



Matrix

Matrix Holdings Limited

美力時集團有限公司

(Incorporated in Bermuda with limited liability)

MATRIX

Interim Report 2004

MISSION STATEMENT

- > To enhance customer satisfaction through delivery of high quality products that meet world safety standard
- > To be a socially responsible employer by providing safe and pleasant working environment to workers
- > To be environmentally responsible in all its manufacturing processes through recycling and adherence to national and local environmental protection laws
- > To optimize shareholders' return by pursuing business growth, diversification and productivity enhancement

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Cheng Yung Pun (*Chairman*)
Yu Sui Chuen
Cheng Wing See, Nathalie

Independent Non-executive Directors

Heng Kwo Seng
Mak Shiu Chung, Godfrey

COMPANY SECRETARY

Ho Kit Man, Emily

AUDITORS

Deloitte Touche Tohmatsu
26th Floor
Wing On Centre
111 Connaught Road Central
Hong Kong

SHARE REGISTRARS

Butterfield Corporate Services Limited
Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

HONG KONG BRANCH REGISTRARS

Secretaries Limited
Ground Floor
Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai, Hong Kong

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

PRINCIPAL PLACE OF BUSINESS

Room 1201 & 1222
12/F., Peninsula Centre
67 Mody Road
Tsimshatsui East
Kowloon, Hong Kong

PRINCIPAL BANKER

Bank of China (Hong Kong) Limited

WEBSITE

www.matrix.hk.com

STOCK CODE

1005 (Main Board of The Stock Exchange of
Hong Kong Limited)

RESULT HIGHLIGHTS

FINANCIAL HIGHLIGHTS			
	For the six months ended 30 June		Changes %
	2004 HK\$	2003 HK\$	
Turnover	375,629,000	239,587,000	+56.8
Profit from Operations	105,295,000	70,680,000	+49.0
Net Profit	89,463,000	62,254,000	+43.7
Diluted EPS	0.15	0.11	+36.4
Interim Dividend	0.08	0.08	–
Return on Capital Employed (Note a)	31.1%	27.7%	+3.4
Dividend Payout Ratio (Note b)	50.0%	42.1%	+7.9

In the first half of 2004, Matrix Holdings Limited (“Matrix” or the “Company”) continued to record remarkable profit growth and brought to our shareholders another impressive performance, posting an increase of 56.8% in the unaudited consolidated turnover to HK\$375,629,000 for the six months ended 30 June 2004 (2003: HK\$239,587,000). Net profit attributable to shareholders for the period rose by 43.7% to HK\$89,463,000 (2003: HK\$62,254,000), which in turn boosted diluted earnings per share to HK\$0.15 (2003: HK\$0.11). These remarkable results were contributed partly by the full production of plush toys at the second plant in Vietnam and efficient management of the cost structure during the period under review.

For the six months ended 30 June 2004, the United States continued to be the largest customer market of the Company and its subsidiaries (the “Group”), accounting for approximately 92.5% of the Group’s total turnover (2003: 91.5%). The other significant customer markets for the Group included Taiwan, Canada and Hong Kong, which accounted for approximately 0.6% (2003: 4.2%), 2.2% (2003: 3.2%) and 4.6% (2003: 0.9%) respectively.

Notes:

- a. Return on Capital Employed = Net Profit / (Total Assets - Current Liabilities)
- b. Dividend Payout Ratio = Interim dividend per share / Basic earnings per share

UNAUDITED INTERIM RESULTS

The board (the "Board") of directors (the "Directors") of Matrix announces the unaudited consolidated interim results of the Group for the six months ended 30 June 2004, together with the comparative figures for the corresponding period in 2003 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2004

		For the six months ended	
		30 June 2004	30 June 2003
		(Unaudited)	(Unaudited)
	NOTES	HK\$'000	HK\$'000
Turnover	2	375,629	239,587
Cost of sales		(254,019)	(154,058)
Gross profit		121,610	85,529
Other revenue		1,750	918
Distribution costs		(1,165)	(814)
Administrative expenses		(16,900)	(14,953)
Profit from operations	3	105,295	70,680
Finance costs		(82)	(662)
Profit before taxation		105,213	70,018
Taxation	4	(15,750)	(7,764)
Net profit for the period		89,463	62,254
Interim dividend		46,778	25,818
Earnings per share	5		
Basic		HK\$0.16	HK\$0.19
Diluted		HK\$0.15	HK\$0.11

CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2004

		30 June 2004 (Unaudited) <i>HK\$'000</i>	31 December 2003 (Audited) <i>HK\$'000</i>
	<i>NOTES</i>		
Non-current asset			
Property, plant and equipment		122,423	127,304
Current assets			
Inventories		99,006	110,857
Trade and other receivables	6	46,781	42,344
Pledged bank deposit		5,001	29,227
Bank balances and cash		127,948	54,016
		278,736	236,444
Current liabilities			
Trade and other payables	7	60,148	57,105
Obligations under a finance lease		110	106
Amount due to ultimate holding company		–	661
Dividend payable		–	13,882
Tax payable		52,850	38,459
		113,108	110,213
Net current assets		165,628	126,231
Total assets less current liabilities		288,051	253,535
Capital and reserves			
Share capital	8	58,472	46,272
Reserves		225,596	191,026
Shareholders' funds		284,068	237,298
Non-current liabilities			
Convertible loan stock	9	–	12,200
Obligations under a finance lease		118	173
Deferred tax liabilities		3,865	3,864
		288,051	253,535

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2004

	Share capital	Share premium	Special reserve	Shareholder's contribution	Other asset revaluation reserves	Translation reserve	Accumulated profit	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 January 2003	32,272	55,708	771	6,901	10,262	(5,743)	63,646	163,817
Currency translation difference not recognized in the income statement	-	-	-	-	-	(2,920)	-	(2,920)
Net profit for the year	-	-	-	-	-	-	131,166	131,166
Released on disposal of plant & machinery	-	-	-	-	(933)	-	933	-
Dividend paid	-	-	-	-	-	-	(54,863)	(54,863)
Special dividend declared	-	-	-	-	-	-	(13,882)	(13,882)
Conversion of convertible loan stock	14,000	-	-	-	-	-	-	14,000
Reversal of deferred tax liability arising on disposal of plant and machinery	-	-	-	-	163	-	-	163
Effect of change in tax rate	-	-	-	-	(183)	-	-	(183)
Balance at 31 December 2003	46,272	55,708	771	6,901	9,309	(8,663)	127,000	237,298
Currency translation difference not recognized in the income statement	-	-	-	-	-	(2,268)	-	(2,268)
Net profit for the period	-	-	-	-	-	-	89,463	89,463
Conversion of convertible loan stock	12,200	-	-	-	-	-	-	12,200
Dividend paid	-	-	-	-	-	-	(52,625)	(52,625)
Balance at 30 June 2004	58,472	55,708	771	6,901	9,309	(10,931)	163,838	284,068

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 2004

	For the six months ended	
	30 June 2004 (Unaudited) HK\$'000	30 June 2003 (Unaudited) HK\$'000
Net cash from operating activities	120,395	44,676
Net cash from (used in) investing activities	20,095	(20,739)
Net cash used in financing activities	(66,558)	(29,093)
Net increase (decrease) in cash and cash equivalents	73,932	(5,156)
Cash and cash equivalents at beginning of the period	54,016	50,327
Cash and cash equivalents at end of the period	127,948	45,171
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	127,948	45,171

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

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

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	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
United States	347,497	219,307	112,283	78,312
Canada	8,511	7,617	2,323	2,975
Taiwan	2,131	9,994	701	3,023
Hong Kong	17,127	2,184	4,985	209
Others	363	485	322	285
	375,629	239,587	120,614	84,804
Unallocated income and expenses			(15,319)	(14,124)
Profit from operations			105,295	70,680
Finance costs			(82)	(662)
Profit before taxation			105,213	70,018
Taxation			(15,750)	(7,764)
Net profit for the period			89,463	62,254

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 2004 (Unaudited) HK\$'000	30 June 2003 (Unaudited) HK\$'000
Profit from operations has been arrived at after charging (crediting):		
Auditors' remuneration		
– current year	354	–
– under-provision in previous year	–	149
Depreciation of property, plant and equipment		
– owned assets	8,509	5,346
– assets held under a finance lease	63	64
Operating lease rentals in respect of rented premises	830	2,147
Staff costs (including wages and directors' remuneration)	59,292	41,904
Net exchange gain	(1,232)	(56)
Interest income	(38)	(212)

4. TAXATION

Hong Kong Profits Tax has been calculated at 17.5% (2003: 17.5%) 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 2004 (Unaudited) HK\$'000	30 June 2003 (Unaudited) HK\$'000
Current tax:		
Hong Kong	14,570	7,344
Overseas	1,180	420
	15,750	7,764

5. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30 June 2004 is based on the net profit attributable to shareholders for the period of approximately HK\$89,463,000 (2003: HK\$62,254,000) and the weighted average number of 555,225,000 shares (2003: 322,720,000 shares) in issue during the period.

The calculation of diluted earnings per share for the six months ended 30 June 2004 is based on the adjusted net profit attributable to shareholders for the period of approximately HK\$89,536,000 (2003: HK\$62,904,000) and the weighted average number of 584,720,000 shares (2003: 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\$40,339,000 (2003: HK\$34,917,000). 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 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
0 – 60 days	40,339	34,871
61 – 90 days	–	–
> 90 days	–	46
	40,339	34,917

7. TRADE AND OTHER PAYABLES

The trade and other payables include trade payables of HK\$42,873,000 (2003: HK\$40,924,000).

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

	30 June 2004 (Unaudited) <i>HK\$'000</i>	31 December 2003 (Audited) <i>HK\$'000</i>
0 – 60 days	42,682	40,213
61 – 90 days	114	174
> 90 days	77	537
	42,873	40,924

8. SHARE CAPITAL

	Number of shares			
	30 June 2004 (Unaudited) <i>'000</i>	31 December 2003 (Audited) <i>'000</i>	30 June 2004 (Unaudited) <i>HK\$'000</i>	31 December 2003 (Audited) <i>HK\$'000</i>
Ordinary shares of HK\$0.10 each				
Authorised	1,000,000	700,000	100,000	70,000
Issued and fully paid				
At the beginning of the period	462,720	322,720	46,272	32,272
Conversion of convertible loan stock	122,000	140,000	12,200	14,000
At the end of the period	584,720	462,720	58,472	46,272

9. 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.

During the period, Suncorp had converted the remaining amount of HK\$12,200,000 convertible loan stock into 122,000,000 ordinary shares of HK\$0.10 each in the Company.

10. CONTINGENT LIABILITIES

The Company has given guarantee to a bank in respect of general facilities granted to its subsidiary which has not been utilised at the balance sheet date.

11. RELATED PARTY TRANSACTIONS

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

	30 June 2004 (Unaudited) HK\$'000	30 June 2003 (Unaudited) HK\$'000
Interest paid/payable on convertible loan stock to ultimate holding company (<i>Note a</i>)	73	650
Rental paid/payable to a related company (<i>Note b</i>)	<u>72</u>	<u>88</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.

12. COMPARATIVE FIGURES

Certain of the 2003 comparative figures have been reclassified to conform to the current period's presentation.

INTERIM DIVIDEND

The Directors had resolved to declare an interim dividend of HK\$0.08 per share for the six months ended 30 June 2004 (2003: HK\$0.08) to be payable in cash to those shareholders whose names appear on the Register of Members of the Company on 4 August 2004. The interim dividend will be paid on or around 10 August 2004.

In order to qualify for the interim dividend, all transfers and relevant share certificates must be lodged with the Company's Hong Kong Branch Share Registrars, Secretaries Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, for registration not later than 4:00 p.m. on 4 August 2004.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the first half of 2004, the price of crude oil hovered at a high level throughout the period. This had inevitably led to an increase in the price of plastic, a major raw material used in the manufacturing of the Group's toy products. Amidst the tough operating environment triggered by this adverse change in raw material costs, the Group still managed to enjoy a strong earning performance, testimony to the effectiveness of undergoing a series of cost saving and inventory management measures.

Toy Manufacturing Operation

China

The plant in Zhongshan, Guangdong Province, has well-developed manufacturing facilities with a full production process of molding, welding, spray painting, printing and assembly. Various aspects of the plant's facilities had met international standards, pushed by the high quality standard required by the Group's customers. Because of the increasing demand from the customers, the Group is planning to increase warehousing for the storage of raw materials and finished products. To continue to design innovative products, the Group had expanded its team of well-trained and highly skilled engineers to handle the development and improvement of its products for the purpose of enhancing the satisfaction and appeal to its customers. Matrix understood that IT investment is crucial in advancing its production pace. Hence, an enterprise resources planning system (ERP) had been implemented in our Zhongshan plant so as to systematically integrate and consolidate the Group's manufacturing process as a whole.

Vietnam

Since 1996, our first Danang plant had been one of the pioneers in Asia regional toy industry to be set up in Vietnam. As a part of its expansion program, the Group made another astute decision to invest in its second factory in Danang City, Vietnam, which had commenced operation last year, to further boost its production capacity. The Group purchased an additional 600 sewing machines, adding up to a total of approximately 3,600 sewing machines as at 30 June 2004 and had plans to further invest another 1,000 sewing machines by the end of 2004. With such a giant manufacturing momentum, Matrix-Vietnam factory became a very sizeable plush toys manufacturer in the world.

Printing Operation

During the period under review, the printing operation had primarily served as the Group's internal consumption, supplementing the packaging function in the overall production process. This newly-developed arm had achieved Matrix's goal on vertical integration functionally. To further maximize the use of the printing machines, the Group had utilized the excess capacity to develop the network of external customers and bring in a new source of revenue to the Group. As the Group believes that there will be demand from external users, complemented by the Group's internal demand, this operation will have a positive contribution to the Group's bottom-line in the upcoming years.

Future Prospects

Though the Organization of Petroleum Exporting Countries (OPEC) had recently promised to increase the supply of crude oil as a measure to manage the escalating price of which, the future direction of the price of plastic would be still very uncertain, and hence this will remain a matter of great concern for the Group. Nevertheless, the Group will continue to monitor the commodity price very closely and make every effort to improve its cost structure so as to maintain competitive operating costs and minimize production costs.

In order to facilitate its future growth, the Group will explore marketing opportunities for ODM products in the domestic and international markets. Any suitable acquisition opportunities that complement and add value to the Group's existing businesses will also be actively sought. These targets will be screened based on their potential of improving the Group's bottomline, diversifying the Group's product range and broadening the Group's customer base.

Fueled by the strong financial position and recent encouraging results, the Group is well positioned to achieve further revenue and profit growth for the full financial year. Moving forward, the Group will continue to leverage on its expertise in toy manufacturing to spearhead its business growth.

Financial Review

Liquidity and Financial Resources

During the period under review, the Group had not yet utilized the two granted banking facilities in a total of HK\$29,000,000 secured by fixed deposit and pledged by certain land and property from one of its subsidiaries. The Group's gearing ratio was not applicable as debt free at the period end (2003: 4.9%), representing the total debt divided by total shareholders' fund and convertible loan stock. As at 30 June 2004, the Group had cash and bank balances of HK\$132,949,000 (2003: HK\$83,243,000).

The total capital expenditure during the period under review amounted to HK\$4,168,000 (2003: HK\$30,564,000). These capital expenditure were funded mainly by internal resources.

The Group maintained a strong financial position for the period under review. Net cash provided by operating activities amounted to approximately HK\$120,000,000 (2003: HK\$45,000,000).

At 30 June 2004, the Group had total assets of HK\$401,159,000 (2003: HK\$363,748,000), total liabilities of HK\$117,091,000 (2003: HK\$126,450,000) and shareholders' equity of HK\$284,068,000 (2003: HK\$237,298,000). The net assets of the Group increased 19.7% to HK\$284,068,000 as at 30 June 2004 (2003: HK\$237,298,000).

There had been no material change in exposure to fluctuation in exchange rates and details of contingent liabilities since the most recent published annual report.

Employees and Remuneration Policy

As at 30 June 2004, the Group had a total of approximately 16,000 employees (2003: 10,000) in Hong Kong, China and Vietnam. The substantial increase in workforce was mainly contributed by the operation of the second Vietnam plant in July 2003.

The Group's employee remuneration packages are in line with prevailing industry practices, and are based on the employees' working performance. In Hong Kong, the Group's directors and employees have been enrolled in the mandatory provident fund scheme. In China and Vietnam, accommodation and welfare services are also provided to staff at the Group's production facilities. Share option scheme and discretionary bonus are also put in place to motivate and reward performance staff.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN EQUITY, UNDERLYING EQUITY OR DEBT SECURITIES

At 30 June 2004, the interests and short positions of each director and chief executive in the shares, underlying shares and debentures of the Company and its associated corporations as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO") were as follows:

Long Positions

Ordinary Shares of HK\$0.10 each of the Company

Name	Capacity	Number of Issued Ordinary Shares Held	Percentage of the Issued Share Capital of the Company
<i>Directors</i>			
Cheng Yung Pun	Held by controlled corporations (<i>note</i>)	394,270,800	67.43%
Yu Sui Chuen	Beneficial owner	604,000	0.10%
Cheng Wing See, Nathalie	Beneficial owner	700,000	0.12%

Note: The shares are held by Suncorp Investments Group Limited ("Suncorp"), a company incorporated in the British Virgin Islands. The entire issued share capital of Suncorp is wholly owned by Mr. Cheng Yung Pun.

Directors' Rights to Acquire Shares or Debentures

Save as disclosed above, at no time during the year was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries, 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, and neither the directors nor the chief executives, nor any of 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.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES OF THE COMPANY

At 30 June 2004, other than the interests disclosed above in respect of the directors of the Company, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO discloses no other person as having an interest of 5% or more in the shares, underlying shares and debentures of the Company and its associated corporations.

SHARE OPTION SCHEME

The Share Option Scheme of the Company was adopted on 17 December 2002 to comply with the new requirements of Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") effected on 1 September 2001. The key terms of the Scheme had been summarized in our 2003 annual report published in March this year.

No options were granted or exercised under the scheme during the period and there were no outstanding share options at 30 June 2004.

At 30 June 2004, the total number of shares available for issue under the Company's share option scheme was 32,272,000 shares which represented 10% of the then issued share capital of the Company on the approval date of the scheme and 5.52% of the existing issued share capital of the Company at the date of this report.

CODE OF BEST PRACTICE

None of the Directors is aware of information that would reasonably indicate that the Company is not, or was not at any time during the six months period ended 30 June 2004, in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules, 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.

AUDIT COMMITTEE

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to "A Guide for The Formation of An Audit Committee" published by The Hong Kong Society of Accountants. The Audit Committee comprises two independent non-executive directors, namely Mr. Heng Kwoo Seng, the Chairman, and Mr. Mak Shiu Chung, Godfrey. The unaudited interim report for the six months ended 30 June 2004 now reported on had been reviewed by the Audit Committee.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2004, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

By Order of the Board
Cheng Yung Pun
Chairman