

MATRIX

M A T R I X H O L D I N G S L I M I T E D

INTERIM REPORT 2003

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 2003, together with the comparative figures for the corresponding period in 2002 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2003

		For the six months ended	
		30 June 2003	30 June 2002
		(Unaudited)	(Unaudited)
	NOTES	HK\$'000	HK\$'000
Turnover	2	239,587	189,285
Cost of sales		(154,058)	(126,317)
Gross profit		85,529	62,968
Other revenue		918	1,418
Distribution costs		(814)	(514)
Administrative expenses		(14,953)	(14,295)
Profit from operations	3	70,680	49,577
Finance costs		(662)	(931)
Profit before taxation		70,018	48,646
Taxation	4	(7,764)	(5,300)
Net profit for the period		62,254	43,346
Interim dividend		25,818	25,818
Earnings per share	5		
Basic		HK\$0.19	HK\$0.21
Diluted		HK\$0.11	HK\$0.08

CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2003

		30 June 2003 (Unaudited)	31 December 2002 (Audited) (Restated)
	NOTES	HK\$'000	HK\$'000
Non-current asset			
Property, plant and equipment		131,042	115,594
Current assets			
Inventories		89,430	57,874
Trade and other receivables	6	34,174	42,197
Bank balances and cash		45,171	50,327
		168,775	150,398
Current liabilities			
Trade and other payables	7	44,552	47,038
Obligations under a finance lease		102	98
Amount due to ultimate holding company		219	985
Amount due to a director	8	7,470	7,620
Tax payable		22,509	18,000
		74,852	73,741
Net current assets		93,923	76,657
Total assets less current liabilities		224,965	192,251
Capital and reserves			
Share capital	9	32,272	32,272
Reserves		164,311	131,545
Shareholders' funds		196,583	163,817
Non-current liabilities			
Convertible loan stock	10	26,200	26,200
Obligations under a finance lease		227	279
Deferred Tax		1,955	1,955
		224,965	192,251

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2003

	Share capital	Share premium	Special reserve	Shareholder's contribution	Other asset revaluation reserves	Translation reserve	Accumulated (losses) profit	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 January 2002	14,472	55,708	771	-	14,280	-	(14,518)	70,713
Adjustment on adoption of SSAP12 (Revised)	-	-	-	-	(2,285)	-	-	(2,285)
Balance at 1 January 2002 as restated	14,472	55,708	771	-	11,995	-	(14,518)	68,428
Impairment losses recognised in respect of plant and machinery	-	-	-	-	(20)	-	-	(20)
Currency translation difference	-	-	-	-	-	(5,743)	-	(5,743)
Net losses not recognised in the income statement	-	-	-	-	(20)	(5,743)	-	(5,763)
Net profit for the year	-	-	-	-	-	-	101,939	101,939
Released on disposal of plant & machinery	-	-	-	-	(2,043)	-	2,043	-
Dividend	-	-	-	-	-	-	(25,818)	(25,818)
Conversion of convertible loan stock	17,800	-	-	-	-	-	-	17,800
Arising from acquisition of subsidiaries	-	-	-	6,901	-	-	-	6,901
Balance at 31 December 2002	32,272	55,708	771	6,901	9,932	(5,743)	63,646	163,487
Adjustment on adoption of SSAP12 (Revised)	-	-	-	-	330	-	-	330
Balance at 1 January 2003 as restated	32,272	55,708	771	6,901	10,262	(5,743)	63,646	163,817
Currency translation difference	-	-	-	-	-	(443)	-	(443)
Net losses not recognised in the income statement	-	-	-	-	-	(443)	-	(443)
Net profit for the period	-	-	-	-	-	-	62,254	62,254
Dividend	-	-	-	-	-	-	(29,045)	(29,045)
Balance at 30 June 2003	32,272	55,708	771	6,901	10,262	(6,186)	96,855	196,583

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.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2003

	For the six months ended	
	30 June 2003	30 June 2002
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Net cash from operating activities	44,676	41,216
Net cash used in investing activities	(20,739)	(38,052)
Net cash used in financing activities	(29,093)	—
	<hr/>	<hr/>
Net (decrease) increase in cash and cash equivalents	(5,156)	3,164
Cash and cash equivalents at beginning of the period	50,327	29,366
	<hr/>	<hr/>
Cash and cash equivalents at end of the period	<u>45,171</u>	<u>32,530</u>
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	<u>45,171</u>	<u>32,530</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

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

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 2002 except that the Group has adopted the revised SSAP12 (“Income Taxes”) issued by the HKSA which is effective for accounting periods commencing on or after 1 January 2003.

In the current period, the Group has adopted, for the first time, the revised SSAP 12. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, with limited exceptions. In the absence of any specific requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. Comparative amounts for 2002 have been restated accordingly. The balances on the Group’s other asset revaluation reserves at 1 January 2002 and 1 January 2003 have been reduced by HK\$2.3 million and HK\$2.0 million respectively, representing the deferred tax liabilities recognised in respect of the revaluation surplus on the Group’s assets at that date.

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	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
United States	219,307	174,963	78,312	59,250
Canada	7,617	7,467	2,975	2,528
Taiwan	9,994	6,589	3,023	568
Hong Kong	273	236	81	77
Others	2,396	30	413	30
	<u>239,587</u>	<u>189,285</u>	<u>84,804</u>	<u>62,453</u>
Unallocated income and expenses			<u>(14,124)</u>	<u>(12,876)</u>
Profit from operations			70,680	49,577
Finance costs			<u>(662)</u>	<u>(931)</u>
Profit before taxation			70,018	48,646
Taxation			<u>(7,764)</u>	<u>(5,300)</u>
Net profit for the period			<u>62,254</u>	<u>43,346</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 June 2003 (Unaudited) HK\$'000	30 June 2002 (Unaudited) HK\$'000
Profit from operations has been arrived at after charging (crediting):		
Auditors' remuneration		
– under-provision in previous year	149	–
Depreciation		
– owned assets	5,346	5,940
– assets held under a finance lease	64	–
Operating lease rentals in respect of rented premises	2,147	2,360
Staff costs (including wages and directors' remuneration)	41,904	27,621
Exchange (gain)/loss	(56)	12
Interest income	(212)	(50)
	<u><u> </u></u>	<u><u> </u></u>

4. TAXATION

Hong Kong Profits Tax has been calculated at 17.5% (2002: 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 June 2003 (Unaudited) HK\$'000	30 June 2002 (Unaudited) HK\$'000
Hong Kong	7,344	3,900
Overseas	420	1,400
	<u><u> </u></u>	<u><u> </u></u>
	7,764	5,300
	<u><u> </u></u>	<u><u> </u></u>

5. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30 June 2003 is based on the net profit attributable to shareholders for the period of approximately HK\$62,254,000 (2002: HK\$43,346,000) and the weighted average number of 322,720,000 shares (2002: 209,382,983 shares) in issue during the period.

The calculation of diluted earnings per share for the six months ended 30 June 2003 is based on the adjusted net profit attributable to shareholders for the period of approximately HK\$62,904,000 (2002: HK\$44,277,000) and the weighted average number of 584,720,000 shares (2002: 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\$31,419,000 (2002: HK\$39,122,000). The Group allows an average credit period of 14 to 60 days to its trade customers.

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

	30 June 2003 (Unaudited) HK\$'000	31 December 2002 (Audited) HK\$'000
0 – 60 days	30,945	38,794
61 – 90 days	18	56
> 90 days	456	272
	<u>31,419</u>	<u>39,122</u>

7. TRADE AND OTHER PAYABLES

The trade and other payables include trade payables of HK\$31,083,000 (2002: HK\$29,683,000).

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

	30 June 2003 (Unaudited) HK\$'000	31 December 2002 (Audited) HK\$'000
0 – 60 days	31,005	28,686
61 – 90 days	51	488
> 90 days	27	509
	<u>31,083</u>	<u>29,683</u>

8. AMOUNT DUE TO A DIRECTOR

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

9. SHARE CAPITAL

	Number of shares			
	30 June 2003 (Unaudited) '000	31 December 2002 (Audited) '000	30 June 2003 (Unaudited) HK\$'000	31 December 2002 (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 the beginning of the period	322,720	144,720	32,272	14,472
Conversion of convertible loan stock	<u>–</u>	<u>178,000</u>	<u>–</u>	<u>17,800</u>
At the end of the period	<u>322,720</u>	<u>322,720</u>	<u>32,272</u>	<u>32,272</u>

10. 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 Investments Group Limited ("Suncorp") has the entire interest in the convertible loan stock.

11. CONTINGENT LIABILITIES

The Company has given guarantees to banks in respect of general facilities granted to its subsidiaries which have not been utilised at the balance sheet date.

12. RELATED PARTY TRANSACTIONS

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

	30 June 2003 (Unaudited) HK\$'000	30 June 2002 (Unaudited) HK\$'000
Interest paid/payable on convertible loan stock to ultimate holding company (<i>Note a</i>)	650	931
Rental paid/payable to a related company (<i>Note b</i>)	<u>88</u>	<u>96</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 the tenancy agreements entered between a wholly owned subsidiary of the Group and a related company.

13. COMPARATIVE FIGURES

Certain of the 2002 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 2003 (2002: HK\$0.08) to be payable in cash to those shareholders whose names appear on the Register of Members of the Company on 27 August 2003. The interim dividend will be paid on or before 1 September 2003.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 26 August 2003 to 27 August 2003, 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 Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:00 p.m. on 25 August 2003.

BUSINESS REVIEW

Financial results

The Group's unaudited consolidated turnover for half year ended 30 June 2003 was HK\$239,587,000 (2002: HK\$189,285,000), representing an increase of 27% as compared to prior same period. Profit attributable to shareholders has achieved HK\$62,254,000 (2002: HK\$43,346,000), demonstrating an increase of 44%. The Group has further expanded its manufacturing capacity, increased the utilization thereof, and also strengthened its relationship with major customers during the period under review. All these resulted in handsome growth in business turnover and profitability to the Group.

Operation

Despite fluctuation during the period of oil prices and thus costs of raw materials, the Group has been able to maintain its gross margin at satisfactory levels, a result of its continued efforts in areas of production management, procurement and engineering with direct benefits in costs efficiency.

Expansion of production capacity

Construction of the second plant in the Socialist of Republic of Vietnam ("Vietnam") has proceeded steadily as planned, with the warehousing and production area substantially complete. The facility has been equipped with approximately 3,000 sewing machines and is targeted for the production of plush soft toys for which the Group anticipates a strong demand in the near future.

BUSINESS REVIEW *(continued)*

Development of the printing business

Starting with the intention to integrate the Group's business operations, a new business of printing of promotional materials and inserts was established. During the period under review, the costs savings achieved from this venture remained small. It is expected however this business will be broadened to be a further source of revenue in future.

HUMAN RESOURCES

As at 30 June 2003, the Group had approximately a total of 10,000 (2002: 9,000) employees in Hong Kong, the People's Republic of China ("PRC") and Vietnam. The Group provides employees with competitive remuneration packages commensurate to the level of pay and market trend in comparable businesses. A mandatory provident fund scheme and share option scheme are in place.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's financial position remains healthy and stable. At 30 June 2003, the Group had total assets of HK\$299,817,000, total liabilities of HK\$103,234,000 and shareholders' equity of HK\$196,583,000. The net assets of the Group increased from HK\$165,772,000 as at 31 December 2002 to HK\$196,583,000 as at 30 June 2003.

The Group's cash and bank balance as at 30 June 2003 was HK\$45,171,000, out of which HK\$23,270,000 has been pledged to bank to secure banking facilities granted. None of this facilities has been utilised as at 30 June 2003.

The gearing ratio (total debt/total shareholders' fund and total debt) as at 30 June 2003 was 11.8% (2002: 13.8%).

The Group's monetary assets, liabilities and transactions are mainly denominated in Hong Kong dollar, Renminbi and US dollar. As Hong Kong dollar is pegged to the US dollar, and there is no significant fluctuation in the exchange rate between Hong Kong dollar and Renminbi, the Group believes that the risk of exposure to exchange rate is minimal.

PROSPECTS

The military conflict in the Middle East appeared to have been put under check sooner than previously estimated. This, coupled with the Group's effective policies in procurement, should allow raw material costs for the Group to enjoy more stability in the coming future.

PROSPECTS *(continued)*

With the increased and diversified production capacity being afforded by the second Vietnam production base, the Group has managed to reinforce the confidence of its major customers in the Group's capabilities and the relationship with these customers has been strengthened further. This should bring about increased orders, in particular those for plush soft toys which are anticipated to be fulfilled in the new plant in Vietnam, where the lower labour costs would help to maintain cost-efficiency.

The installation of equipment for the printing of promotional materials and inserts will be shortly completed and marketing efforts for this business are being made with a view to securing revenue and earnings contribution from this business segment.

The Group will continue to review businesses and enterprises commensurate with its expansion plans, with a view to achieving rational growth in scale, structure and profitability.

DIRECTORS' INTERESTS IN SECURITIES

Shares

At 30 June 2003, 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 directors	Number of shares held	
	Personal interests	Corporate interests
Cheng Yung Pun ("Mr. Cheng")	–	239,272,800 <i>(Note)</i>
Cheng Wing See, Nathalie	700,000	–
Yu Sui Chuen	604,000	–

Note: The shares are held by Suncorp, a company incorporated in the British Virgin Islands. The entire issued share capital of Suncorp is wholly owned by Mr. Cheng. In addition, Suncorp holds the entire interest of the convertible loan stock of the Company.

DIRECTORS' INTERESTS IN SECURITIES *(continued)*

Shares *(continued)*

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

Pursuant to a new share option scheme (the "New Scheme") adopted on 17 December 2002, the Company's directors may grant options to any full-time employees, executives or officers, directors of the Group and any suppliers, consultants, agents or advisers who have contributed to the business and operation of the Group to subscribe for the shares in the Company.

No options were granted or exercised under the New Scheme during the period and there were no outstanding options at 30 June 2003.

At 30 June 2003, the total number of shares available for issue under the Company's share option scheme is 32,272,000 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.

DIRECTORS' INTERESTS IN CONTRACTS AND CONNECTED PARTY TRANSACTIONS

The tenancy agreement between Matrix Resources Enterprise Limited, a wholly owned subsidiary of the Company, and Kwok Lung Industrial Company Limited ("Kwok Lung") was renewed on 1 May 2003 in respect of a premise in Hong Kong. The rental paid/payable for the period in respect of the tenancy agreements amounted to HK\$88,000. Mr. Cheng has beneficial interest in Kwok Lung.

During the period, interest on the 5% convertible loan stock amounting to HK\$650,000 was accrued and payable to Suncorp.

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.

DIRECTORSHIP

The director, Mr. Lee Sai Keung, Daniel resigned as an executive director of the Company with effect from 30 June 2003.

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 5% or more in the share capital of the Company as at 30 June 2003.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2003, 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 2003 have been reviewed by the Audit Committee.

COMPLIANCE WITH CODE OF BEST PRACTICE

The Company has complied throughout the period ended 30 June 2003 with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, 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 bye-laws of the Company.

By Order of the Board
Cheng Yung Pun
Chairman

Hong Kong, 8 August 2003