



Chairman's Statement

FINANCIAL REVIEW

The audited consolidated results of the Group for the year ended 31st December, 2001 continued to improve since the completion of group restructuring in April 2000. Turnover for the year ended 31st December, 2001 was HK\$195,039,000. On a comparable basis, this represented a 450% increase compared to HK\$35,472,000 in 2000. The profit from ordinary activities increased to HK\$38,378,000, a 186% increase compared to HK\$13,411,000 for the same period last year. Given the current difficult business environment, the Directors consider that the results achieved were satisfactory as the increased sales volume of the Group outpaced the anticipated impact of low gross profit margin.

BUSINESS REVIEW

2001 was a challenging year for the Group. Despite the global economy slowdown, coupled with the impact of the 911 incidence, the Group managed to achieve a satisfactory results and steady business expansion.

During the year under review, the Company focused its activities on development of our core business. With our dedicated and relentless efforts in exploring the development of the marketing channel, the Company successfully established numerous strategic clients in United States. This marketing strategy has contributed to the satisfactory growth of the sales and the profit from normal operation.

To accomplish the needs of the marketing result and its expansion, the Company has enlarged the manpower in Hong Kong and the PRC and its manufacturing facilities in the PRC factories in anticipation of the future marketing development.

Apart from increasing effort in the strengthening of working with our major original equipment manufacturing ("OEM") customers, the Company has allocated substantial resources to develop innovative original design manufacturing ("ODM") business by adopting a design section in marketing brand-named products.

There was no major acquisition or disposal of business during the year.

LIQUIDITY AND FINANCIAL RESOURCES

At 31st December, 2001, the Group had total assets of HK\$177,861,000, total liabilities of HK\$107,148,000 and shareholders' equity of HK\$70,713,000. The gearing ratio is 38.3%, calculated on the basis of the Group's total debt over the shareholders' funds and convertible loan stock. The Group has consistently maintained a strong working capital during the year under review. The net assets of the Group increased from HK\$35,928,000 as at 31st December, 2000 to HK\$70,713,000 as at 31st December, 2001.



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LIQUIDITY AND FINANCIAL RESOURCES *(Continued)*

Suncorp Investments Group Limited ("Suncorp") provided working capital facilities (the "Facilities") of HK\$10 million to the Group for a period of one year commencing on 30th August, 2000. The Facilities expired during the year.

The Group was not exposed to any material exchange rate fluctuation or any related hedges.

During the year, the Group generally financed its operations with internally generated cash flow. As at 31st December, 2001, it had cash and bank balances of HK\$29,366,000. With the existing core business of the Group moving ahead on track, our financial position will continue to remain healthy without any material bank borrowing. However, the Group will explore additional finance resources of favourable terms for future expansion should suitable opportunities arise.

The Group's land & buildings together with plant & machinery in the PRC were revalued at the year-end date which gave rise to an increase in value compared to last year. The increase in value has been reflected in the financial statements.

The convertible loan stock of HK\$44 million at 31st December, 2001 can be converted into new shares by the holder at a pre-determined fixed price of HK\$0.10 per share. The conversion period of the convertible loan stock covered a period of two years commencing from the third anniversary from its date of issue on 30th April, 2000. Pursuant to an ordinary resolution passed at the Special General Meeting held on 22nd May, 2001, the conversion period of the convertible loan stock has been changed to commence on 23rd May, 2001 and end on 30th April, 2005. The holder of the convertible loan stock may exercise the rights attached to the convertible loan stock to convert the same into 440,000,000 ordinary shares in the capital of the Company. The change of the conversion period may enable the Company to have an even more healthy gearing ratio in a short period of time should the holder of the convertible loan stock choose to exercise the conversion rights as early as it is permitted under the new conversion period.

In January 2002, Suncorp converted an aggregate face value of HK\$7,700,000 convertible loan stock to 77,000,000 ordinary shares at HK\$0.10 per share.



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EMPLOYEES

As at 31st December, 2001, the Group had approximately 4,800 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.

PROSPECTS

On 5th November, 2001, the Group entered into an agreement with Mr. Cheng Yung Pun ("Mr. Cheng"), the chairman and the controlling shareholder of the Company, pursuant to which the Group would acquire from Mr. Cheng the entire issued share capital of Keyhinge Holdings Limited, whose major asset is a manufacturing plant located in Socialist Republic of Vietnam ("Vietnam"), for a total consideration of HK\$26 million. The acquisition was approved by the independent shareholders of the Company on 18th January, 2002. In view of the increasingly competitive toy business market, the Directors consider that the relatively low labour cost operations in Vietnam will enable the Group to improve its overall competitiveness and maintain a competitive advantage position over other competitors for its future business expansions. Following the signing of Bilateral Trade Agreement between Vietnam and the United States in July 2001, it will stimulate Vietnam's export businesses to the United States market. The Directors therefore consider that the acquisition will provide the Company with a channel to access other business opportunities in Vietnam, including the exploration of the United States market.

Worldwide economic recovery is beginning to take shape as leading economic indicators in United States and Europe have shown improvement. The Company besides strengthening its relationships with existing customers, will actively develop other major market segments of the United States by enlarging the existing marketing manpower in research and promotion.

As the global economies continue their slow recovery, Hong Kong is still facing with deflation and high unemployment rate. Year 2002 will certainly be a challenging year for the Group. In pursuit of the Group's mission of developing itself into a substantial conglomerate, the Group will endeavor its best efforts in positioning the Group's business at strategical niche by developing market-oriented operations in order to stay competitive. Capitalized on its strong balance sheet, the Group will continue to identify investment or acquisition opportunities in related business to fuel its expansion in operation scale and market coverage.



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PROSPECTS *(Continued)*

With extensive experience in plastics toys, the Group is well prepared to further increase the market share of its core business and to yield from the economy-of-scale benefits. The Group will take advantage of its favourable position in the capital markets to further strengthen its finance, improve its capital structure and portfolio, and increase its assets utilization, in order to generate higher return for shareholders. We remain confident that by focusing on our core business, we would weather the difficulty and be well positioned to further benefit from the recovery of the worldwide economy expected in the year ahead.

ACKNOWLEDGEMENTS

On behalf of the Board, I would like to extend my deepest gratitude to my fellow directors and colleagues for their dedication towards the ambition of the Group throughout the year. I would also like to take this opportunity to express my appreciation to all our shareholders for their continued belief in Matrix and our strategy for the future.

Cheng Yung Pun

Chairman

Hong Kong, 8th April, 2002