



**Recruit**

**2nd Quarterly Report 2005**

**第二季報**

## **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.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities trade on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.**

**The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM listed issuers.**

*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**

Turnover for the six months ended 30th June 2005 was approximately HK\$86 million, a 95% increase over the same period last year. The significant growth was mainly due to additional revenue amounting to approximately HK\$18.5 million generated from the printing division, which is a 79% owned subsidiary of the Company established in March this year. Net profit attributable to shareholders in the first half of 2005 was approximately HK\$19.3 million, a 71% increase over the same period last year. The increase in net profit was mainly attributable to a gain of HK\$5 million arising from the sale of the Group's 5% interest in subsidiaries which are engaged in recruitment service business. This is part of the Group's plan to attract business partners in order to enhance its competitiveness and prospects.

The Group's turnover for the three months ended 30th June 2005 was approximately HK\$54.6 million, an increase of 94% over the same period last year. Net profit attributable to shareholders was approximately HK\$14.5 million, an 86% increase over the same period last year. Apart from the HK\$5 million gain on the sale of interest in subsidiaries, the increase in net profit also comprised HK\$1.4 million profit in the printing business attributable to the Group for the second quarter of 2005.

## **BUSINESS REVIEW**

### **Advertising business**

Benefiting from the local economic upturn in the second quarter of 2005, advertising revenue from the "Recruit" magazine grew by 26% as compared to the same quarter last year. The Hong Kong unemployment rate has fallen to 5.7% as of 30th June 2005 due to the economic recovery. This is the lowest unemployment rate in Hong Kong since October 2001. However, having taken into account the seasonal factor, we expect moderate growth in the advertising revenue from the "Recruit" magazine for the remainder of the year.

The Group's newly established China recruitment advertising business – Corner Office, commenced operation in March, faces unexpected strong competition in the marketplace. Revenue generated from Corner Office was negligible as it was in the investment and development stage. Notwithstanding the competition is expected to remain intense, the Group will inject additional resources to develop the business. Whilst loss from Corner Office will have a significant impact on the recruitment advertising business, the Group expects that the entire recruitment advertising business will remain profitable for the year.

The Group's inflight magazines business reported revenue of approximately HK\$14.9 million in the second quarter of 2005, having grown by 71% upon the first anniversary of its first launch in April 2004. The significant growth was mainly attributable to the additional revenue generated from selling the advertising space in inflight magazines for China Southern Airlines, which was only brought into the Group's operation in the fourth quarter of 2004. In June 2005, the Group signed a new exclusive agency agreement with China Southern Airlines. The new contract extends both the geographical reach and number of magazines from the original contract, thus secures the steady growth for the business. Benefits will continue to flow from the strong growth in China's economy resulting in the increase in air passenger throughput. We anticipate a promising prospect in the inflight magazine division.

Due to intensified competition, advertising revenue from the statutory corporate announcement placement business declined by 5% as compared to the same quarter last year. The Hong Kong Stock Exchange is reviewing the rules allowing the main board listed companies to disseminate information on the internet instead of publishing paid announcements in newspaper. In the long term, the business will therefore be affected. Nevertheless, the business in 2005 will provide a positive contribution to the Group.

### **Printing business**

The Group's newly set up printing business registered sales of HK\$18.5 million with a contributed profit to the Group of approximately HK\$1.4 million in the first half of the year. This was achieved regardless of the significant subcontracting costs incurred as a result of the delays encountered in the installation of machinery. However, we expect the teething problem will be resolved in the third quarter and the printing company will commence full operation in the fourth quarter. Orders booking have been encouraging as year-to-date sales have exceeded the original budget.

### **PROSPECTS**

The Group registered a satisfactory result in the first half despite the start up cost of recruitment business in China. This was underpinned by two factors, the one-off gain of HK\$5 million from the sale of 5% interest in the recruitment services business and the additional profit from China Southern Airline agency business which commenced in the fourth quarter last year.

The Corner Office operation in Shanghai will continue to affect the Group's profitability in the near future. This, together with the seasonal nature of our business, may result in the Group being unable to achieve the same profit growth in the third quarter. However, the Group is cautiously optimistic for the prospect of the whole of 2005.

### **LIQUIDITY AND FINANCIAL RESOURCES**

As at 30th June 2005, the Group had bank and cash balances of approximately HK\$31.6 million as compared to approximately HK\$36.2 million as at 31st December 2004.

The Group's total borrowings as at 30th June 2005 amounted to approximately HK\$4.6 million which represented finance leases with floating interest rates and was denominated in Hong Kong dollars. The Group's gearing ratio as at 30th June 2005 was 3.9% (31/12/2004: Nil), which is calculated on the basis of the Group's total interest bearing debts over the total equity interest as at the reporting date.

The Group operates a central cash management system for all its subsidiaries. Bank arrangement and long-term borrowing requirements for the Group are monitored at the holding company level. The Group continues to follow the practice of prudent cash management and, when necessary, will engage in currency hedging against exchange risks.

## INTERIM 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 six months ended 30th June 2005 together with the comparative unaudited figures for the corresponding period in 2004 as follows:

### CONSOLIDATED INCOME STATEMENT

	Note	Three months ended		Six months ended	
		30th June		30th June	
		2005	2004	2005	2004
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(restated)		(restated)
Turnover	4	<b>54,552</b>	28,143	<b>86,013</b>	44,149
Direct operating costs		<b>(32,580)</b>	(13,055)	<b>(48,162)</b>	(19,314)
Gross profit		<b>21,972</b>	15,088	<b>37,851</b>	24,835
Other income		<b>472</b>	77	<b>790</b>	182
Selling and distribution costs		<b>(7,520)</b>	(3,960)	<b>(13,394)</b>	(7,188)
Administrative expenses		<b>(4,829)</b>	(3,207)	<b>(10,130)</b>	(6,140)
Other operating expenses		<b>(203)</b>	(121)	<b>(369)</b>	(338)
Profit from operations	5	<b>9,892</b>	7,877	<b>14,748</b>	11,351
Finance costs		<b>(18)</b>	-	<b>(18)</b>	-
Gain on dilution of interest in subsidiaries		<b>5,000</b>	-	<b>5,000</b>	-
Profit before taxation		<b>14,874</b>	7,877	<b>19,730</b>	11,351
Taxation	6	-	(28)	-	(28)
Net profit for the period		<b>14,874</b>	7,849	<b>19,730</b>	11,323
Attributable to:					
Equity holders of the parent		<b>14,469</b>	7,849	<b>19,310</b>	11,323
Minority interest		<b>405</b>	-	<b>420</b>	-
		<b>14,874</b>	7,849	<b>19,730</b>	11,323
Earnings per share					
- Basic	8	<b>HK5.30 cents</b>	HK3.28 cents	<b>HK7.08 cents</b>	HK5.80 cents
- Diluted	8	<b>HK5.25 cents</b>	HK3.27 cents	<b>HK7.01 cents</b>	HK5.77 cents

## CONSOLIDATED BALANCE SHEET

	<i>Note</i>	<b>Unaudited As at 30th June 2005 HK\$'000</b>	Audited As at 31st December 2004 HK\$'000 <i>(restated)</i>
<b>Assets</b>			
<i>Non-current assets</i>			
Property, plant and equipment	9	23,739	3,407
Investment property		36,660	36,660
Interests in associates		6,685	7,351
Deposit paid for acquisition of property, plant and equipment		-	2,001
		67,084	49,419
<i>Current assets</i>			
Inventories		1,627	-
Investment in listed securities		663	-
Trade and other receivables	10	59,893	21,472
Bank balances and cash		31,609	36,245
		93,792	57,717
<b>Total assets</b>		<b>160,876</b>	<b>107,136</b>
<b>Equity and liabilities</b>			
<i>Capital and Reserves</i>			
Share capital	13	54,708	54,500
Share premium and reserves		63,436	43,839
Equity attributable to equity holders of the parent		118,144	98,339
Minority interest		1,422	-
<b>Total equity</b>		<b>119,566</b>	<b>98,339</b>
<i>Non-current liabilities</i>			
Obligations under finance lease – amount due after one year	12	3,797	-
<i>Current Liabilities</i>			
Trade and other payables	11	36,698	8,797
Obligations under finance lease – amount due within one year	12	815	-
		37,513	8,797
<b>Total liabilities</b>		<b>41,310</b>	<b>8,797</b>
<b>Total equity and liabilities</b>		<b>160,876</b>	<b>107,136</b>

## CONDENSED CASH FLOW STATEMENT

	For the six months ended	
	30th June	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash generated from operating activities	4,356	4,581
Investing activities		
Purchase of property, plant and equipment	(15,254)	(778)
Payment for purchase of investment in securities	(905)	-
Interest received	37	36
Proceeds from disposal of investment in securities	262	-
Proceeds from dilution of interest in subsidiaries	6,000	-
Repayment from an associate	666	-
Proceeds from disposal of property, plant and equipment	-	110
Net cash used in investing activities	<u>(9,194)</u>	<u>(632)</u>
Financing activities		
Interest paid on obligations under finance lease	(19)	-
Proceeds from issue of new shares	270	-
Proceeds from issue of rights shares	-	32,700
Share issue expenses paid	(6)	(1,164)
Repayment of obligations under finance lease	(43)	-
Net cash generated from financing activities	<u>202</u>	<u>31,536</u>
Net (decrease) increase in cash and cash equivalents	<u>(4,636)</u>	<u>35,485</u>
Cash and cash equivalents at the beginning of the period	<u>36,245</u>	<u>21,933</u>
Cash and cash equivalents at the end of the period	<u><u>31,609</u></u>	<u><u>57,418</u></u>
Analysis of balances of cash and cash equivalent		
Bank balances and cash	<u><u>31,609</u></u>	<u><u>57,418</u></u>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the parent								Minority Interest	Total Equity	
	Share Capital	Share Premium	Employee Share-based Compensation Reserve	Exchange Reserve	Merger Reserve	Contributed Surplus	Goodwill Reserve	Retained Profit / (Accumulated Losses)			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	Total HK\$'000	HK\$'000	HK\$'000
<b>2005</b>											
At 1st January											
As previously reported	54,500	53,970	-	5	(43,897)	45,000	13,440	(24,679)	98,339	-	98,339
Prior period adjustments arising from change in accounting policies:											
- share-based payments	-	-	466	-	-	-	-	(466)	-	-	-
- business combination	-	-	-	-	-	-	(13,440)	13,440	-	-	-
As restated	54,500	53,970	466	5	(43,897)	45,000	-	(11,705)	98,339	-	98,339
Issue of new shares	208	62	-	-	-	-	-	-	270	-	270
Share issue expenses	-	(6)	-	-	-	-	-	-	(6)	-	(6)
Dilution of interest in subsidiaries	-	-	-	-	-	-	-	-	-	1,002	1,002
Recognition of share-based expenses for the period	-	-	209	-	-	-	-	-	209	-	209
Exchange difference on translation of financial statements of overseas subsidiaries	-	-	-	22	-	-	-	-	22	-	22
Profit for the period	-	-	-	-	-	-	-	19,310	19,310	420	19,730
At 30th June	54,708	54,026	675	27	(43,897)	45,000	-	7,605	118,144	1,422	119,566
<b>2004</b>											
At 1st January											
As previously reported	27,250	49,724	-	5	(43,897)	45,000	13,440	(59,047)	32,475	-	32,475
Prior period adjustments arising from change in accounting policies:											
- share-based payments	-	-	84	-	-	-	-	(84)	-	-	-
- business combination	-	-	-	-	-	-	(13,440)	13,440	-	-	-
As restated	27,250	49,724	84	5	(43,897)	45,000	-	(45,691)	32,475	-	32,475
Issue of rights shares	27,250	5,450	-	-	-	-	-	-	32,700	-	32,700
Share issue expenses	-	(1,164)	-	-	-	-	-	-	(1,164)	-	(1,164)
Profit for the period	-	-	-	-	-	-	-	11,465	11,465	-	11,465
Prior period adjustments arising from change in accounting policy:											
- share-based payments	-	-	142	-	-	-	-	(142)	-	-	-
At 30th June	54,500	54,010	226	5	(43,897)	45,000	-	(34,368)	75,476	-	75,476

## NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

### 1. Basis of preparation

The unaudited interim financial statements have been prepared in accordance with the applicable disclosure requirements of Chapter 18 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (“the GEM Listing Rules”) and with Hong Kong Accounting Standard 34 (HKAS 34) *Interim Financial Reporting*.

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31st December 2004 except those mentioned in note 2 below.

### 2. Changes in accounting policies

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (“HKFRSs”), Hong Kong Accounting Standards (“HKASs”) and Interpretations (hereinafter collectively referred to as “new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants that are effective for accounting periods beginning on or after 1st January 2005. The adoption of the new HKFRSs has resulted in changes to the Group’s accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented.

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\$209,000 and approximately HK\$142,000 were charged to the income statements for the period ended 30th June 2005 and 30th June 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 the consolidated statement of changes in equity.

### 3. Segment information

The entity's primary format for reporting segment information is business segments. Principal activities are as follows:

- Advertising - recruitment magazine publishing, inflight magazine advertising and selling of statutory corporate announcement space
- Printing - printing of books

#### Six months ended 30th June 2005

	<b>Advertising</b> <i>HK\$'000</i>	<b>Printing</b> <i>HK\$'000</i>	<b>Eliminations</b> <i>HK\$'000</i>	<b>Consolidation</b> <i>HK\$'000</i>
<b>REVENUE</b>	67,495	18,518	-	86,013
<b>SEGMENT RESULT</b>	12,678	1,778		14,456
Interest income				37
Unallocated corporate income				620
Unallocated corporate expenses				(365)
Profit from operations				14,748
Finance costs				(18)
Gain on dilution of interest in subsidiaries				5,000
Profit before taxation				19,730
Taxation				-
<b>Profit for the period</b>				19,730

#### Six months ended 30th June 2004

	<b>Advertising</b> <i>HK\$'000</i>	<b>Printing</b> <i>HK\$'000</i>	<b>Eliminations</b> <i>HK\$'000</i>	<b>Consolidation</b> <i>HK\$'000</i>
<b>REVENUE</b>	44,149	-	-	44,149
<b>SEGMENT RESULT</b>	11,225	-		11,225
Interest income				36
Unallocated corporate income				90
Unallocated corporate expenses				-
Profit from operations				11,351
Finance costs				-
Gain on dilution of interest in subsidiaries				-
Profit before taxation				11,351
Taxation				(28)
<b>Profit for the period</b>				11,323

#### 4. Turnover

	Three months ended 30th June		Six months ended 30th June	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Advertising income	38,023	28,143	67,487	43,999
Printing income	16,524	-	18,518	-
Publication sales	-	-	3	-
Service income	5	-	5	150
	<u>54,552</u>	<u>28,143</u>	<u>86,013</u>	<u>44,149</u>

#### 5. Profit from operations

Profit from operations has been arrived at after charging (crediting):

	Three months ended 30th June		Six months ended 30th June	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i> <i>(restated)</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i> <i>(restated)</i>
Depreciation	924	332	1,578	720
Staff costs	7,394	4,215	13,346	7,686
Operating leases rental in respect of				
Rented premises	642	303	1,187	606
Internet access line	21	28	42	49
Interest income	(35)	(27)	(37)	(37)
Rental income	(357)	-	(620)	-
Gain on disposal of listed securities	(20)	-	(20)	-

## 6. Taxation

The amount of taxation charged to the consolidated income statement represents:

	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>30th June</b>		<b>30th June</b>	
	<b>2005</b>	2004	<b>2005</b>	2004
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
Hong Kong Profits Tax – under-provision in prior years	-	28	-	28
	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>

The Hong Kong Profits Tax paid in 2004 represented an under-provision in prior years. No provision for Hong Kong Profits Tax or taxation in other jurisdictions has been made for the period 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.

## 7. Share options

The Company has a share option scheme for eligible employees of the Group. Details of the share options outstanding during the current period are as follows:

	<u>Number of share options</u>
Outstanding at the beginning of the period	4,125,000
Granted during the period	-
Forfeited during the period	-
Exercised during the period	(1,040,000)
Expired during the period	-
	<hr/>
Outstanding at the end of the period	3,085,000
	<hr/> <hr/>

As mentioned in Note 2, the Group has, for the first time, applied HKFRS 2 *Share-based Payments* to account for its share options in the current period. In accordance with HKFRS 2, fair value of share options granted to employees determined at the date of grant is expensed over the vesting period, with a corresponding adjustment to the Group's share option reserve. In the current period, an amount of share option expense of HK\$209,000 has been recognised, with a corresponding adjustment recognised in the Group's share option reserve.

The closing price of the shares of HK\$0.20 each of the Company quoted on the Growth Enterprise Market of the Stock Exchange on 30th June 2003, 14th May 2004 and 9th December 2004, being the business date immediately before the date on which share options were granted, was HK\$0.24, HK\$0.28 and HK\$0.43 respectively.

The weighted average closing price of the Company's shares immediately before the dates on which the options were exercised was HK\$1.14.

The following assumptions were used to calculate the fair values of share options:

<u>Date of grant</u>	9/12/2004	17/5/2004	2/7/2003
Expected volatility (based on the annualized historical volatility of the closing price of the shares in the Company from 1 July 2000 to the date of grant)	77.90%	80.52%	74.33%
Expected life (in years)	5	5	5
Risk-free interest rate (being the approximate yield of 5-year Exchange Fund on the grant date)	2.68%	3.77%	2.95%
Expected dividend yield	Nil	Nil	Nil

The Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price. Because changes in subjective input assumptions can materially affect the fair value estimate, in the director's opinion, the existing model does not necessarily provide a reliable single measure of fair value of the share options.

## 8. Earnings per share

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

	Three months ended 30th June		Six months ended 30th June	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i> <i>(restated)</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i> <i>(restated)</i>
Earnings for the purposes of basic and diluted earnings per share for the period	<b>14,469</b>	7,849	<b>19,310</b>	11,323
	<b>Number of shares ('000)</b>			
Weighted average number of ordinary shares for the purposes of basic earnings per share	<b>273,276</b>	239,228	<b>272,944</b>	195,308
Effect of dilutive potential ordinary shares in respect of share options granted	<b>2,380</b>	538	<b>2,471</b>	826
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<b>275,656</b>	239,766	<b>275,415</b>	196,134

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 and six months ended 30th June 2004 were re-calculated based on the adjusted weighted average of 239,228,000 and 195,308,000 shares respectively, 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 and six months ended 30th June 2004 was adjusted for the effect of adopting the new accounting policies as set out in note 2 above.

## 9. Property, plant and equipment

	Furniture and fixtures <i>HK\$'000</i>	Office equipment <i>HK\$'000</i>	Leasehold improve- ments <i>HK\$'000</i>	Computer equipment and systems <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Machinery and equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Cost</b>							
At 1st January 2005	665	1,132	256	26,472	233	-	28,758
Additions	476	103	6,730	4,003	447	10,151	21,910
Disposals/written off	-	-	-	-	-	-	-
At 30th June 2005	<u>1,141</u>	<u>1,235</u>	<u>6,986</u>	<u>30,475</u>	<u>680</u>	<u>10,151</u>	<u>50,668</u>
<b>Accumulated Depreciation</b>							
At 1st January 2005	659	1,106	166	23,187	233	-	25,351
Provided for the period	40	21	231	1,271	15	-	1,578
Eliminated on disposals	-	-	-	-	-	-	-
At 30th June 2005	<u>699</u>	<u>1,127</u>	<u>397</u>	<u>24,458</u>	<u>248</u>	<u>-</u>	<u>26,929</u>
<b>Net Book Values</b>							
As at 30th June 2005	<u>442</u>	<u>108</u>	<u>6,589</u>	<u>6,017</u>	<u>432</u>	<u>10,151</u>	<u>23,739</u>
As at 31st December 2004	<u>6</u>	<u>26</u>	<u>90</u>	<u>3,285</u>	<u>-</u>	<u>-</u>	<u>3,407</u>

During the period, the Group acquired property, plant and equipment with an aggregate cost of HK\$21,910,000 of which HK\$4,655,000 and HK\$2,001,000 was acquired by means of finance lease and transferred from deposit paid for property, plant and equipment in prior year respectively. Cash payments of HK\$15,254,000 were made to purchase property, plant and equipment.

The Group has pledged its machinery and equipment of HK\$ 5,074,000 to secure the general banking facilities granted to the subsidiary of the Group.

## 10. Trade and other receivables

The Group allows a credit period from 7 days to 120 days to its trade customers.

The following is an aged analysis of accounts receivable:

	<b>As at 30th June 2005 HK\$'000</b>	As at 31st December 2004 HK\$'000
Aged analysis		
0 - 30 days	<b>16,330</b>	6,153
31 - 60 days	<b>11,412</b>	5,191
61 - 90 days	<b>8,582</b>	2,436
91 - 120 days	<b>1,400</b>	2,689
> 120 days	<b>2,381</b>	1,312
Total trade receivables	<b>40,105</b>	17,781
Other receivables	<b>19,788</b>	3,691
	<b>59,893</b>	21,472

## 11. Trade and other payables

The following is an aged analysis of accounts payable:

	<b>As at 30th June 2005 HK\$'000</b>	As at 31st December 2004 HK\$'000
Aged analysis		
0 - 60 days	<b>3,811</b>	172
31 - 60 days	<b>3,088</b>	-
61 - 90 days	<b>2,242</b>	-
> 90 days	<b>252</b>	-
Total trade payables	<b>9,393</b>	172
Other payables	<b>27,305</b>	8,625
	<b>36,698</b>	8,797

## 12. Obligations under finance lease

	Minimum lease payments		Present value of minimum lease payments	
	As at 30th June 2005 HK\$'000	As at 31st December 2004 HK\$'000	As at 30th June 2005 HK\$'000	As at 31st December 2004 HK\$'000
Amounts payable under finance lease				
Within one year	1,096	-	815	-
In the second to fifth years inclusive	4,326	-	3,797	-
After five years	-	-	-	-
	<u>5,422</u>	<u>-</u>	<u>4,612</u>	<u>-</u>
Less: future finance charges	(810)	-	N/A	N/A
Present value of lease obligations	<u>4,612</u>	<u>-</u>		
Less: Amount due for settlement within 12 months (shown under current liabilities)			815	-
Amount due for settlement after 12 months			<u>3,797</u>	<u>-</u>

It is the Group's policy to lease certain of its machinery and equipment under finance leases. The average lease term is 5 years. For the six months ended 30th June 2005, the average effective borrowing rate was 5.75 per cent (2004: Nil). Interest rates varied upon the Hong Kong Interbank Offered Rate (HIBOR). No arrangements have been entered into for contingent rental payments.

All lease obligations are denominated in Hong Kong dollars.

## 13. Share capital

	No. of shares ( <i>'000</i> )	HK\$'000
Authorised:		
Ordinary shares of HK\$0.20 each	500,000	100,000
	<u>=====</u>	<u>=====</u>
Issued and fully paid:		
As at 1st January 2005	272,500	54,500
Exercise of share options	1,040	208
As at 30th June 2005	<u>273,540</u>	<u>54,708</u>
	<u>=====</u>	<u>=====</u>

#### 14. Capital commitments

As at 30th June 2005, the Group was committed to capital expenditure of HK\$14,783,000 (2004: Nil) for the acquisition of printing machinery and equipment.

#### 15. Interim Dividend

The Directors do not recommend the payment of an interim dividend for the period (2004: Nil).

#### 16. Related party transactions

##### *Trading Transaction*

The Group paid printing costs of HK\$8,245,000 to Premier Printing Group Limited (“PPG”), an associate in which the Group has 20 per cent interest for the six months ended 30th June 2005. The transactions were on normal commercial terms and carried out with reference to market prices.

##### *Remuneration of key management personnel*

	Six months ended 30th June	
	2005 HK\$'000	2004 HK\$'000
Short-term employee benefits	301	252
Post-employment benefit	6	6
Share-based payment	49	5
	<u>356</u>	<u>263</u>
	=====	=====

#### 17. Employees and emolument policy

As at 30th June 2005, the Group had around 157 full-time employees (2004: 62). The pay scale of the Group's employees is maintained at a competitive level and employees are rewarded on a performance-related basis within the general framework of the Group's salary and bonus system. Other employee benefits include provident fund, insurance and medical cover. Options to subscribe for an aggregate of 3,085,000 shares of the Company had been granted to certain full-time employees, including an executive director of the Company, pursuant to the Company's share option scheme. These options are exercisable at any time during a period commencing 1 year after the date of grant and ending 3 years after the end of the 10 years period of the scheme. The remuneration of directors is from time to time determined by the board of directors of the Company by reference to their duties and responsibilities.

#### 18. Contingent liabilities

As at 30th June 2005, the Group had no significant contingent liabilities.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 30th June 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:

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	65.47
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

*Notes:*

1. 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 30th June 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.
2. These 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.

## SHARE OPTION SCHEME

The Company has adopted a share option scheme approved by a resolution passed by the shareholders of the Company on 3rd July 2000, under which it may grant options to full-time employees, including executive directors of the Company or of its subsidiaries, to subscribe for shares in the Company.

The following table discloses movements in the share options of the Company during the period:

Director	Share option type	Share Outstanding at 1.1.2005	Number of share options			Outstanding at 30.6.2005
			Granted during the period	Exercised during the period	Cancelled/lapsed during the period	
Ms. Ho Suk Yi	2004(a)	250,000	-	-	-	250,000
Ms. Ho Suk Yi	2004(b)	250,000	-	-	-	250,000
Sub-total		<u>500,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>500,000</u>
<b>Employees</b>						
In aggregate	2003	1,125,000	-	(540,000)	-	585,000
In aggregate	2004	2,500,000	-	(500,000)	-	2,000,000
Sub-total		<u>3,625,000</u>	<u>-</u>	<u>(1,040,000)</u>	<u>-</u>	<u>2,585,000</u>
<b>Total</b>		<u>4,125,000</u>	<u>-</u>	<u>(1,040,000)</u>	<u>-</u>	<u>3,085,000</u>

Details of the share options are as follows:

Share option type	Date of grant	Vesting period	Exercisable period	Exercise price per share (HK\$)
2003	2.7.2003	2.7.2003 to 1.7.2004	2.7.2004 to 2.7.2013	0.24
2004 (a)	17.5.2004	17.5.2004 to 16.5.2005	17.5.2005 to 2.7.2013	0.28
2004 (b)	9.12.2004	9.12.2004 to 8.12.2005	9.12.2005 to 2.7.2013	0.43

*Notes:*

- (i) Options granted in the year of 2003 and 2004 were granted under the Share Option Scheme pursuant to the resolution passed on 3rd July 2000.
- (ii) Consideration paid for each grant of options was HK\$1.00.
- (iii) The closing price of the shares of HK\$0.20 each of the Company quoted on the Growth Enterprise Market of the Stock Exchange on 30th June 2003, 14th May 2004 and 8th December 2004, being the business date immediately before the date on which share options were granted, was HK\$0.24, HK\$0.28 and HK\$0.43 respectively.

- (iv) The fair values of options granted under the relevant Share Option Scheme on 2nd July 2003, 17th May 2004 and 9th December 2004, measured at the date of grant, were approximately HK\$170,000, HK\$467,000 and HK\$69,000 respectively. The following significant assumptions were used to derive the fair values, using the Black-Scholes option pricing model:

<u>Date of grant</u>	9/12/2004	17/5/2004	2/7/2003
Expected volatility (based on the annualized historical volatility of the closing price of the shares in the Company from 1 July 2000 to the date of grant)	77.90%	80.52%	74.33%
Expected life (in years)	5	5	5
Risk-free interest rate (being the approximate yield of 5-year Exchange Fund on the grant date)	2.68%	3.77%	2.95%
Expected dividend yield	Nil	Nil	Nil

The Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price. Because changes in subjective input assumptions can materially affect the fair value estimate, in the director's opinion, the existing model does not necessarily provide a reliable single measure of fair value of the share options.

All the options forfeited before expiry of the options will be treated as lapsed options under the relevant share options scheme.

Saved as disclosed above, as at 30th June 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 30th June 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	Number of shares	Percentage to the issued share capital of the Company %
Mr. Lau Chuk Kin ( <i>Note 1</i> )	179,098,000	65.47
ER2 Holdings Limited ( <i>Note 1</i> )	179,098,000	65.47
City Apex Limited ( <i>Note 1</i> )	177,954,000	65.06
Tai Wah Investment Company Limited ( <i>Note 2</i> )	22,000,000	8.04
Chan Family Investment Corporation Limited ( <i>Note 2</i> )	26,677,333	9.75
Great Eagle Holdings Limited ( <i>Note 3</i> )	22,076,000	8.07
Jolly Trend Limited ( <i>Note 3</i> )	22,076,000	8.07
The Great Eagle Company, Limited ( <i>Note 3</i> )	22,076,000	8.07
Dr. Lo Ka Shui ( <i>Note 4</i> )	22,226,000	8.13
JAIC-Somerley Corporate Development Fund Limited ( <i>Note 5</i> )	16,788,178	6.14
Japan Asia Investment Company Limited ( <i>Note 5</i> )	16,788,178	6.14
HSBC International Trustee Limited ( <i>Note 6</i> )	16,788,178	6.14

### Notes:

1. 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.

## **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 30th June 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/> <hr/>

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

## **PURCHASE, SALE OR REDEMPTION OF SHARES**

During the six months ended 30th June 2005, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities.

## COMPETING INTERESTS

Interests of the directors of the Company in competing businesses required to be disclosed pursuant to Rule 11.04 of the GEM Listing Rules are as follows:

<b>Name of director</b>	<b>Name of companies</b>	<b>Nature of competing business</b>	<b>Nature of interest</b>
Mr. Lau Chuk Kin	International Resources Group Limited	Executive search in the United Kingdom	As a director and shareholder
	Amrop Hever Hong Kong and Shanghai	Executive search in Hong Kong and the PRC	As a shareholder
Mr. Wan Siu Kau	Amrop Hever Hong Kong and Shanghai	Executive search in Hong Kong and the PRC	As a director and shareholder

Having considered (i) the nature, geographical market, scope and size of the above businesses; and (ii) the nature and extent of the above-named directors' respective interest in these businesses, the directors of the Company believe that there is unlikely to be any significant competitions caused to the businesses of the Group.

Save as disclosed in this section, none of 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 compete with the business of the Group.

## CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Board, the Company has complied with the code on corporate governance practices (the "Code") as set out in Appendix 15 of the GEM Listing Rules throughout the six months ended 30th June 2005 save in respect of the following:

1. The Company does not have a separate chairman and chief executive and Mr. Lau Chuk Kin currently holds both positions. The Board continues to review the effectiveness of the Group's corporate governance structure to assess whether the separation of the positions of Chairman and Chief Executive is necessary.
2. Not all of the non-executive directors are appointed for specific term but are subject to retirement and rotation and re-election at the Company's annual general meeting.
3. In accordance with No. 87 of the Company's Bye-laws, all the directors (with the exception of the chairman of the board and the managing director of the Company) are subject to the retirement of nearest to one-third of the board each year but not explicitly subject to retirement at least once every 3 years as required by the Code. A resolution will be proposed at the next annual general meeting to amend the Company's Bye-laws in line with the Code.

4. The Group will release a model code to all of its employees to provide guidelines in respect of their dealings in the shares of the Company.
5. The Board is in the course of setting up its remuneration committee in accordance with the Code. The committee will be established within a short period of time.

#### **CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exactly than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules throughout the six months ended 30th June 2005. The Company also had made specific enquiry of all directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by directors.

#### **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 interim report for the six months ended 30th June 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, 12th August 2005