

JESSICA

旭茉

JESSICA PUBLICATIONS LIMITED
(Incorporated in the Cayman Islands with limited liability)

ANNUAL REPORT 2002



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This report, for which the directors of Jessica Publications Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with The Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The directors of the Company, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Ng Hung Sang, Robert (*Chairman*)

Ms. Ng, Jessica Yuk Mui (*Chief Executive Officer*)

Ms. Foo Kit Tak

Ms. Cheung Mei Yu

Independent Non-executive Directors

Mr. So, George Siu Ming

Ms. Pong Oi Lan, Scarlett

COMPLIANCE OFFICER

Ms. Ng, Jessica Yuk Mui

COMPANY SECRETARY & QUALIFIED ACCOUNTANT

Ms. Chan Kam Yin AHKSA, ACCA

AUTHORISED REPRESENTATIVES

Ms. Ng, Jessica Yuk Mui

Ms. Chan Kam Yin

AUDIT COMMITTEE

Mr. So, George Siu Ming (*Committee Chairman*)

Ms. Pong Oi Lan, Scarlett

LEGAL ADVISERS

As to Hong Kong Law

Preston Gates Ellis

As to Cayman Islands Law

Maples and Calder

AUDITORS

Deloitte Touche Tohmatsu

CONTINUING SPONSOR

MasterLink Securities (Hong Kong) Corporation Limited

PRINCIPAL BANKER

Liu Chong Hing Bank Limited

24 Des Voeux Road Central

Hong Kong

REGISTERED OFFICE

The Offices of M & C Corporate Services Limited

P.O. Box 309

George Town

Grand Cayman

Cayman Islands

British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Unit C, 3rd Floor

Wah Shing Centre

5 Fung Yip Street

Chai Wan

Hong Kong

SHARE REGISTRAR AND TRANSFER OFFICE

Standard Registrars Limited

Ground Floor

Bank of East Asia Harbour View Centre

56 Gloucester Road

Wanchai

Hong Kong

STOCK CODE

8137

WEBSITES FOR THE GROUP'S MAGAZINES

www.jessicahk.com

www.lisahk.com

Chairman's Statement

I am pleased to report the activities of the Company and its subsidiaries (collectively the "Group") for the year ended 31st December, 2002.

The Group recorded turnover of approximately HK\$27.6 million, a 37.8% growth on the previous year, for the year ended 31st December, 2002. Loss from operations was approximately HK\$2.0 million, as compared with approximately HK\$5.7 million last year. The decrease in operating loss was due to the turnaround and tremendous growth in advertising revenues from "旭茉 JESSICA" magazine, the previous year 2001, being a year of investment of the flagship title.

BUSINESS REVIEW AND STRATEGY

During the year, the Group developed new strategies in both circulation and editorial direction of the magazines, further strengthening their positions in the market, as well as the value of the brands. "旭茉 JESSICA" magazine continues to be the most favoured women's magazine in Hong Kong, with no. 1 circulation in terms of women's glossy magazines. "味道 LISA" magazine is a unique title on its own in the market, serving the needs of women who enjoy family and home life. Circulation for "味道 LISA" magazine grew significantly, through opening new distribution channels.

We have great confidence that these titles will continue to grow in terms of circulation and advertising revenue, as the increasing quality of the magazine contributes to the brand value of each title.

The Group is currently preparing for the launch of "JESSICACODE" magazine, as the Group extends its flagship brand "旭茉 JESSICA" to further serve the needs of women readers in Hong Kong. "JESSICACODE" magazine is a mass circulation women's glossy magazine targeting readers between the ages of 18 to 35+, with a fun-loving and entertaining approach to fashion and beauty. The first issue will be launched in April 2003. The Directors and management of the Company have confidence that this will be a successful extension of the "旭茉 JESSICA" brand.

PROSPECTS

It is expected the Group's results will improve in the year 2003, as more advertisers begin to recognize the value of the brands of the Group's magazines, and more creative ideas are pitched to advertisers to further expand our business both in print, and all levels of communications, as well as to expanding into new market segments and the PRC. The Group will continue to strengthen its human resources in order to achieve this.

The Group shall continue to build its brand values, and expand the business into the Greater China region, by exploring different methods of entering these markets, in order to build strong regional brands.

The Directors and management of the Company are highly positive about the future prospects of the Company. We will continue to seek opportunities for brand extension and product extension to bring satisfactory returns to shareholders.

Chairman's Statement (Cont'd)

APPRECIATION

On behalf of the Board, I wish to express my gratitude to our customers and shareholders for their continued support and all our staff members for their hard work and dedicated service.

Ng Hung Sang, Robert

Chairman

Hong Kong Special Administrative Region of the People's Republic of China

21st March, 2003

Management Discussion and Analysis

OPERATION REVIEW

The Group made much progress in 2002, in expanding its marketing channels for its magazines, as well as growing its advertising revenues. The Group has aggressively recruited new staff both at middle and senior management levels, to strengthen overall operations and develop new businesses.

“旭茉 JESSICA” magazine

Total revenue for “旭茉 JESSICA” magazine was approximately HK\$19.7 million, with significant growth on the year 2001 (HK\$11.2 million), both from circulation and advertising revenues.

“旭茉 JESSICA” magazine maintains its leading position in the women’s glossy magazine market, and continues to be the exclusive magazine for Hang Seng Bank’s “Femina” account holders. The magazine was introduced to “Wellcome” supermarket, in a joint promotion campaign, to tap into the mass market, and develop a new channel of circulation reach and revenue. During the year, “旭茉 JESSICA” magazine hosted several events, including the second “Most Successful Women Award” for the celebration of its second anniversary, a mini-concert in July for its readers, as well as several other marketing events for advertisers. A “J Club” loyalty membership program was introduced in March 2002 to enhance reader/magazine relationship and to build the brand awareness of “旭茉 JESSICA”. The magazine introduced new sections to further differentiate itself from other women’s glossy publications, and fortify its position as the magazine for professional women and executives in Hong Kong, for “The Woman in You and Me”.

“味道 LISA” magazine

Total revenue for “味道 LISA” magazine was approximately HK\$7.9 million, as compared to HK\$8.8 million last year. Aggressive pricing strategies and a decline in advertising revenues, led to the reduction of the total revenue in 2002.

However, the year 2002 saw pioneering developments for “味道 Lisa” magazine. The magazine partnered up with “Wellcome” supermarket, in a joint promotion campaign, which was held throughout Wellcome supermarket stores. Through this campaign, “味道 LISA” magazine has been able to reach a new group of readers, and raise public awareness of the title, through the magazine itself, and through the in-store promotions of “Wellcome” supermarket and newspaper advertising. The magazine has seen significant growth in its circulation reach.

LIQUIDITY AND FINANCIAL RESOURCES

During the year ended 31st December, 2002, the Group’s operation was mainly financed by the net proceeds of the placing of shares in January 2002 (the “Placing”) and the internal financial resources of the Group.

As at 31st December, 2002, the Group had net current assets of approximately HK\$4.3 million (31st December, 2001: net current liabilities of HK\$2.5 million). The current assets comprised bank balances and cash of approximately HK\$7.3 million, trade and other receivables of approximately HK\$6.2 million. The current liabilities comprised trade payables, accruals and other payables of approximately HK\$8.5 million and receipts in advance of approximately HK\$0.7 million.

Management Discussion and Analysis (Cont'd)

As at 31st December, 2002, the Group had aggregate banking facilities granted under corporate guarantee by the Company in respect of revolving term loan of HK\$1 million, all of which had not been utilized. Therefore, the gearing ratio of the Group, which is measured by bank borrowings net of cash and bank balance to shareholders' equity, has remained zero.

As at 31st December, 2002 (i) the Group had no significant exposure to fluctuations in exchange rates and any related hedges; (ii) the Group had no charges on its assets; (iii) the Group had no significant investment held, and (iv) the Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies during the year.

The Board is of the opinion that the Group has sufficient working capital for its present requirements. To the extent that the Group's cash resources are not immediately required for its ongoing operating and development requirements, such amounts are placed on time deposit with banks in Hong Kong.

SIGNIFICANT INVESTMENT PLANS

As at 31st December, 2002, the Group did not have any significant investment plans, except the plans set out in the section heading "Statement of Business Objectives" in the prospectus of the Company dated 31st December, 2001 (the "Prospectus").

CONTINGENT LIABILITIES

As at 31st December, 2002, the Group and the Company had the following contingent liabilities:

1. On 30th June, 2001, three related companies waived certain balances due to them by the Group amounting to approximately HK\$7,611,000 at no consideration (the "Waiver"). As advised by the Group's legal counsel, in the event of winding up of any one of these related companies by reason of insolvency or the Waiver is ordered by courts or other competent authorities to be restored to the related companies, the Group may be required to compensate these related companies. In the opinion of Directors, the risk of winding up of these related companies by reason of insolvency or restoring the balances to these related companies is remote, and, accordingly, it is not probable that the Group will compensate those related companies. No provision has been made in the financial statements with respect to such compensation. In addition, in the event that the Group incurs any liability as a result of the Waiver, such liability would fall within the indemnity given by Mr. Ng Hung Sang, Robert, Parkfield Holdings Limited ("Parkfield"), Fung Shing Group Limited ("Fung Shing"), Ronastar Investments Limited ("Ronastar"), Earntrade Investments Limited ("Earntrade") and Bannock Investment Limited ("Bannock"), shareholders of the Company, in favour of the Group.
2. As at 31st December, 2002, the Company had provided a corporate guarantee to a bank to secure a bank facility of HK\$1 million (2001: HK\$1 million) granted to a subsidiary, which remained unused as at 31st December, 2002.

Management Discussion and Analysis (Cont'd)

EMPLOYEES

As at 31st December, 2002, the total number of employees of the Group was 34 (31st December, 2001: 33). Employees' cost (including directors' emoluments) amounted to approximately HK\$6.3 million for the year (2001: HK\$6.2 million).

The Group considers its employees as its most valuable asset. In addition to salary, other fringe benefits such as medical subsidies, life insurance, provident fund and subsidised training programmes are offered to all employees of the Group. Performance of the employees is normally reviewed on an annual basis with adjustment compatible to the market. Individual employees may also receive a discretionary bonus at the end of each year based on performance. Share options have also been granted to certain employees of the Group.

PROSPECTS

The outlook for 2003 remains challenging for Hong Kong. The effect of the latest budget tax increases has yet to be felt, especially on the consumption power of the middle-class income group. We believe however, the booming mainland economy and the upsurge in mainland visitor arrivals will continue to support the local economy during our economic reforms.

On the positive side, we are confident that the Group's results will improve in the year 2003, as more advertisers begin to recognize the value of the Group's magazines, and more creative ideas are pitched to advertisers to further expand our business. The Group shall continue to build its brand values, and expand the business into the Greater China region, by exploring different methods of entering these markets, in order to build strong regional brands. The Group has recently contracted to sell contents to a Shanghai publication company.

The launch of "JESSICACODE" magazine in April 2003 will serve both objectives of broadening our product range and enable us to achieve further economy of scale. We will increase co-operation with advertisers through customised marketing, promotions and sponsorship programs to increase revenue and enhance our brand name. We will also expand our customer base through aggressive marketing efforts.

The management will continue to focus on revenue building and reducing operating expenses. We will continue to seek opportunities for brand extension and product extension to bring satisfactory returns to shareholders.

Comparison of Business Objectives with Actual Business Progress

The following is a summary of the actual business progress of the Group in comparison with the business objectives set out in the Prospectus:

Business objectives for the six months ended 31st December, 2002 as stated in the Prospectus

Enrich contents of the Group's magazines

Continue to revamp content and flow of each magazine of the Group bi-annually

Continue to enhance existing content through strengthening of the Group's editorial team by internal training of its staff to enhance their knowledge in fashion trends and the economy

Conduct readers' meeting to learn of the preferences of the readers and stimulate reader interaction

Increase advertising income

Continue to expand advertising customer base and widen the range of advertising product categories by offering cross-magazines advertising package

Co-organise anniversary events for "旭茉 JESSICA" magazine with advertisers

Actual Business Progress

Ongoing. Continued to introduce new columns and ideas into both "旭茉 JESSICA" and "味道 LISA" magazines.

"味道 LISA" magazine underwent extensive revamping and repositioning as a magazine for the family women, with change in editorial flow and content.

Editors of the Group attended international events to broaden their perspectives and experiences.

Conducted readers focus meetings to assess customers' preference and improve the magazines.

Readership surveys were commissioned, for a better understanding of readers' profiles and needs.

Continued to expand advertising customer base by developing customized marketing, promotions and sponsorship programs.

"旭茉 Jessica" magazine held the second "Most Successful Women Award" for the celebration of its second anniversary and also held its first mini-concert for readers, and organised mini-fashion shows and shop openings for advertisers.

Comparison of Business Objectives with Actual Business Progress (Cont'd)

Business objectives for the six months ended 31st December, 2002 as stated in the Prospectus

Increase publicity of the Group's titles

Continue its promotion campaigns by advertising in printed, television and other media

Launch annual subscription campaigns with universities and at anniversary issue

Participate in book fairs

Launch of new titles in local market

Strengthen and improve the content of "JESSICA GIRL" magazine by reviewing and evaluating responses from readers and advertisers

Expand into other Chinese-speaking markets

Continue to study the feasibility of developing the Group's business in the PRC market

Develop its marketing team and support services team

Develop an individual marketing team by recruiting two additional staff to carry out marketing services of the Group

Actual Business Progress

Continued to promote the two magazines, by running advertising campaigns in television, other magazines and outdoor displays etc. In September 2002, the joint promotion program with "Wellcome" supermarket with "味道LISA" magazine was extended to "旭莱 JESSICA" magazine, providing a new channel of circulation reach and raising public awareness of the titles.

A subscription campaign with City University of Hong Kong was held for the Group's two magazines in October 2002 in addition to other joint promotion subscription campaigns.

The Group had participated in the Hong Kong Book Fair 2002 held in July 2002.

A new monthly magazine "JESSICACODE" will be launched in April 2003, targeting readers between the ages of 18 to 35+, with a fun-loving and entertaining approach to fashion and beauty. After further marketing studies, the management considers that the name "JESSICACODE" is more suitable for the market, and much wider in terms of target readers.

Selling of content of "旭莱 JESSICA" magazine was concluded with a Shanghai publication company beginning from January 2003. The Group will continue to seek other business opportunities in the PRC.

The sales and marketing team recruited additional staff during 2002.

Comparison of Business Objectives with Actual Business Progress (Cont'd)

USE OF PROCEEDS

The net proceeds from the Placing, after deducting related expenses, are approximately HK\$9.2 million.

Comparison of the use of proceeds as stated in the Prospectus with actual application

| | Budgeted amount | Actual amount used | | As at 31st December, 2002 |
|--|----------------------------|---|---|--|
| | | For the six months ended 30th June, 2002 | For the six months ended 31st December, 2002 | |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| 1. Promotion and marketing for two existing magazines | 1,800 | 450 | 1,178 | 1,628 |
| 2. Launch of new titles in local market | 4,500 | — | — | — |
| 3. Promotion and marketing activities to introduce the titles of the Group in PRC | 400 | — | — | — |
| 4. Staff training and trips to attend fashion shows overseas | 200 | 24 | 4 | 28 |
| 5. Staff enhancement, recruiting new staff and developing its own marketing team and support services team | 1,200 | 146 | 684 | 830 |
| 6. General working capital | 1,100 | 944 | 0 | 944 |
| | <u>9,200</u> | <u>1,564</u> | <u>1,866</u> | <u>3,430</u> |

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Ng Hung Sang, Robert, aged 53, is the Chairman of the Company. Mr. Ng is actively involved in the overall corporate policies, strategic planning and business development of the Group. Mr. Ng is also the Chairman of South China Holdings Limited (“South China Holdings”), South China Brokerage Company Limited, South China Industries Limited (“South China Industries”) and Wah Shing International Holdings Limited (“Wah Shing”) and the Co-Chairman of Capital Publications Limited (“Capital”). He holds a Master’s degree in marketing from Lancaster University in the United Kingdom and is a fellow member of the Chartered Institute of Management Accountants. He has extensive experience in the media industry. Mr. Ng was appointed as a Director of the Company on 24th August, 2001. He is the father of Ms. Ng, Jessica Yuk Mui.

Ms. Ng, Jessica Yuk Mui, aged 24, was appointed as a Director of the Company on 24th August, 2001 and is the Chief Executive Officer of the Group. She is also the Compliance Officer and one of the Authorised Representatives of the Company. Ms. Ng is responsible for the strategic planning and development and the daily operations of the Group and was directly involved in the launching of “旭茉 JESSICA” magazine in July 2000 after having obtained a Bachelor’s degree in law from King’s College London, University of London in the United Kingdom. Ms. Ng is an associate member of the Chartered Institute of Management Accountants and a member of the Chinese People’s Political Consultative Conference Tianjin Provincial Committee. Ms. Ng joined the Group on 1st March, 2001. She is the publisher of all of the Group’s magazine and contributes to the editorial of the “旭茉 JESSICA” magazine in the “@Jessica” column of “旭茉 JESSICA” magazine. Ms. Ng is also a director of South China Industries. She is the daughter of Mr. Ng Hung Sang, Robert.

Ms. Foo Kit Tak, aged 29, was appointed as a Director of the Company on 24th August, 2001 and is responsible for the sales and marketing of the Group’s magazines. Ms. Foo joined the Group on 1st September, 2001. Prior to joining the Group, Ms. Foo had worked in “旭茉 JESSICA” magazine and “味道 LISA” magazine since April 2000.

Ms. Cheung Mei Yu, aged 35, was appointed as a Director of the Company on 1st October, 2001. Ms. Cheung is the Chief Editor of “旭茉 JESSICA” magazine and is responsible for the supervision, direction and management of the editorial team of the Group’s magazine. Ms. Cheung joined the Group on 1st September, 2001. She holds a Master’s degree in translation from the Chinese University of Hong Kong.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. So, George Siu Ming, aged 44, is an Executive Director of Forefront International Holdings Limited, a company listed on the Stock Exchange. Mr. So obtained a Bachelor of Arts degree from the University of Toronto in Canada. He is an associate member of the Canadian Institute of Chartered Accountants, the Society of Management Accountants of Canada and the Hong Kong Society of Accountants. Mr. So has extensive experience in auditing, accounting and finance. Mr. So was appointed as an independent non-executive Director of the Company on 4th September, 2001. He was also appointed as an independent non-executive Director of Wah Shing on 1st November, 2002.

Biographical Details of Directors and Senior Management (Cont'd)

INDEPENDENT NON-EXECUTIVE DIRECTORS (Cont'd)

Ms. Pong Oi Lan, Scarlett, aged 43, is the Managing Director of Realchamp Asset Management Limited and Health Quotient HQ International Institute Limited. She completed her executive program at Harvard Business School in the United States. She also obtained a graduate diploma in business administration at Monash University in Australia, and a Bachelor's degree in pharmaceutical sciences from the University of Saskatchewan in Canada. She is the honorary adviser of the advisory board of Hong Kong Federation of Business Students and a member of the HKSAR Election Committee (1998 & 2000). She has been the president of The Practising Pharmacists Association of Hong Kong for over eight years. She is being appointed in a number of government boards and committees such as the Hospital Authority, Action Committee Against Narcotics, Commission on Youth and the Hong Kong Council on Smoking and Health. She received an award of the Ten Outstanding Young Persons' Selection in 1998. Ms. Pong was appointed as an independent non-executive Director of the Company on 4th September, 2001.

SENIOR MANAGEMENT

Ms. Chan Kam Yin, aged 41, is the Finance Manager and Company Secretary of the Company. She is also the Qualified Accountant and one of the Authorised Representatives of the Company and is responsible for the accounting and company secretarial functions of the Group. Ms. Chan joined the Group on 2nd April, 2002. Ms. Chan is a member of the Hong Kong Society of Accountants and The Association of Chartered Certified Accountants. She has over 17 years experience in the finance and accounting field.

Ms. Ng Shui Li, Shirley, aged 53, is the Managing Editor of “味道 LISA” magazine. She oversees the editorial direction and quality of “味道 LISA” magazine. Since the launch of the “味道 LISA” magazine in 1989, Ms. Ng has been responsible for the overall editorial work such as editorial outline of each issue, general management of the editorial team, and quality of the “味道 LISA” magazine. She joined the Group on 1st September, 2001. Ms. Ng has over 20 years publishing experience.

Directors' Report

The Directors present their annual report together with the audited financial statements of the Group for the year ended 31st December, 2002.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its subsidiaries are set out in note 24 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2002 are set out in the consolidated income statement on page 27.

The Directors do not recommend the payment of a dividend for the year ended 31st December, 2002 (2001: Nil).

GROUP FINANCIAL SUMMARY

A summary of the results of the Group for the last four financial years/period is set out below:

| | For the year ended 31st December, | | | For the period from 17th March, 1999 to |
|--|-----------------------------------|----------|----------|---|
| | 2002 | 2001 | 2000 | 31st December, 1999 |
| Results | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Turnover | 27,599 | 20,034 | 16,244 | 8,181 |
| Direct operating expenses | (18,668) | (15,611) | (12,266) | (4,091) |
| Other operating income | 104 | 437 | 201 | 1 |
| Selling and distribution expenses | (6,488) | (5,355) | (5,756) | (1,622) |
| Administrative expenses | (4,591) | (5,164) | (2,547) | (2,545) |
| Net loss from operations | (2,044) | (5,659) | (4,124) | (76) |
| Waiver of amounts due to related companies | — | 7,611 | — | — |
| Net (loss) profit before taxation | (2,044) | 1,952 | (4,124) | (76) |
| Taxation credit (charge) | 117 | (117) | — | — |
| Net (loss) profit for the year | (1,927) | 1,835 | (4,124) | (76) |

Directors' Report (Cont'd)

GROUP FINANCIAL SUMMARY (Cont'd)

A summary of the assets and liabilities of the Group for the last four financial years/period is set out below:

Assets and liabilities

| | As at 31st December, | | | |
|----------------------------------|----------------------|-----------------------|-----------------------|--------------------|
| | 2002 HK\$'000 | 2001 HK\$'000 | 2000 HK\$'000 | 1999 HK\$'000 |
| Non-current assets | <u>586</u> | <u>90</u> | <u>—</u> | <u>—</u> |
| Current assets | <u>13,562</u> | <u>7,265</u> | <u>11,728</u> | <u>6,453</u> |
| Current liabilities | <u>(9,275)</u> | <u>(9,720)</u> | <u>(15,928)</u> | <u>(6,529)</u> |
| Net current assets (liabilities) | <u>4,287</u> | <u>(2,455)</u> | <u>(4,200)</u> | <u>(76)</u> |
| Net assets (liabilities) | <u><u>4,873</u></u> | <u><u>(2,365)</u></u> | <u><u>(4,200)</u></u> | <u><u>(76)</u></u> |

Note: The Company became the holding company of the companies comprising the Group on 10th September, 2001 and its shares were listed on the GEM on 8th January, 2002. Further details of the Reorganisation are set out in note 2 to the accompanying consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 10 to the financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 15 to the financial statements.

SHARE PREMIUM AND RESERVES

Details of movements in the share premium and reserves of the Group and the Company during the year are set out in note 16 to the financial statements.

DIRECTORS

The Directors of the Company during the year and up to the date of this report were:

Executive Directors:

Mr. Ng Hung Sang, Robert (*Chairman*)

Ms. Ng, Jessica Yuk Mui (*Chief Executive Officer*)

Ms. Foo Kit Tak

Ms. Cheung Mei Yu

Independent Non-executive Directors:

Mr. So, George Siu Ming

Ms. Pong Oi Lan, Scarlett

In accordance with the Articles of Association of the Company, Ms. Ng, Jessica Yuk Mui and Mr. So, George Siu Ming will retire from office and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company. All other remaining Directors continue in office.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company for an initial fixed term of one year commencing from 24th August, 2001 (for Mr. Ng Hung Sang, Robert, Ms. Ng, Jessica Yuk Mui and Ms. Foo Kit Tak) and from 1st October, 2001 (for Ms. Cheung Mei Yu), which will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other.

Each non-executive Director is appointed for an initial term of two years commencing from 4th September, 2001 which will thereafter be subject to retirement by rotation at the annual general meeting according to the Articles of Association of the Company.

None of the Directors has an unexpired service contract with the Company which is not terminable by the Company within one year without payment of compensation other than statutory compensation.

Directors' Report (Cont'd)

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN EQUITY SECURITIES

As at 31st December, 2002, the interests of the Directors and the Chief Executive of the Company and their respective associates in equity securities of the Company and its associated corporations (as defined in the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules, were as follows:

| Name of Directors | Number of Ordinary Shares Held | | | | Total |
|--------------------------|--------------------------------|------------------|---------------------|-----------------|-------------|
| | Personal interests | Family interests | Corporate interests | Other interests | |
| Mr. Ng Hung Sang, Robert | 17,886,800 | — | 318,132,403 | — | 336,019,203 |
| | | | (Note) | | |
| Ms. Ng, Jessica Yuk Mui | 104,000 | — | — | — | 104,000 |

Note: The 318,132,403 shares referred to above included 92,966,000 shares held by Parkfield, 99,012,563 shares held by Fung Shing, 4,166,400 shares held by Ronastar and 121,987,440 shares held by Eartrade. Eartrade is owned as to 60%, 20% and 20% by Mr. Ng Hung Sang, Robert, Ms. Cheung Choi Ngor, Christina and Mr. Richard Howard Gorges, directors of South China Holdings, respectively. The 121,987,440 shares referred to above included the 59,325,840 shares held by Bannock which is a wholly owned subsidiary of Eartrade. Each of Parkfield, Fung Shing and Ronastar is wholly owned by Mr. Ng Hung Sang, Robert.

Save as disclosed above and the interests of the Directors in the share options of the Company as disclosed in the section heading "SHARE OPTION SCHEME" below, none of the Directors or Chief Executive of the Company nor their respective associates had, as at 31st December, 2002, any personal, family, corporate or other interests in the equity securities of the Company or any of its associated corporations as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules.

SHARE OPTION SCHEME

The Company's existing share option scheme (the "Scheme") was adopted on 20th December, 2001 and became effective on 8th January, 2002. Particulars of the Scheme as required under the GEM Listing Rules are set out below:

(i) *Summary of the Scheme*

1. *Purpose of the Scheme*

The purpose of the Scheme is to recognise and motivate the contribution of the Employees (as defined in sub-section heading "Participants of the Scheme" below) and other person(s) who may make a contribution to the Group and to provide incentives and help the Company in retaining its existing Employees and recruiting additional Employees and to provide them with a direct economic interest in attaining the long term business objectives of the Company.

2. *Participants of the Scheme*

The board of directors of the Company or a duly authorised committee thereof (the "Board"), may, at its discretion, makes offers to any full time or part time employee (including any executive and non-executive director or proposed executive and non-executive director) of the Group (the "Employees"), adviser, consultant, contractor, client or supplier who have contributed to the Group (collectively the "Participants"), to take up options to subscribe for shares of HK\$0.001 each in the share capital of the Company ("Shares") in accordance with the provisions of the Scheme.

3. *Total number of Shares available for issue under the Scheme*

Pursuant to the letter issued by the Stock Exchange on 7th January, 2002, the total number of Shares available for issue under options which may be granted under the Scheme is 50,647,987 Shares, being 10% of the issued share capital at the date of completion of the Placing.

As at 31st December, 2002, an aggregate of 22,400,000 Shares were issuable pursuant to share options granted under the Scheme. In addition, up to 31st December, 2002, no options were exercised by the grantees pursuant to the Scheme.

As at 31st December, 2002, the total number of Shares available for issue pursuant to the grant of further options under the Scheme was 28,247,987, representing approximately 5.6% of the issued share capital of the Company as at 21st March, 2003.

4. *Maximum entitlement of each Participant*

No Participant shall be granted an option if the total number of Shares issued and to be issued upon exercise of the options granted and to be granted (including both exercised and outstanding options) in any 12 month period up to the date of grant to such Participant would exceed 1% of the Shares for the time being in issue unless the proposed grant has been approved by the shareholders of the Company in general meeting with the proposed grantee and his associates (as defined in the GEM Listing Rules) abstaining from voting.

Directors' Report (Cont'd)

SHARE OPTION SCHEME (cont'd)

(i) *Summary of the Scheme* (Cont'd)

5. *Period within which the Shares must be taken up under an option*

An option may be exercised in accordance with the terms of the Scheme at any time during a period as the Board may determine which shall not be more than ten years from the date of grant of the option subject to the provisions of early termination thereof and the Board may provide restrictions on the exercise of an option during the period an option may be exercised.

6. *Minimum period, if any, for which an option must be held before it can be exercised*

At the time of granting an option, the Board may, at its discretion, specify the minimum period(s), if any, for which an option must be held before it can be exercised.

7. *Amount payable upon acceptance of the option and the period within which the payment must be made*

HK\$1.00 shall be paid within 5 business days from the date of offer of the option.

8. *Basis of determining the exercise price of the option*

The exercise price for Shares under the Scheme shall be a price determined by the Board, but in any case will not be less than the higher of:

- (a) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer, which must be a trading day;
- (b) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of the offer; or
- (c) the nominal value of a Share.

9. *Remaining life of the Scheme*

Subject to early termination of the Scheme pursuant to the terms thereof, the Scheme shall be valid and effective for a period of 10 years commencing from the date on which the Scheme becomes effective, i.e. 8th January, 2002 and ending on 7th January, 2012.

Details of the principal terms of the Scheme are summarised under the sub-section heading "SHARE OPTION SCHEME" in Appendix IV to the Prospectus.

SHARE OPTION SCHEME (cont'd)

(ii) Details of options granted

Particulars and movements during the period from 8th January, 2002 to 31st December, 2002 of the outstanding share options granted under the Scheme were as follows:

| Name or category of participant | Number of share options | | | | | As at 31/12/2002 | Date of grant of share options <i>(Note a)</i> | Exercise period of share options | Price of the Company's shares | | |
|---------------------------------|-------------------------|---------------------------|-----------------------------|--------------------------|-----------------------------|-------------------|---|----------------------------------|---|--|--|
| | As at 8/1/2002 | Granted during the period | Exercised during the period | Lapsed during the period | Cancelled during the period | | | | Initial exercise price per share <i>(Note b)</i> | Immediately preceding the grant date of share options <i>(Note c)</i> | Immediately preceding the exercise date of share options |
| | | | | | | | | | HKS | HKS | HKS |
| Directors | | | | | | | | | | | |
| Ms. Foo Kit Tak | — | 1,600,000 | — | — | — | 1,600,000 | 15/4/2002 | 15/4/2003 - 7/1/2012 | 0.69 | 0.68 | N/A |
| | — | 1,600,000 | — | — | — | 1,600,000 | 2/9/2002 | 2/9/2003 - 7/1/2012 | 0.31 | 0.30 | N/A |
| Ms. Cheung Mei Yu | — | 1,600,000 | — | — | — | 1,600,000 | 15/4/2002 | 15/4/2003 - 7/1/2012 | 0.69 | 0.68 | N/A |
| | — | 1,600,000 | — | — | — | 1,600,000 | 2/9/2002 | 2/9/2003 - 7/1/2012 | 0.31 | 0.30 | N/A |
| Sub-total | — | 6,400,000 | — | — | — | 6,400,000 | | | | | |
| Employees | | | | | | | | | | | |
| In aggregate | — | 2,880,000 | — | (640,000) | — | 2,240,000 | 15/4/2002 | 15/4/2003 - 7/1/2012 | 0.69 | 0.68 | N/A |
| | — | 4,800,000 | — | (480,000) | — | 4,320,000 | 2/9/2002 | 2/9/2003 - 7/1/2012 | 0.31 | 0.30 | N/A |
| Sub-total | — | 7,680,000 | — | (1,120,000) | — | 6,560,000 | | | | | |
| Others | | | | | | | | | | | |
| In aggregate | — | 8,720,000 | — | (1,520,000) | — | 7,200,000 | 15/4/2002 | 15/4/2003 - 7/1/2012 | 0.69 | 0.68 | N/A |
| | — | 2,240,000 | — | — | — | 2,240,000 | 2/9/2002 | 2/9/2003 - 7/1/2012 | 0.31 | 0.30 | N/A |
| Sub-total | — | 10,960,000 | — | (1,520,000) | — | 9,440,000 | | | | | |
| Total | — | 25,040,000 | — | (2,640,000) | — | 22,400,000 | | | | | |

Directors' Report (Cont'd)

SHARE OPTION SCHEME (cont'd)

(ii) Details of options granted (cont'd)

Notes:

- (a) The vesting period of the share options is the period from the date of grant until the commencement of the exercise period. All share options referred to above are subject to one year's vesting period. The share options may be exercised, in whole or in part, in the following manner:

| From the date of grant of share options | Exercisable Percentage |
|---|------------------------|
| Within 12 months | Nil |
| 13th - 24th months | 33 $\frac{1}{3}$ % |
| 25th - 36th months | 33 $\frac{1}{3}$ % |
| 37th - 48th months | 33 $\frac{1}{3}$ % |

- (b) The exercise price is subject to adjustment. Provided always that any part of the share options not exercised in full in accordance with the periods specified above shall remain exercisable during the exercise period of share options but the exercise price shall be adjusted by increasing 5% per annum (on a cumulative basis) until such time as the relevant portion of the share options shall have been fully exercised or lapsed in accordance with the Scheme.
- (c) The price of the Shares disclosed as immediately preceding the grant date of share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the share options.
- (d) Total consideration received during the period from the grantees for taking up the options granted is HK\$89 (2001: Nil).

The Directors have obtained the following theoretical valuations of the share options granted during the period, calculated using the Black-Scholes option pricing model (the "Model") as at the respective date of the grant of the share options:

| Grantee | Theoretical | | Theoretical | |
|--------------------------|---|--|--|--|
| | Number of share options granted on 15/4/2002 | value of share options granted on 15/4/2002 (Note a) HK\$ | Number of share options granted on 2/9/2002 | value of share options granted on 2/9/2002 (Note b) HK\$ |
| Ms. Foo Kit Tak | 1,600,000 | 543,149 | 1,600,000 | 331,790 |
| Ms. Cheung Mei Yu | 1,600,000 | 543,149 | 1,600,000 | 331,790 |
| Employees (In aggregate) | 2,880,000 | 977,669 | 4,800,000 | 995,370 |
| Others (In aggregate) | 8,720,000 | 2,960,164 | 2,240,000 | 464,506 |
| Total | <u>14,800,000</u> | <u>5,024,131</u> | <u>10,240,000</u> | <u>2,123,456</u> |

SHARE OPTION SCHEME (cont'd)

Notes:

- (a) The total theoretical value of the options was estimated at HK\$5,024,131 as at 15th April, 2002 with the following variables and assumption:

Variables

| | | |
|------------------------------|---|--|
| Risk Free Rate | : | 5% |
| Expected Volatility | : | 29% |
| Expected Dividend | : | nil because no historical dividends have been recorded |
| Expected Life of the options | : | 9.7 years |

Assumption

There is no material difference between the expected volatility over the whole life of the options and the historical volatility of the Shares over the period from 8th January, 2002 to 15th April, 2002.

- (b) The total theoretical value of the options was estimated at HK\$2,123,456 as at 2nd September, 2002 with the following variables and assumptions:

Variables

| | | |
|------------------------------|---|--|
| Risk Free Rate | : | 5% |
| Expected Volatility | : | 56% |
| Expected Dividend | : | nil because no historical dividends have been recorded |
| Expected Life of the options | : | 9.4 years |

Assumption

There is no material difference between the expected volatility over the whole life of the options and the historical volatility of the Shares over the period of 8th January, 2002 to 2nd September, 2002.

- (c) All the options forfeited before expiry of the options will be treated as lapsed options which will be added back to the number of shares available to be issued under the Scheme.
- (d) No accounting change has been recognised in the income statement in respect of the value of options granted during the period.
- (e) The Model is developed to estimate the fair value of publicly traded options that have no vesting restriction and are fully transferable. The Model is only one of the commonly used models to estimate the fair value of option. The value of an option varies with different variables of certain subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of an option. In the Directors' opinion, the Model does not necessarily provide a reliable single measure of the fair value of the share options.

CONVERTIBLE SECURITIES, OPTIONS, WARRANTS OR SIMILAR RIGHTS

Save as disclosed in "SHARE OPTION SCHEME" above, during the year ended 31st December, 2002, neither the Company nor any of its subsidiaries issued or granted any convertible securities, options, warrants or similar rights and there was no exercise of any conversion or subscription rights under any convertible securities, options, warrants or similar rights issued or granted at any time by the Company or any of its subsidiaries.

Directors' Report (Cont'd)

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the "SHARE OPTION SCHEME" above, at no time during the year was the Company or any of its subsidiaries, a party to any arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors or the Chief Executive, or any of their spouses or children under the age of 18, was granted any right to subscribe for equity or debt securities of the Company, nor had exercised any such right.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed under the section heading "CONNECTED TRANSACTIONS" below, no contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

MANAGEMENT CONTRACTS

No contract for the management and administration of the whole or any substantial part of the business of the Company was entered into or subsisted during the year.

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2002, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that, the following shareholders had an interest of 10% or more in the share capital of the Company:

| Name of shareholders | Number of ordinary shares held | Approximate percentage of issued share capital | Note |
|--------------------------|-----------------------------------|---|------|
| Mr. Ng Hung Sang, Robert | 336,019,203 | 66.3% | (a) |
| Parkfield | 92,966,000 | 18.4% | (a) |
| Fung Shing | 99,012,563 | 19.6% | (a) |
| Eartrade | 121,987,440 | 24.1% | (b) |
| Bannock | 59,325,840 | 11.7% | (b) |

Notes:

- (a) The 336,019,203 shares referred to above include 92,966,000 shares held by Parkfield, 99,012,563 shares held by Fung Shing, 4,166,400 shares held by Ronastar and 121,987,440 shares held by Eartrade, which is owned as to 60%, 20% and 20% by Mr. Ng Hung Sang, Robert, Ms. Cheung Choi Ngor, Christina and Mr. Richard Howard Gorges, directors of South China Holdings, respectively. Each of Parkfield, Fung Shing and Ronastar is wholly owned by Mr. Ng Hung Sang, Robert.
- (b) Eartrade is the holding company of Bannock. The 121,987,440 shares referred to above include the 59,325,840 shares held by Bannock.

Save as disclosed above, the Company had no notice of any interests to be disclosed under Section 16(1) of the SDI Ordinance as at 31st December, 2002.

MANAGEMENT SHAREHOLDERS

So far as the Directors are aware, other than those disclosed under the sections heading "DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN EQUITY SECURITIES" and "SUBSTANTIAL SHAREHOLDERS" above, there is no other person who is directly or indirectly interested in 5% or more of the share capital of the Company then issued and who is able, as a practical matter, to direct or influence the management of the Company.

CONNECTED TRANSACTIONS

Details of the transactions for the year ended 31st December, 2002 with companies controlled by, or affiliated with South China Holdings set out in note 18 to the financial statements were connected transactions. The value of each of the transactions for the year ended 31st December, 2002 falls below the de minimus threshold of the higher of HK\$1 million or 0.03% of the net tangible assets of the Group under Rule 20.25(3) of the GEM Listing Rules. A Director of the Company, Mr. Ng Hung Sang, Robert is a Director and substantial shareholder of South China Holdings. Save as disclosed therein, there were no other transactions to be disclosed as connected transactions in accordance with the requirements of the GEM Listing Rules.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Mr. Ng Hung Sang, Robert, Chairman and management shareholder of the Company, is also Chairman of South China Holdings and Co-Chairman of Capital. Mr. Ng Hung Sang, Robert, personally and through Parkfield, Fung Shing and Ronastar, has interest in South China Holdings and Capital. Mr. Ng Hung Sang, Robert together with Ms. Cheung Choi Ngor, Christina and Mr. Richard Howard Gorges, management shareholders of the Company, have beneficial interests in Earntrade, which directly and indirectly through Bannock holds shares in South China Holdings and Capital. Ms. Cheung Choi Ngor, Christina, who was an ex-director of Capital Publishing Limited, a wholly owned subsidiary of Capital and Mr. Richard Howard Gorges, are also directors of various members of South China Group. As Capital and certain members of South China Media Limited, a subsidiary of South China Holdings, are principally engaged in magazine publication, Mr. Ng Hung Sang, Robert, Ms. Cheung Choi Ngor, Christina and Mr. Richard Howard Gorges are regarded to be interested in such competing businesses of the Group. Likewise, Ms. Ng, Jessica Yuk Mui, Chief Executive Officer of the Company, is also director of certain members of South China Media Limited.

Save as disclosed above and in the Prospectus, none of the Directors or Chief Executive of the Group, the initial management shareholders or the substantial shareholders (as defined under the GEM Listing Rules) of the Company or their respective associates had any interest in a business which competes or may compete with the business of the Group.

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

Other than the contracts as disclosed in the section heading "DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE", there was no contract of significance between the Company or its subsidiaries and a controlling shareholder or any of its subsidiaries subsisting during or at the end of the year. Furthermore, there was no contract of significance for the provision of services to the Company or any of its subsidiaries by a controlling shareholder or any of its subsidiaries.

Directors' Report (Cont'd)

BOARD PRACTICES AND PROCEDURES

The Company has complied with the Board Practices and Procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules since the shares of the Company were listed on GEM of the Stock Exchange on 8th January, 2002.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

The Company's shares were listed on GEM on 8th January, 2002 by way of placement. Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities since that date.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to the existing shareholders.

RETIREMENT BENEFITS SCHEME

Details of the Group's retirement benefits scheme are set out in Note 22 to the financial statements.

CUSTOMERS AND SUPPLIERS

During the year ended 31st December, 2002, the five largest customers of the Group accounted for less than 30% of the Group's total turnover and the five largest suppliers of the Group accounted for approximately 96.8% of the Group's total purchases. In addition, the largest supplier accounted for approximately 62.9% of the Group's total purchases. Success Production Limited, a subsidiary of South China Holdings, is one of the top five suppliers.

The management shareholders of the Company, including Mr. Ng Hung Sang, Robert, Parkfield, Fung Shing, Ronastar, Ms. Cheung Choi Ngor, Christina, Mr. Richard Howard Gorges, Earntrade and Bannock, hold interests in South China Holdings.

Save as disclosed above, none of the Directors, their associates, or shareholders (which to the knowledge of the Directors owned more than 5% of the Company's issued share capital) had a beneficial interest in the Group's five largest suppliers as at 31st December, 2002.

AUDIT COMMITTEE

The Company established an audit committee on 4th September, 2001 with written terms of reference in compliance with Rules 5.23 to 5.25 of the GEM Listing Rules. The audit committee comprises two members, Mr. So, George Siu Ming and Ms. Pong Oi Lan, Scarlett, who are independent non-executive directors of the Company.

During the year, the audit committee held four meetings to review and comment on the Company's annual report, half-yearly report and quarterly reports as well as the Company's internal control procedures.

The Group's audited results for the year ended 31st December, 2002 have been reviewed by the audit committee, who was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

SPONSOR'S INTERESTS

On 26th November, 2002, Deloitte & Touche Corporate Finance Ltd (“DTCF”) resigned as sponsor of the Company as announced on 27th November, 2002 and MasterLink Securities (Hong Kong) Corporation Limited (“MasterLink”) was appointed on 26th November, 2002 as the continuing sponsor of the Company as announced on 27th November, 2002. Pursuant to the agreement dated 27th November, 2002 entered into between the Company and MasterLink, MasterLink has received and will receive fees for acting as the Company's continuing sponsor for the period from 26th November, 2002 to 31st December, 2004 or until the termination of the agreement upon the terms and conditions as set out therein.

As at 25th November, 2002, DTCF, its directors, employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) did not have any interest in the securities of the Company or any member of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any members of the Group.

As updated and notified by MasterLink, as at 31st December, 2002, MasterLink, its directors, employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) did not have any interest in the securities of the Company or any member of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any members of the Group.

AUDITORS

During the year, Messrs. Arthur Andersen & Co. resigned as auditors of the Company and Messrs. Deloitte Touche Tohmatsu were appointed as auditors of the Company to fill the casual vacancy.

A resolution will be submitted to the forthcoming annual general meeting to re-appoint Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board
Ng Hung Sang, Robert
Chairman

Hong Kong Special Administrative Region of the People's Republic of China
21st March, 2003

Auditors' Report

德勤 • 關黃陳方會計師行

Certified Public Accountants
26/F, Wing On Centre
111 Connaught Road Central
Hong Kong

香港中環干諾道中 111 號
永安中心 26 樓

**Deloitte
Touche
Tohmatsu**

TO THE MEMBERS OF JESSICA PUBLICATIONS LIMITED

(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 27 to 47 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31st December, 2002 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong, 21st March, 2003

Consolidated Income Statement

For the year ended 31st December, 2002

| | NOTES | 2002 HK\$'000 | 2001 HK\$'000 |
|--|-------|------------------|------------------|
| Turnover | 5 | 27,599 | 20,034 |
| Direct operating expenses | | (18,668) | (15,611) |
| Other operating income | | 104 | 437 |
| Selling and distribution costs | | (6,488) | (5,355) |
| Administrative expenses | | (4,591) | (5,164) |
| Net loss from operations | | (2,044) | (5,659) |
| Waiver of amounts due to related companies | | — | 7,611 |
| Net (loss) profit before taxation | 6 | (2,044) | 1,952 |
| Taxation credit (charge) | 8 | 117 | (117) |
| Net (loss) profit for the year | | (1,927) | 1,835 |
| (Loss) earnings per share | 9 | HK(0.38) cents | HK0.40 cents |

Consolidated Balance Sheet

At 31st December, 2002

| | NOTES | 2002 HK\$'000 | 2001 HK\$'000 |
|------------------------------------|-------|------------------|------------------|
| Non-current assets | | | |
| Property, plant and equipment | 10 | <u>586</u> | <u>90</u> |
| Current assets | | | |
| Trade receivables | 12 | 5,566 | 3,255 |
| Other receivables | | 703 | 263 |
| Deferred share issuance expenses | | — | 3,150 |
| Bank balances and cash | | <u>7,293</u> | <u>597</u> |
| | | <u>13,562</u> | <u>7,265</u> |
| Current liabilities | | | |
| Trade payables | 13 | 6,469 | 4,916 |
| Other payables and accrued charges | | 2,057 | 3,376 |
| Receipts in advance | | 737 | 852 |
| Amount due to a related company | | 12 | 459 |
| Taxation payable | | <u>—</u> | <u>117</u> |
| | | <u>9,275</u> | <u>9,720</u> |
| Net current assets (liabilities) | | <u>4,287</u> | <u>(2,455)</u> |
| | | <u>4,873</u> | <u>(2,365)</u> |
| Capital and reserves | | | |
| Share capital | 15 | 506 | 456 |
| Share premium and reserves | 16 | <u>4,367</u> | <u>(2,821)</u> |
| | | <u>4,873</u> | <u>(2,365)</u> |

The financial statements on pages 27 to 47 were approved and authorised for issue by the Board of Directors on 21st March, 2003 and are signed on its behalf by:

Ng Hung Sang, Robert
DIRECTOR

Ng, Jessica Yuk Mui
DIRECTOR

Balance Sheet

At 31st December, 2002

| | NOTES | 2002 HK\$'000 | 2001 HK\$'000 |
|------------------------------------|-------|------------------|------------------|
| Non-current assets | | | |
| Investments in subsidiaries | 11 | <u>510</u> | <u>510</u> |
| Current assets | | | |
| Other receivables | | — | 28 |
| Amount due from a subsidiary | 14 | <u>8,761</u> | — |
| Deferred share issuance expenses | | — | 3,150 |
| Bank balances | | <u>70</u> | — |
| | | <u>8,831</u> | <u>3,178</u> |
| Current liabilities | | | |
| Other payables and accrued charges | | 45 | 1,775 |
| Amount due to a subsidiary | 14 | <u>—</u> | <u>1,540</u> |
| | | <u>45</u> | <u>3,315</u> |
| Net current assets (liabilities) | | <u>8,786</u> | <u>(137)</u> |
| | | <u>9,296</u> | <u>373</u> |
| Capital and reserves | | | |
| Share capital | 15 | <u>506</u> | 456 |
| Share premium and reserves | 16 | <u>8,790</u> | <u>(83)</u> |
| | | <u>9,296</u> | <u>373</u> |

Ng Hung Sang, Robert
DIRECTOR

Ng, Jessica Yuk Mui
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2002

| | Share capital HK\$'000 | Share premium HK\$'000 | Capital reserve HK\$'000 | Accumulated losses HK\$'000 | Total HK\$'000 |
|--------------------------------------|------------------------------|------------------------------|--------------------------------|-----------------------------------|-------------------|
| At 1st January, 2001 | — | — | — | (4,200) | (4,200) |
| Issue of shares on Reorganisation | 456 | 54 | (510) | — | — |
| Net profit for the year | — | — | — | 1,835 | 1,835 |
| At 1st January, 2002 | 456 | 54 | (510) | (2,365) | (2,365) |
| Placing of shares | 50 | 12,612 | — | — | 12,662 |
| Share issue expenses | — | (3,497) | — | — | (3,497) |
| Net loss for the year | — | — | — | (1,927) | (1,927) |
| At 31st December, 2002 | 506 | 9,169 | (510) | (4,292) | 4,873 |

Consolidated Cash Flow Statement

For the year ended 31st December, 2002

| | 2002 HK\$'000 | 2001 HK\$'000 |
|---|----------------------------|-------------------|
| OPERATING ACTIVITIES | | |
| Net loss from operations | (2,044) | (5,659) |
| Adjustments for: | | |
| Depreciation of property, plant and equipment | <u>65</u> | <u>10</u> |
| Operating cash flows before movements in working capital | (1,979) | (5,649) |
| (Increase) decrease in trade and other receivables | (2,751) | 83 |
| Decrease in amount due from a related company | — | 8,123 |
| Increase in trade payables | 1,553 | 534 |
| (Decrease) increase in other payables and accrued charges | (1,319) | 2,589 |
| (Decrease) increase in receipts in advance | (115) | 135 |
| Decrease in amount due to a related company | <u>(447)</u> | <u>(1,972)</u> |
| NET CASH (USED IN) FROM OPERATING ACTIVITIES | <u>(5,058)</u> | <u>3,843</u> |
| INVESTING ACTIVITIES | | |
| Purchases of property, plant and equipment | <u>(561)</u> | <u>(100)</u> |
| FINANCING ACTIVITIES | | |
| Proceeds from issue of shares | 12,662 | — |
| Expenses incurred in connection with the issue of shares | <u>(347)</u> | <u>(3,150)</u> |
| NET CASH FROM (USED IN) FINANCING ACTIVITIES | <u>12,315</u> | <u>(3,150)</u> |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 6,696 | 593 |
| CASH AND CASH EQUIVALENTS AT 1ST JANUARY | <u>597</u> | <u>4</u> |
| CASH AND CASH EQUIVALENTS AT 31ST DECEMBER | <u><u>7,293</u></u> | <u><u>597</u></u> |
| ANALYSIS OF THE BALANCE OF CASH AND CASH EQUIVALENTS | | |
| Bank balances and cash | <u><u>7,293</u></u> | <u><u>597</u></u> |

Notes to the Financial Statements

For the year ended 31st December, 2002

1. GENERAL

The Company was incorporated in the Cayman Islands on 29th June, 2001 as an exempted limited company under the Companies Law (2001 Revision) of the Cayman Islands. The Company's shares were listed on GEM of the Stock Exchange on 8th January, 2002.

The Company acts as an investment holding company.

Details of the principal activities of its subsidiaries are set out in note 24.

2. BASIS OF PRESENTATION OF COMPARATIVE FINANCIAL STATEMENTS

On 10th September, 2001, the Company became the holding company of the other companies comprising the Group pursuant to a group reorganisation scheme (the "Reorganisation") which included exchanges of shares. The Reorganisation involved companies under common control, and the Group resulting from the Reorganisation is regarded as a continuing group. Accordingly, the Reorganisation was accounted for on the basis of merger accounting, under which the consolidated financial statements for the year ended 31st December, 2001 were prepared as if the Company had been the holding company of the other companies comprising the Group since the beginning of that year, rather than from the date on which the Reorganisation was completed.

3. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted for the first time a number of new and revised Statements of Standard Accounting Practice ("SSAP(s)") issued by the Hong Kong Society of Accountants. The adoption of these SSAPs has resulted in a change in the format of presentation of the cash flow statement and the statement of changes in equity, and in the adoption of the following new and revised accounting policies.

Cash flows statements

In the current year, the Group has adopted SSAP 15 (Revised) "Cash Flow Statements". Under SSAP 15 (Revised), cash flows are classified under three headings - operating, investing and financing, rather than the previous five headings.

Employee benefits

In the current year, the Group has adopted SSAP 34 "Employee Benefits", which introduces measurement rules for employee benefits, including retirement benefit plans. Because the Group participates only in defined contribution retirement benefit schemes, the adoption of SSAP 34 has not had any material impact on the financial statements.

Notes to the Financial Statements (Cont'd)

For the year ended 31st December, 2002

4. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Turnover

Turnover represents (i) sale of magazines after allowances for returns and discounts; (ii) advertising income from publications, and (iii) promotion and marketing income.

Revenue recognition

Revenue from sale of magazines is recognised when the magazines are delivered and title has passed, with advance subscription fees received from subscribers recorded as receipts in advance.

Advertising income is recognised when the advertisements are published.

Promotion and marketing income is recognised when the service is rendered.

Interest income from bank deposits is recognised on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Advertising barter transactions

Revenue and expense from an advertising barter transaction are recognised at fair value only if the fair value of the advertisement surrendered in the transaction is determinable based on the Company's historical practice of receiving cash or other consideration that is readily convertible to a known amount of cash for similar advertisement from buyers unrelated to the counter-party in the barter transaction. Revenue and expenses from an advertising barter transaction for exchange of similar goods or services are not regarded as transactions which generate revenue and expenses.

Notes to the Financial Statements (Cont'd)

For the year ended 31st December, 2002

4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, at the following rates per annum:

| | |
|--------------------------------|-----|
| Leasehold improvement | 20% |
| Furniture and office equipment | 20% |

The gain or loss arising on disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Foreign currencies

Transactions in currencies other than Hong Kong dollars are translated at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in currencies other than Hong Kong dollars are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

Retirement benefits scheme

Payments to the Groups' Mandatory Provident Fund Scheme are charged as an expense as they fall due.

Notes to the Financial Statements (Cont'd)

For the year ended 31st December, 2002

4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight line basis over the term of the relevant lease.

5. TURNOVER

Turnover represents the net amounts received and receivable for the following:

| | 2002 | 2001 |
|--------------------------------|---------------|---------------|
| | HK\$'000 | HK\$'000 |
| Sale of magazines | 9,943 | 7,611 |
| Advertising income | 16,964 | 12,056 |
| Promotion and marketing income | 692 | 367 |
| | <u>27,599</u> | <u>20,034</u> |

During the year, the Group's revenue from advertising barter transactions was approximately HK\$37,000 (2001: HK\$32,000).

6. NET (LOSS) PROFIT BEFORE TAXATION

| | 2002 | 2001 |
|--|--------------|--------------|
| | HK\$'000 | HK\$'000 |
| Net (loss) profit before taxation has been arrived at after charging (crediting): | | |
| Staff costs including directors' emoluments | 6,075 | 5,968 |
| Retirement benefits scheme contributions | 262 | 270 |
| | <u>6,337</u> | <u>6,238</u> |
| Auditors' remuneration | 300 | 350 |
| Depreciation | 65 | 10 |
| (Reversal of) allowance for bad and doubtful debts | (61) | 418 |
| | <u>6,337</u> | <u>6,238</u> |

Notes to the Financial Statements (Cont'd)

For the year ended 31st December, 2002

7. DIRECTORS' EMOLUMENTS AND HIGHEST PAID EMPLOYEES

(a) Directors' emoluments

| | 2002 HK\$'000 | 2001 HK\$'000 |
|--|------------------|------------------|
| Independent Non-Executive Directors Fees | 100 | 33 |
| Executive Directors | | |
| Salaries and other benefits | 1,389 | 746 |
| Retirement benefits scheme contributions | 59 | 32 |
| | 1,448 | 778 |
| Total emoluments | 1,548 | 811 |

For the year ended 31st December, 2002, the four Executive Directors received emoluments of approximately nil (2001: Nil), HK\$432,000 (2001: HK\$110,000), HK\$377,000 (2001: HK\$388,000) and HK\$639,000 (2001: HK\$281,000) respectively.

(b) Employees' emoluments

Of the five highest paid individuals in the Group, three (2001: two) were Directors of the Company whose remunerations were set out in (a) above. The emoluments of the remaining two (2001: three) individuals were as follows:

| | 2002 HK\$'000 | 2001 HK\$'000 |
|--|------------------|------------------|
| Salaries and other benefits | 795 | 1,074 |
| Retirement benefits scheme contributions | 29 | 40 |
| | 824 | 1,114 |

The aggregate emoluments of each of the individuals during the years 2001 and 2002 were below HK\$1,000,000.

During each of the two preceding years ended 31st December, 2002, no emoluments were paid by the Group to the five highest paid individuals, including Directors, as an inducement to join or upon joining the Group or as a compensation for loss of office.

Notes to the Financial Statements (Cont'd)

For the year ended 31st December, 2002

8. TAXATION CREDIT (CHARGE)

| | 2002 HK\$'000 | 2001 HK\$'000 |
|-----------------------------|------------------|------------------|
| Hong Kong Profits Tax | | |
| Current year | — | (117) |
| Overprovision in prior year | 117 | — |
| | <u>117</u> | <u>(117)</u> |

No provision for Hong Kong Profits Tax has been made as the Group incurred a tax loss for the year.

Hong Kong Profits Tax was calculated at the rate of 16% of the estimated assessable profit for the previous year.

Details of the potential deferred tax charge not provided for are set out in note 23.

9. (LOSS) EARNINGS PER SHARE

The calculation of the (loss) earnings per share for the year is based on the net loss for the year of approximately HK\$1,927,000 (2001: net profit of approximately HK\$1,835,000) and on the weighted average number of 506,063,591 (2001: 455,831,888) shares in issue during the year.

No diluted (loss) earnings per share has been presented because the exercise price of the Company's options was higher than the average market price per share for the year.

Notes to the Financial Statements (Cont'd)

For the year ended 31st December, 2002

10. PROPERTY, PLANT AND EQUIPMENT

| | Leasehold improvement HK\$'000 | Furniture and office equipment HK\$'000 | Total HK\$'000 |
|-------------------------------|--------------------------------------|--|-------------------|
| COST | | | |
| At 1st January, 2002 | — | 100 | 100 |
| Additions | 479 | 82 | 561 |
| At 31st December, 2002 | 479 | 182 | 661 |
| DEPRECIATION | | | |
| At 1st January, 2002 | — | 10 | 10 |
| Provided for the year | 39 | 26 | 65 |
| At 31st December, 2002 | 39 | 36 | 75 |
| NET BOOK VALUE | | | |
| At 31st December, 2002 | 440 | 146 | 586 |
| At 31st December, 2001 | — | 90 | 90 |

11. INVESTMENTS IN SUBSIDIARIES

| | 2002 HK\$'000 | 2001 HK\$'000 |
|-----------------|------------------|------------------|
| Unlisted shares | 510 | 510 |

None of the subsidiaries had any debt securities issued during the year or outstanding at the end of the year.

Details of the Company's subsidiaries are set out in note 24.

Notes to the Financial Statements

For the year ended 31st December, 2002

12. TRADE RECEIVABLES

The Group allows an average credit period of 30 to 90 days to its customers.

The following is an aged analysis of trade receivables:

| | 2002 HK\$'000 | 2001 HK\$'000 |
|--|------------------|------------------|
| 0 - 30 days | 2,475 | 1,900 |
| 31 - 60 days | 1,270 | 788 |
| 61 - 90 days | 193 | 391 |
| 91 to 180 days | 1,597 | 249 |
| Over 180 days | 388 | 345 |
| | <hr/> | <hr/> |
| | 5,923 | 3,673 |
| Less: allowance for bad and doubtful debts | (357) | (418) |
| | <hr/> | <hr/> |
| | <u>5,566</u> | <u>3,255</u> |

13. TRADE PAYABLES

The following is an aged analysis of trade payables:

| | 2002 HK\$'000 | 2001 HK\$'000 |
|----------------|------------------|------------------|
| 0 to 30 days | 624 | 4,172 |
| 31 to 60 days | 1,567 | 44 |
| 61 to 90 days | 1,553 | 77 |
| 91 to 180 days | 2,371 | 247 |
| Over 180 days | 354 | 376 |
| | <hr/> | <hr/> |
| | 6,469 | 4,916 |
| | <hr/> | <hr/> |
| | <u>6,469</u> | <u>4,916</u> |

Notes to the Financial Statements (Cont'd)

For the year ended 31st December, 2002

14. AMOUNTS DUE FROM (TO) A SUBSIDIARY

The amounts are unsecured, interest-free and have no fixed repayment term.

15. SHARE CAPITAL

| | Number of ordinary shares | Share price HK\$ | Share capital HK\$'000 |
|---|------------------------------|------------------------|------------------------------|
| <i>Authorised:</i> | | | |
| At time of incorporation | 100,000,000,000 | 0.01 | 1,000,000 |
| Subdivision on 20th August, 2001 | 900,000,000,000 | — | — |
| | <hr/> | | <hr/> |
| At 31st December, 2001 and 31st December, 2002 | 1,000,000,000,000 | 0.001 | 1,000,000 |
| | <hr/> <hr/> | | <hr/> <hr/> |
| <i>Issued and fully paid:</i> | | | |
| Issue of share on 29th June, 2001 | 1 | 0.01 | — |
| Subdivision on 20th August, 2001 | 9 | — | — |
| | <hr/> | | <hr/> |
| | 10 | 0.001 | — |
| Issue of shares on Reorganisation | 455,831,878 | 0.001 | 456 |
| | <hr/> | | <hr/> |
| At 31st December, 2001 | 455,831,888 | 0.001 | 456 |
| Placing of shares | 50,647,988 | 0.001 | 50 |
| | <hr/> | | <hr/> |
| At 31st December, 2002 | 506,479,876 | 0.001 | 506 |
| | <hr/> <hr/> | | <hr/> <hr/> |

Pursuant to the Prospectus, and by means of placing, the Company issued a total of 50,647,988 new ordinary shares of HK\$0.001 each at a price of HK\$0.25 per share. The new shares rank pari passu with the existing shares in all respects.

Notes to the Financial Statements (Cont'd)

For the year ended 31st December, 2002

16. SHARE PREMIUM AND RESERVES

| | Share premium HK\$'000 | Capital reserve HK\$'000 | Accumulated losses HK\$'000 | Total HK\$'000 |
|---|------------------------------|--------------------------------|-----------------------------------|-------------------|
| THE GROUP | | | | |
| At 1st January, 2001 | — | — | (4,200) | (4,200) |
| Attributable to the Reorganisation (<i>see note 2</i>) | 54 | (510) | — | (456) |
| Net profit for the year | — | — | 1,835 | 1,835 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| At 31st December, 2001 | 54 | (510) | (2,365) | (2,821) |
| Premium arising from the issue of shares by means of placing | 12,612 | — | — | 12,612 |
| Expenses incurred in connection with the issue of shares | (3,497) | — | — | (3,497) |
| Net loss for the year | — | — | (1,927) | (1,927) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| At 31st December, 2002 | 9,169 | (510) | (4,292) | 4,367 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |
| | Share premium HK\$'000 | Share premium HK\$'000 | Accumulated losses HK\$'000 | Total HK\$'000 |
| THE COMPANY | | | | |
| At 29th June, 2001 | — | — | — | — |
| Attributable to the Reorganisation (<i>see note 2</i>) | — | 54 | — | 54 |
| Net loss for the period | — | — | (137) | (137) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| At 31st December, 2001 | — | 54 | (137) | (83) |
| Premium arising from the issue of shares by means of placing | — | 12,612 | — | 12,612 |
| Expenses incurred in connection with the issue of shares | — | (3,497) | — | (3,497) |
| Net loss for the year | — | — | (242) | (242) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| At 31st December, 2002 | — | 9,169 | (379) | 8,790 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |

Notes to the Financial Statements (Cont'd)

For the year ended 31st December, 2002

16. SHARE PREMIUM AND RESERVES (Cont'd)

Capital reserve represents the difference between the nominal value and premium of the ordinary shares issued by the Company and the aggregate of the share capital of a subsidiary acquired through an exchange of shares pursuant to the Reorganisation (see note 2).

Under the Companies Law (Revised) (Chapter 22) of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Articles of Association and a statutory solvency test. It is provided that a dividend cannot be paid if this would result in the Company being unable to pay its debts as they fall due. In accordance with the Company's Articles of Association, the Company's reserves available for distribution to shareholders represent the accumulated losses and share premium which in total amounted to approximately HK\$8,790,000 (2001: Nil).

17. BUSINESS AND GEOGRAPHICAL SEGMENTS

The Group is principally engaged in magazine publishing and advertising activities carried out in Hong Kong during the year. Accordingly, the Directors consider there is only one business and geographical segment and no analysis of segmental assets and liabilities by geographical location is presented.

18. RELATED PARTY TRANSACTIONS

During the year, the Group had significant transactions with companies controlled by, or affiliated with, South China Holdings. These companies are collectively referred to as South China Group. A Director of the Company, Mr. Ng Hung Sang, Robert, is a substantial shareholder and a Director of South China Holdings. Details of these transactions are as follows:

| Nature of transactions | 2002 HK\$'000 | 2001 HK\$'000 |
|--|------------------|------------------|
| Income: | | |
| Rental income | — | 437 |
| Expenses: | | |
| Administrative service fees | 944 | 832 |
| Agency arrangement fees | — | 20 |
| Color separation and photo processing fees | 996 | 894 |
| Corporate finance service fee | 300 | — |
| Marketing service fees | 122 | 235 |
| Personnel expenses | — | 1,340 |
| Phototaking service fees | 470 | 723 |
| Purchase of fixed assets | — | 100 |
| Rental expenses in respect of office equipment and office premises | 119 | 197 |
| Staff costs | — | 4,909 |
| Underwriting commission | 317 | — |
| Waiver of amounts due to South China Group | — | 7,611 |

Notes to the Financial Statements (Cont'd)

For the year ended 31st December, 2002

18. RELATED PARTY TRANSACTIONS (Cont'd)

Tek Lee Finance and Investment Corporation Limited ("Tek Lee"), an intermediate holding company, up to 10th September, 2001 had undertaken to provide continuing financial support to the Company to enable it to meet its liabilities as they fall due. This undertaking was terminated when the Company ceased to be a subsidiary of Tek Lee on 10th September, 2001. Thereafter, Mr. Ng Hung Sang, Robert, a major shareholder of the Company, had undertaken to provide continuing financial support to the Group to enable the Group to meet its liabilities as they fall due up to 8th January, 2002, when Company's shares were listed on the GEM.

Mr. Ng Hung Sang, Robert, Parkfield, Fung Shing, Ronastar, Earntrade and Bannock, shareholders of the Company, have provided indemnities in favour of the Group in the event that the Group incurs any liability as a result of the waiver of amounts due to related companies (see note 20(a)).

In the opinion of the Directors, the above transactions during the year ended 31st December, 2002 were conducted in accordance with the respective arrangements between the Group and the related parties.

19. OPERATING LEASE COMMITMENTS

The minimum lease payments paid under operating leases during the year in respect of:

| | 2002 HK\$'000 | 2001 HK\$'000 |
|------------------|------------------|------------------|
| Premises | 640 | 789 |
| Office equipment | — | 197 |
| | <u>640</u> | <u>986</u> |

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

| | 2002 HK\$'000 | 2001 HK\$'000 |
|---------------------------------------|------------------|------------------|
| Within one year | 237 | 801 |
| In the second to fifth year inclusive | 356 | 582 |
| | <u>593</u> | <u>1,383</u> |

The leases are negotiated for an average term of three years and rentals are fixed for an average term of three years.

At the balance sheet date, the Company had no arrangement under non-cancellable operating leases.

Notes to the Financial Statements (Cont'd)

For the year ended 31st December, 2002

20. CONTINGENT LIABILITIES

As at 31st December, 2002, the Group and the Company had the following contingent liabilities:

- (a) On 30th June, 2001, three related companies waived certain balances due to them by the Group amounting to approximately HK\$7,611,000 at no consideration (the "Waiver"). As advised by the Group's legal counsel, in the event of winding up of any one of these related companies by reason of insolvency or the Waiver is ordered by courts or other competent authorities to be restored to the related companies, the Group may be required to compensate these related companies. In the opinion of Directors, the risk of winding up of these related companies by reason of insolvency or restoring the balances to these related companies is remote, and, accordingly, it is not probable that the Group will compensate those related companies. No provision has been made in the financial statements with respect to such compensation. In addition, in the event that the Group incurs any liability as a result of the Waiver, such liability would fall within the indemnity given by Mr. Ng Hung Sang, Robert, Parkfield, Fung Shing, Ronastar, Earntrade and Bannock, shareholders of the Company, in favour of the Group.
- (b) As at 31st December, 2002, the Company had provided a corporate guarantee to a bank to secure a bank facility of HK\$1 million (2001: HK\$1 million) granted to a subsidiary, which remained unused as at 31st December, 2002.

21. SHARE OPTION SCHEME

The Scheme was adopted pursuant to a resolution passed on 20th December, 2001 for the primary purpose of providing incentives to directors and eligible employees and will be expired on 7th January, 2012. Under the Scheme, the board of directors of the Company may offer to any director or employee of the Company, or any of its subsidiaries, options to subscribe for shares in the Company.

At 31st December, 2002, the number of shares in respect of which options were granted under the Scheme was 22,400,000, representing 4.4% of the shares of the Company in issue at that date. Without prior approval from the Company's shareholders, the total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, and the number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time.

The consideration payable on the grant of an option is HK\$1 per option. Options may be exercised at any time for a period of ten years commencing on the date of grant. The exercise price of the option shares would be at a price equal to the higher of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer; (ii) the average closing price of the shares of the Company on the Stock Exchange's daily quotations sheet for the five trading days immediately preceding the date of offer of the options; and (iii) the nominal value of a share.

Notes to the Financial Statements (Cont'd)

For the year ended 31st December, 2002

21. SHARE OPTION SCHEME (Cont'd)

The following tables disclose details of the Company's share options held by employees (including directors) and movements in such holdings during the year:

| Date of grant | Number of share options | | | | Outstanding at 31/12/2002 |
|---------------------|-------------------------------|---------------------------------|---------------------------------|------------------------------|------------------------------|
| | Granted during the year | Exercised during the year | Cancelled during the year | Lapsed during the year | |
| 15th April, 2002 | 14,800,000 | — | — | (2,160,000) | 12,640,000 |
| 2nd September, 2002 | 10,240,000 | — | — | (480,000) | 9,760,000 |
| | <u>25,040,000</u> | <u>—</u> | <u>—</u> | <u>(2,640,000)</u> | <u>22,400,000</u> |

Details of specific categories of options are as follows:

| Date of grant | Exercise period | Exercise price |
|---------------------|--|----------------|
| 15th April, 2002 | 15th April, 2003 to 7th January, 2012 | HK\$0.69 |
| 2nd September, 2002 | 2nd September, 2003 to 7th January, 2012 | HK\$0.31 |

The vesting period of share options is the period from the date of grant until the commencement of the exercise period. All share options referred to above are subject to one year's vesting period.

The share options may be exercised, in whole or in part, in the following manner:

| From the date of grant of share options | Exercisable Percentage |
|---|------------------------|
| Within 12th months | Nil |
| 13th - 24th months | 33 $\frac{1}{3}$ % |
| 25th - 36th months | 33 $\frac{1}{3}$ % |
| 37th - 48th months | 33 $\frac{1}{3}$ % |

The exercise price is subject to adjustment. Provided always that any part of the share options not exercised in full in accordance with the periods specified above shall remain exercisable during the exercise period of share options but the exercise price shall be adjusted by increasing 5% per annum (on a cumulative basis) until such time as the relevant portion of the share options shall have been fully exercised or lapsed in accordance with the scheme.

Total consideration received during the year from grantee for taking up the options granted amounted to HK\$89 (2001: Nil).

No charge is recognised in the income statement in respect of the value of options granted during the year.

Notes to the Financial Statements (Cont'd)

For the year ended 31st December, 2002

22. RETIREMENT BENEFITS SCHEME

The Group participates in both a defined contribution scheme which is registered under the Occupational Retirement Scheme Ordinance (the "ORSO Scheme") and a Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Ordinance in December 2000. The assets of the schemes are held separately from those of the Company, in funds under the control of trustees. Employees who were members of the ORSO Scheme prior to the establishment of the MPF Scheme were offered a choice of staying within the ORSO Scheme or switching to the MPF Scheme, whereas all new employees joining the Group on or after 1st December, 2000 are required to join the MPF Scheme.

For members of the MPF Scheme, the Group contributes 5% of relevant payroll costs to the MPF Scheme, which contribution is matched by the employee. Both the employer's and the employees' contributions are subject to a maximum of monthly earnings of HK\$20,000 per employee and thereabove contributions are voluntary.

The ORSO Scheme is funded by monthly contributions from both employees and the Group at 5% of the employee's basic salary. The employees are entitled to receive their entire contributions and the accrued interest thereon, and 100% of the employer's contributions and the accrued interest thereon upon retirement or leaving the employer after completing 10 years of service or at a reduced scale of between 30% to 90% after completing 3 to 9 years of service.

Where there are employees who leave the ORSO Scheme prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions. The amount of forfeited contributions utilised in this manner during the year was HK\$17,821 (2001: Nil). As at 31st December, 2002, no material forfeited contributions, which arose upon employees leaving the ORSO Scheme, were available to reduce the contributions payables in future years.

23. DEFERRED TAXATION

At the balance sheet date, the major components of the unprovided deferred tax liabilities (assets) are as follows:

| | 2002 | 2001 |
|--|--------------|--------------|
| | HK\$'000 | HK\$'000 |
| Tax effect of timing differences because of: | | |
| — excess of tax allowances over depreciation | 12 | 9 |
| — taxation losses | (874) | (424) |
| | <u>(862)</u> | <u>(415)</u> |

A net deferred tax asset has not been recognised in the financial statements in respect of tax losses available to offset future profits as it is not certain that the tax losses will be utilized in the foreseeable future.

Notes to the Financial Statements (Cont'd)

For the year ended 31st December, 2002

23. DEFERRED TAXATION (Cont'd)

The amount of unprovided deferred tax for the year is as follows:

| | 2002 HK\$'000 | 2001 HK\$'000 |
|--|------------------|------------------|
| Tax effect of timing differences because of: | | |
| — excess of tax allowances over depreciation | 3 | 9 |
| — tax losses (arising) utilised | (450) | 370 |
| | <u>(447)</u> | <u>379</u> |

24. PARTICULARS OF SUBSIDIARIES

Details of subsidiaries as at 31st December, 2002 are as follows:

| Name of subsidiary | Place of incorporation | Issued and fully paid share capital | Proportion of nominal value of issued capital held by Company | | Principal activity |
|---|------------------------|-------------------------------------|---|------------|---|
| | | | Directly | Indirectly | |
| Beforward Trading Limited | British Virgin Islands | US\$2 | — | 100% | Investment holding |
| Cathy Success Limited | British Virgin Islands | US\$1 | — | 100% | Investment holding |
| Great Ready Assets Limited | British Virgin Islands | US\$2 | 100% | — | Investment holding |
| Jessica (BVI) Limited | British Virgin Islands | US\$2 | — | 100% | Investment holding |
| Jessica Publications (BVI) Limited | British Virgin Islands | US\$2 | — | 100% | Investment holding |
| Jessica Limited (formerly known as “Deemwell Limited”) | Hong Kong | HK\$2 | — | 100% | Publication of “旭茉 JESSICA” magazine |
| Jessica Girl Limited | Hong Kong | HK\$2 | — | 100% | Inactive |
| Jessica Management Limited (formerly known as “Kewell Limited”) | Hong Kong | HK\$2 | — | 100% | Provision of employee and personnel services and holding of a lease agreement |
| Rockwell Company Limited | Hong Kong | HK\$2 | — | 100% | In deregistration |
| Superb Taste Company Limited | Hong Kong | HK\$2 | — | 100% | Publication of “味道 LISA” magazine |

FINANCIAL SUMMARY

RESULTS

| | For the period from 17th March, 1999 to 31st December, | | For the year ended 31st December, | |
|--|---|------------------------------|-----------------------------------|-----------------------|
| | 1999 HK\$'000 (Note i) | 2000 HK\$'000 (Note i) | 2001 HK\$'000 (Note i) | 2002 HK\$'000 |
| Turnover | 8,181 | 16,244 | 20,034 | 27,599 |
| Direct operating expenses | (4,091) | (12,266) | (15,611) | (18,668) |
| Other operating income | 1 | 201 | 437 | 104 |
| Selling and distribution costs | (1,622) | (5,756) | (5,355) | (6,488) |
| Administrative expenses | (2,545) | (2,547) | (5,164) | (4,591) |
| Net loss from operations | (76) | (4,124) | (5,659) | (2,044) |
| Waiver of amounts due to related companies | — | — | 7,611 | — |
| Net profit (loss) before taxation | (76) | (4,124) | 1,952 | (2,044) |
| Taxation credit (charge) | — | — | (117) | 117 |
| Net profit (loss) for the period/year | <u>(76)</u> | <u>(4,124)</u> | <u>1,835</u> | <u>(1,927)</u> |

ASSETS AND LIABILITIES

| | As at 31st December, | |
|--------------------------|-------------------------------|---------------------|
| | 2001 HK\$'000 (Note ii) | 2002 HK\$'000 |
| Total assets | 7,355 | 14,148 |
| Total liabilities | (9,720) | (9,275) |
| Net assets (liabilities) | <u>(2,365)</u> | <u>4,873</u> |

Notes:

- (i) The results for each of the three period/years preceding the year ended 31st December, 2001 have been prepared on a combined basis as if the group structure immediately after the group reorganisation in September 2001 had been in existence throughout the relevant years.
- (ii) The Company was incorporated in the Cayman Islands on 29th June, 2001 and became the holding company of the Group as a result of the group reorganisation which took place on 10th September, 2001. Accordingly, the balance sheets for the Group that have been prepared are those set out above.