

MANAGEMENT DISCUSSION AND ANALYSIS

Results

For the six months ended 30th June 2002, both the Group's turnover and profit improved satisfactorily as compared to the corresponding period last year. Turnover amounted to approximately HK\$189.7 million, representing an increase of 6.7%. Profit attributable to shareholders surged to approximately HK\$10.4 million, up 498% as compared with last year's figure. The Directors do not recommend the payment of an interim dividend for the six months ended 30th June 2002 (six months ended 30th June 2001: Nil).

Review of operations

The substantial growth in the Group's results for the first half of 2002 was mainly attributable to the rebound in demand for conventional products, and successful in cost saving and the additional profit contributions brought in by new products, such as computer software programmes, the increase in product lines for sales distribution, such as digital imaging and consumable data recording products. The diversification of the Group's business from the manufacturing of media products to the distribution and software programming business, and the satisfactory performance of these two new business segments, also generated new income sources for the Group and improved its overall profitability.

During the reporting period, the Group extended its geographical presence and successfully penetrated the Asian and European markets to diversify the risk from the sluggish US economy. In addition, re-structuring plans implemented last year and the write-down of plant and machinery values reduced the Group's operation costs and improved its return on assets and profit margins.

Total Fulfillment Services

During the period under review, the turnover for total fulfillment services and supply chain management recorded approximately HK\$39.1 million, accounting for 21% of the Group's total turnover.

Following the adverse effects brought about by the "911 terrorist attacks" in the US last year, the US economy rebounded in the first quarter of 2002. However, the recovery of the US market slowed down in the second quarter of the year which resulted in a drop in demand for the Group's service. The increasing popularity of the internet to download software further reduced the consumption of these services. The Group has diversified its geographical coverage and expanded its market presence to Asian countries.

Computer Media Production

Sales of the Group's computer media products reached HK\$112.7 million during the reporting period. The turnover of this business segment accounted for 59% of the Group's total turnover.

The growth in sales of this segment was mainly attributable to the new demand for floppy disks. The launch of USBs drove demand for floppy disks as they are essential for computer start-ups. One of Korea's most reputable brands increased its floppy disks consumption for the distribution of its products in the PRC market. Additionally, the inventory backlog held by customers was mainly consumed in the last quarter of 2001, resulting in a rebound in demand for this product in the first half of the year.

The global supply of floppy disks has also been consolidated. Competition has lessened with no further new industry players. It is anticipated that stable orders will be sustained.

On the other hand, the sale of content-based media products were adversely affected by the over supply of CDs from Taiwan manufacturers, weak demand from the slack US market and the bursting of the internet bubble in the 4th quarter of 2000. However, there is evidence of a slight increase in demand for CD products for the second half of the year.

Distribution

The distribution segment continued to generate revenue for the Group in the past six months. Turnover recorded significant growth increasing from HK\$18.3 million to HK\$36.3 million during the reporting period, accounting for 19% of the Group's total turnover.

In addition to the distribution rights of a reputable brand from Japan, the Group has secured the distribution license for another well-known Korean brand. It will further enhance the Group's product variety and generate a new income source for the Group.



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Apart from the PRC, the Group had successfully extended its distribution network to Europe and other Asian countries during the review period. The Group will continue to expand its geographical presence. In view of the huge parallel imports making their way into the PRC which is increasing the competition in the distribution business, the growth in turnover from the distribution business mainly came from the increase in product lines and the expansion of geographical presence. The increase in product lines resulted from the expansion of services in data media and digital imaging products in the PRC. To improve profit margins, plans are in hand to establish retail outlets for its products in the near future.

The Software Programming Business

The Group's software programming company, "Albata", further diversified its client base from educational institutions to telecommunications companies. In addition to its cooperation projects with leading international educational institutions and the Education Department of the HKSAR Government to develop educational software products, the Group also partnered one of the largest telecommunication companies in the PRC for the development of mobile computing software. At the same time, the Group set up a creative team to produce animation for the Group's interactive products. This move will further strengthen product variety in the software programming segment.

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PROSPECTS

The Group aims to diversify its business from the manufacturing of computer media products to servicing businesses with minimal capital expenditure, including distribution and software programming. The Group will place more resources to develop these two business segments.

With regard to the distribution business, the Group will further extend its network to other prime locations in the PRC and in other European and Asian countries, and expand its product variety by obtaining dealerships from leading brands around the world. The Group also plans to incorporate internet sales in its distribution segment in the near future.

Although the global market shows signs of recovery, in view of the weak US economy, the Group will diversify its risk by shifting its focus to Asian countries, in particular the booming PRC market. The Group will seek profitable investment opportunities through digital imaging and consumable data recording products to capture the growing demand in this flourishing market.

In the meantime, it will strengthen its client base worldwide, staying alert for the economic rebound in the US market. Through the continuous implementation of prudent cost controls and a prompt response towards market changes, the Group is committed to improving its profitability and competitiveness to achieve profitable returns for shareholders.

LIQUIDITY AND CAPITAL RESOURCES

The Group's total net assets as at 30th June 2002 increased to HK\$225.5 million as compared with the value of HK\$214.9 million as 31st December 2001.

As at 30th June 2002, the Group's bank borrowings dropped by HK\$35.0 million to HK\$165.5 million (31st December 2001: HK\$200.5 million), of which HK\$134.4 million was payable within one year and HK\$31.1 million was payable after one year. Cash and bank balance amounted to HK\$50.2 million (31st December 2001: HK\$88.1 million), resulting in a net bank borrowings of HK\$115.3 million (31st December 2001: HK\$112.4 million). Most of the bank borrowings are denominated in Hong Kong dollars and subject to floating interest rate. As the Group had total available banking facilities of approximately HK\$387.3 million of which HK\$221.8 million remained unutilized, the Group is able to satisfy its commitments and working capital requirement through its internally generated cash flows and banking facilities.

As at 30th June 2002, the Group's net debt to equity ratio was 51% (31st December 2001: 52%), which is expressed as a percentage of net bank borrowings over the total net assets of HK\$225.5 million (31st December 2001: HK\$214.9 million). The slight decrease in net debt ratio was mainly due to repayment of bank loans from the Group's internal resources.



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On 5th January 2001, the Group had issued a convertible bond in the amount of HK\$39.6 million to acquire the distribution and logistic business. The convertible bond is divided into four convertible notes and is interest free. A convertible note of HK\$32.7 million is convertible in part or in whole into Company's new share at any time during the period commencing 18 months from the date of issue on 5th January 2001 to, but excluding, the third anniversary from the date of issue (the "Maturity Date"). To the extent that this convertible note has not been previously converted, it will be redeemed on the Maturity Date at the then outstanding principal amount provided that the Company has the option to call on the holder to convert this convertible note on the same date wholly into Company's new shares. The three convertible notes, each having a principal amount of HK\$2.3 million, are convertible in part or in whole into the Company's new shares at any time during the period commencing 12, 24 and 33 months from the date of issue respectively up to, but excluding, the Maturity Date. To the extent that the three convertible notes have not been previously converted, the convertible notes will be redeemed on the Maturity Date at the then outstanding principal amounts.

By Order of the Board
Ho Yin King, Helena
Chairman

Hong Kong, 19th August 2002