

ANNUAL REPORT 2002

MATRIX

Matrix Holdings Limited
美力時集團有限公司



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Cheng Yung Pun (*Chairman*)
Cheng Wing See, Nathalie
Yu Sui Chuen
Lee Sai Keung, Daniel

Independent Non-Executive Directors

Heng Kwo Seng
Mak Shiu Chung, Godfrey

COMPANY SECRETARY

Eric Chan

REGISTERED OFFICE

Cedar House
41 Cedar Avenue
Hamilton HM12
Bermuda

AUDITORS

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

PRINCIPAL OFFICE

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

PRINCIPAL SHARE REGISTRARS

Butterfield Corporate Services Limited
Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

BRANCH SHARE REGISTRARS

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

PRINCIPAL BANKER

Bank of China (Hong Kong) Limited

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Company will be held at Garden Room A & B, 2/F., Hotel Nikko Hong Kong, No. 72 Mody Road, Tsimshatsui East, Kowloon, Hong Kong on 15th April, 2003 at 2:30 p.m. for the following purposes:

1. To receive and consider the audited Financial Statements and the Reports of the Directors and Auditors for the year ended 31st December, 2002.
2. To declare a final dividend for the year ended 31st December, 2002.
3. To re-elect Directors and authorize the Board of Directors to fix the remuneration of the Directors.
4. To re-appoint Auditors and authorize the Board of Directors to fix their remuneration.
5. As special business, to consider and, if thought fit, pass with or without amendments, the following resolutions as Ordinary Resolutions:

A. "THAT

- (a) subject to paragraph (c) of this Resolution, pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options which might require the exercise of such powers be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) of this Resolution shall authorize the Directors during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted, issued or otherwise dealt with or agreed conditionally or unconditionally to be allotted, issued or otherwise dealt with (whether pursuant to an option or otherwise) by the Directors of the Company pursuant to the approval in paragraph (a) of this Resolution, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined); or (ii) an issue of shares of the Company upon the exercise of rights of subscription or conversion under the terms of any warrants of the Company or any securities which are convertible into shares of the Company; or (iii) the exercise of options granted under any share option scheme or similar arrangement for the time being of the Company; or (iv) an issue of shares in lieu of the whole or part of the dividend on shares of the Company in accordance with the bye-laws of the Company,



NOTICE OF ANNUAL GENERAL MEETING

shall not exceed 20 per cent of the aggregate nominal amount of the issued share capital of the Company at the date of passing this Resolution, and the said approval shall be limited accordingly; and

- (d) for the purposes of this Resolution:

“Relevant Period” means the period from the passing of this Resolution until whichever is the earlier of:

- (i) the conclusion of the next annual general meeting of the Company; or
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company or any applicable law to be held; or
- (iii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders of the Company in general meeting; and

“Rights Issue” means an offer of shares or offer or issue of warrants or options to subscribe for shares open for a period fixed by the Directors of the Company to holders of shares whose names appear on the register of members of the Company on a fixed record date in proportion to their then holdings of such shares (subject to such exclusions or other arrangements as the Directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognized regulatory body or any stock exchange in, any territory applicable to the Company).”

B. “THAT

- (a) subject to paragraph (b) of this Resolution, the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) of all powers of the Company to repurchase its own shares on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) or any other stock exchange on which the shares of the Company may be listed and is recognized by the Securities and Futures Commission and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on the Stock Exchange as amended from time to time, be and is hereby generally and unconditionally approved;

NOTICE OF ANNUAL GENERAL MEETING

(b) the aggregate nominal amount of the shares of the Company which the Company is authorized to repurchase pursuant to the approval in paragraph (a) of this Resolution during the Relevant Period shall not exceed 10 per cent of the aggregate nominal amount of the issued share capital of the Company at the date of passing this Resolution, and the said approval shall be limited accordingly; and

(c) for the purposes of this Resolution:

“Relevant Period” means the period from the passing of this Resolution until whichever is the earlier of:

- (i) the conclusion of the next annual general meeting of the Company; or
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company or any applicable law to be held; or
- (iii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders of the Company in general meeting.”

C. **“THAT** conditional upon the passing of the Resolutions set out in paragraph 5A and 5B of the notice convening this meeting, the general mandate granted to the Directors of the Company to allot, issue and deal with additional shares of the Company pursuant to the Resolution set out in paragraph 5A of the notice convening this meeting be and is hereby extended by the addition to the aggregate nominal amount of the share capital of the Company which may be allotted, issued or otherwise dealt with or agreed conditionally or unconditionally to be allotted, issued or otherwise dealt with by the Directors of the Company pursuant to such general mandate of an amount representing the aggregate nominal amount of the shares of the Company repurchased by the Company under the authority granted pursuant to the Resolution set out in paragraph 5B of the notice convening this meeting.”

By Order of the Board

Eric Chan

Company Secretary

Hong Kong, 13th March, 2003



NOTICE OF ANNUAL GENERAL MEETING

Notes:

1. A member entitled to attend and vote at the above meeting is entitled to appoint one or more proxies to attend and vote in his stead. A proxy need not be a member of the Company.
2. In order to be valid, forms of proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power of attorney or authority must be deposited with the branch share registrars of the Company in Hong Kong, Secretaries Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, not less than 48 hours before the time fixed for holding the above meeting or any adjournment thereof.
3. The register of members of the Company will be closed from 10th April, 2003 to 15th April, 2003 (both days inclusive) during which period no transfer of shares can be registered. In order to qualify for the proposed final dividend and attending and voting at the above meeting, all share transfers, accompanied by the relevant share certificates, must be lodged with the branch share registrars of the Company in Hong Kong, 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 9th April, 2003.
4. An explanatory statement containing further details regarding the proposed Resolutions set out in paragraph 5A, 5B and 5C of the notice convening the above meeting will be sent to members of the Company together with the annual report 2002.



CHAIRMAN'S STATEMENT

FINANCIAL REVIEW

The audited consolidated results of the Group for the year ended 31st December, 2002 have achieved strong growth in both sales volume and profitability. The Group turnover was HK\$395,644,000 (2001: HK\$195,039,000), representing an increase of 103%. Profit attributable to shareholders was HK\$101,939,000 (2001: HK\$35,675,000), representing an increase of 186%. The Group attributes its growth mainly through proactive marketing efforts, the continued success of its customers in the United States, and the contribution from the manufacturing subsidiary in the Socialist Republic of Vietnam ("Vietnam"), which the Group acquired in 2002.

BUSINESS REVIEW

During the year under review, the Group remained very focused on its core business, concentrating its effort on consolidating and maintaining its market position in its major markets mainly the United States. Against a background of dismal market sentiments especially after the traumatic events of September 2001 in the United States, the Group attained targeted turnover with steady growth for the year of 2002.

Material acquisition

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 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 Vietnam, for a consideration of HK\$26 million. The acquisition was approved by the independent shareholders of the Company on 18th January, 2002. As a result of this acquisition, the Group has expanded its production capacity, thus reducing the cost of production and enhancing profitability.

Development in the People's Republic of China ("PRC")

The PRC continues to show consistent outstanding GDP growth of around 7% amidst very sluggish economies in Europe and the United States. Building on its excellent business relationship and experience in the PRC, the Group continues to explore the market for proprietary-designed toy and gift products and to seek new business opportunities. However, we are aware of the fact that this market presents many pitfalls concerning copyrights. The launching of new products or the release of product information calls for careful planning and coordination.

Operation

The Group was able to achieve a satisfactory gross margin despite pressure brought to bear by rising oil prices leading to high cost for raw materials. This was possible through consistent cost efficiency measures in areas of procurement, inventory control, engineering and production.



CHAIRMAN'S STATEMENT

BUSINESS REVIEW *(Continued)*

Expansion of production capacity

Whilst the operating results in the first half of 2002 were encouraging, the Group continued to adhere to a prudent expansion program of its core business, by exercising stringent control to keep unwarranted expenses at bay. The Group's second plant in Vietnam is nearing completion. The new facilities will augment overall production and warehousing capacity by about 12%. Our customers have shown keen interest in our new facilities and we are confident that more business will be generated by those new facilities.

Chinese name and share option scheme

In December 2002, the shareholders of the Company passed the resolutions in respect of the adoption of the Chinese name “美力時集團有限公司” for registration in Hong Kong, the termination of the Existing Share Option Scheme and the adoption of the New Share Option Scheme.

LIQUIDITY AND FINANCIAL RESOURCES

The Group continued to pursue a policy of financial prudence resulting in a positive cash flow. At 31st December, 2002, the Group had total assets of HK\$265,992,000 (2001: HK\$177,861,000), total liabilities of HK\$100,220,000 (2001: HK\$107,148,000), and the shareholders' equity of HK\$165,772,000 (2001: HK\$70,713,000). The net assets of the Group continued to improve from HK\$70,713,000 as at 31st December, 2001 to HK\$165,772,000 as at 31st December, 2002.

As at 31st December, 2002, the Group maintained a solid financial position with cash and bank balance of HK\$50,327,000.

The majority of the Group's sales and purchases are denominated in United States dollar and Hong Kong dollar, while some are denominated in Renminbi and Vietnamese Dong. The Group does not foresee any substantial risk exposure to the United States dollar as long as the Hong Kong dollar is pegged to the United States dollar.

The gearing ratio (total debt/total shareholders' fund and convertible loan stock) as at 31st December, 2002 was 13.8% (2001: 38.3%).

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 decrease in the Group's financial cost of approximately HK\$1 million in the year.

In November 2002, the Group was granted a banking facility of HK\$24,000,000 secured by corporate guarantees given by the Company and pledged by certain land and property from one of its subsidiaries. The facility was not utilized.



CHAIRMAN'S STATEMENT

PROSPECTS

The global economy continues to be overshadowed by the imminent military conflict in the Middle East, rising energy and material costs, over-capacity and subdued demand in many lines of businesses. However, the Group remains focused on its core business which has been built on a solid foundation. So far all indicators as far as maintaining current order volumes is concerned but we will actively seek expansion through diversification and acquisition.

The Group has identified a niche market for a new product for which design the Group has taken to prototyping and patent-pending stage.

The Group has also diversified into a new business field – printing of promotional materials and inserts. This vertical integration of the manufacturing process is complementary to our toy making business and has been positively endorsed by our major customers.

After a series of research works, the Group has targeted certain businesses for acquisition, with a view to adding shareholders' value. The objectives of such acquisitions are also to augment our customer base and product type and to achieve economy of scale.

HUMAN RESOURCES

As at 31st December, 2002, the Group had approximately a total of 8,800 (2001: 4,800) employees in Hong Kong, 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.

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 achievement of the Group throughout the year. I would also like to take this opportunity to express my appreciation to all our shareholders for their continuous support to the Group.

Cheng Yung Pun

Chairman

Hong Kong, 13th March, 2003



DIRECTORS' PROFILES

EXECUTIVE DIRECTORS

Mr. Cheng Yung Pun

aged 51, is the Chairman of the Company. Mr. Cheng is responsible for the overall corporate policy and development strategy as well as overseeing the Group's overall management. Mr. Cheng is having a depth of knowledge and experimentalism of operations in Greater China. Mr. Cheng has more than 20 years' extensive experience in plastic toys manufacturing, property development and investment.

Mr. Yu Sui Chuen

aged 47, is responsible for overseeing the finance and administration of the Group and assisting the Chairman in the strategic planning. Mr. Yu holds a Higher Diploma in Business Administration majoring in Accounting. Mr. Yu has over 20 years' experience in finance management and administration of which nearly 10 years as a member of the management committee of a listed company.

Ms. Cheng Wing See, Nathalie

aged 29, is responsible in managing of procurement of the Group. Ms. Cheng has held managerial position in procurement in the plastic toys field for over 3 years before joined to the Group. Ms Cheng is a daughter of Mr. Cheng.

Mr. Lee Sai Keung, Daniel

aged 51, *FRICS, FHKIS, MCIArb, MCMI, AAPI*, is responsible for overseeing project development and management of the Group. Mr. Lee holds a Higher Diploma in Surveying and Building Technology. Being a Chartered Surveyor and Chartered Manager, he has over 25 years of managerial experience in property development, investment and valuation with various financial institutions and private organizations in senior executive positions, both in Hong Kong and overseas.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Heng Kwoo Seng

aged 55, is a fellow member of the Institute of Chartered Accountants in England & Wales and an associate member of the Hong Kong Society of Accountants. Currently, He is a senior partner of a firm of certified public accountants and also services as a non-executive director or company secretary of several listed companies in Hong Kong. Mr. Heng has over 25 years of experience in the field of auditing, finance and accounting.

Mr. Mak Shiu Chung, Godfrey

aged 40, holds a Bachelor of Science degree in business studies from Bradford University School of Management, UK and a Master of Business Administration degree from the University of Wales, UK. He is a Member of the Hong Kong Securities Institute; a Member of the Chartered Institute of Marketing and a Graduate of the Institute of Chartered Secretaries and Administrators. Mr. Mak is currently the Executive Director of Huafeng Environmental Protection Textile International Group Limited and has over 12 years of experience in the field of corporate finance.



DIRECTORS' REPORT

The directors present their annual report and the audited financial statements of the Company for the year ended 31st December, 2002.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 16 to the financial statements.

CUSTOMERS AND SUPPLIERS

The five largest customers of the Group together accounted for approximately 99.5% of the Group's turnover, with the largest customer accounted for approximately 87.9%. The aggregate purchases attributable to the Group's five largest suppliers were approximately 47.1% of total purchases of the Group, with the largest supplier accounted for approximately 20.1%.

At no time during the year did any director, any associate of a director, or any shareholder, which to the knowledge of the directors owned more than 5% of the Company's share capital, have any beneficial interests in the Group's five largest customers or suppliers.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2002 are set out in the consolidated income statement on page 18.

An interim dividend of HK\$0.08 per share amounting to HK\$25,818,000 was paid to the shareholders during the year. The directors now recommend a payment of a final dividend of HK\$0.09 per share to the shareholders on the register of members on 15th April, 2003, amounting to HK\$29,045,000, and the retention of the remaining profit for the year of HK\$10,225,000.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired plant and machinery, construction in progress and leasehold improvement of HK\$19,190,000, HK\$7,392,000 and HK\$2,277,000 respectively.

Details of the above and other movements during the year in the property, plant and equipment of the Group are set out in note 15 to the financial statements.



DIRECTORS' REPORT

SHARE CAPITAL

Movements during the year in the share capital of the Company are set out in note 21 to the financial statements.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on page 21 and note 22 to the financial statements respectively.

DIRECTORS

The directors of the Company during the year and up to the date of this report are:

Executive directors:

Cheng Yung Pun (*Chairman*)

Cheng Wing See, Nathalie

Yu Sui Chuen

Lee Sai Keung, Daniel (appointed on 24th May, 2002)

Independent non-executive directors:

Heng Kwoo Seng

Mak Shiu Chung, Godfrey

In accordance with the provisions of the Company's bye-laws, Miss Cheng Wing See, Nathalie, Messrs. Lee Sai Keung, Daniel and Heng Kwoo Seng retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The term of office of each independent non-executive director is the period up to his retirement by rotation in accordance with the Company's bye-laws.

DIRECTORS' SERVICE CONTRACTS

Mr. Yu Sui Chuen, the executive director, has entered into a service agreement with the Company which commenced from 8th September, 2000 and is terminable by either party giving not less than six months' written notice.

Mr. Lee Sai Keung, Daniel, the executive director, has entered into a service agreement with the Company which commenced from 24th May, 2002 and is terminable by either party giving not less than one month's written notice.

None of the directors being proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN SECURITIES

Shares

At 31st December, 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 directors	Number of shares held	
	Personal interests	Corporate interests
Cheng Yung Pun ("Mr. Cheng")	–	239,654,800 (Note)
Cheng Wing See, Nathalie	700,000	–
Yu Sui Chuen	604,000	–
Lee Sai Keung, Daniel	600,000	–

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. In addition, Suncorp holds the entire interest of the convertible loan stock of the Company.

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 year.

SHARE OPTION SCHEME

Particulars of the Company's share option scheme are set out in note 31 to the financial statements.

No options were granted or exercised under the scheme during the year and there were no outstanding share options at 31st December, 2002.

At 31st December, 2002, 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 issued share capital of the Company.

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 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' REPORT

DIRECTORS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS

On 18th January, 2002, the Group acquired 100% interest in Keyhinge Holdings Limited and its subsidiary ("Keyhinge Group"). The acquisition constituted a major and connected transaction of the Company and was approved by the independent shareholders during the year. Details of the acquisition of Keyhinge Group are set out in note 25 to the financial statements.

A tenancy agreement was entered between Matrix Resources Enterprise Limited and Kwok Lung Industrial Company Limited ("Kwok Lung") on 1st May, 2001 in respect of premises in Hong Kong. The rental paid or payable for the year in respect of this tenancy agreement amounted to HK\$192,000. Mr. Cheng has beneficial interest in Kwok Lung.

During the year, interest on the 5% convertible loan stock amounting to HK\$1,612,000 was accrued and payable to Suncorp.

Suncorp converted an amount of HK\$7,700,000 convertible loan stock into 77,000,000 ordinary shares of HK\$0.10 each in the Company in January 2002 and HK\$10,100,000 convertible loan stock into 101,000,000 ordinary shares of HK\$0.10 each in the Company in July 2002.

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 year or at any time during the year.

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31st December, 2002 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, 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 meeting of the Company in accordance with the bye-laws of the Company.

SUBSTANTIAL SHAREHOLDERS

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 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 31st December, 2002.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31st December, 2002, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.



DIRECTORS' REPORT

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

AUDITORS

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Cheng Yung Pun

Chairman

Hong Kong, 13th March, 2003



AUDITORS' REPORT

德勤·關黃陳方會計師行

Certified Public Accountants
26/F, Wing On Centre
111 Connaught Road Central
Hong Kong

執業會計師
香港中環干諾道中111號
永安中心26樓

**Deloitte
Touche
Tohmatsu**

TO THE SHAREHOLDERS OF MATRIX HOLDINGS LIMITED

美力時集團有限公司

(incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 18 to 49 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors of the Company are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.



AUDITORS' REPORT

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31st December, 2002 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

OWNERSHIP OF MATRIX PLASTIC MANUFACTURING (ZHONGSHAN) CO., LTD. ("MPMZ")

Without qualifying our opinion, we draw attention to note 2 to the financial statements which explains that in October 1999 there was a court judgment regarding the ownership of MPMZ, an indirect wholly-owned major subsidiary of the Company, in connection with a claim by a trade creditor, which had subsequently been settled. The Company has made an application for a judicial review of the judgment regarding the ownership of MPMZ. The directors have sought independent legal advice and are of the opinion that the aforesaid judgment can be overruled and will have no material impact on the financial position and operations of the Group.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong, 13th March, 2003

CONSOLIDATED INCOME STATEMENT

for the year ended 31st December, 2002

	Notes	2002 HK\$'000	2001 HK\$'000
Turnover	4, 5	395,644	195,039
Cost of sales		(245,652)	(135,311)
Gross profit		149,992	59,728
Other operating income	6	5,645	1,328
Distribution costs		(2,359)	(1,323)
Administrative expenses		(36,711)	(21,355)
Profit from operations	7	116,567	38,378
Finance costs	8	(1,626)	(2,210)
Restructuring costs recovered	9	–	4,654
Profit before taxation		114,941	40,822
Taxation	12	(13,002)	(5,147)
Net profit for the year		101,939	35,675
Dividends	13	54,863	–
Earnings per share	14		
Basic		HK\$0.39	HK\$0.25
Diluted		HK\$0.18	HK\$0.06

CONSOLIDATED BALANCE SHEET

at 31st December, 2002

	Notes	2002 HK\$'000	2001 HK\$'000
Non-current asset			
Property, plant and equipment	15	115,594	70,551
Current assets			
Inventories	17	57,874	43,872
Trade and other receivables	18	42,197	29,418
Amount due from a former shareholder	9	–	4,654
Bank balances and cash		50,327	29,366
		150,398	107,310
Current liabilities			
Trade and other payables	19	47,038	54,859
Obligations under a finance lease	24	98	–
Amount due to ultimate holding company		985	1,477
Amount due to a related company	20	–	829
Amount due to a director	20	7,620	726
Tax payable		18,000	5,257
		73,741	63,148
Net current assets		76,657	44,162
		192,251	114,713
Capital and reserves			
Share capital	21	32,272	14,472
Reserves		133,500	56,241
		165,772	70,713
Non-current liabilities			
Convertible loan stock	23	26,200	44,000
Obligations under a finance lease	24	279	–
		192,251	114,713

The financial statements on pages 18 to 49 were approved and authorised for issue by the Board of Directors on 13th March, 2003 and are signed on its behalf by:

CHENG YUNG PUN
CHAIRMAN

YU SUI CHUEN
DIRECTOR

BALANCE SHEET

at 31st December, 2002

	Notes	2002 HK\$'000	2001 HK\$'000
Non-current asset			
Interests in subsidiaries	16	108,998	94,659
Current assets			
Trade and other receivables		23	567
Amounts due from subsidiaries		62,000	28,000
Amount due from a former shareholder	9	–	4,654
Bank balances and cash		10	19
		62,033	33,240
Current liabilities			
Trade and other payables		475	714
Amounts due to subsidiaries		12,460	7,867
Amount due to ultimate holding company		985	1,477
		13,920	10,058
Net current assets		48,113	23,182
		157,111	117,841
Capital and reserves			
Share capital	21	32,272	14,472
Reserves	22	98,639	59,369
		130,911	73,841
Non-current liability			
Convertible loan stock	23	26,200	44,000
		157,111	117,841

CHENG YUNG PUN
CHAIRMAN

YU SUI CHUEN
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31st December, 2002

	Share capital HK\$'000	Share premium HK\$'000	Special reserve HK\$'000	Shareholder's contribution HK\$'000	Other asset revaluation reserves HK\$'000	Translation reserve HK\$'000	Accumulated (losses) profit HK\$'000	Total HK\$'000
Balance at 1st January, 2001	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 losses recognised in respect of 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 31st December, 2001	14,472	55,708	771	–	14,280	–	(14,518)	70,713
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 and machinery	–	–	–	–	(2,043)	–	2,043	–
Dividends (Note 13)	–	–	–	–	–	–	(25,818)	(25,818)
Conversion of convertible loan stock	17,800	–	–	–	–	–	–	17,800
Arising from acquisition of subsidiaries (Note 25)	–	–	–	6,901	–	–	–	6,901
Balance at 31st December, 2002	32,272	55,708	771	6,901	12,217	(5,743)	63,646	165,772

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.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31st December, 2002

	Notes	2002 HK\$'000	2001 HK\$'000
OPERATING ACTIVITIES			
Profit from operations		116,567	38,378
Adjustments for:			
(Profit) loss on disposal of property, plant and equipment		(176)	214
Interest income		(97)	(521)
Depreciation		13,949	5,503
Impairment losses on property, plant and equipment		451	–
Restructuring costs recovered		–	4,654
Operating cash flows before movements in working capital		130,694	48,228
Decrease (increase) in inventories		2,894	(40,751)
Increase in trade and other receivables		(12,207)	(17,040)
Decrease (increase) in amount due from a former shareholder		4,654	(4,654)
(Decrease) increase in trade and other payables		(11,108)	43,625
(Decrease) increase in amount due to a related company		(60)	829
(Decrease) increase in amount due to a director		(4,530)	726
Effect of foreign exchange rate changes		(4,545)	–
Cash generated from operations		105,792	30,963
Income taxes paid		(1,411)	–
Interest paid		(2,118)	(2,200)
NET CASH FROM OPERATING ACTIVITIES		102,263	28,763
INVESTING ACTIVITIES			
Interest received		97	521
Proceeds from disposal of property, plant and equipment		1,066	520
Purchases of property, plant and equipment		(29,611)	(4,464)
Acquisition of subsidiaries	25	(26,990)	–
NET CASH USED IN INVESTING ACTIVITIES		(55,438)	(3,423)
FINANCING ACTIVITIES			
Dividends paid		(25,818)	–
Repayment of obligations under a finance lease		(46)	–
NET CASH USED IN FINANCING ACTIVITIES		(25,864)	–
NET INCREASE IN CASH AND CASH EQUIVALENTS		20,961	25,340
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		29,366	4,026
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		50,327	29,366
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances and cash		50,327	29,366

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31st December, 2002

1. GENERAL

The Company was incorporated in Bermuda on 24th November, 1993 as an exempted company under the Companies Act 1981 of Bermuda (as amended). The Company is a public limited company and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate holding company is Suncorp Investments Group Limited ("Suncorp"), a company incorporated in the British Virgin Islands.

The principal activities of the Company are investment holding and those of its principal subsidiaries are set out in note 16.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

In October 1999, there was a court judgment regarding the ownership of Matrix Plastic Manufacturing (Zhongshan) Co., Ltd ("MPMZ"), an indirect wholly-owned major subsidiary of the Company, in connection with a claim by a trade creditor, which had subsequently been settled. The Company had made an application for a judicial review of the judgment regarding the ownership of MPMZ. In 2002, the Company received an acknowledgement from Zhongshan Intermediate People's Court that Guangdong High People's Court has transferred the Company's application to Zhongshan Intermediate People's Court for processing. The directors have sought independent legal advice and are of the opinion that the aforesaid judgment can be overruled and will have no material impact on the financial position and operations of the Group. Accordingly, MPMZ is still treated as indirect subsidiary of the Company.

3. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted, for the first time, a number of new and revised Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants, which has resulted in the presentation of the statement of changes in equity and in the adoption of the following new and revised accounting policies, but has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

Foreign Currencies

The revisions to SSAP 11 "Foreign Currency Translation" have eliminated the choice of translating the income statements of overseas subsidiaries at the closing rate for the year, the policy previously followed by the Group. They are now required to be translated at an average rate. This change in accounting policy has not had any material effect on the results for the current or prior accounting periods.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31st December, 2002

3. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE *(Continued)*

Cash Flow Statements

In the current year, the Group has adopted SSAP 15 (Revised) "Cash Flow Statements". Under SSAP 15 (Revised), cash flows are classified under three headings – operating, investing and financing, rather than the previous five headings. Interest paid and received, which were previously presented under a separate heading, are classified as financing and investing cash flows respectively. Dividends paid are classified as financing cash flows. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities.

Cash flows of overseas subsidiaries have been re-translated at the rates prevailing at the dates of the cash flows rather than the rate of exchange ruling on the balance sheet date.

Employee Benefits

In the current year, the Group has adopted SSAP 34 "Employee Benefits", which introduces measurement rules for employee benefits, including retirement benefit plans. Because the Group participates only in defined contribution retirement benefit schemes, the adoption of SSAP 34 has not had any material impact on the financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of certain property, plant and equipment.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment losses.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31st December, 2002

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Turnover

Turnover represents the amounts received and receivable for goods sold, less returns, to outside customers during the year.

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

Property, plant and equipment

Property, plant and equipment other than leasehold land and buildings, plant and machinery and construction in progress are stated at cost less depreciation and accumulated impairment losses.

Leasehold land and buildings and plant and machinery are stated in the balance sheet at their revalued amount, being the fair value on the basis of their existing use at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on revaluation of leasehold land and buildings and plant and machinery is credited to the other asset revaluation reserves, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is charged as an expense to the income statement to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to accumulated profits.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31st December, 2002

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

Construction in progress represents buildings in the course of development for production or administrative purposes or for the purposes not yet determined, and is carried at cost, less any identified impairment losses. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is provided to write off the cost or valuation of items of property, plant and equipment, other than construction in progress, over their estimated useful lives, using the straight line method, at the following rates per annum:

Leasehold land	2% or over the lease term, if shorter
Buildings	2% – 4% or over the lease term, if shorter
Leasehold improvement	2% or over the lease term, if shorter
Plant and machinery	20%
Furniture and equipment	10% – 20%
Motor vehicle	20%

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31st December, 2002

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leased assets

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair values at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

All other leases are classified as operating leases and the annual rentals are charged to the income statement on a straight line basis over the relevant lease term.

Foreign currencies

The books of account of the companies comprising the Group are maintained in Hong Kong dollars. Transactions in foreign currencies are initially recorded at the rates prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

On consolidation, the assets and liabilities of subsidiaries which are denominated in currencies other than Hong Kong dollars are translated at the rates ruling on the balance sheet date. Income and expenses items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised to income or as expenses in the period in which the operation is disposed of.

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the resulting timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.



NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31st December, 2002

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Retirement benefits scheme

The retirement benefits costs charged in the income statement represent the contributions payable in respect of the current year to the Mandatory Provident Fund Scheme ("MPFS") and other schemes by the Group.

5. SEGMENT INFORMATION

The Group is engaged in the manufacture and trading of gifts and novelties. The nature of products, the nature of production processes and the methods used to distribute the products to customers in different geographical customers are similar. Accordingly, no analysis on the basis of business segment is presented. The Group's production facilities are located in the People's Republic of China (the "PRC") (other than Hong Kong) and the Socialist Republic of Vietnam ("Vietnam"). The directors of the Company consider the geographical segments by location of customers as primary source of the Group's risks and returns.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31st December, 2002

5. SEGMENT INFORMATION (Continued)

The Group's customers are mainly located in United States. The following table provides an analysis of the Group's segment information by geographical location of the Group's customers:

2002

	United States HK\$'000	Canada HK\$'000	Taiwan HK\$'000	Hong Kong HK\$'000	Others HK\$'000	Consolidated HK\$'000
REVENUE						
External sales	351,796	22,943	18,018	2,887	–	395,644
RESULTS						
Segment results	136,849	6,435	5,316	1,036	–	149,636
Unallocated income and expenses						(33,069)
Profit from operations						116,567
Finance costs						(1,626)
Profit before taxation						114,941
Taxation						(13,002)
Net profit for the year						101,939
ASSETS						
Segment assets	81,296	3,295	2,863	512	461	88,427
Unallocated corporate assets						177,565
						265,992
LIABILITIES						
Segment liabilities	27,748	824	2,504	57	24	31,157
Unallocated corporate liabilities						69,063
						100,220
OTHER INFORMATION						
Unallocated additions to property, plant and equipment						30,034
Unallocated depreciation						13,949
Impairment losses recognised						471

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31st December, 2002

5. SEGMENT INFORMATION (Continued)

2001

	United States HK\$'000	Canada HK\$'000	Taiwan HK\$'000	Hong Kong HK\$'000	Others HK\$'000	Consolidated HK\$'000
REVENUE						
External sales	161,838	5,705	233	27,143	120	195,039
RESULTS						
Segment results	52,208	2,174	65	3,328	120	57,895
Unallocated income and expenses						(19,517)
Profit from operations						38,378
Finance costs						(2,210)
Restructuring costs recovered						4,654
Profit before taxation						40,822
Taxation						(5,147)
Net profit for the year						35,675
ASSETS						
Segment assets	62,233	2,586	223	432	421	65,895
Unallocated corporate assets						111,966
						177,861
LIABILITIES						
Segment liabilities	38,530	1,568	562	407	72	41,139
Unallocated corporate liabilities						66,009
						107,148
OTHER INFORMATION						
Unallocated additions to property, plant and equipment						4,464
Unallocated depreciation						5,503
Impairment losses recognised						3,245

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31st December, 2002

5. SEGMENT INFORMATION *(Continued)*

The following is an analysis of the carrying amount of segment assets and additions to property, plant and equipment analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
PRC	132,348	91,841	15,870	4,294
Vietnam	67,894	25,187	13,330	–
Hong Kong	55,028	50,094	834	170
Macau	10,722	10,739	–	–
	265,992	177,861	30,034	4,464

6. OTHER OPERATING INCOME

	2002 HK\$'000	2001 HK\$'000
Interest income on bank deposits	97	521
Net exchange gain	3,478	–
Profit on disposal of property, plant and equipment	176	–
Others	1,894	807
	5,645	1,328

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31st December, 2002

7. PROFIT FROM OPERATIONS

	2002 HK\$'000	2001 HK\$'000
Profit from operations has been arrived at after charging:		
Auditors' remuneration		
– current year	601	450
– under-provision in previous year	70	23
Impairment losses recognised in respect of property, plant and equipment	451	–
Loss on disposal of property, plant and equipment	–	214
Depreciation of property, plant and equipment		
– owned assets	13,822	5,503
– assets held under a finance lease	127	–
Staff costs (including wages and directors' remuneration)	66,384	34,625

8. FINANCE COSTS

	2002 HK\$'000	2001 HK\$'000
Interest on convertible loan stock	1,612	2,210
Finance lease charges	14	–
	1,626	2,210

9. RESTRUCTURING COSTS RECOVERED AND AMOUNT DUE FROM A FORMER SHAREHOLDER

The restructuring costs recovered for the prior year represented the write back of the restructuring costs overcharged in previous year. In September 2001, the Group claimed from the former shareholder such amount which was received in February 2002.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31st December, 2002

10. DIRECTORS' EMOLUMENTS

Directors' emoluments are analysed as follows:

	2002 HK\$'000	2001 HK\$'000
Fees		
Independent non-executive directors	120	120
Other emoluments (executive directors)		
Salaries and allowances	2,551	807
Contributions to MPFS	65	42
	2,736	969

Directors' emoluments are within the following bands:

	Number of directors	
	2002	2001
Nil to HK\$1,000,000	3	3
HK\$1,000,001 to HK\$1,500,000	1	—

No director waived any emoluments in the two years ended 31st December, 2002.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31st December, 2002

11. HIGHEST PAID EMPLOYEES

The five highest paid individuals included two (2001: one) directors, details of whose emoluments are set out above. The emoluments of the remaining three (2001: four) highest paid individuals are as follows:

	2002 HK\$'000	2001 HK\$'000
Salaries and allowances	2,930	2,048
Contributions to MPFS	28	39
	2,958	2,087

Employees' emoluments are within the following bands:

	Number of employees	
	2002	2001
Nil to HK\$1,000,000	2	4
HK\$1,000,001 to HK\$1,500,000	1	–

12. TAXATION

The charge comprises:

	2002 HK\$'000	2001 HK\$'000
Hong Kong Profits Tax		
Current year	11,650	5,147
Over-provision in prior year	(48)	–
	11,602	5,147
Vietnam enterprise income tax	1,400	–
	13,002	5,147

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31st December, 2002

12. TAXATION (Continued)

Hong Kong Profits Tax is calculated at 16% (2001: 16%) on the estimated assessable profit for the year.

According to the Investment License granted by Vietnam authority for the Vietnam subsidiaries, the Vietnam enterprise income tax rate is 10% on the estimated assessable profits during the operating period. The Vietnam subsidiaries are eligible for exemption from Vietnam enterprise income tax for four years from the first profit-making year followed by a 50% reduction in the Vietnam enterprise income tax for the next four years.

Vietnam enterprise income tax is calculated at 5% (2001: 5%) on the estimated assessable profit for the year.

According to the Investment License, the tax for transferring profits of Vietnam subsidiaries outside Vietnam is calculated at 3% on the profits transferred. No provision for such tax has been made as the Group currently has no intention of transferring profits of the Vietnam subsidiary outside Vietnam.

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

13. DIVIDENDS

	2002 HK\$'000	2001 HK\$'000
Ordinary shares:		
Interim, paid – HK\$0.08 per share (2001: nil)	25,818	–
Final, proposed – HK\$0.09 per share (2001: nil)	29,045	–
	54,863	–

The final dividend of HK\$0.09 (2001: nil) per share has been proposed by the directors and is subject to the approval by the shareholders in the forthcoming annual general meeting.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31st December, 2002

14. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on the following data:

Earnings

	2002 HK\$'000	2001 HK\$'000
Earnings for the purposes of basic earnings per share	101,939	35,675
Effect of dilutive potential ordinary shares:		
Interest on convertible loan stock	1,612	2,210
Earnings for the purposes of diluted earnings per share	103,551	37,885

Number of shares

	2002 '000	2001 '000
Weighted average number of ordinary shares for the purposes of basic earnings per share	262,366	144,720
Effect of dilutive potential ordinary shares:		
Convertible loan stock	322,354	440,000
Weighted average number of ordinary shares for the purposes of diluted earnings per share	584,720	584,720

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31st December, 2002

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK\$'000	Construction in progress HK\$'000	Leasehold improvement HK\$'000	Plant and machinery HK\$'000	Furniture and equipment HK\$'000	Motor vehicle HK\$'000	Total HK\$'000
THE GROUP							
COST OR VALUATION							
At 1st January, 2002	57,670	–	2,658	16,082	646	–	77,056
Exchange adjustments	(489)	–	–	(706)	(3)	–	(1,198)
Additions	409	7,392	2,277	19,190	343	423	30,034
Acquired on acquisition of a subsidiary	12,864	–	–	18,584	69	–	31,517
Disposals	–	–	–	(6,716)	–	–	(6,716)
At 31st December, 2002	70,454	7,392	4,935	46,434	1,055	423	130,693
Comprising							
At cost	13,254	7,392	4,935	38,534	1,055	423	65,593
At valuation – 31st December, 2001	57,200	–	–	7,900	–	–	65,100
	70,454	7,392	4,935	46,434	1,055	423	130,693
DEPRECIATION AND IMPAIRMENT							
LOSSES							
At 1st January, 2002	19	–	88	6,182	216	–	6,505
Provided for the year	2,330	–	189	11,072	231	127	13,949
Impairment losses recognised	451	–	–	20	–	–	471
Eliminated on disposals	–	–	–	(5,826)	–	–	(5,826)
At 31st December, 2002	2,800	–	277	11,448	447	127	15,099
NET BOOK VALUES							
At 31st December, 2002	67,654	7,392	4,658	34,986	608	296	115,594
At 31st December, 2001	57,651	–	2,570	9,900	430	–	70,551

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31st December, 2002

15. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Leasehold land are held outside Hong Kong on medium term leases.

Other than the plant and machinery acquired and disposed of during the year, the Group's leasehold land and buildings in the PRC and the plant and machinery were revalued at 31st December, 2001 by RHL Appraisal Ltd., Chartered Surveyors, at open market value on a continued use basis. RHL Appraisal Ltd. is not connected with the Group. The directors consider that the open market value of the leasehold land and buildings and plant and machinery at 31st December, 2002 was not significantly different from their carrying values.

At 31st December, 2002, had all of the leasehold land and buildings and plant and machinery of the Group been carried at historical cost less accumulated depreciation, their carrying amounts would have been HK\$105,777,000 (2001: HK\$109,626,000) and HK\$30,771,000 (2001: HK\$1,511,000) respectively.

The net book value of motor vehicle of HK\$296,000 (2001: nil) is held under a finance lease.

The Group has pledged land and buildings having a net book value of approximately HK\$55,776,000 (2001: nil) to secure its banking facilities.

16. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2002 HK\$'000	2001 HK\$'000
Unlisted shares, at cost	88,090	88,090
Less: Impairment losses recognised	(88,089)	(88,089)
	1	1
Amounts due from subsidiaries	152,898	144,749
Less: allowance	(43,901)	(50,091)
	108,997	94,658
	108,998	94,659

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31st December, 2002

16. INTERESTS IN SUBSIDIARIES (Continued)

The cost of the unlisted shares is based on the book value of the underlying net tangible assets of the subsidiaries attributable to the Group as at the date on which the Company became the ultimate holding company of the Group under the group reorganisation in 1994.

Details of the principal subsidiaries at 31st December, 2002 are as follows:

Name of subsidiary	Place/country of incorporation or registration/operation	Issued and fully paid share capital/ registered capital/ contributed legal capital	Proportion of nominal value of issued capital/ registered capital/ contributed legal capital held by the Company	Principal activities
Associated Traders Hong Kong Limited	Hong Kong	HK\$10,000	100%	Trading of gifts and novelties
Besco Enterprises Limited	Hong Kong	HK\$10,000	100%	Manufacture of gifts and novelties
Goldpex Technology Limited	The British Virgin Islands	US\$10	100%	Products design
Keengold Enterprises Limited	The British Virgin Islands	US\$10	100%	Investment holding
Keyhinge Holdings Limited	Hong Kong	HK\$10,000	100%	Investment holding
Keyhinge Procurement Limited	Hong Kong	HK\$10,000	100%	Purchasing
Keyhinge Toys Company Limited	The British Virgin Islands	US\$10	100%	Trading of gifts
Keyhinge Toys Vietnam Company Limited	Vietnam	US\$4,744,246	100%	Manufacture of gifts and novelties

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31st December, 2002

16. INTERESTS IN SUBSIDIARIES (Continued)

Name of subsidiary	Place/country of incorporation or registration/ operation	Issued and fully paid share capital/ registered capital/ contributed legal capital	Proportion of nominal value of issued capital/ registered capital/ contributed legal capital held by the Company	Principal activities
Matrix International Holdings Limited	The British Virgin Islands	US\$6	100%	Investment holding
Matrix Investments Group Limited	The British Virgin Islands	US\$10	100%	Investment holding
Matrix Manufacturing Limited	The British Virgin Islands	US\$1	100%	Investment holding
Matrix Manufacturing Vietnam Company Limited	Vietnam	US\$1,004,185	100%	Not yet commence business
Matrix Plastic Manufacturing (Zhongshan) Co., Ltd.	PRC	US\$5,910,000	100%	Manufacture of gifts and novelties
Matrix Resources Enterprise Limited	Hong Kong	HK\$10,000	100%	Provision of management services

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

All of the subsidiaries are owned indirectly by the Company except for Matrix International Holdings Limited and Matrix Investments Group Limited which are owned directly.

None of the subsidiaries had any debt securities outstanding at the end of the year.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31st December, 2002

17. INVENTORIES

THE GROUP

	2002 HK\$'000	2001 HK\$'000
Raw materials	15,880	31,863
Work in progress	11,382	5,272
Finished goods	30,612	6,737
	57,874	43,872

All of the inventories above are carried at cost.

18. TRADE AND OTHER RECEIVABLES

The trade and other receivables include trade receivables of HK\$39,122,000 (2001: HK\$24,551,000). The Group allows a credit period of 14 to 60 days to its trade customers.

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

THE GROUP

	2002 HK\$'000	2001 HK\$'000
0 – 60 days	38,794	24,165
61 – 90 days	56	27
> 90 days	272	359
	39,122	24,551

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31st December, 2002

19. TRADE AND OTHER PAYABLES

The trade and other payables include trade payables of HK\$29,683,000 (2001: HK\$40,559,000).

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

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
0 – 60 days	28,686	39,310
61 – 90 days	488	1,111
> 90 days	509	138
	29,683	40,559

20. AMOUNT DUE TO A RELATED COMPANY AND A DIRECTOR

The Group

The amounts are unsecured, interest free and have no fixed terms of repayments. Mr. Cheng Yung Pun ("Mr. Cheng"), a director of the Company, has beneficial interest in the related company.

21. SHARE CAPITAL

	Number of shares			
	2002 '000	2001 '000	2002 HK\$'000	2001 HK\$'000
Ordinary shares of HK\$0.1 each Authorised	700,000	700,000	70,000	70,000
Issued and fully paid				
At the beginning of the year	144,720	144,720	14,472	14,472
Conversion of convertible loan stock	178,000	–	17,800	–
At the end of the year	322,720	144,720	32,272	14,472

During the year, the Company issued 178,000,000 new shares to Suncorp as mentioned in note 23.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31st December, 2002

22. RESERVES

	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated (losses) profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE COMPANY				
At 1st January, 2001	55,708	56,202	(94,447)	17,463
Net profit for the year	–	–	41,906	41,906
At 31st December, 2001	55,708	56,202	(52,541)	59,369
Net profit for the year	–	–	65,088	65,088
Transfer	–	(52,541)	52,541	–
Dividends	–	–	(25,818)	(25,818)
At 31st December, 2002	55,708	3,661	39,270	98,639

The contributed surplus of the Company represents the difference between the nominal amount of the share capital issued by the Company and the book value of the underlying consolidated net tangible assets of subsidiaries acquired as a result of the group reorganisation, net transfer of such reserve to accumulated profits was for the purpose of dividend declaration during the year.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

- (a) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

The Company's reserves available for distribution to the shareholders as at the balance sheet date are set out as follows:

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Contributed surplus	3,661	56,202
Accumulated profits (losses)	39,270	(52,541)
	42,931	3,661

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31st December, 2002

23. CONVERTIBLE LOAN STOCK

The Group and the Company

The convertible loan stock issued on 30th April, 2000 carries an interest at 5% per annum on the principal amount 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 pre-determined fixed price of HK\$0.10 per share from 23rd May, 2001 to 30th 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 in the Company at a pre-determined fixed price of HK\$0.10 per share. Suncorp has the entire interest in the convertible loan stock.

During the year, Suncorp has converted an aggregate amount of HK\$17,800,000 convertible loan stock into 178,000,000 ordinary shares of HK\$0.10 each in the Company.

24. OBLIGATIONS UNDER A FINANCE LEASE

	THE GROUP			
	Minimum lease payments		Present value of minimum lease payments	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Within one year	121	—	98	—
In the first to second year inclusive	243	—	219	—
In the third to fifth year inclusive	61	—	60	—
	425	—	377	—
Less: future finance charges	(48)	—	—	—
Present value of lease obligations	377	—	377	—
Less: Amount due for settlement within 12 months shown under current liabilities			(98)	—
Amount due for settlement after 12 months			279	—

It is the Group's policy to lease its motor vehicle under finance lease. The average lease term is 4 years. Interest rate is fixed at the contract date. The lease is on a fixed repayment basis and no arrangement has been entered into for contingent rental payments.

The Group's obligations under a finance lease are secured by the lessor's charge over the leased assets.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31st December, 2002

25. ACQUISITION OF SUBSIDIARIES

During the year, the Group acquired 100% interest in Keyhinge Holdings Limited and its subsidiary ("Keyhinge Group"). The acquisition has been accounted for by the acquisition method of accounting.

	2002 HK\$'000	2001 HK\$'000
Net assets acquired		
Property, plant and equipment	31,517	—
Inventories	16,896	—
Trade and other receivables	572	—
Amount due from a related company	769	—
Bank balances and cash	647	—
Trade and other payables	(3,287)	—
Amount due to a director	(11,424)	—
Tax payable	(1,152)	—
	34,538	—
Shareholder's contribution	(6,901)	—
Total consideration	27,637	—
Satisfied by:		
Cash	27,637	—
Net cash outflow arising on acquisition:		
Cash consideration	(27,637)	—
Bank balances and cash acquired	647	—
	(26,990)	—

The Keyhinge Group was acquired from Mr. Cheng, the controlling shareholder of the Company. The excess of the fair value of the net assets acquired over the consideration paid has been treated as an equity contribution from Mr. Cheng and credited to equity.

The subsidiary acquired during the year did not contribute significantly to the Group's cash flows, turnover and profit from operations.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31st December, 2002

26. MAJOR NON-CASH TRANSACTIONS

During the year, the Group entered into a finance lease arrangement in respect of a motor vehicle with a total capital value at the inception of the finance lease of HK\$423,000.

During the year, convertible loan stock of HK\$17,800,000 was converted into 178,000,000 ordinary shares of HK\$0.10 each in the Company.

27. CONTINGENT LIABILITIES

THE COMPANY

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.

28. OPERATING LEASE COMMITMENTS

THE GROUP

	2002 HK\$'000	2001 HK\$'000
Minimum lease payments in respect of land and buildings under operating leases recognised in the income statement for the year	4,545	4,384

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

THE GROUP

	2002 HK\$'000	2001 HK\$'000
Within one year	2,370	1,845
In the second to fifth year inclusive	1,470	64
After five years	2,183	—
	6,023	1,909

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31st December, 2002

28. OPERATING LEASE COMMITMENTS *(Continued)*

Operating lease payments represent rentals payable by the Group for its factory properties and office properties. Leases are negotiated for a term of 8 to 20 years and 2 years for factory properties and office properties respectively. The rentals are fixed throughout the lease period.

29. CAPITAL COMMITMENT

The Group

As at 31st December, 2002, the Group had capital expenditure amounting to HK\$1,990,000 (2001: nil) in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements.

30. RELATED PARTY TRANSACTIONS

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

	2002 HK\$'000	2001 HK\$'000
Interest paid or payable on convertible loan stock to ultimate holding company <i>(Note a)</i>	1,612	2,210
Rental paid or payable to a related company <i>(Note b)</i>	192	144
Subcontracting fee paid or payable to a related company <i>(Note c)</i>	–	8,833
Purchases of goods from a related company <i>(Note d)</i>	–	285

Notes:

- The interest paid or 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.
- The rental paid or 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.
- The subcontracting fee paid or payable to a related company was determined at 20% of the corresponding sales of a wholly owned subsidiary of the Company.
- Purchase of goods was based on the terms agreed by both parties.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31st December, 2002

30. RELATED PARTY TRANSACTIONS *(Continued)*

On 18th January, 2002, the acquisition of Keyhinge Group, which was constituted a major and connected transaction of the Company, was approved by the independent shareholders. Details of the acquisition of Keyhinge Group are set out in note 25.

Mr. Cheng, a director of the Company, has beneficial interest in Suncorp and the related company and was the beneficial shareholder of Keyhinge Holdings Limited before the acquisition by the Group.

31. SHARE OPTION SCHEME

Pursuant to the Company's share option scheme (the "Old Scheme") adopted on 26th 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 days of offer of the options.

No options were granted or exercised under the Old Scheme during the year ended 31st December, 2002.

On 17th December, 2002, the shareholders of the Company passed an ordinary resolution regarding the termination of the Old Scheme and adopted a new share option scheme (the "New Scheme") for the primary purpose of providing incentives to directors and eligible employees. Under the New Scheme, 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 at a price equal to the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheets on the date of grants; (ii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share.

The total number of shares in respect of which options may be granted under the New Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares to be issued to each participant in any twelve-month period must not exceed 1% of the share capital of the Company in issue, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital and with a value in excess of HK\$5 million must be approved in advance by the Company's shareholders.

Options granted must be taken up not later than 28 days after the date of grant, upon payment of HK\$1 per option. The period during which an option may be exercised will be determined by the board of directors of the Company at its absolute discretion, save that no option may be exercised more than 10 years after it has been granted. No option may be granted more than 10 years after the date of approval of the New Scheme.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31st December, 2002

31. SHARE OPTION SCHEME *(Continued)*

No options were granted or exercised under the New Scheme during the year and there were no outstanding options at 31st December, 2002.

32. RETIREMENT BENEFIT SCHEMES AND MANDATORY PROVIDENT FUND

The Group operates a MPFS for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll cost to the scheme, which is matched by the employee.

The eligible employees of the subsidiaries in the PRC are members of pension schemes operated by the Chinese local government. The subsidiaries are required to contribute a certain percentage of the relevant part of the payroll of these employees to the pension schemes to fund the benefits.

Eligible employees in Vietnam currently participate in a defined contribution pension scheme operated by the local municipal government. The calculation of contributions is based on certain percentages of the employees' payroll.

The retirement benefits cost charged to income statement of approximately HK\$791,000 (2001: HK\$600,000) represents contributions payable to the schemes by the Group at the rates specified in the rules of the schemes.

FINANCIAL SUMMARY

Year ended 31st December,

	1998 HK\$'000	1999 HK\$'000	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000
RESULTS					
Turnover	285,474	1,717	35,472	195,039	395,644
Profit (loss) from operations	(294,227)	(57,602)	13,411	38,378	116,567
Finance costs	(16,849)	(2,477)	(1,467)	(2,210)	(1,626)
Restructuring costs					
recovered (charged)	–	–	(10,590)	4,654	–
Waiver of indebtedness	–	–	189,441	–	–
Profit (loss) from ordinary activities					
before taxation	(311,076)	(60,079)	190,795	40,822	114,941
Taxation	–	–	(57)	(5,147)	(13,002)
Profit (loss) before minority interests	(311,076)	(60,079)	190,738	35,675	101,939
Minority interests	(44)	–	–	–	–
Profit (loss) for the year	(311,120)	(60,079)	190,738	35,675	101,939

At 31st December,

	1998 HK\$'000	1999 HK\$'000	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000
ASSETS AND LIABILITIES					
Total assets	113,463	77,584	92,739	177,861	265,992
Total liabilities	(217,994)	(242,194)	(56,811)	(107,148)	(100,220)
Surplus (deficit) in shareholders' funds	(104,531)	(164,610)	35,928	70,713	165,772