

Notes to the Financial Statements

For the year ended 31st December, 2003

1. GENERAL

The Company is incorporated as an exempted company with limited liability in the Cayman Islands with its shares listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Group is principally engaged in the provision of advertising agency services in the PRC. During the year, the Group ceased its businesses of design, manufacture and marketing of electronic consumer products.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted, for the first time, the following Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Society of Accountants ("HKSA"). The term HKFRS is inclusive of Statements of Standard Accounting Practice ("SSAP(s)") and Interpretations approved by the HKSA.

SSAP 12 (Revised)	Income taxes
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The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. The adoption of SSAP 12 (Revised) has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior year adjustment has been required.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain investments in securities and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out as follows:

Basis of consolidation

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

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

All significant inter-company transactions and balances within the Group have been eliminated on consolidation.

Investments in subsidiaries

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

Notes to the Financial Statements

For the year ended 31st December, 2003

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 at the date of acquisition.

Goodwill is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Revenue recognition

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

Advertising agency fee is recognised upon the publication of the related advertisement.

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

Dividend income from investments is recognised when the shareholders' right to receive payment have been established.

Property, plant and equipment

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

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

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

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

Notes to the Financial Statements

For the year ended 31st December, 2003

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets

Intangible assets are stated at cost less any impairment loss and amortised on a straight-line basis over their estimated useful lives.

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.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such 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 any impairment loss is recognised as income immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

Investments in securities

Investments in securities are recognised on a trade date basis and are initially measured at cost.

All securities other than held-to-maturity debt securities are measured at subsequent reporting dates at fair value.

Where securities are held for trading purposes, unrealised gains and losses are included in net profit or loss for the year. For other securities, unrealised gains and losses are dealt with in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in net profit or loss for the year.

Operating leases

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

Notes to the Financial Statements

For the year ended 31st December, 2003

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Tax

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

Foreign currencies

Transactions in currencies other than Hong Kong dollars are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in currencies other than Hong Kong dollars are retranslated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the year.

On consolidation, the assets and liabilities of the Group's operations outside Hong Kong are translated at the exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's exchange translation reserve. Such translation differences are recognised as income or as expenses in the year in which the operation is disposed of.

Notes to the Financial Statements

For the year ended 31st December, 2003

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Retirement benefits costs

Payments to defined contribution retirement benefits schemes are charged as an expense when they fall due.

4. TURNOVER

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

	2003	2002
	HK\$'000	HK\$'000
Provision of advertising agency services	66,501	6,973
Design, manufacture and marketing of electronic consumer products	45,889	71,027
	<u>112,390</u>	<u>78,000</u>

Notes to the Financial Statements

For the year ended 31st December, 2003

5. SEGMENT INFORMATION

The Group is currently only engaged in the provision of advertising agency services.

The Group was also involved in the businesses of design, manufacture and marketing of electronic consumer products. This operation was discontinued on 30th June, 2003 (see note 7).

Segment information about these businesses is presented below:

Business segments

Results

	Continuing operation		Discontinued operation		Consolidated	
	Provision of advertising agency services		Design, manufacture and marketing of electronic consumer products		2003	2002
	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue						
Sales to external customers	<u>66,501</u>	<u>6,973</u>	<u>45,889</u>	<u>71,027</u>	<u>112,390</u>	<u>78,000</u>
Segment results	<u>35,393</u>	<u>2,667</u>	<u>5,229</u>	<u>6,959</u>	<u>40,622</u>	<u>9,626</u>
Unallocated revenue					<u>6,466</u>	803
Unallocated expenses					<u>(9,073)</u>	(7,265)
Profit from operating activities					<u>38,015</u>	3,164
Loss on disposal of subsidiaries					<u>(1,820)</u>	-
Release of reserves upon disposal of an associate					<u>6,566</u>	-
Finance costs					<u>-</u>	(165)
Profit before tax					<u>42,761</u>	2,999
Tax					<u>(5,627)</u>	(798)
Profit before minority interests					<u>37,134</u>	2,201
Minority interests					<u>(8,875)</u>	(884)
Net profit from ordinary activities attributable to shareholders					<u>28,259</u>	<u>1,317</u>

Notes to the Financial Statements

For the year ended 31st December, 2003

5. SEGMENT INFORMATION *(continued)*

Business segments *(continued)*

Balance sheet

	Continuing operation		Discontinued operation		Consolidated	
	Provision of advertising agency services		Design, manufacture and marketing of electronic consumer products			
	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	<u>130,760</u>	<u>90,552</u>	<u>–</u>	<u>51,144</u>	<u>130,760</u>	141,696
Unallocated corporate assets					<u>103,519</u>	80,382
Consolidated total assets					<u>234,279</u>	<u>222,078</u>
Segment liabilities	<u>16,761</u>	<u>13,986</u>	<u>–</u>	<u>22,787</u>	<u>16,761</u>	36,773
Unallocated corporate liabilities					<u>560</u>	29,490
Consolidated total liabilities					<u>17,321</u>	<u>66,263</u>

Other information

	Continuing operation				Discontinued operation		Consolidated	
	Provision of advertising agency services		Unallocated		Design, manufacture and marketing of electronic consumer products			
	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Additions of property, plant and equipment and intangible assets	882	70,378	344	–	228	725	1,454	71,103
Allowances for bad and doubtful debts	2,721	–	–	–	–	–	2,721	–
Amortisation of intangible assets	1,970	284	–	–	–	–	1,970	284
Amortisation of goodwill	2,521	317	–	–	–	–	2,521	317
Depreciation and amortisation of property, plant and equipment	106	9	363	378	1,881	2,516	2,350	2,903
Gain on disposal of property, plant and equipment	870	222	–	–	–	–	870	222
Write back of allowances for bad and doubtful debts	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>1,123</u>	<u>–</u>	<u>1,123</u>

Notes to the Financial Statements

For the year ended 31st December, 2003

5. SEGMENT INFORMATION *(continued)*

Geographical segments

The Group's operations are located in the PRC.

The following table provides an analysis of the Group's revenue by geographical markets:

	Continuing operation		Discontinued operation		Consolidated	
	Provision of advertising agency services		Design, manufacture and marketing of electronic consumer products			
	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong and Far East	-	-	599	6,515	599	6,515
PRC	66,501	6,973	10	3,493	66,511	10,466
North America	-	-	37,777	36,396	37,777	36,396
Europe	-	-	7,503	24,623	7,503	24,623
	66,501	6,973	45,889	71,027	112,390	78,000

The following is an analysis of the carrying amount of segment assets and additions to property, plant and equipment and intangible assets by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment and intangible assets	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong and Far East	68,535	99,831	477	629
PRC	165,744	122,247	977	70,474
	234,279	222,078	1,454	71,103

Notes to the Financial Statements

For the year ended 31st December, 2003

6. PROFIT FROM OPERATING ACTIVITIES

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Profit from operating activities has been arrived at after charging (crediting):		
Auditors' remuneration	757	920
Staff costs (including directors' remuneration):		
Wages, salaries and other allowances	12,808	11,919
Contributions to retirement benefits schemes	355	410
	13,163	12,329
Depreciation and amortisation of property, plant and equipment	2,350	2,903
Amortisation of goodwill*	2,521	317
Amortisation of intangible assets*	1,970	284
	6,841	3,504
Exchange losses, net	133	313
Operating leases payments in respect of rented premises	1,713	1,472
Unrealised holding (gain) loss on investments in securities	(2,914)	462
Gain on disposal of property, plant and equipment	(870)	(222)
Realised gain on investments in securities	(409)	–
Allowances (write-back of allowances) for bad and doubtful debts	2,721	(1,123)
Dividend income from investments in listed securities	(48)	(73)
Interest income	(3,291)	(210)

* 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 income statement respectively.

Notes to the Financial Statements

For the year ended 31st December, 2003

7. DISCONTINUED OPERATION

During the year, the Group entered into an agreement to dispose of its entire equity interest in Prod-Art Company Limited and its subsidiaries (collectively the "Prod-Art Group"), which carried out all of the Group's businesses of design, manufacture and marketing of electronic consumer products operation. The disposal was completed on 30th June, 2003, on which date the control of the Prod-Art Group was passed to the acquirer.

The results of the discontinued operation for the period from 1st January, 2003 to 30th June, 2003 which have been included in the consolidated financial statements, were as follows:

	1st January, 2003 to 30th June, 2003 HK\$'000	1st January, 2002 to 31st December, 2002 HK\$'000
Turnover	45,889	71,027
Cost of sales	(32,098)	(47,144)
Gross profit	13,791	23,883
Other operating income	645	3,919
Selling and distribution expenses	(2,117)	(3,489)
Administrative expenses	(7,090)	(18,045)
Profit from operating activities	5,229	6,268
Finance costs	-	(165)
Net profit from ordinary activities attributable to shareholders	5,229	6,103

During the year, the Prod-Art Group utilised approximately HK\$7,513,000 of the Group's net operating cash flows and paid approximately HK\$228,000 in respect of investing activities.

The carrying amount of the assets and liabilities of the Prod-Art Group at the date of disposal and at 31st December, 2002 are disclosed in note 26.

A loss of HK\$1,820,000 arose on the disposal of the Prod-Art Group, being the proceeds of disposal less the carrying amount of the subsidiaries' net assets (see note 26).

Notes to the Financial Statements

For the year ended 31st December, 2003

8. FINANCE COSTS

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Interest on bank loans wholly repayable within five years	<u>–</u>	<u>165</u>

9. DIRECTORS' EMOLUMENTS

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Fees:		
Executives	–	–
Non-executive	–	–
Independent non-executives	<u>60</u>	<u>24</u>
	<u>60</u>	<u>24</u>
Other emoluments:		
Executives		
Salaries, allowances and benefits in kind	248	1,319
Retirement benefits scheme contributions	17	104
	<u>265</u>	<u>1,423</u>
	<u>325</u>	<u>1,447</u>

The aggregate emoluments of each of the directors during the relevant periods were within the emoluments band ranging from nil to HK\$1,000,000.

During the year, no emoluments were paid by the Group to the directors as compensation for loss of office or as a discretionary bonus or an inducement to join or upon joining the Group. None of the directors has waived any emoluments in both years.

Notes to the Financial Statements

For the year ended 31st December, 2003

10. EMPLOYEES' EMOLUMENTS

The five highest paid individuals in the Group during the year did not include any director of the Company (2002: two directors). The emoluments of the remaining five (2002: three) highest paid individuals were as follows:

	2003 HK\$'000	2002 HK\$'000
Salaries, allowances and benefits in kind	2,208	2,356
Retirement benefits scheme contributions	61	80
	<u>2,269</u>	<u>2,436</u>

The aggregate emoluments of each of their emoluments during the relevant periods were within the emoluments band ranging from nil to HK\$1,000,000.

11. TAX

No provision for Hong Kong Profits Tax has been made for the both years because the Group incurred a tax loss in Hong Kong.

Taxes arising in other jurisdictions of the PRC are calculated at the rates of tax prevailing in the PRC.

The charge for the year can be reconciled to the profit before taxation per the consolidated income statement as follows:

	2003 HK\$'000	2002 HK\$'000
Profit before tax	<u>42,761</u>	<u>2,999</u>
Tax at PRC income tax rate of 15%	6,414	450
Effect of different income tax rates	194	(498)
Tax effect of tax losses not recognised	–	657
Tax effect of expenses not deductible for tax purpose	994	189
Tax effect of income not taxable for tax purpose	(1,551)	–
Utilisation of tax losses previously not recognised	(424)	–
Tax expense for the year	<u>5,627</u>	<u>798</u>

At the balance sheet date, the Group has unused estimated tax losses of HK\$3,116,000 (2002: HK\$15,298,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the estimated tax losses due to the unpredictability of future profit streams.

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For the year ended 31st December, 2003

12. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	2003 HK\$'000	2002 HK\$'000
Earnings		
Earnings for the purposes of basic and diluted earnings per share	<u>28,259</u>	<u>1,317</u>
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,438,093,663	1,055,618,449
Effect of dilutive potential ordinary shares:		
– share options	2,351,044	5,719,616
– convertible notes	842,665	27,195,616
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>1,441,287,372</u>	<u>1,088,533,681</u>

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK\$'000	Leasehold improve- ments HK\$'000	Plant and machinery HK\$'000	Moulds HK\$'000	Motor vehicles HK\$'000	Furniture, fixtures and fittings HK\$'000	Computer and office equipment HK\$'000	Total HK\$'000
THE GROUP								
COST								
At 1st January, 2003	40,207	–	27,143	4,159	2,029	7,316	3,605	84,459
Additions	–	315	–	104	411	30	594	1,454
Disposals	(14,849)	–	–	(70)	–	–	–	(14,919)
Disposal of subsidiaries	(25,358)	–	(27,143)	(4,193)	(2,029)	(7,316)	(3,483)	(69,522)
At 31st December, 2003	<u>–</u>	<u>315</u>	<u>–</u>	<u>–</u>	<u>411</u>	<u>30</u>	<u>716</u>	<u>1,472</u>
ACCUMULATED DEPRECIATION AND AMORTISATION								
At 1st January, 2003	7,244	–	26,292	2,614	1,959	6,415	3,241	47,765
Provided for the year	606	9	126	1,263	42	156	148	2,350
Eliminated on disposals	(3,867)	–	–	(4)	–	–	–	(3,871)
Eliminated on disposal of subsidiaries	(3,983)	–	(26,418)	(3,873)	(1,984)	(6,570)	(3,291)	(46,119)
At 31st December, 2003	<u>–</u>	<u>9</u>	<u>–</u>	<u>–</u>	<u>17</u>	<u>1</u>	<u>98</u>	<u>125</u>
NET BOOK VALUES								
At 31st December, 2003	<u>–</u>	<u>306</u>	<u>–</u>	<u>–</u>	<u>394</u>	<u>29</u>	<u>618</u>	<u>1,347</u>
At 31st December, 2002	<u>32,963</u>	<u>–</u>	<u>851</u>	<u>1,545</u>	<u>70</u>	<u>901</u>	<u>364</u>	<u>36,694</u>

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

The carrying amount of medium-term lease leasehold land and buildings are situated:

	2003 HK\$'000	2002 HK\$'000
Hong Kong	–	11,335
PRC	–	21,628
	<u>–</u>	<u>32,963</u>
	Leasehold improvements HK\$'000	Furniture, fixtures and fittings HK\$'000
		Total HK\$'000
THE COMPANY		
COST		
Additions during the year and balance at 31st December, 2003	315	30
		345
ACCUMULATED DEPRECIATION		
Provided for the year and balance at 31st December, 2003	<u>9</u>	<u>1</u>
		<u>10</u>
NET BOOK VALUE		
At 31st December, 2003	<u>306</u>	<u>29</u>
		<u>335</u>

14. INTANGIBLE ASSETS

	THE GROUP HK\$'000
COST	
At 1st January, 2003 and 31st December, 2003	<u>32,310</u>
AMORTISATION	
At 1st January, 2003	284
Charged for the year	<u>1,970</u>
At 31st December, 2003	<u>2,254</u>
NET BOOK VALUES	
At 31st December, 2003	<u>30,056</u>
At 31st December, 2002	<u>32,026</u>

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.

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15. GOODWILL

	THE GROUP
	HK\$'000
GROSS AMOUNT	
At 1st January, 2003 and 31st December, 2003	<u>37,822</u>
AMORTISATION	
At 1st January, 2003	317
Charged for the year	<u>2,521</u>
At 31st December, 2003	<u>2,838</u>
NET BOOK VALUES	
At 31st December, 2003	<u>34,984</u>
At 31st December, 2002	<u>37,505</u>

Goodwill is amortised on a straight line basis over a period of 15 years.

16. INTERESTS IN SUBSIDIARIES

	2003	2002
	HK\$'000	HK\$'000
Unlisted shares, at cost	72,467	70,619
Amounts due from subsidiaries	54,910	400,895
	<u>127,377</u>	471,514
Less: Impairment loss recognised	(13,398)	(333,400)
	<u>113,979</u>	<u>138,114</u>

The balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the directors, the amounts will not be repaid in the next twelve months. Accordingly, the amount is classified as non-current assets.

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16. INTERESTS IN SUBSIDIARIES *(continued)*

Particulars of the Company's principal subsidiaries at 31st December, 2003 are as follows:

Name	Country of incorporation or registration/ operations	Proportion of nominal value of issued share capital/ registered capital held by the Company		Issued and fully paid ordinary share capital/ registered capital	Principal activities
		Directly	Indirectly		
Beijing Caixun Advertising Co., Ltd. ("Beijing Caixun")	PRC	–	60 (Note)	RMB6,000,000	Advertising agent
Hainan Caixun Infomedia Co., Ltd. ("Hainan Caixun")	PRC	–	85.7 (Note)	RMB9,000,000	Investment holding
Shenzhen Caixun Advertising Co., Ltd. ("Shenzhen Caixun")	PRC	–	60 (Note)	RMB1,000,000	Advertising agent
Shanghai Cai Guan Information Co., Ltd.	PRC	100	–	RMB10,000,000	Investment holding
Sino Telecommunications Limited	British Virgin Islands/ Hong Kong	100	–	US\$1	Trading of marketable securities
Superfort Management Corp. ("Superfort") (Note)	British Virgin Islands/ Hong Kong	100	–	US\$100	Investment holding

Note: The Company, through Superfort, indirectly holds a 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 12th 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 13th 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, Hainan Caixun, Beijing Caixun and Shenzhen Caixun are treated by the Group for accounting purposes as 85.7%, 60% and 60% subsidiaries respectively.

The directors are of the opinion that a complete list of the particulars of all subsidiaries would be of excessive length and therefore the above list contains only the subsidiaries which principally affect the results or assets and liabilities of the Group.

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

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17. INVESTMENTS IN SECURITIES

	Other securities		Trading securities		Total	
	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP						
Equity securities						
Listed in Hong Kong	–	–	3,988	1,970	3,988	1,970
Unlisted (Note)	–	40,000	–	–	–	40,000
	–	40,000	3,988	1,970	3,988	41,970
Quoted mutual funds	–	–	12,567	–	12,567	–
	–	40,000	16,555	1,970	16,555	41,970
Market value	–	–	16,555	1,970	16,555	1,970
Carrying amount analysed for reporting purposes as:						
Current	–	–	16,555	1,970	16,555	1,970
Non-current	–	40,000	–	–	–	40,000
	–	40,000	16,555	1,970	16,555	41,970
THE COMPANY						
Quoted mutual funds						
– current	–	–	12,567	–	12,567	–

Note: This was a former associate, Wu Holdings Limited ("Wu Holdings"), which was reclassified to other securities upon the Group ceased to have significant influence in 2002. The disposal of the Group's entire interest in Wu Holdings was completed during the year. Further information of this transaction is set out in note 32(b).

Notes to the Financial Statements

For the year ended 31st December, 2003

18. INVENTORIES

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Raw materials	–	4,568
Work in progress	–	185
Finished goods	–	1,332
	<u>–</u>	<u>6,085</u>

The carrying amount of inventories at 31st December, 2002 included inventories of approximately HK\$170,000 which were carried at net realisable value.

19. TRADE AND BILLS RECEIVABLES

The average credit period granted by the Group is within three months from the date of recognition of the sale.

The aging analysis of the Group's trade and bills receivables is as follows:

	2003		2002	
	HK\$'000	%	HK\$'000	%
Within three months	11,069	48	14,449	62
Four to six months	5,561	24	2,915	12
Seven months to one year	3,740	16	1,815	8
Over one year	2,721	12	4,069	18
	<u>23,091</u>	<u>100</u>	<u>23,248</u>	<u>100</u>
Less: Allowances for bad and doubtful debts	<u>(2,721)</u>		<u>(5,261)</u>	
Total after allowances for bad and doubtful debts	<u>20,370</u>		<u>17,987</u>	

Notes to the Financial Statements

For the year ended 31st December, 2003

20. AMOUNTS DUE FROM AND TO RELATED COMPANIES

The balances are unsecured, non-interest bearing and have no fixed repayment terms.

21. TRADE AND BILLS PAYABLES

The aging analysis of the Group's trade and bills payables is as follows:

	2003		2002	
	HK\$'000	%	HK\$'000	%
Within two months	1,855	100	4,073	44
Three to four months	–	–	2,573	28
Five months to one year	–	–	2,047	22
Over one year	–	–	622	6
	<u>1,855</u>	<u>100</u>	<u>9,315</u>	<u>100</u>

22. CONVERTIBLE NOTES

The one-year zero coupon convertible notes were issued by the Company on 24th July, 2002 to the places 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). During the year, the principal amount of convertible notes of HK\$3,600,000 were converted into 18,000,000 ordinary shares of HK\$0.10 each at a conversion price of HK\$0.20 per share. The remaining principle amount of the convertible notes were repaid during the year.

23. TRUST RECEIPT LOANS, SECURED

The trust receipt loans at 31st December, 2002 were secured by a time deposit of approximately HK\$2,000,000 of the Group.

Notes to the Financial Statements

For the year ended 31st December, 2003

24. SHARE CAPITAL

	Notes	Number of shares '000	Amount HK\$'000
Ordinary shares of HK\$0.10 each			
Authorised:			
At 1st January, 2002, 31st December, 2002, 1st January, 2003 and 31st December, 2003		3,000,000	30,000
Issued and fully paid:			
At 1st January, 2002		1,004,528	100,453
Issue of shares		379,747	37,974
Exercise of share options		2,700	270
At 31st December, 2002 and 1st January, 2003		1,386,975	138,697
Placement of shares	(i)	140,000	14,000
Conversion of convertible notes (Note 22)		18,000	1,800
Exercise of share options	(ii)	800	80
At 31st December, 2003		1,545,775	154,577

All the issued shares rank *pari passu* in all respects including all rights as to dividends, voting and return of capital.

Notes:

- (i) Placement of shares

Pursuant to a placing agreement dated 3rd October, 2003 entered into between the Company, United Home Limited ("United Home"), a substantial shareholder of the Company, and a placing agent, 140,000,000 existing ordinary shares of HK\$0.10 each in the Company were placed to a number of independent investors at a price of HK\$0.26 per share. Upon completion of the placement of shares, pursuant to a subscription agreement entered into between the Company and United Home, United Home subscribed for 140,000,000 new ordinary shares of HK\$0.10 each in the Company at a price of HK\$0.26 per share. The net proceeds of the subscription was intended to be used as general working capital for the Group or for future investment in the media publication advertising agency business in the PRC.

- (ii) During the year, the subscription rights attaching to 800,000 share options were exercised at the subscription price of HK\$0.21 per share, resulting in the issue of 800,000 shares of HK\$0.10 each for a total cash consideration of HK\$168,000.

Notes to the Financial Statements

For the year ended 31st December, 2003

25. RESERVES

	Share premium HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
THE COMPANY			
At 1st January, 2002	298,011	(318,067)	(20,056)
Issue of shares	22,078	–	22,078
Net loss for the year	–	(5,028)	(5,028)
	<u> </u>	<u> </u>	<u> </u>
At 31st December, 2002 and 1st January, 2003	320,089	(323,095)	(3,006)
Issue of shares upon conversion of convertible notes	1,800	–	1,800
Placement of shares	22,400	–	22,400
Issue of shares upon exercise of share options	88	–	88
Share issue expenses	(1,342)	–	(1,342)
Net profit for the year	–	1,887	1,887
	<u> </u>	<u> </u>	<u> </u>
At 31st December, 2003	<u>343,035</u>	<u>(321,208)</u>	<u>21,827</u>

Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum or Articles of Association and provided that immediately following the distribution or dividend the Company is able to pay its debts as they fall due in the ordinary course of business.

Notes to the Financial Statements

For the year ended 31st December, 2003

26. DISPOSAL OF SUBSIDIARIES

As referred to in note 7, on 30th June, 2003 the Group discontinued its design, manufacture and marketing operation at the time of disposal of the Prod-Art Group. The net assets of the Prod-Art Group at the date of disposal and 31st December, 2002 were as follows:

	30th June, 2003 HK\$'000	31st December, 2002 HK\$'000
NET ASSET DISPOSED OF		
Property, plant and equipment	23,403	25,122
Inventories	11,004	6,085
Trade and bills receivables	6,989	6,032
Other receivables and prepayments	475	534
Pledged deposits	–	2,000
Bank balances and cash	3,630	11,371
Trade and bills payables	(10,761)	(8,414)
Trust receipts loans, secured	–	(84)
Amounts due to group companies	(313,471)	(325,938)
Payables and accruals	(13,620)	(14,288)
Minority interests	(300)	(300)
	(292,651)	<u>(297,880)</u>
Waiver of amounts due from group companies	313,471	
	20,820	
Loss on disposal	(1,820)	
	19,000	
Total consideration, satisfied by cash	<u>19,000</u>	
Analysis of the net outflow of cash and cash equivalents in respect of the disposal of subsidiaries:		
Cash consideration	19,000	
Bank balances and cash disposed of	(3,630)	
	<u>15,370</u>	

The subsidiaries disposed of during the year contributed approximately HK\$45,889,000 to the Group's turnover and HK\$5,229,000 to the Group's profit from operations.

Notes to the Financial Statements

For the year ended 31st December, 2003

27. ACQUISITION OF SUBSIDIARIES

On 13th November, 2002, the Group acquired the entire interest in Superfort for a cash consideration of approximately HK\$62,466,000. This transaction has been accounted for by the acquisition method of accounting. Further information of this transaction is set out in note 32(c).

	2002 HK\$'000
NET ASSETS ACQUIRED	
Property, plant and equipment	240
Intangible assets	32,310
Trade receivables	12,892
Other receivables and prepayments	1,087
Amounts due from related companies	3,361
Bank balances and cash	9,117
Trade payables	(715)
Payables and accruals	(5,936)
Amounts due to related companies	(10,211)
Tax payable	(2,961)
Minority interests	(14,540)
	<u>24,644</u>
Goodwill on acquisition	<u>37,822</u>
	<u><u>62,466</u></u>
Satisfied by:	
Cash	<u><u>62,466</u></u>

Analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries:

	2002 HK\$'000
Cash consideration	(62,466)
Cash and bank balances acquired	<u>9,117</u>
	<u><u>(53,349)</u></u>

The subsidiaries acquired during the year ended 31st December, 2002 had turnover and profit after tax of HK\$6,973,000 and HK\$1,871,000, respectively, for the period between the date of acquisition and the balance sheet date.

Notes to the Financial Statements

For the year ended 31st December, 2003

28. MAJOR NON-CASH TRANSACTIONS

During the year, the principal amount of convertible notes of HK\$36,000,000 were converted into 18,000,000 ordinary shares of HK\$0.10 each at a conversion price of HK\$0.20 per share.

29. COMMITMENTS

(a) Operating lease commitments

As lessee

At the balance sheet date, the Group and the Company had commitments for future minimum lease payments which fall due as follows:

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Within one year	1,540	3,234	174	–
In the second to fifth year inclusive	690	5,526	562	–
	<u>2,230</u>	<u>8,760</u>	<u>736</u>	<u>–</u>

Operating lease payments represent rentals payable by the Group for its office premises. Leases are negotiated for a term ranging from 3 to 5 years.

(b) Other commitments

Pursuant to an agreement dated 5th November, 2001 entered into between the Group and a magazine publication company, an independent third party, the Group at 31st December, 2003 had commitments to make a total payment of approximately RMB16,000,000 (2002: RMB17,000,000) (equivalent to approximately HK\$15,000,000 (2002: HK\$16,000,000)) over the period from 2004 to 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 until year 2005 to a maximum of RMB1,500,000 (equivalent to approximately HK\$1,414,000) per annum since 2011.

Notes to the Financial Statements

For the year ended 31st December, 2003

30. SHARE OPTION SCHEMES

On 26th August, 2002, the share option scheme of the Company adopted on 3rd December, 1992 (the "Old Scheme") ceased to operate and a new share option scheme was adopted on 26th August, 2002 (the "New Scheme"). 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 to which one or more beneficiaries belong to any of the above-mentioned categories of persons. The New Scheme became effective on 26th August, 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

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. At 31st December, 2003, the number of shares issuable under share options granted under the New Scheme was 38,100,000, which represented approximately 2.46% 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.

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 must 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.

Notes to the Financial Statements

For the year ended 31st December, 2003

30. SHARE OPTION SCHEMES (continued)

The following table discloses details of the Company's share options held by the directors and the employees of the Group and movements in such holdings during the year:

Grantee	Date of grant	Exercise price HK\$	Exercisable period	Number of share options							
				Outstanding at 1.1.2002	Exercised during the year	Cancelled during the year	Outstanding at 31.12.2002	Granted during the year	Exercised during the year (Note iii)	Cancelled during the year	Outstanding at 31.12.2003
Executive directors:											
Mr. Xu Xiaolu	22.1.2001	0.128	29.1.2002 to 21.1.2006	1,200,000	(1,200,000)	-	-	-	-	-	-
Mr. Li Shijie	25.7.2003	0.210 (note i)	25.7.2004 to 24.7.2009	-	-	-	-	6,900,000	-	-	6,900,000
Other employees in aggregate											
	31.8.1999	0.225	31.8.2000 to 30.8.2004	5,400,000	-	(1,000,000)	4,400,000	-	-	(4,400,000)	-
	9.5.2000	0.316	15.5.2001 to 8.5.2005	800,000	-	-	800,000	-	-	(800,000)	-
	22.1.2001	0.128	29.1.2001 to 21.1.2006	3,884,000	(500,000)	(500,000)	2,884,000	-	-	(2,884,000)	-
	16.3.2001	0.104	27.3.2002 to 15.3.2006	1,000,000	(1,000,000)	-	-	-	-	-	-
	25.7.2003	0.210 (note i)	25.7.2003 to 24.7.2008	-	-	-	-	1,800,000	(800,000)	-	1,000,000
	25.7.2003	0.210 (note i)	25.7.2004 to 24.7.2009	-	-	-	-	29,200,000	-	-	29,200,000
	22.10.2003	0.350 (note ii)	22.10.2003 to 21.7.2008	-	-	-	-	1,000,000	-	-	1,000,000
				<u>12,284,000</u>	<u>(2,700,000)</u>	<u>(1,500,000)</u>	<u>8,084,000</u>	<u>38,900,000</u>	<u>(800,000)</u>	<u>(8,084,000)</u>	<u>38,100,000</u>

Notes:

- (i) The closing price of the Company's shares immediately before the date of grant was HK\$0.206.
- (ii) The closing price of the Company's shares immediately before the date of grant was HK\$0.365.
- (iii) The weighted average closing price of the Company's shares immediately before the date on which the options were exercised was HK\$0.27.

Total consideration received during the year from directors and employees for taking up the options granted amounted to HK\$820 (2002: nil).

Notes to the Financial Statements

For the year ended 31st December, 2003

30. SHARE OPTION SCHEMES *(continued)*

The financial impact of share options granted 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 recognised in the income statement in respect of the value of options granted in the year. Upon the exercise of the 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 lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

31. RETIREMENT BENEFITS SCHEMES

The Group operates a Mandatory Provident Fund Scheme ("MPF Scheme") under the rules and regulations of the Mandatory Provident Fund Schemes Ordinance for all qualifying employees of its subsidiaries in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group in independently administrated funds. The Group has followed the minimum statutory contribution requirements of 5% of eligible employees' relevant aggregate income.

The employees of the subsidiaries in the PRC are members of the pension schemes operated by the PRC government. The relevant PRC subsidiaries are required to contribute a certain percentage of the relevant portion of these employees' basic salaries to the pension to fund the benefits. The only obligations of the relevant PRC subsidiaries with respect of the pension scheme is the required contributions under the pension scheme.

32. RELATED PARTY TRANSACTIONS

(a) The Group had the following related party transactions during the year:

	Notes	THE GROUP	
		2003 HK\$'000	2002 HK\$'000
Office rental expenses paid to Shanghai SEEC Investment and Development Co., Ltd. ("SEEC Development")	(i) & (ii)	987	154
Consultancy fee paid to Beijing SEEC Investment and Development Co., Ltd. ("Beijing SEEC")	(i) & (iii)	962	—
Advertising agency fee from Homeway Information Co., Ltd. ("Homeway")	(i) & (iv)	<u>3,779</u>	<u>665</u>

Notes to the Financial Statements

For the year ended 31st December, 2003

32. RELATED PARTY TRANSACTIONS *(continued)*

Notes:

- (i) SEEC Development, Beijing SEEC and Homeway are related to the Group since they are under common directorship of the Group.
 - (ii) Pursuant to a rental agreement and a supplementary agreement entered into between the Group and SEEC Development, SEEC Development agreed to grant to the Group the right to use SEEC Development's office premises for a term of 4 years and 9 months. The rental is charged at approximately RMB87,000 (equivalent to approximately HK\$82,000) per month with effect from 1st January, 2003.
 - (iii) Pursuant to an agreement entered into between the Group and Beijing SEEC, Beijing SEEC agreed to provide consultancy service to the Group. The consultancy fee is charged at RMB85,000 (equivalent to approximately HK\$80,000) per month.
 - (iv) Pursuant to an agreement dated 21st December, 2001 entered into between the Group and Homeway, the Group became an advertising agent of Homeway and received advertising agency fee from Homeway. The amount was charged in accordance with the terms set out in the agreement.
- (b) As disclosed in the published 2001 and 2002 annual reports, on 31st December, 2001, the Group entered into an 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.

On 9th April, 2003, the conditions as specified in the agreement were fulfilled and the said transaction was completed.

- (c) As detailed in the Company's circular dated 23rd August, 2002, on 12th July, 2002, the Group entered into a conditional agreement with United Home to acquire the entire interest in Superfort, a wholly-owned subsidiary of United Home, at a cash consideration of approximately HK\$62 million. The acquisition was partially financed by the share proceeds received from United Home in accordance with a conditional subscription agreement entered into on 12th 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 13th November, 2002, the said transaction was completed.

33. POST BALANCE SHEET EVENT

On 24th November, 2003, the Group entered into a conditional agreement to purchase a 60% interest in the registered capital of Beijing Caixun Century InfoTech Co., Ltd., which in turn holds 30% interest in each of Shenzhen Caixun and Beijing Caixun at a total consideration of HK\$19.6 million from Shenyang Lianya Industrial Development Corporation ("Shenyang Lianya"). 15 among 50 individuals who collectively manage Shenyang Lianya are also the ultimate individual shareholders of United Home. The acquisition was approved by the shareholders of the Company on 9th January, 2004.