1. CORPORATE INFORMATION

During the year, the Group was involved in the following activities:

- design, manufacture and marketing of electronic consumer products
- provision of advertising agency services

Subsequent to the balance sheet date, the Company decided to dispose of its entire interest in Prod-Art Company Limited ("Prod-Art"). The principal activities of the Prod-Art and its subsidiaries (collectively referred as "Prod-Art Group") are the design, manufacture and marketing of electronic consumer products. Further details of the disposal are included in note 6 to the financial statements.

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE

The following recently-issued and revised Statements of Standard Accounting Practice ("SSAPs") are effective for the first time for the current year's financial statements:

- SSAP 1 (Revised): "Presentation of financial statements"
- SSAP 11 (Revised): "Foreign currency translation"
- SSAP 15 (Revised): "Cash flow statements"
- SSAP 33: "Discontinuing operations"
- SSAP 34: "Employee benefits"
- Interpretation 18: "Consolidation and equity method – Potential voting rights and allocation of ownership interests"

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of those SSAPs which have had a significant effect on the financial statements are summarised as follows:

SSAP 1 (Revised) prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision to this SSAP is that a consolidated statement of changes in equity is now presented in place of the consolidated statement of recognised gains and losses that was previously required and in place of the Group's reserves note.

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE *(continued)*

SSAP 11 (Revised) prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of this revised SSAP on the consolidated financial statements is that the profit and loss account of overseas subsidiaries are now translated at weighted average exchange rates for the year, whereas previously they were translated at the exchange rates at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements.

SSAP 15 (Revised) prescribes the format for the cash flow statement. The principal impact of the revision of this SSAP is that consolidated cash flow statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required. In addition, cash flows from overseas subsidiaries arising during the year are now translated to Hong Kong dollars at the exchange rates at the dates of the transactions, or at an approximation thereto, whereas previously they were translated at the exchange rates at the balance sheet date, and the definition of cash equivalents for the purpose of the consolidated cash flow statement has been revised. Further details of these changes and the restatement that have resulted from them are included in the accounting policies for "Cash and cash equivalents" and "Foreign currencies" in note 3 and note 35(a) to the financial statements.

SSAP 33 replaces the existing disclosure requirements for discontinuing operations, which were previously included in SSAP 2. The SSAP defines a discontinuing operation and prescribes when an enterprise should commence including discontinuing operations disclosures in its financial statements and the disclosures required. The principal impact of the SSAP is that more extensive disclosures concerning the Group's discontinuing operations are now included in note 6 to the financial statements.

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in no change to the previously adopted accounting treatments for employee benefits. Additional disclosures are now required in respect of the Company's share option scheme, as detailed in note 32 to the financial statements. These share option scheme disclosures are similar to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") disclosures previously included in the Report of the Directors, and which are now required to be included in the notes to the financial statements as a consequence of the SSAP.

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE *(continued)*

Interpretation 18 prescribes the consolidation and equity method when the existence and effect of potential voting rights are presently exercisable or presently convertible.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the remeasurement of equity investments as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2002. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The Company's interests in subsidiaries are stated at cost less any impairment losses.

Associates

An associate is a company, not being a subsidiary, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Associates *(continued)*

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

When the Group ceases to have significant influence in an associate but retains, either in whole or in part, its investment, the carrying amount of the investment at that date is regarded as cost thereafter, and it is accounted for as an investment other than a held-to-maturity security in accordance with SSAP 24 "Accounting for investments in securities".

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of not exceeding twenty years.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate.

The carrying amount of goodwill is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fixed assets and depreciation *(continued)*

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life as follows:

Leasehold land	Over the unexpired term of the lease
Leasehold buildings	50 years or over the term of the relevant lease, whichever is shorter
Plant and machinery	$6^2/_3$ years
Moulds	5 years
Motor vehicles	4 years
Furniture, fixtures and fittings	10 years
Computer and office equipment	3 to $6^2/_3$ years

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Intangible assets

Sole advertising agency rights are stated at cost less any impairment loss and amortised on a straight-line basis over their estimated useful lives of 16 to 17 years.

Research and development costs

All research costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five years, commencing from the date when the products are put into commercial production.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Long term investment

Long term investment is a non-trading investment in unlisted equity securities intended to be held on a long term basis.

Unlisted securities are stated at their estimated fair values, on an individual basis. The estimated fair value of unlisted investment is determined by the directors having regard to, inter alia, the prices of the most recent reported sales or purchases of the securities.

The gains or losses arising from changes in the fair value of a security are dealt with as movements in the long term investment revaluation reserve, until the security is determined to be impaired, when the cumulative gain or loss derived from the security recognised in the long term investment revaluation reserve, together with the amount of any further impairment, is charged to the profit and loss account in the period in which the impairment arises.

Short term investments

Short term investments are investments in equity securities held for trading purposes and are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the profit and loss account for the period in which they arise.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on the estimated selling prices less any estimated costs to be incurred to completion and disposal.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent that it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

The employees of the Group's subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government. These PRC subsidiaries are required to contribute the prescribed percentages of its standard salaries to the central pension scheme. The contributions are charged to the profit and loss account as they become payable in accordance with the rules of the central pension scheme.

Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits *(continued)*

Employment Ordinance long service payments (continued)

A provision is recognised in respect of the probable future long service payments expected to be made. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their service to the Group to the balance sheet date.

Share options scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations and to enable the Group to recruit high calibre employees and attract resources that are valuable to the Group. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies *(continued)*

On consolidation, the financial statements of the Group's subsidiaries registered in the People's Republic of China (the "PRC"), which are maintained in Renminbi, are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries and associates are translated to Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated to Hong Kong dollars at the exchange rates at the balance sheet date. The resulting translation differences are included in the exchange translation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated to Hong Kong dollars at the exchange rates at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated to Hong Kong dollars at the weighted average exchange rates for the year.

Prior to the adoption of the revised SSAPs 11 and 15 during the year, as explained in note 2 to the financial statements, the profit and loss accounts of overseas subsidiaries and associates and the cash flows of overseas subsidiaries were translated to Hong Kong dollars at the exchange rates at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from the provision of advertising agency services, when the related advertisement is published;

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition *(continued)*

(c) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and

(d) dividends, when the shareholders' right to receive payment is established.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

Prior to the adoption of the revised SSAP 15 during the year, as explained in note 2 to the financial statements, cash equivalents in the consolidated cash flow statement also included advances from banks repayable within three months from the date of the advance, in addition to bank overdrafts. This change in definition has resulted in a restatement relating to trust receipt loans, further details of which are included in note 35(a) to the financial statements.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

4. SEGMENT INFORMATION

Segment information is presented by way of two segments: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operation and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

(a) design, manufacture and marketing of electronic consumer products; and

(b) provision of advertising agency services.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

4. SEGMENT INFORMATION *(continued)*

(a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information of the Group's business segments.

Group

	Design, manufacture and marketing of electronic consumer products (Discontinuing operation)		Provision of advertising agency services		Consolidated	
	2002	2001	**2002**	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:						
Sales to external customers	**71,027**	85,413	**6,973**	–	**78,000**	85,413
Segment results	**6,959**	(27,276)	**2,667**	–	**9,626**	(27,276)
Unallocated revenue					**803**	1,617
Unallocated expenses					**(7,265)**	(5,924)
Profit/(loss) from operating activities					**3,164**	(31,583)
Finance costs					**(165)**	(332)
Provision for impairment in value of goodwill on acquisition of interest in an associate					**-**	(5,357)
Provision for impairment loss on interest in an associate					**-**	(24,387)
Share of profits less losses of associates					**-**	(11,530)
Profit/(loss) before tax					**2,999**	(73,189)
Tax					**(798)**	2,704
Profit/(loss) before minority interests					**2,201**	(70,485)
Minority interests					**(884)**	–
Net profit/(loss) from ordinary activities attributable to shareholders					**1,317**	(70,485)

4. SEGMENT INFORMATION *(continued)*

(a) Business segments *(continued)*

Group

	Design, manufacture and marketing of electronic consumer products (Discontinuing operation)		Provision of advertising agency services		Consolidated	
	2002	2001	**2002**	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment assets	**51,144**	47,645	**90,552**	–	**141,696**	47,645
Unallocated assets					**80,382**	63,207
Total assets					**222,078**	110,852
Segment liabilities	**(22,787)**	(30,653)	**(13,986)**	–	**(36,773)**	(30,653)
Unallocated liabilities					**(29,490)**	(1,431)
Total liabilities					**(66,263)**	(32,084)
Other segment information:						
Capital expenditure	**725**	1,474	**6**	–	**731**	1,474
Depreciation – segment	**2,516**	4,024	**9**	–	**2,525**	4,024
Depreciation – unallocated					**378**	437
					2,903	4,461
Provision for doubtful debts/ (write-back of bad debt expenses) – segment	**(1,358)**	270	**199**	–	**(1,159)**	270
Provision for doubtful debts – unallocated					**36**	–
					(1,123)	270
Amortisation of goodwill – segment	**–**	–	**317**	–	**317**	–
Amortisation of goodwill – unallocated					**–**	893
					317	893
Amortisation of intangible assets	**–**	–	**284**	–	**284**	–

4. SEGMENT INFORMATION *(continued)*

(b) Geographical segments

The following tables present revenue and certain asset and expenditure information for the Group's geographical segments.

Group

	Hong Kong and Far East		Mainland China		North America		Europe		Consolidated	
	2002	2001	**2002**	2001	**2002**	2001	**2002**	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:										
Sales to external customers	**6,515**	13,298	**10,466**	9,051	**36,396**	18,477	**24,623**	44,587	**78,000**	85,413

	Hong Kong and Far East		Mainland China		Consolidated	
	2002	2001	**2002**	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Other segment information:						
Segment assets	**99,831**	78,202	**122,247**	32,650	**222,078**	110,852
Capital expenditure	**629**	947	**102**	527	**731**	1,474

5. TURNOVER

Turnover represents the net invoiced value of goods sold or services rendered, after allowances for returns and trade discounts.

Revenue from the following activities has been included in turnover:

	2002	2001
	HK$	*HK$*
Design, manufacture and marketing of electronic consumer products (discontinuing operation)	**71,026,762**	85,413,402
Provision of advertising agency services	**6,972,830**	–
	77,999,592	85,413,402

6. DISCONTINUING OPERATION

As detailed in note 40(a) to the financial statements, on 3 March 2003, the Company entered into an unconditional sale and purchase agreement with an independent third party (the "Purchaser") that the Company agreed to sell and the Purchaser agreed to acquire the entire equity interest of Prod-Art, a wholly-owned subsidiary of the Company, at a consideration of HK$19 million. The principal activities of the Prod-Art Group are the design, manufacture and marketing of electronic consumer products. The disposal constitutes a discontinuing operation of the Group under SSAP 33. The directors expected that the disposal will be completed by 30 June 2003.

The turnover, other revenue, expenses and results of the discontinuing operation for the two years ended 31 December 2002 were as follows:

	2002	2001
	HK$'000	*HK$'000*
Turnover	**71,027**	85,413
Cost of sales	**(47,144)**	(85,077)
Gross profit	**23,883**	336
Other revenue	**2,250**	2,839
Selling and distribution expenses	**(3,489)**	(3,666)
Administrative expenses	**(18,045)**	(27,239)
Other operating income/(expenses)	**1,669**	(547)
Profit/(loss) from operating activities	**6,268**	(28,277)
Finance costs	**(165)**	(332)
Net profit/(loss) from ordinary activities attributable to shareholders	**6,103**	(28,609)

6. DISCONTINUING OPERATION *(continued)*

The carrying amounts of the total assets and liabilities relating to the discontinuing operations at 31 December are as follows:

	2002	2001
	HK$'000	*HK$'000*
Total assets	**51,144**	47,645
Total liabilities	**(349,024)**	(351,628)
Net liabilities	**(297,880)**	(303,983)

The net cash flows attributable to the discontinuing operations are as follows:

	2002	2001
	HK$'000	*HK$'000*
Operating activities	**7,261**	(2,772)
Investing activities	**(892)**	(1,247)
Financing activities	**(2,863)**	(764)
Net cash inflows/(outflows)	**3,506**	(4,783)

7. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

The Group's profit/(loss) from operating activities is arrived at after charging/(crediting):

	Notes	2002 HK$	2001 HK$
Auditors' remuneration		**920,000**	720,000
Staff costs (including directors' remuneration – *note 9*):			
Wages and salaries		**11,674,511**	18,777,582
Pension scheme contributions		**410,422**	566,980
		12,084,933	19,344,562
Depreciation	*14*	**2,902,854**	4,461,255
Lease payments under operating leases in respect of land and buildings		**1,472,017**	1,817,595
Research and development costs		**–**	184,761
Amortisation of goodwill*	*16*	**317,420**	892,900
Amortisation of intangible assets*	*15*	**283,669**	–
Exchange losses, net		**313,261**	439,340
Provision for long service payments	*27*	**244,128**	(155,721)
Unrealised holding loss/(gain) on short term investments		**462,080**	(267,520)
Loss/(gain) on disposal of fixed assets		**(222,420)**	232,503
Provision for doubtful debts/ (write-back of bad debt expenses)		**(1,123,307)**	269,963
Dividend income from short term investments		**(72,981)**	(72,725)
Interest income		**(209,860)**	(396,451)

* The amortisation of goodwill and intangible assets for the year are included in "Other operating expenses" and "Cost of sales" on the face of the consolidated profit and loss account, respectively.

8. FINANCE COSTS

	Group	
	2002	2001
	HK$	*HK$*
Interest on bank loans wholly repayable within five years	**165,026**	332,020

9. DIRECTORS' REMUNERATION

Directors' remuneration, disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance, is as follows:

	2002	2001
	HK$	*HK$*
Directors' fees:		
Executive	**–**	–
Non-executive	**–**	–
Independent non-executive	**24,000**	24,000
	24,000	24,000
Other emoluments:		
Executive:		
Salaries and other benefits	**1,319,500**	1,356,803
Pension scheme contributions	**103,800**	113,493
Non-executive:		
Salaries and other benefits	**–**	220,000
Pension scheme contributions	**–**	18,000
Independent non-executive	**–**	–
	1,423,300	1,708,296
	1,447,300	1,732,296

The remuneration of each of the directors fell within the range of nil to HK$1,000,000.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

During the year, no share options were granted to any of the directors.

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2001: one) directors, details of whose emoluments are included in note 9 above. The details of the remuneration of the remaining three (2001: four) non-director, highest paid employees are as follows:

	Group	
	2002	2001
	HK$	*HK$*
Salaries and other benefits	**2,355,800**	3,319,091
Pension scheme contributions	**79,620**	95,500
	2,435,420	3,414,591

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	2002	2001
Nil to HK$1,000,000	**3**	3
HK$1,000,001 to HK$1,500,000	**–**	1
	3	4

During the year, no options were granted to any of the three non-director, highest paid employees.

11. TAX

No provision for Hong Kong profits tax has been made for the current year (2001: Nil) because the Group did not have any assessable profits arising in Hong Kong during the year.

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

11. TAX *(continued)*

	Group	
	2002	2001
	HK$	*HK$*
Company and subsidiaries	**798,119**	–
Share of tax credit of associates	**–**	(2,703,462)
Tax charge/(credit) for the year	**798,119**	(2,703,462)

12. NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31 December 2002 dealt with in the financial statements of the Company was HK$5,027,991 (2001: HK$36,227,366).

13. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the net profit attributable to shareholders for the year of HK$1,317,030 (2001: loss of HK$70,485,490) and the weighted average of 1,055,618,449 (2001: 963,796,241) ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on the net profit attributable to shareholders for the year of HK$1,317,030 (2001: loss of HK$70,485,490). The weighted average number of ordinary shares used in the calculation is the 1,055,618,449 ordinary shares in issue during the year, as used in the basic earnings per share calculation; the weighted average of 5,719,616 ordinary shares assumed to have been issued at no consideration on the deemed exercise of certain share options with dilutive effects during the year; and the weighted average of 27,195,616 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all zero coupon convertible notes during the year.

No diluted loss per share for the year ended 31 December 2001 had been disclosed as no diluting events existed that year.

14. FIXED ASSETS

Group

	Leasehold land and buildings HK$	Plant and machinery HK$	Moulds HK$	Motor vehicles HK$	Furniture, fixtures and fittings HK$	Computer and office equipment HK$	Total HK$
Cost:							
At beginning of year	42,487,149	27,067,711	3,542,539	2,028,672	7,384,896	3,674,043	86,185,010
Additions	–	75,094	617,000	–	11,950	27,040	731,084
Acquisition of subsidiaries	–	–	–	–	–	240,026	240,026
Disposals	(2,280,036)	–	–	–	(80,324)	(336,459)	(2,696,819)
At 31 December 2002	40,207,113	27,142,805	4,159,539	2,028,672	7,316,522	3,604,650	84,459,301
Accumulated depreciation:							
At beginning of year	7,143,058	25,646,486	1,927,061	1,884,895	6,121,510	3,284,921	46,007,931
Provided for the year	921,361	645,025	687,640	74,479	329,350	244,999	2,902,854
Disposals	(820,813)	–	–	–	(35,461)	(289,175)	(1,145,449)
At 31 December 2002	7,243,606	26,291,511	2,614,701	1,959,374	6,415,399	3,240,745	47,765,336
Net book value:							
At 31 December 2002	32,963,507	851,294	1,544,838	69,298	901,123	363,905	36,693,965
At 31 December 2001	35,344,091	1,421,225	1,615,478	143,777	1,263,386	389,122	40,177,079

The leasehold land and buildings included above are held under the following lease terms:

	Hong Kong HK$	Mainland China HK$	Total HK$
Medium term leases	11,335,053	21,628,454	32,963,507

14. FIXED ASSETS *(continued)*

Company

	Furniture, fixtures and fittings *HK$*	Computer and office equipment *HK$*	Total *HK$*
Cost:			
At beginning of year	80,324	336,459	416,783
Disposals	(80,324)	(336,459)	(416,783)
At 31 December 2002	–	–	–
Accumulated depreciation:			
At beginning of year	33,454	281,796	315,250
Provided for the year	2,007	7,379	9,386
Disposals	(35,461)	(289,175)	(324,636)
At 31 December 2002	–	–	–
Net book value:			
At 31 December 2002	–	–	–
At 31 December 2001	46,870	54,663	101,533

15. INTANGIBLE ASSETS

Group

	Note	*HK$*
Cost:		
At beginning of year		–
Acquisition of subsidiaries	*35(b)*	32,309,779
At 31 December 2002		32,309,779
Accumulated amortisation:		
At beginning of year		–
Amortisation during the year		283,669
At 31 December 2002		283,669
Net book value:		
At 31 December 2002		32,026,110
At 31 December 2001		–

Intangible assets represent the sole agency rights of advertising on certain newspapers and magazines which are amortised over periods ranging from 16 to 17 years.

16. GOODWILL

The amounts of the goodwill capitalised as an asset in the consolidated balance sheet arising from the acquisition of subsidiaries are as follows:

Group

	Note	*HK$*
Cost:		
At beginning of year		–
Acquisition of subsidiaries	*35(b)*	37,822,468
At 31 December 2002		37,822,468
Accumulated amortisation:		
At beginning of year		–
Amortisation during the year		317,420
At 31 December 2002		317,420
Net book value:		
At 31 December 2002		37,505,048
At 31 December 2001		–

17. INTERESTS IN SUBSIDIARIES

	Company 2002 HK$	2001 HK$
Unlisted shares, at cost	**70,618,683**	8,152,055
Due from subsidiaries	**400,895,770**	398,720,771
Due to a subsidiary	**–**	(712,389)
	471,514,453	406,160,437
Less: Provision for impairment	**(333,400,000)**	(333,400,000)
	138,114,453	72,760,437

The balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity interest attributable to the Company 2002	2001	Principal activities
Artwin Electronics Limited*^	Hong Kong	HK$1,000,000	**100**	100	Trading of electronic products
Beijing Caixun Advertising Co., Ltd. ("Beijing Caixun")*#@	PRC	RMB6,000,000	**60** ***(Note d)***	–	Advertising agent
Hainan Caixun Infomedia Co., Ltd. ("Hainan Caixun")*#@	PRC	RMB9,000,000	**85.7** ***(Note d)***	–	Investment holding
National Infotech Company Limited*^	Hong Kong	HK$1,000,000	**100**	100	Dormant

17. INTERESTS IN SUBSIDIARIES *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity interest attributable to the Company 2002	2001	Principal activities
Prod-Art Company Limited^	Hong Kong	HK$100 ordinary shares and HK$300,000 fixed-rate participating shares *(Note a)*	**100**	100	Investment holding and trading of electronic products
Prod-Art (Warehouse) Company Limited*	Cayman Islands/ Hong Kong	HK$10	**100**	100	Property holding
Shenzhen Caixun Advertising Co., Ltd. ("Shenzhen Caixun")*#@	PRC	RMB1,000,000	**60** ***(Note d)***	–	Advertising agent
Shenzhen GTP Telecom & Electronics Ltd. ("Shenzhen GTP")*^	PRC	HK$35,000,000 *(Note b)*	**90**	90	Dormant
Shenzhen Prod-Art Electronics & Telecom Co. Ltd. ("Shenzhen Prod-Art")*^	PRC	HK$35,000,000	***(Note c)***		Development, production and marketing of electronic products
Sino Communications Limited	British Virgin Islands/ Hong Kong	US$1	**100**	100	Investment holding
Sino Foundations Finance Company Limited	Hong Kong	HK$2	**100**	100	Dormant

17. INTERESTS IN SUBSIDIARIES *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity interest attributable to the Company 2002	2001	Principal activities
Sino Foundations Network Limited	British Virgin Islands/ Hong Kong	US$1	**100**	100	Dormant
Sino Telecommunications Limited	British Virgin Islands/ Hong Kong	US$1	**100**	100	Trading of marketable securities
SDM Technology Limited	Hong Kong	HK$2	**100**	100	Dormant
Superfort Management Corp. ("Superfort")#@ *(Note d)*	British Virgin Islands/ Hong Kong	US$100	**100**	–	Investment holding

* *Indirectly held.*

\# *Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.*

@ *Acquired by the Company during the year.*

^ *Disposed of by the Company subsequent to the balance sheet date. Further details of the disposal are set out in notes 6 and 40(a) to the financial statements.*

Notes:

(a) All of the fixed-rate participating shares in Prod-Art Company Limited are held by two former directors, Messrs. Chan Suk Ping and Chan Suk Sing. These shares carry no rights to vote or to participate in a distribution of profits and, on liquidation, have very limited rights to the repayment of the amount paid up on the shares.

17. INTERESTS IN SUBSIDIARIES *(continued)*

Notes: (continued)

(b) Shenzhen GTP is an equity joint venture company formed by the Group and a company in the PRC (the "PRC party"). The Group has an agreement with the PRC party pursuant to which the PRC party has agreed to accept an annual guaranteed sum in lieu of its 10% share of the operating results of Shenzhen GTP. The PRC party will not be required to make any further capital contribution or to accept further liabilities. Other than the return of the registered capital paid up by the PRC party, the Group will be entitled to all remaining assets upon liquidation of Shenzhen GTP. Accordingly, the Group has included the entire operating results of Shenzhen GTP in its results.

(c) Shenzhen Prod-Art is a co-operative joint venture company formed by the Group and a company in the PRC (the "PRC partner"). Pursuant to the joint venture agreement, the PRC partner is entitled to an annual guaranteed sum and the Group is entitled to the entire results of Shenzhen Prod-Art. Accordingly, Shenzhen Prod-Art is treated by the Group as a wholly-owned subsidiary for accounting purposes and the annual guaranteed sum is treated as an annual expense.

(d) The Company, through Superfort, indirectly holds 70% equity interest in Hainan Caixun and a right to acquire an additional 15.7% equity interest in Hainan Caixun. Pursuant to various agreements in place and an agreement entered into between Superfort and the Chinese party of Hainan Caixun dated 12 July 2002 which granted Superfort the right to acquire an additional 15.7% equity interest in Hainan Caixun from the Chinese party of Hainan Caixun, the Group from the date of completion of 13 November 2002 is entitled to 85.7% of Hainan Caixun's results and assets and 60% of Beijing Caixun and Shenzhen Caixun's respective results and assets. Accordingly, they are treated by the Group for accounting purposes as 85.7% and 60% subsidiaries, respectively.

18. INTERESTS IN ASSOCIATES

	Group	
	2002	2001
	HK$	*HK$*
Share of net assets	**-**	64,387,030
Provision for impairment	**-**	(24,387,030)
	-	40,000,000

18. INTERESTS IN ASSOCIATES *(continued)*

Particulars of the associates are as follows:

Name	Business structure	Place of incorporation/ registration and operations	Percentage of equity interest attributable to the Group		Principal activities
			2002	2001	
Shenzhen SED Telecommunication Technology Co., Ltd.#	Corporate	PRC	**47.5**	47.5	Development, production and marketing of communication network equipment
Wu Holdings Limited ("Wu Holdings")#	Corporate	British Virgin Islands/PRC	***(Note)***	28.84	Investment holding

 # Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

Note:

As detailed in the published 2001 annual report, the Group had conditionally agreed to sell its entire interest in Wu Holdings for HK$40 million. An impairment loss of HK$24,387,030 was charged to the profit and loss account for the year ended 31 December 2001.

On 13 December 2002, the Group ceased to have significant influence over Wu Holdings and accordingly from that date the interest in associate was reclassified to an investment in securities (note 19).

18. INTERESTS IN ASSOCIATES *(continued)*

Notes: (continued)

The carrying value of Wu Holdings before the reclassification represented the Group's share of the net assets of Wu Holdings of HK$64,387,030 as of 31 December 2001 after a provision for impairment of HK$24,387,030 to write down the carrying value to the amount of the sales consideration of HK$40 million. No share of profit or loss of Wu Holdings has been accounted for by the Group for the period from 1 January to 13 December 2002 because no reliable financial information in respect of Wu Holdings is available and the directors are unable to obtain any other financial information about Wu Holdings for that period. Had any share of profit or loss of Wu Holdings been taken up for the period to 13 December 2002, there would have been an adjustment of the same amount to the provision for impairment such that the resultant carrying value would have been restated to HK$40 million, the contracted selling price of Wu Holdings and, therefore, there would have been no net impact on the net profit for the year attributable to shareholders or the net assets of the Group.

Subsequent to the balance sheet date, on 9 April 2003, the disposal of Wu Holdings was completed. Further details of the disposal are set out in note 38(a) to the financial statements.

19. INVESTMENT IN SECURITIES

	Group	
	2002	2001
	HK$	*HK$*
Unlisted equity investments elsewhere, at cost	**40,000,000**	–

20. SHORT TERM INVESTMENTS

	Group	
	2002	2001
	HK$	*HK$*
Listed equity investments in Hong Kong, at market value	**1,969,920**	2,432,000

21. INVENTORIES

	Group	
	2002	2001
	HK$	*HK$*
Raw materials	**4,567,974**	6,198,576
Work in progress	**184,846**	689,781
Finished goods	**1,332,110**	1,622,284
	6,084,930	8,510,641

The carrying amount of inventories included in the above at the balance sheet date carried at net realisable value amounted to HK$170,145 (2001: HK$505,442).

22. TRADE AND BILLS RECEIVABLES

An aged analysis of the Group's trade and bills receivables as at the balance sheet date, based on the invoice date, is as follows:

	2002		2001	
	HK$	***Percentage***	*HK$*	*Percentage*
Within two months	**11,247,916**	**48**	2,141,616	29
Within two to four months	**3,091,931**	**13**	258,713	3
Within four months to one year	**3,695,676**	**16**	1,078,684	15
Over one year	**5,212,482**	**23**	3,975,581	53
	23,248,005	**100**	7,454,594	100
Less: Provision	**(5,261,489)**		(5,475,803)	
Total after provision	**17,986,516**		1,978,791	

The normal credit period granted by the Group is two to three months from the date of recognition of the sale.

23. BALANCES WITH RELATED COMPANIES

The balances are unsecured, interest-free and have no fixed terms of repayment.

24. PLEDGED DEPOSITS

The balance represents cash deposits pledged to a bank to secure banking facilities granted to the Group. As at 31 December 2002, such facilities were utilised as to HK$84,708 (2001: HK$2,947,349).

25. CASH AND CASH EQUIVALENTS

	Group		Company	
	2002	2001	**2002**	2001
	HK$	*HK$*	***HK$***	*HK$*
Cash and bank balances	**17,816,609**	4,575,614	**734,631**	757,707
Time deposits	**28,098,520**	6,050,000	**26,037,638**	6,000,000
	45,915,129	10,625,614	**26,772,269**	6,757,707

26. TRADE AND BILLS PAYABLES

An aged analysis of the Group's trade and bills payables as at the balance sheet date, based on the invoice date, is as follows:

	2002		2001	
	HK$	***Percentage***	*HK$*	*Percentage*
Within two months	**4,072,948**	**44**	3,211,344	30
Within two to four months	**2,573,205**	**28**	3,424,291	32
Within four months to one year	**2,046,438**	**22**	3,022,732	28
Over one year	**622,301**	**6**	1,119,619	10
	9,314,892	**100**	10,777,986	100

27. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2002	2001	**2002**	2001
	HK$	*HK$*	***HK$***	*HK$*
Other payables and accruals	**17,324,192**	16,934,996	**511,000**	1,431,831
Provision for long service payments *(Note)*	**1,362,594**	1,424,077	**–**	–
	18,686,786	18,359,073	**511,000**	1,431,831

Note: The Group provides for the probable future long service payments expected to be made to employees under the Hong Kong Employment Ordinance, as further explained under the heading "Employee benefits" in note 3 to the financial statements. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their service to the Group to the balance sheet date.

During the year, the movements in the provision for long service payments were as follows:

	Group	
	2002	2001
	HK$	HK$
At beginning of year	**1,424,077**	2,001,521
Additional provision	**244,128**	–
Amount utilised during the year	**(305,611)**	(421,723)
Reversal of unutilised amounts	**–**	(155,721)
At 31 December 2002	**1,362,594**	1,424,077

28. DEPOSITS RECEIVED

The balance represents deposits of HK$18,419,200 received from Bermuda Trust (Cook Islands) Limited, the trustee of The Qiao Xing Trust, regarding the disposal of the Group's entire interest in Wu Holdings, as at 31 December 2002. Details of the disposal of Wu Holdings are included in notes 18 and 38(a) to the financial statements.

29. CONVERTIBLE NOTES

The one-year zero coupon convertible notes were issued by the Company on 24 July 2002 to the placees in the aggregate amount of HK$10,560,000 which entitles the holders thereof to convert into a maximum of 52,800,000 new ordinary shares of the Company at an initial conversion price of HK$0.2 per new ordinary share (subject to adjustments).

Other principal terms of the convertible notes are as follows:

(a) The conversion period commences from 24 July 2002 and ends either upon the full conversion of the convertible notes or the maturity date, that is, 23 July 2003, whichever is the earlier.

(b) The convertible notes can be converted in whole or in part (in an amount not less than HK$200,000 at any one time), at any time during the conversion period.

(c) The convertible notes cannot be assigned or transferred to a connected person of the Company during the conversion period.

(d) The whole of the outstanding principal amount of the convertible notes will be repaid by the Company on the maturity date.

Subsequent to the balance sheet date, the principal amount of convertible notes of HK$2,400,000 were converted into 12,000,000 new ordinary shares of HK$0.1 each at a conversion price of HK$0.2 per share. Further details are included in note 40(b) to the financial statements.

30. TRUST RECEIPT LOANS, SECURED

The trust receipt loans were secured by a time deposit of the Group for the year.

31. SHARE CAPITAL

	2002 HK$	2001 HK$
Shares		
Authorised:		
3,000,000,000 ordinary shares of HK$0.1 each	**300,000,000**	300,000,000
Issued and fully paid:		
1,386,974,614 (2001: 1,004,527,778) ordinary shares of HK$0.1 each	**138,697,462**	100,452,778

During the year, the movements in share capital were as follows:

(a) 379,746,836 shares of HK$0.1 each were issued for cash at a subscription price of HK$0.158 each for a total cash consideration of HK$60,000,000.

(b) The subscription rights attaching to 1,000,000 and 1,700,000 share options were exercised at the subscription prices of HK$0.104 and HK$0.128 per share, respectively (note 32), resulting in the issue of 2,700,000 shares of HK$0.1 each for a total cash consideration of HK$321,600.

A summary of the transactions during the year with reference to the above movements in the Company's issued ordinary share capital is as follows:

	Number of shares in issue	Issued share capital HK$	Share premium account HK$	Total HK$
At 1 January 2001	904,075,000	90,407,500	296,555,356	386,962,856
Issue of shares	100,452,778	10,045,278	1,843,308	11,888,586
Share issue expenses	-	-	(386,988)	(386,988)
At 31 December 2001 and 1 January 2002	1,004,527,778	100,452,778	298,011,676	398,464,454
Issue of shares *(Note a)*	379,746,836	37,974,684	22,025,316	60,000,000
Share options exercised *(Note b)*	2,700,000	270,000	51,600	321,600
At 31 December 2002	1,386,974,614	138,697,462	320,088,592	458,786,054

31. SHARE CAPITAL *(continued)*

Subsequent to the balance sheet date, the principal amount of convertible notes of HK$2,400,000 were converted into 12,000,000 new ordinary shares of HK$0.1 each at a conversion price of HK$0.2 per share. Details are included in note 40(b) to the financial statements.

Share options

Details of the Company's share scheme option are included in note 32 to the financial statements below.

32. SHARE OPTION SCHEME

SSAP 34 was adopted during the year, as explained in note 2 and under the heading "Employee benefits" in note 3 to the financial statements. As a result, these detailed disclosures relating to the Company's share option scheme are now included in the notes to the financial statements. In the prior year, these disclosures were included in the Report of Directors, as their disclosure is also a requirement of the Listing Rules.

On 26 August 2002, the share option scheme (the "Old Scheme") of the Company adopted on 3 December 1992 ceased to operate and a new share option scheme (the "New Scheme") was adopted on 26 August 2002 to comply with the new requirements of Chapter 17 of the Listing Rules regarding share option schemes of a company. The options granted under the Old Scheme will remain in full force and effect.

The Company operates the New Scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations and to enable the Group to recruit high calibre employees and attract resources that are valuable to the Group. Eligible participants of the New Scheme include any employee (including executive directors), officer (including non-executive directors and independent non-executive directors), consultant, agent, professional adviser, customer, business partner, joint venture partner, strategic partner, landlord or tenant of, or any supplier or provider of goods or services to the Group, or any trustee of a discretionary trust of which one or more beneficiaries belong to any of the above-mentioned categories of persons. The New Scheme became effective on 26 August 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

32. SHARE OPTION SCHEME *(continued)*

The maximum number of unexercised share options currently permitted to be granted under the New Scheme is an amount equivalent, upon their exercise, to 10% of the Company's shares in issue at any time. No share options were granted, exercised or lapsed under the New Scheme during the year. At 31 December 2002, the number of shares issuable under share options granted under the Old Scheme was 8,084,000, which represented approximately 0.6% of the Company's shares in issue as at that date. The maximum number of shares issuable under share options to each eligible participant in the New Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder, or any of their respective associates, are subject to approval in advance by the independent non-executive directors (excluding any independent non-executive director who is the proposed grantee of the options). In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK$10 in total by the grantee. An option may be exercised under the New Scheme at any time within 10 years from the date of grant of the options.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of an ordinary share of the Company.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

32. SHARE OPTION SCHEME *(continued)*

The movements in the number of share options outstanding under the Old Scheme during the year were as follows:

				Number of share options				
Grantee	Date of grant	Exercise price	Exercisable period	Balance in issue at 1 January 2002	Granted during the year	Exercised during the year	Cancelled during the year	Balance in issue at 31 December 2002
		HK$						
Director								
Mr. Xu Xiaolu	22 January 2001	0.128	29 January 2002 to 21 January 2006	1,200,000	–	(1,200,000)	–	–
Other employees in aggregate	31 August 1999	0.225	31 August 2000 to 30 August 2004	5,400,000	–	–	(1,000,000)	4,400,000
	9 May 2000	0.316	15 May 2001 to 8 May 2005	800,000	–	–	–	800,000
	22 January 2001	0.128	29 January 2002 to 21 January 2006	3,884,000	–	(500,000)	(500,000)	2,884,000
	16 March 2001	0.104	27 March 2002 to 15 March 2006	1,000,000	–	(1,000,000)	–	–
				12,284,000	–	(2,700,000)	(1,500,000)	8,084,000

33. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

The revised SSAP 11 was adopted during the year, as explained in note 2 and under the heading "Foreign currencies" in note 3 to the financial statements. As a result, the profit and loss accounts of overseas subsidiaries are now translated to Hong Kong dollars at the weighted average exchange rates for the year, rather than at the exchange rates at the balance sheet date, as was previously the case. This change in accounting policy has had no significant effect on these financial statements.

Capital reserves represent the non-distributable reserves of an associate.

In accordance with the financial regulations applicable in Mainland China, subsidiaries in Mainland China are required to transfer part of their profits after tax to the reserve funds, which are not distributable as dividends without the prior approval by shareholders under certain conditions.

(b) Company

	Share premium account	Accumulated losses	Total
	HK$	*HK$*	*HK$*
At 1 January 2001	296,555,356	(281,839,627)	14,715,729
Issue of shares	1,843,308	–	1,843,308
Share issue expenses	(386,988)	–	(386,988)
Net loss for the year	–	(36,227,366)	(36,227,366)
At 31 December 2001 and at 1 January 2002	298,011,676	(318,066,993)	(20,055,317)
Issue of shares	22,076,916	–	22,076,916
Net loss for the year	–	(5,027,991)	(5,027,991)
At 31 December 2002	320,088,592	(323,094,984)	(3,006,392)

34. DEFERRED TAX

The principal components of the Group's deferred tax asset not recognised in the financial statements are as follows:

	2002	2001
	HK$	*HK$*
Accelerated depreciation allowances	**290,632**	181,830
Tax losses	**(15,589,288)**	(14,494,795)
At 31 December	**(15,298,656)**	(14,312,965)

Net deferred tax asset has not been recognised in the financial statements because it is uncertain whether the tax losses will be utilised in the foreseeable future.

35. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) The definition of "cash equivalents" under the revised SSAP 15 has been revised from that under the previous SSAP 15, as explained under the heading "Cash and cash equivalents" in note 3 to the financial statements. This has resulted in trust receipt loans no longer qualifying as cash equivalents. The amount of cash equivalents in the consolidated cash flow statement at 31 December 2001 has been adjusted to remove trust receipt loans amounting to HK$2,947,349, previously included at that date. The year's movement in trust receipt loans is now included in cash flows from financing activities and the comparative cash flow statement has been changed accordingly.

35. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(b) Acquisition of subsidiaries during the year

	Notes	*HK$*
Net assets acquired:		
Fixed assets	*14*	240,026
Intangible assets	*15*	32,309,779
Trade receivables		12,891,861
Other receivables and prepayments		1,087,112
Due from related companies		3,360,131
Cash and cash equivalents		9,117,618
Trade payables		(714,721)
Other payables and accruals		(5,935,866)
Due to related companies		(10,211,528)
Tax payable		(2,960,609)
Minority interests		(14,539,643)
		24,644,160
Goodwill on acquisition	*16*	37,822,468
		62,466,628
Satisfied by:		
Cash		62,466,628

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	HK$
Cash consideration	(62,466,628)
Cash and bank balances acquired	9,117,618
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	(53,349,010)

35. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(b) Acquisition of subsidiaries during the year *(continued)*

On 13 November 2002, the Group acquired the entire interest in Superfort, a wholly-owned subsidiary of United Home Limited ("United Home"), a substantial shareholder of the Company, at a cash consideration of HK$60,000,000, which was included in the above total consideration of HK$62,466,628. The principal activity of Superfort and its subsidiaries (collectively referred as "Caixun Group") is the provision of advertising agency services. The acquisition was financed by the share proceeds of the same amount received from United Home in accordance with a conditional subscription agreement entered into on 12 July 2002 between the Company and United Home, pursuant to which 379,746,836 ordinary shares were issued by the Company to United Home at a subscription price of HK$0.158 each. Details of movements in the Company's share capital are included in note 31 to the financial statements.

As United Home is a substantial shareholder of the Company, the above-mentioned agreements constituted connected transactions for the Company under the Listing Rules. Details of connected transactions of the Group are included in note 38(b) to the financial statements.

Since its acquisition, the Caixun Group contributed HK$6,972,830 to the Group's turnover and HK$1,870,748 to the consolidated profit after tax and before minority interests for the year ended 31 December 2002.

36. COMMITMENTS

(a) Operating lease arrangements

The Group leases certain of its factory and office premises under operating lease arrangements. Leases for properties are negotiated for terms ranging from three to five years.

At 31 December 2002, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2002	2001
	HK$	*HK$*
Within one year	**3,234,613**	1,526,664
In the second to fifth years, inclusive	**5,525,843**	5,998,629
	8,760,456	7,525,293

(b) Capital commitments

In addition to the operating lease commitments above, pursuant to an agreement between the Group and a magazine publication company, the Group has committed to make a total payment of RMB17 million (equivalent to approximately HK$16 million) over the period from year 2002 to year 2016 for the sole advertising agency right of the magazine publication company. The payment ranges from RMB600,000 (equivalent to approximately HK$565,000) per annum to RMB1,500,000 (equivalent to approximately HK$1,414,000) per annum.

37. CONTINGENT LIABILITIES

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

38. CONNECTED TRANSACTIONS

(a) Disposal of Wu Holdings

As disclosed in the published 2001 annual report, on 31 December 2001, the Group entered into an agreement (the "Agreement") with Bermuda Trust (Cook Islands) Limited ("Bermuda Trust"), the trustee of The Qiao Xing Trust, pursuant to which the Group has conditionally agreed to sell, and Bermuda Trust has conditionally agreed to purchase, the Group's entire interest in Wu Holdings, the then associate of the Group, for a consideration of approximately HK$40 million. As Mr. Wu Ruilin, the then executive director of the Company, is the protector and one of the discretionary objects of The Qiao Xing Trust, Bermuda Trust is an associate of Mr. Wu Ruilin, and hence, a connected person of the Company. Accordingly, the Agreement constituted a connected transaction for the Company under the Listing Rules.

Subsequent to the balance sheet date, on 9 April 2003, the conditions as specified in the Agreement were fulfilled and the said transaction was completed.

(b) Acquisition of Superfort

As detailed in the Company's circular dated 23 August 2002, on 12 July 2002, the Company entered into a conditional agreement ("Agreement") with United Home, a substantial shareholder of the Company, for the Company to acquire the entire interest in Superfort, a wholly-owned subsidiary of United Home, at a cash consideration of HK$60 million. The acquisition is financed by the share proceeds with the same amount received from United Home in accordance with a conditional subscription agreement entered into on 12 July 2002 between the Company and United Home, pursuant to which 379,746,836 ordinary shares were issued by the Company to United Home at a subscription price of HK$0.158 each. On 13 November 2002, the conditions as specified in the Agreement had been fulfilled and, accordingly, the said transaction was completed. Further details are also set out in note 35(b) to the financial statements.

As United Home is a substantial shareholder of the Company, the agreements constituted connected transactions for the Company under the Listing Rules.

39. RELATED PARTY TRANSACTIONS

During the year, the Group had the following transactions with companies under common directorship of the Company:

		Group	
		2002	2001
	Notes	***HK$***	*HK$*
Office rental expenses paid to Shanghai SEEC Investment and Development Co., Ltd. ("SHSEEC")	*(a)*	**154,093**	–
Commission income received from Homeway Information Co., Ltd. ("Homeway")	*(b)*	**665,488**	–

Notes:

(a) Pursuant to a rental agreement entered into between the Group and SHSEEC, a monthly rental expenses of RMB108,990 (equivalent to approximately HK$103,000) has been charged since 13 November 2002.

(b) The commission income from Homeway has been charged at a fixed rate on the advertising revenue of Homeway since 13 November 2002.

40. POST BALANCE SHEET EVENTS

(a) Disposal of the Prod-Art Group

As detailed in the Company's circular dated 17 March 2003, on 3 March 2003, the Group entered into an unconditional sale and purchase agreement (the "Agreement") with an independent third party ("the "Purchaser") that the Company agreed to sell and the Purchaser agreed to acquire the entire equity interest of Prod-Art, a wholly-owned subsidiary of the Company, at a consideration of HK$19 million. The transaction contemplated under the Agreement constitutes a discloseable transaction for the Company under the Listing Rules and discontinuing operation of the Group under SSAP 33. It is expected that the disposal will be completed by 30 June 2003. Further details are also set out in note 6 to the financial statements. The gain or loss on disposal of the discontinuing operation is not expected to be material.

40. POST BALANCE SHEET EVENTS *(continued)*

(b) Subsequent to the balance sheet date, the principal amount of convertible notes of HK$2,400,000 were converted into 12,000,000 new ordinary shares of HK$0.1 each at a conversion price of HK$0.2 per share.

(c) Disposal of Wu Holdings

Further details of the disposal were included in note 38(a) to the financial statements.

41. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 23 April 2003.