

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

## 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 and trading of information storage media products and computer accessories, and distribution of storage media products.

## 2. PRINCIPAL ACCOUNTING POLICIES

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:

### (a) Basis of preparation

The financial statements on pages 22 to 74 are prepared in accordance with and comply with all applicable Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The financial statements have been prepared under the historical cost convention as modified for the revaluation of certain properties.

### (b) 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.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated income statement and any related accumulated foreign currency translation reserve.

## 2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

### **(c) 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 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 estimated economic useful life. Goodwill is stated at cost less accumulated amortisation and impairment losses. 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 gain or loss on disposal.

### **(d) Subsidiaries**

Subsidiaries are those enterprises controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

Investments in subsidiaries are included in the Company's balance sheet at cost, less any identified impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the balance sheet date.

### **(e) 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 the relevant leases on a straight line basis.

# NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2004

## 2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

### (e) Revenue recognition *(continued)*

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

### (f) Property, plant and equipment

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

Land and buildings are stated in the balance sheet at their revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and accumulated impairment losses. The fair value is determined by reference to the open market value. 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 terms 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	33⅓%

## 2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

### **(f) Property, plant and equipment** *(continued)*

Depreciation is provided to write down the cost of plant and machinery used for the manufacture of compact disc products to their estimated residual value based on the actual units of production as a proportion of their 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.

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

### **(g) 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 relevant asset is carried at revalued amount under another accounting standard, in which case the impairment loss is treated as revaluation decrease under that accounting 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 relevant asset is carried at revalued amount under another accounting standard, in which case the reversal of the impairment loss is treated as revaluation increase under that accounting standard.

An impairment loss in respect of goodwill is not reversed unless the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

# NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2004

## 2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

### **(g) Impairment *(continued)***

In respect of other assets, the recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

### **(h) Assets held under finance leases and hire purchase contracts**

Leases are classified as finance leases whenever the terms of the leases 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 periods 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 rental income and expenses are credited and charged to the income statement on a straight-line basis over the relevant lease terms.

### **(i) Research and development expenditure**

Expenditure on research activities is recognised as an expense in the 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 estimated 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.

## 2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

### **(j) 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 terms of the distribution agreements.

### **(k) Technical know-how**

Technical know-how represents payments made to independent third parties for the purpose of acquiring existing specialised knowledge required to produce a product that is not readily available to the Group and is stated at cost less amortisation and impairment losses, where appropriate. Technical know-how is amortised on a straight line basis over the terms of the technical know-how consultancy agreement.

### **(l) Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials computed using the first-in, first-out method and, where applicable, direct labour and those overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value is calculated as the actual or estimated selling price less all further costs of completion and the estimated costs necessary to make the sale.

### **(m) 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 year. All exchange differences arising on consolidation are dealt with in reserves.

# NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2004

## 2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

### **(n) 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 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 periods and it further excludes items that are never taxable or deductible. The Group'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 amounts 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.

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.

### **(o) Convertible notes**

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

## 2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

### (p) Retirement benefits scheme

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

### (q) Cash and cash equivalents

Cash comprises cash on hand and demand deposits repayable on demand with any bank or other financial institution. Cash includes deposits denominated in foreign currencies.

Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

### (r) Recently issued accounting standards

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005.

The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operation and financial position.

## 3. 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:

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Manufacture and trading of media products	<b>150,315</b>	167,678
Distribution of media products	<b>130,011</b>	122,193
Manufacture and trading of computer accessories	<b>76,753</b>	18,049
Others	<b>6,686</b>	13,355
	<b>363,765</b>	321,275



# NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2004

## 4. 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, distribution of media products and others. 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	Distribution of media products HK\$'000	Others HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
<b>Year ended 31 December 2004</b>						
<i>Turnover</i>						
External sales	173,195	76,753	130,011	6,686	(22,880)	363,765
Inter-segment sales	(22,880)	–	–	–	22,880	–
Total	<u>150,315</u>	<u>76,753</u>	<u>130,011</u>	<u>6,686</u>	<u>–</u>	<u>363,765</u>
<i>Results</i>						
Segment results	<u>23,523</u>	<u>24,786</u>	<u>23,184</u>	<u>2,176</u>	<u>–</u>	<u>73,669</u>
Other revenue and operating income						9
Unallocated corporate expenses						<u>(43,374)</u>
Profit from operations						30,304
Finance costs						(10,521)
Gain on disposal of a subsidiary				619		<u>619</u>
Profit before taxation						20,402
Taxation						<u>(285)</u>
Profit before minority interests						<u>20,117</u>

Inter-segment sales are charged at prevailing market rates.

## 4. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

### Business segments *(continued)*

	Manufacture and trading of media products HK\$'000	Manufacture and trading of computer accessories HK\$'000	Distribution of media products HK\$'000	Others HK\$'000	Consolidated HK\$'000
<b>As at 31 December 2004</b>					
<b>Balance sheet</b>					
<b>ASSETS</b>					
Segment assets	263,438	84,449	76,037	6,079	430,003
Unallocated corporate assets					140,247
Consolidated total assets					<u>570,250</u>
<b>LIABILITIES</b>					
Segment liabilities	4,796	1,672	9,103	2,583	18,154
Unallocated corporate liabilities					233,298
Consolidated total liabilities					<u>251,452</u>
<b>OTHER INFORMATION</b>					
Capital expenditure	3,478	27,487	5	246	
Depreciation of property, plant and equipment	11,460	3,495	57	811	
Amortisation of goodwill	–	–	2,472	–	
Amortisation of other intangible assets	–	1,239	–	–	

# NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2004

## 4. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

### Business segments *(continued)*

	Manufacture and trading of media products HK\$'000	Manufacture and trading of computer accessories HK\$'000	Distribution of media products HK\$'000	Others HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
<b>Year ended 31 December 2003</b>						
<i>Turnover</i>						
External sales	203,733	27,223	122,193	13,355	(45,229)	321,275
Inter-segment sales	(36,055)	(9,174)	–	–	45,229	–
Total	<u>167,678</u>	<u>18,049</u>	<u>122,193</u>	<u>13,355</u>	<u>–</u>	<u>321,275</u>
<i>Results</i>						
Segment results	<u>36,838</u>	<u>3,781</u>	<u>27,380</u>	<u>2,239</u>	<u>–</u>	<u>70,238</u>
Other revenue and operating income						168
Unallocated corporate expenses						(55,644)
Profit from operations						<u>14,762</u>
Finance costs						(11,397)
Share of profit of an associate	751					751
Gain on disposal of a subsidiary	3,200					<u>3,200</u>
Profit before taxation						<u>7,316</u>
Taxation						(455)
Profit before minority interests						<u>6,861</u>

Inter-segment sales are charged at prevailing market rates.

## 4. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

### Business segments *(continued)*

	Manufacture and trading of media products HK\$'000	Manufacture and trading of computer accessories HK\$'000	Distribution of media products HK\$'000	Others HK\$'000	Consolidated HK\$'000
<b>As at 31 December 2003</b>					
<b>Balance sheet</b>					
<b>ASSETS</b>					
Segment assets	297,331	54,477	44,212	3,616	399,636
Unallocated corporate assets					126,062
Consolidated total assets					<u>525,698</u>
<b>LIABILITIES</b>					
Segment liabilities	6,117	8,167	54,821	3,213	72,318
Unallocated corporate liabilities					153,626
Consolidated total liabilities					<u>225,944</u>
<b>OTHER INFORMATION</b>					
Capital expenditure	11,727	11,968	101	7	
Depreciation of property, plant and equipment	12,437	4,927	264	827	
Amortisation of goodwill	–	–	2,472	–	

Certain comparative figures in the prior year were reclassified to conform with the current year's presentation.

### Geographical segments

The Group's operations are located in Asia, Europe and North and South 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	
	2004 HK\$'000	2003 HK\$'000
Asia		
– the People's Republic of China including Hong Kong	<b>214,394</b>	178,582
– Other regions in Asia	<b>77,329</b>	71,372
Europe	<b>53,083</b>	54,220
North and South America	<b>18,959</b>	17,101
	<u><b>363,765</b></u>	<u>321,275</u>

# NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2004

## 4. 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 other intangible assets, analysed by geographical location of assets :

	Carrying amount of segment assets		Additions to property, plant and equipment and other intangible assets	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Asia				
– Hong Kong	<b>413,298</b>	347,071	<b>4,313</b>	10,895
– The People's Republic of China	<b>130,136</b>	156,372	<b>26,112</b>	11,472
– Other regions in Asia	<b>10,993</b>	10,520	–	1,403
Europe	<b>11,799</b>	7,263	<b>582</b>	–
North and South America	<b>4,024</b>	4,472	<b>209</b>	33
	<b>570,250</b>	525,698	<b>31,216</b>	23,803

## 5. OTHER REVENUE AND OPERATING INCOME

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Commission income	<b>1,154</b>	2,746
Interest income	<b>142</b>	168
Operating lease rental income from plant and machinery	<b>1,080</b>	846
Release from payment for assets purchased #	<b>3,510</b>	–
Others	<b>1,461</b>	1,120
	<b>7,347</b>	4,880

# The amount represents the release, by a supplier, of the Group's obligation to make payment for certain plant and equipment purchased from the supplier.

## 6. PROFIT FROM OPERATIONS

	The Group	
	2004 HK\$'000	2003 HK\$'000
Profit from operations has been arrived at after charging :		
Amortisation of goodwill included in administrative expenses	2,472	2,472
Amortisation of other intangible assets (HK\$655,000 included in administrative expenses and HK\$584,000 included in cost of sales)	1,239	–
Auditors' remuneration	750	980
Depreciation on		
– Owned assets	12,928	11,429
– Assets held under finance leases and hire purchase contracts	2,895	7,305
	15,823	18,734
Staff costs, including directors' remuneration	41,728	53,170
Retirement benefits scheme contributions, including those attributable to directors	601	1,139
Total staff costs	42,329	54,309
Allowance for bad debt expenses	150	2
Loss on disposal of property, plant and equipment	145	214
Rental payments in respect of premises under operating leases	6,442	7,554

## 7. FINANCE COSTS

	The Group	
	2004 HK\$'000	2003 HK\$'000
Interest expenses on		
– Bank loans, overdrafts and other loans wholly repayable within five years	7,106	7,027
– Obligations under finance leases and hire purchase contracts	1,177	1,775
Bank charges	1,798	1,759
Exchange loss	440	836
	10,521	11,397

# NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2004

## 8. LOSS ON DISPOSAL OF AN ASSOCIATE

In the previous 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 that such loss would be fully reimbursed by a claim to a customer (note 34).

## 9. DIRECTORS' EMOLUMENTS

	<b>The Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Directors' fees		
Executive	–	–
Independent non-executive	<b>439</b>	400
	<b>439</b>	400
Other emoluments (Executive Directors)		
Salaries and other benefits	<b>8,642</b>	6,649
Retirement benefits scheme contributions	<b>24</b>	31
	<b>8,666</b>	6,680
Total emoluments	<b>9,105</b>	7,080

In the prior year, the directors' remuneration shown above included the estimated monetary value of a premise provided rent free to one of the Executive Directors. The estimated rental value of such accommodation was HK\$370,000. No premise was provided rent free to any of the Executive Directors in the current year.

## 9. DIRECTORS' EMOLUMENTS *(continued)*

Emoluments of the directors were within the following bands :

	<b>2004</b>	2003
	<b>No. of directors</b>	No. of directors
Nil to HK\$1,000,000	<b>3</b>	2
HK\$1,500,001 to HK\$2,000,000	<b>1</b>	–
HK\$2,000,001 to HK\$2,500,000	–	1
HK\$2,500,001 to HK\$3,000,000	<b>1</b>	1
HK\$3,500,001 to HK\$4,000,000	–	1
HK\$4,000,001 to HK\$4,500,000	<b>1</b>	–
	<b>6</b>	5

No director waived any emoluments during the year ended 31 December 2004 (2003 : Nil).

## 10. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2003: three) were directors of the Company whose emoluments are set out in note 9 above. The emoluments of the remaining two (2003: two) employees were as follows :

	<b>The Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Salaries and other benefits	<b>2,616</b>	2,388
Retirement benefits scheme contributions	<b>24</b>	24
	<b>2,640</b>	2,412



# NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2004

## 10. EMPLOYEES' EMOLUMENTS *(continued)*

Their emoluments were within the following bands :

	<b>2004</b>	2003
	<b>No. of</b>	No. of
	<b>employees</b>	employees
HK\$1,000,001 to HK\$1,500,000	<u>2</u>	<u>2</u>

During the year, no emolument was paid to the directors and the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office

## 11. TAXATION

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
The taxation charge comprises :		
Current tax		
Hong Kong	–	45
Overseas	<u>170</u>	<u>326</u>
	<b>170</b>	371
Under-provision in prior years		
Hong Kong	<b>53</b>	84
Overseas	<u>62</u>	–
	<b>115</b>	84
	<u><b>285</b></u>	<u>455</u>

Hong Kong profits tax is calculated at 17.5% (2003:17.5%) of the estimated assessable profits for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

## 11. TAXATION

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

	2004		2003	
	HK\$'000	%	HK\$'000	%
Profit before taxation	<b>20,402</b>		7,316	
Tax at the Hong Kong profit tax rate of 17.5% (2003: 17.5%)	<b>3,570</b>	<b>17.5</b>	1,280	17.5
Tax effect of expenses not deductible for tax purposes	<b>752</b>	<b>3.7</b>	2,072	28.3
Under-provision in respect of prior years	<b>115</b>	<b>0.6</b>	84	1.1
Tax effect of tax losses not recognised	<b>1,843</b>	<b>9.0</b>	6,182	84.5
Tax effect attributable to exempt profits	<b>(5,231)</b>	<b>(25.6)</b>	(9,186)	(125.5)
Effect of different tax rates of subsidiaries operating in other jurisdictions	<b>27</b>	<b>0.1</b>	(28)	(0.4)
Others	<b>(791)</b>	<b>(3.9)</b>	51	0.7
Tax charge and effective tax rate for the year	<b>285</b>	<b>1.4</b>	455	6.2

## 12. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Of the consolidated profit attributable to shareholders of HK\$20,117,000 (2003 : HK\$12,061,000), a profit of HK\$1,730,000 (2003 : a loss of HK\$1,509,000) has been dealt with in the financial statements of the Company.

# NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2004

## 13. EARNINGS PER SHARE

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

	<b>Earnings</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Earnings for the purposes of basic earnings per share	<b>20,117</b>	12,061
	<b>Number of shares</b>	
	<b>2004</b>	2003
Number of shares (2003 : weighted average) for the purposes of basic earnings per share	<b>458,308,545</b>	364,081,059

No diluted earnings per share for 2004 and 2003 has been presented as the exercise price of the Company's outstanding share options and convertible notes was higher than the average market price of the Company's shares for 2004 and 2003 respectively.

## 14. PROPERTY, PLANT AND EQUIPMENT

### The Group

	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
<b>At cost/valuation</b>						
At 1 January 2004	15,160	384,663	79,417	18,823	4,465	502,528
Additions	–	13,169	1,146	–	260	14,575
Disposals	–	(1,132)	(15)	–	(81)	(1,228)
Disposal of a subsidiary	–	(807)	(149)	(537)	–	(1,493)
Deficit on revaluation	(158)	–	–	–	–	(158)
<b>At 31 December 2004</b>	<b>15,002</b>	<b>395,893</b>	<b>80,399</b>	<b>18,286</b>	<b>4,644</b>	<b>514,224</b>
Comprising:						
At cost	–	395,893	80,399	18,286	4,644	499,222
At valuation 2004	15,002	–	–	–	–	15,002
	<b>15,002</b>	<b>395,893</b>	<b>80,399</b>	<b>18,286</b>	<b>4,644</b>	<b>514,224</b>
<b>Accumulated depreciation and impairment losses</b>						
At 1 January 2004	–	230,856	50,764	16,177	2,988	300,785
Depreciation provided for the year	158	10,875	3,797	427	566	15,823
Disposals	–	(422)	(9)	–	(81)	(512)
Disposal of a subsidiary	–	(576)	(124)	(535)	–	(1,235)
Eliminated on revaluation	(158)	–	–	–	–	(158)
<b>At 31 December 2004</b>	<b>–</b>	<b>240,733</b>	<b>54,428</b>	<b>16,069</b>	<b>3,473</b>	<b>314,703</b>
<b>Net book value</b>						
<b>At 31 December 2004</b>	<b>15,002</b>	<b>155,160</b>	<b>25,971</b>	<b>2,217</b>	<b>1,171</b>	<b>199,521</b>
At 31 December 2003	15,160	153,807	28,653	2,646	1,477	201,743

# NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2004

## 14. PROPERTY, PLANT AND EQUIPMENT *(continued)*

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

	<b>The Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Land in Hong Kong under medium-term lease	<b>13,264</b>	13,641
Land outside Hong Kong under short-term lease	<b>1,738</b>	1,519
	<b>15,002</b>	15,160

Notes:

- (a) The land and buildings of the Group were revalued at 31 December 2004 on an open market value basis by Greater China Appraisal Limited and Jointgoal Surveyors Limited, both of them are firms of professional valuers and are not connected to the Group.

If the 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\$10,273,000 (2003: HK\$10,643,000).

- (b) The net book value of property, plant and equipment includes an amount of HK\$29,223,000 (2003: HK\$56,568,000) in respect of assets held under finance leases and hire purchase contracts.
- (c) The Group has pledged its leasehold land and buildings with a net book value of HK\$13,264,000 (2003: HK\$13,641,000) to secure bank and other loans granted to its subsidiaries.
- (d) Plant and machinery includes assets carried at a total cost of HK\$16.5 million (2003: HK\$16.5 million) with accumulated depreciation of HK\$6.2 million (2003: HK\$4.5 million) which were held by the Group as lessor under operating leases. Depreciation charge in respect of those assets in the year amounted to HK\$1.7 million (2003: HK\$0.3 million).
- (e) In the prior year the Group ceased its operation in the production of a sector of media products. Accordingly, no further depreciation was then provided for those production lines. The directors are considering to either lease out or dispose of the machinery and equipment concerned. The directors have reviewed the carrying amounts of these machinery and equipment and considered that no provision for impairment losses is necessary.

## 15. GOODWILL

	<b>The Group</b>
	HK\$'000
<b>Cost</b>	
At 1 January 2004 and <b>31 December 2004</b>	<b>49,432</b>
<b>Accumulated amortisation</b>	
At 1 January 2004	7,415
Charge for the year	2,472
<b>At 31 December 2004</b>	<b>9,887</b>
<b>Net book value</b>	
<b>At 31 December 2004</b>	<b>39,545</b>
At 31 December 2003	42,017

The amortisation period adopted for goodwill is 20 years.

## 16. INTERESTS IN SUBSIDIARIES

	<b>The Company</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Unlisted shares	<b>39,172</b>	39,172
Amounts due from subsidiaries	<b>21,952</b>	–
	<b>61,124</b>	39,172

The amounts due are unsecured, interest-free and not repayable within the next twelve months from the balance sheet date.

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 41.

# NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2004

## 17. AMOUNTS DUE FROM/TO SUBSIDIARIES

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

## 18. OTHER INTANGIBLE ASSETS

### The Group

	Development costs HK\$'000	Distribution rights HK\$'000	Technical know-how HK\$'000	Total HK\$'000
<b>At cost</b>				
At 1 January 2004	4,650	8,519	–	13,169
Incurred during the year	11,181	–	5,460	16,641
<b>At 31 December 2004</b>	<b>15,831</b>	<b>8,519</b>	<b>5,460</b>	<b>29,810</b>
<b>Accumulated amortisation</b>				
At 1 January 2004	–	–	–	–
Provided for the year	129	655	455	1,239
<b>At 31 December 2004</b>	<b>129</b>	<b>655</b>	<b>455</b>	<b>1,239</b>
<b>Net book value</b>				
<b>At 31 December 2004</b>	<b>15,702</b>	<b>7,864</b>	<b>5,005</b>	<b>28,571</b>
At 31 December 2003	4,650	8,519	–	13,169

Notes:

- (a) Development costs are amortised on a straight line basis over 10 years from the date of commencement of production of the relevant products.
- (b) Distribution rights are amortised on a straight line basis over the remaining term of the distribution agreement.
- (c) Technical know-how is amortised on a straight line basis over the terms of the technical know-how consultancy agreement of 5 years.

## 19. INVENTORIES

	<b>The Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Raw materials	<b>19,066</b>	16,741
Work in progress	<b>3,562</b>	25,046
Finished goods	<b>33,231</b>	29,207
	<b><u>55,859</u></b>	<u>70,994</u>

The inventories are stated at cost.

During the year, the cost of inventories recognised as expense amounted to HK\$222,121,000 (2003: HK\$169,791,000).

## 20. DEBTORS, DEPOSITS AND PREPAYMENTS

	<b>The Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Trade debtors	<b>77,103</b>	54,111
Other debtors, deposits and prepayments (note 34)	<b>132,846</b>	98,844
	<b><u>209,949</u></b>	<u>152,955</u>



# NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2004

## 20. 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 :

	<b>The Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
1 to 3 months	<b>63,316</b>	41,999
4 to 6 months	<b>5,050</b>	6,295
7 to 9 months	<b>1,992</b>	1,650
10 to 12 months	<b>125</b>	1,913
Over 1 year	<b>6,620</b>	2,254
	<b><u>77,103</u></b>	<u>54,111</u>

## 21. 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.

## 22. BANK BALANCES AND CASH

	<b>The Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Time deposits with banks	<b>10,190</b>	11,916
Other bank balances and cash	<b>25,226</b>	31,732
	<b><u>35,416</u></b>	<u>43,648</u>

## 23. TRADE AND OTHER PAYABLES

	<b>The Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Trade creditors	<b>25,320</b>	33,821
Other creditors and accruals	<b>25,559</b>	9,686
	<b><u>50,879</u></b>	<u>43,507</u>

The aged analysis of the trade creditors is as follows :

	<b>The Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
1 to 3 months	<b>18,511</b>	6,035
4 to 6 months	<b>6,292</b>	7,997
7 to 9 months	<b>183</b>	8,616
10 to 12 months	<b>47</b>	4,184
Over 1 year	<b>287</b>	6,989
	<b><u>25,320</u></b>	<u>33,821</u>

## 24. CONVERTIBLE NOTES

	<b>The Group</b>		<b>The Company</b>	
	<b>2004</b>	2003	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
Convertible notes	<b><u>–</u></b>	<u>2,300</u>	<b><u>–</u></b>	<u>2,300</u>

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 remaining convertible note of HK\$2,300,000 was redeemed on 5 January 2004 at the same amount (without interest).

# NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2004

## 25. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Shares of HK\$0.10 each		
Authorised :		
At 1 January 2003, 1 January 2004 and <b>31 December 2004</b>	<b>1,000,000,000</b>	<b>100,000</b>
Issued and fully paid :		
At 1 January 2003	358,494,000	35,849
Issue of new shares on 9 December 2003 <i>(Note a below)</i>	32,000,000	3,200
Issue of new shares on exercise of conversion rights under the convertible notes <i>(Note b below)</i>	67,814,545	6,781
At 31 December 2003 and <b>31 December 2004</b>	<b>458,308,545</b>	<b>45,830</b>

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 last year ranked pari passu in all respects with the then existing shares of the Company.

## 26. SHARE OPTIONS

The Company operated share option schemes for the purpose of providing incentives to directors and eligible employees.

A share option scheme was adopted by the Company pursuant to a resolution passed on 8 November 1996 (the "Old Scheme"). Owing to the changes in the Listing Rules in relation to share option schemes, the board of directors considers it is appropriate to adopt a new share option scheme in replacement of the Old Scheme so that the provision of the new share option scheme will be in line with such changes in the Listing Rules.

Pursuant to a resolution of the annual general meeting passed on 12 June 2004, the Company adopted a new share option scheme (the "New Scheme") and the Old Scheme was terminated on the same date. Upon termination of the Old Scheme, no further options may be offered but in all other respects the provisions of the Old Scheme shall remain in force. The outstanding options under the Old Scheme shall continue to be subject to the provisions of the Old Scheme and the adoption of the New Scheme will not in any way affect the terms of the grant of such outstanding options.

### **Old Scheme**

The Old Scheme will expire in November 2006. Under the Old 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 Old 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 Old 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 80% of the average closing price of the shares for the 5 business days immediately preceding the date of grant and the nominal value of the Company's share. There is no minimum period for which an option must be held before it can be exercised.

# NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2004

## 26. SHARE OPTIONS *(continued)*

### **New Scheme**

The New Scheme will expire in June 2014. Under the New Scheme, the board of directors of the Company may grant options to eligible employees and directors (including executive and non-executive) of the Company, its subsidiaries and associated companies to subscribe for shares in the Company.

The total number of shares which may be issued upon exercise of all options to be granted under the New Scheme and any other share option schemes shall not in aggregate exceed 10% of the total number of shares in issue as at the date of approval of the New Scheme, unless the Company obtains a fresh approval from its shareholders. Notwithstanding this, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Scheme and any other share option schemes shall not exceed 30% of the total number of shares in issue from time to time. The total number of shares issued and to be issued upon exercise of the options granted to any individual in any 12-month period shall not exceed 1% of the total number of shares in issue at any point in time, without prior approval from the Company's shareholders. Options granted to any individual who is a substantial shareholder of the Company or independent non-executive director or any of their respective associates in the 12-month period up to and including date of such grant in excess of 0.1% of the Company's share capital at the date of grant or with a value in excess of HK\$5 million must be approved in advance by the Company's shareholders.

Options granted must be taken up within 28 days of the date of grant upon payment of HK\$1 per grant of option. Options may generally be exercised at any time during the period after the option has been granted, such period to expire not later than 10 years after the date of the grant of the option. The subscription price for shares will not less than the higher of (i) the closing price of the Company's shares on the date of options granted; (ii) the average closing price of the Company's shares for the 5 business days immediately preceding the date of options granted; and (iii) the nominal value of the Company's share. There is no minimum period for which an option must be held before it can be exercised.

No option under the New Scheme and Old Scheme was granted, exercised, lapsed or cancelled during the year ended 31 December 2004.

At the balance sheet date, the Company had 11,637,000 share options outstanding under the schemes, which represented approximately 2.5% of the Company's shares in issue at that date. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 11,637,000 additional ordinary shares of the Company and additional share capital of approximately HK\$1.2 million and share premium of approximately HK\$10.7 million (before issue expenses).

## 26. SHARE OPTIONS *(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.

The following table discloses details of the Company's share options granted under the Old Scheme to employees (including directors):

<b>Option type</b>	<b>Outstanding at 31 December 2003 and 31 December 2004</b>
1997A	6,287,000
1997B	4,300,000
1999	1,050,000
	<u>11,637,000</u>

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

<b>Directors</b>	<b>Option type</b>	<b>Outstanding at 31 December 2003 and 31 December 2004</b>
Ms. Ho Yin King, Helena	1997A	3,750,000
Mr. Ho Fai Keung, Jacky	1997A	2,537,000
Total		<u>6,287,000</u>

# NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2004

## 26. SHARE OPTIONS *(continued)*

Details of specific categories of options are as follows :

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

The vesting period of the share options is from the date of grant until the commencement of the exercise period.

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

## 27. RESERVES

### The Group

	Share premium HK\$'000	Capital reserve HK\$'000	Translation reserve HK\$'000	Properties revaluation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2003	77,202	(35,034)	(194)	4,358	148,854	195,186
Exchange difference on translation of foreign subsidiaries and an associate	-	-	602	-	-	602
Effect of change in tax rate of deferred taxation	-	-	-	(70)	-	(70)
Profit for the year	-	-	-	-	12,061	12,061
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)
Release on disposal of an associate	-	11,450	232	-	-	11,682
At 31 December 2003 and 1 January 2004	113,225	(23,584)	640	4,288	159,123	253,692
Exchange difference on translation of foreign subsidiaries	-	-	622	-	-	622
Profit for the year	-	-	-	-	20,117	20,117
Release on disposal of a subsidiary	-	(1,463)	-	-	-	(1,463)
<b>At 31 December 2004</b>	<b>113,225</b>	<b>(25,047)</b>	<b>1,262</b>	<b>4,288</b>	<b>179,240</b>	<b>272,968</b>

The capital reserve of the Group at 31 December 2004 amounted to HK\$25,047,000 (2003: HK\$23,584,000), comprising the reserve arising on the group reorganisation in 1994 of HK\$1,863,000 (2003: HK\$1,863,000) and the goodwill arising on acquisition of subsidiaries amounting to HK\$26,910,000 (2003: HK\$25,447,000).



# NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2004

## 27. RESERVES *(continued)*

### The Company

	<b>Share premium</b>	<b>Contributed surplus</b>	<b>Retained profits</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
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 and 1 January 2004	113,225	15,048	6,139	134,412
Profit for the year	–	–	1,730	1,730
<b>At 31 December 2004</b>	<b>113,225</b>	<b>15,048</b>	<b>7,869</b>	<b>136,142</b>

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 2004 amounted to HK\$136,142,000 (2003: HK\$134,412,000).

## 28. DEFERRED TAXATION

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

### The Group

	Accelerated tax depreciation HK\$'000	Tax loss HK\$'000	Revaluation of properties HK\$'000	Total HK\$'000
At 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 and 1 January 2004	22,115	(22,115)	999	999
Credit to income for the year	(19,900)	19,900	–	–
<b>At 31 December 2004</b>	<b>2,215</b>	<b>(2,215)</b>	<b>999</b>	<b>999</b>

At 31 December 2004, the Group has unused tax losses of HK\$43,684,000 (2003: HK\$196,484,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK\$12,652,000 (2003: HK\$126,369,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK\$31,032,000 (2003: HK\$70,115,000) due to the unpredictability of future profit streams. The unrecognised tax losses may be carried forward indefinitely except for the losses of HK\$9,492,000 (2003: HK\$7,740,000) which will expire as follows.

Year of expiry	2004 HK\$	2003 HK\$
2006	1,477,000	1,477,000
2007	4,409,000	4,409,000
2008	1,233,000	1,854,000
2009	2,373,000	–
	<b>9,492,000</b>	<b>7,740,000</b>

# NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2004

## 29. BANK AND OTHER BORROWINGS

	The Group		The Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Bank borrowings comprise the following:				
Mortgage loan	2,802	3,719	–	–
Short term bank loan	63,117	47,767	–	–
Bank import and export loans	83,710	73,282	–	–
Bank overdrafts	22,129	21,023	–	395
	<b>171,758</b>	145,791	–	395
Other loan **	6,630	–	–	–
	<b>178,388</b>	145,791	–	395
Secured	2,802	3,719	–	–
Unsecured	175,586	142,072	–	395
	<b>178,388</b>	145,791	–	395
Bank loans and overdrafts are repayable as follows:				
Within one year	167,547	142,986	–	395
More than one year, but not exceeding two years	3,354	953	–	–
More than two years, but not exceeding five years	857	1,852	–	–
	<b>171,758</b>	145,791	–	395
Other loan is repayable as follows:				
Within one year	6,630	–	–	–
	<b>178,388</b>	145,791	–	395
Less : Amounts due within one year shown under current liabilities (Note 31)	<b>(174,177)</b>	(142,986)	–	(395)
Amounts due after one year shown under non-current liabilities	<b>4,211</b>	2,805	–	–

\*\* The loan is unsecured, interest bearing at 7% per annum and is repayable in 2005.

## 30. OBLIGATIONS UNDER FINANCE LEASES AND HIRE PURCHASE CONTRACTS

### The Group

	Minimum lease payments		Present value of minimum lease payments	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Amounts payable under finance leases and hire purchase contracts :				
Within one year	<b>11,749</b>	17,676	<b>11,209</b>	16,478
In the second to fifth year inclusive	<b>10,215</b>	18,606	<b>9,977</b>	17,868
	<b>21,964</b>	36,282	<b>21,186</b>	34,346
Less : Future finance charges	<b>(778)</b>	(1,936)		
	<b>21,186</b>	34,346		
Less : Amounts due within one year shown under current liabilities ( <i>Note 31</i> )			<b>(11,209)</b>	(16,478)
Amounts due after one year shown under non-current liabilities			<b>9,977</b>	17,868

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 2004, the effective borrowing rate was ranging from 2.5% to 5.5% (2003: average effective borrowing rate of 5%). Interest rates are fixed at the contract dates. 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 charges over the leased assets to the lessor.

## NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2004

### 30. OBLIGATIONS UNDER FINANCE LEASES AND HIRE PURCHASE CONTRACTS

*(continued)*

During the year, the Group entered into six (2003: thirteen) arrangements to obtain finance amounting to approximately HK\$11.2 million (2003: HK\$27.8 million). Under these arrangements, the Group sold certain plant and machinery with a carrying amount of approximately HK\$9.3 million (2003: HK\$19.1 million) to the financiers at an aggregate consideration of approximately HK\$11.7 million (2003: HK\$29.3 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 36 (2003: 41) months; and at the end of those lease terms, the Group is entitled to either 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 differences between the total minimum lease payments and the obligations under finance leases, are charged to the income statement over the periods 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 2004 and at the respective balance sheet dates.

### 31. CURRENT PORTION OF NON-CURRENT LIABILITIES

	The Group		The Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank and other borrowings ( <i>Note 29</i> )	<b>174,177</b>	142,986	–	395
Obligations under finance leases and hire purchase contracts ( <i>Note 30</i> )	<b>11,209</b>	16,478	–	–
	<b>185,386</b>	159,464	–	395

## 32. DISPOSAL OF A SUBSIDIARY

	2004 HK\$'000	2003 HK\$'000
Net assets disposed of:		
Property, plant and equipment	258	–
Inventories	316	–
Debtors, deposits and prepayments	3,563	1,800
Bank balances and cash	115	–
Trade and other payables	(2,168)	–
Bank overdraft	(1,140)	–
	<u>944</u>	<u>1,800</u>
Capital reserve realised on disposal	(1,463)	–
Gain on disposal of a subsidiary	619	3,200
Total consideration	<u>100</u>	<u>5,000</u>
Satisfied by:		
Cash consideration	100	–
Deferred consideration*	–	5,000
	<u>100</u>	<u>5,000</u>
Net cash inflow on disposal:		
Cash consideration received	100	–
Bank balances and cash disposed of	(115)	–
Bank overdraft disposed of	1,140	–
	<u>1,125</u>	<u>–</u>

\* Deferred consideration represented consideration to be settled in cash by the purchaser between 30 April 2004 to 30 April 2005.

The subsidiary disposed of during the year contributed HK\$5,596,000 (2003: HK\$11,790,000) to the Group's turnover and incurred a loss of HK\$118,000 (2003: HK\$3,207,000) attributable to the Group.

# NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2004

## 33. MAJOR NON-CASH TRANSACTIONS

### 2004

The Group was released by a supplier of its obligation to make payment for assets purchased of HK\$3,510,000, from the supplier (Note 5).

### 2003

- (a) During 2003, the Group disposed of its associate for a consideration of HK\$10,007,000, of which HK\$4,976,000 included in other debtors had not been settled at 31 December 2003.
- (b) During 2003, the Group disposed of a subsidiary for a consideration of HK\$5,000,000. The consideration had not yet been due for payment at 31 December 2003.

## 34. AMOUNT RECEIVABLE FROM A LEGAL CLAIM

In 1997, a subsidiary of the Company (the "Subsidiary") entered into an agreement with a customer under which the Subsidiary was required to set up a software manufacturing fulfilment plant in Shanghai, the People's Republic of China and the customer was obliged, among other things, to place annual minimum orders to the Subsidiary for the five years ended 31 December 2002. Should the customer fail to place the minimum orders, the Subsidiary 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 customer had unilaterally terminated the agreement in March 2000. The Group took arbitration proceedings in 2000 to claim against the customer for the total shortfall under the agreement amounting to approximately US\$54 million or damages to be assessed.

The tribunal has issued a partial award on the issue of liability on 18 July 2003. Pursuant to the partial award, the tribunal ruled that the customer has wrongfully purported to terminate the agreement and acted in repudiatory breach of the agreement. It is therefore a matter for the quantum hearing to assess how much the customer has to pay to the Subsidiary in terms of damages.

The quantum hearing and the submissions of the partial award thereof have been completed in March 2005. The directors, based on legal advice, believe that a final award will be made in the near future barring any unforeseen circumstances.

### 34. AMOUNT RECEIVABLE FROM A LEGAL CLAIM *(continued)*

As at 31 December 2004, total direct expenditure incurred for the claim amounted to HK\$87.4 million (2003 : HK\$61.9 million). The directors have sought legal advice on this matter and, based on the legal advice, believe that the above expenditure is fully recoverable from the relevant customer. Therefore, these expenditures were recognised as other receivables and included under debtors, deposits and prepayments in the balance sheet. The direct expenditure incurred comprised legal and professional fees, loss on disposal of an associate (note 8) and other direct costs incurred in respect of the arbitration.

### 35. CONTINGENT LIABILITIES

	The Group		The Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Bills discounted with recourse	29,839	26,452	–	–
Guarantees given to bankers in respect of banking facilities granted to subsidiaries	–	–	319,671	372,259
	<b>29,839</b>	<b>26,452</b>	<b>319,671</b>	<b>372,259</b>

### 36. 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	
	2004 HK\$'000	2003 HK\$'000
Within one year	5,748	4,551
In the second to fifth year inclusive	15,549	12,708
Over five years	4,738	4,655
	<b>26,035</b>	<b>21,914</b>



## NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2004

### 36. LEASE COMMITMENTS *(continued)*

#### The Group as lessee *(continued)*

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average term of 3 (2003: 3) years and rentals are fixed for an average of 3 (2003: 3) years.

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

#### The Group as lessor

Rental income earned in respect of plant and machinery during the year was HK\$1,080,000 (2003: HK\$846,000). The plant and machinery are expected to generate rental yields of 10% (2003: 7%) on an ongoing basis. All of the plant and machinery leased originally have committed lessees for two (2003: two) years.

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

	<b>The Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>90</b>	1,080
In the second to fifth year inclusive	–	90
	<b>90</b>	1,170

### 37. CAPITAL COMMITMENTS

	<b>The Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Contracted but not provided for	<b>7,214</b>	–

As at 31 December 2004 and 2003, the Company did not have any significant capital commitments.

## 38. 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 Company’s subsidiaries in other jurisdictions are members of state-managed retirement benefits schemes operated by the governments of the respective jurisdictions. The subsidiaries are required to contribute a specified percentage of their payroll costs to the retirement benefits schemes. The only obligations of the Group with respect of the retirement benefits schemes is to make the specified contributions.

During the year, the Group made retirement benefits scheme contributions amounting to HK\$601,000 (2003: HK\$1,139,000).

## 39. RELATED PARTY TRANSACTION

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

	<b>The Group</b>	
	<b>2004</b>	2003
	<b>HK\$’000</b>	HK\$’000
Rental payments to Ms. Chan Siu Chu	<b>282</b>	277

Ms. Chan Siu Chu is the mother of the directors of the Company, Ms. Ho Yin King, Helena and Mr. Ho Fai Keung, Jacky.

# NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2004

## 40. POST BALANCE SHEET EVENTS

- (a) On 3 December 2004, the Company announced a proposal to raise not less than approximately HK\$22.9 million, before expenses, by issuing not less than 229,154,272 new shares but not more than 234,972,772 new shares by way of an open offer to its shareholders whose names appear on the register of members of the Company on 23 December 2004 at the subscription price of HK\$0.10 per offer share on the basis of one offer share for every two existing shares held by the shareholders. The purpose of the open offer is to raise funds to strengthen the Company's capital base and improve its financial position to provide flexibility for the Group's future development and expansion.

A prospectus in respect of the open offer was issued by the Company on 24 December 2004 and the open offer has become unconditional on 10 January 2005, resulting in a total of 229,154,272 offer shares having been issued.

- (b) Pursuant to a resolution of the directors' meeting passed on 25 January 2005, the Company has made an offer for the grant of share options to subscribe for a total of 45,829,766 shares of HK\$0.1 each, representing 20,617,884 shares to executive directors, 6,874,626 shares to independent non-executive directors and 18,337,256 shares to employees at a subscription price of HK\$0.158 per share under the New Scheme. The option period is from 25 January 2005 to 24 January 2015.

## 41. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries as at 31 December 2004 are as follows:

Name of subsidiary	Place/Country of incorporation (Note c)	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
Afex International (HK) Limited	Hong Kong	50,000 ordinary shares of HK\$1 each	100	Trading of computer accessories

## 41. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

<b>Name of subsidiary</b>	<b>Place/Country of incorporation</b> (Note c)	<b>Issued and paid up share capital/ registered capital</b>	<b>Percentage of issued share capital/ registered capital held</b> (Note a)	<b>Principal activities</b>
Cheson Magnetic Limited	Macau	MOP 5,100,000	100	Manufacture of floppy disks
China Gardens International Ltd.	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
Feitian Magnetic Information-Technology (Shenzhen) Co., Ltd.	People's Republic of China <sup>#</sup>	US\$2,500,000	100	Manufacture of floppy disks
Fortune Luck Development Ltd.	British Virgin Islands	4 ordinary shares of US\$1 each	100	Distribution of data media products
Great China Global Limited	British Virgin Islands	1 ordinary share of US\$1	100	Distribution 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	100	Investment holding

# NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2004

## 41. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

<b>Name of subsidiary</b>	<b>Place/Country of incorporation</b> (Note c)	<b>Issued and paid up share capital/ registered capital</b>	<b>Percentage of issued share capital/ registered capital held</b> (Note a)	<b>Principal activities</b>
Jackin Trading Company 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 trademarks
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	Trading of floppy disks
Jackin Magnetic (United Kingdom) Company Limited	England	3 ordinary shares of GBP1 each	100	Trading of floppy disks
Jackin Manufacturing (Shenzhen) Limited	British Virgin Islands	1 ordinary share of US\$1	100	Investment holding
Jackin Optical Marketing Company Limited	Hong Kong	2 ordinary shares of HK\$1 each	100	Trading of data media products
Jackin Total Fulfilment Services Limited	Hong Kong	2 ordinary shares of HK\$1 each	100	Inactive

#### 41. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

<b>Name of subsidiary</b>	<b>Place/Country of incorporation</b> (Note c)	<b>Issued and paid up share capital/ registered capital</b>	<b>Percentage of issued share capital/ registered capital held</b> (Note a)	<b>Principal activities</b>
Jackin U.S.A. Inc.	United States of America	1 ordinary share of US\$1	100	Trading of data media products and computer accessories
Jackin Video Cassette Co. Limited	Hong Kong	1,000 ordinary shares of HK\$1 each and 1,000,000 non-voting deferred shares of HK\$1 each (Note b)	100	Property holding
Jackin Video Cassette (Taiwan) Limited	Taiwan	2,000,000 ordinary shares of NT\$10 each	99.9	Property holding
Noble Team Holdings Limited	British Virgin Islands	10,000 ordinary shares of US\$1 each	100	Investment holding
Oakview International Limited	British Virgin Islands	100 ordinary shares of US\$1 each	100	Investment holding
Prince Diamond Co., Ltd.	British Virgin Islands	2 ordinary shares of US\$1 each	100	Investment holding

# NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2004

## 41. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

Name of subsidiary	Place/Country of incorporation (Note c)	Issued and paid up share capital/ registered capital	Percentage of issued share capital/ registered capital held (Note a)	Principal activities
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 places of operations are basically 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.

## 42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements on pages 22 to 74 were approved by the board of directors on 22 April 2005.