

REPORT of the Directors

The directors of the Company have pleasure in presenting their annual report together with the audited financial statements of the Company for the year ended 31st December, 2004.

PRINCIPAL ACTIVITIES

The Company is an investment holding company.

The principal activities of its subsidiaries are the manufacture and distribution of gifts and novelties items. The analysis of the principal activities and geographical locations of the operations of the Company and its subsidiaries during the financial year are set out in note 17 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The five largest customers of the Group together accounted for approximately 99.3% of the Group's turnover, with the largest customer accounted for approximately 89.0%. The aggregate purchases attributable to the Group's five largest suppliers were approximately 35.7% of total purchases of the Group, with the largest supplier accounted for approximately 9.5%.

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

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2004 are set out in the consolidated income statement on page 23.

An interim dividend of HK8 cents per share and a special dividend of HK3 cents per share, amounting to HK\$46,777,600 and HK\$17,541,600 respectively, were paid and declared to the shareholders during the year respectively.

The directors now recommend the payment of a final dividend of HK9 cents per share, amounting to HK\$52,625,000, to the shareholders on the register of members on 20th April, 2005 and the retention of the remaining profit in the Company, amounting to HK\$99,097,000.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group spent approximately HK\$13,341,000 on plant and equipment and HK\$1,449,000 on properties to expand and upgrade its production capacity.

Details of these and other movements during the year in the property, plant and equipment of the Group are set out in note 14 to the financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 23 to the financial statements. Shares were issued during the year as a result of the conversion of the convertible loan stocks of the Company.

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PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on page 26 and note 24 to the financial statements respectively.

Reserves of the Company as at 31st December, 2004 available for distribution, calculated under the Companies Act 1981 of Bermuda (as amended), amounted to HK\$155,383,000 (2003: HK\$81,868,000).

PRE-EMPTIVE RIGHTS

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

MANAGEMENT CONTRACTS

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

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 55.

DIRECTORS

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

Executive directors:

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

Independent non-executive directors:

Mak Shiu Chung, Godfrey
Loke Yu alias Loke Hoi Lam (appointed on 30th September, 2004)
Wan Hing Pui (appointed on 30th September, 2004)
Heng Kwo Seng (resigned on 30th September, 2004)

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DIRECTORS' SERVICE CONTRACTS

In accordance with the clause 99 of the Bye-laws of the Company, Ms. Cheng Wing See, Nathalie retires and, being eligible, offers herself for re-election at the forthcoming annual general meeting. In accordance with the clause 91 of the Bye-laws of the Company, Mr. Loke Yu alias Loke Hoi Lam and Mr. Wan Hing Pui retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

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

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

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

DIRECTORS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS

A tenancy agreement entered into on 1st May, 2001 and was renewed on 22nd May, 2003 after arm's length negotiation between Matrix Resources Enterprise Limited and Kwok Lung Industrial Company Limited ("Kwok Lung") (an associate of Mr. Cheng Yung Pun ("Mr. Cheng") as defined under the Listing Rules) in respect of premises in Hong Kong. The monthly rental in respect of this tenancy agreement amounted to HK\$12,000.

A sale contract was entered into on 1st December, 2004 between an indirect wholly owned subsidiary of the Company – Keyhinge Enterprises (Macao Commercial Offshore) Company Limited (formerly known as Matrix Enterprises (Macao Commercial Offshore) Company Limited) ("KCO") and Asia Machinery Agency Company Limited ("AMA") (an associate of Mr. Cheng as defined under the Listing Rules) in respect of the purchase of five sets of machines by KCO from AMA at a consideration of HK\$920,000.

During the year, interest on the 5% convertible loan stock amounting to HK\$73,000 was accrued and payable to Suncorp Investments Group Limited ("Suncorp"), a company incorporated in the British Virgin Islands with its entire issued share capital wholly owned by Mr. Cheng.

Suncorp converted an amount of HK\$12,200,000 convertible loan stock into 122,000,000 ordinary shares of HK\$0.10 each in the Company in February 2004.

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

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DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

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

As at 31st December, 2004, the interests and short positions of the directors and chief executives and their respective associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or which were otherwise required to be notified to the Company and the Stock Exchange, pursuant to the Model Code for Securities Transactions by Directors of the Listing Companies were as follows:

Long Positions

Ordinary Shares of HK\$0.10 each of the Company

Name of Directors	Capacity	Number of Issued Ordinary Shares Held	Percentage of the Issued Share Capital of the Company
Cheng Yung Pun	Held by controlled corporation (Note 1)	394,270,800	67.43%
Yu Sui Chuen	Beneficial owner	604,000	0.10%
Cheng Wing See, Nathalie	Beneficial owner	700,000	0.12%

Note 1: The shares are held by Suncorp.

Other than as disclosed above, none of the directors, chief executives nor their respective associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31st December, 2004.

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

At no time during the year was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the directors nor the chief executive, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

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SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31st December, 2004, other than the interests disclosed above in respect of the directors of the Company, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO discloses no other person as having an interest of 5% or more in the shares, underlying shares and debentures of the Company and its associated corporations.

SHARE OPTION SCHEME

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

- (i) The purpose of the Scheme is to enable the Company to grant options to selected participants as incentives or rewards for their contribution to the Company and/or the subsidiaries (as defined in the Scheme);
- (ii) The participants of the Scheme include any full-time employee, executives or officers, directors of the Company or any of the subsidiaries and any suppliers, consultants, agents or advisers who have contributed to the Group;
- (iii) The total number of shares available for issue under the Scheme is 32,272,000 which represents 5.52% of the existing issued share capital of the Company at the date of this report;
- (iv) The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company at the date of adoption of the Scheme, unless approval from the Company's shareholders has been obtained. The number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes of the Company must not exceed 30% of the shares in issue from time to time;
- (v) Unless approved by shareholders in general meeting, no participants shall be granted an option if the total number of shares issued and to be issued upon exercise of the options granted and to be granted to such participant in any 12-month period up to the date of the latest grant would exceed 1% of the issued share capital of the Company from time to time. Options granted to a substantial shareholders or an independent non-executive director in excess of 0.1% of the Company's share capital in issue for the time being and with a value in excess of HK\$5 million must be approved in advance by the Company's shareholders;
- (vi) An option may be exercised in accordance with the terms of the Scheme at any time during a period to be notified by the Board to each grantee. Unless otherwise determined by the Board at its sole discretion, there is no requirement of a minimum period for which an option must be held or a performance target which must be achieved before an option can be exercised;

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SHARE OPTION SCHEME (Continued)

- (vii) A non-refundable remittance of HK\$1 by way of consideration for the grant of an option is required to be paid by each grantee upon acceptance of the option;
- (viii) The subscription price payable upon exercising any particular option granted under the Scheme is determined based on a formula: $P = N \times E_p$, where "P" is the subscription price; "N" is the number of shares to be subscribed; and "E_p" is the exercise price of the highest of (a) the nominal value of a share in the Company on the date of grant; (b) the official closing price of shares of the Company as stated in the daily quotation sheets of the Stock Exchange on the date of grant; and (c) the average of the official closing price of shares of the Company as stated in the daily quotation sheets of the Stock Exchange for the five business days immediately preceding the date of grant and as adjusted pursuant to the clauses of the Scheme; and
- (ix) The life of the Scheme is until the tenth anniversary of the adoption date of the Scheme.

Particulars of the Company's share option scheme are set out in note 34 to the financial statements.

As at 31st December, 2004, the total number of shares available for issue under the Company's share option scheme was 32,272,000 shares which represented 5.52% of the issued share capital of the Company.

No options were granted or exercised under the Scheme during the year and there were no outstanding share options at 31st December, 2004.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied throughout the year ended 31st December, 2004 with the Code of Best Practice as set out in Appendix 14 to the Listing Rules, except that the non-executive directors are not appointed for specific terms as they are subject to retirement by rotation and re-election at annual general meeting of the Company in accordance with the Bye-laws of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

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AUDIT COMMITTEE

The Company has an audit committee which was established for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls.

The written terms of reference which describe the authority and duties of the audit committee were prepared and adopted. The audit committee, comprises three independent non-executive directors, namely Mr. Loke Yu alias Loke Hoi Lam (Chairman of audit committee), Mr. Mak Shiu Chung, Godfrey and Mr. Wan Hing Pui, met regularly during the financial year. During the meetings, the audit committee reviewed the accounting principles and practices adopted by the Group, the interim and annual reports of the Group and discussed with management the auditing, internal control and financial reporting matters.

EMOLUMENT POLICY

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

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

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31st December, 2004.

POST BALANCE SHEET EVENT

Details of significant event occurring after the balance sheet date are set out in note 36 to the financial statements.

AUDITORS

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

By order of the Board
Cheng Yung Pun
Chairman

Hong Kong, 16th March, 2005