

INTERIM REPORT 2004

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PERENNIAL INTERNATIONAL LIMITED

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mon Chung Hung (*Chairman*)
Koo Di An, Louise (*Deputy Chairman*)
Siu Yuk Shing, Marco
Li Man Wai
Mon Tiffany

NON-EXECUTIVE DIRECTORS

Lau Chun Kay
Cheng Kwok Kit, Edwin

COMPANY SECRETARY

Tang Chi Wai

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

PRINCIPAL PLACE OF BUSINESS

Units 2002-2006, 20/F
Greenfield Tower
Concordia Plaza
1 Science Museum Road
Tsimshatsui, Kowloon
Hong Kong

STOCK CODE

Stock Code on The Stock Exchange of
Hong Kong Limited: 725

SOLICITOR

IU, LAI & LI
20th Floor, Gloucester Tower
The Landmark
11 Pedder Street
Central, Hong Kong

PRINCIPAL BANKERS

Hang Seng Bank
83 Des Voeux Road
Central, Hong Kong

AUDITORS

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central, Hong Kong

**PRINCIPAL REGISTRARS AND
TRANSFER OFFICE**

The Bank of Bermuda Limited
6 Front Street
Hamilton HM11
Bermuda

BRANCH REGISTRARS

Hong Kong Registrars Limited
46th Floor
Hopewell Centre
183 Queen's Road East
Wan Chai, Hong Kong

PERENNIAL INTERNATIONAL LIMITED

Interim Report 2004

INTERIM RESULTS

The Board of Directors (the "Directors") of Perennial International Limited (the "Company") is pleased to present the interim report and the unaudited condensed consolidated accounts of the Company and its subsidiaries (the "Group") for the six months ended 30th June 2004 as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30th June 2004

		Unaudited	
		Six months ended 30th June	
		2004	2003
	Note	HK\$'000	HK\$'000
Turnover	2	145,950	107,588
Cost of sales		(115,948)	(79,293)
Gross profit		30,002	28,295
Other revenues	2	94	106
Distribution expenses		(3,953)	(2,960)
Administrative expenses		(18,743)	(19,948)
Other operating expenses		(1,200)	(805)
Operating profit	3	6,200	4,688
Finance costs	5	(843)	(658)
Profit before taxation		5,357	4,030
Taxation	6	2,565	290
Profit attributable to shareholders		7,922	4,320
Dividend	7	(1,990)	(1,990)
Earnings per share			
Basic	8	4.0 cents	2.1 cents
Diluted	8	N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30th June 2004

	Note	Unaudited 30th June 2004 HK\$'000	Audited 31st December 2003 HK\$'000
Non-current assets			
Fixed assets	9	120,316	112,357
Deposit paid for purchase of fixed asset		–	1,915
Investment securities		15	15
Deferred tax assets		1,926	1,477
		122,257	115,764
Current assets			
Inventories		35,821	30,591
Trade receivables	10	57,767	46,476
Other receivables, deposits and prepayments		3,529	1,576
Bank balances and cash		9,171	6,793
		106,288	85,436
Current liabilities			
Trade payables	11	31,570	26,050
Other payables and accruals		9,278	11,571
Trust receipt loans – secured		28,324	14,856
Obligations under hire purchase contracts	13	831	83
Taxation		1,066	2,462
Current portion of long-term bank loans – secured	13	3,134	1,203
		74,203	56,225
Net current assets		32,085	29,211
Total assets less current liabilities		154,342	144,975
Financed by:			
Share capital	12	19,896	19,896
Other reserves		31,730	31,730
Retained earnings			
Others		87,603	81,671
Proposed interim dividend	7	1,990	1,990
Shareholders' funds		141,219	135,287
Non-current liabilities			
Bank loans – secured	13	10,253	6,934
Obligations under hire purchase contracts	13	1,539	–
Deferred tax liabilities		1,331	2,754
		13,123	9,688
		154,342	144,975

PERENNIAL INTERNATIONAL LIMITED

Interim Report 2004

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June 2004

	2004	Unaudited
	HK\$'000	Six months ended 30th June
		As restated
		2003
		HK\$'000
Operating activities		
Net cash (outflow)/inflow generated from operations	(2,536)	2,061
Interest paid on trust receipt loans and overdrafts	(671)	(486)
Hong Kong profits tax paid	(703)	(587)
	<hr/>	<hr/>
Net cash (outflow)/inflow from operating activities	(3,910)	988
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Investing activities		
Purchase of fixed assets	(12,590)	(573)
Sale of fixed assets	28	-
Interest received	7	3
	<hr/>	<hr/>
Net cash outflow in investing activities	(12,555)	(570)
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Net cash (outflow)/inflow before financing	(16,465)	418
Financing activities		
New loan payable	6,000	-
Inception of hire purchase contracts	2,576	-
Repayment of bank loans	(750)	(1,325)
Repayment of capital element of hire purchase contracts	(289)	(202)
Interest element of hire purchase contracts	(34)	(9)
Interest paid of bank loans	(138)	(163)
Dividends paid	(1,990)	(1,990)
	<hr/>	<hr/>
Net cash inflow/(outflow) in financing activities	5,375	(3,689)
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Decrease in cash and cash equivalents	(11,090)	(3,271)
Cash and cash equivalents at 1st January	(8,063)	(10,126)
	<hr/>	<hr/>
Cash and cash equivalents at 30th June	(19,153)	(13,397)
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Analysis of the balances of cash and cash equivalents:		
Bank balances and cash	9,171	6,632
Short-term bank loan	-	(3,212)
Trust receipt loans	(28,324)	(16,817)
	<hr/>	<hr/>
	(19,153)	(13,397)
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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June 2004

	Unaudited Share capital <i>HK\$'000</i>	Unaudited Share premium <i>HK\$'000</i>	Unaudited Reserve arising on consolidation <i>HK\$'000</i>	Unaudited investment property revaluation reserve <i>HK\$'000</i>	Unaudited Land and buildings and investment property revaluation reserve <i>HK\$'000</i>	Unaudited Capital redemption <i>HK\$'000</i>	Unaudited Retained earnings <i>HK\$'000</i>	Unaudited Total <i>HK\$'000</i>
At 1st January 2003	19,896	15,885	11,808	1,286		104	71,922	120,901
Profit attributable to shareholders	-	-	-	-		-	4,320	4,320
2002 Final dividend paid	-	-	-	-		-	(1,990)	(1,990)
At 30th June 2003	<u>19,896</u>	<u>15,885</u>	<u>11,808</u>	<u>1,286</u>		<u>104</u>	<u>74,252</u>	<u>123,231</u>
Representing:-								
2003 interim dividend proposed							1,990	
Others							72,262	
Retained earnings as at 30th June 2003							<u>74,252</u>	
At 1st January 2004	19,896	15,885	11,808	3,933		104	83,661	135,287
Profit attributable to shareholders	-	-	-	-		-	7,922	7,922
2003 Final dividend paid	-	-	-	-		-	(1,990)	(1,990)
At 30th June 2004	<u>19,896</u>	<u>15,885</u>	<u>11,808</u>	<u>3,933</u>		<u>104</u>	<u>89,593</u>	<u>141,219</u>
Representing:-								
2004 interim dividend proposed							1,990	
Others							87,603	
Retained earnings as at 30th June 2004							<u>89,593</u>	

NOTES TO THE CONDENSED CONSOLIDATED ACCOUNTS

1. Basis of preparation and accounting policies

These unaudited condensed consolidated accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting", issued by the Hong Kong Society of Accountants ("HKSA").

These condensed accounts should be read in conjunction with the 2003 annual accounts.

The accounting policies and methods of computation used in the preparation of these condensed accounts are consistent with those adopted in the annual accounts for the year ended 31st December 2003.

2. Turnover, revenue and segment information

The Group is principally engaged in the manufacturing and trading of electric cable and wire products. Revenues recognised during the period are as follows:

	Unaudited Six months ended 30th June	
	2004	2003
	HK\$'000	HK\$'000
Turnover		
Sale of goods	145,950	107,588
Other revenues		
Gross rental income from investment property	87	103
Interest income	7	3
	<hr/>	<hr/>
	94	106
	<hr/>	<hr/>
Total revenues	146,044	107,694
	<hr/>	<hr/>

2. Turnover, revenue and segment information (continued)

An analysis of the Group's turnover and contribution to operating profit for the period by principal activities and markets is as follows:

Business segment

	Unaudited			Group
	Six months ended 30th June 2004			
	Manufacturing of cable and wire products	Trading of cable and wire products	Investment holdings	HK\$'000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	78,678	67,272	–	145,950
Segment results	16,451	13,551	–	30,002
Unallocated costs				(23,802)
Operating profit				6,200
Finance costs				(843)
Profit before taxation				5,357
Taxation				2,565
Profit attributable to shareholders				7,922
Segment assets	92,288	96,842	39,415	228,545
Unallocated assets	–	–	–	–
Total assets				228,545
Segment liabilities	30,239	17,575	1,381	49,195
Unallocated liabilities	–	–	–	38,131
Total liabilities				87,326
Capital expenditure	1,036	11,554	–	12,590
Depreciation and amortisation	2,411	1,475	512	4,398

PERENNIAL INTERNATIONAL LIMITED

Interim Report 2004

2. Turnover, revenue and segment information (continued)

Business segment (continued)

	Unaudited Six months ended 30th June 2003			Group
	Manufacturing of cable and wire products HK\$'000	Trading of cable and wire products HK\$'000	Investment holdings HK\$'000	HK\$'000
Turnover	<u>48,371</u>	<u>59,217</u>	<u>–</u>	<u>107,588</u>
Segment results	<u>14,122</u>	<u>14,173</u>	<u>–</u>	<u>28,295</u>
Unallocated costs				<u>(23,607)</u>
Operating profit				<u>4,688</u>
Finance costs				<u>(658)</u>
Profit before taxation				<u>4,030</u>
Taxation				<u>290</u>
Profit attributable to shareholders				<u>4,320</u>
Segment assets	74,847	77,352	39,778	191,977
Unallocated assets	–	–	–	<u>–</u>
Total assets				<u>191,977</u>
Segment liabilities	18,682	16,824	637	36,143
Unallocated liabilities	–	–	–	<u>32,603</u>
Total liabilities				<u>68,746</u>
Capital expenditure	524	48	–	572
Depreciation and amortisation	<u>2,682</u>	<u>955</u>	<u>618</u>	<u>4,255</u>

2. Turnover, revenue and segment information (continued)

Geographical segment

	Unaudited			
	Six months ended 30th June			
	Turnover	Segment	Total	Capital
	2004	results	assets	expenditure
HK\$'000	2004	2004	2004	
	HK\$'000	HK\$'000	HK\$'000	
Hong Kong	83,295	16,128	98,232	11,554
Mainland China	12,165	2,367	104,965	1,036
Other Asian countries	18,405	4,144	7,966	–
America	28,340	6,481	17,048	–
Europe	1,113	280	334	–
South Africa	2,632	602	–	–
	145,950	30,002	228,545	12,590

	Unaudited			
	Six months ended 30th June			
	Turnover	Segment	Total	Capital
	2003	results	assets	expenditure
HK\$'000	2003	2003	2003	
	HK\$'000	HK\$'000	HK\$'000	
Hong Kong	72,688	14,957	119,981	48
Mainland China	9,629	2,598	53,636	524
Other Asian countries	9,251	4,500	5,755	–
America	11,173	4,511	11,632	–
Europe	1,368	301	558	–
South Africa	3,479	1,428	415	–
	107,588	28,295	191,977	572

Sales are based on the country in which the customers are located. There are no sales between the geographical segments.

PERENNIAL INTERNATIONAL LIMITED

Interim Report 2004

3. Operating profit

Operating profit is stated after charging the following:

	Unaudited Six months ended 30th June	
	2004 HK\$'000	2003 HK\$'000
Amortisation and depreciation:		
Amortisation of leasehold land	388	354
Owned fixed assets other than hire purchase contracts	3,844	3,806
Fixed assets held under hire purchase contracts	166	95
Auditors' remuneration	60	86
Cost of inventories sold	96,082	63,149
Loss on disposal of fixed assets	205	-
Net exchange loss	813	419
Operating lease rentals in respect of land and buildings	149	170
Outgoings in respect of investment property	19	11
Reversal of provision for bad and doubtful debts	(31)	(6)
Staff costs (including directors' remuneration) (Note 4)	19,475	17,479

4. Staff costs (including directors' remuneration)

	Unaudited Six months ended 30th June	
	2004 HK\$'000	2003 HK\$'000
Wages and salaries	18,651	17,041
Termination benefits	-	10
Social security costs	527	176
Pension costs – contribution to MPF scheme	213	194
Other benefits	84	58
	19,475	17,479

5. Finance costs

	Unaudited Six months ended 30th June	
	2004 HK\$'000	2003 HK\$'000
Interest on bank loans and overdrafts		
Wholly repayable within five years	671	486
Not wholly repayable within five years	138	163
Interest element of hire purchase contracts	34	9
	843	658

6. Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profit for the period.

Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

	Unaudited Six months ended 30th June	
	2004	2003
	HK\$'000	HK\$'000
Hong Kong profits tax	130	286
Overseas taxation	207	-
Overprovided in prior years	(1,030)	-
Deferred taxation	(1,872)	(576)
	(2,565)	(290)

7. Dividend

	Unaudited Six months ended 30th June	
	2004	2003
	HK\$'000	HK\$'000
Interim, proposed, of HK\$0.01 (2003: HK\$0.01) per ordinary share	1,990	1,990

As a meeting held on 31st August 2004, the directors declared an interim dividend of HK\$0.01 per share for the year ending 31st December 2004. This proposed dividend is not reflected as a dividend payable in these condensed accounts, but will be reflected as an appropriation of retained earnings for the year ending 31st December 2004.

8. Earnings per share

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders for the six months ended 30th June 2004 of HK\$7,922,000 (30th June 2003: HK\$4,320,000) and the number of 198,958,000 (30th June 2003: 198,958,000) ordinary shares in issue during the period.

No diluted earnings per share is presented as there is no potential dilutive ordinary share during the period.

9. Fixed assets

	Unaudited Fixed assets HK\$'000
Opening net book amount as at 1st January 2004	112,357
Additions	12,590
Depreciation	(4,398)
Disposal	(233)
Closing net book amount as at 30th June 2004	120,316

PERENNIAL INTERNATIONAL LIMITED

Interim Report 2004

10. Trade receivables

At 30th June 2004, the ageing analysis of trade receivables was as follows:

	Unaudited 30th June 2004 HK\$'000	Audited 31st December 2003 HK\$'000
Current – 3 months	56,061	45,096
4 – 6 months	1,687	1,584
Over 7 months	438	259
	58,186	46,939
Provision	(419)	(463)
	57,767	46,476

Payment terms with customers are largely on credit with the exception of new customers, which are on cash on delivery basis. Invoices are normally payable within 60 to 90 days of issuance. Longer payment terms might be granted to those customers which have good payment history and have long-term business relationship with the Group.

11. Trade payables

At 30th June 2004, the ageing analysis of trade payables was as follows:

	Unaudited 30th June 2004 HK\$'000	Audited 31st December 2003 HK\$'000
Current – 3 months	30,410	24,882
4 – 6 months	888	1,067
Over 7 months	272	101
	31,570	26,050

12. Share capital

	Unaudited 30th June 2004 HK\$'000	Audited 31st December 2003 HK\$'000
<i>Authorised:</i>		
Ordinary shares of HK\$0.10 each	50,000	50,000
<i>Issued and fully paid:</i>		
Ordinary shares of HK\$0.10 each	19,896	19,896

13. Long-term liabilities

	Unaudited 30th June 2004 HK\$'000	Audited 31st December 2003 HK\$'000
Bank loans – secured	13,387	8,137
Obligations under hire purchase contracts	2,370	83
	15,757	8,220
Current portion of long-term liabilities	(3,965)	(1,286)
	11,792	6,934

The analysis of the above is as follows:

	Unaudited 30th June 2004 HK\$'000	Audited 31st December 2003 HK\$'000
Bank loans – secured		
Wholly repayable within five years	12,420	6,460
Not wholly repayable within five years	967	1,677
	13,387	8,137
Obligations under hire purchase contracts		
Wholly repayable within five years	2,370	83
	15,757	8,220
Current portion of long-term liabilities		
– bank loans	(3,134)	(1,203)
– hire purchase	(831)	(83)
	11,792	6,934

Bank loans are repayable in the following periods:

– Within one year	3,134	1,203
– In the second year	3,276	1,246
– In the third to fifth year	6,011	4,011
– After the fifth year	966	1,677
	13,387	8,137

PERENNIAL INTERNATIONAL LIMITED

Interim Report 2004

13. Long-term liabilities (continued)

Obligations under hire purchase contracts are repayable in the following periods:

	Unaudited 30th June 2004 HK\$'000	Audited 31st December 2003 HK\$'000
Within one year	933	84
In the second year	928	–
In the third to fifth year	683	–
	<hr/> 2,544	<hr/> 84
Future finance charges on hire purchase	(174)	(1)
	<hr/> 2,370	<hr/> 83
The present value of hire purchase contracts liabilities is as follows:		
Within one year	831	83
In the second year	870	–
In the third to fifth year	669	–
	<hr/> 2,370	<hr/> 83

14. Pledge of assets

At 30th June 2004, the Group's banking facilities amounting to approximately HK\$95,000,000 (31st December 2003: HK\$80,000,000) were secured by the following:

- (a) legal charges over certain land and buildings of the Group with a total net book value of HK\$35,582,000 (31st December 2003: HK\$36,000,000);
- (b) corporate guarantees given by the Company; and
- (c) a deed of guarantee executed by the Company amounting to HK\$54,000,000 (31st December 2003: HK\$39,000,000).

15. Commitments

(a) *Capital commitment*

As 30th June 2004, the Group had the following capital commitment:

	Unaudited 30th June 2004 HK\$'000	Audited 31st December 2003 HK\$'000
Contracted but not provided for	3,401	8,275

(b) *Commitments under operating leases*

At 30th June 2004, the Group had future aggregate minimum lease payments under non-cancelable operating leases as follows:

	Unaudited 30th June 2004 HK\$'000	Audited 31st December 2003 HK\$'000
Not later than one year	86	7
Later than one year and not later than five years	58	-
	144	7

16. Subsequence event

On 7th July 2004, a subsidiary of the Company ("Hirer") entered into a three years Hire Purchase Agreement with Hang Seng Finance Limited ("HS Finance") pursuant to which HS Finance had agreed to lease to the Hirer the Pleasure Boat at a rent of HK\$8,631,619. Major terms of the Hire Purchase Agreement are listed in the circular dispatched to shareholders on 10th August 2004.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is principally engaged in the following business activities: the production and sale of electric cable and wire products, namely AC power supply cords and wire harnesses, which are widely used as integral components of most electric and electronic products.

FINANCIAL REVIEW

RESULTS

Rising commodity prices posed a challenge for global business during the first half of 2004. Conflict in the Middle East continues to lift the price of oil and petroleum products. At the same time, rapid growth in China's economy has pushed up demand for copper and other precious metals. Companies manufacturing electrical cables and related equipment have felt the shock keenly, and Perennial is no exception.

Nevertheless, we are pleased to report that our interim results was positive and that our earnings was increased steadily in the third consecutive year running since 2001. Turnover for the Group increased by 36% to HK\$145,950,000 during the period under review (2003: HK\$107,588,000). Unaudited consolidated profit attributable to shareholders was HK\$7,922,000, up 83%. Earnings per share were 4 cents, an increase of 90% compared to the corresponding period in 2003. The Directors declared an interim dividend of HK\$1 cent per share (2003: HK\$1 cent) to members of the Company whose name appear on the register of members of the Company on 8th October 2004. The register of members of the Company will be closed from 7th October 2004 to 8th October 2004, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be deposited at the offices of the Company's Hong Kong branch registrars, Hong Kong Registrars Limited, Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:00 p.m. on 6th October 2004. The Board expects that the interim dividend declared will be paid on or about 21st October 2004.

We were able to achieve higher turnover through enhanced efficiency brought about by a series of cost-saving measures. For example, our Shenzhen factory has begun buying all of its power directly from the government at the stabilized rates since early this year, reducing substantially the sums spent on electricity for manufacturing operations. We have also prepared our factories to cope with China's increasingly frequent power shortages by equipping each facility with its own generator. As a result, our plants remain unaffected by the mainland's program of rotating power cuts.

In addition, we have protected our margins by focusing more on the production of premium products. We have also reduced our production cost through a strategy of further vertical integration, like making our own moulds, and even smaller equipment.

These and other measures, undertaken as part of a strategic marketing program over the past two years, have allowed us to realize a substantial increase in sales despite difficult market conditions, while maintaining our commitment to the highest standards of quality.

FINANCIAL REVIEW *(continued)***LIQUIDITY AND FINANCIAL RESOURCES**

As at 30th June 2004, the Group's total amount of bank deposits and cash was HK\$9,171,000. The consolidated indebtedness of the Group, including short-term debts of HK\$32,289,000, was HK\$44,081,000. All of the borrowings are denominated in Hong Kong dollars and bear interest rate at floating rates.

The amount of the Group's working capital was HK\$32,085,000 (31st December 2003: HK\$29,211,000). The current ratio was 1.43. The Group's trade receivables were HK\$57,767,000 representing 40% of the turnover of HK\$145,950,000.

CAPITAL STRUCTURE

The shareholders' equity of the Group was HK\$141,219,000, an increase of 4.4% over that of the last corresponding period. The gearing ratio, calculated by dividing total liabilities by shareholders' equity, was 62%.

PLEDGE OF ASSETS

As at 30th June 2004, the Group's banking facilities amounting to approximately HK\$95,000,000 (31st December 2003: HK\$80,000,000) were secured by legal charges over certain land and buildings of the Group with a total net book value of HK\$35,582,000 (31st December 2003: HK\$36,000,000), corporate guarantees given by the Company and a deed of guarantee executed by the Company amounting to approximately HK\$54,000,000 (31st December 2003: HK\$39,000,000).

EXCHANGE RATE CONTRACTS

The Group adopted a hedging policy to minimize the risk of fluctuations from exchange rates. As at 30 June 2004, the Group had outstanding foreign currency options amounting to approximately HK\$9,000,000.

BUSINESS REVIEW

Perennial posted strong sales in most business lines for the latest reporting period. Sales of wire harnesses reached 30%, while our business in power cords and cable wire continued to expand, accounting for 64% and 6% of sales respectively.

As a matter of strategic sales and marketing, we are investing in new products and technology that will allow us gradually to begin establishing ourselves as a player in the automotive sector. This strategy is driven largely by the rapid economic development in China, particularly the spectacular growth in the mainland's vehicle market over the past two years. We have made the appropriate investments in developing automation and expanding production facilities, and expect to have the necessary international certifications in place by early 2005.

BUSINESS REVIEW *(continued)*

Perennial has always been proud of the high standards we set for ourselves, and it is always gratified by being recognized by outside parties. Lately, such recognition has been abundant:

- Chinese Customs authorities acknowledged our unblemished record of regulatory compliance through its “Highest Compliance for an Enterprise” Award.
- In July, we received ISO 14000 certification in recognition of our environmental-friendly manufacturing practices, another reflection of Perennial’s commitment to good corporate citizenship. This represents the continuation of a trend that began last year when our partners, Sony and Ricoh, conferred “Green Partner” awards on our facilities.
- After intensive negotiations, Perennial signed an Advance Transfer Pricing Agreement with mainland tax authorities. This is both a reflection of Perennial’s commitment to good corporate governance and a means of averting potentially disruptive and expensive tax audits.
- Through sound financial management, we were able to obtain a refund of HK\$1.2 million from Hong Kong tax authorities for overpayment of taxes in previous years.

FUTURE PROSPECTS

Despite the difficulties presented by soaring energy and copper prices, we remain extremely confident about future business prospects. We are moving ahead with a program to further enhance cost effectiveness by optimizing automation at our factories. At the same time, we are systematically broadening our reach into international markets. We have recently added a regional manager in the United States to supervise Perennial’s expansion there, and will soon begin focusing on the further development of selected promising markets in Europe.

In a continued effort to expand our business beyond the current region of geographic focus, the Group has purchased a motor yacht as a tool for enhancing Perennial’s image and acquiring new business. It will be used to organize business gatherings and entertain existing customers and partners, as well as prospective customers overseas.

EMPLOYEES AND REMUNERATION POLICIES

As at 30th June 2004, the Group employed approximately 1,800 full time management, administrative and production staff in Hong Kong and the PRC. The Group follows market practice on remuneration packages. Employee’s remuneration is reviewed and determined by senior management annually depending on the employee’s performance, experience and industry practice. The Group invests in its human capital, besides providing on the job training for workers, the Group reimburses the staff for fees paid to attend pre-approved external business courses or seminars.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As 30th June 2004, the interests of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of the SFO or as notified to the Company were as follows:—

(a) Ordinary shares of HK\$0.10 each in the Company ("Shares")

Name	Number of Shares					Total interests as % of the relevant issued share capital
	Personal interests	Family interests	Corporate interests	Other interests	Total interests	
MON Chung Hung	2,000,000	–	140,760,000	–	142,760,000	71.75%
SIU Yuk Shing, Marco	300,000	–	–	–	300,000	0.15%
LAU Chun Kay	138,000	–	–	–	138,000	0.07%
LI Ho Cheong	118,000	–	–	–	118,000	0.06%
LI Man Wai	1,150,000	–	–	–	1,150,000	0.58%

The corporate interest of Mr MON Chung Hung is beneficially owned by Spector Holdings Limited, the entire issued share capital of which is owned as to 99.9% by Mr MON Chung Hung and as to the remaining 0.1% by Ms KOO Di An, Louise.

(b) Share options

On 23rd April 2003, ordinary resolutions were passed by the shareholders of the Company to adopt new share option scheme ("New Scheme") and to terminate the share option scheme adopted in 1996 ("1996 Scheme").

No option has been granted under the New Scheme nor the 1996 Scheme since the respective establishment thereof.

All the interests stated above represent long positions. As at 30th June 2004, no short positions were recorded in the Register of Directors' and Chief Executives' Interests and Short Positions required to be kept under section 352 of the SFO.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES *(continued)*

(b) Share options *(continued)*

Other than those disclosed above, at no time during the six months ended 30th June 2004 was the Company or any of its subsidiaries a party to any arrangements to enable the Directors or chief executives of the Company or any of their associates to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

Other than the interests of the Directors and chief executives of the Company as disclosed above, as at 30th June 2004, the register maintained by the Company pursuant to section 336 of the SFO recorded interests (as defined in the SFO) in the Company of the following corporation:—

Name	Number of Shares					Total interests as % of the relevant issued share capital
	Personal interests	Family interests	Corporate interests	Other interests	Total interests	
Spector Holdings Limited	140,760,000	—	—	—	140,760,000	70.75%

The share capital of Spector Holdings Limited is owned as to 99.9% by Mr MON Chung Hung and as to the remaining 0.1% by Ms KOO Di An, Louise.

All the interests stated above represent long positions. As at 30th June 2004, no short positions were recorded in the Register of Interests in Shares and Short Positions of substantial shareholders required to be kept under section 336 of the SFO.

Save as disclosed above, so far as the Directors of the Company are aware, there was no person who, as at 30th June 2004, directly or indirectly held or was beneficially interested in shares representing 5% or more of the issued share capital of the Company or any of its subsidiaries.

AUDIT COMMITTEE

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters, including a review of the unaudited condensed consolidated accounts for the six months ended 30th June 2004 with the Directors.

CORPORATE GOVERNANCE AND CORPORATE CITIZENSHIP

Perennial knows excellent corporate governance is critical to safeguarding our stakeholders' rights. We are proud to be ahead of the curve in this regard, having added a third independent non-executive director to our Board on 1st April 2003 even before it was required by the Hong Kong Stock Exchange. One of independent non-executive director of the Company resigned on 8th May 2004 and a new independent non-executive director is appointed on 1st September 2004.

Ongoing efforts to enhance corporate governance have earned plaudits from a number of organizations. Recently, Perennial Cable Limited, a Perennial subsidiary, was named first runner-up for the Hong Kong SME Accounting Management Excellence Award, bestowed by the Association of Chartered Certified Accountants.

Corporate citizenship is another area we take seriously, providing regular support to various charitable organizations. This includes the donation of two ambulances to hospitals in Shenzhen and Hunan Province, and regular contributions to a Hong Kong charity, Po Leung Kuk.

Being a good corporate citizen also means treating employees well. We provide regular training and development for promising employees. Last year, we began offering medical and 24-hour personal accident insurance to employees.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

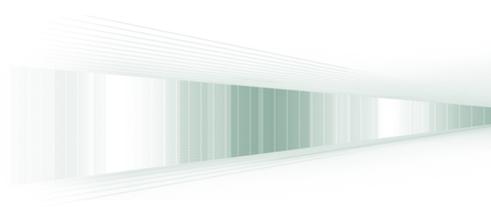
The Code of Best Practice (Appendix 14 of the Listing Rules) has been complied with by the Company throughout the period except that the Independent Non-Executive Directors are not appointed for a specific term as recommended in the Code of Best Practice. According to the Bye-laws of the Company, Independent Non-Executive Directors of the Company will retire by rotation and their appointments will be reviewed when they are due for re-election. In the opinion of the Directors, this meets the same objectives as the Code of Best Practice.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company has not redeemed any of its shares during the six months ended 30th June 2004. Neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's shares during the six months ended 30th June 2004.

PUBLICATION OF INFORMATION ON THE STOCK EXCHANGE'S WEBSITE

The information required by paragraphs 46(1) to 46(6) of Appendix 16 to the Listing Rules will be published on the website of The Stock Exchange of Hong Kong Limited on or before 15th September 2004.



VOTE OF THANKS

On behalf of the Board of Directors, my sincere thanks to our shareholders and customers for their continued support and to our employees for their hard work and dedication.

By order of the Board

MON Chung Hung

Chairman

Hong Kong, 31st August 2004

As at the date of this report, the Executive Directors of the Company are Mr Mon Chung Hung, Ms Koo Di An, Louise, Ms Li Man Wai, Ms Mon Tiffany and Mr Siu Yuk Shing, Marco and the Independent Non-Executive Directors of the Company are Mr Lau Chun Kay and Mr Cheng Kwok Kit, Edwin.