

Corporate Governance Report

CODE ON CORPORATE GOVERNANCE

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

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

BOARD OF DIRECTORS

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

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

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

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BOARD OF DIRECTORS (Continued)

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

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

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

APPOINTMENTS AND RE-ELECTION OF DIRECTORS

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

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

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CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

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

DIRECTORS’ SECURITIES TRANSACTIONS

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

DIRECTORS’ RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

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

REMUNERATION COMMITTEE

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

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REMUNERATION COMMITTEE (Continued)

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

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

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

AUDIT COMMITTEE

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

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

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AUDIT COMMITTEE (Continued)

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

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

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

Attendance Record of individual Directors at meetings in 2005

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

AUDITOR'S REMUNERATION

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

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

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INTERNAL CONTROL

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

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

INVESTOR RELATIONS

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

COMMUNICATION WITH SHAREHOLDERS

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

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

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