



# 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)

# 2006

## Interim Report

\* For identification purpose only

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# MANAGEMENT DISCUSSION AND ANALYSIS

## RESULTS

For the six months ended 30 June 2006, the Group's revenue was maintained at approximately HK\$167.6 million as compared with HK\$190.2 million in the same period in 2005. Profit attributable to shareholders of the Company amounted to approximately HK\$67.3 million, representing an increase of 448% as compared with approximately HK\$12.3 million in the same period in 2005. This included an one-off gain of approximately HK\$58.6 million from an arbitration award granted to the Subsidiary.

## REVIEW OF OPERATIONS

The Group's shift of focus from computer media products on to computer accessories production has paid off. The segment with enormous number of models in imaging products verses the narrow scope of media products has gradually become a major business of the Group. During the period under review, computer accessory products achieved substantial growth in sales and contribution, while the computer media production and media products distribution business continued to provide steady income to the Group.

## COMPUTER ACCESSORIES PRODUCTION

During the period under review, sales of computer accessories increased substantially by 34% from approximately HK\$46.6 million in the last corresponding period to approximately HK\$62.6 million, accounting for 37% of the Group's total revenue. The Group's major markets are the United States, Asia including Australia and Europe, and they accounted for 47%, 26% and 20% of the total sales of computer accessory products respectively.

Remanufactured/recycled toner cartridge was the key product that contributed to the accelerating growth of the Group's computer accessory business during the review period. The Group started developing the business in 2003. Over the past three years, we have gained invaluable knowledge and experience in the production of remanufactured toner cartridges. The production process, which is highly technical know-how and labor intensive, is running smoothly now. A key success factor for this business is the Group's ability to source used toner cartridges especially those models that are in scarce supply in the market. As a result, the Group needs to maintain higher inventory levels and working capital.

## MANAGEMENT DISCUSSION AND ANALYSIS

The Group has spent about 3 to 4 years to develop this green product segment. It started to collect used toner cartridges in 2002 and investigated on the viability of recycling them and their components. This recycling business takes time to grow, but we are confident that as the need to conserve natural resources mounts, the prices of such products will continue to increase. This product is thus expected to pose good profitability in the future for the Group.

The management sees strong potential in this environmental friendly product that promises higher margins and is not affected by fluctuation in supply and price of oil, electricity and raw materials. Enabled by advanced technology from the US and at the devoted efforts of the Group's research and development team, the Group has succeeded in developing over 180 different models of remanufactured toner cartridges.

Since the imaging product industry produces an enormous number of product models, competition is spread out and thus not as keen as media product industry. The Group's capability and leading position in the production of remanufactured toner cartridges have not gone unnoticed. In April 2006, The Recycler Trade Magazine ranked the Group's subsidiary, Afex International (HK) Ltd. ("Afex"), as the 8th largest remanufactured toner manufacturer in the world. Afex was one of the three manufacturers in China, including Hong Kong, that made it into the top 20. Toner manufacturers in the U.S.A. and Europe are shifting production to China, where only a limited number of enterprises are licensed to produce such recycling products.

To cater for increasing demand, the Group has continuously boosted its production capacity. Adding the existing plant in Zhuhai, the PRC, the Group's new plant in Shenzhen, which commenced operation in October 2005, has not only doubled the Group's production capacity, but has also allowed it to save substantially on logistics costs due to the convenient location.

### COMPUTER MEDIA PRODUCTION

During the period under review, sales of computer media production amounted to approximately HK\$54.9 million and accounted for approximately 33% of the Group's total revenue. The PRC and other Asian countries remained as the Group's major markets, bringing in 42% and 38% of the total sales of computer media production.

## MANAGEMENT DISCUSSION AND ANALYSIS

The Group continued to benefit from the consolidating computer media production industry. During the period under review, the largest manufacturer in the US ceased production and started to outsource to the Group. As a chief supplier in this sector, the Group enjoyed a strengthened position and continued to receive substantial orders from its long term customers. The Group expects orders to continue to increase in the next few years.

Since the Group completed automation of its production process in 2005, it has reduced labor cost by 50%. The full automation has helped to improve the segment's gross margin. In addition, having installed its own power generators in 2004, the Group is no longer affected by the power shortage in the PRC.

### DISTRIBUTION OF MEDIA PRODUCTS

The distribution business segment recorded a revenue of approximately HK\$50 million, representing a decrease of 8% as compared with the same period last year. Appreciation of the Renminbi improved the profit margin of this business.

During the period under review, benefiting from strong demand in the PRC, the segment maintained growth in the distribution of media products such as CD Recordable Disc, DVD Recordable Disc, floppy disk and etc.

The Group obtained the sole distribution right for a new data media product in the PRC and has started distributing the product since December 2005. To further expand the business, the Group will continue to strive to secure distributorship for new computer products, particularly digital imaging and consumable data recording products, from renowned brand names.

### ARBITRATION AWARD

By 8 June 2006, the Subsidiary received an aggregate sum of US\$15,360,839 (approximately HK\$118,775,743) as recovery in relation to the arbitration award made on 30 July 2005 in favor of the Subsidiary.

# MANAGEMENT DISCUSSION AND ANALYSIS

## PROSPECTS

To expand the computer accessories production business, the Group has gradually shifted its business focus from pure manufacturing to the recycling/environment protection industry. Remanufactured toner cartridge has become a key product in this segment and the major growth driver of the Group in the future. Apart from strengthening its existing markets in the US, Europe and Australia, the Group plans to distribute remanufactured toner cartridges in Asia, especially Hong Kong and Mainland China.

The Group will continue to strengthen research and development so as to widen the remanufactured color toner cartridge product line. Furthermore, the Group will explore opportunities in recycling other components.

The Group's new plant in Shenzhen enjoys faster work flow and lower logistics costs. It also has more stable technical staff turnover than the Zhuhai plant. With expanded production capacity, the Group is in a better position to cater to the increasing orders for its computer accessory products, especially remanufactured toner cartridges.

As the computer media production industry continues to consolidate, the number of suppliers has been declining globally. With a firm footing in the industry, the Group expects to gain more orders from reputable clients who have continuous demands for blank information storage media products. The Group has been distributing media products of a well-known Japanese brand in Mainland China.

For its media product distribution business, the Group expects to continue to achieve stable growth. Apart from securing the sole distribution right for a new data media product, which it started to distribute since December 2005, the Group is also the manufacturer of this new data media product, hence enjoys an optimum margin. In addition, the Group expects to continue to benefit from the appreciation of the Renminbi as its distribution revenue is mainly generated in the PRC.

Boasting high quality products and a well established customer base and distribution network, the Group is poised to capture opportunities in the thriving global market, and in turn enrich its profit margins and achieve profitable returns for its shareholders.

# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW

### ***Capital and debt structure***

As at 30 June 2006, the Group's total net assets was approximately HK\$279 million (31 December 2005: HK\$208 million), representing approximately HK\$70 million increase compared with that of previous year, mainly attributable by profit attributable to shareholders during the period including a gain of approximately HK\$58.6 million from an arbitration award granted to the Group's subsidiary.

As at 30 June 2006, the Group's total borrowings and obligations under finance leases decreased by HK\$36 million to HK\$201 million (31 December 2005: HK\$237 million), of which HK\$188 million was payable within one year and HK\$13 million was payable after one year. The majority of the total borrowings and obligations under finance leases were bank import and export loans that amounted to HK\$122 millions (31 December 2005: HK\$136 millions). Most of the banking borrowings and obligations under finance leases 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\$54 million (31 December 2005: approximately HK\$21 million), representing an increase of approximately HK\$33 million.

The Group's net debt to equity ratio was reduced to 0.5 (31 December 2005: 1.0), which is expressed as a ratio of total borrowings and obligations under finance leases after deducting cash and bank balances over the total net assets.

### ***Working capital and liquidation***

As at 30 June 2006, the Group's current ratio and quick ratio improved to 1.4 and 1.0 respectively (31 December 2005: 1.1 and 0.9). Inventory turnover increased to 108 days (31 December 2005: 81 days) due to the expansion of remanufactured toner business which require to increase inventory level for production during the period. Receivable turnover improved to 126 days (31 December 2005: 136 days), which was mainly due to tightening credit control implemented during the period.

# MANAGEMENT DISCUSSION AND ANALYSIS

## ***Employees and remuneration policies***

As at 30 June 2006, the number of employees of the Group was approximately 1,200. 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.

## ***Issuance and redemption of HK\$25 million unsecured notes and issuance of unlisted warrants***

On 24 March 2006, a wholly-owned subsidiary of the Company (the "Issuer") issued and certain independent third parties (the "Subscribers") subscribed for notes (the "Notes") in the aggregate principal of HK\$25 million. In accordance with the redemption provisions of the Notes, the Issuer had redeemed the Notes in full by about 20 June 2006.

On 24 March 2006, the Company issued, at zero consideration, to the Subscribers of unlisted warrants (the "Warrants") of the Company conferring rights entitling the holders to subscribe for up to HK\$17,872,920 in aggregate in cash for 137,484,000 new shares of HK\$0.10 each of the Company at an initial subscription price of HK\$0.13 per share, subject to adjustment. The Warrants are exercisable within a period of three years from 24 March 2006 to 23 March 2009.



# CORPORATE GOVERNANCE AND OTHER INFORMATION

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES OF THE COMPANY AND ASSOCIATED CORPORATION

### (a) Shares

#### ***Directors' and chief executives' interests in shares, underlying shares and debentures***

As at 30 June 2006, 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 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 issued share capital of the Company
		Personal interests	Corporate interests (Note)	Total	
Ms. Ho Yin King, Helena	Beneficial owner and Interest of controlled corporation	22,411,000	178,194,000	200,605,000	29.18%
Mr. Ho Fai Keung, Jacky	Beneficial owner and Interest of controlled corporation	20,538,000	178,194,000	198,732,000	28.91%

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' AND CHIEF EXECUTIVES' 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 2006:

Name of Director	Date of share option granted	Share option scheme category (Note)	Outstanding at beginning and end of the period	Subscription price HK\$	Exercise period
Ms. Ho Yin King, Helena	25.1.2005	2005	6,872,628	0.158	25.1.2005 – 24.1.2015
Mr. Ho Fai Keung, Jacky	25.1.2005	2005	6,872,628	0.158	25.1.2005 – 24.1.2015
Mr. Low Nyap Heng	25.1.2005	2005	6,872,628	0.158	25.1.2005 – 24.1.2015
Mr. Cheung Sze Ming	25.1.2005	2005	6,872,628	0.158	25.1.2005 – 24.1.2015
Mr. Li Sau Hung, Eddy	25.1.2005	2005	2,291,542	0.158	25.1.2005 – 24.1.2015
Mr. Leung Ka Kui, Johnny	25.1.2005	2005	2,291,542	0.158	25.1.2005 – 24.1.2015
Mr. Chan Kam Kwan, Jason	25.1.2005	2005	2,291,542	0.158	25.1.2005 – 24.1.2015
<b>Total for Directors</b>			<b>34,365,138</b>		
<b>Total for employees</b>	25.1.2005	2005	<b>11,464,628</b>	0.158	25.1.2005 – 24.1.2015
					<b>Percentage to total Company's shares in issue at end of the period</b>
<b>Total under New Scheme – 2005</b>			<b>45,829,766</b>		6.67%

Note: The 2005 options were granted under scheme adopted on 12 June 2004 (the "New Scheme").

## CORPORATE GOVERNANCE AND OTHER INFORMATION

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

#### (c) Unlisted warrants

The following table discloses movements in the Company's unlisted warrants issued to Subscribers during the six months ended 30 June 2006:

Date of warrant issued	Issued during the period (Note)	Outstanding at end of the period	Subscription price HK\$	Exercise period	Percentage to total Company's shares in issue at end of the period
24.3.2006	137,484,000	137,484,000	0.130	24.3.2006 – 23.3.2009	20.0%

Note: The closing price of the Company's shares immediately before 24 March 2006, the date of issue, was HK\$0.124.

The unlisted warrants were issued pursuant to the issuance of unsecured notes under note 12 to the condensed consolidated financial statements.

# CORPORATE GOVERNANCE AND OTHER INFORMATION

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

### (d) Shares in associated corporation

As at 30 June 2006, 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	Personal interests	Number of shares		Total
			Family interests	
Ms. Ho Yin King, Helena	4		4 (note 1)	8
Mr. Ho Fai Keung, Jacky	4		4 (note 2)	8
Ms. Lo Suk King	4		4 (note 2)	8

Notes:

1. The shares are held by the spouse of Ms. Ho Yin King, Helena.
2. Ms. Lo Suk King is the spouse of Mr. Ho Fai Keung, Jacky.

## CORPORATE GOVERNANCE AND OTHER INFORMATION

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

#### (d) 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 2006 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 2006 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 2006, 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 2006.

# CORPORATE GOVERNANCE AND OTHER INFORMATION

## COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions as set out in the Code on Corporate Governance Practices (the “CG Code”) contained in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2006, 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 2006.

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.

# CORPORATE GOVERNANCE AND OTHER INFORMATION

## 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 2006.

## 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), Dr. Li Sau Hung, Eddy and Mr. Chan Kam Kwan, Jason.

## AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive directors, Dr. 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 2006.

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

During the six months ended 30 June 2006, 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, 13 September 2006

*As at the date of this report, Ms. Ho Yin King, Helena, Mr. Ho Fai Keung, Jacky, Mr. Low Nyap Heng, Mr. Cheung Sze Ming and Ms. Lo Suk King are the executive directors of the Company and Dr. Li Sau Hung, Eddy, Mr. Leung Ka Kui, Johnny and Mr. Chan Kam Kwan, Jason are the independent non-executive directors of the Company.*



# CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Six months ended 30 June	
		2006 Unaudited HK\$'000	2005 Unaudited HK\$'000
Revenue	3	<b>167,597</b>	190,202
Cost of sales		<b>(115,493)</b>	(140,643)
Gross profit		<b>52,104</b>	49,559
Other income		<b>2,443</b>	1,045
Selling and distribution costs		<b>(10,800)</b>	(6,740)
Administrative expenses		<b>(21,747)</b>	(23,854)
Share-based payment		<b>(2,800)</b>	(2,480)
Profit from operations		<b>19,200</b>	17,530
Finance costs		<b>(10,463)</b>	(5,099)
Gain from a legal claim	4	<b>58,592</b>	–
Profit before taxation	5	<b>67,329</b>	12,431
Taxation charge	6	<b>(49)</b>	(146)
Profit for the period		<b>67,280</b>	12,285
Dividends	7	–	–
Earnings per share	8		
Basic		<b>9.79 cents</b>	1.81 cents

# CONDENSED CONSOLIDATED BALANCE SHEET

		<b>30 June</b>	31 December
		<b>2006</b>	2005
		<b>Unaudited</b>	Audited
	Notes	<b>HK\$'000</b>	HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment		<b>110,374</b>	119,917
Goodwill		<b>39,545</b>	39,545
Other intangible assets		<b>38,180</b>	33,837
		<b>188,099</b>	193,299
<b>Current assets</b>			
Inventories		<b>99,865</b>	73,193
Debtors, deposits and prepayments	9	<b>191,881</b>	237,373
Bank deposit pledged		<b>1,190</b>	1,190
Bank balances and cash		<b>53,063</b>	19,976
		<b>345,999</b>	331,732
<b>Current liabilities</b>			
Trade and other payables	10	<b>52,170</b>	78,018
Bank and other borrowings		<b>172,219</b>	197,486
Obligations under finance leases		<b>15,750</b>	16,605
Tax liabilities		<b>798</b>	713
		<b>240,937</b>	292,822
<b>Net current assets</b>			
		<b>105,062</b>	38,910
		<b>293,161</b>	232,209
<b>Capital and reserves</b>			
Share capital	11	<b>68,746</b>	68,746
Reserves		<b>210,091</b>	139,663
		<b>278,837</b>	208,409
<b>Non-current liabilities</b>			
Deferred taxation		<b>999</b>	999
Bank and other borrowings		<b>5,942</b>	11,444
Obligations under finance leases		<b>7,383</b>	11,357
		<b>14,324</b>	23,800
		<b>293,161</b>	232,209

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Capital reserve	Translation reserve	Property revaluation reserve	Share-based reserve	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2005	45,830	113,225	1,863	1,262	4,288	-	152,330	318,798
Surplus on revaluation of properties	-	-	-	-	59	-	-	59
Exchange loss on translation of foreign operations	-	-	-	(895)	-	-	-	(895)
Loss for the year	-	-	-	-	-	-	(135,219)	(135,219)
Issue of shares pursuant to an open offer	22,916	-	-	-	-	-	-	22,916
Share issue expenses	-	(1,650)	-	-	-	-	-	(1,650)
Recognition of equity-settled share-based payments	-	-	-	-	-	4,400	-	4,400
At 31 December 2005	68,746	111,575	1,863	367	4,347	4,400	17,111	208,409
Exchange gain on translation of foreign operations	-	-	-	348	-	-	-	348
Profit for the period	-	-	-	-	-	-	67,280	67,280
Recognition of equity-settled share-based payments	-	-	-	-	-	2,800	-	2,800
At 30 June 2006	68,746	111,575	1,863	715	4,347	7,200	84,391	278,837

# CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	<b>Six months ended 30 June</b>	
	<b>2006</b>	2005
	<b>Unaudited HK\$'000</b>	Unaudited HK\$'000
Net cash from/(used in) operating activities	<b>90,435</b>	(48,138)
Net cash used in investing activities	<b>(11,287)</b>	(16,666)
Net cash (used in)/from financing activities	<b>(46,061)</b>	90,089
Net increase in cash and cash equivalents	<b>33,087</b>	25,285
Cash and cash equivalents at 1 January	<b>19,976</b>	13,287
Cash and cash equivalents at 30 June	<b>53,063</b>	38,572
 <b>Analysis of the balances of cash and cash equivalents</b>		
Bank balances and cash	<b>53,063</b>	38,572

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2006

## 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 2005.

In the current interim period, the Group has applied, for the first time, a number of new or revised 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 (the "HKICPA") that are effective for accounting periods beginning on or after 31 December 2005 or 1 January 2006. The adoption of the new HKFRSs has had no material effect on how the results for the current or prior accounting periods are prepared and presented. Accordingly, no prior year adjustment has been required.

The Group has not early applied the following new Standards, Amendments or Interpretations that were issued by the HKICPA but not yet effective:

HKAS 1 (Amendment)	Capital Disclosures <sup>1</sup>
HKFRS 7	Financial Instruments: Disclosures <sup>1</sup>
HK(IFRIC)–Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies <sup>2</sup>
HK(IFRIC)–Int 8	Scope of HKFRS 2 <sup>3</sup>
HK(IFRIC)–Int 9	Reassessment of Embedded Derivative <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2007.

<sup>2</sup> Effective for annual periods beginning on or after 1 March 2006.

<sup>3</sup> Effective for annual periods beginning on or after 1 May 2006.

<sup>4</sup> Effective for annual periods beginning on or after 1 June 2006.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2006

## 2. PRINCIPAL ACCOUNTING POLICIES (continued)

The directors anticipate that the adoption of these Standards, Amendments and Interpretations in future periods will have no material impact on the results and the financial statements of the Group.

## 3. SEGMENT INFORMATION

	Six months ended 30 June			
	2006		2005	
	Unaudited		Unaudited	
	Revenue HK\$'000	Contribution to profit from operations HK\$'000	Revenue HK\$'000	Contribution to profit from operations HK\$'000
<b>BY BUSINESS SEGMENTS</b>				
Manufacturing & trading of media products	54,906	15,240	89,210	15,957
Manufacturing & trading of computer accessories	62,635	24,960	46,599	18,985
Distribution of media products	50,056	3,483	54,393	5,819
	<u>167,597</u>	<u>43,683</u>	<u>190,202</u>	<u>40,761</u>
Unallocated corporate expenses		(24,483)		(23,231)
Profit from operations		19,200		17,530
Finance costs		(10,463)		(5,099)
Gain from a legal claim		58,592		–
Profit before taxation		<u>67,329</u>		<u>12,431</u>
<b>BY GEOGRAPHICAL SEGMENTS</b>				
Asia				
– The People's Republic of China (including Hong Kong SAR)	76,730		89,345	
– Other regions in Asia	37,216		60,003	
Europe	14,807		22,836	
North and South America	38,844		18,018	
	<u>167,597</u>		<u>190,202</u>	

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2006

## 4. GAIN FROM A LEGAL CLAIM

Following the publication of the final arbitration award (the "Award") made on 30 July 2005 in respect of the arbitration proceedings between a subsidiary of the Company (the "Subsidiary") and a former customer, IBM Engineering Technology (Shanghai) Co. Ltd. ("IBMETC") and the enforcement decision made by the Shanghai First Intermediate People's Court (the "Court") on 7 April 2006, the Subsidiary had received an aggregate sum of US\$15,360,839 (approximately HK\$118,775,743) from the Court as recovery in relation to the Award by about 8 June 2006.

The gain from a legal claim amounted to approximately HK\$58.6 million represented the proceeds from the Award less direct losses recognised in respect of the arbitration proceedings.

The Arbitration Tribunal has not yet made an award in respect of the costs of the arbitration proceedings (the "Costs"). The Subsidiary and IBMETC are now in the course of preparing their submissions in this regard. The Directors are of the opinion that the Costs can be recoverable from IBMETC. Therefore, the Costs were recognised as other receivables and included under debtors, deposits and prepayments in the condensed consolidated balance sheet.

## 5. PROFIT BEFORE TAXATION

### Six months ended 30 June

	2006	2005
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Profit before taxation has been arrived at after charging:		
Amortisation of goodwill	–	–
Amortisation of other intangible assets	2,507	1,962
Depreciation of property, plant and equipment	10,449	5,215

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2006

## 6. TAXATION CHARGE

	<b>Six months ended 30 June</b>	
	<b>2006</b>	2005
	<b>Unaudited</b>	Unaudited
	<b>HK\$'000</b>	HK\$'000
<hr/>		
The charge comprises:		
Profits tax for the period		
Hong Kong	–	–
Overseas	<b>49</b>	146
	<hr/>	<hr/>
	<b>49</b>	146
	<hr/>	<hr/>

Hong Kong Profits Tax is calculated at 17.5% (six months ended 30 June 2005: 17.5%) of the estimated assessable profit for the period. Overseas taxation is calculated at the rates prevailing in the respective jurisdiction.

## 7. DIVIDENDS

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2006 (six months ended 30 June 2005: Nil).



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2006

## 8. EARNINGS PER SHARE

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

	<b>30 June 2006 Unaudited HK\$'000</b>	30 June 2005 Unaudited HK\$'000
<b>Earnings for the purpose of basic earnings per share:</b>		
– Profit attributable to shareholders of the Company	<b>67,280</b>	12,285
<b>Number of shares:</b>		
Weighted average number of shares for the purpose of basic earnings per share	<b>687,462,817</b>	680,575,004

No diluted earnings per share has been presented because the exercise prices of the Company's share options and unlisted warrants were higher than the average price for shares for the periods of six months ended 30 June 2006 and the six months ended 30 June 2005 respectively.

## 9. DEBTORS, DEPOSITS AND PREPAYMENTS

	<b>30 June 2006 Unaudited HK\$'000</b>	31 December 2005 Audited HK\$'000
Trade debtors	<b>116,050</b>	122,680
Other debtors, deposits and prepayments	<b>75,831</b>	114,693
	<b>191,881</b>	237,373

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2006

## 9. 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:

	<b>30 June 2006 Unaudited HK\$'000</b>	31 December 2005 Audited HK\$'000
1 to 3 months	<b>84,456</b>	88,568
4 to 6 months	<b>10,128</b>	12,500
7 to 9 months	<b>9,295</b>	725
10 to 12 months	<b>2,427</b>	3,745
Over 1 year	<b>9,744</b>	17,142
	<b><u>116,050</u></b>	<u>122,680</u>

## 10. TRADE AND OTHER PAYABLES

	<b>30 June 2006 Unaudited HK\$'000</b>	31 December 2005 Audited HK\$'000
Trade creditors	<b>32,830</b>	41,139
Other creditors and accruals	<b>19,340</b>	36,879
	<b><u>52,170</u></b>	<u>78,018</u>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2006

## 10. TRADE AND OTHER PAYABLES (continued)

The aged analysis of the trade creditors is as follows:

	<b>30 June 2006 Unaudited HK\$'000</b>	31 December 2005 Audited HK\$'000
1 to 3 months	<b>27,212</b>	33,297
4 to 6 months	<b>5,175</b>	4,253
7 to 9 months	<b>91</b>	472
10 to 12 months	<b>46</b>	97
Over 1 year	<b>306</b>	3,020
	<b><u>32,830</u></b>	<u>41,139</u>

## 11. SHARE CAPITAL

	<b>Number of shares</b>	<b>Amount HK\$'000</b>
Shares of HK\$0.10 each		
Authorised:		
At 1 January 2005, 1 January 2006 and 30 June 2006	<u>1,000,000,000</u>	<u>100,000</u>
Issued and fully paid:		
At 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 31 December 2005 and 30 June 2006	<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 2006

## 12. ISSUANCE AND REDEMPTION OF HK\$25 MILLION UNSECURED NOTES AND ISSUANCE OF UNLISTED WARRANTS

Pursuant to the subscription agreements ("Subscription Agreements") entered into between a wholly-owned subsidiary of the Company (the "Issuer") and certain independent third parties (the "Subscribers") on 28 December 2005, the Issuer issued, and the Subscribers subscribed for, notes (the "Notes") in the aggregate principal of HK\$25 million on 24 March 2006. The Notes are unsecured and carry interest at 10% per annum. As stipulated in the Subscription Agreements and the supplementary amendments to the Subscription Agreements, upon the receipt of the proceeds from the Award by the Group but up to the aggregate principal amount of the Notes outstanding together with interest thereon from time to time, the Issuer shall within 30 days redeem the Notes. In accordance with such redemption provisions of the Notes, the Issuer had redeemed the Notes in full by about 20 June 2006.

On 24 March 2006, pursuant to the Subscription Agreements, the Company issued, at zero consideration, to the Subscribers of unlisted warrants (the "Warrants") of the Company conferring rights entitling the holders to subscribe for up to HK\$17,872,920 in aggregate in cash for 137,484,000 new shares of HK\$0.10 each of the Company at an initial subscription price of HK\$0.13 per share, subject to adjustment. The Warrants are exercisable within a period of three years from 24 March 2006 to 23 March 2009.

## 13. CAPITAL COMMITMENTS

	<b>30 June 2006 Unaudited HK\$'000</b>	31 December 2005 Audited HK\$'000
Contracted but not provided for	<u>          -</u>	<u>      1,318</u>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2006

## 14. 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:

	<b>Six months ended 30 June</b>	
	<b>2006</b>	2005
	<b>Unaudited</b>	Unaudited
	<b>HK\$'000</b>	HK\$'000
Rental payments to Ms. Chan Siu Chu	<b>141</b>	141

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.