

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003

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 media products.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARD

In the current year, the Group has adopted, for the first time, the following Hong Kong Financial Reporting Standard ("HKFRS") issued by the Hong Kong Society of Accountants ("HKSA"), the term of 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. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. Comparative amounts for 2002 have been restated accordingly.

As a result of this change in policy, the balance of retained profits at 1 January 2002 has been increased by HK\$1,031,000, representing the cumulative effect of the change in policy on the results for periods prior to 1 January 2002. The balance on the Group's properties revaluation reserve at 1 January 2002 has been decreased by HK\$1,805,000, representing the deferred tax liability recognised in respect of the revaluation surplus on the Group's properties at that date. The change has resulted in a decrease in properties revaluation reserve of HK\$70,000 for the year ended 31 December 2003 (2002: a decrease of HK\$155,000 in the profit for the year ended 31 December 2002).

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2003

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.

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.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

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, interests in associates are stated at the Group's share of the net assets of the associate less any identified impairment loss.

Where the Group transacts with its associates, unrealised profits and losses are eliminated to the extent of the Group's interest in the associates, 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 is 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.

Property, plant and equipment

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2003

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Property, plant and equipment *(continued)*

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	10% – 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.

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.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Property, plant and equipment *(continued)*

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 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 obligation. 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 2003

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 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.

Research and development expenditure

Expenditure on research activities is recognised as an expense in period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight line basis over its useful life.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Distribution rights

Distribution rights represent payments made to independent third parties for the purpose of acquiring the rights for publication and distribution of 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.

Inventories

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

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

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.

Taxation

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

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

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax 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 and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference 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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2003

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Taxation *(continued)*

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.

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:

	2003 HK\$'000	2002 HK\$'000
Manufacture and trading of media products	167,678	229,107
Total fulfilment services	13,355	58,377
Distribution of media products	122,193	80,831
Manufacture and trading of computer accessories	18,049	11,444
	321,275	379,759

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.

Segment information about these business segments is presented below.

	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	Eliminations HK\$'000	Consolidated HK\$'000
Year ended 31 December 2003						
Turnover						
External sales	203,733	27,223	13,355	122,193	(45,229)	321,275
Inter-segment sales	(36,055)	(9,174)	–	–	45,229	–
Total	<u>167,678</u>	<u>18,049</u>	<u>13,355</u>	<u>122,193</u>	<u>–</u>	<u>321,275</u>
Inter-segment sales are charged at prevailing market rates.						
Results						
Segment results	<u>36,838</u>	<u>3,781</u>	<u>2,239</u>	<u>27,380</u>	<u>–</u>	<u>70,238</u>
Other operating income						168
Unallocated corporate expenses						<u>(55,644)</u>
Profit from operations						14,762
Finance costs						(11,397)
Share of profit of an associate	751					751
Profit on disposal of a subsidiary	3,200					<u>3,200</u>
Profit before taxation						7,316
Taxation charge						<u>(455)</u>
Profit for the year						<u>6,861</u>

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2003

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 2003					
BALANCE SHEET					
ASSETS					
Segment assets	297,331	54,477	65,516	44,212	461,536
Unallocated corporate assets					64,162
Consolidated total assets					<u>525,698</u>
LIABILITIES					
Segment liabilities	6,117	8,167	3,213	54,821	72,318
Unallocated corporate liabilities					153,626
Consolidated total liabilities					<u>225,944</u>
OTHER INFORMATION					
Capital additions	11,727	11,968	7	101	
Depreciation of property, plant and equipment	12,437	4,927	827	264	
Amortisation of goodwill	<u>–</u>	<u>–</u>	<u>–</u>	<u>2,472</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	Eliminations	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (restated)
Year ended 31 December 2002						
Turnover						
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	<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>	76,959
Other operating income						2,941
Unallocated corporate expenses						(56,891)
Profit from operations						23,009
Finance costs						(13,757)
Share of profit of an associate	1,609					1,609
Profit on disposal of a subsidiary	3,559					3,559
Profit before taxation						14,420
Taxation credit						2,339
Profit for the year						<u>16,759</u>

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2003

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 (restated)
As at 31					
December 2002					
BALANCE SHEET					
ASSETS					
Segment assets	262,033	79,166	43,405	35,815	420,419
Unallocated corporate assets					<u>53,412</u>
Consolidated total assets					<u>473,831</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>	

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:

	Turnover by geographical market	
	2003	2002
	HK\$'000	HK\$'000
Asia		
– The People's Republic of China including Hong Kong	178,582	165,251
– Other regions in Asia	71,372	54,030
Europe	54,220	111,117
North America	17,101	49,361
	321,275	379,759

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2003

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	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Asia				
– Hong Kong	347,071	313,396	10,895	8,870
– The People's Republic of China	156,372	114,671	11,472	2,241
– Other regions in Asia	10,520	27,909	1,403	1
Europe	7,263	13,557	–	82
North America	4,472	4,298	33	61
	525,698	473,831	23,803	11,255

6. OTHER OPERATING INCOME

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Commission income	2,746	1,320
Interest income	168	393
Operating lease rental income from plant and machinery	846	1,662
Others	1,120	2,548
	4,880	5,923

7. PROFIT FROM OPERATIONS

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Profit from operations has been arrived at after charging:		
Amortisation of goodwill included in administrative expenses	2,472	2,472
Auditors' remuneration	980	1,220
Depreciation on		
– Owned assets	11,429	23,170
– Assets held under finance leases and hire purchase contracts	7,305	4,562
	18,734	27,732
Allowance for bad debt expenses	2	20
Loss on disposal of property, plant and equipment	214	3,621
Rental payments in respect of premises under operating leases	7,554	9,136
Staff costs, including directors' remuneration (note 10 below)	53,170	64,168
Retirement benefit scheme contributions, including those attributable to directors	1,139	1,450
Total staff costs	54,309	65,618

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2003

8. FINANCE COSTS

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Interest paid on		
– Bank loans, overdrafts and other loans wholly repayable within five years	7,027	8,286
– Bank loans with instalments repayable after five years	–	102
– Obligations under finance leases and hire purchase contracts	1,775	2,578
Bank charges	1,759	2,012
Exchange loss	836	779
	11,397	13,757

9. LOSS ON DISPOSAL OF AN ASSOCIATE

During the year, the Group disposed of its associate at a consideration of approximately HK\$10 million resulting in a loss of approximately HK\$12 million. The directors, based on legal advice, considered such loss would be fully reimbursed by a claim to a customer.

10. DIRECTORS' EMOLUMENTS

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Directors' fee		
Executive	–	–
Independent Non-executive	400	400
	400	400
Other emoluments (Executive Directors)		
Salaries and other benefits	6,649	8,558
Retirement benefit scheme contributions	31	33
	6,680	8,591
Total emoluments	7,080	8,991

The directors' remuneration shown above includes the estimated monetary value of premises provided rent free to one (2002: two) of the Executive Directors. The estimated rental value of such accommodation was HK\$369,600 (2002: HK\$544,800).

Emoluments of the Directors were within the following bands:

	THE GROUP	
	2003	2002
	No. of	No. of
	Directors	Directors
Nil to HK\$1,000,000	2	2
HK\$2,000,001 to HK\$2,500,000	1	1
HK\$2,500,001 to HK\$3,000,000	1	1
HK\$3,500,000 to HK\$4,000,000	1	1
	5	5

No director waived any emoluments during the year ended 31 December 2003 (2002: Nil).

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2003

11. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2002: three) were directors of the Company whose emoluments are set out in note 10 above. The emoluments of the remaining two (2002: two) employees were as follows:

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Salaries and other benefits	2,388	2,602
Retirement benefit scheme contributions	24	24
	<u>2,412</u>	<u>2,626</u>

Their emoluments were within the following bands:

	THE GROUP	
	2003	2002
	No. of	No. of
	employees	employees
HK\$1,000,001 to HK\$1,500,000	<u>2</u>	<u>2</u>

12. TAXATION

	2003	2002
	HK\$'000	HK\$'000
		(Restated)
The taxation (charge) credit comprises		
Current tax		
Hong Kong	(45)	(889)
Overseas	(326)	(149)
	(371)	(1,038)
(Under)overprovision in prior years		
Hong Kong	(84)	–
Overseas	–	90
	(84)	90
Deferred tax credit (Note 29)		
Current year	–	3,427
Taxation attributable to the Company and its subsidiaries	(455)	2,479
Share of taxation attributable to an associate	–	(140)
	(455)	2,339

Hong Kong Profits Tax is calculated at 17.5% (2002:16%) of the estimated assessable profits for the year. The Hong Kong Profits Tax rate has been increased from 16% to 17.5% with effect from year of assessment 2003/04. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2003

12. TAXATION *(continued)*

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

	2003		2002	
	HK\$'000	%	HK\$'000 (Restated)	%
Profit before taxation	7,316		14,420	
Tax at the Hong Kong Profit Tax rates of 17.5% (2002: 16%)	1,280	17.5	2,307	16.0
Tax effect of share of results of associates	–	–	140	1.0
Tax effect of expenses not deductible for tax purposes	2,072	28.3	2,417	16.7
Under (over)provision in respect of prior years	84	1.1	(90)	(0.6)
Tax effect of tax losses not recognised	6,182	84.5	2,867	19.9
Utilisation of tax losses previously not recognised	–	–	(106)	(0.7)
Tax effect attributable to exempt profits	(9,186)	(125.5)	(8,513)	(59.0)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(28)	(0.4)	(139)	(1.0)
Others	51	0.7	(1,222)	(8.5)
Tax effect and effective tax rate for the year	455	6.2	(2,339)	(16.2)

13. DIVIDENDS

	2003	2002
	HK\$'000	HK\$'000
Final dividend at Nil (2002: HK0.5 cent) per share proposed	<u>–</u>	<u>1,792</u>

14. EARNINGS PER SHARE

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

	Earnings	
	2003	2002
	HK\$'000	HK\$'000
		(Restated)
Earnings for the purposes of basic earnings per share	<u>12,061</u>	<u>16,439</u>
	Number of shares	
	2003	2002
Number of shares for the purposes of basic earnings per share	<u>364,081,059</u>	<u>358,494,000</u>

No diluted earnings per share 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 both 2003 and 2002.

The adjustment to comparative basic per share, arising from the change in accounting policy as described in note 2 above, is as follows:

	2002
	HK cents
Reported figures before adjustment	4.63
Adjustments arising from the adoption of SSAP 12 (Revised)	<u>(0.04)</u>
Restated	<u>4.59</u>

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2003

15. 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 2003	18,400	368,389	78,684	18,823	4,574	488,870
Additions	–	16,937	945	–	1,271	19,153
Disposals	–	(663)	(212)	–	(1,380)	(2,255)
Deficit on revaluation	(3,240)	–	–	–	–	(3,240)
At 31 December 2003	<u>15,160</u>	<u>384,663</u>	<u>79,417</u>	<u>18,823</u>	<u>4,465</u>	<u>502,528</u>
COMPRISING:						
At cost	–	384,663	79,417	18,823	4,465	487,368
At valuation 2003	15,160	–	–	–	–	15,160
	<u>15,160</u>	<u>384,663</u>	<u>79,417</u>	<u>18,823</u>	<u>4,465</u>	<u>502,528</u>
DEPRECIATION AND IMPAIRMENT LOSS						
At 1 January 2003	2,690	217,890	46,475	16,171	3,621	286,847
Provided for the year	550	13,382	4,429	6	367	18,734
Eliminated on disposals	–	(416)	(140)	–	(1,000)	(1,556)
Eliminated on revaluation	(3,240)	–	–	–	–	(3,240)
At 31 December 2003	<u>–</u>	<u>230,856</u>	<u>50,764</u>	<u>16,177</u>	<u>2,988</u>	<u>300,785</u>
NET BOOK VALUES						
At 31 December 2003	<u>15,160</u>	<u>153,807</u>	<u>28,653</u>	<u>2,646</u>	<u>1,477</u>	<u>201,743</u>
At 31 December 2002	<u>15,710</u>	<u>150,499</u>	<u>32,209</u>	<u>2,652</u>	<u>953</u>	<u>202,023</u>

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

The net book value of land and buildings shown above comprises

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Land in Hong Kong		
Medium-term lease	13,641	14,159
Land outside Hong Kong		
Short-term lease	1,519	1,551
	15,160	15,710

Notes:

- (a) The land and buildings of the Group were revalued at 31 December 2003 on an open market value basis by Messrs. Greater China Appraisal Limited and Messrs. Jointgoal Surveyors Limited. Both of them are firms of professional valuers and are not connected with the Group.

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\$10,643,000 (2002: HK\$11,013,000).

- (b) The net book value of property, plant and equipment includes an amount of HK\$56,568,000 (2002: HK\$46,066,000) 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\$13,641,000 (2002: HK\$9,180,000) to secure bank and other loans granted to its subsidiaries.
- (d) Plant and machinery includes assets carried at a cost of HK\$16.5 million (2002: HK\$25.0 million) with accumulated depreciation of HK\$4.5 million (2002: HK\$12.9 million) in respect of assets held for use under operating leases. Depreciation charged in respect of those assets in the year amounted to HK\$0.3 million (2002: HK\$0.3 million).
- (e) During the year, the Group ceased its operation of video compact disc production. Accordingly, no further depreciation was then provided for those production lines. The directors are considering to modify the capacity of production lines to that for production of compact discs – recordable. The directors have reviewed the carrying amounts of the production lines and considered that no impairment losses are necessary after considering the modification plans of the production lines.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2003

16. INTANGIBLE ASSETS

	Development costs	Distribution rights	Total
	HK\$'000	HK\$'000	HK\$'000
THE GROUP			
AT COST			
At 1 January 2003	–	8,519	8,519
Incurred during the year	4,650	–	4,650
At 31 December 2003	4,650	8,519	13,169
AMORTISATION			
At 1 January 2003 and 31 December 2003	–	–	–
NET BOOK VALUES			
At 31 December 2003	4,650	8,519	13,169
At 31 December 2002	–	8,519	8,519

Notes:

- (a) No amortisation is provided in respect of the development costs during the year as the production of related products from this development costs commenced in 2004.
- (b) The distribution rights represent the Group's right to distribute a number of media products. Sale of these media products in the People's Republic Of China will commence in 2004 through its distribution network.

17. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2003	2002
	HK\$'000	HK\$'000
Unlisted shares	39,172	39,172

The carrying value of the unlisted shares is based on the fair 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 subsidiaries are set out in note 42.

18. INTEREST IN AN ASSOCIATE

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Share of net assets	–	10,219

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 joint venture enterprise	Mainland, People's Republic of China	24%	Development, production and sales of computer media and computer software

19. GOODWILL

	THE GROUP
	HK\$'000
COST	
At 1 January 2003 and at 31 December 2003	49,432
AMORTISATION	
At 1 January 2003	4,943
Charge for the year	2,472
At 31 December 2003	7,415
NET BOOK VALUES	
At 31 December 2003	42,017
At 31 December 2002	44,489

The amortisation period adopted for goodwill is 20 years.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2003

20. INVENTORIES

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Raw materials	16,741	21,521
Work in progress	25,046	18,596
Finished goods	29,207	29,830
	70,994	69,947

The inventories are stated at cost.

During the year, the cost of inventories recognised as expense amounting to HK\$169,791,000 (2002: HK\$178,405,000).

21. DEBTORS, DEPOSITS AND PREPAYMENTS

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Trade debtors	54,111	44,007
Other debtors, deposits and prepayments	98,844	64,072
	152,955	108,079

21. 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	
	2003	2002
	HK\$'000	HK\$'000
1 to 3 months	41,999	36,420
4 to 6 months	6,295	3,709
7 to 9 months	1,650	3,092
10 to 12 months	1,913	293
Over 1 year	2,254	493
	54,111	44,007

22. BANK DEPOSIT PLEDGED

The amount represents bank balance pledged with a bank in the People's Republic of China as security for a guarantee issued by the bank to a court in the People's Republic of China in relation to a claim to a debtor of the Group amounting to HK\$2,906,000.

23. BANK BALANCES AND CASH

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Time deposits with banks	11,916	11,356
Bank balances and cash	31,732	29,418
	43,648	40,774

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2003

24. TRADE AND OTHER PAYABLES

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Trade creditors	33,821	36,623
Other creditors and accruals	9,686	16,095
	<u>43,507</u>	<u>52,718</u>

The aged analysis of the trade creditors is as follows:

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
1 to 3 months	6,035	27,184
4 to 6 months	7,997	8,545
7 to 9 months	8,616	266
10 to 12 months	4,184	628
Over 12 months	6,989	–
	<u>33,821</u>	<u>36,623</u>

25. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Shares of HK\$0.10 each		
Authorised		
At 1 January 2002, 1 January 2003 and 31 December 2003	<u>1,000,000,000</u>	<u>100,000</u>
Issued and fully paid		
At 1 January 2002 and 1 January 2003	358,494,000	35,849
Issue of new shares on 9 December 2003 (Note a below)	32,000,000	3,200
Issues of new shares on exercise of conversion rights under the convertible notes (Note b below)	<u>67,814,545</u>	<u>6,781</u>
At 31 December 2003	<u>458,308,545</u>	<u>45,830</u>

Notes:

- (a) Pursuant to the placing agreement and the subscription agreement both dated 25 November 2003, Sun Union Enterprises Limited, a substantial shareholder of the Company placed 32,000,000 existing shares of HK\$0.10 each of the Company at a price of HK\$0.29 per share to placees and at the same time subscribed for 32,000,000 new shares of the Company at the price of HK\$0.29 per share which were issued on 9 December 2003. The net proceeds of approximately HK\$8.7 million were to be used for the expansion of the Group's distribution business in the People's Republic of China and the Group's other business operations.
- (b) On 24 September 2003 and 24 December 2003, the Company issued a total number of 67,814,545 new shares of HK\$0.10 each at a price of HK\$0.55 per share on the exercise of conversion rights by the holders of the convertible notes.

All the shares which were issued during the year rank pari passu in all respects.

There were no changes in the authorised and issued capital during the year ended 31 December 2002.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2003

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. There is no minimum period for which an option must be held before it can be exercised.

As the Rules Governing the Listing of Securities on the Stock Exchange (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.

No option was granted, exercised, lapsed or cancelled during the year ended 31 December 2003.

The following table discloses details of the Company's share options held by employees (including directors):

Option type	Outstanding at 1 January 2002	Lapsed during the year	Outstanding at 31 December 2002 and 31 December 2003
1997A	6,287,000	–	6,287,000
1997B	5,775,000	(1,475,000)	4,300,000
1999	1,050,000	–	1,050,000
	13,112,000	(1,475,000)	11,637,000

26. SHARES OPTIONS *(continued)*

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

Directors	Option type	Outstanding at 1 January 2002, 1 January 2003 and 31 December 2003
Ms. Ho Yin King, Helena	1997A	3,750,000
Mr. Ho Fai Keung, Jacky	1997A	2,537,000
Total		<u>6,287,000</u>

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 options granted.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2003

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 2002						
As previously reported	77,202	(35,034)	(644)	10,759	126,788	179,071
Adoption of SSAP 12 (Revised)	–	–	–	(1,805)	1,031	(774)
As restated	77,202	(35,034)	(644)	8,954	127,819	178,297
Profit for the year	–	–	–	–	16,439	16,439
Translation of foreign subsidiaries and an associate	–	–	450	–	–	450
Realised on disposals of land and buildings	–	–	–	(5,472)	5,472	–
Reversal of deferred tax liability on disposals of land and buildings	–	–	–	876	(876)	–
At 1 January 2003	77,202	(35,034)	(194)	4,358	148,854	195,186
Profit for the year	–	–	–	–	12,061	12,061
2002 final dividend paid	–	–	–	–	(1,792)	(1,792)
Translation of foreign subsidiaries and an associate	–	–	602	–	–	602
Premium on shares issued on conversion of convertible notes	30,519	–	–	–	–	30,519
Premium arising from placing of shares	6,080	–	–	–	–	6,080
Share issuing expenses	(576)	–	–	–	–	(576)
Realised on disposal of an associate	–	11,450	232	–	–	11,682
Effect of change in tax rate of deferred taxation	–	–	–	(70)	–	(70)
At 31 December 2003	113,225	(23,584)	640	4,288	159,123	253,692
Comprising:						
At 31 December 2003						
The Company and subsidiaries	113,225	(23,584)	640	4,288	159,123	253,692
At 31 December 2002						
The Company and subsidiaries	77,202	(35,034)	38	4,358	145,792	192,356
The associate	–	–	(232)	–	3,062	2,830
	77,202	(35,034)	(194)	4,358	148,854	195,186

27. RESERVES (continued)

The capital reserve of the Group at 31 December 2003 amounted to HK\$23,584,000 (2002: HK\$35,034,000), comprising the reserve arising on group reorganisation in 1994 of HK\$1,863,000 (2002: HK\$1,863,000) and the goodwill arising on acquisition of subsidiaries and an associate amounting to HK\$25,447,000 (2002: HK\$25,447,000) and HK\$nil (2002: HK\$11,450,000) respectively.

	Share premium	Contributed surplus	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE COMPANY				
At 1 January 2002	77,202	15,048	10,120	102,370
Loss for the year	–	–	(680)	(680)
At 1 January 2003	77,202	15,048	9,440	101,690
Loss for the year	–	–	(1,509)	(1,509)
2002 final dividend paid	–	–	(1,792)	(1,792)
Premium on shares issued on conversion of convertible notes	30,519	–	–	30,519
Premium arising from placing of shares	6,080	–	–	6,080
Share issuing expenses	(576)	–	–	(576)
At 31 December 2003	113,225	15,048	6,139	134,412

The contributed surplus of the Company represents the difference between the underlying net tangible 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 2003 amounted to HK\$134,412,000 (2002: HK\$101,690,000).

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2003

28. CONVERTIBLE NOTES

	THE GROUP		THE COMPANY	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Convertible notes	2,300	39,600	2,300	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 media products together with the distributorship and sales agreement with the existing clients of certain vendors in 2001.

The convertible notes in 2002 amounting to HK\$39,600,000 comprised four convertible notes and were interest free. The convertible notes entitle the holders to convert the notes into new shares of the Company within three years from date of issue of the notes. Three convertible notes amounting to HK\$37,300,000 were converted into new shares of the Company during the year at the conversion price of HK\$0.55 per share. The remaining convertible note which was due for redemption on 5 January 2004 was accordingly classified under current liabilities.

29. DEFERRED TAXATION

A summary of the major deferred tax liabilities and assets recognised and movements thereon during the current and prior year is as follows:

	Accelerated tax depreciation	Tax loss	Revaluation of properties	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP				
At 1 January 2002				
– as previously reported	3,582	–	–	3,582
– adjustment on adoption of SSAP 12 (Revised)	2,479	(3,510)	1,805	774
– as restated	6,061	(3,510)	1,805	4,356
Credit to income for the year	13,062	(15,613)	–	(2,551)
Realised on disposal of land and buildings	–	–	(876)	(876)
At 31 December 2002 and 1 January 2003				
	19,123	(19,123)	929	929
Charge to income				
– for the year	1,199	(1,199)	–	–
– change in tax rate	1,793	(1,793)	–	–
Charge to equity – effect of change in tax rate				
	–	–	70	70
At 31 December 2003	22,115	(22,115)	999	999

At 31 December 2003, the Group has deductible temporary differences of HK\$999,000 (2002: HK\$929,000). No deferred tax asset has been recognised in relation to such deductible temporary differences as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2003

29. DEFERRED TAXATION *(continued)*

At 31 December 2003, the Group has unused tax losses of HK\$196,484,000 (2002: HK\$178,622,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK\$126,369,000 (2002: HK\$119,517,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK\$70,115,000 (2002: HK\$59,105,000) due to the unpredictability of future profit streams. The unrecognised tax losses may be carried forward indefinitely except the losses of HK\$7,740,000 (2002: HK\$8,885,000) which will expire as follows.

Year of expiry	2003 HK\$	2002 HK\$
2006	1,477,000	2,736,000
2007	4,409,000	6,149,000
2008	1,854,000	–
	7,740,000	8,885,000

30. BANK BORROWINGS

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Bank borrowings comprise the following:				
Mortgage loan	3,719	2,851	–	–
Short term bank loan	47,767	57,571	–	–
Bank import and export loans	73,282	44,646	–	–
Bank overdrafts	21,023	18,597	395	–
	145,791	123,665	395	–
Secured	3,719	2,851	–	–
Unsecured	142,072	120,814	395	–
	145,791	123,665	395	–
Bank loans and overdrafts are repayable as follows:				
Within one year	142,986	112,241	395	–
More than one year, but not exceeding two years	953	9,685	–	–
More than two years, but not exceeding five years	1,852	1,739	–	–
	145,791	123,665	395	–
Less: Amounts due within one year shown under current liabilities (Note 32)	(142,986)	(112,241)	(395)	–
Amounts due after one year	2,805	11,424	–	–

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2003

31. OBLIGATIONS UNDER FINANCE LEASES AND HIRE PURCHASE CONTRACTS

	Minimum lease payments		Present value of minimum lease payments	
	THE GROUP		THE GROUP	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Amounts payable under finance leases and hire purchase contracts				
Within one year	17,676	22,906	16,478	21,667
In the second to fifth year inclusive	18,606	10,804	17,868	10,474
	36,282	33,710	34,346	32,141
Less: Future finance charges	(1,936)	(1,569)	N/A	N/A
	34,346	32,141	34,346	32,141
Less: Amounts due within one year shown under current liabilities (Note 32)			(16,478)	(21,667)
Amounts due after one year			17,868	10,474

It is the Group's policy to lease certain of its plant and equipment under finance leases. The average lease term is 3 years. For the year ended 31 December 2003, the average effective borrowing rate was 5% (2002: 7%). 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.

31. OBLIGATIONS UNDER FINANCE LEASES AND HIRE PURCHASE CONTRACTS

(continued)

During the year, the Group entered into thirteen (2002: three) arrangements to obtain finance amounting to approximately HK\$27.8 million (2002: HK\$17 million). Under these arrangements, the Group sold certain plant and machinery with a carrying amount of approximately HK\$19.1 million (2002: HK\$10.6 million) to the financiers at an aggregate consideration of approximately HK\$29.3 million (2002: HK\$17.9 million). At the same time, the Group entered into lease agreements with the financiers to lease back the plant and machinery for an average of 41 (2002: 32) 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 minimum lease payments 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.

The Company had no obligations under finance leases and hire purchase contracts during the two years ended 31 December 2003 and at the balance sheet dates.

32. CURRENT PORTION OF NON-CURRENT LIABILITIES

	THE GROUP		THE COMPANY	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank borrowings (Note 30)	142,986	112,241	395	–
Obligations under finance leases and hire purchase contracts (Note 31)	16,478	21,667	–	–
	159,464	133,908	395	–

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2003

33. DISPOSAL OF A SUBSIDIARY

	2003 HK\$'000	2002 HK\$'000
NET ASSETS DISPOSED OF:		
Property, plant and equipment	–	36
Debtors, deposits and prepayments	1,800	56
Bank balance and cash	–	2
Trade and other payable	–	(3,353)
	<u>1,800</u>	<u>(3,259)</u>
Gain on disposal of a subsidiary	3,200	3,559
Total consideration	<u>5,000</u>	<u>300</u>
Satisfied by:		
Cash consideration	–	300
Deferred consideration	5,000	–
Net cash inflow on disposal:		
Cash consideration	–	300
Bank balances and cash disposed of	–	(2)
	<u>–</u>	<u>298</u>

The deferred consideration will be settled in cash by the purchaser between 30 April 2004 to 30 April 2005.

The subsidiary disposed of during the year contributed HK\$11,790,000 (2002: HK\$4,622,000) to the Group's turnover and incurred a loss of HK\$3,207,000 (2002: HK\$3,650,000) attributable to the Group.

34. MAJOR NON-CASH TRANSACTIONS

- (a) During the year, the Group disposed of its associate for a consideration of HK\$10,007,000, of which HK\$4,976,000 included in other debtors have not been settled at the balance sheet date.
- (b) During the year, the Group disposed of a subsidiary for a consideration of HK\$5,000,000. The consideration have not yet due at the balance sheet date.

35. AMOUNT RECEIVABLE FROM A LEGAL CLAIM

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. Up to the date of approval of the financial statements, the liability hearing of the arbitration has completed and a partial award on liability has been issued by the tribunal. Under the award, the Group is entitled to claim its actual loss pre-termination of the agreement on shortfall and its actual loss post termination of the agreement for damages for wrongful repudiation of the agreement.

Up to 31 December 2003, all direct expenditure incurred for the claim of approximately HK\$61.9 million have been recognised in relation to the claim. Based on legal advise, the directors consider the above expenses are fully recoverable from the relevant customer and accordingly an income of the same amount has been recognised in the current year and included as other receivables. This income has been offset against the above expenditure and the loss on disposal of the associate.

36. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Bills discounted with recourse	26,452	51,535	–	–
Guarantees given to bankers in respect of banking facilities granted to subsidiaries	–	–	372,259	362,600
	26,452	51,535	372,259	362,600

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2003

37. 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	
	2003	2002
	HK\$'000	HK\$'000
Within one year	4,551	3,375
In the second to fifth year inclusive	12,708	9,676
Over five years	4,655	6,244
	<u>21,914</u>	<u>19,295</u>

The Company had no commitments under non-cancellable operating leases as at the balance sheet dates.

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average term of 3 (2002: 4) years and rentals are fixed for an average of 3 (2002: 4) years.

The Group as lessor

Rental income earned in respect of plant and machinery during the year was HK\$846,000 (2002: HK\$1,662,000). The plant and machinery are expected to generate rental yields of 7% (2002: 12%) on an ongoing basis. All of the plant and machinery leased originally have committed lessees for two (2002: one) years.

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

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Within one year	1,080	735
In the second to fifth year inclusive	90	–
	<u>1,170</u>	<u>735</u>

38. CAPITAL COMMITMENTS

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

39. RETIREMENT AND PENSION PLAN

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.

The retirement benefits 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 benefits scheme contributions amounting to HK\$1,139,000 (2002: HK\$1,450,000).

40. 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	
	2003	2002
	HK\$'000	HK\$'000
Rental payments to Ms. Chan Siu Chu	277	324
Rental payments to Richmond Enterprise Limited	–	336
Rental payments to Fair Age Limited	–	55
	_____	_____

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

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40. RELATED PARTY TRANSACTIONS *(continued)*

Ms. Chan Siu Chu is the mother of the Directors of the Company, Ms. Ho Yin King, Helena 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.

41. POST BALANCE SHEET EVENT

The Company redeemed (without interest) the outstanding principal amount of convertible note of HK\$2,300,000.

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries as at 31 December 2003 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	8,500,002 ordinary shares of HK\$1 each	100	Provision of software programming
Cheson Magnetic Limited	Macau	100,000 ordinary shares of MOP 1 each	100	Manufacture of floppy disks
China Gardens International Limited	British Virgin Islands	100 ordinary shares of US\$1 each	80	Trading of media products
Clearview Development Limited	British Virgin Islands	10,000 ordinary shares of US\$1 each	100	Investment holding

42. 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
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
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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2003

42. 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 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
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 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

42. 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 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
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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2003

42. 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
Prince Diamond Co., Ltd.	British Virgin Islands	2 ordinary shares of US\$1 each	100	Investment holding
Profit Ring Industrial Limited	Hong Kong	2 ordinary shares of HK\$1 each	100	Holding of plant & machinery
Sunny Printing (International) Company Limited	Hong Kong	100,000 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.
- (e) None of the subsidiaries had issued any debt securities at the end of the year.
- # These subsidiaries established in the People's Republic of China are wholly foreign-owned enterprises.
- * This subsidiary established in the People's Republic of China is a Sino-foreign equity joint venture enterprise.