

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”) and the Statement of Standard Accounting Practice (“SSAPs”) 25 “Interim financial reporting” issued by the Hong Kong Society of Accountants (“HKSA”).

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

The unaudited condensed consolidated financial statements have been prepared in accordance with the accounting policies consistent with those adopted by the Group in its financial statements for the year ended 31st December 2001. In addition, the Group has adopted the following revised or new SSAPs issued by HKSA which are effective for accounting periods commencing on or after 1st January 2002.

SSAP 1 (Revised)	Presentation of financial statements
SSAP 15 (Revised)	Cash flow statements
SSAP 34	Employee benefits

In accordance with SSAP 15 (Revised), the cash flow equivalents is presented by means of cash flow statement which classifies cash flows during the period according to operating, investing and financing activities. Condensed consolidated cash flow statement for the six months ended 30th June 2001 have been presented on a consistent basis.

Except for the above, the adoption of the new SSAPs has no material impact on the Group’s consolidated financial statements.

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2. SEGMENTAL INFORMATION

The Group's turnover and contribution to profit from operations for both periods ended 30th June 2002 and 30th June 2001 respectively, analysed by the business segments and geographical segments are as follows:

	Six months ended 30th June 2002		2001	
	Unaudited Turnover HK\$'000	Contribution to profit from operations HK\$'000	Unaudited Turnover HK\$'000	Contribution to profit from operations HK\$'000
BY BUSINESS SEGMENTS				
Manufacturing & trading of media products	112,735	37,298	112,890	25,603
Total fulfilment services	39,130	5,113	42,157	7,736
Distribution of media products	36,326	10,124	18,274	4,613
Others	1,525	478	4,549	983
	<u>189,716</u>	<u>53,013</u>	<u>177,870</u>	<u>38,935</u>
Other revenue		277		2,144
Unallocated corporate expenses		(37,139)		(34,194)
Profit from operations		16,151		6,885
Finance costs		(6,188)		(7,027)
Share of profit of an associate		359		1,163
Profit before taxation		<u>10,322</u>		<u>1,021</u>
BY GEOGRAPHICAL SEGMENTS				
Asia				
– The People's Republic of China (including Hong Kong)	70,755	18,457	72,931	18,643
– Other regions in Asia	36,464	11,956	36,921	9,950
Europe	41,986	14,717	38,589	8,640
North America	34,142	5,982	29,389	1,699
Others	6,369	1,901	40	3
	<u>189,716</u>	<u>53,013</u>	<u>177,870</u>	<u>38,935</u>
Other revenue		277		2,144
Unallocated corporate expenses		(37,139)		(34,194)
Profit from operations		16,151		6,885
Finance costs		(6,188)		(7,027)
Share of profit of an associate		359		1,163
Profit before taxation		<u>10,322</u>		<u>1,021</u>

3. OTHER REVENUE

	Six months ended 30th June	
	2002	2001
	Unaudited HK\$'000	Unaudited HK\$'000
Interest income	232	727
Others	45	1,417
	277	2,144

4. DEPRECIATION

During the period, depreciation of HK\$13,839,000 (six months ended 30th June 2001: HK\$15,768,000) was charged in respect of the Group's property, plant and equipment and amortisation of HK\$1,249,000 (six months ended 30th June 2001: HK\$1,750,000) was charged in respect of the Group's intangible assets and goodwill.

5. EMPLOYEES AND REMUNERATION POLICIES

As at 30th June 2002, the number of employees of the Group was about 1,200. Remuneration package of employees are maintained at competitive level and includes monthly salaries, insurance and medical cover, mandatory provident fund and share option scheme. Other employee benefits include educational allowance and training programs and discretionary bonuses.

6. TAXATION

	Six months ended 30th June	
	2002	2001
	Unaudited HK\$'000	Unaudited HK\$'000
The (charge) credit comprises:		
Profits tax for the period		
Hong Kong	(250)	(495)
Overseas	(201)	(100)
Prior period		
Hong Kong – overprovision	–	494
Overseas – overprovision	–	596
	(451)	495

Hong Kong Profits Tax is calculated at 16% (2001: 16%) of the estimated assessable profits for the period. Overseas taxation is calculated at the rates prevailing in the respective jurisdictions.

7. PROPOSED INTERIM DIVIDEND

The directors do not recommend the payment of interim dividend for the period. (six months ended 30th June 2001: nil).



8. EARNINGS PER SHARE

The calculation of earnings per share is based on the profit attributable to shareholders of HK\$10,381,000 (six months ended 30th June 2001: HK\$1,736,000) and the weighted average number of 358,494,000 (six months ended 30th June 2001: 358,494,000) shares in issue during the period.

No diluted earnings per share has been presented because the exercise price of the Company's share options and the conversion of the Company's outstanding convertible bonds were higher than the average market price for shares for the periods of six months ended 30th June 2002 and the six months ended 30th June 2001 respectively.

9. PROPERTY, PLANT AND EQUIPMENTS

For the six months ended 30th June 2002, the Group has acquired fixed assets amounting to approximately HK\$1,314,000 (year ended 31st December 2001: HK\$10,904,000).

10. DEBTORS, DEPOSITS AND PREPAYMENTS

	30th June 2002 Unaudited HK\$'000	31st December 2001 Audited HK\$'000
Trade debtors	25,329	30,818
Other debtors, deposits and prepayments	65,672	58,790
	91,001	89,608

The Group has a policy of allowing credit period varying from 30 to 90 days. The aged analysis of the trade debtors is as follows:

	30th June 2002 Unaudited HK\$'000	31st December 2001 Audited HK\$'000
0 to 3 months	14,754	21,579
4 to 6 months	4,881	7,543
7 to 9 months	734	577
10 to 12 months	1,352	397
Over 1 year	3,608	722
	25,329	30,818

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11. TRADE AND OTHER PAYABLES

	30th June 2002 Unaudited HK\$'000	31st December 2001 Audited HK\$'000
Trade creditors	28,406	48,904
Other creditors and accruals	20,514	16,941
	48,920	65,845

The aged analysis of the trade creditors is as follows:

	30th June 2002 Unaudited HK\$'000	31st December 2001 Audited HK\$'000
0 to 3 months	21,480	31,582
4 to 6 months	5,353	12,276
7 to 9 months	1,305	4,189
10 to 12 months	194	378
Over 1 year	74	479
	28,406	48,904

12. RESERVES

	Shares Premium HK\$'000	Capital Reserve HK\$'000	Translation Reserve HK\$'000	Properties Revaluation Reserve HK\$'000	Retained Profits HK\$'000	Total HK\$'000
As at 1st January 2001	77,202	(35,034)	(1,051)	10,759	228,871	280,747
(Loss) for the year ended 31st December 2001					(102,083)	(102,083)
Translation of foreign subsidiaries and an associate			407			407
As at 31st December 2001	77,202	(35,034)	(644)	10,759	126,788	179,071
Profit for the six months ended 30th June 2002					10,381	10,381
Translation of foreign subsidiaries and an associate			162			162
As at 30th June 2002	77,202	(35,034)	(482)	10,759	137,169	189,614

13. CONVERTIBLE BONDS

The Company entered into the Sale and Purchase Agreement on 8th November 2000 to acquire the entire issued share capital of Fortune Luck Development Ltd., an authorised distributor of media products by a reputable international corporation, in the total consideration of HK\$47,031,725 to be satisfied as to HK\$7,431,725 in cash and the balance by the issue of the non-interest bearing convertible notes in the total amount of HK\$39,600,000.

The convertible bond in the amount of HK\$39,600,000 is divided into four convertible notes and is interest free. A convertible note of HK\$32,700,000 is convertible in part or in whole into Company's new shares 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\$2,300,000, 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.

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In 1997, a subsidiary of the Company entered into an agreement with a customer under which the subsidiary was required to set up a software manufacturing fulfilment plant in the People's Republic of China and the customer was obliged, among other things, to place an annual minimum quantity of orders to the subsidiary for the 5 years ending 31st December 2002. Under the agreement, the subsidiary is entitled to claim the shortfall if the customer fails to place the minimum orders. At the material times, the customers, among other breaches, had failed to meet the minimum orders stipulated in the agreement for the 2 years ended 31st December 1999. No further orders had been placed by the customer since April 2000.

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In 2000, Arbitration Proceedings were instituted by the subsidiary to claim against the customer for the shortfall under the agreement and/or other losses for breaches of contract amounting to approximately US\$54 million. The Arbitration Tribunal has been formed in Hong Kong to determine the claim. The customer has an unspecified Counterclaim for general damages against the subsidiary to which the customer has provided no particulars so far. Up to the date of approval of the financial statements, the arbitration has not been finalised.

The Directors, based on the opinion from independent legal advisers, consider that the Company and/or the subsidiary has a meritorious claim against the customer and that the allegations made by the customer in its Counterclaim are not valid and are of the opinion that such Counterclaim will not cause any material loss to the Company and/or the Group.

In view of the above, all direct expenditure incurred for the claim including the investment cost in establishment of the above manufacturing plant amounting to HK\$41 million are capitalised and carried in the financial statements pending settlement of the claim. The Directors are of the opinion that the Group has sufficient funds to support the claim.

15. CONTINGENT LIABILITIES

	30th June 2002 Unaudited HK\$'000	31st December 2001 Audited HK\$'000
Bills discounted with recourse	<u>13,099</u>	<u>37,688</u>

In addition, a subsidiary of the Company in 1998 received a writ from a customer in Hong Kong claiming amounts of Rmb5,885,000 and US\$1,000,000 relating to alleged defective products delivered by that subsidiary. However, the Directors, based on an opinion from the Group's independent legal advisers, consider that the allegations made by the customer are not valid and are of the opinion that such claims will not cause any material loss to the Group. No provision for the cost of the legal fees or loss, if any, arising from the allegations has been made in the financial statements.

16. CAPITAL COMMITMENT

As at 30th June 2002, the Group had the following capital commitment:

	30th June 2002 Unaudited HK\$'000	31st December 2001 Audited HK\$'000
Capital to be contributed to an enterprise	<u>300</u>	<u>–</u>



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17. PLEDGE OF ASSETS

At 30th June 2002, the Group had pledged its leasehold land and buildings with a net book value of HK\$7,331,000 (At 31st December 2001: HK\$7,438,000) to secure bank loans granted to subsidiary.

18. COMPARATIVE FIGURES

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

