

# 旭業 JESSICA

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

03  
ANNUAL  
REPORT

## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

**GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

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*This report, for which the directors (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, 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.*

# Contents

*Page*

Corporate Information	2
Chairman's Statement	3
Management Discussion and Analysis	5
Comparison of Business Objectives with Actual Business Progress	9
Biographical Details of Directors and Senior Management	13
Directors' Report	15
Auditors' Report	26
Consolidated Income Statement	27
Consolidated Balance Sheet	28
Balance Sheet	29
Consolidated Statement of Changes in Equity	30
Consolidated Cash Flow Statement	31
Notes to the Financial Statements	32
Financial Summary	49

# 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

Mr. Fung Kin AHKSA, FCCA

## AUTHORISED REPRESENTATIVES

Ms. Ng, Jessica Yuk Mui

Mr. Fung Kin

## 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

## WEBSITE FOR THE GROUP'S MAGAZINES

[www.jessicahk.com](http://www.jessicahk.com)

## Chairman's Statement

I am pleased to report the activities of the Company and its subsidiaries (together "the Group") for the year ended 31st December, 2003.

### BUSINESS REVIEW AND STRATEGY

The Group recorded turnover of approximately HK\$41.3 million, a 49.6% growth on the previous year, for the year ended 31st December, 2003. Loss from operations was approximately HK\$1.5 million, as compared with approximately HK\$1.9 million last year. The decrease in operating loss was due to the continual growth in advertising revenues and stronger operational results from "旭茉 JESSICA" magazine, which remains the most favoured women's glossy magazine in Hong Kong.

In April 2003, the Group launched its new title, "旭茉 JESSICACODE" magazine. The magazine has been well received by advertisers and readers, and the audited average monthly circulation for "旭茉 JESSICACODE" magazine published by the Hong Kong Audit Bureau of Circulations was approximately 55,000 copies for the 3 months from April to June 2003.

Losses of the Group for the year ended 31st December, 2003 mainly resulted from increased operational and selling and distribution expenses, resulting from the initial launch stage of "旭茉 JESSICACODE" magazine and the employment of resources into "味道 LISA" magazine, as "味道 LISA" magazine was adapted to a bi-weekly magazine starting from April 2003.

Despite the outbreak of Severe Acute Respiratory Syndrome ("SARS") in the second quarter of the year and increased market competition, the second half of 2003 saw a further expansion in our business, with turnover for the period of approximately HK\$23.9 million, representing an increase of approximately 49.6% as compared with the same period of the previous year.

The Group has been actively exploring opportunities in magazine publications and distribution related business in the People's Republic of China (the "PRC"). On 11th August, 2003, Grandpress Limited ("Grandpress"), a wholly-owned subsidiary of the Company, entered into a co-operative joint venture agreement (the "Agreement") with Shanghai Boyang Advertising Limited (上海博洋廣告有限公司) ("Boyang"). Pursuant to the Agreement, Grandpress and Boyang will form a company named Shanghai South China & Boyang Media Consultant Co., Ltd. (上海南華博洋傳媒諮詢有限公司) (the "Joint Venture") in the PRC, a Sino-foreign co-operative joint venture. The name of the Joint Venture was subsequently changed to "Shanghai South China & Boyang Business Consultation Co., Ltd. (上海南華勃洋商務諮詢有限公司)". The Joint Venture will be principally engaged in advisory and consultancy for print media related businesses in the PRC.

### PROSPECTS

The Group's results are expected to improve in terms of the turnover and the Group's overall profitability, as the three titles of the Group in Hong Kong continue to grow on their existing foundations and improve its operational efficiencies. We are dedicated to further strengthening our human resources base and shall continue to improve operational efficiencies and increase on brand values. China will be a key market for our further development, and the operations in China are expected to have significant contributions to the Group's top and bottom line.

The Directors and management of the Company are optimistic about the future development of the Group and expect that the titles of the Company will grow further in terms of circulation and advertising revenue in the year of 2004.

## 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  
26th March, 2004

# Management Discussion and Analysis

## OPERATION REVIEW

The Group made significant advances in the year 2003, with growth in advertising and circulation revenues. Despite SARS and difficult market conditions in the first half year, the Group was aggressive in capturing market share of the women's glossies market and launched "旭茉JESSICACODE" magazine, during the peak of the SARS epidemic in Hong Kong and changed the frequency of "味道LISA" magazine to a bi-weekly in April 2003, in order to match market needs. The Group also expanded into the China market, gaining valuable experience in the China local publications market. Overall operational efficiencies improved, with increase in yields, and development of new streams of business.

For the year ended 31st December, 2003, the Group's turnover increased by approximately 49.6% to approximately HK\$41,287,000 (2002: approximately HK\$27,599,000) as we came out of the SARS period. Loss attributable to shareholders decreased by approximately 21.4% to approximately HK\$1,515,000 (2002: approximately HK\$1,927,000). Loss per share was HK0.30 cents (2002: HK0.38 cents).

Compared on a quarter-to-quarter basis, the Group turned around from a loss of approximately HK\$275,000 for the three months ended 31st December, 2002 to a profit of approximately HK\$177,000 for the three months ended 31st December, 2003. Turnover and operating costs for the three months ended 31st December, 2003 increased by approximately 50.8% and 42.1% respectively from the same period last year.

The Group focused on further strengthening its human resources pool by recruiting more experienced staff from a range of backgrounds, in order to provide further value-added services at the individual magazine, and group levels and to create further synergies within the Group.

### *Hong Kong Operations*

"旭茉JESSICA" magazine saw significant growth in advertising revenues of approximately 45.7% as compared to the same period in 2002. "旭茉JESSICA" magazine remains the leading women's glossy magazine in Hong Kong in terms of circulation, and continues to be the exclusive magazine for Hang Seng Bank's Femina account holders.

Total revenues for "味道LISA" magazine was approximately HK\$9.8 million as compared to approximately HK\$7.9 million last year. The change of publication frequency from a monthly to a bi-weekly in April 2003, contributed to the growth of both advertising and circulation revenues. "味道LISA" magazine continued its partnership with "Wellcome" chain-supermarkets, and ran a series of promotional activities, including the 5th Annual Secondary School Cooking Competition.

"旭茉JESSICACODE" magazine was launched in April 2003, as a glossy magazine with a fun-loving and entertaining approach to fashion and beauty, targeting readers of ages between 18 and 35+. The magazine underwent several changes to adapt to the market's needs, and was published semi-monthly between July 2003 and December 2003. The launch has contributed to the recognition of the "旭茉JESSICA" brand, and enabled the Group to capture further business through the "旭茉JESSICA" brand.

## Management Discussion and Analysis (Cont'd)

### *China Developments*

On 11th August, 2003, Grandpress entered into the Agreement with Boyang. Pursuant to the Agreement, Grandpress and Boyang will form a company named Shanghai South China & Boyang Media Consultant Co., Ltd. (上海南華博洋傳媒諮詢有限公司) in the PRC, a Sino-foreign co-operative joint venture. The name of the Joint Venture was subsequently changed to “Shanghai South China & Boyang Business Consultation Co., Ltd. (上海南華勃洋商務諮詢有限公司)”. The Joint Venture will be principally engaged in advisory and consultancy for print media related businesses in the PRC.

### **LIQUIDITY AND FINANCIAL RESOURCES**

During the year ended 31st December, 2003, the Group's operation was mainly financed by the internal financial resources of the Group.

As at 31st December, 2003, the Group had net current assets of approximately HK\$2.2 million (31st December, 2002: approximately HK\$4.3 million). The current assets comprised bank balances and cash of approximately HK\$5.8 million, trade and other receivables of approximately HK\$10.1 million and amount due from a related company of approximately HK\$0.1 million. The current liabilities comprised trade payables, accruals and other payables of approximately HK\$13.1 million and receipts in advance of approximately HK\$0.7 million.

As at 31st December, 2003, the Group had aggregate banking facilities granted under corporate guarantee by the Company in respect of a revolving term loan of HK\$1 million, none of which had been utilized. Therefore, the gearing ratio of the Group, which is measured by bank borrowings net of cash and bank balance to shareholders' equity, remained zero as at 31st December, 2003.

During the year ended 31st December, 2003, the Group did not make any material acquisitions and disposals of subsidiaries and affiliated companies and investment save for the Joint Venture (as defined above), details of which are stated in the section headed “Significant Investment Plans” below.

As at 31st December, 2003, (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; and (iii) the Group had no significant investment held save for the Joint Venture.

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.



## Management Discussion and Analysis (Cont'd)

### SIGNIFICANT INVESTMENT PLANS

On 11th August, 2003, Grandpress entered into the Agreement with Boyang. Pursuant to the Agreement, Grandpress and Boyang will form a company named Shanghai South China & Boyang Media Consultant Co., Ltd. (上海南華博洋傳媒諮詢有限公司) in the PRC, a Sino-foreign co-operative joint venture. The name of the Joint Venture was subsequently changed to “Shanghai South China & Boyang Business Consultation Co., Ltd. (上海南華勃洋商務諮詢有限公司)”. The Joint Venture will be principally engaged in advisory and consultancy for print media related businesses in the PRC.

The registered capital for the Joint Venture is HK\$5,200,000 of which (i) HK\$2,860,000 will be contributed in cash by Grandpress and (ii) the remaining HK\$2,340,000 will be contributed in cash and in kind by Boyang. Hence, the Joint Venture will be owned as to 55% by Grandpress and as to 45% by Boyang. Up to 31st December, 2003, the Group had paid a deposit of approximately HK\$451,000 for this investment project. The investment was subsequently fully paid up in January 2004.

As at 31st December, 2003, the Group did not have any other significant investment plans, except the above-mentioned Joint Venture and the plans set out in the section headed “Statement of Business Objectives” in the prospectus of the Company dated 31st December, 2001 (the “Prospectus”).

### CONTINGENT LIABILITIES

As at 31st December, 2003, 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 Holdings Limited, Fung Shing Group Limited, Ronastar Investments Limited, Eartrade Investments Limited and Bannock Investment Limited, shareholders of the Company, in favour of the Group.
- (b) As at 31st December, 2003, the Company had provided a corporate guarantee to a bank to secure a bank facility of HK\$1 million (2002: HK\$1 million) granted to a subsidiary, which remained unused as at 31st December, 2003.

### EMPLOYEES

As at 31st December, 2003, the total number of employees of the Group was 75 (31st December, 2002: 34). Employees’ cost (including directors’ emoluments) amounted to approximately HK\$12.3 million for the year (2002: approximately HK\$6.3 million).

The Group considers its employees as its most valuable assets. 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.

## Management Discussion and Analysis (Cont'd)

### PROSPECTS

The management team is positive towards the year of 2004. The results of the final quarter of 2003 evidenced the strong upturn of the Hong Kong economy, and we expect advertisers to be more aggressive and demanding in their spending, which will be of benefit to our Group.

#### *“旭茉 JESSICA” magazine*

In January 2004, “旭茉JESSICA” magazine extended its circulation strategy to an additional corporate partner, Ma Belle Jewellery, for the subscription of “旭茉JESSICA” magazine for Ma Belle Jewellery’s VIP clients, further strengthening our no.1 circulation women’s glossy position in Hong Kong. Management shall focus on improving margins from advertising revenues and diversifying revenue sources, by providing a greater range of value-added services to advertisers. In terms of positioning, “旭茉JESSICA” magazine will market itself as the strongest fashion magazine for women in Hong Kong.

#### *“味道 LISA” magazine*

Since “味道LISA” magazine was changed into a bi-weekly magazine, we have been aggressively expanding our platforms for business, especially partnering with Fast Moving Consumer Goods (FMCG) brands to further strengthen “味道LISA” magazine’s standing as a family magazine.

#### *“旭茉 JESSICACODE” magazine*

From the January 2004 issue onwards, “旭茉JESSICACODE” magazine was resumed as a monthly magazine with a focus on beauty and fashion trends for under 30s women, in order to better meet readers and advertisers needs. A promotional program was launched starting from the March 2004 issue, with a special cover price and innovative packaging in order to gain further noise at the newsstands, readers, and advertisers levels. Management will focus on strengthening the “旭茉JESSICACODE” brand, and expanding its business beyond traditional print.

#### *China Developments*

The Joint Venture obtained the PRC business license on 25th December, 2003. The Group is currently looking for business opportunities in the PRC print media related businesses.

## 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, 2003 as stated in the Prospectus**

### **Actual Business Progress**

#### **Enrich contents of the Group's magazines**

Continue to revamp content and flow of each magazine of the Group biannually

Each magazine was further strengthened by the introduction of new editorial sections and improved layouts.

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

Staff were sent regularly on international press trips abroad to enhance their expertise.

The Group also aggressively recruited university graduates to further support and nurture the talent of human resources, to pave for further expansion of the Group.

Conduct regular reader surveys to identify the readers and keep abreast of readers' interests and needs

Regular focus groups and in-magazine surveys were conducted to further understand readers' needs and profiles.

#### **Increase advertising income**

Continue to expand advertising customer base and widen the range of advertising product categories by improving long term relationships with advertisers and agencies

The Group held several annual events, including anniversary celebrations, cooking and make-over competitions, and introduced special creatives, insertions and booklets in order to generate new sources of revenues and provide further value-added services.

Market the Group's newly designed annual events and special quarterly booklets to different categories of advertisers

Continue to develop regional sales forces to expand advertising customer base in different regions

The plan has not been carried out during this period as the Group focused on the development of the Hong Kong operations.

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

### Business objectives for the six months ended

31st December, 2003 as stated in the Prospectus

### Actual Business Progress

#### Increase publicity of the Group's titles

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

A promotional campaign for “旭茉 JESSICACODE” magazine through magazines and cable TV was carried out.

“味道 LISA” magazine continues its joint promotion campaign with “Wellcome” supermarket chain.

“旭茉 JESSICA” magazine continues its joint promotion with Hang Seng Bank Femina account holders and expanding its reach to new readers.

Participate in book fairs

The Group participated the Hong Kong Book Fair 2003 held in July 2003, which was organized by Hong Kong Trade Development Council.

#### Launch of new titles in local market

Continue to improve the content of “JESSICA GIRL” magazine

“旭茉 JESSICACODE” magazine was launched in April 2003 as a monthly magazine, targeting female readers between the ages of 18 - 35+, with positive response from both advertisers and readers. The management considers that the name “旭茉 JESSICACODE” is more suitable for the market, and much wider in terms of target readers. The magazine was published as a semi-monthly between July and December 2003.

Regular weekly meetings held by senior management for its staff members to brief them on current market trends on beauty and fashion, discussion on hot topics and enrichment of contents.

Commence studying the feasibility of launching a new title for local market

The plan has not been carried out during this period as the Group focused on the development of the existing magazines.

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

### Business objectives for the six months ended

31st December, 2003 as stated in the Prospectus

### Actual Business Progress

#### Expand into other Chinese-speaking markets

Finalise the PRC publishing partners

On 11th August, 2003, Grandpress entered into the Agreement with Boyang. Pursuant to the Agreement, Grandpress and Boyang will form a company named Shanghai South China & Boyang Media Consultant Co., Ltd. (上海南華博洋傳媒諮詢有限公司) in the PRC, a Sino-foreign co-operative joint venture. The name of the Joint Venture was subsequently changed to "Shanghai South China & Boyang Business Consultation Co., Ltd. (上海南華勃洋商務諮詢有限公司)". The Joint Venture will be principally engaged in advisory and consultancy for print media related businesses in the PRC.

Launch the Group's publishing titles in major cities in the PRC such as Beijing, Shanghai and Guangzhou

The plan has not been carried out during this period as the Group focused on the development of the Hong Kong operations.

#### Develop its marketing team and support services team

No plan for this period

Develop an individual administrative team by recruiting two additional staff to work with the existing administrative staff to carry out support services, including administrative, accountancy, information technology and human resources functions of the Group which was planned for the six months ended 30th June, 2003

An additional staff was recruited in the second half of 2003 to provide support services with the existing administrative staff.

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

### USE OF PROCEEDS

The net proceeds from the placing of shares in January 2002 (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	From date of listing to 31st December, 2002	Actual amount used		From date of listing to 31st December, 2003
			For the six months ended 30th June, 2003	For the six months ended 31st December, 2003	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
1. Promotion and marketing for two existing magazines	1,800	1,628	172	—	1,800
2. Launch of new titles in local market	4,500	—	2,446	2,054	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	28	2	4	34
5. Staff enhancement, recruiting new staff and developing its own marketing team and support services team	1,200	830	370	—	1,200
6. General working capital	1,100	944	135	—	1,079
	9,200	3,430	3,125	2,058	8,613
	9,200	3,430	3,125	2,058	8,613

## Biographical Details of Directors and Senior Management

### EXECUTIVE DIRECTORS

**Mr. Ng Hung Sang, Robert**, aged 54, 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 and Chief Executive Officer 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 25, 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 and is responsible for the strategic planning and development and the daily operations of the Group. She holds 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. Ms. Ng is also an executive director of South China Holdings and South China Industries and a non-executive director of Capital. She is the daughter of Mr. Ng Hung Sang, Robert.

**Ms. Foo Kit Tak**, aged 30, 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. Prior to joining the Group, Ms. Foo had worked in “旭莱 JESSICA” magazine and “味道 LISA” magazine since April 2000.

**Ms. Cheung Mei Yu**, aged 36, was appointed as a Director of the Company on 1st October, 2001. Ms. Cheung is the Chief Editor of “旭莱 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 45, 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 is also an independent non-executive Director of Wah Shing.

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

**Ms. Pong Oi Lan, Scarlett**, aged 44, is the Managing Director of Realchamp Asset Management Limited and Health Quotient HQ International Holdings 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, Committee on Trust Fund for Severe Acute Respiratory Syndrome, Hong Kong Air Cadet Corps 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

**Mr. Fung Kin**, aged 44, is the Qualified Accountant and Company Secretary, and one of the Authorised Representatives of the Company. Mr. Fung is responsible for financial management, reporting and secretarial matters. He joined the Group on 16th September, 2003. He graduated from the Hong Kong Polytechnic University with a Master of Science degree in Accountancy. He is a member of The Association of Chartered Certified Accountants, the United Kingdom, and the Hong Kong Society of Accountants. Mr. Fung has over 19 years of experience in financial management and accounting.

**Mr. Mo Tik Sang**, aged 39, is the Associate Publisher of the Group and is responsible for strategic branding and business development for the Group's titles. He joined the Group on 19th March, 2003. He graduated from Hong Kong Baptist University with a major in mass communication. Mr. Mo has been equipped with a wealth of integrated experience through his senior positions in the fields of advertising, mass media as well as consumer marketing.



## Directors' Report

The Directors present their annual report together with the audited financial statements of the Company and of the Group for the year ended 31st December, 2003.

### PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its subsidiaries are set out in note 26 to the financial statements.

### RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2003 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, 2003 (2002: nil).

### GROUP FINANCIAL SUMMARY

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

	For the year ended 31st December				For the
	2003	2002	2001	2000	period from
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	17th March,
					1999 to 31st
					December,
					1999
					HK\$'000
Turnover	41,287	27,599	20,034	16,244	8,181
Direct operating expenses	(27,260)	(18,668)	(15,611)	(12,266)	(4,091)
Other operating income	164	104	437	201	1
Selling and distribution costs	(11,377)	(6,488)	(5,355)	(5,756)	(1,622)
Administrative expenses	(4,329)	(4,591)	(5,164)	(2,547)	(2,545)
Loss from operations	(1,515)	(2,044)	(5,659)	(4,124)	(76)
Waiver of amounts due to related companies	—	—	7,611	—	—
(Loss) profit before taxation	(1,515)	(2,044)	1,952	(4,124)	(76)
Taxation credit (charge)	—	117	(117)	—	—
(Loss) profit attributable to shareholders	(1,515)	(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 five financial years/period is set out below:

#### Assets and liabilities

	As at 31st December				
	2003	2002	2001	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Total assets	17,176	14,148	7,355	11,728	6,453
Total liabilities	(13,768)	(9,275)	(9,720)	(15,928)	(6,529)
Net assets (liabilities)	3,408	4,873	(2,365)	(4,200)	(76)

*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.

### PLANT AND EQUIPMENT

Details of movements in the 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 Company's share capital 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. Cheung Mei Yu and Ms. Pong Oi Lan, Scarlett 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' Report (Cont'd)

### 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 1st October, 2001 (for Ms. Cheung Mei Yu) and from 24th August, 2001 (for Mr. Ng Hung Sang, Robert, Ms. Ng, Jessica Yuk Mui and Ms. Foo Kit Tak), which 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' AND CHIEF EXECUTIVE'S INTERESTS IN EQUITY SECURITIES

As at 31st December, 2003, the interests or short positions of the Directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules, relating to the minimum standards of dealing by directors of listed issuers, to be notified to the Company and the Stock Exchange were as follows:

Name of director	Name of company	Capacity	Number of ordinary shares held	Approximate percentage of shareholding
Mr. Ng Hung Sang, Robert	The Company	Beneficial owner	18,102,800	3.57%
	The Company	Corporate interest	318,132,403 ( <i>Note</i> )	62.79%
Ms. Ng, Jessica Yuk Mui	The Company	Beneficial owner	416,000	0.08%

*Note:* The 318,132,403 shares referred to above include 92,966,000 shares held by Parkfield Holdings Limited ("Parkfield"), 99,012,563 shares held by Fung Shing Group Limited ("Fung Shing"), 4,166,400 shares held by Ronastar Investments Limited ("Ronastar") and 121,987,440 shares held by Eartrade Investments Limited ("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 Limited ("South China Holdings"), respectively. The 121,987,440 shares referred to above include the 59,325,840 shares held by Bannock Investment Limited ("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.

### DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN EQUITY SECURITIES (Cont'd)

Save as disclosed above and the interests of certain Directors of the Company in the share options of the Company as disclosed in the section headed "SHARE OPTION SCHEME" below, as at 31st December, 2003, none of the Directors or chief executive of the Company had any interests or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules, relating to the minimum standards of dealing by directors of listed issuers, to be notified to the Company and the Stock Exchange.

### 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. On 29th April, 2003, the 10% limit on the grant of options under the Scheme was refreshed.

As at 31st December, 2003, an aggregate of 16,560,160 Shares were issuable pursuant to share options granted under the Scheme. In addition, up to 31st December, 2003, 159,840 options were exercised by the grantees pursuant to the Scheme.

As at 31st December, 2003, the total number of Shares available for issue pursuant to the grant of further options under the Scheme was 50,647,987, representing approximately 10% of the issued share capital of the Company as at 26th March, 2004.

## Directors' Report (Cont'd)

### SHARE OPTION SCHEME (Cont'd)

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.

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 summarized under the sub-section heading "SHARE OPTION SCHEME" in Appendix IV to the Prospectus.

## Directors' Report (Cont'd)

### SHARE OPTION SCHEME (Cont'd)

#### (ii) Details of options granted

Particulars and movements during the year of the outstanding share options granted under the Scheme were as follows:

Name or category of participant	Number of share options				Date of grant of share options	Exercise period of share options	Price of the Company's shares		
	As at 1.1.2003	Exercised during the year	Lapsed during the year	As at 31.12.2003			Initial exercise price per share option	Immediately preceding the grant date of share options	Immediately preceding the exercise date of share options
	HK\$	HK\$	HK\$	HK\$			(Note b)	(Note c)	HK\$
<b>Directors</b>									
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	<u>6,400,000</u>	<u>—</u>	<u>—</u>	<u>6,400,000</u>					
<b>Employees</b>									
In aggregate	2,240,000	—	(320,000)	1,920,000	15/4/2002	15/4/2003 - 7/1/2012	0.69	0.68	N/A
	4,320,000	—	(1,120,000)	3,200,000	2/9/2002	2/9/2003 - 7/1/2012	0.31	0.30	N/A
Sub-total	<u>6,560,000</u>	<u>—</u>	<u>(1,440,000)</u>	<u>5,120,000</u>					
<b>Others</b>									
In aggregate	7,200,000	—	(3,440,000)	3,760,000	15/4/2002	15/4/2003 - 7/1/2012	0.69	0.68	N/A
	2,240,000	(159,840)	(800,000)	1,280,160	2/9/2002	2/9/2003 - 7/1/2012	0.31	0.30	0.52*
Sub-total	<u>9,440,000</u>	<u>(159,840)</u>	<u>(4,240,000)</u>	<u>5,040,160</u>					
Total	<u>22,400,000</u>	<u>(159,840)</u>	<u>(5,680,000)</u>	<u>16,560,160</u>					

\* All share options were exercised on 10th October, 2003.

No share options were granted and cancelled during the year.

# 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 month	33 1/3%
25th - 36th month	33 1/3%
37th - 48th month	33 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 the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the share options.

## CONVERTIBLE SECURITIES, OPTIONS, WARRANTS OR SIMILAR RIGHTS

Save as disclosed in the section heading "SHARE OPTION SCHEME" above, during the year ended 31st December, 2003, 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' 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

So far as is known to any Director or chief executive of the Company, as at 31st December, 2003, shareholders who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who were directly, or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other members of the Group were as follows:

Name of shareholder	Name of company	Capacity	Number of ordinary shares held	Approximate percentage of shareholding
Mr. Ng Hung Sang, Robert	The Company	Beneficial owner	18,102,800	3.57%
	The Company	Corporate interest	318,132,403 <i>(Note a)</i>	62.79%
Parkfield	The Company	Beneficial owner	92,966,000 <i>(Note a)</i>	18.35%
Fung Shing	The Company	Beneficial owner	99,012,563 <i>(Note a)</i>	19.54%
Eartrade	The Company	Beneficial owner	62,661,600 <i>(Note b)</i>	12.37%
	The Company	Corporate interest	59,325,840 <i>(Note b)</i>	11.71%
Bannock	The Company	Beneficial owner	59,325,840 <i>(Note b)</i>	11.71%
Ms. Ng Lai King, Pamela	The Company	Spouse's interest	336,235,203 <i>(Note c)</i>	66.36%

*Notes:*

- (a) The 318,132,403 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. Thus, Eartrade is deemed to be interested in the 59,325,840 shares of the Company held by Bannock.
- (c) Ms. Ng Lai King, Pamela is the wife of Mr. Ng Hung Sang, Robert and is taken to be interested in the 336,235,203 shares in which Mr. Ng Hung Sang, Robert is interested by virtue of the SFO.

Save as disclosed above, as at 31st December, 2003, the Directors or chief executives of the Company were not aware of any other person who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other members of the Group.



## Directors' Report (Cont'd)

### 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, 2003 with companies controlled by, or affiliated with, South China Holdings are set out in note 19 to the financial statements. A Director, 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 and Chief Executive Officer of Capital Publications Limited ("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 Eartrade, which directly and indirectly through Bannock holds shares in South China Holdings and Capital. Ms. Cheung Choi Ngor, Christina, who is 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 Holdings. 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 a director of South China Holdings and a director of certain members of South China Media Limited and a non-executive director of Capital.

Save as disclosed above, none of the Directors or the management shareholders of the Company or their respective associates have any interest in any 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.

### 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 23 to the financial statements.

### **CUSTOMERS AND SUPPLIERS**

During the year ended 31st December, 2003, 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 80.3% of the Group's total purchases. In addition, the largest supplier accounted for approximately 40.7% 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 share capital) had a beneficial interest in the Group's five largest suppliers and customers as at 31st December, 2003.

### **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 2002 annual report, 2003 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, 2003 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.

## Directors' Report (Cont'd)

### SPONSOR'S INTERESTS

Pursuant to the agreement dated 27th November, 2002 entered into between the Company and MasterLink Securities (Hong Kong) Corporation Limited ("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 updated and notified by MasterLink, as at 31st December, 2003, 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

Except for the period from the date of incorporation to November 2002, in which Messrs. Arthur Andersen & Co. acted as auditors of the Company, Messrs. Deloitte Touche Tohmatsu have acted as auditors of the Company for the past two years.

A resolution will be submitted to the forthcoming annual general meeting to re-appoint Messrs. 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  
26th March, 2004

## 德勤 • 關黃陳方會計師行

Certified Public Accountants  
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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 48 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 solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

#### **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, 2003 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, 26th March, 2004

# Consolidated Income Statement

For the year ended 31st December, 2003

	NOTES	2003 HK\$'000	2002 HK\$'000
Turnover	4	41,287	27,599
Direct operating expenses		(27,260)	(18,668)
Other operating income	5	164	104
Selling and distribution costs		(11,377)	(6,488)
Administrative expenses		(4,329)	(4,591)
Loss before taxation	6	(1,515)	(2,044)
Taxation credit	8	—	117
Net loss for the year		<u>(1,515)</u>	<u>(1,927)</u>
Basic loss per share	9	<u>HK(0.30) cents</u>	<u>HK(0.38) cents</u>

## Consolidated Balance Sheet

*At 31st December, 2003*

	NOTES	2003 HK\$'000	2002 HK\$'000
<b>Non-current assets</b>			
Plant and equipment	10	746	586
Deposit for investment	12	451	—
		<b>1,197</b>	586
<b>Current assets</b>			
Trade receivables	13	9,825	5,566
Other receivables		264	703
Amount due from a related company	19	77	—
Bank balances and cash		5,813	7,293
		<b>15,979</b>	13,562
<b>Current liabilities</b>			
Trade payables	14	9,674	6,469
Other payables and accrued charges		3,434	2,057
Receipts in advance		660	737
Amount due to a related company	19	—	12
		<b>13,768</b>	9,275
<b>Net current assets</b>		<b>2,211</b>	4,287
		<b>3,408</b>	4,873
<b>Capital and reserves</b>			
Share capital	16	507	506
Share premium and reserves		2,901	4,367
		<b>3,408</b>	4,873
		<b>3,408</b>	4,873

The financial statements on pages 27 to 48 were approved and authorised for issue by the Board of Directors on 26th March, 2004 and are signed on its behalf by:

**NG HUNG SANG, ROBERT**  
*CHAIRMAN*

**NG, JESSICA YUK MUI**  
*DIRECTOR*

# Balance Sheet

At 31st December, 2003

	NOTES	2003 HK\$'000	2002 HK\$'000
Non-current assets			
Investments in subsidiaries	11	<u>510</u>	<u>510</u>
Current assets			
Amount due from a subsidiary	15	<u>8,489</u>	8,761
Bank balances		<u>216</u>	<u>70</u>
		<u>8,705</u>	<u>8,831</u>
Current liabilities			
Other payables and accrued charges		<u>132</u>	<u>45</u>
Net current assets		<u>8,573</u>	<u>8,786</u>
		<u>9,083</u>	<u>9,296</u>
Capital and reserves			
Share capital	16	<u>507</u>	506
Share premium and reserves	17	<u>8,576</u>	<u>8,790</u>
		<u>9,083</u>	<u>9,296</u>

NG HUNG SANG, ROBERT  
CHAIRMAN

NG, JESSICA YUK MUI  
DIRECTOR

## Consolidated Statement of Changes in Equity

*For the year ended 31st December, 2003*

	Share capital HK\$'000	Share premium HK\$'000	Capital reserve (note) HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
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)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31st December, 2002	506	9,169	(510)	(4,292)	4,873
Exercise of share options	1	49	—	—	50
Net loss for the year	—	—	—	(1,515)	(1,515)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>At 31st December, 2003</b>	<b>507</b>	<b>9,218</b>	<b>(510)</b>	<b>(5,807)</b>	<b>3,408</b>

*Note:* Capital reserve represents the difference between the nominal value and premium of the 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 in 2001.



# Consolidated Cash Flow Statement

For the year ended 31st December, 2003

	2003 HK\$'000	2002 HK\$'000
<b>OPERATING ACTIVITIES</b>		
Loss before taxation	(1,515)	(2,044)
Adjustment for:		
Interest income	(31)	(74)
Depreciation of plant and equipment	165	65
	<hr/>	<hr/>
Operating cash flows before movements in working capital	(1,381)	(2,053)
Increase in trade and other receivables	(3,820)	(2,751)
Increase in amount due from a related company	(77)	—
Increase in trade payables	3,205	1,553
Increase (decrease) in other payables and accrued charges	1,377	(1,319)
Decrease in receipts in advance	(77)	(115)
Decrease in amount due to a related company	(12)	(447)
	<hr/>	<hr/>
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(785)</b>	<b>(5,132)</b>
<b>INVESTING ACTIVITIES</b>		
Deposit paid for investment	(451)	—
Purchases of plant and equipment	(325)	(561)
Interest received	31	74
	<hr/>	<hr/>
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(745)</b>	<b>(487)</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from issue of shares	50	12,662
Expenses incurred in connection with the issue of shares	—	(347)
	<hr/>	<hr/>
<b>NET CASH FROM FINANCING ACTIVITIES</b>	<b>50</b>	<b>12,315</b>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(1,480)</b>	<b>6,696</b>
<b>CASH AND CASH EQUIVALENTS AT 1ST JANUARY</b>	<b>7,293</b>	<b>597</b>
	<hr/>	<hr/>
<b>CASH AND CASH EQUIVALENTS AT 31ST DECEMBER,</b> representing bank balances and cash	<b>5,813</b>	<b>7,293</b>
	<hr/> <hr/>	<hr/> <hr/>

# Notes to the Financial Statements

For the year ended 31st December, 2003

## 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 the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (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 26.

## 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted the following Hong Kong Financial Reporting Standard ("HKFRS") - Statement of Standard Accounting Practice ("SSAP") 12 (Revised) "Income Taxes" issued by the Hong Kong Society of Accountants ("HKSA"). The term of HKFRSs is inclusive of SSAPs and Interpretations approved by the HKSA.

The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, with limited exceptions. The adoption of this revised SSAP has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

## 3. 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.

## Notes to the Financial Statements (Cont'd)

For the year ended 31st December, 2003

### 3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### *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.

#### *Plant and equipment*

Plant and equipment are stated at cost less depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, at 20% per annum.

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.

## Notes to the Financial Statements (Cont'd)

For the year ended 31st December, 2003

### 3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### *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*

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

#### *Retirement benefits scheme*

Payments to the Group's Mandatory Provident Fund Scheme and defined contribution retirement benefit plans are charged as an expense as they fall due.

#### *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.

## Notes to the Financial Statements (Cont'd)

For the year ended 31st December, 2003

### 4. TURNOVER

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

	2003 HK\$'000	2002 HK\$'000
Sale of magazines	11,217	9,943
Advertising income	26,069	16,964
Promotion and marketing income	4,001	692
	<u>41,287</u>	<u>27,599</u>

No revenue was recognised from advertising barter transactions during the year (2002: HK\$37,000).

### 5. OTHER OPERATING INCOME

	2003 HK\$'000	2002 HK\$'000
Bank interest income	31	74
Sundry income	133	30
	<u>164</u>	<u>104</u>

### 6. LOSS BEFORE TAXATION

	2003 HK\$'000	2002 HK\$'000
Loss before taxation has been arrived at after charging (crediting):		
Staff costs including directors' emoluments	11,778	6,075
Retirement benefits scheme contributions	493	262
	<u>12,271</u>	<u>6,337</u>
Allowance for bad and doubtful debts made (written back)	20	(61)
Auditors' remuneration	300	300
Bad debt written off	183	—
Depreciation	165	65
	<u>12,839</u>	<u>6,643</u>

## Notes to the Financial Statements (Cont'd)

*For the year ended 31st December, 2003*

### 7. DIRECTORS' EMOLUMENTS AND HIGHEST PAID EMPLOYEES

(a) *Directors' emoluments*

	2003	2002
	HK\$'000	HK\$'000
Independent Non-Executive Directors		
Fees	100	100
Executive Directors		
Salaries and other benefits	1,413	1,389
Retirement benefits scheme contributions	66	59
	1,479	1,448
Total emoluments	1,579	1,548

For the year ended 31st December, 2003, the executive directors received individual emoluments of HK\$Nil (2002: HK\$Nil), HK\$504,000 (2002: HK\$431,828), HK\$558,735 (2002: HK\$638,758) and HK\$415,800 (2002: HK\$377,288).

(b) *Employees' emoluments*

Of the five highest paid individuals in the Group, two (2002: three) were Directors of the Company whose remunerations were set out in (a) above. The emoluments of the remaining three (2002: two) individuals were as follows:

	2003	2002
	HK\$'000	HK\$'000
Salaries and other benefits	1,580	795
Retirement benefits scheme contributions	39	29
	1,619	824

The aggregate emoluments of each of the individuals were below HK\$1,000,000 for both years.

During each of the two years ended 31st December, 2003, 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, 2003

### 8. TAXATION CREDIT

No provision for Hong Kong Profits Tax has been made as the Group incurred a tax loss for the year. The taxation credit for the year ended 31st December, 2002 represented the overprovision in prior year.

The taxation for the year can be reconciled to the loss per the income statements as follows:

	2003 HK\$'000	2002 HK\$'000
Loss before taxation	(1,515)	(2,044)
Tax at the domestic income tax rate of 17.5% (2002: 16%)	(265)	(327)
Tax effect of expenses that are not deductible in determining taxable profit	9	3
Tax effect of income that is not taxable in determining taxable profit	(5)	(11)
Overprovision in previous year	—	(117)
Unrecognised tax losses	261	335
Taxation credit for the year	—	(117)

Details of the deferred taxation are set out in note 24.

### 9. BASIC LOSS PER SHARE

The calculation of basic loss per share for the year is based on the net loss for the year of approximately HK\$1,515,000 (2002: HK\$1,927,000) and on the weighted average number of 506,516,223 (2002: 506,063,591) shares in issue during the year.

No diluted loss per share has been presented because the exercise price of the Company's share 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, 2003*

### 10. PLANT AND EQUIPMENT

	Leasehold improvements HK\$'000	Furniture and office equipment HK\$'000	Total HK\$'000
COST			
At 1st January, 2003	479	182	661
Additions	—	325	325
<b>At 31st December, 2003</b>	<b>479</b>	<b>507</b>	<b>986</b>
DEPRECIATION			
At 1st January, 2003	39	36	75
Provided for the year	96	69	165
<b>At 31st December, 2003</b>	<b>135</b>	<b>105</b>	<b>240</b>
NET BOOK VALUE			
<b>At 31st December, 2003</b>	<b>344</b>	<b>402</b>	<b>746</b>
At 31st December, 2002	440	146	586

### 11. INVESTMENTS IN SUBSIDIARIES

	2003 HK\$'000	2002 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 26.



## Notes to the Financial Statements (Cont'd)

For the year ended 31st December, 2003

### 12. DEPOSIT FOR INVESTMENT

At 31st December, 2003, the amount represented a deposit for the establishment of a cooperative joint venture in the People's Republic of China (the "PRC"). Details are set out in note 25.

### 13. 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:

	2003 HK\$'000	2002 HK\$'000
0 - 30 days	3,739	2,475
31 - 60 days	2,819	1,270
61 - 90 days	685	193
91 to 180 days	2,410	1,597
Over 180 days	549	388
	<u>10,202</u>	<u>5,923</u>
Less: allowance for bad and doubtful debts	(377)	(357)
	<u>9,825</u>	<u>5,566</u>

### 14. TRADE PAYABLES

The following is an aged analysis of trade payables:

	2003 HK\$'000	2002 HK\$'000
0 to 30 days	1,129	624
31 to 60 days	2,268	1,567
61 to 90 days	2,051	1,553
91 to 180 days	3,857	2,371
Over 180 days	369	354
	<u>9,674</u>	<u>6,469</u>

## Notes to the Financial Statements (Cont'd)

*For the year ended 31st December, 2003*

### 15. AMOUNT DUE FROM A SUBSIDIARY

The amount is unsecured, interest-free and has no fixed repayment terms.

### 16. SHARE CAPITAL

	<b>Number of shares</b>	<b>Share capital</b> <i>HK\$'000</i>
Shares of HK\$0.001 each		
<i>Authorised:</i>		
At 31st December, 2002 and 31st December, 2003	1,000,000,000,000	1,000,000
<i>Issued and fully paid:</i>		
At 1st January, 2002	455,831,888	456
Placing of shares	50,647,988	50
At 31st December, 2002	506,479,876	506
Shares issued on exercise of share options	159,840	1
<b>At 31st December, 2003</b>	<b>506,639,716</b>	<b>507</b>

Pursuant to the Prospectus dated 31st December, 2001 and by means of placing, the Company issued at total of 50,647,988 new 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, 2003

### 17. SHARE PREMIUM AND RESERVES

	Share premium HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
THE COMPANY			
At 1st January, 2002	54	(137)	(83)
Premium arising on 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/>
At 31st December, 2002	9,169	(379)	8,790
Exercise of share options	49	—	49
Net loss for the year	—	(263)	(263)
	<hr/>	<hr/>	<hr/>
<b>At 31st December, 2003</b>	<b>9,218</b>	<b>(642)</b>	<b>8,576</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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\$8,576,000 (2002: HK\$8,790,000).

### 18. BUSINESS AND GEOGRAPHICAL SEGMENTS

The Group is principally engaged in magazine publishing and advertising activities carried out in Hong Kong. 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.

## Notes to the Financial Statements (Cont'd)

For the year ended 31st December, 2003

### 19. RELATED PARTY TRANSACTIONS

During the year, the Group had significant transactions with companies controlled by, or affiliated with, South China Holdings Limited ("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:

<b>Nature of transactions</b>	<b>2003</b>	<b>2002</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Expenses:		
Administrative service fees	<b>978</b>	944
Colour separation and photo processing fees	<b>969</b>	996
Corporate finance service fee	—	300
Marketing service fees	<b>16</b>	122
Phototaking service fees	<b>509</b>	470
Rental expenses in respect of office premises	<b>237</b>	119
Underwriting commission	—	317

Tek Lee Finance and Investment Corporation Limited ("Tek Lee Finance"), 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 Finance 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 the Company's shares were listed on the GEM.

Mr. Ng Hung Sang, Robert, Parkfield, Fung Shing, Ronstar, Eartrade 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 21(a)).

In the opinion of the Directors, the above transactions during the year ended 31st December, 2003 were conducted in accordance with the respective arrangements between the Group and the related parties.

At the balance sheet date, the Group had amounts due from/to related company arising from certain of the above related party transactions. The amounts are unsecured, interest-free and have no fixed repayment terms.

## Notes to the Financial Statements (Cont'd)

For the year ended 31st December, 2003

### 20. OPERATING LEASE COMMITMENTS

	2003 HK\$'000	2002 HK\$'000
The minimum lease payments paid under operating leases during the year in respect of premises	<u>237</u>	<u>640</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:

	2003 HK\$'000	2002 HK\$'000
Within one year	237	237
In the second to fifth year inclusive	<u>119</u>	<u>356</u>
	<u>356</u>	<u>593</u>

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

### 21. CONTINGENT LIABILITIES

As at 31st December, 2003, the Group 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 that any one of these related companies is wound up 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 the 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 therefore, it is not probable that the Group will compensate those related companies. Accordingly, 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, Fung Shing Group Limited, Ronastar Investments Limited, Earntrade Investments Limited and Bannock Investment Limited, shareholders of the Company, in favour of the Group.
- (b) As at 31st December, 2003, the Company had provided a corporate guarantee to a bank to secure a bank facility of HK\$1,000,000 (2002: HK\$1,000,000) granted to a subsidiary, which remained unused as at 31st December, 2003.

## Notes to the Financial Statements (Cont'd)

For the year ended 31st December, 2003

### 22. SHARE OPTION SCHEME

The Company's 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, 2003, the number of shares in respect of which options were granted under the Scheme was 16,560,160 (2002: 22,400,000), representing approximately 3.3% (2002: approximately 4.4%) of the shares of the Company in issue at that date. As at 31st December, 2003, the total number of Shares available for issue pursuant to the grant of further options under the Scheme was 50,647,987, representing approximately 10% of the issued share capital of the Company as at 26th March, 2004. Without prior approval from the Company's shareholders, the total aggregate 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 aggregate number of shares in respect of which options may be granted to any individual 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 first anniversary of 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 quotation sheet on the date of the offer; (ii) the average closing price of the shares of the Company on the Stock Exchange for the five trading days immediately preceding the date of offer of the options; and (iii) the nominal value of a share.

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

<b>Date of grant</b>	<b>Outstanding at 1.1.2002</b>	<b>Granted during 2002</b>	<b>Outstanding at 31.12.2002 and 1.1.2003</b>	<b>Exercised during the year</b>	<b>Lapsed during the year</b>	<b>Outstanding at 31.12.2003</b>
15th April, 2002	—	14,800,000	12,640,000	—	3,760,000	8,880,000
2nd September, 2002	—	10,240,000	9,760,000	159,840	1,920,000	7,680,160
	—	25,040,000	22,400,000	159,840	5,680,000	16,560,160

## Notes to the Financial Statements (Cont'd)

For the year ended 31st December, 2003

### 22. SHARE OPTION SCHEME (Cont'd)

Details of specific categories of options are as follows:

Date of grant	Exercise period	Exercise price	Number of options vested at	
			31.12.2002	31.12.2003
15th April, 2002	15th April, 2003 to 7th January, 2012	HK\$0.69	—	8,880,000
2nd September, 2002	2nd September, 2003 to 7th January, 2012	HK\$0.31	—	7,680,160
			—	16,560,160
			—	16,560,160

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 month	33 1/3%
25th - 36th month	33 1/3%
37th - 48th month	33 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.

For the year ended 31st December, 2002, total consideration received during the year from grantee for taking up the options granted amounted to HK\$89.

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, 2003*

### **23. 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 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\$5,224 (2002: HK\$17,821). As at 31st December, 2003, no material forfeited contributions, which arose upon employees leaving the ORSO Scheme, are available to reduce the contributions payables in future years.



## Notes to the Financial Statements (Cont'd)

For the year ended 31st December, 2003

### 24. DEFERRED TAXATION

The following are the major deferred taxation assets and liabilities recognised by the Group and movements thereon during the current and prior reporting periods.

	<b>Accelerated tax depreciation</b>	<b>Tax losses</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000
At 1st January, 2002			
— as previously reported	—	—	—
— adjustment on adoption of SSAP 12 (Revised)	15	(15)	—
	<hr/>	<hr/>	<hr/>
— as restated	15	(15)	—
Charge (credit) to income	14	(14)	—
	<hr/>	<hr/>	<hr/>
At 31st December, 2002	29	(29)	—
Charge (credit) to income	33	(33)	—
	<hr/>	<hr/>	<hr/>
<b>At 31st December, 2003</b>	<b>62</b>	<b>(62)</b>	<b>—</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

At 31st December, 2003, the Group had unused tax losses of HK\$13,772,000 (2002: HK\$11,718,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK\$354,000 (2002: HK\$180,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK\$13,418,000 (2002: HK\$11,538,000) due to the unpredictability of future profit streams. The losses may be carried forward indefinitely.

### 25. SUBSEQUENT EVENT

On 11th August, 2003, the Group entered into an agreement with a company in the People's Republic of China (the "PRC") to establish a Sino-foreign joint venture in the PRC, namely Shanghai South China & Boyang Business Consultation Co., Ltd. (上海南華勃洋商務諮詢有限公司), in which the Group is committed to investing HK\$2.86 million for a 55% interest. The joint venture will be engaged in the media business. At 31st December, 2003, the Group had paid a deposit of approximately HK\$451,000 for this investment project.

## Notes to the Financial Statements (Cont'd)

*For the year ended 31st December, 2003*

### 26. PARTICULARS OF SUBSIDIARIES

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
Grandpress Limited	Hong Kong	HK\$2	—	100%	Investment holding
Great Ready Assets Limited	British Virgin Islands	US\$2	100%	—	Investment holding
Jessica Publications (BVI) Limited	British Virgin Islands	US\$2	—	100%	Investment holding
Jessica Beaute Limited	Hong Kong	HK\$2	—	100%	Inactive
Jessica (BVI) Limited	British Virgin Islands	US\$2	—	100%	Investment holding
Jessicacode Limited (formerly known as Jessica Girl Limited)	Hong Kong	HK\$2	—	100%	Publication of “旭莱 JESSICACODE” magazine
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
Jessica Limited (formerly known as Deemwell Limited)	Hong Kong	HK\$2	—	100%	Publication of “旭莱 JESSICA” magazine
JPR Agency Limited	Hong Kong	HK\$2	—	100%	Inactive
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	2000	2001	2002	2003
	HK\$'000 (Note i)	HK\$'000 (Note i)	HK\$'000 (Note i)	HK\$'000	HK\$'000
Turnover	8,181	16,244	20,034	27,599	41,287
Direct operating expenses	(4,091)	(12,266)	(15,611)	(18,668)	(27,260)
Other operating income	1	201	437	104	164
Selling and distribution costs	(1,622)	(5,756)	(5,355)	(6,488)	(11,377)
Administrative expenses	(2,545)	(2,547)	(5,164)	(4,591)	(4,329)
Net loss from operations	(76)	(4,124)	(5,659)	(2,044)	(1,515)
Waiver of amounts due to related companies	—	—	7,611	—	—
Net profit (loss) before taxation	(76)	(4,124)	1,952	(2,044)	(1,515)
Taxation credit (charge)	—	—	(117)	117	—
Net profit (loss) for the period/year	(76)	(4,124)	1,835	(1,927)	(1,515)

## ASSETS AND LIABILITIES

	As at 31st December,		
	2001	2002	2003
	HK\$'000 (Note ii)	HK\$'000	HK\$'000
Total assets	7,355	14,148	17,176
Total liabilities	(9,720)	(9,275)	(13,768)
Net assets (liabilities)	(2,365)	4,873	3,408

### Notes:

- (i) The results for each of the three period/years 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 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.