

Chairman's Statement

To Our Shareholders,

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

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

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

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

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

Cheng Yung Pun
Chairman

Hong Kong, 16th March, 2006