO"), an indirect wholly owned subsidiary of the Company, and Asia Machinery Agency Company Limited ("AMA"), an associate of Mr. Cheng Yung Pun as defined under the Listing Rules, in respect of the purchases of plant and equipment by KCO from AMA since 1 December 2004 at aggregated considerations of HK$2,332,000.

8. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with the Company or any member of the Enlarged Group which is not expiring or determinable by the Group within one year without payment of compensation other than statutory compensation.

9. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business of the Company) have been entered into by members of the Enlarged Group within two years immediately preceding the Latest Practicable Date which are or may be material:

(a) one of the indirect wholly owned subsidiaries of the Company had entered into the agreements to dispose of all those workshops 1 to 12 on the 9th Floor and Car Parking Spaces 41 and 51 on Level 3 of Wah Yiu Industrial Centre, Nos. 30–32 Au Pui Wan Street, Shatin, New Territories, HK erected on Sha Tin Town Lot No. 142 to an independent third party at a consideration of HK$10 million, with effect from 12 June 2006;

(b) one of the indirect wholly owned subsidiaries of the Company had disposed of its indirect wholly owned subsidiary, Matrix Media Communications Limited to an independent third party at a consideration of HK$1, with effect from 29 June 2006; and

(c) the Share Acquisition Agreement; and

(d) the Subscription Agreement

10. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Enlarged Group since 31 December 2006, the date to which the latest published audited consolidated financial statements of the Group were made up.

11. LITIGATION

(a) Funrise Toys Limited, an entity incorporated in Hong Kong and an indirectly wholly owned subsidiary of the Company, was sued by Funrise Toys Europe SA (a French corporation) in October 2001, before the Commercial Court of Lyon. Funrise Toys Europe SA claimed that it was entitled compensation under French Law as a result of Funrise Toys Limited improperly terminating an agency agreement entered into between the 2 companies. On 19 December 2001 the Commercial Court of Lyon ruled in favor of Funrise Toys Limited in summary proceedings.

In order to have ownership of the "Funrise" trademark returned to Funrise Toys Limited, Funrise Toys Limited brought an action against Funrise Toys Europe SA in the Civil Court of First Instance in Lyon. On 25 June 2002 the court returned the "Funrise" trademark to Funrise Toys Limited subject to an approved claim by Funrise Toys Europe SA, under a ruling that the relationship between the said parties was that of an agent and a principal, of damages in the amount of €1,282,487.74 to Funrise Toys Europe SA. An appeal before the Lyon Court of Appeal was dismissed on 3 June 2004 following which Funrise Toys Limited lodged an appeal with the French Supreme Court on 3 November 2004.

On 19 March 2002 Funrise Toys Europe SA filed for bankruptcy protection in France. Pursuant to the bankruptcy filing, there are claims against Funrise Toys Europe SA, by Funrise Toys Limited and Funrise, Inc. an entity incorporated in California, U.S.A and an indirectly wholly owned subsidiary of the Company, that have been approved as admitted claims by the Bankruptcy Court in Lyon. The amount of the claims totals €494,976.46. The net amount of the balance due by Funrise Toys Limited and Funrise, Inc. to the bankruptcy of Funrise Toys Europe SA, in the event of an unfavorable decision by the French Supreme Court, would be €787,511.28

plus interest. However, the French Supreme Court will only consider this case if the amount of damages awarded to Funrise Toys Europe SA by the French Courts is first paid (this an admissibility condition of this final recourse).

(b) Funrise Toys Limited brought an action against Alexandre Veron in the High Court of Hong Kong SAR for non-repayment of a loan extended to him (in his personal capacity) and for reimbursement of a loan payment to Fortis Bank, made on his behalf, by Funrise Toys Limited as guarantor. In this suit, which started in August 2002 before the Lyon Civil Court of First Instance (Tribunal de Grande Instance), the following amounts were claimed by Funrise Toys Limited against Alexandre Veron:

(i) US$70,000 for the principal amount of the personal loan made to Alexandre Veron;

(ii) US$65,288.73 for interest due as at 31 December 2001;

(iii) HK$1,552,848.77 for the payment made on behalf of Alexandre Veron to the Fortis Bank by Funrise Toys Limited as guarantor; and

(iv) €10,000 for lawyers' fees.

These claims were dismissed on 7 September 2006 by the Lyon Civil Court of First Instance because of the lack of evidence. The Court also allocated €3,500 for lawyers' fees to Alexandre Veron.

Since this judgment has not been officially served to Funrise Toys Limited in Hong Kong, no appeal has been introduced yet. However, Funrise Toys Limited does intend to appeal the decision. The amount claimed by Funrise Toys Limited has been written off for book purposes and effectively remains a contingent gain should Funrise Toys Limited prevail on appeal. The contingent gain is approximately US$270,000 plus interest. Funrise Toys Limited has obtained a court-ordered mortgage on the private residence of Alexandre Veron as security for any potential proceeds from this litigation matter on appeal. This measure remains valid until 25 July 2008.

Save as disclosed, no member of the Enlarged Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened by or against any member of the Enlarged Group.

12. EXPERT AND CONSENT

The following is the qualification of the expert whose opinion or advice which is contained in this circular:

Name	Qualification
Deloitte Touche Tohmatsu	Certified Public Accountant

As at the Latest Practicable Date, Deloitte Touche Tohmatsu:

(a) has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letters and/or references to its name in the form and context in which they appear;

(b) did not have any direct or indirect interest in any asset which were acquired or dispose of by or leased to, or proposed to be acquired or disposed of by or leased to, any member of the Enlarged Group, since 31 December 2006, the date to which the latest published audited consolidated financial statements of the Group were made up; and

(c) was not beneficially interested in the share capital of any member of the Group and did not have any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

13. GENERAL

(a) the registered office of the Company is situated at Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda.

(b) The principal place of business of the Company in Hong Kong is located at Room 901, 9th Floor, East Ocean Centre, 98 Granville Road, Tsimshatsui East, Kowloon, Hong Kong.

(c) The branch share registrar of the Company in Hong Kong is Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

(d) The company secretary of the Company is Ms. Lai Mei Fong, who holds a master degree of business administration and is an associate member of the Hong Kong Institute of Company Secretaries and the Institute of Chartered Secretaries and Administrator.

(e) The qualified accountant of the Company is Ms. Chu Chor Lin who is a fellow member of Hong Kong Institute of Certified Public Accountants.

(f) The English text of this circular shall prevail over the Chinese text in case of any inconsistency.

14. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the Company's principal place of business in Hong Kong at Room 901, 9th Floor, East Ocean Centre, 98 Granville Road, Tsimshatsui East, Kowloon, Hong Kong during normal business hours on any weekdays except public holidays, up to and including 20 July 2007:

(a) the memorandum of association and bye-laws of the Company;

(b) the material contracts referred to in the section headed "Material Contracts" in this appendix;

(c) the contracts and arrangement referred to in the section headed "Directors' interests in contracts" in this appendix;

(d) the written content referred to in the section headed "Expert and consent" in this appendix;

(e) the annual report of the Company for each of the two years ended 31 December 2006;

(f) the accountants' reports on each of the Funrise LLC, Funrise Inc., Code 3 LLC, the text of which is set out in Appendices II, III and IV to this circular; and

(g) the unaudited pro forma statement of assets and liabilities of the Enlarged Group from Deloitte Touche Tohmatsu and the accountants' report thereon, the text of each of which is set out in Appendix V to this circular.