

Chairman's Statement

To Our Shareholders,

I have pleasure in presenting to our shareholder the annual report of Matrix Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the financial year ended 31st December, 2006.

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

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

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

To compensate the adverse impact brought by the above unfavourable factors, the Group reinforced the

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

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

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

Cheng Yung Pun
Chairman

Hong Kong, 18th April, 2007