## BUSINESS REVIEW

### Electronic Consumer Products Market

Before the acquisition of the Caixun Group, the Group was principally engaged in the design, manufacture and marketing of electronic consumer products. During the year under review, the electronic consumer products market continued to face sluggish market demand due to the gloomy economic situation. To promote sales, market players suffered from unprecedented price competitions, which further squeezed profit margins of electronic consumer products in the market.

As a result, turnover generated from the Group's electronic consumer products business decreased by 17% from approximately HK$85,413,000 in 2001 to approximately HK$71,027,000 in 2002. Albeit the difficult market conditions, the electronic consumer products division achieved an operating profit of approximately HK$6,268,000 during the year under review. This was attributable to the Group's implementation of effective cost control measures and decrease in material cost purchased during the year.

### Print Media Advertising

During the year under review, the Group made its first foray into the advertising market in the PRC through the acquisition of the Caixun Group in November 2002. The management believes that such move will further strengthen its foundation and boost its growth in the long run.

Being the largest advertising market in Asia and the fastest-growing in the world, China recorded a total advertising expenditure of RMB39.5 billion in 2000. This represented an impressive compound annual growth rate ("CAGR") of approximately 34.6% in the past decade. Among the different channels, magazine has been the fastest growing medium in terms of total advertising revenue for the period of 1996 to 2000. The contribution of advertising sales to the nation's gross domestic product was 0.44% in 2000, which was far behind other developed countries and hence, demonstrated tremendous growth potentials. Riding on the booming growth of the media advertising industry in the PRC, the Group is poised to benefit from the favorable market environment.

## BUSINESS REVIEW *(continued)*

**CAGR of Advertising Expenditure of Different Media in China**

| **Media** | **1996-2000** | **2002-2003** |
|---|---|---|
| Television | 18.8% | 10.9% |
| Newspaper | 13.2% | 10.5% |
| Outdoor Advertising | 23.3% | 11.6% |
| Magazine | 17.7% | 19.1% |
| Broadcasting | 8.2% | -2.1% |

*Source: Zenith Media*

The Group positioned itself as an advertising operator which is now principally engaged in the provision of advertising services for quality finance media in the PRC. Presently, the Group has secured exclusive advertising rights of prominent finance media including Caijing Magazine, Securities Market Weekly (The Integrated Version and The Market Version), Business Post and New Real Estate. In general, the exclusive advertising rights under the Group vary from 16 to 17 years.

Caijing Magazine, in particular, has successfully established itself as one of the most influential finance media in the region, as its articles have been frequently quoted by regionally and internationally acclaimed publications. It is a bi-weekly general business magazine inaugurated in 1998 and is distributed to subscribers throughout the PRC and, through retailers, to major cities in the PRC including Beijing, Shanghai, Shenzhen as well as Hong Kong. According to Huicong Media Research Centre, Caijing Magazine ranked third in terms of advertising revenue amongst all financial magazines in the PRC in 2002.

Securities Market Weekly is a weekly financial magazine inaugurated in 1992. It is distributed to subscribers throughout the PRC and through retailers mainly in Beijing, Shanghai and cities of the Guangdong province. Currently, it is the only weekly publication authorised by the China Securities Regulatory Commission for mandatory disclosure of information by listed companies in the PRC and has been recognised as the top weekly magazine in terms of readership by authoritative institutions in the PRC. It ranked fifth in terms of advertising revenue amongst all financial magazines in the PRC in 2002 according to Huicong Media Research Centre.

## BUSINESS REVIEW *(continued)*

Business Post is a market-oriented general business newspaper inaugurated in 1999, which is published twice a week. It is distributed to subscribers, mainly in the central, eastern and southern parts of the PRC and through retailers in Beijing and Shanghai.

New Real Estate is a monthly publication launched in 2001. It focuses on property-related news and information and is distributed in Beijing. With its unique position, it ranked top in terms of advertising revenue amongst other real estate magazines in 2002 according to Huicong Media Research Centre.



With their experienced editorial and management teams, these publications are renowned for their in-depth and comprehensive reporting and finance-related information, which earn them strong readership and circulation in their respective categories.

Turnover generated from the advertising business acquired by the Group already contributed to over 9% of the total turnover in less than two months of operations during the year under review.

### Financial Review

As a result of stringent cost control measures and the acquisition of the Caixun Group which generated advertising revenue, the Group achieved turnaround by recording a net profit of approximately HK$1,317,000 in 2002 as compared to a net loss of approximately HK$70,485,000 in 2001. After acquiring the Caixun Group, the Group undertook the selling and marketing expenses of the business which amounted to approximately HK$1.9 million. On the other hand, the Group controlled its cost allocation to the electronic consumer products business, which brought forth a reduction of HK$0.2 million to approximately HK$3.5 million in 2002 (2001: HK$3.7 million) in the selling and distributing costs of that division. Through a series of measures to streamline operations, general and administrative expenses were lowered by 23% over the previous year.

## BUSINESS REVIEW *(continued)*

### Liquidity and Financial Resources

On 24 July 2002, the Company issued one-year zero coupon convertible notes in an aggregate principal amount of HK$10.56 million which can be converted into a maximum of 52.8 million new ordinary shares of HK$0.1 each in the Company at an initial conversion price of HK$0.20 per share (subject to adjustments) at any time from date of issue of the convertible notes up to its maturity date (i.e. 23 July 2003). The net proceeds were used as the Group's working capital.

On 13 November 2002, the Company placed and allotted 379,746,836 ordinary shares to United Home Limited, the Company's substantial shareholder, at a subscription price of HK$0.158 each. The entire proceeds of HK$60 million from the issue of the shares were used to finance the acquisition of the Caixun Group.

The Group's daily operating activities were financed by internal sources and banking facilities (trust receipt loans). As at 31 December 2002, the Group's equity was approximately HK$140 million (2001: HK$78 million). The increase in the Group's equity was mainly attributable to the above-mentioned proceeds of HK$60 million received from United Home Limited. The Group had no long term debt as at 31 December 2002 and 2001. The gearing ratio, which was computed by current liabilities over shareholders' fund, was 47.3% (2001: 40.9%).

As at 31 December 2002, the Company had cash and time deposits amounted to approximately HK$48 million, which included a time deposit of HK$2 million being pledged to a bank to secure banking facilities granted to a subsidiary of the Group. As at 31 December 2002, these facilities were utilised to approximately HK$85,000 (2001: HK$2,947,000).

The Group and the Company did not have any significant contingent liability at the balance sheet date.

### Foreign Currencies and Treasury Policy

Most of the Group's business transactions, assets and liabilities are denominated in Hong Kong Dollars, United States Dollars or Renminbi. It is the Group's treasury policy to manage its foreign currency exposure whenever its financial impact is material to the Group. During the year, the Group did not have any fixed interest rate borrowings and had not engaged in any financial instruments for hedging or speculative activities.

## BUSINESS REVIEW *(continued)*

### Employees

As at 31 December 2002, the Group had approximately 800 (2001: 900) employees in Hong Kong and the PRC. Salaries, bonuses and benefits were decided in accordance with market conditions and performance of the respective employees.

### Dividend

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

### Prospects and Strategies

Looking ahead, the Group will continue to leverage its management expertise and exclusive advertising rights to sustain its leading position in the Chinese financial media advertising industry. As the PRC economy further converges with the global economy, demand for timely and accurate financial and business information surges in the PRC, leading to booming growth of the media industry, especially in the financial sector. Economic development fuels the growth of advertising expenditure in the PRC market. As such, finance-related media provide effective channels for advertisers to reach their target customers with high consumption power. The Board is therefore confident that the advertising business possesses immense growth potentials and will be the major revenue generator of the Group.

Sino InfoTech will help to enhance the brand awareness of the publications under the Group's advertising contracts through marketing and promotional activities. The Group will also help to expand these publications into the Hong Kong market so as to maximize their advertising value in the Asian region. These efforts will further increase their readership, which in turn helps to widen the advertising revenue base of the Group.

The Group will also strive to develop the advertising business of other non-finance related publications, including travel, entertainment, lifestyle and health. The Group strives to obtain more exclusive advertising rights to further increase the Group's recurrent income streams.

## BUSINESS REVIEW *(continued)*

In view of the dismal outlook of the electronic consumer products market, the Group decided to dispose of its traditional business, the Prod-Art Group at a consideration of HK$19 million in March 2003 and the disposal is expected to be completed by 30 June 2003. The Prod-Art Group is principally engaged in the design, manufacture and marketing of electronic consumer products. Not only did the disposal of the Prod-Art Group enhanced the liquidity of the Group, it also enhanced better allocation of the Group's resources towards the development of media advertising business.

To further strengthen the Group's foundation, the Group will continue to identify investment opportunities which can create synergies with its existing advertising business and implement stringent cost control measures in the coming financial year.

Riding on the rapid development of the capital market in China, its accession into the World Trade Organization and its hosting of the 2008 Olympics, the Directors expect that the media arena in China will be more vibrant and will project greater market potential. The Group will strive to secure more advertising contracts of various kinds of media including non-finance publications in order to sustain its leading position in the advertising industry of the PRC. The Directors will also capitalise on the Group's close relationship with various media in the PRC to further explore the possibilities of channeling quality media into Hong Kong's financial community as well as reader market. The Directors believe the Group is marching towards the road of success and will bring the best returns to its shareholders.