



JACKIN



JACKIN INTERNATIONAL HOLDINGS LIMITED

(輝影國際集團有限公司)

(Incorporated in Bermuda with limited liability)

(於百慕達註冊成立之有限公司)

2004
Interim Report

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The English text of this Interim Report shall prevail over the Chinese text.

MANAGEMENT DISCUSSION AND ANALYSIS

Results

For the six months ended 30 June 2004, the Group's turnover rose marginally to approximately HK\$175 million as compared with the turnover of HK\$174 million in 2003. Profit attributable to shareholders amounted to approximately HK\$10.3 million, representing an increase of 1.8% as compared with that of approximately HK\$10.1 million in the same period in 2003.

Review of Operations

Computer Media Production

The increase in the cost of plastics, a major raw material component for the Group's manufacturing operations, prompted by persistent oil price hikes posted a big challenge to the Group during the period under review. The Group was nevertheless able to mitigate such increase via the implementation of a series of cost control measures and, with increased sales of its conventional media products in particular floppy disks, maintained profitability. More prominent customers (including major Japanese brand names) have also since turned to the Group to fulfill their demand for such blank information storage media product as the number of suppliers dwindles globally.

Computer Media and Accessories Production

The sales of computer media and accessories production increased an approximate 5.1% from approximately HK\$114.2 million to approximately HK\$120.1 million, which accounted for 68% of the Group's total turnover.

As the floppy disk industry in the region further consolidated, new reputable brand name customers are turning to the Group to fulfill their demands. Furthermore, boasting competitive prices, the Group was able to draw substantial orders from well-known brand names, hence further boosted the Group's floppy disk sales.

Operation of the plants in the PRC was to some extent affected by power shortages. To lessen the impact, the Group on one hand, shifted some of the production to its plant in Macau, and on the other, power generators were installed in the PRC plants in June this year as a permanent solution to the problem.

Distribution of Media Products

The distribution business segment recorded a turnover of approximately HK\$52.2 million, representing an increase of 4.2% as compared with the same period last year.

To capture the booming potential of the PRC market, the Group strives to establish its distribution network in the PRC. Following the securing of the distribution rights of the media products of a reputable Japanese brand, the Group launched its first retail shop under this brand in Guangzhou in early 2004 and is seeking for a second shop in Shenyang. However, in view of the economic austerity policies introduced lately in the PRC, the Group has been prudent in carrying out its expansion plan.

To further expand its distribution business, the Group will continue to widen its product scope by exploring and soliciting new computer products, particularly digital imaging and consumable data recording products from renowned brand names.

Prospects

In terms of production volume of floppy disks, the Group is among the top three manufacturers in the world. As the floppy disk market continues to consolidate and the number of players declines, the Group expects to gain more market share and reputable clients who have continuous demand for blank information storage media products. Given the Group's low cost manufacturing bases located in the PRC, its competitiveness and established standing, the Group is confident that this business segment will be a reliable revenue stream and expects it to grow steadily.

To ensure that it is able to meet the growing demand for floppy disks without interruption by power shortages, the Group installed its own power generators in the plants in the PRC in June 2004. The Group expects future production at the plants to proceed smoothly.

Meanwhile, the Group will actively expand into other potential distribution markets. To further broaden its income source, the Group will continue to obtain more distribution rights of new computer accessories and media products, such as those for DVDR, DVDRW, optical mouse, 8mm storage video cassettes, digital camera, USB storage media, and data cartridge from suppliers with internationally reputable brand names.

Taking into account uncertainties ahead, such as the impact of austerity policy in the PRC and the persistently hefty oil price, the Group will make every effort in the second half of the year to improve its competitive edge including striving to enhance production efficiency and trim operational costs.

With its renowned brand name, high quality products, distribution network and reliable services, the Group is poised to grasp sprouting opportunities in the flourishing market, which will allow it to enrich its profit margins and achieve profitable returns for shareholders.

FINANCIAL REVIEW

Capital and debt structure

As at 30 June 2004, the Group's total net assets was approximately HK\$310 million (31 December 2003: approximately HK\$300 million), representing approximately HK\$10 million increase compared with that of previous year, which is contributed by the profit attributable to shareholders of approximately HK\$10 million.

During the period, the Share Option Scheme (the "Old Scheme") adopted by the Company on 8 November 1996 was terminated. A new Share Option Scheme with rules complying the new Listing Rules of the Stock Exchange of Hong Kong Limited was adopted by the Company in its annual general meeting held on 12 June 2004. The share options which were granted under the Old Scheme and outstanding as at 12 June 2004 are exercisable up to and including their respective expiry dates. As at 30 June 2004, there were outstanding share options granted to certain eligible employees entitling them to subscribe for shares of the Company. Details of the share options outstanding are disclosed in the section under "Share Options" in the interim financial report.

The Group's funding policy is to finance the business operations with internally general cash and banking facilities. As at 30 June 2004, the Group's total bank and other borrowings together with obligations under finance leases (the "Group's borrowings") decreased by approximately HK\$31 million to approximately HK\$149 million (31 December 2003: HK\$180 million), of which approximately HK\$105 million was payable within one year and approximately HK\$44 million was payable after one year. The Group's borrowings were mostly denominated in Hong Kong dollars and subject to floating interest rates, therefore, the exposure of currency risk was minimal. The Group's total cash and bank balances amounted to approximately HK\$48 million (31 December 2003: approximately HK\$44 million), representing an increase of approximately HK\$4 million.

The Group's net debt to equity ratio was 33% (31 December 2003: 45%), which is expressed as a percentage of the Group's borrowings after deducting cash and bank balances over the total net assets. The decrease in net debt ratio was mainly due to the Group's total net assets were due to the repayment of the Group's borrowings and the improvement of the Group's net assets and receivable turnover during the period.

Working capital and liquidity

The Group continued to maintain a stable working capital. The Group successfully improved current ratio by 0.3 to 1.6 as at 30 June 2004 (31 December 2003: 1.3), also its quick ratio by 0.2 to 1.2 as at 30 June 2004 (31 December 2003: 1.0). In addition, the receivable turnover improved to 38 days (31 December 2003: 61 days). Inventory turnover slightly improved to 78 days (31 December 2003: 80 days).

The Group had unutilized banking facilities of approximately HK\$159 million as at 30 June 2004 (31 December 2003: approximately HK\$169 million), which the Directors consider that the unutilized banking facilities are sufficient to meet the Group's working capital requirement.

Employees and Remuneration Policies

As at 30 June 2004, the number of employees of the Group was approximately 1,000. The remuneration packages of the Group's employees are mainly based on their performance and experience, taking into account the current industry practices. Remuneration package of employees includes salaries, insurance and medical cover, mandatory provident fund and share option scheme. Other employee benefits include educational allowance and discretionary bonuses.

ADDITIONAL INFORMATION REQUIRED UNDER THE LISTING RULES

Directors' Interests in securities of the Company and associated corporation

(a) Shares

Directors' interests in shares, underlying shares and debentures

As at 30 June 2004, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Long positions

Ordinary shares of HK\$0.10 each of the Company

Name of director	Capacity	Number of issued ordinary shares held			Percentage of the share capital of the Company
		Personal interests	Corporate interests (Note)	Total	
Ms. Ho Yin King, Helena	Beneficial Owner and Interest of Controlled Corporations	10,574,000	118,796,000	129,370,000	28.23%
Mr. Ho Fai Keung, Jacky	Beneficial Owner and Interest of Controlled Corporations	8,792,000	118,796,000	127,588,000	27.84%

Note: The 118,796,000 shares are directly held by Sun Union Enterprises Limited which is wholly owned by Complete Associates Limited. The share capital of Complete Associates Limited is beneficially owned as to approximately 61.8% by Ms. Ho Yin King, Helena and as to approximately 38.2% by Mr. Ho Fai Keung, Jacky.

(b) Share Options

On 12 June 2004, the shareholders of the Company approved the termination of the share option scheme adopted by the Company on 8 November 1996 (the "Old Scheme") and the adoption of a new share option scheme (the "New Share Option Scheme") with rules complying with the new requirements of Chapter 17 of the Listing Rules. Upon termination of the Old Scheme, no further share options can be granted thereunder but in all other respects the provisions of the Old Share Option Scheme shall remain in force and all share options granted prior to such termination shall continue to be valid and exercisable in accordance therewith.

At 30 June 2004, certain directors held share options granted to them under the Old Scheme entitling them to subscribe for shares of HK\$0.10 each in the Company, and the details and movements in the Company's share options during the period were as follows:

	Option type	Outstanding held at 1 January 2004	Granted/ (Exercised)/ (Lapsed) during the period	Outstanding held at 30 June 2004
Directors				
Ms. Ho Yin King, Helena	1997A	3,750,000	–	3,750,000
Mr. Ho Fai Keung, Jacky	1997A	2,537,000	–	2,537,000
Total		<u>6,287,000</u>	<u>–</u>	<u>6,287,000</u>
Employees				
	1997B	4,300,000	–	4,300,000
	1999	1,050,000	–	1,050,000
Total		<u>5,350,000</u>	<u>–</u>	<u>5,350,000</u>
Total all categories		<u>11,637,000</u>	<u>–</u>	<u>11,637,000</u>

Details of specific categories of options under the Old Scheme are as follows:

	Date of grant	Vesting period	Exercise period	Exercise price per share
1997A	24 December 1996	8 January 1997 to 7 January 2007	8 January 1997 to 7 January 2007	HK\$1.0336
1997B	24 December 1996	24 January 1997 to 3 January 2007	24 January 1997 to 23 January 2007	HK\$1.0336
1999	4 September 1999	4 September 1999 to 3 September 2009	4 September 1999 to 3 September 2009	HK\$0.8832

No option was granted by the Company during the period.

(c) *Shares in associated corporation*

As at 30 June 2004, the following Directors held interests in the shares of Jackin Video Cassette (Taiwan) Limited, a 99.9% owned subsidiary of the Company as follows:

Name of Director	Number of shares		Total
	Personal interests	Family interests	
Ms. Ho Yin King, Helena	4	4	8
Mr. Ho Fai Keung, Jacky	4	4	8

In addition to the above, the following Directors held interests in the non-voting deferred shares of wholly owned subsidiaries of the Company as at 30 June 2004 as follows:

Name of subsidiary	Name of Director	Number of non-voting deferred shares held
Jackin Magnetic Company Limited	Ms. Ho Yin King, Helena	3,600 shares of HK\$100 each
	Mr. Ho Fai Keung, Jacky	3,200 shares of HK\$100 each
Jackin Video Cassette Co. Limited	Ms. Ho Yin King, Helena	330,000 shares of HK\$1 each
	Mr. Ho Fai Keung, Jacky	340,000 shares of HK\$1 each

In addition, a number of directors held non-beneficial interests in shares in certain subsidiaries of the Company as qualifying shares.

Save as disclosed above and certain nominee shares in subsidiaries held by Directors in trust for the Group, none of the Directors or chief executive of the Company had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies and none of the Directors or chief executives, or 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.

SUBSTANTIAL SHAREHOLDERS

Interests and short positions of shareholders discloseable under the SFO

As at 30 June 2004, the register of shareholders maintained by the Company pursuant to Section 336 of the SFO showed that other than the interests of certain directors and chief executives, the following shareholders had notified the Company of interests and short positions in the shares and underlying shares of the Company:

Long positions

Ordinary shares of HK\$0.10 each of the Company

Name of shareholder	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Complete Associates Limited	Interest of controlled corporation	118,796,000 (Note 1)	25.92%
Ho Yat Wah, Hermia	Beneficial owner	27,268,000	5.95%
Ho Fai Sing, Alfred	Beneficial owner	23,750,000	5.18%
Martin Currie China Hedge Fund Limited	Investment manager	33,092,000	7.22%
Martin Currie Investment Management Limited	Investment manager	33,848,000	7.39%
Chiu Kin Lok, Rocko	Beneficial owner and interest of controlled corporation	59,494,545 (Note 2)	12.98%
UBS AG	Person having a security interest in shares	33,092,000	7.22%

- Note: 1. The 118,796,000 shares are directly held by Sun Union Enterprises Limited which is wholly owned by Complete Associates Limited. The share capital of Complete Associates Limited is beneficially owned as to approximately 61.8% by Ms. Ho Yin King, Helena and as to approximately 38.2% by Mr. Ho Fai Keung, Jacky. Both Ms. Ho Yin King, Helena and Mr. Ho Fai Keung, Jacky are Directors of the Company.
2. Mr. Chiu Kin Lok, Rocko was interested in 59,494,545 shares, of which 59,454,545 shares were held by Art-Tech Enterprises Limited, a company in which Mr. Chiu has 100% interest, and 40,000 shares were held by Mr. Chiu in the capacity of beneficial owner.

Other than as disclosed above, the register required to be kept by the Company under Section 336 of the SFO showed that the Company had not been notified of any other interests or short positions in the shares and underlying shares of the Company as at 30 June 2004.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 30 June 2004, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CODE OF BEST PRACTICE

None of the Directors is aware of any information that would reasonably indicate the Company is not, or was not for any part of the six months ended 30 June 2004 in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, except that the Independent Non-Executive Directors are not appointed for a specific term but are subject to retirement by rotation and re-election at annual general meetings of the Company in accordance with the provisions of the Company's Bye-Laws.

AUDIT COMMITTEE

The Audit Committee has reviewed with the management accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including the review of this unaudited interim report.

ADOPTION OF THE MODEL CODE

The Company has adopted the Model Code (the "Model Code") for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (as may be amended from time to time by the Stock Exchange pursuant to the Listing Rules) as the Company's code of conduct and rules governing dealings by all Directors in the securities of the Company.

All Directors had complied with the required standard regarding Directors' securities dealings set out in the Model Code during the six months' period ended 30 June 2004.

By Order of the Board

Ho Yin King, Helena
Chairman

Hong Kong, 30 August 2004

As at the date hereof, the executive directors are Ms. Ho Yin King, Helena, Mr. Ho Fai Keung, Jacky and Mr. Low Nyap Heng and the independent non-executive directors are Mr. Li Sau Hung, Eddy, Mr. Leung Ka Kui, Johnny and Mr. Chan Kam Kwan, Jason.

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Six months ended 30 June	
		2004 Unaudited HK\$'000	2003 Unaudited HK\$'000
TURNOVER	2	175,310	174,410
Cost of Sales		(130,874)	(130,595)
Gross Profit		44,436	43,815
Other Revenue	3	1,759	1,491
Selling and distribution costs		(7,552)	(7,121)
Administrative expenses		(23,525)	(24,360)
PROFIT FROM OPERATIONS		15,118	13,825
Finance costs		(4,447)	(4,783)
Share of profit of an associate		–	751
Profit before taxation		10,671	9,793
Taxation charge	6	(323)	(126)
Profit after taxation		10,348	9,667
Minority interests		–	495
PROFIT FOR THE PERIOD		10,348	10,162
DIVIDENDS	7	–	–
EARNINGS PER SHARE			
– Basic	8	2.26 cents	2.83 cents

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	30 June 2004 Unaudited HK\$'000	31 December 2003 Audited HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	9	198,817	201,743
Intangible assets		13,548	13,169
Goodwill		40,781	42,017
		253,146	256,929
Current assets			
Inventories		74,668	70,994
Tax recoverable		763	767
Debtors, deposits and prepayments	10	135,651	152,955
Bank deposit pledged		1,172	1,172
Bank balance and cash		47,807	43,648
		260,061	269,536
Current liabilities			
Trade and other payables	11	53,140	43,507
Taxation		172	–
Current portion of non-current liabilities		104,701	159,464
Convertible note	12	–	2,300
		158,013	205,271
Net current assets		102,048	64,265
		355,194	321,194
Shareholders' funds			
Share capital		45,830	45,830
Reserves	13	264,172	253,692
		310,002	299,522
Minority interests		–	–
Non-current liabilities			
Deferred taxation		999	999
Bank and other borrowings		17,904	2,805
Obligations under finance leases and hire purchase contracts		26,289	17,868
		45,192	21,672
		355,194	321,194

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Capital reserve	Translation reserve	Properties revaluation reserve	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2003	35,849	77,202	(35,034)	(194)	4,358	148,854	231,035
Exchange difference on translation of foreign subsidiaries and an associate not recognised in the income statement	-	-	-	602	-	-	602
Effect of change in tax rate of deferred taxation	-	-	-	-	(70)	-	(70)
Net gain (loss) not recognised in the income statement	-	-	-	602	(70)	-	532
Profit for the year	-	-	-	-	-	12,061	12,061
2002 final dividend paid	-	-	-	-	-	(1,792)	(1,792)
Issue of shares on exercise of conversion rights under convertible notes	6,781	30,519	-	-	-	-	37,300
Issue of shares pursuant to placing	3,200	6,080	-	-	-	-	9,280
Share issuing expenses	-	(576)	-	-	-	-	(576)
Realised on disposal of an associate	-	-	11,450	232	-	-	11,682
At 31 December 2003	45,830	113,225	(23,584)	640	4,288	159,123	299,522
Profit for the period ended 30 June 2004	-	-	-	-	-	10,348	10,348
Exchange difference on translation of foreign subsidiaries	-	-	-	132	-	-	132
At 30 June 2004	45,830	113,225	(23,584)	772	4,288	169,471	310,002

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 June	
	2004	2003
	Unaudited HK\$'000	Unaudited HK\$'000
OPERATING ACTIVITIES		
Profit before taxation	10,671	9,793
Adjustments for:		
Amortisation of goodwill	1,236	1,236
Depreciation	8,414	9,973
Share of profit of an associate	–	(751)
Interest income	(63)	(116)
Interest expenses on bank and other borrowings	3,064	3,327
Interest expenses on obligations under finance leases and hire purchase contracts	643	790
Exchange difference	132	(79)
Operating cash flows before movements in working capital	24,097	24,173
Increase in inventories	(3,674)	(140)
Decrease in debtors, deposits and prepayments	17,304	13,328
Increase (Decrease) in trade and other payables	7,333	(7,571)
Cash generated from operating activities	45,060	29,790
Overseas tax paid	(147)	–
NET CASH FROM OPERATING ACTIVITIES	44,913	29,790
INVESTING ACTIVITIES		
Interest received	63	116
Purchase of property, plant and equipment	(5,488)	(4,925)
Product development cost incurred	(379)	–
NET CASH USED IN INVESTING ACTIVITIES	(5,804)	(4,809)

	Six months ended 30 June	
	2004	2003
	Unaudited	Unaudited
	HK\$'000	HK\$'000
FINANCING		
Interest paid	(3,064)	(3,327)
Interest paid on obligations under finance leases and hire purchase contracts	(643)	(790)
New bank loans raised	31,634	5,000
Repayment of bank loans	(60,577)	(22,792)
Proceeds from sale and lease back transactions	9,450	5,320
Repayments of obligations under finance leases and hire purchase contracts	(14,777)	(12,469)
Capital contribution by minority shareholders	–	799
NET CASH USED IN FINANCING ACTIVITIES	(37,977)	(28,259)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,132	(3,278)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	22,625	22,177
CASH AND CASH EQUIVALENTS AT 30 JUNE	23,757	18,899
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	47,807	42,576
Bank overdrafts	(24,050)	(23,677)
	23,757	18,899

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30 JUNE 2004

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 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants.

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 statement for the year ended 31 December 2003.

2. BUSINESS AND GEOGRAPHICAL SEGMENTS

The Group's turnover and contribution to profit from operations for both periods ended 30 June 2004 and 30 June 2003 respectively, analysed by the business segments and geographical segments are as follows:

	Six months ended 30 June			
	2004		2003	
	Unaudited		Unaudited	
	Turnover	Contribution to profit from operations	Turnover	Contribution to profit from operations
HK\$'000	HK\$'000	HK\$'000	HK\$'000	
BY BUSINESS SEGMENTS				
Manufacturing & trading of media products	93,590	20,410	103,239	21,914
Manufacturing & trading of computer accessories	26,460	5,740	10,963	2,137
Total fulfilment services	3,045	434	10,111	1,821
Distribution of media products	52,215	12,059	50,097	11,203
	175,310	38,643	174,410	37,075
Other revenue		–		850
Unallocated corporate expenses		(23,525)		(24,100)
Profit from operations		15,118		13,825
Finance costs		(4,447)		(4,783)
Share of profit of an associate		–		751
Profit before taxation		10,671		9,793
BY GEOGRAPHICAL SEGMENTS				
Asia				
– The People's Republic of China (including Hong Kong SAR)		110,351		100,416
– Other regions in Asia		31,974		34,416
Europe		23,613		32,824
North and South America		9,372		6,754
		175,310		174,410

3. OTHER REVENUE

	Six months ended 30 June	
	2004	2003
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Interest income	63	116
Others	1,696	1,375
	1,759	1,491

4. DEPRECIATION AND AMORTISATION

During the period, depreciation of HK\$8,414,000 (six months ended 30 June 2003: HK\$9,973,000) was charged in respect of the Group's property, plant and equipment and amortisation of HK\$1,236,000 (six months ended 30 June 2003: HK\$1,236,000) was charged in respect of the Group's intangible assets and goodwill.

5. EMPLOYEES AND REMUNERATION POLICES

As at 30 June 2004, the number of employees of the Group was about 1,000 (as at 30 June 2003: 1,000). 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 30 June	
	2004	2003
	Unaudited	Unaudited
	HK\$'000	HK\$'000
The charge comprises:		
Profits tax for the period		
Hong Kong	172	68
Overseas	151	58
	323	126

Hong Kong Profits Tax is calculated at 17.5% (six months ended 30 June 2003: 17.5%) of the estimated assessable profits for the period. Overseas taxation is calculated at the rates prevailing in the respective jurisdiction.

7. PROPOSED INTERIM DIVIDEND

The directors do not recommend the payment of interim dividend for the period (six months ended 30 June 2003: nil).

8. EARNINGS PER SHARE

The calculation of earnings per share is based on the profit attributable to shareholders of HK\$10,348,000 (six months ended 30 June 2003: HK\$10,162,000) and the weighted average number of 458,308,545 (six months ended 30 June 2003: 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 price for shares for the periods of six months ended 30 June 2004 and the six months ended 30 June 2003 respectively.

9. PROPERTY, PLANT AND EQUIPMENT

For the six months ended 30 June 2004, the Group has acquired fixed assets amounting to approximately HK\$5,488,000 (year ended 31 December 2003: HK\$19,153,000).

10. DEBTORS, DEPOSITS AND PREPAYMENTS

	30 June 2004 Unaudited HK\$'000	31 December 2003 Audited HK\$'000
Trade debtors	36,868	54,111
Other debtors, deposits and prepayments	98,783	98,844
	135,651	152,955

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:

	30 June 2004 Unaudited HK\$'000	31 December 2003 Audited HK\$'000
1 to 3 months	24,038	41,999
4 to 6 months	8,983	6,295
7 to 9 months	1,198	1,650
10 to 12 months	377	1,913
Over 1 year	2,272	2,254
	36,868	54,111

11. TRADE AND OTHER PAYABLES

	30 June 2004 Unaudited HK\$'000	31 December 2003 Audited HK\$'000
Trade creditors	43,695	33,821
Other creditors and accruals	9,445	9,686
	53,140	43,507

The aged analysis of the trade creditors is as follows:

	30 June 2004 Unaudited HK\$000	31 December 2003 Audited HK\$000
1 to 3 months	31,802	6,035
4 to 6 months	893	7,997
7 to 9 months	10,919	8,616
10 to 12 months	81	4,184
Over 1 year	–	6,989
	43,695	33,821

12. CONVERTIBLE NOTE

The convertible note issued was part of the consideration for the acquisition of a company holding as agreement for the sale and promotion of the media products together with the distributorship and sales agreement with the existing clients of certain vendors in 2001.

The convertible note in 2003 amounting to HK\$2,300,000 was redeemed during the period.

13. RESERVES

	Share Premium	Capital Reserve	Translation Reserve	Properties Revaluation Reserve	Retained Profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP						
At 1 January 2003	77,202	(35,034)	(194)	4,358	148,854	195,186
Profit for the year ended						
31 December 2003	-	-	-	-	12,061	12,061
2002 dividend paid	-	-	-	-	(1,792)	(1,792)
Translation of foreign subsidiaries and an associate	-	-	602	-	-	602
Premium on shares issued on conversion of convertible notes	30,519	-	-	-	-	30,519
Premium arising from placing of shares	6,080	-	-	-	-	6,080
Share issuing expenses	(576)	-	-	-	-	(576)
Realised on disposal of an associate	-	11,450	232	-	-	11,682
Effect of change in tax rate of deferred taxation	-	-	-	(70)	-	(70)
At 31 December 2003	113,225	(23,584)	640	4,288	159,123	253,692
Profit for the period ended						
30 June 2004	-	-	-	-	10,348	10,348
Translation of foreign subsidiaries	-	-	132	-	-	132
As at 30 June 2004	113,225	(23,584)	772	4,288	169,471	264,172

The capital reserve of the Group at 30 June 2004 amounted to HK\$23,584,000 (As at 31 December 2003: HK\$23,584,000), comprising the reserve arising on group reorganisation in 1994 of HK\$1,863,000 and the goodwill arising on acquisition of subsidiaries amounting to HK\$25,447,000 (As at 31 December 2003: HK\$25,447,000).

14. AMOUNT RECEIVABLE FROM A LEGAL CLAIM

In 1997, the Company entered into an agreement with a customer under which the Company was required to set up a software manufacturing fulfillment plant in Shanghai, the People's Republic of China and the customer was obliged, among other things, to place annual minimum orders to the Company for the five years ended 31 December 2002. Should the customer fail to place the minimum orders, the Company is entitled to claim for the shortfall. During the two years ended 31 December 1999, the orders from the customers did not meet the minimum orders stipulated in the agreement and the Company took action in 2000 to claim for the total shortfall under the agreement amounting to approximately US\$54 million.

The Tribunal has issued a Partial Award on the issue of liability on 18 July 2003. Pursuant to the Partial Award, the Tribunal dismissed the customer's counterclaims and ruled that the customer has acted in repudiatory breach of the contract. Thus at the forthcoming quantum hearing, it is a matter of assessing how much the customer has to pay the Company in terms of damages.

On 14 November 2003, the Tribunal issued a Partial Award on the issue of costs and interest in respect of the liability hearing. The Company was awarded interest in the sum of US\$70,648 on the outstanding invoices which the customer failed to settle.

The parties to the arbitration are now preparing for the quantum hearing which has been fixed to be heard by the Tribunal in January 2005 commencing on 17 January 2005 with three weeks reserved. Thereafter, it is anticipated that the Tribunal will be able to resolve the issue of quantum and the issue of the costs of the liability and quantum hearings respectively.

Up to 30 June 2004, all direct expenditure incurred for the claim of approximately HK\$72.9 million have been recognised in relation to the claim. As stated in the annual report 2003, the directors have sought the legal advice on this matter and consider the above expenses are fully recoverable from the relevant customer and accordingly an income of the same amount has been recognised in the current period and included as other receivables.

15. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	30 June 2004	31 December 2003	30 June 2004	31 December 2003
	Unaudited	Audited	Unaudited	Audited
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bills discounted with recourse	19,246	26,452	–	–
Guarantees given to bankers in respect of banking facilities granted to subsidiaries	–	–	364,880	372,259
	19,246	26,452	364,880	372,259

16. LEASE COMMITMENTS**The Group as lessee**

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

	THE GROUP	
	30 June 2004 Unaudited HK\$'000	31 December 2003 Audited HK\$'000
Within one year	4,749	4,551
In the second to fifth year inclusive	11,070	12,708
Over five years	3,676	4,655
	19,495	21,914

At 30 June 2004, the Company had no commitments under non-cancellable operating leases (As at 31 December 2003: Nil).

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average term of 3 (2003: 3) years and rentals are fixed for an average of 3 (2003: 3) years.

The Group as lessor

Rental income earned in respect of plant and machinery during the period was HK\$540,000 (2003: HK\$846,000). The plant and machinery are expected to generate rental yields of 7% (2003: 7%) on an ongoing basis. All of the plant and machinery leased originally have no committed lessees (2003: 2 years).

At the balance sheet date, the Group had contracted with lessees for the following future minimum lease payments:

	THE GROUP	
	30 June 2004 Unaudited HK\$'000	31 December 2003 Audited HK\$'000
Within one year	–	1,080
In the second to fifth year inclusive	–	90
	–	1,170

17. CAPITAL COMMITMENTS

At the balance sheet date, the Group and the Company did not have any significant capital commitments.

18. RETIREMENT AND PENSION PLANS

The Group has a Mandatory Provident Fund Scheme ("MPF Scheme") for all employees. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the MPF Scheme at rates specified in the rules of the MPF Scheme. The only obligation of the Group with respect of MPF Scheme is to make the required contributions under the MPF Scheme.

The retirement benefits scheme contributions arising from the MPF Scheme charged to the income statement represent contributions payable to the funds by the Group at rates specified in the rules of the MPF Scheme.

The employees of the Group's subsidiaries in other jurisdictions are members of state-managed retirement benefit schemes operated by the government of the jurisdictions. The subsidiaries are required to contribute a specified percentage of their payroll costs to the retirement benefits scheme. The only obligations of the Group with respect of the retirement benefit schemes is to make the specified contributions.

During the period, the Group made retirement benefit scheme contributions amounting to HK\$353,000 (2003: HK\$547,000).

19. RELATED PARTY TRANSACTIONS

The Group had the following significant transactions with related parties conducted on terms arrived at by reference to market prices during the period:

	THE GROUP	
	30 June 2004	31 December 2003
	Unaudited	Audited
	HK\$'000	HK\$'000
Rental payments to Ms. Chan Siu Chu	141	162
	141	162

Ms. Chan Siu Chu is the mother of Ms. Ho Yin King, Helena and Mr. Ho Fai Keung, Jacky.

The above related party transactions have been approved by the Independent Non-executive Directors.