



Recruit

1st Quarterly Report 2005

第一季報

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors (the “Directors”) of Recruit Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:- (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

FINANCIAL REVIEW

The Group's net profit for the quarter ended 31st March, 2005 was HK\$4.8 million, representing an increase of approximately 37% over that of HK\$3.5 million in the same quarter last year. Turnover was HK\$31.5 million, an increase of approximately 97% over that of HK\$16 million in the same quarter last year which is mainly due to the revenue of HK\$12.2 million generated from the inflight magazine business.

While the Group's net profit had improved from the significant growth in turnover, it also included the start-up losses of our Shanghai recruitment advertising division which was firstly launched in March 2005. We also started the printing business in March 2005 and its contribution to the net profit of the Group in the first quarter of 2005 was not significant.

The newly set up operations had resulted in a drop of the overall gross profit margin of the Group by approximately 10% as compared to 2004. With the rise of the turnover, the selling and distribution costs had also increased. Administrative expenses had increased by HK\$2.4 million when compared to 2004, mainly due to the increase in staff costs, rental expenses and other general administrative expenses incurred by the newly set up operations this year.

BUSINESS REVIEW AND PROSPECTS

Subsequent to the rebound of Hong Kong economy and the surge in the number of new jobs at the end of 2004, the sales growth rate was less dramatic in early 2005. Advertising income from Recruit magazine reported a 7% increase from the same quarter last year. With the aim to expand its market in China, the Group had opened its recruitment advertising operation in Shanghai earlier this year. Our strategy is to build a cross-media model similar to our Hong Kong operation that provides recruitment advertising coverage in both print and online. Operating under the brand name of "Corner Office" in China, our target users are middle level executives whose annual income is between Rmb80,000 and Rmb200,000. The Group will continue to review the strategy in order to improve its positioning and to increase its market share both in Hong Kong and China. We anticipate that the Shanghai operation is likely to have a negative impact to the Group's results in 2005.

Benefiting from continued growth in the economy in China, the inflight magazine business generated approximately HK\$12.2 million of advertising income in the first quarter of 2005. Given the continued strength of the economy and our order backlog to date, we are confident that the business will continue to show promising signs in the remainder of 2005.

While the statutory corporate announcement business was able to report a 29% increase in advertising income from the same quarter last year, its margin contribution deteriorated as a result of the intense market competition this year. It is anticipated that the business will provide a slight contribution to the Group in 2005.

FIRST QUARTERLY RESULTS (UNAUDITED)

The Board of Directors (the “Board”) of the Company presents the unaudited results of the Company and its subsidiaries (collectively referred to as the “Group”) for the three months ended 31st March, 2005 together with the comparative unaudited figures for the corresponding period in 2004 as follows:

CONSOLIDATED INCOME STATEMENT

		Three months ended	
		31st March	
		2005	2004
		HK\$'000	<i>HK\$'000</i>
		<i>(restated)</i>	
	<i>Note</i>		
Turnover	3	31,461	16,006
Direct operating costs		(15,582)	(6,259)
		<hr/>	<hr/>
Gross profit		15,879	9,747
Other income		318	105
Selling and distribution costs		(5,874)	(3,228)
Administrative expenses		(5,301)	(2,933)
Other operating expenses		(166)	(217)
		<hr/>	<hr/>
Profit before tax	4	4,856	3,474
Taxation	5	-	-
		<hr/>	<hr/>
Profit for the period		4,856	3,474
		<hr/> <hr/>	<hr/> <hr/>
Attributable to:			
Equity holders of the parent		4,841	3,474
Minority interest		15	-
		<hr/>	<hr/>
		4,856	3,474
		<hr/> <hr/>	<hr/> <hr/>
Earnings per share			
- Basic	6	HK1.78 cents	HK2.30 cents
		<hr/> <hr/>	<hr/> <hr/>
- Diluted	6	HK1.76 cents	HK2.29 cents
		<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE CONSOLIDATED FINANCIAL RESULTS

1. Basis of preparation

The unaudited quarterly financial statements have been prepared in accordance with new HKFRSs (which also include Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“the HKICPA”), and accounting principles generally accepted in Hong Kong. The principal accounting policies adopted in preparing these financial statements are consistent with those followed in the Group’s annual audited consolidated financial statements for the year ended 31st December, 2004 except those mentioned in note 2 below.

2. Changes in accounting policies

The HKICPA has issued a number of new Hong Kong Financial Reporting Standards (“HKFRS”), Hong Kong Accounting Standards (“HKASs”) and Interpretations, herein collectively referred to as the “new HKFRSs”, which are generally effective for accounting periods beginning on or after 1st January, 2005. The Group has adopted these new HKFRSs for the first time in the period under review.

The major effect of adoption of these new HKFRSs are summarized as follows:

The adoption of HKFRS 2 – Share-based Payments requires all share options granted to employees or other parties to be recognized in the financial statements. The fair value of the share options at grant date will be amortized over the relevant vesting periods to the income statement. HKFRS 2 has been applied retrospectively for share options granted to employees after 7th November, 2002 and not vested at 1st January, 2005. Following the adoption of this accounting policy, the amount of employee share-based expenses of approximately HK\$134,000 and approximately HK\$42,000 were charged to the income statements for the quarter ended 31st March, 2005 and 31st March 2004 respectively. Employee share-based expense of approximately HK\$466,000 was recognised in the income statement for the year ended 31st December, 2004 as prior year adjustment.

In accordance with the provisions of HKFRS 3 – Business Combination, the carrying amount of negative goodwill that arose from a business combination for which the agreement date was before 1st January, 2005 shall be derecognized by way of a corresponding adjustment to the opening balance of accumulated losses as at 1st January, 2005. HKFRS 3 has been applied retrospectively. Accordingly, the carrying amount of negative goodwill of HK\$13,440,000 was credited to the accumulated losses at 1st January, 2004 and 2005.

The reconciliations of equity and profit /loss for comparative periods reported under previous HKGAAP to those reported under new HKFRSs are set out in note 7 below.

3. Turnover

	Three months ended	
	31st March	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Advertising income	29,464	15,856
Printing income	1,994	-
Publication sales	3	-
Service income	-	150
	<u>31,461</u>	<u>16,006</u>

4. Profit from operations

Profit from operations has been arrived at after charging:

	Three months ended	
	31st March	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>(restated)</i>
Depreciation	654	388
Staff costs	5,952	3,471
Operating leases rental in respect of		
Rented premises	545	303
Internet access line	21	21

5. Taxation

No provision for Hong Kong profits tax or taxation in other jurisdictions has been made since the estimated assessable profit for both periods were wholly absorbed by tax losses brought forward.

The potential deferred tax asset has not been recognized in the financial statements as the probability that future taxable profit will be available against which the temporary differences can be utilized in the foreseeable future is uncertain.

6. Earnings per share

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

	Three months ended	
	31st March	
	2005	2004
	HK\$'000	HK\$'000
		<i>(restated)</i>
Earnings for the purposes of basic and diluted earnings per share for the period	4,841	3,474
	=====	=====
	Number of shares ('000)	
Weighted average number of ordinary shares for the purposes of basic earnings per share	272,608	151,389
Effect of dilutive potential ordinary shares in respect of share options granted	2,476	659
	-----	-----
Weighted average number of ordinary shares for the purposes of diluted earnings per share	275,084	152,048
	=====	=====

Following the completion of the rights issue exercise in April 2004, a rights issue on the basis of one rights share for every issued ordinary share of HK\$0.01 each in the share capital of the Company was made at an issue price of HK\$0.012 per share. In addition, a share consolidation that every twenty issued and unissued shares of HK\$0.01 each in the share capital of the Company being consolidated into one consolidated shares of HK\$0.20 each was effective on 27th August, 2004. As such, the comparative figure of basic earnings per share for the three months ended 31st March, 2004 were re-calculated based on the adjusted weighted average of 151,389,000 shares, as adjusted to reflect the rights issue and share consolidation deemed to have occurred during the period. Apart from that, the group's earnings for the purposes of calculating the earnings per share for the three months ended 31st March, 2004 was adjusted for the effect of adopting the new accounting policies as set out in note 2 above.

7. Movement in reserve

	Share Premium HK\$'000	Employee Share-based Compensation Reserve HK\$'000	Exchange Reserve HK\$'000	Merger Reserve HK\$'000	Contributed Surplus HK\$'000	Goodwill Reserve HK\$'000	Accumulated Losses HK\$'000	Total HK\$'000
2005								
At 1st January								
As previously reported	53,970	-	5	(43,897)	45,000	13,440	(24,679)	43,839
Prior period adjustments arising from change in accounting policies:								
- share-based payments	-	466	-	-	-	-	(466)	-
- business combination	-	-	-	-	-	(13,440)	13,440	-
As restated	53,970	466	5	(43,897)	45,000	-	(11,705)	43,839
Shares issued at premium	22	-	-	-	-	-	-	22
Shares issue expenses	(3)	-	-	-	-	-	-	(3)
Recognition of share-based expenses for the period	-	134	-	-	-	-	-	134
Exchange difference on translation of financial statements of overseas subsidiaries	-	-	15	-	-	-	-	15
Profit for the period	-	-	-	-	-	-	4,841	4,841
At 31st March	53,989	600	20	(43,897)	45,000	-	(6,864)	48,848
2004								
At 1st January								
As previously reported	49,724	-	5	(43,897)	45,000	13,440	(59,047)	5,225
Prior period adjustments arising from change in accounting policies:								
- share-based payments	-	84	-	-	-	-	(84)	-
- business combination	-	-	-	-	-	(13,440)	13,440	-
As restated	49,724	84	5	(43,897)	-	-	(45,691)	5,225
Profit for the period	-	-	-	-	-	-	3,516	3,516
Prior period adjustments arising from change in accounting policy:								
- share-based payments	-	42	-	-	-	-	(42)	-
At 31st March	49,724	126	5	(43,897)	45,000	-	(42,217)	8,741

DIVIDEND

The Board does not recommend the payment of an interim dividend for the three months ended 31st March, 2005 (2003: Nil).

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at 31st March, 2005, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or otherwise notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the required standard of dealing by the Directors under Rule 5.46 of the GEM Listing Rules, were as follows::

(a) Interests in the shares of the Company

Name of Directors	Personal Interests (Shares)	Family Interests (Shares)	Corporate Interests (Shares)	Total Interests (Shares)	Percentage to the issued share capital of the Company (%)
Mr. Lau Chuk Kin (<i>Note 1</i>)	Nil	Nil	179,098,000	179,098,000	65.60
Mr. Lee Ching Ming, Adrian (<i>Note 2</i>)	100,500	50,000	Nil	150,500	0.06
Mr. Peter Stavros Patapios Christofis	670,500	Nil	Nil	670,500	0.25
Mr. Cheng Ping Kuen, Franco	204,000	Nil	Nil	204,000	0.07

(b) Options to subscribe for share of the Company

Name of Directors	Number of share options				Outstanding at 31.3.2005
	Outstanding at 1.1.2005	Granted during the period	Exercised during the period	Cancelled/lapsed during the period	
Ms Ho Suk Yi (<i>Note 3</i>)	500,000	-	-	-	500,000

Notes:

- Of 179,098,000 shares, 1,144,000 shares and 177,954,000 shares are beneficially owned by ER2 Holdings Limited and City Apex Limited respectively. As at 31st March, 2005, Mr. Lau Chuk Kin beneficially owned 67% of the issued share capital of ER2 Holdings Limited, which is the ultimate holding company of City Apex Limited. Accordingly, Mr. Lau Chuk Kin is deemed to be interested in the said shares pursuant to Part XV of the SFO.
- Of 150,500 shares, 50,000 shares are beneficially owned by the wife of Mr. Lee Ching Ming, Adrian, who is deemed to be interested in the said shares under Part XV of the SFO.

3. Of 500,000 share options granted to Ms Ho Suk Yi, 250,000 and 250,000 share options were granted on 17th May, 2004 and 9th December, 2004 respectively. Details of the share options are set out below:

Date of grant	Number of share options granted	Exercise price per share (HK\$)	Vesting period	Exercisable period	Percentage to the issued share capital of the Company (%)
17.5.2004	250,000	0.28	17.5.2004 – 16.5.2005	17.5.2005 – 2.7.2013	0.09
9.12.2004	250,000	0.43	9.12.2004 – 8.12.2005	9.12.2005 – 2.7.2013	0.09

Saved as disclosed above, as at 31st March, 2005, to the knowledge of the Company, none of the directors or chief executive of the Company and their respective associates had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be maintained under section 352 of Part XV of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors as referred to in Rule 5.46 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS

As at 31st March, 2005, so far as is known to any director or chief executive of the Company, other than a director or chief executive of the Company, the following persons had interests or short positions in the shares or underlying shares of the Company, being 5% or more in the issued share capital of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name of shareholder	Number of shares	Percentage to the issued share capital of the Company %
Mr. Lau Chuk Kin (<i>Note 1</i>)	179,098,000	65.60
ER2 Holdings Limited (<i>Note 1</i>)	179,098,000	65.60
City Apex Limited (<i>Note 1</i>)	177,954,000	65.18
Tai Wah Investment Company Limited (<i>Note 2</i>)	22,000,000	8.06
Chan Family Investment Corporation Limited (<i>Note 2</i>)	26,677,333	9.77
Great Eagle Holdings Limited (<i>Note 3</i>)	22,076,000	8.09
Jolly Trend Limited (<i>Note 3</i>)	22,076,000	8.09
The Great Eagle Company, Limited (<i>Note 3</i>)	22,076,000	8.09
Dr. Lo Ka Shui (<i>Note 4</i>)	22,226,000	8.14
JAIC-Somerley Corporate Development Fund Limited (<i>Note 5</i>)	16,788,178	6.15
Japan Asia Investment Company Limited (<i>Note 5</i>)	16,788,178	6.15
HSBC International Trustee Limited (<i>Note 6</i>)	16,788,178	6.15

Notes:

- Of the 179,098,000 shares, Mr. Lau Chuk Kin is deemed to be interested in the 1,144,000 shares directly held by ER2 Holdings Limited. Each of Mr. Lau Chuk Kin and ER2 Holdings Limited is deemed to be interested in the 177,954,000 shares owned by City Apex Limited.

2. Of these shares, 3,679,333 shares are directly owned by Chan Family Investment Corporation Limited, 998,000 shares and 22,000,000 shares are respectively held by Earnyear Limited and Tai Wah Investment Company Limited. Both Earnyear Limited and Tai Wah Investment Company Limited are wholly-owned subsidiaries of Chan Family Investment Corporation Limited.
3. Each of Great Eagle Holdings Limited and Jolly Trend Limited is deemed to be interested in the 22,076,000 shares owned by The Great Eagle Company, Limited.
4. Of these shares, 22,076,000 shares are duplicated in the interest described in note 3, as The Great Eagle Company, Limited is a wholly-owned subsidiary of Great Eagle Holdings Limited. Dr. Lo Ka Shui was interested and/or deemed to be interested in the issued share capital of Great Eagle Holdings Limited. In addition, Dr. Lo Ka Shui has personal interest in 150,000 shares.
5. Japan Asia Investment Company Limited is deemed to be interested in the 16,788,178 shares owned by JAIC-Somerley Corporate Development Fund Limited.
6. 16,788,178 shares relate to the same block of shares as described in note 5. HSBC International Trustee Limited, in which the corporations mentioned in note 5 are the beneficiaries, is interested and/or deemed to be interested in the said 16,788,178 shares.

Save as disclosed above, as at 31st March, 2005, so far as is known to any director or chief executive of the Company, other than a director or chief executive of the Company, no persons had interests or short position in the shares or underlying shares which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

FINANCIAL ASSISTANCE

As previously reported, the Group had provided financial assistance to PPG Investments Limited (“PPGI”) of approximately HK\$16 million, which was proportional to the Group’s 20 per cent equity interest in PPGI. The financial assistance is unsecured, interest free and there is no fixed term of repayment. As at 31st March, 2005, the Group’s advance to PPGI, net of allowance, was approximately HK\$7 million (2004: HK\$7 million). The Directors believe that no further allowance for the amount due from PPGI is required as PPGI is currently holding a 50% stake in a Hong Kong printing company which was at net current asset position throughout the period. The latest unaudited balance sheet of PPGI as at 30th September, 2004 is as follows:

	HK\$'000
Non-current Assets	51,436
Current Assets	103
Current Liabilities	(95)
Non-current Liabilities	(80,110)
	<hr/> (28,666) <hr/> =====

During the period, the Group did not provide any new financial assistance to PPGI.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the period ended 31st March, 2005, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

COMPETING INTERESTS

The directors of the Company believe that none of the directors or the management shareholders of the Company or any of their respective associates (as defined in the GEM Listing Rules) has any business or interest that competes or may competes with the business of the Group.

AUDIT COMMITTEE

The audit committee has three members comprising the three independent non-executive directors, namely, Mrs. Ling Ching Man, Eleanor, Mr. Cheng Ping Kuen, Franco and Mr. Tyen Kan Hee, Anthony, with terms of reference in compliance with the GEM Listing Rules.

The audit committee had met with the management to review the Company's first quarterly report for the three months ended 31st March, 2005 and had the opinion that such report was complied with the applicable accounting standards and adequate disclosures had been made.

By Order of the Board
Ho Suk Yi
Executive Director

Hong Kong, 9th May, 2005