

JACKIN

JACKIN INTERNATIONAL HOLDINGS LIMITED

(輝影國際集團有限公司)*

(Stock Code 630) (股份代號 630)

(Incorporated in Bermuda with limited liability)

(於百慕達註冊成立之有限公司)

Interim Report **2005**



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MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS

For the six months ended 30 June 2005, the Group's revenue rose 8.5% to approximately HK\$190.2 million as compared with the revenue of HK\$175.3 million in the same period in 2004. Profit attributable to shareholders of the Company amounted to approximately HK\$12.3 million, representing an increase of 18.7% as compared with that of approximately HK\$10.3 million in the same period in 2004.

REVIEW OF OPERATIONS

During the period under review, computer media production and media products distribution business continued to provide steady income to the Group, while computer accessories products experienced substantial growth in sales. The satisfactory performance of this segment generated new income sources for the Group and improved its overall profitability.

COMPUTER MEDIA PRODUCTION

During the period under review, computer media production accounted for approximately 46.9% of the Group's total revenue. The People's Republic of China (the "PRC") and other Asian countries remained as the Group's major markets, representing 37.9% and 50.0% of total sales for computer media production. The Group has also successfully entered South Korea, a new market, during the review period.

With global demand for computer media products dwindling, the computer media production industry continued to consolidate, resulting in fewer suppliers throughout the world. As one of the major players in this sector, the Group was able to strengthen its position and continued to receive substantial orders from its long term customers.

Following the automation of second part of the production process in 2004, the Group successfully completed automation for the rest of the production during the period under review. As a result, the Group was able to reduce labour cost by 30% to 40%. In addition, since installation of own power generators in 2004, the shortage of electricity supply in the PRC no longer had any impact on the Group's production.

MANAGEMENT DISCUSSION AND ANALYSIS

COMPUTER ACCESSORIES PRODUCTION

The sales of computer accessories production increased substantially by HK\$20.1 million from approximately HK\$26.5 million to approximately HK\$46.6 million, which accounted for 24.5% of the Group's total revenue. Major markets include Europe, United States of America and Asia including Australia, representing 38.8%, 25.6% and 33.2% of total sales for computer accessories production respectively.

During the period under review, the Group achieved a big leap in its computer accessories production business. This is largely the result of the Group's strategy to expand its product mix and shift its focus to digital imaging products that promise higher profit margins.

In addition to devoting resources to research and development as well as to widening the product line of digital imaging products, the Group is also expanding its existing production facilities and setting up a new plant in Shenzhen, the PRC to increase production capacity to cater to increasing demand.

In view of forthcoming demand of digital imaging products, our inventories level of related recycled materials increased accordingly.

DISTRIBUTION OF MEDIA PRODUCTS

The distribution business segment recorded a revenue of approximately HK\$54.4 million, representing an increase of 4.4% as compared with the same period last year.

During the period under review, the Group was able to maintain growth in this segment despite keen competition experienced for the distribution of media products such as CD Recordable Disc, DVD Recordable Disc, etc.

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

ARBITRATION AWARD

In relation to the arbitration proceedings with a former customer, the quantum hearing completed in March 2005, and the final award was published on 30 July 2005. Damages and interest of US\$12,507,700 (approximately HK\$97,560,060) and US\$2,853,139 (approximately HK\$22,254,484) respectively have been awarded by the tribunal to a subsidiary of the Group (the "Subsidiary"). The final award provided for payment of such sums (together with the interest from the date of the final award at the prime rate of The Hongkong and Shanghai Banking Corporation Limited plus 0.5% compounded monthly until payment) to be made to the Subsidiary within 14 days upon receipt of the final award by the parties' lawyers, which took place on 1 August 2005. Until payment in full is made, the Subsidiary is entitled to take enforcement action against the customer for payment to be made in full.

The tribunal has not yet made an award in respect of the costs of the arbitration proceedings amounted to HK\$40.4 million (31 December 2004: HK\$40.4 million). The Subsidiary and the customer are now in the course of preparing their submissions in this regard.

PROSPECTS

As the computer media production industry continues to consolidate and the number of players declines, the Group expects to gain more orders from reputable clients who have continuous demand for blank information storage media products. The Group will also continue to expand its geographical reach to new markets such as Mainland China. Given the Group's established and cost-effective bases located in the PRC, the Group is confident that this business segment will remain as a reliable revenue stream.

For computer accessories production business, the Group has successfully expanded the business for digital imaging products and expects this segment to be the major growth driver in the future. We believe that, by the second half of this year, the total revenue of computer accessories production business will exceed that of the computer media production business. With the plant in Zhuhai, the PRC reaching full capacity, the Group is in the process of setting up a new plant in Shenzhen, the PRC that is scheduled to commence operation in the second half of the year. Leveraging the expansion in production capacity, the Group will be in a better position to cater to the increasing demand for digital imaging products.

MANAGEMENT DISCUSSION AND ANALYSIS

Meanwhile, the Group expects to achieve steady growth for its media product distribution business. The Group has obtained the distribution right for a new data media product and will be the sole distributor for such product starting at the end of this year. Besides, the Group expects to benefit from the appreciation of Renminbi as its distribution revenue is mainly generated in the PRC.

With its high quality products and well established customer base and distribution network, the Group is poised to grasp opportunities in the flourishing market as global economy continues to thrive, which will allow it to enrich its profit margins and achieve profitable returns for shareholders.

FINANCIAL REVIEW

Capital and debt structure

The Group continued to maintain a stable financial position. As at 30 June 2005, the Group's total net assets was approximately HK\$354.3 million (31 December 2004: HK\$318.8 million), representing approximately HK\$35.5 million increase compared with that of previous year, mainly attributable by profit attributable to shareholders of the Company and new shares issued during the period.

As at 30 June 2005, the Group's total borrowings and obligations under finance leases and hire purchase contracts increased by HK\$51.5 million to HK\$251.1 million (31 December 2004: HK\$199.6 million), of which HK\$234.0 million was payable within one year and HK\$17.1 million was payable after one year. According to the new accounting standards, HK\$84.6 million of the borrowings payable within one year was separately disclosed as discounted bills with recourse (31 December 2004: HK\$29.8 million disclosed as contingent liabilities and offset against trade debtors). Most of the bank borrowings and obligations under finance leases and hire purchase contracts are denominated in Hong Kong dollars and subject to floating interest rates. Hence the risk of currency exposure was minimal. The Group's total cash and bank balances amounted to approximately HK\$39.7 million (31 December 2004: approximately HK\$36.6 million), representing an increase of approximately HK\$3.1 million.

The Group's net debt to equity ratio was stated as 0.60 (31 December 2004: 0.51), which is expressed as a ratio of total borrowings and obligations under finance leases and hire purchase contracts after deducting total cash and bank balances over the total net assets.

MANAGEMENT DISCUSSION AND ANALYSIS

Working capital and liquidity

As at 30 June 2005, the Group continued to maintain a healthy working capital with the current ratio and quick ratio of 1.3 (31 December 2004: 1.3) and 1.1 (31 December 2004: 1.0) respectively as in the previous year. Inventory turnover increased to 72.5 days (31 December 2004: 56.0 days) due to the expansion of the Group's revenue especially in the computer accessories business segments. Debtor turnover improved to 59 days (31 December 2004: 77 days) which was mainly due to tightening credit control implemented during the review period.

Employees and remuneration policies

As at 30 June 2005, the number of employees of the Group was approximately 1,100. The remuneration packages of the Group's employees are mainly based on their performance and experience, taking into account the current industry practices. Remuneration packages of employees include salaries, insurance and medical cover, mandatory provident fund and share option scheme. Other employee benefits include educational allowance and discretionary bonuses.

Open Offer

On 3 December 2004, the Company announced a proposal to raise not less than approximately HK\$22.9 million, before expenses, by way of an Open Offer to its shareholders at the subscription price of HK\$0.10 per offer share on the basis of one offer share for every two existing shares held by the shareholders. The Open Offer was successfully completed on 12 January 2005, resulting in a total of 229,154,272 offer shares having been issued.

CORPORATE GOVERNANCE AND OTHER INFORMATION

DIRECTORS' INTERESTS IN SECURITIES OF THE COMPANY AND ASSOCIATED CORPORATION

(a) Shares

Directors' interests in shares, underlying shares and debentures

As at 30 June 2005, 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")) which have been notified to the Company pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any such director or chief executive was taken or deemed to have under such provisions 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 of Hong Kong Limited ("Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, 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	19,361,000	178,194,000	197,555,000	28.74%
Mr. Ho Fai Keung, Jacky	Beneficial Owner and Interest of Controlled Corporations	16,268,000	178,194,000	194,462,000	28.29%

Note: The 178,194,000 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.

CORPORATE GOVERNANCE AND OTHER INFORMATION

DIRECTORS' INTERESTS IN SECURITIES OF THE COMPANY AND ASSOCIATED CORPORATION (continued)

(b) Share Options

The following table discloses movements in the Company's share options during the six months ended 30 June 2005:

Name of director	Date of share option granted	Share option scheme category (Note 1)	Outstanding at beginning of the period	Granted during the period (Note 2)	Exercised	Outstanding at end of the period	Subscription price HK\$	Exercise period
					/Cancelled during the period			
Ms. Ho Yin King, Helena	24.12.1996	1997A 2005	3,750,000	-	-	3,750,000	1.0336	8.1.1997 - 7.1.2007
	25.1.2005		-	6,872,628	-	6,872,628	0.1580	25.1.2005 - 24.1.2015
Mr. Ho Fai Keung, Jacky	24.12.1996	1997A 2005	2,537,000	-	-	2,537,000	1.0336	8.1.1997 - 7.1.2007
	25.1.2005		-	6,872,628	-	6,872,628	0.1580	25.1.2005 - 24.1.2015
Mr. Low Nyap Heng	25.1.2005	2005	-	6,872,628	-	6,872,628	0.1580	25.1.2005 - 24.1.2015
Mr. Cheung Sze Ming	25.1.2005	2005	-	6,872,628	-	6,872,628	0.1580	25.1.2005 - 24.1.2015
Mr. Li Sau Hung, Eddy	25.1.2005	2005	-	2,291,542	-	2,291,542	0.1580	25.1.2005 - 24.1.2015
Mr. Leung Ka Kui, Johnny	25.1.2005	2005	-	2,291,542	-	2,291,542	0.1580	25.1.2005 - 24.1.2015
Mr. Chan Kam Kwan, Jason	25.1.2005	2005	-	2,291,542	-	2,291,542	0.1580	25.1.2005 - 24.1.2015
Total for directors			6,287,000	34,365,138	-	40,652,138		
Employees	24.12.1996	1997B	4,300,000	-	-	4,300,000	1.0336	24.1.1997 - 23.1.2007
	4.9.1999	1999	1,050,000	-	-	1,050,000	0.8832	4.9.1999 - 3.9.2009
	25.1.2005	2005	-	11,464,628	-	11,464,628	0.1580	25.1.2005 - 24.1.2015
Total for employees			5,350,000	11,464,628	-	16,814,628		
Percentage to total Company's shares in issue at end of the period								
Total under Old Scheme:								
- 1997A			6,287,000	-	-	6,287,000		0.91%
- 1997B			4,300,000	-	-	4,300,000		0.63%
- 1999			1,050,000	-	-	1,050,000		0.15%
			11,637,000	-	-	11,637,000		1.69%
Total under New Scheme								
- 2005			-	45,829,766	-	45,829,766		6.67%
			11,637,000	45,829,766	-	57,466,766		8.36%

CORPORATE GOVERNANCE AND OTHER INFORMATION

DIRECTORS' INTERESTS IN SECURITIES OF THE COMPANY AND ASSOCIATED CORPORATION (continued)

(b) *Share Options* (continued)

Notes

- (1) The 1997A, 1997B and 1999 options were granted under the scheme adopted on 8 November 1996 and terminated on 12 June 2004 (the "Old Scheme"). The 2005 options were granted under scheme adopted on 12 June 2004 (the "New Scheme").
- (2) The closing price of the Company's shares immediately before 25 January 2005, the date of grant, was HK0.1590.

(c) *Shares in associated corporation*

As at 30 June 2005, 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
Ms. Lo Suk King	4	–	4

CORPORATE GOVERNANCE AND OTHER INFORMATION

DIRECTORS' INTERESTS IN SECURITIES OF THE COMPANY AND ASSOCIATED CORPORATION (continued)

(c) *Shares in associated corporation* (continued)

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 2005 as follows:

<u>Name of subsidiary</u>	<u>Name of Director</u>	<u>Number of non-voting deferred shares held</u>
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 at 30 June 2005 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 period under review.

CORPORATE GOVERNANCE AND OTHER INFORMATION

SUBSTANTIAL SHAREHOLDERS

Interests and short positions of shareholders discloseable under the SFO

As at 30 June 2005, 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	178,194,000 (Note 1)	25.92%
Martin Currie China Hedge Fund Limited	Investment manager	50,772,000	7.39%
Chiu Kin Lok, Rocko	Beneficial owner and interest of controlled corporation	75,407,817 (Note 2)	10.97%

Note: 1. The 178,194,000 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 75,407,817 shares, of which entire shares were held by Art-Tech Enterprises Limited, a company in which Mr. Chiu has 100% interest.

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 2005.

COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions as set out in the Code of Corporate Governance Practices (the “CG Code”) contained in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2005, save for the following deviations:

CG Code Provision A.2.1

Under this code provision, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

Ms. Ho Yin King, Helena was the Chairman of the Board and the managing director of the Company (The Company regards the role of its managing director to be same as that of chief executive officer under the CG Code) during the six months ended 30 June 2005.

The Company considers that the extensive experience and marketing network established by Ms. Ho is critical for the business and future development of the Company. Hence, the Company believes that it is in the best interest of its shareholders that Ms. Ho will remain the Chairman and the managing director of the Company. However, the Company will review the current structure when and as it becomes appropriate in future.

CG Code Provision A.4.1

Under this code provision, the non-executive directors should be appointed for a specific term, subject to re-election.

Currently, the three independent non-executive directors are not appointed for a specific term but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Bye-laws of the Company, and their appointment will be reviewed when they are due for re-election. As such, the Board considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than this code provision and the CG Code Provision A.4.2.

COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE PRACTICES (continued)

CG Code Provision A.4.2

Under this code provision, every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

Under the provisions of the Bye-laws of the Company, the Chairman of the Board and/or the managing director of the Company are not subject to retirement by rotation or be taken into account in determining the number of Directors to retire each year.

For the same reason as stated in the above paragraph headed "CG Code Provision A.2.1", the Board concurs the view that the Chairman of the Board and the managing director of the Company need not be subject to retirement by rotation.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. Following specific enquiry by the Company, all Directors have confirmed that they have complied with the required standard as set out in the Model Code during the six months ended 30 June 2005.

REMUNERATION COMMITTEE

A Remuneration Committee has been established in accordance with the requirements of the CG Code. The Remuneration Committee comprises one executive director, Ms. Ho Yin King, Helena and three independent non-executive directors, Mr. Leung Ka Kui, Johnny (Chairman), Mr. Li Sau Hung, Eddy and Mr. Chan Kam Kwan, Jason.

AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive directors, Mr. Li Sau Hung, Eddy, Mr. Leung Ka Kui, Johnny and Mr. Chan Kam Kwan, Jason. The Audit Committee has reviewed the management accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including the review of the unaudited interim results for the six months ended 30 June 2005.

RESIGNATION OF DIRECTOR

The Board announces that Mr. Lai Kam Hung has resigned as an executive director of the Company with effect from 23 September 2005. Mr. Lai has confirmed that there is no disagreement between him and the Board and there is no matter relating to his resignation that needs to be brought to the attention of the shareholders of the Company. After his resignation, Mr. Lai will remain as a director and the legal representative of 珠海利滿豐源打印耗材有限公司 and 深圳利滿豐源打印耗材有限公司, both being wholly owned subsidiaries of the Company.

CHANGE OF AUDITORS

On 5 March 2005, Messrs. Grant Thornton were appointed as auditors of the Company to fill the casual vacancy following the resignation tendered by Messrs. Deloitte Touche Tohmatsu.

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

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

By Order of the Board

Ho Yin King, Helena
Chairman

Hong Kong, 23 September 2005

As at the date hereof, the executive directors are Ms. Ho Yin King, Helena, Mr. Ho Fai Keung, Jacky, Mr. Low Nyap Heng, Mr. Cheung Sze Ming and Ms. Lo Suk King 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	
		2005	2004
		Unaudited HK\$'000	Unaudited HK\$'000
Revenue	3	190,202	175,310
Cost of sales		(140,643)	(130,874)
Gross profit		49,559	44,436
Other operating income		1,045	1,759
Selling and distribution costs		(6,740)	(7,552)
Administrative expenses		(23,854)	(23,525)
Employee share based compensation		(2,480)	–
Profit from operations	4	17,530	15,118
Finance costs		(5,099)	(4,447)
Profit before taxation		12,431	10,671
Taxation charge	5	(146)	(323)
Profit for the period		12,285	10,348
Attributable to:			
Shareholders of the Company		12,285	10,348
Minority interest		–	–
		12,285	10,348
Dividends	6	–	–
Earnings per share (Restated)	7		
Basic		1.81 cents	2.03 cents

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	30 June 2005 Unaudited HK\$'000	31 December 2004 Audited HK\$'000
Non-current assets			
Property, plant and equipment		206,772	199,521
Goodwill		39,545	39,545
Other intangible assets		31,038	28,571
		277,355	267,637
Current assets			
Inventories		75,525	55,859
Tax recoverable		246	217
Debtors, deposits and prepayments	8	270,781	209,949
Bank deposit pledged		1,172	1,172
Bank balances and cash		38,572	35,416
		386,296	302,613
Current liabilities			
Trade and other payables	9	57,209	50,879
Discounted bills with recourse		84,560	–
Current portion of non-current liabilities		149,468	185,386
		291,237	236,265
Net current assets			
		95,059	66,348
Total assets less current liabilities			
		372,414	333,985
Non-current liabilities			
Deferred taxation		999	999
Bank and other borrowings		1,368	4,211
Obligations under finance leases and hire purchase contracts		15,736	9,977
		18,103	15,187
Net assets			
		354,311	318,798
Capital and reserves			
Share capital	10	68,746	45,830
Reserves		285,565	272,968
Equity attributable to shareholders of the Company		354,311	318,798
Minority interest		–	–
Total equity			
		354,311	318,798

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Attributable to equity holders of the parent

	Share capital	Share premium	Capital reserve	Translation reserve	Employee Properties share-based revaluation compensation		Retained profits	Total	Minority interest	Total
					reserve	reserve				
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2004	45,830	113,225	(23,584)	640	4,288	-	159,123	299,522	-	299,522
Exchange difference on translation of foreign operations	-	-	-	622	-	-	-	622	-	622
Profit for the year ended 31 December 2004	-	-	-	-	-	-	20,117	20,117	-	20,117
Release on disposal of a subsidiary	-	-	(1,463)	-	-	-	-	(1,463)	-	(1,463)
At 31 December 2004	45,830	113,225	(25,047)	1,262	4,288	-	179,240	318,798	-	318,798
Exchange difference on translation of foreign operations	-	-	-	(753)	-	-	-	(753)	-	(753)
Issue of shares pursuant to open offer	22,916	-	-	-	-	-	-	22,916	-	22,916
Profit for the period ended 30 June 2005	-	-	-	-	-	-	12,285	12,285	-	12,285
Recognition of equity-settled share based payments	-	-	-	-	-	2,480	-	2,480	-	2,480
Share issue expenses	-	(1,415)	-	-	-	-	-	(1,415)	-	(1,415)
	68,746	111,810	(25,047)	509	4,288	2,480	191,525	354,311	-	354,311

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 June	
	2005	2004
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Net cash (used in)/from operating activities	(48,138)	44,913
Net cash used in investing activities	(16,666)	(5,804)
Net cash from/(used in) financing activities	69,030	(37,977)
Net increase in cash and cash equivalents	4,226	1,132
Cash and cash equivalents at 1 January	13,287	22,625
Cash and cash equivalents at 30 June	17,513	23,757
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	38,572	47,807
Bank overdrafts	(21,059)	(24,050)
	17,513	23,757

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2005

1. BASIS OF PREPARATION

The 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 (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and with the Hong Kong Accounting Standard 34 (HKAS 34) "Interim Financial Reporting".

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain properties, which are measured at fair values or revalued amounts, as appropriate.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2004 except as described below.

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 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. The changes in presentation have been applied retrospectively. 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:

Business Combinations

In the current period, the Group has applied HKFRS 3, *Business Combinations*, which is effective for business combinations for which the agreement date is on or after 1 January 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2005

2. PRINCIPAL ACCOUNTING POLICIES (continued)

Goodwill

In previous periods, goodwill arising on acquisitions prior to 1 January 2001 was held in reserves, and goodwill arising on acquisitions after 1 January 2001 was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. Goodwill previously recognised in reserves continues to be held in reserves and will be transferred to the retained earnings of the Group at the time when the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired. With respect to goodwill previously capitalised on the balance sheet, the Group has discontinued amortising such goodwill from 1 January 2005 onwards and goodwill will be tested for impairment at least annually. Goodwill arising on acquisitions after 1 January 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current period. Comparative figures for 2004 have not been restated.

Share-based Payments

In the current period, the Group has applied HKFRS 2 *Share-based Payment* which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors' and employees' share options of the Company determined at the date of grant of the share options over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1 January 2005. In relation to share options granted before 1 January 2005, the Group has not applied HKFRS 2 to share options granted on or before 7 November 2002 and there had no share options granted after 7 November 2002 and vested before 1 January 2005.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2005

2. PRINCIPAL ACCOUNTING POLICIES (continued)

Financial Instruments

In the current period, the Group has applied HKAS 32 *Financial Instruments: Disclosure and Presentation* and HKAS 39 *Financial Instruments: Recognition and Measurement*. HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarised below:

(i) **Classification and measurement of financial assets and financial liabilities**

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

(ii) **Derecognition**

HKAS 39 provides more rigorous criteria for the derecognition of financial assets than the criteria applied in previous periods. Under HKAS 39, a financial asset is derecognised, when and only when, either the contractual rights to the asset's cash flows expire, or the asset is transferred and the transfer qualifies for derecognition in accordance with HKAS 39. The decision as to whether a transfer qualifies for derecognition is made by applying a combination of risks and rewards and control tests. The Group has applied the relevant transitional provisions and applied the revised accounting policy prospectively for transfers of financial assets on or after 1 January 2005. As a result, the Group's bill receivables with full recourse which were derecognised prior to 1 January 2005 have not been restated. As at 30 June 2005, the Group's bills receivables with full recourse have not been derecognised. Instead, the related borrowings of HK\$84,560,000 have been recognised on the balance sheet date. This change has had no material effect on the results for the current period.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2005

2. PRINCIPAL ACCOUNTING POLICIES (continued)

Owner-occupied Leasehold Interest in Land

In previous periods, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the revaluation model. In the current period, the Group has applied HKAS 17 Leases. Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively. Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment.

- (a) The effect of changes in the above accounting policies on the consolidated income statement are as follows:

	Effect of adopting		Total effect
	HKAS 32 & HKAS 39 HK\$'000	HKFRS 2 HK\$'000	on adoption of HKFRSs and HKASs HK\$'000
For the six months ended 30 June 2005 (unaudited)			
Increase in employee share based compensation	—	2,480	2,480
Total decrease in profit	—	2,480	2,480
Decrease in basic earnings per share (HK cents)	—	0.36	0.36

Change in accounting policies does not have material impact on the income statement for the six months ended 30 June 2004.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2005

2. PRINCIPAL ACCOUNTING POLICIES (continued)

Owner-occupied Leasehold Interest in Land (continued)

- (b) The effect of changes in the above accounting policies on the consolidated balance sheet are as follows:

	Effect of adopting		Total effect on adoption of HKFRSs and HKASs HK\$'000
	HKAS 32 & HKAS 39 HK\$'000	HKFRS 2 HK\$'000	
At 30 June 2005 (unaudited)			
Increase in bills receivable	84,560	–	84,560
Increase in discounted bills with recourse	84,560	–	84,560
Increase in employee share-based compensation reserve	–	2,480	2,480
Retained profits	–	(2,480)	(2,480)

Change in accounting policies does not have material impact on the consolidated balance sheet as at 1 January 2005.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2005

3. SEGMENT INFORMATION

	Six months ended 30 June			
	2005		2004	
	Unaudited		Unaudited	
	Revenue HK\$'000	Contribution to profit from operations HK\$'000	Revenue HK\$'000	Contribution to profit from operations HK\$'000
BY BUSINESS SEGMENTS				
Manufacturing & trading of media products	89,210	15,957	93,590	20,410
Manufacturing & trading of computer accessories	46,599	18,985	26,460	5,740
Distribution of media products	54,393	5,819	52,215	12,059
Others	–	–	3,045	434
	190,202	40,761	175,310	38,643
Unallocated corporate expenses		(23,231)		(23,525)
Profit from operations		17,530		15,118
Finance costs		(5,099)		(4,447)
Profit before taxation		12,431		10,671

BY GEOGRAPHICAL SEGMENTS

Asia		
– The People's Republic of China (including Hong Kong SAR)	89,345	110,351
– Other regions in Asia	60,003	31,974
Europe	22,836	23,613
North and South America	18,018	9,372
	190,202	175,310

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2005

4. PROFIT FROM OPERATIONS

	Six months ended 30 June	
	2005	2004
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Profit from operations has been arrived at after charging:		
Amortisation of goodwill	–	1,236
Amortisation of other intangible assets	1,962	–
Depreciation of property, plant and equipment	5,215	8,414
	<u>5,215</u>	<u>8,414</u>

5. TAXATION CHARGE

	Six months ended 30 June	
	2005	2004
	Unaudited	Unaudited
	HK\$'000	HK\$'000
The charge comprises:		
Profits tax for the period		
Hong Kong	–	172
Overseas	146	151
	<u>146</u>	<u>323</u>

Hong Kong Profits Tax is calculated at 17.5% (six months ended 30 June 2004: 17.5%) of the estimated assessable profit for the period. Overseas taxation is calculated at the rates prevailing in the respective jurisdiction.

6. DIVIDENDS

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2005 (six months ended 30 June 2004: Nil).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2005

7. EARNINGS PER SHARE

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

	30 June 2005 Unaudited HK\$'000	30 June 2004 Unaudited HK\$'000
Earnings for the purpose of basic earnings per share:		
– Profit attributable to shareholders of the Company	12,285	10,348
Number of shares:		
Weighted average number of shares for the purpose of basic earnings per share:		
– as originally stated	680,575,004	458,308,545
– adjustment for the effect of Open Offer in 2005 as set out in note 10	–	50,872,248
	680,575,004	509,180,793

No diluted earnings per share has been presented because the exercise prices of the Company's share options were higher than the average price for shares for the periods of six months ended 30 June 2005 and the six months ended 30 June 2004 respectively.

8. DEBTORS, DEPOSITS AND PREPAYMENTS

	30 June 2005 Unaudited HK\$'000	31 December 2004 Audited HK\$'000
Trade debtors	61,698	77,103
Bills receivable	84,560	–
Other debtors, deposits and prepayments	124,523	132,846
	270,781	209,949

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2005

8. DEBTORS, DEPOSITS AND PREPAYMENTS (continued)

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 2005 Unaudited HK\$'000	31 December 2004 Audited HK\$'000
1 to 3 months	51,584	63,316
4 to 6 months	4,848	5,050
7 to 9 months	1,640	1,992
10 to 12 months	93	125
Over 1 year	3,533	6,620
	61,698	77,103

9. TRADE AND OTHER PAYABLES

	30 June 2005 Unaudited HK\$'000	31 December 2004 Audited HK\$'000
Trade creditors	30,428	25,320
Other creditors and accruals	26,781	25,559
	57,209	50,879

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2005

9. TRADE AND OTHER PAYABLES (continued)

The aged analysis of the trade creditors is as follows:

	30 June 2005	31 December 2004
	Unaudited	Audited
	HK\$'000	HK\$'000
1 to 3 months	28,362	18,511
4 to 6 months	1,762	6,292
7 to 9 months	5	183
10 to 12 months	36	47
Over 1 year	263	287
	<u>30,428</u>	<u>25,320</u>

10. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Shares of HK\$0.10 each		
Authorised:		
At 1 January 2004, 1 January 2005 and 30 June 2005	<u>1,000,000,000</u>	<u>100,000</u>
Issued and fully paid:		
At 1 January 2004 and 1 January 2005	458,308,545	45,830
Issue of shares on 12 January 2005 (Note)	<u>229,154,272</u>	<u>22,916</u>
At 30 June 2005	<u>687,462,817</u>	<u>68,746</u>

Note:

On 3 December 2004, the Company announced a proposal to raise not less than approximately HK\$22.9 million, before expenses, by issuing not less than 229,154,272 new shares but not more than 234,972,772 new shares by way of an open offer to its shareholders whose names appear on the register of members of the Company on 23 December 2004 at the subscription price of HK\$0.10 per offer share on the basis of one offer share for every two existing shares held by the shareholders (the "Open Offer"). The Open Offer became unconditional on 10 January 2005 resulting in 229,154,272 offer shares having been issued on 12 January 2005.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2005

11. AMOUNT RECEIVABLE FROM A LEGAL CLAIM

In 1997, a subsidiary of the Company (the "Subsidiary") entered into an agreement with a customer under which the Subsidiary was required to set up a software manufacturing fulfilment plant in Shanghai, the People's Republic of China and the customer was obliged, among other things, to place annual minimum orders to the Subsidiary for the five years ended 31 December 2002. Should the fail to place the minimum orders, the Subsidiary is entitled to claim for the shortfall. During the two years ended 31 December 1999, the orders from the customer did not meet the minimum orders stipulated in the agreement and the customer had unilaterally terminated the agreement in March 2000. The Group took arbitration proceedings in 2000 to claim against the customer for the total shortfall under the agreement amounting to approximately US\$54 million or damages to be assessed.

The tribunal has issued a partial award on the issue of liability on 18 July 2003. Pursuant to the partial award, the tribunal ruled that the customer has wrongfully purported to terminate the agreement and acted in repudiatory breach of the agreement. It is therefore a matter for the quantum hearing to assess how much the customer has to pay to the Subsidiary in terms of damages.

The quantum hearing completed in March 2005, and the final award was published on 30 July 2005. Damages and interest of US\$12,507,700 (approximately HK\$97,560,060) and US\$2,853,139 (approximately HK\$22,254,484) respectively have been awarded by the tribunal to the Subsidiary. The final award provided for payment of such sums (together with interest from the date of the final award at the prime rate of The Hongkong and Shanghai Banking Corporation Limited plus 0.5% compounded monthly until payment) to be made to the Subsidiary within 14 days upon receipt of the final award by the parties' lawyers, which took place on 1 August 2005. Until payment in full is made, the Subsidiary is entitled to take enforcement action against the customer for payment to be made in full.

The tribunal has not yet made an award in respect of the costs of the arbitration proceedings amounted to HK\$40.4 million (31 December 2004: HK\$40.4 million). The Subsidiary and the customer are now in the course of preparing their submissions in this regard.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2005

11. AMOUNT RECEIVABLE FROM A LEGAL CLAIM (continued)

As at 30 June 2005, total direct expenditure incurred for the claim amounted to HK\$87.4 million (31 December 2004: HK\$87.4 million). These expenditures were recognised as other receivables and included under debtors, deposits and prepayments in the condensed consolidated balance sheet. The direct expenditure incurred comprised the costs of the arbitration proceedings, loss on disposal of an associate and other direct costs incurred in respect of the arbitration.

12. CAPITAL COMMITMENTS

	30 June 2005	31 December 2004
	Unaudited	Audited
	HK\$'000	HK\$'000
Contracted but not provided for	<u>1,318</u>	<u>7,214</u>

13. 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:

	Six months ended 30 June 2005	2004
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Rental payments to Ms. Chan Siu Chu	<u>141</u>	<u>141</u>

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

The above related party transaction has been approved by the Independent Non-executive Directors.