

Interim Report 2001



MATRIX Matrix Holdings Limited
美力時集團有限公司

UNAUDITED INTERIM RESULTS

The Board of Directors (the "Directors") of Matrix Holdings Limited (the "Company") announce the unaudited consolidated financial statements of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2001, together with the comparative figures for the corresponding period in 2000 as follows:

**CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2001**

		For the six months ended	
	<i>Notes</i>	30 June 2001 (Unaudited) HK\$'000	30 June 2000 (Unaudited) HK\$'000
Turnover	2	29,372	7,152
Cost of sales		(13,391)	(4,743)
Gross profit		15,981	2,409
Other revenue		453	251
Distribution costs		(33)	(41)
Administrative expenses		(7,964)	(4,282)
Written back of inventories previously written off which has been consumed for production during the period		—	2,573
Profit from operations	3	8,437	910
Finance costs		(1,101)	(367)
Restructuring costs		—	(5,873)
Waiver of indebtedness		—	189,441
Profit before taxation		7,336	184,111
Taxation	4	(210)	—
Net profit for the period		<u>7,126</u>	<u>184,111</u>
Earnings per share	6		
Basic		<u>HK\$0.05</u>	<u>HK\$2.37</u>
Diluted		<u>HK\$0.01</u>	<u>HK\$0.81</u>

There were no recognised gains or losses other than the net profit for the period.

CONDENSED CONSOLIDATED BALANCE SHEET AS AT 30 JUNE 2001

	<i>Notes</i>	30 June 2001 (Unaudited) HK\$'000	31 December 2000 (Audited) HK\$'000
Non-current asset			
Property, plant and equipment		69,963	73,214
Current assets			
Inventories		36,152	3,121
Trade and other receivables	7	9,085	12,378
Bank balances and cash		16,051	4,026
		61,288	19,525
Current liabilities			
Trade and other payables	8	31,945	11,234
Amount due to ultimate holding company		367	1,467
Amount due to a director	17	11,565	–
Tax payable		320	110
		44,197	12,811
Net current assets		17,091	6,714
Total assets less current liabilities		87,054	79,928
Capital and reserves			
Share capital	9	14,472	14,472
Reserves	11	28,582	21,456
Shareholders' funds		43,054	35,928
Non-current liability			
Convertible loan stock	12	44,000	44,000
		87,054	79,928

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2001**

	For the six months ended	
	30 June 2001	30 June 2000
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
NET CASH INFLOW (OUTFLOW) FROM OPERATING ACTIVITIES	<u>1,833</u>	<u>(15,875)</u>
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		
Interest received	332	1
Interest paid	<u>(2,200)</u>	<u>—</u>
NET CASH (OUTFLOW) INFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	<u>(1,868)</u>	<u>1</u>
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(25)	—
Proceeds from disposal of property, plant & equipment	<u>520</u>	<u>—</u>
NET CASH INFLOW FROM INVESTING ACTIVITIES	<u>495</u>	<u>—</u>
NET CASH INFLOW (OUTFLOW) BEFORE FINANCING	<u>460</u>	<u>(15,874)</u>
FINANCING		
Issue of shares	—	10,000
Issue of convertible loan stock	—	30,000
Repayment of a liquidated subsidiary's indebtedness	—	(6,345)
Repayment of financial creditors	—	(14,000)
Repayment to a former director	—	(4,613)
Advance from a director	11,565	—
Advance from a former shareholder	<u>—</u>	<u>995</u>
NET CASH INFLOW FROM FINANCING	<u>11,565</u>	<u>16,037</u>
INCREASE IN CASH AND CASH EQUIVALENTS	12,025	163
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	<u>4,026</u>	<u>164</u>
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	<u>16,051</u>	<u>327</u>
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	<u>16,051</u>	<u>327</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

The condensed consolidated interim financial statements have been prepared under the historical cost conventions.

The condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice 25 ("SSAP 25") "Interim Financial Reporting", issued by the Hong Kong Society of Accountants. The accounting policies adopted in the preparation of the condensed consolidated interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2000.

2. SEGMENTAL INFORMATION

The Group's turnover derived from the business of manufacture and sale of gifts and novelties analysed by geographical market is as follows:

	30.6.2001 (Unaudited) HK\$'000	30.6.2000 (Unaudited) HK\$'000
North America	1,933	–
Hong Kong	27,086	7,152
Asia other than Hong Kong	353	–
	<u>29,372</u>	<u>7,152</u>

Contribution to profit by geographical market has not been presented as the contribution to profit from each market is substantially in line with the overall Group ratio of profit to turnover.

3. PROFIT FROM OPERATIONS

	30.6.2001 (Unaudited) HK\$'000	30.6.2000 (Unaudited) HK\$'000
Profit from operations has been arrived at after charging (crediting):		
Auditors' remuneration		
– underprovision in previous year	23	–
Depreciation	2,542	2,459
Exchange loss	7	–
Operating lease rentals in respect of rented premises	408	–
Mandatory provident fund scheme contributions, net of forfeited contributions of nil (2000: nil)	106	–
Staff costs (including directors' remuneration)	7,589	6,712
Interest income	(332)	(1)
Exchange gain	–	(53)
	<u>–</u>	<u>(53)</u>

4. TAXATION

Hong Kong Profits Tax is calculated at 16% of the estimated assessable profits for the period.

Neither the Group nor the Company had any significant unprovided deferred taxation for the period or at the balance sheet date.

5. INTERIM DIVIDEND

The Board of Directors does not recommend the payment of any dividend for the period ended 30 June 2001 (2000: Nil).

6. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30 June 2001 is based on the net profit attributable to shareholders for the period of approximately HK\$7,126,000 (2000: HK\$184,111,000) and the weighted average number of 144,720,000 shares (2000: 77,687,033 shares) in issue during the period.

The calculation of diluted earnings per share for the six months ended 30 June 2001 is based on the adjusted net profit attributable to shareholders for the period of approximately HK\$8,227,000 (2000: HK\$184,478,000) and the weighted average number of 584,720,000 shares (2000: 227,577,143 shares) after taking into consideration on the potential dilution effect of conversion of convertible loan stock.

The number of ordinary shares adopted for the purpose of calculating the earnings per share for the period ended 30 June 2000 has been adjusted to take account of the share consolidation effected in April 2000.

7. TRADE AND OTHER RECEIVABLES

The trade and other receivables include trade receivables of HK\$7,247,000 (2000: HK\$8,322,000). The Group allows an average credit period of 14 to 45 days to its trade customers.

The following is an ageing analysis of trade receivables at the balance sheet date:

	30.6.2001 (Unaudited) HK\$'000	31.12.2000 (Audited) HK\$'000
0 - 60 days	6,853	7,918
61 - 90 days	51	404
> 90 days	343	—
	<hr/> 7,247 <hr/>	<hr/> — <hr/> <hr/> 8,322 <hr/>

8. TRADE AND OTHER PAYABLES

The trade and other payables include trade payables of HK\$19,706,000 (2000: HK\$2,468,000).

The following is an ageing analysis of trade payables at the balance sheet date:

	30.6.2001 (Unaudited) HK\$'000	31.12.2000 (Audited) HK\$'000
0 - 60 days	17,486	694
61 - 90 days	1,147	232
> 90 days	1,073	1,542
	<u>19,706</u>	<u>2,468</u>

9. SHARE CAPITAL

	30.6.2001 (Unaudited) HK\$'000	31.12.2000 (Audited) HK\$'000
Authorised: 700,000,000 ordinary shares of HK\$0.1 each	<u>70,000</u>	<u>70,000</u>
Issued and fully paid: 144,720,000 ordinary shares of HK\$0.1 each	<u>14,472</u>	<u>14,472</u>

10. SHARE OPTION SCHEME

Pursuant to a share option scheme adopted on 26 January 1994, the Company may grant options to employees, including executive directors, of the Company or any of its subsidiaries to subscribe for shares in the Company, at a price equal to the higher of the nominal value of a share or 80% of the average closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of offer of the options. The maximum number of shares in respect of which options may be granted under the share option scheme cannot exceed 10% of the issued share capital of the Company from time to time.

No options under the scheme were granted or exercised during the period and there are no outstanding options at 30 June 2001.

11. RESERVES

	Share premium <i>HK\$'000</i>	Special reserve <i>HK\$'000</i>	Retained profits (losses) <i>HK\$'000</i>	Other asset revaluation reserve <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2001	55,708	771	(50,193)	15,170	21,456
Net profit for the period	—	—	7,126	—	7,126
At 30 June 2001	<u>55,708</u>	<u>771</u>	<u>(43,067)</u>	<u>15,170</u>	<u>28,582</u>

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.

In the opinion of directors, the Company had no reserves available for distribution to the shareholders.

12. CONVERTIBLE LOAN STOCK

The convertible loan stock bears interest at 5% per annum on the principal amount outstanding from time to time and shall be payable annually in arrears. The convertible loan stock is unsecured and can be converted into new shares by the holder at a predetermined fixed price of HK\$0.10 per share commencing on 23 May 2001 instead of the date commencing from the third anniversary from its date of issue on 30 April 2000, as per the ordinary resolution passed at the Special General Meeting held on 22 May 2001. At the end of its five years term, all the outstanding amount of the convertible loan stock must be converted into new shares at a predetermined fixed price of HK\$0.10 per share. Suncorp Investments Group Limited ("Suncorp") has entire interest of the convertible loan stock.

13. CAPITAL COMMITMENTS

Neither the Group nor the Company had any significant capital commitments at the balance sheet date.

14. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group had the commitments payable within the next year under non-cancellable operating lease in respect of rented premise as follows:

	30.6.2001 (Unaudited) HK\$'000	31.12.2000 (Audited) HK\$'000
Operating lease which expires in the second to fifth year inclusive	<u>912</u>	<u>720</u>

15. CONTINGENT LIABILITIES

Matrix Plastic Manufacturing (Zhongshan) Co. Ltd. ("MPMZ") has been served a writ from Nam Guang Trading Company ("Nam Guang") regarding a breach of five years distribution agreement ("the agreement") signed between China Win Universal Group Ltd. ("China Win"), the subsidiary of Nam Guang, and MPMZ on 8 March 1999. According to a civil litigation certificate issued by China Win, it asks for damage for failure to perform the agreement by MPMZ in amount of approximately US\$194,000. The progress of the above is at the stage in waiting for the judgement from Zhongshan Municipal People's Court. The directors based on legal opinion given by the Group's legal counsel, consider that this claim should not significantly affect the financial results of the Group and, accordingly, no provision for liability has been made in these financial statements.

16. RELATED PARTY TRANSACTIONS

During the period, the Group entered into the following transaction with related parties which also constitute connected transactions:

		30.6.2001 (Unaudited) HK\$'000	30.6.2000 (Unaudited) HK\$'000
Suncorp Investments Group Limited	Accrued interest on convertible loan stock	1,101	367
Keyhinge Toys Vietnam Company Limited	Purchases	285	-

Suncorp has provided working capital facilities to the Company up to HK\$10,000,000 for one year from 30 August 2000.

17. AMOUNT DUE TO A DIRECTOR

The amount due to a director is unsecured and interest free with no fixed term of repayment.

18. COMPARATIVE FIGURES

Certain of the 2000 comparative figures have been reclassified to conform to the current period's presentation.

BUSINESS AND FINANCIAL REVIEW

The Group's unaudited consolidated turnover and net profit from ordinary activities for the six months ended 30 June 2001 were approximately HK\$29.4 million (2000: HK\$7.2 million) and approximately HK\$8.4 million (2000: HK\$0.9 million) representing significant growth rates of approximately 308% and 833% respectively as compared to the prior corresponding period.

Following the slowdown worldwide economy in 2000, trading conditions were more difficult in the first half of this year. However, the management enhancement has achieved an encouraging result against the fierce competition, not only it has controlled the production cost, but also established new market which led to effectiveness and efficiency of the market and product development. By adopting new market strategy coupled with technical knowledge from the management, which has contributed positively towards the development of both local and export market. With the effort of export marketing development, a wider income source in the near future would be expected.

Streamline our internal management and worked hard to maximize the utilization of raw materials, fuel and energy, as well as the procurement cost of spare parts and components; exercised tough control on the quality of production process; and kept strengthening the technical training of its staff and workers so as to enhance the overall quality of the working force.

During the period under review, the global economic slowdown brought an unfavorable business environment across the markets. This inevitably affected the Group's core business, which experienced a setback in performance for the overall plastic toys industry. However, by adopting stringent cost control and strengthen the export marketing channels, the Group was able to maintain steady performance.

LIQUIDITY, FINANCIAL RESOURCES AND FUNDING

The shareholders' funds of the Group have been increased from approximately HK\$35.9 million at 31 December 2000 to approximately HK\$43.1 million at 30 June 2001 mainly come from the profitable operation.

During the period, the Group's net debt (net of bank balances and cash) decreased by approximately HK\$12.0 million from approximately HK\$40.0 million at 31 December 2000. As at 30 June 2001, the gearing ratio of the Group was 50.5%, calculated on the basis of the Group's total debt over the shareholders funds and convertible loan stock.

Suncorp has provided working capital facilities to the Company up to HK\$10,000,000 for one year from 30 August 2000.

EMPLOYEES

As at 30 June 2001, the Group had approximately 3,900 employees. The Group provides competitive remuneration packages to employees commensurable to the level and market trend of pay in the business in which the Group operates, with mandatory provident fund scheme and share option scheme. No share options under the share option scheme adopted on 26 January 1994 were granted or exercised during the period under review and there was no outstanding options at 30 June 2001.

FUTURE PLAN AND PROSPECTS

Looking forward, with the elite human resources, effective cost control management, high product quality and innovation in research and development of its products, the Group is optimistic about its future prospects.

Summary of the Group's future targets:

- to re-develop the marketing strategy and strengthen its existing core business.
- to increase the production capacity by introducing new and innovative machinery & establish new factory at strategic locations.
- to continue to develop its sales channels and network and improve efficiency of its sales teams with an aim to further increase its market share.
- to improve the efficiency of the operation by upgrading the existing computer systems.
- to design & develop new brand-named products which will become one of the sources of contribution to the Group.
- to continue to look for suitable investment opportunities to growth Group further.
- to enhance its assets and profitability bases in order to provide better return to the investors.

DIRECTORS' INTERESTS IN SECURITIES**Shares**

At 30 June 2001, the interests of the directors and their associates in the share capital of the Company as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") were as follows:

Name of director	Number of shares held	
	Personal interests	Corporate interests
Cheng Yung Pun	–	89,900,800

The interest in shares are held by Suncorp, a company incorporated in the British Virgin Islands and wholly owned by Mr. Cheng Yung Pun. In addition, Suncorp holds the entire interest of the convertible loan stock of the Company in an amount of HK\$44 million.

Save as disclosed above, none of the directors or chief executives, nor their associates had any interests in any securities of the Company or any of its associated corporations as defined in the SDI Ordinance, and none of the directors or chief executives, nor 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 during the period.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the period was the Company, its holding company or any of its 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.

DIRECTORS' INTERESTS IN CONTRACTS AND CONNECTED PARTY TRANSACTIONS

During the period, an interest on the 5% convertible loan stock amounting to approximately HK\$1,101,000 was accrued and payable to Suncorp.

On 30 August 2000, Suncorp has provided working capital facilities of HK\$10 million for the Group for one year from then onwards.

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, subsisted at the end of the period or at any time during the period.

SUBSTANTIAL SHAREHOLDERS

Other than the interests disclosed above in respect of directors of the Company, the register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance discloses no other person as having an interest of 10% or more in the share capital of the Company as at 30 June 2001.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2001, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

The Audit Committee of the Company was established with written terms of reference which deal clearly with its authorities and duties. The unaudited financial statements of the Group for the six months ended 30 June 2001 have been reviewed by the Audit Committee.

COMPLIANCE WITH CODE OF BEST PRACTICE

None of the directors is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months under review in compliance with the Code of Best Practice as set out in appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") except that the non-executive directors of the Company are not appointed for specific terms as they are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the bye-laws of the Company.

By Order of the Board
Cheng Yung Pun
Chairman

Hong Kong, 21 September 2001