

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2002

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited.

The Company is an investment holding company. The principal activities of the Group are the manufacture of information storage media products and computer accessories, provision of total fulfillment services, trading of data media products.

2. ADOPTION OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”)

In the current period, the Group has adopted, for the first time, a number of new and revised SSAPs. The adoption of these SSAPs has resulted in a change in the format of presentation of the cash flow statement and the inclusion of the statement of changes in equity, but has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

Foreign currencies

The revisions to SSAP 11 “Foreign currency translation” have eliminated the choice of translating the income statements of overseas subsidiaries and associates at the closing rate for the period, the policy previously followed by the Group. They are now required to be translated at an average rate. This change in accounting policy has not had any material effect on the results for the current or prior accounting periods.

Cash flow statements

In the current year, the Group has adopted SSAP 15 (Revised) “Cash flow statement”. Under SSAP 15 (Revised), cash flows are classified under three headings - operating, investing and financing, rather than the previous five headings. Interest received, which was previously presented under a separate heading, is classified as investing cash flows. Interest paid, which was previously presented under a separate heading, is classified as financing cash flows. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities.

Under SSAP 15 (Revised), the amounts presented for cash and cash equivalents have been amended to exclude short-term bank borrowings that are financing in nature. The re-definition of cash and cash equivalents has resulted in a restatement of the comparative amounts shown in the cash flow statement.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2002

2. ADOPTION OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs") *(continued)*

Employee benefits

In the current year, the Group has adopted SSAP34 "Employee benefits", which introduces measurement rules for the employee benefits, including retirement benefit plans. As the Group participates only in defined contribution retirement benefit schemes, the adoption of SSAP 34 has not had any material impact on the financial statements.

3. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of certain properties.

The principal accounting policies which have been adopted in preparing these financial statements and which conform with accounting principles generally accepted in Hong Kong are as follows:

Basis of consolidation

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

All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or associate at the date of acquisition.

Goodwill arising on acquisitions prior to 1 January 2001 continues to be held in reserves, and will be charged to the income statement at the time of disposal of the relevant subsidiaries, or at such time as the goodwill is determined to be impaired.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Goodwill *(continued)*

Goodwill arising on acquisitions after 1 January 2001 is capitalised and amortised on a straight line basis over its useful economic life. Goodwill arising on the acquisition of an associate is included within the carrying amount of the associate. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet as a separate intangible asset.

On disposal of a subsidiary, the attributable amount of unamortised goodwill/goodwill previously eliminated against or credited to reserves is included in the determination of the profit or loss on disposal.

Investments in subsidiaries

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

Investment in an associate

The consolidated income statement includes the Group's share of the post-acquisition results of its associate for the year. In the consolidated balance sheet, interest in an associate is stated at the Group's share of the net assets of the associate less any identified impairment loss.

Where the Group transacts with its associate, unrealised profits and losses are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred.

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Service income is recognised when services are provided.

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

Operating lease rental income are recognised over the terms of relevant leases on a straight line basis.

Dividend income from investments is recognised when the Group's rights to receive payment have been established.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2002

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Property, plant and equipment

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

Land and buildings are stated in the balance sheet at their revalued amount, being the fair value on the basis of their existing use at the date of revaluation less any subsequent accumulated depreciation and accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on revaluation of land and buildings is credited to the properties revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in the net carrying amount arising on revaluation of an asset is charged to the income statement to the extent that it exceeds the balance, if any, on the properties revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

Depreciation is provided to write off the cost or valuation of property, plant and equipment over their estimated useful lives from the date on which they become full operational and after taking into account their estimated residual value, using the straight line method, at the following rates per annum:

Land and buildings	2.5% or over the term of the leases if less than 40 years
Plant and machinery other than those for manufacturing of compact disc products	20%
Furniture, fixtures and equipment	20%
Motor vehicles	30%
Moulds	20%
Stampers	33 $\frac{1}{3}$ %

Depreciation is provided to write down the cost of plant and machinery used for the manufacture of compact disc products to its estimated residual value based on the actual units of production as a proportion of its total anticipated units of production. The anticipated units of production are determined with reference to the production specifications obtained from the suppliers.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Property, plant and equipment *(continued)*

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

Assets held under finance leases and hire purchase contracts are depreciated over their expected useful lives on the same basis as owned assets.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible 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 unless the revalued asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as revaluation decrease under that standard.

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 unless the revalued asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that other standard.

Assets held under finance leases and hire purchase contracts

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases and hire purchase contracts are capitalised at their fair values at the date of acquisition. The corresponding liability to the lessor/hirer, net of interest charges, is included in the balance sheet as a finance lease or hire purchase obligations. Finance costs, which represent the difference between the total commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant leases or contracts so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

All other leases are classified as operating leases and the annual rentals income and expenses are credited and charged to the income statement on a straight line basis over the relevant lease terms.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2002

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Royalty charges

Lump sum payments for royalty charges for licences for use by the Group for a specified period are charged to the income statement over the term of the licence agreements or over five years, whichever is the shorter. Other royalty charges payable which are computed based on the number of units produced by the Group are charged to the income statement as incurred. Any other payments relating to the acquisition of licences are written off when incurred.

Distribution rights

Distribution rights represent payments made to independent third parties for the purpose of acquiring the rights for publication and distribution of data media products and are stated at cost less amortisation and impairment losses, where appropriate. Distribution rights are amortised on a straight line basis over the term of the distribution agreements from the commencement of commercial production of products.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Foreign currencies

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

On consolidation, the assets and liabilities of overseas operations which are denominated in foreign currencies are translated at the rates ruling on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. All exchange differences arising on consolidation are dealt with in reserves.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Taxation

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

Convertible notes

Convertible notes are separately disclosed and regarded as liabilities unless conversion actually occurs.

Retirement benefit scheme

The retirement benefit costs charged in the income statement represent the contributions payable in respect of the current year to the Group's retirement benefit schemes.

4. TURNOVER

Turnover represents the aggregate of the amounts received and receivable for goods sold and services rendered, net of returns and allowances, by the Group to outside customers during the year and is analysed as follows:

	2002 HK\$'000	2001 HK\$'000
Manufacture and trading of media products	229,107	213,490
Total fulfilment services	58,377	108,480
Distribution of data media products	80,831	51,466
Manufacture and trading of computer accessories	11,444	3,545
Others	–	2,964
	379,759	379,945

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2002

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into four operating divisions – the manufacture and trading of media products and computer accessories, total fulfilment services, and distribution of media products. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

	Manufacture and trading of media products	Manufacture and trading of computer accessories	Total fulfilment services	Distribution of media products	Eliminations	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Year ended 31 December 2002						
Revenue						
External sales	256,828	42,201	58,473	98,576	(76,319)	379,759
Inter-segment sales	(27,721)	(30,757)	(96)	(17,745)	76,319	–
Total revenue	<u>229,107</u>	<u>11,444</u>	<u>58,377</u>	<u>80,831</u>	<u>–</u>	<u>379,759</u>
Inter-segment sales are charged at prevailing market rates.						
Results						
Segment results	<u>46,851</u>	<u>13,128</u>	<u>5,950</u>	<u>11,030</u>	<u>–</u>	<u>76,959</u>
Other operating income						2,941
Unallocated corporate expenses						(56,891)
Profit from operations						<u>23,009</u>
Finance costs						(13,757)
Share of profit of an associate	1,609	–	–	–	–	1,609
Profit on disposal of a subsidiary	3,559	–	–	–	–	<u>3,559</u>
Profit before taxation						<u>14,420</u>
Taxation credit						<u>2,494</u>
Profit for the year						<u><u>16,914</u></u>

5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

	Manufacture and trading of media products	Manufacture and trading of computer accessories	Total fulfilment services	Distribution of media products	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 31 December 2002					
BALANCE SHEET					
ASSETS					
Segment assets	262,033	79,166	43,405	35,815	420,419
Investments in an associate	10,219	–	–	–	10,219
Unallocated corporate assets					<u>54,386</u>
Consolidated total assets					<u>485,024</u>
LIABILITIES					
Segment liabilities	32,873	44,555	5,868	9,304	92,600
Unallocated corporate liabilities					<u>156,059</u>
Consolidated total liabilities					<u>248,659</u>
OTHER INFORMATION					
Capital additions	4,943	5,493	50	688	
Depreciation of property, plant and equipment	22,591	3,347	1,225	398	
Amortisation of goodwill	<u>–</u>	<u>–</u>	<u>–</u>	<u>2,472</u>	

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2002

5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

	Manufacture and trading of media products	Manufacture and trading of computer accessories	Total fulfilment services	Distribution of media products	Others	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Year ended 31 December 2001						
Revenue						
External sales	213,490	3,545	108,480	51,466	2,964	379,945
Inter-segment sales	–	–	–	–	–	–
Total revenue	<u>213,490</u>	<u>3,545</u>	<u>108,480</u>	<u>51,466</u>	<u>2,964</u>	<u>379,945</u>
Inter-segment sales are charged at prevailing market rates.						
Results						
Segment results	<u>(51,103)</u>	<u>765</u>	<u>10,134</u>	<u>14,230</u>	<u>1,181</u>	<u>(24,793)</u>
Other operating income						2,549
Unallocated corporate expenses						<u>(47,634)</u>
Loss from operations						(69,878)
Finance costs						(17,386)
Share of profit of an associate	1,507	–	–	–	–	1,507
Loss on disposal of a subsidiary	(18,272)	–	–	–	–	<u>(18,272)</u>
Loss before taxation						(104,029)
Taxation credit						<u>572</u>
Loss for the year						<u>(103,457)</u>

5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

	Manufacture and trading of media products HK\$'000	Manufacture and trading of computer accessories HK\$'000	Total fulfilment services HK\$'000	Distribution of media products HK\$'000	Consolidated HK\$'000
As at 31					
December 2001					
BALANCE SHEET					
ASSETS					
Segment assets	266,192	75,913	40,576	16,676	399,357
Investments in an associate	7,808	–	–	–	7,808
Unallocated corporate assets					121,483
Consolidated total assets					<u>528,648</u>
LIABILITIES					
Segment liabilities	26,946	42,931	4,676	21,301	95,854
Unallocated corporate liabilities					213,702
Consolidated total liabilities					<u>309,556</u>
OTHER INFORMATION					
Capital additions	6,625	3,454	769	–	
Depreciation of property, plant and equipment	26,783	2,417	1,104	–	
Amortisation of goodwill	–	–	–	2,471	
Impairment losses					
recognised in respect of plant and machinery	70,000	–	–	–	
Impairment loss recognised in respect of intangible assets	6,221	–	–	–	
Loss on disposal of property, plant and equipment	18,573	–	–	–	

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2002

5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

Geographical segments

The Group's operations are located in Asia, Europe and North America.

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods/services:

	Sales revenue by geographical market	
	2002 HK\$'000	2001 HK\$'000
Asia		
– The People's Republic of China including Hong Kong	165,251	153,391
– Other regions in Asia	54,030	71,698
Europe	111,117	68,037
North America	49,361	86,819
	379,759	379,945

5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

Geographical segments *(continued)*

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment and intangible assets, analysed by geographical location of assets:

	Carrying amount of segment assets		Additions to property, plant and equipment and intangible assets	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Asia				
– Hong Kong	313,396	403,898	8,870	6,048
– The People's Republic of China	124,890	65,833	2,241	4,731
– Other regions in Asia	27,909	18,234	1	125
Europe	13,557	17,826	82	–
North America	4,298	19,743	61	–
	484,050	525,534	11,255	10,904

6. OTHER OPERATING INCOME

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
Commission income	1,320	2,037
Interest income	393	1,000
Operating lease rental income from plant and machinery	1,662	1,700
Others	2,548	1,549
	5,923	6,286

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2002

7. IMPAIRMENT LOSS RECOGNISED IN RESPECT OF INTANGIBLE ASSETS

The impairment loss recognised in respect of intangible assets in 2001 represented the write-off of the cost of the technical know-how for products which the directors considered were no longer commercially viable.

8. IMPAIRMENT LOSS RECOGNISED IN RESPECT OF PLANT AND MACHINERY

In 2001, the Group reviewed the carrying amounts of property, plant and equipment and identified that certain of those property, plant and equipment used in the manufacturing process of compact disc were impaired. Accordingly, the carrying amounts of the identified impaired property, plant and equipment were reduced to their respective recoverable amounts, which represent the net selling prices of the property, plant and equipment. The net selling prices were determined by reference to the market prices.

9. PROFIT (LOSS) FROM OPERATIONS

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
Profit (loss) from operations has been arrived at after charging:		
Amortisation of goodwill included in administrative expenses	2,472	2,471
Auditors' remuneration	1,220	1,332
Depreciation on		
– Owned assets	23,170	21,777
– Assets held under finance leases and hire purchase contracts	4,562	8,599
	27,732	30,376
Allowance for bad debt expenses	20	38
Rental payments in respect of premises under operating leases	9,136	7,401
Staff costs, including directors' remuneration (note 11 below)	64,168	59,116
Retirement benefit scheme contributions, including those attributable to directors (note 11 below)	1,450	1,522
Total staff costs	65,618	60,638

10. FINANCE COSTS

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Interest paid on		
– Bank loans, overdrafts and other loans wholly repayable within five years	8,286	7,977
– Bank loans with instalments repayable after five years	102	275
– Obligations under finance leases and hire purchase contracts	2,578	5,702
Amortisation of issue costs of bonds	–	48
Bank charges	2,012	1,864
Exchange loss	779	1,520
	13,757	17,386

11. DIRECTORS' EMOLUMENTS

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Directors' fees:		
Executive	–	–
Independent Non-executive	400	400
	400	400
Other emoluments (Executive Directors):		
Salaries and other benefits	8,558	9,325
Retirement benefit scheme contributions	33	38
	8,591	9,363
Total emoluments	8,991	9,763

The directors' remuneration shown above includes the estimated monetary value of premises provided rent free to two (2001: two) of the Executive Directors. The estimated rental value of such accommodation was HK\$544,800 (2001: HK\$720,000), which are also included in rental payments in respect of premises under operating leases under note 9 above.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2002

11. DIRECTORS' EMOLUMENTS *(continued)*

Emoluments of the Directors were within the following bands:

	THE GROUP	
	2002 No. of Directors	2001 No. of Directors
Nil to HK\$1,000,000	2	4
HK\$2,000,001 to HK\$2,500,000	1	1
HK\$2,500,001 to HK\$3,000,000	1	1
HK\$3,500,001 to HK\$4,000,000	1	1
	<u>5</u>	<u>7</u>

No director waived any emoluments during the year ended 31 December 2002 (2001: Nil).

12. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2001: three) were directors of the Company whose emoluments are set out in note 11 above. The emoluments of the remaining two (2001: two) employees were as follows:

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Salaries and other benefits	2,602	3,264
Retirement benefit scheme contributions	24	36
	<u>2,626</u>	<u>3,300</u>

12. EMPLOYEES' EMOLUMENTS *(continued)*

Their emoluments were within the following bands:

	THE GROUP	
	2002 No. of employees	2001 No. of employees
HK\$1,000,001 to HK\$1,500,000	2	1
HK\$1,500,001 to HK\$2,000,000	–	1
	<u>2</u>	<u>2</u>

13. TAXATION CREDIT

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
The taxation credit (charge) comprises:		
The Company and subsidiaries:		
Profits tax for the year		
Hong Kong	(889)	–
Overseas	(149)	(279)
Profits tax of prior years		
Hong Kong – underprovision	–	(3)
Overseas – overprovision	90	854
	<u>(948)</u>	<u>572</u>
Deferred taxation (Note 29)	3,582	–
Share of taxation attributable to an associate		
Overseas	(140)	–
	<u>2,494</u>	<u>572</u>

Hong Kong Profits Tax is calculated at 16% (2001:16%) of the estimated assessable profits for the year. Overseas taxation is calculated at the rates prevailing in the respective jurisdictions.

Details of the potential deferred tax credit not recognised in the year are set out in note 29.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2002

14. DIVIDENDS

	2002 HK\$'000	2001 HK\$'000
Final dividend at HK0.5 cent (2001: nil) per share proposed	<u>1,792</u>	<u>–</u>

The final dividend at HK0.5 cent (2001: nil) per share has been proposed by the directors and is subject to approval by the shareholders in general meeting.

15. EARNINGS (LOSS) PER SHARE

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

	Earnings (loss)	
	2002 HK\$'000	2001 HK\$'000
Earnings (loss) for the purposes of basic earnings (loss) per share	<u>16,594</u>	<u>(102,083)</u>
	Number of shares	
	2002	2001
Number of shares for the purposes of basic earnings (loss) per share	<u>358,494,000</u>	<u>358,494,000</u>

No diluted earnings per share for 2002 has been presented as the exercise price of the Company's outstanding share options and convertible notes was higher than the average market price for 2002.

No diluted loss per share for 2001 has been presented as the exercise of the Company's outstanding share options and the conversion of the Company's outstanding convertible notes would result in a decrease in loss per share.

16. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Plant and machinery	Furniture, fixtures and equipment	Moulds and stampers	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP						
AT COST/VALUATION						
At 1 January 2002	26,900	361,505	76,010	18,823	4,574	487,812
Additions	–	7,084	4,171	–	–	11,255
Disposals	(8,500)	(200)	(1,460)	–	–	(10,160)
Eliminated on disposal of a subsidiary	–	–	(37)	–	–	(37)
At 31 December 2002	18,400	368,389	78,684	18,823	4,574	488,870
COMPRISING:						
At cost	–	368,389	78,684	18,823	4,574	470,470
At valuation 1996	18,400	–	–	–	–	18,400
	18,400	368,389	78,684	18,823	4,574	488,870
DEPRECIATION AND IMPAIRMENT LOSS						
At 1 January 2002	3,482	198,267	40,530	16,124	3,073	261,476
Provided for the year	394	19,765	6,978	47	548	27,732
Eliminated on disposals	(1,186)	(142)	(1,032)	–	–	(2,360)
Eliminated on disposal of a subsidiary	–	–	(1)	–	–	(1)
At 31 December 2002	2,690	217,890	46,475	16,171	3,621	286,847
NET BOOK VALUES						
At 31 December 2002	15,710	150,499	32,209	2,652	953	202,023
At 31 December 2001	23,418	163,238	35,480	2,699	1,501	226,336

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2002

16. PROPERTY, PLANT AND EQUIPMENT *(continued)*

The net book value of land and buildings shown above comprises:

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
Land in Hong Kong under medium-term lease	14,159	21,835
Land outside Hong Kong under short-term lease	1,551	1,583
	15,710	23,418

Notes:

- (a) The land and buildings of the Group were revalued at 31 December 1996 on an open market value basis by Messrs. American Appraisal Hong Kong Limited, Chartered Surveyors. Messrs. American Appraisal Hong Kong Limited are not connected with the Group. The Directors are of the opinion that the carrying amount of land and buildings does not differ significantly from their fair value at the balance sheet date.

If leasehold land and buildings had not been revalued, they would have been included in these financial statements at historical cost less accumulated depreciation at HK\$11,013,000 (2001: HK\$14,020,000).

- (b) The net book value of property, plant and equipment includes an amount of HK\$46,066,000 (2001: HK\$119,113,000) in respect of assets held under finance leases and hire purchase contracts.
- (c) The Group had pledged its leasehold land and buildings with a net book value of HK\$9,180,000 (2001: HK\$7,438,000) to secure bank and other loans granted to its subsidiaries.
- (d) Plant and machinery includes assets carried at a cost of HK\$25,000,000 (2001: HK\$25,000,000) with accumulated depreciation of HK\$12,900,000 (2001: HK\$12,600,000) in respect of assets held for use under operating leases. Depreciation charged in respect of those assets in the year amounted to HK\$300,000 (2001: HK\$300,000).

17. INTANGIBLE ASSETS

	Deferred royalty charges HK\$'000	Distribution rights HK\$'000	Total HK\$'000
THE GROUP			
AT COST			
At 1 January 2002 and 31 December 2002	2,100	8,519	10,619
AMORTISATION			
At 1 January 2002 and 31 December 2002	2,100	–	2,100
NET BOOK VALUES			
At 31 December 2002	–	8,519	8,519
At 31 December 2001	–	8,519	8,519

18. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2002	2001
	HK\$'000	HK\$'000
Unlisted shares	39,172	39,172

The carrying value of the unlisted shares is based on the book values of the underlying net assets of the subsidiaries at the time they became members of the Group under the group reorganisation in November 1996.

Details of the principal subsidiaries are set out in note 43.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2002

19. INVESTMENT IN AN ASSOCIATE

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
Share of net assets	10,219	6,868

At 31 December 2002, the Group had an interest in the following associate:

Name of company	Form of business structure	Place of incorporation and operation	Proportion of registered capital held indirectly by the Group	Principal activities
Dalian Hualu Optical Technology Co., Ltd.	Sino-foreign equity joint venture enterprise	Mainland, Peoples' Republic of China	24%	Development, production and sales of computer media and computer software

20. GOODWILL

	THE GROUP
	HK\$'000
COST	
At 1 January 2002 and at 31 December 2002	49,432
AMORTISATION	
At 1 January 2002	2,471
Charge for the year	2,472
At 31 December 2002	4,943
NET BOOK VALUES	
At 31 December 2002	44,489
At 31 December 2001	46,961

The amortisation period adopted for goodwill is 20 years.

21. INVENTORIES

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Raw materials	21,521	15,570
Work in progress	18,596	24,414
Finished goods	29,830	18,260
	69,947	58,244

The inventories are stated at cost.

During the year, the cost of inventories recognised as expense amounting to HK\$178,405,000 (2001: HK\$194,910,000).

22. AMOUNT DUE FROM AN ASSOCIATE

This amount was unsecured and interest free. The amount was fully repaid during the year.

23. DEBTORS, DEPOSITS AND PREPAYMENTS

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Trade debtors	44,007	30,818
Other debtors, deposits and prepayments	64,072	58,790
	108,079	89,608

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2002

23. DEBTORS, DEPOSITS AND PREPAYMENTS *(continued)*

The Group has a policy of allowing a credit period ranging from 30 to 90 days. The aged analysis of the trade debtors is as follows:

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
1 to 3 months	36,420	21,579
4 to 6 months	3,709	7,543
7 to 9 months	3,092	577
10 to 12 months	293	397
Over 1 year	493	722
	44,007	30,818

24. BANK BALANCES AND CASH

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
Time deposits with banks	11,356	43,231
Bank balances and cash	29,418	44,827
	40,774	88,058

25. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Shares of HK\$0.10 each		
Authorised:		
At 1 January 2001 and 31 December 2002	<u>1,000,000,000</u>	<u>100,000</u>
Issued and fully paid:		
At 1 January 2001 and 31 December 2002	<u>358,494,000</u>	<u>35,849</u>

There were no changes in the authorised, issued and fully paid share capital during the two years ended 31 December 2001 and 2002.

None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed shares during the year.

26. SHARES OPTIONS

The Company's share option scheme was adopted pursuant to a resolution passed on 8 November 1996 ("the Scheme") for the primary purpose of providing incentives to Directors and eligible employees, and will expire in November 2006. Under the Scheme, the board of directors of the Company may grant options to eligible employees, including Directors (executive and non-executive) of the Company and its subsidiaries, to subscribe for shares in the Company.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the issued shares of the Company from time to time excluding the aggregate number of shares of the Company which have been duly allotted and issued pursuant to the Scheme, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual in aggregate is not permitted to exceed 25% of the shares of the Company in issue and issuable.

Options granted must be taken up within 30 days of the date of grant, upon payment of HK\$1 per option. Options may be exercised at any time from the date of acceptance of the share option to the 10th anniversary of the date of acceptance of the option. The exercise price is determined by the Directors, and will not be less than the higher of the 80% of the average closing price of the shares for the five business days immediately preceding the date of grant and the nominal value of the Company's shares.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2002

26. SHARES OPTIONS *(continued)*

As the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") relating to the share option schemes were amended on 1 September 2001, share option can be granted under the Scheme provided that the existing Listing Rules on share option schemes are complied with.

At 31 December 2002, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 11,637,000, representing 3.2% of the shares of the Company in issue at that date.

No option was granted by the Company during the year.

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

Option type	Outstanding at 1 January 2001 and 31 December 2001	Lapsed during the year	Outstanding at 31 December 2002
1997A	6,287,000	–	6,287,000
1997B	5,775,000	(1,475,000)	4,300,000
1999	1,050,000	–	1,050,000
	<u>13,112,000</u>	<u>(1,475,000)</u>	<u>11,637,000</u>

Details of the share options held by the Directors included in the above table are as follows:

Directors	Option type	Outstanding at 1 January 2001 and 31 December 2001	Lapsed during the year	Outstanding at 31 December 2002
Ms. Ho Yin King, Helena	1997A	3,750,000	–	3,750,000
Mr. Ho Fai Keung, Jacky	1997A	2,537,000	–	2,537,000
Ms. Ho Yat Wah, Hermia (resigned on 30 September 2002)	1997B	1,475,000	(1,475,000)	–
Total		<u>7,762,000</u>	<u>(1,475,000)</u>	<u>6,287,000</u>

26. SHARES OPTIONS *(continued)*

Details of specific categories of options are as follows:

Option type	Date of grant	Vesting period	Exercise period	Exercise price HK\$
1997A	24 December 1996	8 January 1997 to 7 January 2007	8 January 1997 to 7 January 2007	1.0336
1997B	24 December 1996	24 January 1997 to 23 January 2007	24 January 1997 to 23 January 2007	1.0336
1999	4 September 1999	4 September 1999 to 3 September 2009	4 September 1999 to 3 September 2009	0.8832

No charge is recognised in the income statement in respect of the value of option granted.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2002

27. RESERVES

	Share premium HK\$'000	Capital reserve HK\$'000	Translation reserve HK\$'000	Properties revaluation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
THE GROUP						
At 1 January 2001	77,202	(35,034)	(1,051)	10,759	228,871	280,747
Loss for the year	-	-	-	-	(102,083)	(102,083)
Translation of foreign subsidiaries and an associate	-	-	407	-	-	407
At 1 January 2002	77,202	(35,034)	(644)	10,759	126,788	179,071
Profit for the year	-	-	-	-	16,594	16,594
Translation of foreign subsidiaries and an associate	-	-	450	-	-	450
Realised on disposals of land and buildings	-	-	-	(5,472)	5,472	-
At 31 December 2002	77,202	(35,034)	(194)	5,287	148,854	196,115
Comprising:						
At 31 December 2002						
The Company and subsidiaries	77,202	(35,034)	38	5,287	145,792	193,285
The associate	-	-	(232)	-	3,062	2,830
	77,202	(35,034)	(194)	5,287	148,854	196,115
At 31 December 2001						
The Company and subsidiaries	77,202	(35,034)	(412)	10,759	125,195	177,710
The associate	-	-	(232)	-	1,593	1,361
	77,202	(35,034)	(644)	10,759	126,788	179,071

The capital reserve of the Group at 31 December 2002 amounted to HK\$35,034,000 (2001: HK\$35,034,000), comprising the reserve arising on group reorganisation in 1996 of HK\$1,863,000 (2001: HK\$1,863,000) and the goodwill arising on acquisition of subsidiaries and an associate amounting to HK\$25,447,000 (2001: HK\$25,447,000) and HK\$11,450,000 (2001: HK\$11,450,000) respectively.

27. RESERVES (continued)

	Share premium HK\$'000	Contributed surplus HK\$'000	Retained profits/ (losses) HK\$'000	Total HK\$'000
THE COMPANY				
At 1 January 2001	77,202	15,048	(3,558)	88,692
Profit for the year	–	–	13,678	13,678
At 1 January 2002	77,202	15,048	10,120	102,370
Loss for the year	–	–	(680)	(680)
At 31 December 2002	77,202	15,048	9,440	101,690

The contributed surplus of the Company represents the difference between the underlying net assets of the subsidiaries acquired by the Company and the nominal value of the share capital issued by the Company at the time of the group reorganisation prior to the listing of the Company's shares in 1994. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is available for distribution to shareholders. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if (a) it is, or would after the payment be, unable to pay its liabilities as they become due; and (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

In the opinion of Directors, the reserves of the Company which are available for distribution to shareholders at 31 December 2002 amounted to HK\$101,690,000 (2001: HK\$102,370,000).

28. CONVERTIBLE NOTES

	THE GROUP		THE COMPANY	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Convertible notes	39,600	39,600	39,600	39,600

The convertible notes issued were part of the consideration for the acquisition of a company holding an agreement for sale and promotion of data media products together with the distributorship and sales agreement with the existing clients of certain vendors in 2001.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2002

28. CONVERTIBLE NOTES *(continued)*

The convertible notes amounting to HK\$39,600,000 comprise four convertible notes and are interest free. A convertible note of HK\$32,700,000 is convertible in part or in whole into new shares of the Company, at the conversion price of HK\$0.55 per share, at any time during the period commencing 18 months from the date of issue on 5 January 2001 to, but excluding, the third anniversary from the date of issue (the "Maturity Date"). To the extent that this convertible note has not been previously converted, it will be redeemed on the Maturity Date at the then outstanding principal amount provided that the Company has the option to call on the holder to convert this convertible note on the same date wholly into new shares of the Company. The other three convertible notes, each having a principal amount of HK\$2,300,000, are convertible in part or in whole into the new shares of the Company, at the conversion price of HK\$0.55 per share, at any time during the period commencing 12, 24 and 33 months from the date of issue respectively up to but excluding the Maturity Date. To the extent that the three convertible notes have not been previously converted, the convertible notes will be redeemed on the Maturity Date at the then outstanding principal amounts.

29. DEFERRED TAXATION

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
Balance at 1 January	3,582	3,582
Movement for the year (Note 13)	(3,582)	–
Balance at 31 December	–	3,582

29. DEFERRED TAXATION *(continued)*

At 31 December 2002, the major components of the deferred taxation liabilities (assets), provided and unprovided, are as follows:

	Provided		Unprovided	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
THE GROUP				
Tax effect of timing differences because of:				
Excess of tax allowances over depreciation	–	3,582	20,096	17,110
Unrelieved tax losses	–	–	(24,666)	(19,906)
	<u>–</u>	<u>3,582</u>	<u>(4,570)</u>	<u>(2,796)</u>

The Company had no significant unprovided deferred taxation for the year or at the balance sheet date.

The components of the unprovided deferred taxation (credit) charge for the year are as follows:

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Tax effect of timing difference because of:		
Excess of tax allowances over depreciation	2,986	(12,463)
Tax losses substained	(4,760)	(3,565)
	<u>(1,774)</u>	<u>(16,028)</u>

Deferred taxation has not been provided on the revaluation surplus arising on the revaluation of land and buildings as profits arising on the disposal of these assets would not be subject to taxation. Accordingly, the revaluation does not constitute a timing difference for tax purposes.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2002

30. BANK BORROWINGS

	THE GROUP		THE COMPANY	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Bank borrowings comprise the following:				
Mortgage loan	2,851	2,943	–	–
Short term bank loan	57,571	74,195	–	11,250
Bank import and export loans	44,646	63,107	–	–
Bank overdrafts	18,597	17,017	–	180
	123,665	157,262	–	11,430
Secured	2,851	2,942	–	–
Unsecured	120,814	154,320	–	11,430
	123,665	157,262	–	11,430
Bank loans and overdrafts are repayable as follows:				
Within one year	112,241	128,960	–	3,930
More than one year, but not exceeding two years	9,685	17,711	–	7,500
More than two years, but not exceeding five years	1,739	9,970	–	–
More than five years	–	621	–	–
	123,665	157,262	–	11,430
Less: Amounts due within one year shown under current liabilities (Note 33)	(112,241)	(128,960)	–	(3,930)
Amounts due after one year	11,424	28,302	–	7,500

31. OBLIGATIONS UNDER FINANCE LEASES AND HIRE PURCHASE CONTRACTS

	Minimum lease payments THE GROUP		Present value of minimum lease payments THE GROUP	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amounts payable under finance leases and hire purchase contracts				
Within one year	22,906	29,115	21,667	24,239
In the second to fifth year inclusive	10,804	22,304	10,474	19,028
	33,710	51,419	32,141	43,267
Less: Future finance charges	(1,569)	(8,152)	N/A	N/A
	32,141	43,267	32,141	43,267
Less: Amounts due within one year shown under current liabilities (Note 33)			(21,667)	(24,239)
Amounts due after one year			10,474	19,028

It is the Group's policy to lease certain of its fixtures and equipment under finance leases. The average lease term is 3 years. For the year ended 31 December 2002, the average effective borrowing rate was 7% (2001: 10%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

During the year, the Group entered into three (2001: four) arrangement(s) to obtain finance amounting to approximately HK\$17 million (2001: HK\$23 million). Under these arrangements, the Group sold certain plant and machinery with a carrying amount of approximately HK\$10.6 million (2001: HK\$34.5 million) to the financiers at an aggregate consideration of approximately HK\$17 million (2001: HK\$23 million). At the same time, the Group entered into lease agreements with the financiers to lease back the plant and machinery for 32 (2001: 36) months; and at the end of those lease terms, the Group is either entitled to repurchase or continue to lease the plant and machinery at notional prices. Accordingly, the sale proceeds from the sale of these plant and machinery are treated as borrowings and classified as obligations under finance leases. The finance charges, which represent the difference between the total lease commitments and the obligations under finance leases, are charged to the income statement over the period of the relevant leases so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2002

32. TRADE AND OTHER PAYABLES

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
Trade creditors	36,623	48,904
Other creditors and accruals	16,095	16,941
	52,718	65,845

The aged analysis of the trade creditors is as follows:

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
1 to 3 months	27,184	31,582
4 to 6 months	8,545	12,276
7 to 9 months	266	4,189
10 to 12 months	628	378
Over 1 year	–	479
	36,623	48,904

33. CURRENT PORTION OF NON-CURRENT LIABILITIES

	THE GROUP		THE COMPANY	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank borrowings (Note 30)	112,241	128,960	–	3,930
Obligations under finance leases and hire purchase contracts (Note 31)	21,667	24,239	–	–
	133,908	153,199	–	3,930

34. ACQUISITION OF A SUBSIDIARY

In 2001, the Group acquired a company holding an agreement for sale and promotion of data media products together with the distributorship and sales agreement with the existing clients of certain vendors at a consideration of HK\$47,032,000. This acquisition has been accounted for by the acquisition method of accounting. The amount of goodwill arising as a result of the acquisition was HK\$49,432,000, representing the consideration for the acquisition and related legal costs.

The subsidiary acquired in 2001 contributed HK\$51,466,000 to the Group's turnover and a profit of HK\$14,230,000 to the Group for that year.

35. DISPOSAL OF A SUBSIDIARY

	2002 HK\$'000	2001 HK\$'000
NET ASSETS DISPOSED OF:		
Property, plant and equipment	36	–
Intangible assets	–	10,920
Debtors, deposits and prepayments	56	14,356
Bank balance and cash	2	1
Amount due to immediate holding company	–	(33,105)
Trade and other payable	(3,353)	(5)
	(3,259)	(7,833)
Waiver of intercompany loan	–	33,105
Profit (loss) on disposal of a subsidiary	3,559	(18,272)
Total consideration	300	7,000
Satisfied by:		
Cash consideration	300	7,000
Net cash inflow on disposal:		
Cash consideration	300	7,000
Bank balances and cash disposed of	(2)	(1)
	298	6,999

The subsidiary disposed of during the year contributed HK\$4,622,000 (2001: Nil) to the Group's turnover and incurred a loss of HK\$3,650,000 (2001: HK\$1,634,000) attributable to the Group.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2002

36. MAJOR NON-CASH TRANSACTIONS

1. In 2001, the Group entered into finance lease arrangements in respect of plant and machinery with a total capital value at the inception of the leases of HK\$381,000.
2. In 2001, convertible notes amounting to HK\$39,600,000 were issued in relation to the acquisition of a company holding an agreement for sale and promotion of data media products together with the distributorship and sales agreement with the existing clients of certain vendors at a consideration of HK\$47,032,000.

37. CONTINGENT ASSETS

In 1997, the Company entered into an agreement with a customer under which the Company was required to set up a software manufacturing fulfillment plant in Shanghai, the People's Republic of China and the customer was obliged, among other things, to place annual minimum orders to the Company for the five years ended 31 December 2002. Should the customer fail to place the minimum orders, the Company is entitled to claim for the shortfall. During the two years ended 31 December 1999, the orders from the customers did not meet the minimum orders stipulated in the agreement and the Company took action in 2000 to claim for the total shortfall under the agreement amounting to approximately US\$54 million. An arbitration tribunal has been formed to determine the liability and amount payable. Up to the date of approval of the financial statements, the arbitration has not been finalised. Accordingly, no further orders were placed by the customer. The Directors of the Company, based on the opinion from independent legal advisers, consider that there are merits in Group's claim against the customer and accordingly all direct expenditure incurred for the claim, including the investment costs in establishment of the above manufacturing plant amounting to HK\$39 million, are capitalised and carried in the financial statements pending settlement of the claim. The Directors of the Company are of the opinion that the Group has sufficient funds to pursue the claim.

38. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Bills discounted with recourse	51,535	37,688	–	–
Guarantees given to bankers in respect of banking facilities utilised by subsidiaries	–	–	362,600	440,300
	<u>51,535</u>	<u>37,688</u>	<u>362,600</u>	<u>440,300</u>

In addition, in 1998 a subsidiary of the Company received a writ from a customer in Hong Kong claiming amounts of Rmb5,885,000 and US\$1,000,000 relating to alleged defective products delivered by that subsidiary. However, the Directors, based on an opinion from the Group's independent legal advisers, consider that the allegations made by the customer are not valid and are of the opinion that such claims will not cause any material loss to the Group. No provision for the cost of the legal fees or loss, if any, arising from the allegation has been made in the financial statements.

39. LEASE COMMITMENTS

The Group as lessee

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

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Within one year	3,375	2,805
In the second to fifth year inclusive	9,676	3,713
Over five years	6,244	179
	<u>19,295</u>	<u>6,697</u>

At 31 December 2002, the Company had no commitments under non-cancellable operating leases (2001: Nil).

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2002

39. LEASE COMMITMENTS *(continued)*

The Group as lessee *(continued)*

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average term of 4 (2001: 3) years and rentals are fixed for an average of 4 (2001: 3) years.

The Group as lessor

Rental income earned in respect of plant and machinery during the year was HK\$1,662,000 (2001: HK\$1,700,000). The plant and machinery are expected to generate rental yields of 12% (2001: 14%) on an ongoing basis. All of the plant and machinery leased originally have committed lessees for three (2001: one to three) years.

At the balance sheet date, the Group had contracted with lessees for the following future minimum lease payments:

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
Within one year	735	2,064
In the second to fifth year inclusive	–	1,204
	735	3,268

40. CAPITAL COMMITMENTS

At the balance sheet date, the Group and the Company did not have any significant capital commitments.

41. RETIREMENT AND PENSION PLANS

The Group has a Mandatory Provident Fund scheme ("MPF Scheme") for all employees. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the MPF Scheme at rates specified in the rules of the MPF Scheme. The only obligation of the Group with respect of MPF Scheme is to make the required contributions under the MPF Scheme.

41. RETIREMENT AND PENSION PLANS *(continued)*

The retirement benefit scheme contributions arising from the MPF Scheme charged to the income statement represent contributions payable to the funds by the Group at rates specified in the rules of the MPF Scheme.

The employees of the Group's subsidiaries in other jurisdictions are members of state-managed retirement benefit schemes operated by the government of the jurisdictions. The subsidiaries are required to contribute a specified percentage of their payroll costs to the retirement benefit schemes. The only obligations of the Group with respect of the retirement benefit schemes is to make the specified contributions.

During the year, the Group made retirement benefit scheme contributions amounting to HK\$1,450,000 (2001: HK\$1,522,000).

42. RELATED PARTY TRANSACTIONS

The Group had the following significant transactions with related parties conducted on terms arrived at by reference to market prices during the year:

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Rental payments to Ms. Chan Siu Chu	324	324
Rental payments to Richmond Enterprise Limited	336	396
Rental payments to Fair Age Limited	55	29

Ms. Chan Siu Chu is the mother of Ms. Ho Yin King, Helena, Ms. Ho Yat Wah, Hermia and Mr. Ho Fai Keung, Jacky.

Ms. Ho Yat Wah, Hermia, being an Executive Director of the Company until 30 September 2002, is also a director and shareholder of Richmond Enterprise Limited and Fair Age Limited.

The above related party transactions have been approved by the Independent Non-executive Directors.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2002

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries as at 31 December 2002 are as follows:

Name of subsidiary	Place/country of incorporation and operation	Issued and paid up share capital/ registered capital	Percentage of issued share capital/ registered capital held (Note a)	Principal activities
Albata Technology Limited	Hong Kong	2 ordinary shares of HK\$1 each	100	Provision of software programming
Cheson Magnetic Limited	Macau	100,000 ordinary shares of MOP1 each	100	Manufacture of floppy disks
China Gardens International Ltd.	British Virgin Islands	100 ordinary shares of US\$1 each	100	Trading of media products
Clearview Development Limited	British Virgin Islands	10,000 ordinary shares of US\$1 each	100	Investment holding
Creative Information Technology (Shanghai) Co. Ltd.	People's Republic of China #	US\$870,000	100	Inactive
Feitian Magnetic Information-Technology (Shenzhen) Co., Ltd.	People's Republic of China #	US\$2,500,000	100	Manufacture of floppy disks

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

Name of subsidiary	Place/country of incorporation and operation	Issued and paid up share capital/ registered capital	Percentage of issued share capital/ registered capital held (Note a)	Principal activities
Fortune Luck Development Ltd.	British Virgin Islands	4 ordinary shares of US\$1 each	100	Trading of data media products
Great China Global Limited	British Virgin Islands	1 ordinary share of US\$1 each	100	Trading of data media products
Havenport Management Limited	British Virgin Islands	10,000 ordinary shares of US\$1 each	100	Investment holding
Jackin Accessories Industrial Company Limited	British Virgin Islands	1 ordinary share of US\$1 each	100	Investment holding
Jackin Trading Company Limited (formerly known as Jackin Advanced Optical Technology Limited)	British Virgin Islands	1 ordinary share of US\$1	100	Trading of data media products
Jackin Enterprises Limited	British Virgin Islands	1 ordinary share of US\$1	100	Holding of trade marks
Jackin Magnetic Company Limited	Hong Kong	10 ordinary shares of HK\$100 each and 10,000 non-voting deferred shares of HK\$100 each (Note b)	100	Sale of floppy disks

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2002

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

Name of subsidiary	Place/country of incorporation and operation	Issued and paid up share capital/ registered capital	Percentage of issued share capital/ registered capital held (Note a)	Principal activities
Jackin Magnetic (United Kingdom) Company Limited	England	3 ordinary shares of GBP 1 each	100	Sale of floppy disks
Jackin Manufacturing (Shenzhen) Limited	British Virgin Islands	1 ordinary share of US\$1	100	Investment holding
Jackin Media Marketing Limited	Hong Kong	100 ordinary shares of HK\$1 each	100	Investment holding
Jackin Optical Marketing Company Limited	Hong Kong	2 ordinary shares of HK\$1 each	100	Sale of compact disc products
Jackin Optical Technology Limited	Hong Kong	1,000,000 ordinary shares of HK\$1 each	100	Manufacture and sale of compact disc products
Jackin Purchasing Company Limited	Hong Kong	2 ordinary shares of HK\$1 each	100	Provision of sourcing and procurement services
Jackin Total Fulfilment Services Limited	Hong Kong	2 ordinary shares of HK\$1 each	100	Inactive
Jackin U.S.A. Inc.	United States of America	1 ordinary share of US\$1	100	Sale of compact disc products, jewel cases and floppy disks and provision of total fulfilment services and supply chain management services

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

Name of subsidiary	Place/country of incorporation and operation	Issued and paid up share capital/ registered capital	Percentage of issued share capital/ registered capital held (Note a)	Principal activities
Jackin Video Cassette Co. Limited	Hong Kong	1,000 ordinary shares of HK\$1 each and 1,000,000 non-voting deferred shares of HK\$1 each (Note b)	100	Property holding
Jackin Video Cassette (Taiwan) Limited	Taiwan	2,000,000 ordinary shares of NT\$10 each	99.9	Property holding
Noble Team Holdings Limited	British Virgin Islands	10,000 ordinary shares of US\$1 each	100	Investment holding
Oakview International Limited	British Virgin Islands	100 ordinary shares of US\$1 each	100	Investment holding
Prince Diamond Co., Ltd.	British Virgin Islands	2 ordinary shares of US\$1 each	100	Investment holding
Romtec Holdings Limited	British Virgin Islands	1 ordinary share of US\$1	100	Investment holding

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

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43. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

Name of subsidiary	Place/country of incorporation and operation	Issued and paid up share capital/ registered capital	Percentage of issued share capital/ registered capital held (Note a)	Principal activities
Sunny Printing (International) Company Limited	Hong Kong	10,000 ordinary shares of HK\$1 each	100	Provision of computer software replication services
Tempair Developments Limited	British Virgin Islands	10,000 ordinary shares of US\$1 each	100	Investment holding
Ugent Holdings Limited	British Virgin Islands	10,000 ordinary shares of US\$1 each	100	Investment holding
珠海藝必達信息技術有限公司	People's Republic of China *	HK\$5,000,000	80	Provision of software programming

Notes:

- (a) Except Oakview International Limited, which is directly owned by the Company, all other subsidiaries are indirectly held.
- (b) The Company holds 100% of the issued ordinary share capital only. The deferred shares, which are not held by the Group, practically carry no rights to dividends or to receive notice of or to attend or vote at any general meeting of the respective companies or to participate in any distribution on winding up.
- (c) Other than those subsidiaries incorporated in the British Virgin Islands, whose place of operations are basically in Hong Kong, the places of operations of all other subsidiaries are the same as their places of incorporation.
- (d) The directors are of the opinion that a complete list of the particulars of all subsidiaries will be of excessive length and therefore the above list contains only the particulars of the subsidiaries which materially affect the results or assets of the Group.
- # These subsidiaries established in the People's Republic of China are wholly foreign-owned enterprises.
- * This subsidiary established in the Peoples' Republic of China is a Sino-foreign equity joint venture enterprise.