



MATRIX HOLDINGS LIMITED
MATRIX HOLDINGS LIMITED

MATRIX HOLDINGS LIMITED

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

Interim Report 2002

UNAUDITED INTERIM RESULTS

The Board of Directors (the "Directors") of Matrix Holdings Limited (the "Company") announce the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2002, together with the comparative figures for the corresponding period in 2001 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2002

	NOTES	For the six months ended	
		30 June 2002 (Unaudited) HK\$'000	30 June 2001 (Unaudited) HK\$'000
Turnover	2	189,285	29,372
Cost of sales		<u>(126,317)</u>	<u>(13,391)</u>
Gross profit		62,968	15,981
Other revenue		1,418	453
Distribution costs		(514)	(33)
Administrative expenses		<u>(14,295)</u>	<u>(7,964)</u>
Profit from operations	3	49,577	8,437
Finance costs		<u>(931)</u>	<u>(1,101)</u>
Profit before taxation		48,646	7,336
Taxation	4	<u>(5,300)</u>	<u>(210)</u>
Net profit for the period		<u>43,346</u>	<u>7,126</u>
Interim dividend		<u>25,818</u>	<u>-</u>
Earnings per share	5		
Basic		<u>HK\$0.21</u>	<u>HK\$0.05</u>
Diluted		<u>HK\$0.08</u>	<u>HK\$0.01</u>

CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2002

		30 June 2002 (Unaudited) HK\$'000	31 December 2001 (Audited) HK\$'000
	NOTES		
Non-current asset			
Property, plant and equipment		107,192	70,551
		<hr/>	<hr/>
Current assets			
Inventories		48,053	43,872
Trade and other receivables	6	37,210	29,418
Amount due from a former shareholder		–	4,654
Bank balances and cash		32,530	29,366
		<hr/>	<hr/>
		117,793	107,310
		<hr/>	<hr/>
Current liabilities			
Trade and other payables	7	37,269	54,859
Amount due to ultimate holding company		303	1,477
Amount due to a related company		–	829
Amount due to a director	8	18,817	726
Tax payable		10,557	5,257
		<hr/>	<hr/>
		66,946	63,148
		<hr/>	<hr/>
Net current assets		50,847	44,162
		<hr/>	<hr/>
Total assets less current liabilities		158,039	114,713
		<hr/> <hr/>	<hr/> <hr/>
Capital and reserves			
Share capital	9	22,172	14,472
Reserves	10	99,567	56,241
		<hr/>	<hr/>
Shareholders' funds		121,739	70,713
		<hr/>	<hr/>
Non-current liability			
Convertible loan stock	11	36,300	44,000
		<hr/>	<hr/>
		158,039	114,713
		<hr/> <hr/>	<hr/> <hr/>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2002

	Share capital HK\$'000	Share premium HK\$'000	Special reserve HK\$'000	Other asset revaluation reserves HK\$'000	Accumulated Profit HK\$'000	Total HK\$'000
Balance at 31 December 2000	14,472	55,708	771	15,170	(50,193)	35,928
Surplus on revaluation of leasehold land and buildings	-	-	-	1,284	-	1,284
Surplus on revaluation of plant and machinery	-	-	-	1,071	-	1,071
Impairment loss recognised in revalued plant and machinery	-	-	-	(3,245)	-	(3,245)
Net losses not recognised in the income statement	-	-	-	(890)	-	(890)
Net profit for the year	-	-	-	-	35,675	35,675
Balance at 31 December 2001	14,472	55,708	771	14,280	(14,518)	70,713
Impairment loss recognised in revalued plant and machinery	-	-	-	(20)	-	(20)
Net losses not recognised in the income statement	-	-	-	(20)	-	(20)
Net profit for the period	-	-	-	-	43,346	43,346
Conversion of convertible loan stock	7,700	-	-	-	-	7,700
Balance at 30 June 2002	<u>22,172</u>	<u>55,708</u>	<u>771</u>	<u>14,260</u>	<u>28,828</u>	<u>121,739</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2002

	For the six months ended	
	30 June 2002 (Unaudited) <i>HK\$'000</i>	30 June 2001 (Unaudited) <i>HK\$'000</i>
Net cash from / (used in) operating activities	41,125	(367)
Net cash (used in) / from investing activities	(38,052)	827
Net cash from financing activities	91	11,565
	<hr/>	<hr/>
Net increase in cash and cash equivalents	3,164	12,025
Cash and cash equivalents at beginning of the period	29,366	4,026
	<hr/>	<hr/>
Cash and cash equivalents at end of the period	<u>32,530</u>	<u>16,051</u>
	<hr/>	<hr/>
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	<u>32,530</u>	<u>16,051</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 ("SSAP") 25, "Interim Financial Reporting", issued by the Hong Kong Society of Accountants ("HKSA").

The accounting policies adopted in the preparation of the condensed consolidated interim financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2001 except that the Group has adopted the following new or revised SSAPs issued by the HKSA which are effective for accounting periods commencing on or after 1 January 2002:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 11 (revised)	:	Foreign currency translation
SSAP 15 (revised)	:	Cash flow statements
SSAP 25 (revised)	:	Interim financial reporting
SSAP 34	:	Employee benefits

The adoption of these new or revised SSAPs has no material impact on the Group's financial statements.

2. SEGMENTAL INFORMATION

The Group's turnover and net profit for the period analysed by geographical segment is as follows:

	For the six months ended 30 June			
	Turnover		Results	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
United States	174,963	1,933	59,250	733
Hong Kong	236	27,086	77	15,036
Others	14,086	353	3,126	185
	<u>189,285</u>	<u>29,372</u>	62,453	15,954
Unallocated income and expenses			<u>(12,876)</u>	<u>(7,517)</u>
Profit from operations			49,577	8,437
Finance costs			<u>(931)</u>	<u>(1,101)</u>
Profit before taxation			48,646	7,336
Taxation			<u>(5,300)</u>	<u>(210)</u>
Net profit for the period			<u>43,346</u>	<u>7,126</u>

As the Group operates in one business segment, which is engaged in the manufacture and trading of gifts and novelties, the segmental information by business segment is the same as above.

3. PROFIT FROM OPERATIONS

	30.6.2002 (Unaudited) HK\$'000	30.6.2001 (Unaudited) HK\$'000
Profit from operations has been arrived at after charging (crediting):		
Auditors' remuneration		
– under-provision in previous year	–	23
Depreciation	5,940	2,542
Exchange loss	12	7
Operating lease rentals in respect of rented premises	2,360	408
Staff costs (including directors' remuneration)	27,621	7,589
Interest income	(50)	(332)
Release of negative goodwill to other income	<u>(347)</u>	<u>–</u>

4. TAXATION

Hong Kong Profits Tax has been calculated at 16% (2001: 16%) on the estimated assessable profits for the period. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the overseas countries in which the Group operates respectively.

	30.6.2002 (Unaudited) <i>HK\$'000</i>	30.6.2001 (Unaudited) <i>HK\$'000</i>
Hong Kong	3,900	210
Overseas	1,400	-
	<u>5,300</u>	<u>210</u>

5. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30 June 2002 is based on the net profit attributable to shareholders for the period of approximately HK\$43,346,000 (2001: HK\$7,126,000) and the weighted average number of 209,382,983 shares (2001: 144,720,000 shares) in issue during the period.

The calculation of diluted earnings per share for the six months ended 30 June 2002 is based on the adjusted net profit attributable to shareholders for the period of approximately HK\$44,277,000 (2001: HK\$8,227,000) and the weighted average number of 584,720,000 shares (2001: 584,720,000 shares) after taking into consideration on the potential dilution effect of conversion of convertible loan stock.

6. TRADE AND OTHER RECEIVABLES

The trade and other receivables include trade receivables of HK\$31,134,000 (2001: HK\$24,551,000). 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:

	30.6.2002 (Unaudited) <i>HK\$'000</i>	31.12.2001 (Audited) <i>HK\$'000</i>
0 - 60 days	30,944	24,165
61 - 90 days	15	27
> 90 days	175	359
	<u>31,134</u>	<u>24,551</u>

Matrix Holdings Limited

7. TRADE AND OTHER PAYABLES

The trade and other payables include trade payables of HK\$25,146,000 (2001: HK\$40,559,000).

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

	30.6.2002 (Unaudited) HK\$'000	31.12.2001 (Audited) HK\$'000
0 - 60 days	25,045	39,310
61 - 90 days	50	1,111
> 90 days	51	138
	<u>25,146</u>	<u>40,559</u>

8. AMOUNT DUE TO A DIRECTOR

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

9. SHARE CAPITAL

8

	Number of shares			
	30.6.2002 (Unaudited) '000	31.12.2001 (Audited) '000	30.6.2002 (Unaudited) HK\$'000	31.12.2001 (Audited) HK\$'000
Authorised:				
Ordinary shares of HK\$0.10 each	<u>700,000</u>	<u>700,000</u>	<u>70,000</u>	<u>70,000</u>
Issued and fully paid:				
At 1 January 2002	144,720	144,720	14,472	14,472
Conversion of convertible loan stock	<u>77,000</u>	-	<u>7,700</u>	-
At 30 June 2002	<u>221,720</u>	<u>144,720</u>	<u>22,172</u>	<u>14,472</u>

In January 2002, Suncorp Investments Group Limited ("Suncorp") has converted an amount of HK\$7,700,000 convertible loan stock into 77,000,000 shares of HK\$0.10 each of the Company.

10. RESERVES

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.

11. CONVERTIBLE LOAN STOCK

The convertible loan stock issued on 30 April 2000 carries an 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 from 23 May 2001 to 30 April 2005. 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 has entire interest of the convertible loan stock.

In January 2002, Suncorp has converted an amount of HK\$7,700,000 convertible loan stock into 77,000,000 shares of HK\$0.10 each of the Company.

In July 2002, a further amount of HK\$10,100,000 convertible loan stock was converted into 101,000,000 shares of HK\$0.10 each of the Company.

12. 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 final 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.

13. RELATED PARTY TRANSACTIONS

During the period, the Group entered into the following related party transactions:

	30.6.2002 (Unaudited) HK\$'000	30.6.2001 (Unaudited) HK\$'000
Interest paid/payable on convertible loan stock to ultimate holding company (<i>Note a</i>)	931	1,101
Rental paid/payable to a related company (<i>Note b</i>)	96	-
Purchases of goods from a related company (<i>Note c</i>)	<u>-</u>	<u>285</u>

Notes:

- a. The interest paid/payable on convertible loan stock to Suncorp is calculated at 5% per annum on the principal amount outstanding from time to time and shall be payable annually in arrears.
- b. The rental paid/payable to a related company is determined in accordance to a tenancy agreement entered between a wholly owned subsidiary of the Group and a related company.
- c. Purchase of goods was based on the terms agreed by both parties.

14. COMPARATIVE FIGURES

Certain of the 2001 comparative figures have been reclassified to conform to the current period's presentation.

INTERIM DIVIDEND

The Directors have resolved to declare an interim dividend of HK\$0.08 per share for the six months ended 30 June 2002 (2001: Nil) to be payable in cash to those shareholders whose names appear on the Register of Members of the Company on 20 September 2002. The interim dividend will be paid on or before 27 September 2002.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 18 September 2002 to 20 September 2002, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar in Hong Kong, Secretaries Limited, at 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong no later than 4:00 p.m. on 17 September 2002.

BUSINESS REVIEW

Financial results

During the period under review, the Group has achieved strong growth in both sales volume and profitability. The Group's unaudited consolidated turnover surged from HK\$29,372,000 in 2001 to HK\$189,285,000 in 2002 in the same period, representing an increase of 544%. Profit attributable to shareholders also jumped from HK\$7,126,000 in 2001 to HK\$43,346,000 in 2002 in the same period, demonstrating an increase of 508%. The Group's growth in turnover was mainly due to proactive marketing efforts as well as the continued success of our customers in the United States.

11

Material acquisition

On 5 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 acquired from Mr. Cheng the entire issued share capital of Keyhinge Holdings Limited, whose principal business is soft and hard toys manufacturing and whose major asset is a manufacturing plant located in the 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 18 January 2002.

Development in PRC

The accession of the People's Republic of China ("PRC") to the World Trade Organization ("WTO") opens up new and exciting trading opportunities which the Group intends to exploit by putting in place market research and promotional programmes for proprietary-designed toy and gift products.

BUSINESS REVIEW *(Continued)*

New force in senior management

In an attempt to further broadening the Group's customer base, we have appointed a Chief Executive Officer with the primary objective of overseeing the business development functions of the Group. We will continue to focus on customer needs, the provision of more product choices, making available value-adding logistics services and faster delivery times to our customers – all being major business-winning edges for consolidating our market position.

Operation

Gross margin of the business can be maintained despite increased pricing pressure, as a result of quality enhancement of management staff and the continuous efficiency improvement measures instituted at the production plants. With the incorporation of a new strategic manufacturing location in Vietnam, we will be able to achieve greater economy of scale in production for the delivery of high quality and competitively-priced products to our global customers.

With our extensive experience in the toy industry, we fully understand the importance of active inventory management. We strictly maintain tight control over our inventory with the aim of keeping stock at the most optimal level in accordance with production schedules.

DIRECTORSHIPS

In order to strengthen the Group's management, Mr. Lee Sai Keung, Daniel was invited to join our Group as Executive Director on 24 May 2002.

EMPLOYEES

As at 30 June 2002, the Group had approximately 9,000 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.

LIQUIDITY, FINANCIAL RESOURCES AND FUNDING

The Group's financial position remains strong and healthy. At 30 June 2002, the Group had total assets of HK\$224,985,000, total liabilities of HK\$103,246,000 and shareholders' equity of HK\$121,739,000. The net assets of the Group improved from HK\$70,713,000 as at 31 December 2001 to HK\$121,739,000 as at 30 June 2002.

The Group's cash and bank balance as at 30 June 2002 was HK\$32,530,000.

The Group relied mainly on its internal resources for its funding requirement. The Group had no bank borrowings as at 30 June 2002.

The gearing ratio (total debt/total shareholders' fund and convertible loan stock) as at 30 June 2002 was 23.0% (2001: 38.3%).

The Group's cash and cash equivalents are mostly held in United States Dollar, Hong Kong Dollar and Renminbi. The Directors believe that the Group has minimal exposure to foreign exchange risks.

In January and July 2002 respectively, the holder of the convertible loan stock of the Company exercised its right of conversion to convert HK\$7,700,000 and HK\$10,100,000 convertible loan stock into 178,000,000 ordinary shares in the Company, resulted in an increase in shareholders' equity of HK\$17,800,000 and a reduction of the Group's financial cost of approximately HK\$1 million per year in future.

PROSPECTS

Looking ahead, the Group is well-equipped and is resourceful to take on new challenges. In anticipation of future growth the Group has embarked on expanding the production capacity and facilities in Vietnam. We also believe that cost of production will be further reduced.

Enhancing internal controls continues to be one of the Group's major initiatives. To this end, we are keeping our operation under constant review to ensure process optimization. We will continue to apply stringent cost containment policies and improve management of our sales, production and warehousing network in Hong Kong, PRC and Vietnam.

The Group is well positioned to capture a larger market share and to improve its performance in the foreseeable future. Orders from our customers so far appear encouraging. On this basis, the Directors are optimistic that the Group's business will not be adversely affected by the sluggish global economy in 2002.

DIRECTORS' INTERESTS IN SECURITIES

Shares

At 30 June 2002, 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	-	157,274,800

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\$36.3 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.

SHARE OPTION SCHEME

The Company's share option scheme was adopted on 26 January 1994 for the primary purpose of providing incentives to directors and eligible employees and will expire on 25 January 2004. Under the scheme, 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 of Hong Kong Limited (the "Stock Exchange") on the five trading days immediately preceding the date of offer of the options.

Options granted must be taken up not later than 28 days after the date of grant. An option may be exercised in accordance with the terms of the share option scheme at any time during the two-year period commencing six months after the date on which the option is accepted and expiring on the last day of the two-year period or 25 January 2004, which is the earlier. A price of HK\$1 is payable by the grantee upon acceptance of the grant of every option under the scheme.

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. The maximum number of shares in respect of which options may be granted to any one employee or director may not exceed 25% of the aggregate number of shares in respect of which options are issued and issuable under the share option scheme.

SHARE OPTION SCHEME *(Continued)*

No options under the scheme were granted or exercised during the period and there were no outstanding options at 30 June 2002.

Pursuant to Chapter 17 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange effected on 1 September 2001, with which the Company must comply, the exercise price of options under an option scheme must be at least the higher of: (i) the closing price of the shares on the Stock Exchange on the date of grant, which must be a business day; and (ii) the average closing price of the shares for the five business days immediately preceding the date of grant. The total number of options to be issued to each participant in any twelve-month period must not exceed 1% of the share capital of the Company in issue.

At 30 June 2002, the total number of shares available for issue under the Company's share option scheme is 22,172,000 shares which represents 10% of the issued share capital of the Company.

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.

15

DIRECTORS' INTERESTS IN CONTRACTS AND CONNECTED PARTY TRANSACTIONS

A tenancy agreement was entered between Matrix Resources Enterprise Limited, a wholly owned subsidiary of the Company, and Kwok Lung Industrial Company Limited ("Kwok Lung") on 1 May 2001 in respect of a premise in Hong Kong. The rental paid/payable for the period in respect of the tenancy agreement was amounted to HK\$96,000. Mr. Cheng has beneficial interest in Kwok Lung.

During the period, interest on the 5% convertible loan stock amounting to HK\$931,000 was accrued and payable to Suncorp.

In January 2002, Suncorp converted an amount of HK\$7,700,000 convertible loan stock into 77,000,000 shares of HK\$0.10 each of the Company.

In July 2002, Suncorp further converted an amount of HK\$10,100,000 convertible loan stock converted into 101,000,000 shares of HK\$0.10 each of the Company.

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 2002.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2002, 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 2002 have been reviewed by the Audit Committee.

COMPLIANCE WITH CODE OF BEST PRACTICE

16

The Company has complied throughout the period ended 30 June 2002 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules on the Stock Exchange, except that the non-executive directors are not appointed for specific terms as they are subject to retirement by rotation and re-election at annual general meetings of the Company in accordance with the by-laws of the Company.

By Order of the Board
Cheng Yung Pun
Chairman

Hong Kong, 30 August 2002