Datasys Technology Holdings Limited

迪斯數碼科技集團有限公司

(incorporated in the Cayman Islands with limited liability)

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (THE "GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

The GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on the GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on the GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of the GEM mean that it is a market more suited to professional and other sophisticated investors.

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The principal means of information dissemination on the GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on the GEM-listed issuers.

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This report, for which the directors of Datasys Technology Holdings Limited collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to Datasys Technology Holdings Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: i. the information contained in this report is accurate and complete in all material respects and not misleading; ii. there are no other matters the omission of which would make any statement in this report misleading; and iii. all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

Contents

BOARD OF DIRECTORS

Mr. Ding Wei Ming
(Ex-Chairman, resigned on 8 March 2004)
Mr. Shang Gang, Chairman
Ms. Cao Ze Lan, Executive Director
Mr. Li Wei Min (resigned on 30 December 2003)
Mr. Guo Shao Qing
(appointed on 14 May 2003 and resigned on 30 December 2003)
Mr. Hu Song Hua (resigned on 30 December 2003)
Mr. Zhang Jian, Executive Director
(appointed on 8 March 2004)
Mr. Wang Zhi Gang*, Executive Director
(appointed on 8 March 2004)
Mr. Li Hong** Independent Non-Executive Director,
(resigned on 30 December 2003)
Mr. Xia Qing** Independent Non-Executive Director
(resigned on 14 May 2004)
Mr. Choi Man On**, Independent Non-Executive Director (appointed on 30 December 2003 and resigned on 6 April, 2004)
Mr. Wang Bin**, Independent Non-Executive Director
(appointed on 14 May 2004)
Mr. Qiu Ji Cheng**, Independent Non-Executive Director (appointed on 14 May 2004)

* Compliance Officer

** Audit Committee

COMPANY SECRETARY

Mr. Ng Wai Kee (appointed on 20 April 2004)
Mr. Chang Kin Man (appointed on 1 April 2004 and resigned on 20 April 2004)
Mr. Chui Chi Yun (resigned on 1 April 2004)

FINANCIAL CONTROLLER

Mr. Chung Chi Kong

PRINCIPAL BANKER

China Minsheng Banking Corp. Ltd.
4 Zhenyi Road
Dongcheng District
Beijing 100006
The People's Republic of China

AUDITORS

Ernst & Young
15/F Hutchison House
10 Harcourt Road
Central
Hong Kong

REGISTERED OFFICE

P. O. Box 309GT
Ugland House
South Church Street
George Town
Grand Cayman
Cayman Islands

HEAD OFFICE

2/F, Commercial Mansion
No. 11, Zhongguancun Nan Street
Haidian District
Beijing. 100081
The People's Republic of China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 1204, 12/F, Wing On House
71 Des Voeux Road Central
Hong Kong

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tengis Limited
G/F, Bank of East Asia Harbour
View Center, 56 Gloucester Road, Wanchai
Hong Kong

LEGAL ADVISOR

Tsun & Partner
Suite 1002, 10/F
Aon China Building
29 Queen's Road Central
Hong Kong

SPONSOR

CSC Asia Limited
32/F COSCO Tower
Grand Millennium Plaza
183 Queen's Road Central
Hong Kong

On behalf of the Board of Directors (the "Board") of Datasys Technology Holdings Limited ("Datasys" or the "Company" and its subsidiaries collectively the "Group"), I am pleased to present Datasys' annual result for the financial year ended 31st December 2003.

In early 2003, due to the delay in completion of the reformation of the basic structure of the Electric Power Industry by the PRC government, most of the investment projects of the Electric Power Industry were slowed down and thus seriously affecting the whole Electric Power Industry and also the progress of the Group to secure contracts. Unfortunately, soon after the reformation has been accomplished on March 2003, the Group faced an unexpected negative business environment resulted from the outbreak of Severe Acute Respiratory Syndrome ("SARS") in the PRC especially in Beijing which is the core business location of the Group. During April to June 2003, contracts under negotiation were nearly all postponed due to the reason that the management of the customers rejected business meetings in order to avoid the spreading of SARS. Following the removal of Beijing from the list of SARS-infected areas and the travel advisory against Beijing by the World Health Organization on 24 June 2003, the Group started to make marketing efforts to start a number of negotiations with it's customers. The Group has successfully secured projects approximately of HK$40 million during the four months ended 31 December 2003.

In 2004, the Group has carried out reforms, consolidate the internal business, undertake effective measures to control operating costs and maintain our quality of services. By deploying internal resources effectively, realizing the competitive edge of integrating and creating synergies, the Group will enhance the competitiveness of the core business.

FINANCIAL PERFORMANCE

For the year ended 31st December 2003, the Group recorded a decrease in turnover from approximately HK$102 million in 2002 to approximately HK$20 million. Moreover, the Group has recorded a significant loss attributable to shareholders of HK$145 million for the year ended 31 December 2003 (2002: profit of HK$551,000). The significant decrease in turnover and turn from profit to loss was mainly attributable to (1) The Group is principally engaged in the development and deployment of industry-oriented IT solutions for power and government industry. The delay in completion of the reformation of the Electricity Power Bureau ("Reformation") in the Peoples' Republic of China (the "PRC") which has led to a change in most of the senior management of the customers of the Group has resulted in the Group starting the negotiations with the major customers only after the completion of the Reformation in early 2003, (2)The outbreak of Severe Acute Respiratory Syndrome ("SARS") in the PRC in 2003 which resulted in the Group's failure to secure some major contracts during April to July 2003 (3) Significant amount of provisions for accounts receivable, other receivables and inventories were made. Such provisions were made in view of the diminution in market condition and after the change of certain senior management in the Company in early 2004, the Directors adopted a conservative approach in assessing the value and recoverability of the assets of the Group.

FINAL DIVIDENDS

The Board of Directors does not recommend the payment of a final dividend for the year ended 31st December 2003 (2002: Nil).

BUSINESS REVIEW

System Integration in the PRC market remains a challenging one. IT buyers are more concerned about the return on IT investment and therefore are seeking solutions that will increase operating efficiency and minimize operating expenses in a cost-effective manner. The Group will continue to focus our effort in securing our market position in this demanding business environment. With regard to its businesses, major revenue was derived from the system development and integration business for Electric Power Industry, representing 95% (2002: 77%) of the Group's total turnover.

INDUSTRY ORIENTED AND STANDALONE IT SOLUTIONS

Provision of standalone IT solutions to Electric Power companies continue to be the core business of the Group. During the period under review, the Group will continue to further research, develop and enhance the application software of Electric Power System, the Power Trading System and marketing the products.

The Group has successfully reinforced the marketing effort for the north-western area of the PRC, particularly the Group has secured software development contracts for four electric power stations in Inner-Mongolia for approximately HKD3 million and system integration projects in Shanxi Province for approximately HKD20 million.

PROSPECTS

The year ahead is challenging and Datasys is ready and able to respond to market conditions as they unfold. In view of its standalone solutions and products, Datasys has earned a leading reputation among the Electric Power Companies. Having planned for the technology research and development and direct sales in the coming year, we will strengthen our cooperation with our partners, form more strategic partnerships, distribution networks so as to enlarge our research and development ability and marketing networks.

Against a backdrop of the current geo-political uncertainty, the outlook of the business may be challenging. Management will, however, continue to monitor the situation closely and react accordingly.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's operation is mainly financed by bank borrowings and the internal financial resources. The current ratio of the Group as at 31 December 2003 was 0.83 (2002: 2.34). As at 31 December 2003, the Group had cash and bank balances of approximately HK$4 million (2002: HK$11 million) and pledged deposits of HK$47 million (2002: HK$65 million), short term bank borrowings of approximately HK$73.8 million (2002: HK$58.4 million). In March 2004, bank loans of approximately HK$42 million were repaid by disposal the USD deposits pledged to bank. Moreover, another bank loan of HK$9.3 million were renewed to the Group on 30 April 2004. The Group is in the progress to negotiate for the renewal of the remaining bank loan of HK$18.7 million.

As at 31 December 2003, all assets and liabilities were denominated in U.S. dollars, Hong Kong dollars and Renminbi.

ORDER BOOK AND PROSPECTS OF NEW BUSINESS

As at date of this announcement, the Group had contracts on hand for sales amounting to approximately HK$14 million (2002: HK$17 million) which would be booked as revenue upon delivery and implementation. The Group will continue to concentrate in its present core Electric Power Station business.

CHARGES ON GROUP ASSETS

As at 31st December 2003, the Group had bank borrowings of approximately HK$73.8 million which approximately HK$42 million were secured by pledged time deposits of approximately HK$45.2 million and HK$31.8 million were secured by pledged time deposits of HK$1.2 million and corporate guarantees from two independent third parties.

Save as disclosed above, the Group did not have any significant charges on assets as at 31st December 2003.

GEARING RATIO

As at 31st December 2003, the gearing ratio (current liabilities over total assets) was significantly increased to 115% (2002: 41% as at 31st December 2002).

FOREIGN EXCHANGE EXPOSURE

During the year under review, the Group earned revenue and incurred costs and expenses mainly in Hong Kong dollars and Renminbi. As the exchange rates of such currencies have been stable, no hedging or other alternatives have been implemented.

COMMITMENTS AND CONTINGENT LIABILITIES

As at 31st December 2003, the Group had operating lease commitments of approximately HK$293,000, which was payable within one year (2002: approximately HK$1.7 million).

Capital commitments

	Group	
	2003	2002
	HK$'000	HK$'000
Capital contributions payable to Beijing DIS Electronic Datasystem Company Limited ("Datasys DIS")	**12,377**	–
Capital contributions payable to a long term investment	**234**	–
	12,611	–

Contingent liabilities

(a) During the year, Datasys DIS entered into cross guarantee arrangements with 航天固體運載火箭有限公司 (the "Guarantor"), an independent third party. According to the arrangements, the Guarantor provided a corporate guarantee to the Group for bank loans to the extent of RMB20 million (equivalent to approximately HK$18.7 million), and Datasys DIS also provided a corporate guarantee to the Guarantor for a bank loan of RMB20 million (equivalent to approximately HK$18.7 million) granted by Shanghai Pudong Development Bank Beijing Branch. Further details of the above cross guarantee arrangements are set out in the announcement made by the Company on 14 July 2003.

(b) On 30 December 2003, Datasys DIS received a notice from the court in the Mainland of China as a defendant in a lawsuit brought by 南通江海電容器有限公司 ("Nan Tong Jiang Hai"), an independent third party, which claimed against Datasys DIS for the repayment of an alleged net loan amounting to RMB12 million (equivalent to approximately HK$11.2 million) plus interests of RMB716,000, based on a loan agreement, and related legal costs for the lawsuit.

Subsequent to the balance sheet date, on 31 May 2004, a court ruling was issued by 江蘇省南通市中級人民法院. Pursuant to the court ruling, Datasys DIS is required to repay Nan Tong Jiang Hai the alleged loan amount plus interest, related legal costs and a penalty totalling approximately HK$13.4 million. According to aforesaid court ruling, the RMB12 million was received by an independent third party on behalf of Datasys DIS some time in November 2002.

The directors, with the advice from the legal counsel, are of the opinion that since the aforesaid loan transaction has never been authorised by the board of directors, Datasys DIS has a valid defence against the claim. Subsequent to the balance sheet date, in June 2004, Datasys DIS filed an appeal against the court ruling. Accordingly, the Group has not made any provision for the claims arising from this litigation at the balance sheet date.

ACQUISITIONS, DISPOSALS AND SIGNIFICANT INVESTMENT

During the year, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities since that date.

FUTURE PLANS FOR INVESTMENTS OR CAPITAL ASSETS AND SOURCES OF FUNDING

Except for those plans as set out in the Prospectus, there have been no plans for significant investment, capital assets and sources of funding.

EMPLOYEE INFORMATION

As at 31st December 2003, the Group had 115 employees. Most of them were based in Mainland China. The Group continues to provide remuneration package to employees according to market practices and past performance. In addition to basic remuneration, the Group also provides other benefits such as medical scheme, share options scheme and staff training programs to employees. There has been no major change on staff remuneration policies during the year.

In view of the adverse results of 2003, the Group would like to reduce the operating cost by reviewing and re-negotiation the remuneration packages of most of the employees of the Group and approximately 65% of employees left the Group. At the same time, the Group has recruited necessary staffs to maintain the operation of the Group.

Expected progress From 1 January 2003 to 31 December 2003	Actual progress From 1 January 2003 to 31 December 2003
Revenue	
Continue to generate steady revenue from Power MIS projects, Power Geographic Information System, Power Trading System, MIS for government Administration and standalone IT solutions	The Group has successfully secured projects in relation to Power MIS projects, Power Geographic Information System, Power Trading System, MIS for government Administration and standalone IT solutions.
Continue to generate income from standardized package application software such as internet-based Office Automation System, Power Plant Application Software, Power Trading System and internet-based Public Security System	During the year, the Group was able to generate income from office automation system, Power Plant Application Software and Power Trading System.
Continue to generate steady revenue from the municipal public security system	No income was generated from the public security system during the year due to the occurrence of SARS during the year.
Continue to generate income from service business (IT training and consultancy)	The Group was able to generate income from provision of IT training and consultancy service.
Marketing strategies	
Increase the coverage of the Group's nationwide network via the expansion of the Group's existing branches and representative offices and the establishment of branch or representative office in Wuhan	During the year, the Group has set up a joint venture in Wuhan with a view to secure projects in relation to marketing the digital monitoring system in Hubei Province. Moreover, the shanghai branch has secured several projects in Zhejiang Province.
Organise nation-wide exhibitions with business partners to promote the Group's MIS application software for the telecommunication industry	In September 2003, the Group organized a IT exhibition in Kuming to promote the Group's product.

Expected progress From 1 January 2003 to 31 December 2003	Actual progress From 1 January 2003 to 31 December 2003
Provide seed unit of Monitoring System to the China Construction Bank. A seed unit is the first unit to be tested based on the specific features of the target industry. Following customer acceptance of the product, the technical specifications and features of the accepted product will become the default technical standard of that target industry.	The Group has successfully secured contracts with NanTong Ru Dong Cooperative Trust Unit for the digital monitoring system. The 1st phase has been completed in late 2003.
Software Research and Product Development	
Continue to seek cooperation with universities or research institutions which are reputable in technology research in the PRC	During 2003, the Group has cooperated with Tsing Hua University for project with Yellow River Society.
Conduct further research and enhancement of the Power Trading System	2nd phase of Power Trading System was developed.
Complete the extension of the Power Trading System and launch the upgraded version in the same period	Due to the occur of SARS, the Group was not able to launch the upgraded version during the period.
Commence development of Power Dispatching Automation System should the feasibility study conducted by the Group show favourable results	The Group has set up a R&D team to commence development of Power Dispatching Automation System.
Continue to develop Enterprise Application Integration platform	The software team has successfully developed the software for Vehicle Exhaust Inspection System under this platform and secured two projects in 2003.

EXECUTIVE DIRECTORS

Ding Wei Ming (丁偉明), aged 40, is the founder and chairman of the Company. He is responsible for the overall strategic planning of the business of the Group, and, in particular, the Group's directions in technology deployment and research and development. Mr. Ding has over 10 years' experience in the IT industry including his service period at Digital Equipment Corporation and the research department of the Ministry of Railway of the PRC (中華人民共和國鐵道部). Mr. Ding obtained a Bachelor's Degree in science from Nanjing University (南京大學) in the PRC in 1983 and a Master's Degree in business administration from the State University of New York at Buffalo in the US in 1988.

Shang Gang (商剛), aged 41, is the co-founder and president of the Company. He is responsible for the overall management and planning of the Group. Mr. Shang has over 14 years of experience in MIS operations. Before founding the Group, Mr. Shang worked as a marketing specialist at DEC China Limited, a subsidiary of Digital Equipment Corporation, and as a lecturer at the Faculty of Computer Science at the University of International Business and Economics (對外經濟貿易大學) in the PRC. He obtained a Bachelor's Degree in computer science from the Chengdu Institute of Telecommunication (成都電訊工程學院) in the PRC in 1986.

Cao Ze Lan (曹澤蘭), aged 64, is the vice president of the Company who does not have any shareholding interest in the Group. She joined the Group in May 1994 and is currently responsible for the management of the research and development of the Group. Ms. Cao obtained her Bachelor's Degree from Sichuan University (四川大學) in the PRC in 1960. She has over 40 years of experience in research and teaching. Prior to joining the Group. Ms. Cao worked as a professor of computer department of University of International Business and Economics (對外經濟貿易大學).She is recognised as one of the College Computer Department Deans who has made remarkable contributions. Ms. Cao is one of the experts who are responsible to evaluate China's management modernisation. She is also a member of Expert Board evaluating the Railway Tickets Network System. Ms. Cao was one of the designers of the information system for the 90's Asian Games and won an award for her excellent work.

Hu Song Hua (胡頌華), aged 40, is the vice president of the Company responsible for corporate investment, planning, development and strategic alliances of the Group who does not have any shareholding interest in the Group. He joined the Group in August 2000 and has over five years of corporate planning and mergers and acquisitions experience in the PRC during his previous employment at a PRC company. Mr. Hu holds a senior engineer qualification certificate awarded by MOFTEC (Ministry of Foreign Trade and Economic Cooperation) (中華人民共和國對外貿易經濟合作部). He obtained a Bachelor's Degree in engineering mechanics from Dalian Polytechnic University (大連工學院) in the PRC in 1984 and a Master's Degree of Infrastructure Planning from the University of Stuttgart in the Federal Republic of Germany in 1993.

Li Wei Min (李為民), aged 39, is an executive Director of the Company responsible for the overall management, planning and sales and marketing of the public utility sector of the Group. He received a Bachelor's Degree in raw material from Chengdu Polytechnic College (成都理工學院) in 1984 and a Master's Degree in civil engineering from Tsinghua University (清華大學) in 1994. Prior to joining the Group in June 1998, Mr. Li was the general manager at Hebei Jihao Technology Development Ltd. (河北集浩科技有限公司) and was the general manager at the business development department of Beijing Pansky E-business Application Software &System Co., Ltd. (北京長天電子商務應用軟件與系統有限公司).

Guo Shao Qing (郭少青), aged 40, joined the Group in July, 1995 and is the deputy general manager of Datasys DIS. He is in charge of the development of Power Trading System of the Group. Mr. Guo obtained his Bachelor's Degree from South Centre University (中南大學) (formerly known as South Centre Mineral and Metallurgy University (中南礦冶學院)) in 1984. He has been a senior engineer with Automation Research Institute of Metallurgy (冶金部自動化研究院) for over a period of ten years.

Mr. Zhang Jian (張劍), aged 50, is currently a director of Hainan Pearl River Holdings Ltd., a B Share company listed on the Shenzhen Stock Exchange and a director and shareholder of Shinning Path Limited, one of the substantial shareholder of the Company. Before joining the Group on 8 March 2004, Mr. Zhang has over 20 years of experience in management field in the PRC. Mr. Zhang holds a bachelor degree from Zhejiang University.

Mr. Wang Zhi Gang (王志鋼), aged 45, holds a bachelor degree, a master degree and a PhD degree from Xiamen University, Renmin University of China and University of South California respectively. Mr. Wang was a director of Southwest Securities Joint Stock Company Limited from 2000 to 2002. Mr. Wang is currently a director of Zhong Jia Yang Guang Investment and Guarantee Co., Ltd. and Hainan Pearl River Holdings Ltd., a B Share company listed on the Shenzhen Stock Exchange. Mr. Wang has over 8 years of experience in the investment consultancy and management and familiar with the capital management in the PRC.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Li Hong (李宏), aged 34, was appointed as a non-executive Director in August 2000. He is a partner of Titan Law Firm (北京市天勤律師事務所) established in the PRC. Mr. Li has over 7 years of concrete experience in the legal aspects of listing, corporate reorganisation, merger and acquisition, and has been involved in the restructuring of companies listed in the PRC and Hong Kong. He obtained a Bachelor's Degree in Law in 1990 and a Master's Degree in Business Law from Beijing University (北京大學) in the PRC in 1996. In addition, Mr. Li has also been granted professional qualification to engage in securities legal practice by CSRC and Ministry of Justice of the PRC (中華人民共和國司法部).

Xia Qing (夏清), aged 46, was appointed as a non-executive Director in May 2001. He is a professor of the Electrical Engineering Department of Tsinghua University (清華大學) in the PRC. Dr. Xia has over 10 years of experience in teaching, research and consulting. He obtained a Bachelor's Degree and a Master Degree in Electrical Engineering from Harbin University of Technology (哈爾濱工業大學) in the PRC in 1982 and 1986 respectively. Afterwards, Dr. Xia further his education in Tsinghua University and received his Ph. D. Degree in Engineering in 1989. Dr. Xia has been a professor at Tsinghua University for over 10 years and is now an executive of its Electrical Engineering Department.

Dr. Wang Bin (王斌), aged 39 is currently a finance professor at the Beijing Industry and Commerce University (北京工商大學). He obtained a Ph.D. from the Financial Science Research Institute of the Ministry of Finance (財政部財政科學研究所) in 2001 and is a certified public accountant in the PRC. He is currently independent directors of Beijing Double – Crane Pharmaceutical Co., Ltd. (北京雙鶴藥業股份有限公司), Sinotrans Air Transportation Development Co., Ltd. (中外運空運發展股份有限公司) and Inner Mongolia Yili Industrial Group Co., Ltd. (內蒙古伊利實業集團股份有限公司), companies listed on the Shanghai Stock Exchange.

Dr. Qiu Ji Cheung (邱繼成), aged 40 is currently a director in business operation of Petroperdana Inc, a global energy and petrochemical company since September 2003. He has obtained a Ph.D. in economics and theory of industrial organization from the University of Southern California in 1997.

SENIOR MANAGEMENT

Chen Wei Hua (陳衛華), aged 38, joined the Group since September 1996. Not only is he the General Manager of the IT Support Department of the Company who is responsible for the planning, design and implementation of the Group's numerous projects, but also the Assistant Manager of the Group who oversees purchasing and product quality control. Mr. Chen graduated from Nanjing University (南京大學) in the PRC with a Bachelor's Degree in computer system structure in 1985 and holds the certificate of Internal Quality Systems Auditing awarded by Beijing World Trademarks Consultancy Directors and Senior Management Centre for Quality Assurance (北京世標族質量體系認證諮詢中心). Mr. Chen has substantial experience in the IT industry and his employments prior to joining the Group included being a system engineer and the system support department manager at Beijing Dayu Software Limited, and an engineer at Bureau 11, Ministry of Public Security ()responsible for the management and maintenance of the national police networking security system.

Tian Jun (田軍), aged 39, joined the Group in June 1999 and is the deputy general manager of DIS Aipu. He is in charge of the software development of the Group. Mr. Tian obtained his Bachelor's Degree in computer science from Xian Communication University (西安交通大學) and his Master Degree in computer application from the Institute of Computing Technology of Chinese Academy of Science (中國科學院計算中心) in 1983 and 1986 respectively. Mr. Tian has been an engineer for the Institute of Computing Technology of Chinese Academy of Science (中國科學院計算中心) from 1986 to 1999.

COMPANY SECRETARY

Ng Wai Kee (吳偉奇), aged 44, is the Company Secretary of the Group overseeing the secretarial and legal matters. He joined the Group in April, 2004. Mr. Ng has over 16 years of experience in finance, accounting and auditing. He is a fellow member of both of the Hong Kong Society of Accountants and the Chartered Association of Certified Accountants in United Kingdom.

FINANCIAL CONTROLLER

Chung Chi Kong (鍾志鋼), aged 34, is the financial controller of the Group. Prior to joining the Group, Mr. Chung has over 10 years working experience with international certified public accountant firms in accounting and auditing fields. Mr. Chung has participated in several listing exercise for the PRC enterprises. Mr. Chung is currently a fellow member of the Chartered Association of Certified Accountants in United Kingdom and an associate member of the Hong Kong Society of Accountants.

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2003.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries comprise the provision of information technology ("IT") contract services and systems development and integration. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2003 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 26 to 65.

The directors do not recommend the payment of any dividend in respect of the year ended 31 December 2003.

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The proceeds from the Company's issue of new shares at the time of its listing on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in August 2002, after deduction of related issuance expenses, amounted to approximately HK$48.2 million. Details of the proposed and actual appropriations of these proceeds are as follows:

	Proposed total funding from net proceeds HK$'000	**Proposed funding during the period from listing to 31 December 2003** HK$'000	**Actual funding spent during the period from listing to 31 December 2003** HK$'000
Research and development	12,000	8,890	4,300
Sales and marketing	4,000	1,800	1,750
Expansion of existing branches or offices	4,150	3,160	2,500
Expansion of new branches or offices	7,850	5,430	400
Others	20,200	16,600	26,000
Total	48,200	35,880	34,950

The remaining proceeds of approximately HK$13.2 million were placed with licensed banks in Hong Kong and PRC.

Note:

Others mainly represents issue of performance bonds and working capital. The significant increase in the actual use of funding as compared with the proposed funding for working capital was mainly attributable to the slow settlement from our customers during the year.

SUMMARY FINANCIAL INFORMATION

The Company was incorporated in the Cayman Islands on 5 September 2000 and became the holding company of the companies now comprising the Group as a result of a Group reorganisation, which became effective on 23 October 2000. A summary of the pro forma combined results for the year ended 31 December 2000, which are presented on the basis that the current Group structure had been in existence throughout that year, together with the consolidated results and assets and liabilities of the Group for the years ended 31 December 2001 to 2003, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 66 of the annual report. This summary does not form part of the audited financial statements.

FIXED ASSETS

Details of movements in the fixed assets of the Company and the Group during the year are set out in note 15 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

There was no movement in either the Company's authorised or issued share capital and share options during the year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws/articles of association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 30 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2003, the Company had no reserves available for cash distribution and/or distribution in specie, except that under the provisions of Companies Law of the Cayman Islands, the Company's share premium account in the amount of HK$35,597,000 may be distributed in the form of fully paid bonus shares under certain circumstances.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 44% of the total turnover for the year and sales to the largest customer included therein amounted to 13%. Purchases from the Group's five largest suppliers accounted for approximately 42% of the total purchases for the year and purchases from the largest supplier included therein amounted to 16%.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers.

DIRECTORS

The directors of the Company during the year were:

Executive directors:	
Mr. Ding Wei Ming	(resigned on 8 March 2004)
Mr. Shang Gang	
Ms. Cao Ze Lan	
Mr. Hu Song Hua	(resigned on 30 December 2003)
Mr. Li Wei Min	(resigned on 30 December 2003)
Mr. Guo Shao Qing	(appointed on 14 May 2003 and resigned on 30 December 2003)
Independent non-executive directors:	
Mr. Li Hong	(resigned on 30 December 2003)
Mr. Xia Qing	(resigned on 14 May 2004)
Mr. Choi Man On	(appointed on 30 December 2003 and resigned on 6 April 2004)

Subsequent to the balance sheet date, on 8 March 2004, Mr. Wang Zhi Gang and Mr. Zhang Jian were appointed as executive directors of the Company. On 14 May 2004, Dr. Wang Bin and Dr. Qiu Ji Cheng were appointed as independent non-executive directors of the Company.

In accordance with articles 112 and 114 of the Company's articles of association, Mr. Wang Zhi Gang and Ms. Cao Ze Lan will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting. The independent non-executive directors are appointed for a period of one year.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 12 to 13 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors has entered into a service contract with the Company for an initial term of three years commencing on 1 July 2002, and is entitled to terminate the contract at any time after that initial term of three years, without, cause by giving not less than three months' prior written notice to the Company.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

None of the directors had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2003, the interests and short positions of the directors in the share capital of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Cap. 571 of the Laws of Hong Kong (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.40 of the Rules Governing the Listing of Securities (the "GEM Listing Rules") on The Growth Enterprise Market (the "GEM") of the Stock Exchange, were as follows:

Long positions in ordinary shares of the Company:

Name of director	Number of shares held as corporate interests (Note)
Mr. Shang Gang	351,680,000

Note: These shares, representing approximately 43.96% of the issued share capital of the Company, are held by Jade Key Company Inc., a company beneficially owned by Mr. Shang Gang of 50% interest.

Save as disclosed above, none of the directors had registered an interest or short position in the shares or underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.40 of the GEM Listing Rules.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Directors' interests and short positions in shares and underlying shares" above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

Detailed disclosures relating to the Company's share option scheme are set out in note 29 to the financial statements.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2003, the following interests of 5% or more in the issued share capital, of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

Name	Capacity and nature of interest	Number of ordinary shares held	Percentage of The Company's issued shares capital
Jade Key Company Inc. (Note i)	Directly beneficially owned	351,680,000	43.96%
Mr. Shang Gang (Note i)	Through a controlled corporation	351,680,000	43.96%
Shinning Path Limited (Note ii)	Directly beneficially owned	175,840,000	21.98%
Mr. Zhang Jian (Note ii)	Through a controlled corporation	175,840,000	21.98%
CLP IT Solutions Limited (Note iii)	Directly beneficially owned	41,840,000	5.23%
CLP Enterprises Limited (Note iii)	Through a controlled corporation	41,840,000	5.23%
CLP Holdings Limited (Note iii)	Through a controlled corporation	41,840,000	5.23%

Notes:

i. Jade Key Company Inc., is beneficially owned by Mr. Shang Gang, directors of the Company of 50% interest.

ii. Shinning Path Limited, is beneficially owned by Mr. Zhang Jian, a director of the Company appointed subsequent to the year end.

iii. CLP IT Solutions Limited is a wholly-owned subsidiary of CLP Enterprises Limited and CLP Enterprises Limited is a wholly-owned subsidiary of CLP Holdings Limited, a company listed on the Main Board of the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES (CONTINUED)

Save as disclosed above, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests in shares" above, had registered an interest or short position in the shares and underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

SPONSOR'S INTERESTS

As confirmed by the Company's sponsor, CSC Asia Ltd. (the "Sponsor"), as at 31 December 2003, neither the Sponsor nor its directors, employees and associates (as referred in Note 3 to Rule 6.35 of the GEM Listing Rules) have had any interest in the securities of the Company or any of its subsidiaries or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any of its subsidiaries.

Pursuant to a sponsorship agreement entered into between the Company and the Sponsor, the Sponsor has been appointed as sponsor of the Company until 31 December 2004 and the Company shall pay an agreed fee to the Sponsor for its provision of services.

CONNECTED TRANSACTIONS

During the year Mr. Ding Wei Ming ("Mr. Ding") and Mr. Shang Gang ("Mr. Shang") entered into agreements with Beijing DIS Electronic Datasystem Co. Limited ("Datasys DIS"), a subsidiary of the Company, pursuant to which Datasys DIS agreed to acquire the respective 5% equity interests of Mr. Ding and Mr. Shang in Beijing Datareach Computer Technology Co., Ltd at the consideration of HK$1,401,869 respectively. The Company has made an announcement for these transactions on 23 October 2003.

Except for the above and the amounts due from directors as disclosed in note 19 to the financial statements, during the year, there were no other significant transactions which require to be disclosed as connected transactions in accordance with the requirements of the GEM Listing Rules and accounting principles generally accepted in Hong Kong.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 36 to the financial statements.

COMPETITION AND CONFLICT OF INTERESTS

During the year, none of the directors, the management shareholders or substantial shareholders of the Company or any of their respective associates has engaged in any business that competes or may compete with the businesses of the Group or has any other conflict of interests with the Group.

COMPLIANCE WITH RULES 5.28 TO 5.39 OF THE GEM LISTING RULES

In the opinion of the directors, the Company complied with the board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules during the period covered by the annual report.

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the GEM Listing Rules for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. During the year, the audit committee held 4 meetings. The existing audit committee comprises two independent non-executive directors, namely, Dr. Wang Bin (the committee chairman) and Dr. Qiu Ji Cheng, who were appointed subsequent to the balance sheet date.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Shang Gang
Chairman
Beijing, The PRC
14 June 2004

ERNST & YOUNG
安永會計師事務所

To the members
Datasys Technology Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 26 to 65 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants (the "HKSA") except that the scope of our work was limited as explained below.

An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

BASIS OF OPINION (continued)

We planned our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. However, the evidence available to us was limited as follows:

(1) Scope limitation - completeness of books and records

Due to the high turnover of management and staff within the Group during the year and subsequent to the year end, particularly the resignation of certain senior management, executive directors and the former Chairman of the Company, certain underlying books and records of the Group were either lost, or could not be located. In addition, the Group experienced a significant breakdown in internal controls. Many significant transactions undertaken by the Group during the year were conducted and recorded without adequate supporting documentation. Accordingly, we have not been provided with adequate information and documents to perform the audit procedures we consider necessary to satisfy ourselves as to the nature, completeness, appropriateness, classification and disclosures in respect of all significant transactions undertaken during the year ended 31 December 2003 and the related balances as at 31 December 2003, which are further detailed as follows:

(a) Cost of sales, inventories written off, inventories and trade payables

Included in the consolidated profit and loss account for the year ended 31 December 2003 are cost of sales and inventories written off amounting to HK$25.8 million and HK$38.5 million, respectively. Included in the consolidated balance sheet as at 31 December 2003 are inventories and trade payables amounting to HK$4.7 million and HK$16.3 million, respectively. We have not been provided with adequate evidence to support that the amounts included in the cost of sales were correctly classified and that inventories written off were related to inventories purchased, nor have we been able to satisfy ourselves that the balances of cost of sales for the year and inventories and trade payables as at 31 December 2003 were fairly stated.

(b) Turnover, trade receivables and provision for bad and doubtful debts

Included in the turnover in the consolidated profit and loss account for the year ended 31 December 2003 is certain revenue from the provision of information technology contract services and systems development and integration amounting to HK$9.8 million. We have not been provided with adequate evidence to support that the revenue should be recognised in the consolidated profit and loss account for the year ended 31 December 2003, nor have we been able to satisfy ourselves that the related trade receivables outstanding as at 31 December 2003 were fairly stated.

Included in the consolidated balance sheet are trade receivables amounting to HK$49.2 million against which a total provision for bad and doubtful debts of HK$30.5 million was made as at 31 December 2003. We have not been provided with adequate evidence to support that the provision made by the Group is appropriate and adequate, nor have we been able to satisfy ourselves that the Group's trade receivables as at 31 December 2003 were fairly stated.

BASIS OF OPINION (continued)

(1) Scope limitation - completeness of books and records (continued)

(c) Other receivables

Included in prepayments, deposits and other receivables in the consolidated balance sheet of the Group as at 31 December 2003 are certain other receivables totalling approximately HK$42.6 million, which mainly comprise various cash advances to third parties. A total provision of HK$23.9 million was made in respect of these advances. We have not been provided with adequate evidence to support the nature and the commercial substance for these cash advances and whether the provision made by the Group is appropriate and adequate, nor have we been able to satisfy ourselves that the carrying value of the Group's other receivables of HK$18.7 million, net of the provision of HK$23.9 million, as at 31 December 2003 is fairly stated.

(d) Other payables

Included in the consolidated balance sheet of the Group as at 31 December 2003 are certain other payables totalling approximately HK$9.5 million, which mainly comprise various cash receipts from third parties. We have not been provided with adequate evidence to support the nature and the commercial substance for these cash receipts and consequently, we have been unable to satisfy ourselves that the Group's other payables of HK$9.5 million as at 31 December 2003 are fairly stated.

(e) Subsequent review

Due to the significant breakdown in internal controls and deficiency in the Group's books and records, we have been unable to perform the audit procedures we consider necessary to complete our review of post balance sheet events from the balance sheet date up to the date of this report. Such procedures might have resulted in the identification of adjustments to the amounts reported in the financial statements and/or additional disclosures in respect of post balance sheet events.

(2) Scope limitation - Provision for impairment of interests in subsidiaries

Included in the balance sheet of the Company as at 31 December 2003 is a full provision for impairment against its interests in subsidiaries of approximately HK$98.6 million. Due to the scope limitations in respect of point (1) above, we have not been able to satisfy ourselves as to whether the provision for impairment determined by the directors against the carrying value of such interests in subsidiaries, and in consequence the carrying amount of such interests in subsidiaries as at 31 December 2003 are fairly stated.

Any adjustment that might have been found to be necessary in respect of the matters noted in each of points (1) and (2) above would have a consequential impact on the Group's and Company's net assets, respectively, as at 31 December 2003 and Group's results for the year then ended, and the related disclosures thereof in the financial statements.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

BASIS OF OPINION (continued)

Fundamental uncertainty relating to the going concern of the Group

In forming our opinion, we have considered the adequacy of the disclosures made in note 1 to the financial statements concerning the adoption of the going concern basis on which the financial statements have been prepared. As explained in note 1 to the financial statements, the directors are currently undertaking a number of measures to attain profitable and cash positive operations and in the short term to secure additional funding. The financial statements have been prepared on a going concern basis, the validity of which depends on the success of these measures and the ongoing support from Group's bankers and trade creditors. The financial statements do not include any adjustment that may be necessary should the implementation of such measures and obtaining future funding be unsuccessful. We consider that appropriate disclosures have been made in the financial statements concerning this situation, but the fundamental uncertainty relating to whether the going concern basis is appropriate is so extreme that we have disclaimed our opinion.

Fundamental uncertainty relating to the outcome of an appeal of a litigation

In forming our opinion, we have considered the adequacy of the disclosures made in note 34(b) to the financial statements concerning the outcome of a litigation matter currently the subject of an appeal. As further explained in note 34(b) to the financial statements, on 30 December 2003, a subsidiary of the Group received notice from a court in the Mainland of China as a defendant for a claim for the repayment of an alleged loan of approximately HK$11.2 million, plus interest of approximately HK$0.7 million and related legal costs for the lawsuit (collectively the "Claim Amount"). Subsequent to the balance sheet date, on 31 May 2004, a court ruling on the litigation was issued. Pursuant to the court ruling, the Group is required to repay the Claim Amount plus a penalty in an aggregate amount of approximately HK$13.4 million (collectively the "Judgement Claim"). The directors of the Company are of the opinion that no provision should be made in respect of the Judgement Claim. Should the outcome of the appeal be unfavourable to the Group, appropriate adjustments in respect of the Judgement Claim might be required. We considered that appropriate disclosures have been made in the financial statements in respect of the implication of the above and our opinion is not qualified in this respect.

DISCLAIMER OF OPINION

Because of the significance of each of (i) the possible effects of the scope limitations in evidence available to us as set out in points (1) and (2) under the basis of opinion section of this report; and (ii) the fundamental uncertainty relating to the going concern basis, we are unable to form an opinion as to whether the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2003 and of the loss and the cash flows of the Group for the year then ended and as to whether the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

In respect alone of the limitations on our work as set out in the basis of opinion section of this report:

(i) we have not obtained all the information and explanations that we consider necessary for the purpose of our audit; and

(ii) we are unable to determine whether proper books of accounts have been kept.

Ernst & Young
Certified Public Accountants

Hong Kong
14 June 2004

Consolidated Profit and Loss Account

Year ended 31 December 2003

	Notes	2003 HK$'000	2002 HK$'000
TURNOVER	6	**19,791**	102,339
Cost of sales		**(25,841)**	(74,601)
Gross profit/(loss)		**(6,050)**	27,738
Other revenue	6	**3,445**	3,773
Selling and distribution costs		**(13,850)**	(15,357)
Administrative expenses		**(13,742)**	(12,767)
Other operating expenses		**(112,908)**	440
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	7	**(143,105)**	3,827
Finance costs	10	**(4,020)**	(2,106)
PROFIT/(LOSS) BEFORE TAX		**(147,125)**	1,721
Tax	11	**–**	(1,387)
PROFIT/(LOSS) BEFORE MINORITY INTERESTS		**(147,125)**	334
Minority interests		**2,519**	217
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		**(144,606)**	551
DIVIDEND	13	**–**	8,714
EARNINGS/(LOSS) PER SHARE			
Basic (cents)	14	**(18.1)**	0.08
Diluted (cents)	14	**N/A**	N/A

Consolidated Balance Sheet

	Notes	2003 HK$'000	2002 HK$'000
NON-CURRENT ASSETS			
Fixed assets	15	**4,819**	4,557
Software development costs	16	**–**	3,425
Long term investment	18	**–**	–
		4,819	7,982
CURRENT ASSETS			
Due from directors	19	**–**	6,008
Due from a related company	20	**–**	3,741
Inventories	21	**4,721**	10,136
Trade receivables	22	**18,746**	73,336
Prepayments, deposits and other receivables	23	**30,031**	45,626
Pledged time deposits	24	**47,122**	65,131
Cash and cash equivalents	24	**4,028**	10,858
		104,648	214,836
CURRENT LIABILITIES			
Trade payables	25	**16,255**	3,018
Other payables and accruals	26	**26,041**	24,169
Deferred revenue		**6,266**	2,657
Tax payable		**3,163**	3,528
Interest-bearing bank borrowings	27	**73,832**	58,411
		125,557	91,783
NET CURRENT ASSETS/(LIABILITIES)		**(20,909)**	123,053
TOTAL ASSETS LESS CURRENT LIABILITIES		**(16,090)**	131,035
Minority interests		**–**	(2,519)
		(16,090)	128,516
CAPITAL AND RESERVES			
Issued capital	28	**80,000**	80,000
Reserves	30(a)	**(96,090)**	48,516
		(16,090)	128,516

Shang Gang
Director

Cao Ze Lan
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2003

	Notes	Issued share capital HK$'000	Share premium account HK$'000	Capital reserve HK$'000	Reserve funds HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000
At 1 January 2002		200	37,188	7,236	1,852	27,623	74,099
Issue of shares	28	14	14,394	-	–	–	14,408
Special dividend	13	–	–	–	–	(8,714)	(8,714)
New issue and placing of shares to public	28	17,200	48,160	–	–	–	65,360
Capitalisation of share premium account	28	62,586	(62,586)	–	–	–	–
Share issue expenses	28	–	(17,188)	–	–	–	(17,188)
Profit for the year		–	–	–	–	551	551
Transfer from retained profits	30(a)	–	–	–	1,659	(1,659)	–
At 31 December 2002 and at 1 January 2003		80,000	19,968	7,236	3,511	17,801	128,516
Loss for the year		–	–	–	–	(144,606)	(144,606)
Transfer from retained profits	30(a)	–	–	–	149	(149)	–
At 31 December 2003		80,000	19,968*	7,236*	3,660*	(126,954)*	(16,090)

* These reserve accounts comprise the consolidated reserves of HK$96,090,000 (2002: HK$48,516,000) in the consolidated balance sheet.

Consolidated Cash Flow Statement

	Notes	2003 HK$'000	2002 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		**(147,125)**	1,721
Adjustments for:			
Finance costs	10	**4,020**	2,106
Loss on disposal of fixed assets	7	**814**	613
Inventories written off	7	**38,529**	183
Interest income	6	**(3,026)**	(695)
Depreciation	7	**2,043**	1,909
Provision for bad and doubtful debts	7	**24,227**	4,136
Provision for an amount due from a related company	7	**3,741**	–
Provision for impairment of software development costs	7	**1,712**	–
Provision for other receivables	7	**40,124**	–
Provision for impairment of a long term investment	7	**327**	–
Provision for amounts due from directors	7	**3,176**	–
Amortisation of software development costs	7	**1,713**	457
Operating profit/(loss) before working capital changes		**(29,725)**	10,430
Decrease in amounts due from directors		**1,415**	7,601
Decrease/(increase) in an amount due from a related company		**–**	948
Increase in inventories		**(33,114)**	(2,871)
Decrease/(increase) in trade receivables		**30,363**	(21,937)
Increase in prepayments, deposits and other receivables		**(24,529)**	(24,740)
Increase/(decrease) in trade payables		**13,237**	(1,065)
Increase in other payables and accruals		**1,872**	1,952
Increase/(decrease) in deferred revenue		**3,609**	(426)
Cash used in operations		**(36,872)**	(30,108)
Interest received		**3,026**	695
Interest paid		**(4,020)**	(2,106)
Mainland China corporate income tax paid		**(365)**	(1,218)
Net cash outflow from operating activities		**(38,231)**	(32,737)

Consolidated Cash Flow Statement

Year ended 31 December 2003

	Notes	2003 HK$'000	2002 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of fixed assets	15	**(1,756)**	(2,114)
Purchase of a long term investment	18	**(327)**	–
Proceeds from disposals of fixed assets		**54**	–
Additions to software development costs	16	**–**	(2,512)
Decrease/(increase) in pledged time deposits		**18,009**	(49,136)
Net cash inflow/(outflow) from investing activities		**15,980**	(53,762)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issue of shares	28	**–**	79,768
Share issue expenses	28	**–**	(17,188)
Dividend paid	13	**–**	(8,714)
Dividend paid to a minority shareholder of a subsidiary		**–**	(701)
New bank loans		**186,449**	62,150
Repayment of bank loans		**(171,028)**	(29,907)
Net cash inflow from financing activities		**15,421**	85,408
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(6,830)**	(1,091)
Cash and cash equivalents at beginning of year		**10,858**	11,949
CASH AND CASH EQUIVALENTS AT END OF YEAR		**4,028**	10,858
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	24	**4,028**	10,858

Balance Sheet

	Notes	2003 HK$'000	2002 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	17	**–**	96,853
CURRENT ASSETS			
Prepayments, deposits and other receivables	23	**6,338**	13,824
Cash and cash equivalents	24	**863**	5,462
		7,201	19,286
CURRENT LIABILITIES			
Other payables and accruals	26	**532**	648
NET CURRENT ASSETS		**6,669**	18,638
		6,669	115,491
CAPITAL AND RESERVES			
Issued capital	28	**80,000**	80,000
Reserves	30(b)	**(73,331)**	35,491
		6,669	115,491

Shang Gang
Director

Cao Ze Lan
Director

1. BASIS OF PRESENTATION AND FUNDAMENTAL UNCERTAINTIES RELATING TO THE GOING CONCERN

Pursuant to a reorganisation (the "Reorganisation") to rationalise the corporate structure of the Group in preparation for the listing of the Company's shares on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding Company of the subsidiary companies now comprising the Group on 23 October 2000. This was accomplished by acquiring the entire issued share capital of Datasys (BVI) Limited ("Datasys BVI") which is the intermediate holding Company of the other subsidiaries set out in note 17 to the financial statements. Further details of the Reorganisation are set out in the Company's prospectus dated 31 July 2002 (the "Prospectus"). The ordinary shares of the Company were listed on the GEM of the Stock Exchange on 16 August 2002.

As at 31 December 2003, the Group had net current liabilities and deficiency in assets of approximately HK$20,909,000 and HK$16,090,000, respectively. The Group also incurred a net loss from ordinary activities attributable to shareholders of approximately HK$144,606,000 for the year then ended.

The Group has had difficulty in repaying borrowings and payables to its bankers and creditors. Furthermore, subsequent to the balance sheet date, the Group received an unfavourable court ruling in respect of a lawsuit which required the Group to settle an amount of approximately HK$13.4 million (note 34(b)) for which the Group had not accrued at 31 December 2003. The directors have been in negotiations with the Group's major bankers and creditors to revise its bank facilities and the settlement terms, respectively.

The financial statements have been prepared on the assumption that the Group will continue to operate as a going concern notwithstanding the conditions prevailing at 31 December 2003 and subsequent thereto up to the date of approval of these financial statements. In order to improve the Group's financial position, immediate liquidity, cash flows and otherwise to sustain the Group as a going concern, the directors of the Company have adopted the following measures:

(a) Pursuant to a bank loan agreement dated 30 April 2004 between a subsidiary of the Group and its banker, the bank agreed to renew its existing bank loan of RMB10 million (equivalent to approximately HK$9.3 million) (the "Loan"), which bears interest at 5.841% per annum, is repayable on 30 April 2005 and supported by a guarantee executed by 中加陽光投資擔保有限公司（"中加陽光"）, a related party, as Mr. Wang Zhi Gang, being an executive director of the Company, is a director of 中加陽光.

1. BASIS OF PRESENTATION AND FUNDAMENTAL UNCERTAINTIES RELATING TO THE GOING CONCERN (continued)

(b) The directors of the Company are considering various alternatives to strengthen the working capital of the Company.

(c) The directors of the Company have been carefully planning and negotiating business projects to attain profitable and positive cash flow operations.

(d) The directors of the Company have been taking measures to tighten cost controls over various general and administrative expenses.

In the opinion of the directors of the Company, in light of the measures taken to date and the other measures in progress as planned, the directors consider that the Group will be able to meet its financial obligations as and when they fall due in the foreseeable future and be able to operate as a commercially viable concern. Accordingly, these financial statements have been prepared on a going concern basis.

The financial statements have not incorporated any adjustment that may be required if the above measures are not successful. Should the Group be unable to continue in business as a going concern, adjustments would have to be made to restate the values of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets as current assets. The effect of any such adjustments has not been reflected in the financial statements.

2. CORPORATE INFORMATION

The registered office of Datasys Technology Holdings Limited is P.O. Box 309 GT, Ugland House, South Church Street, George Town, Grand Cayman, Cayman Islands.

The principal place of business of Datasys Technology Holdings Limited is located at 2nd Floor, Commercial Mansion, No.11 Zhongguancun Nan Street, Haidian District, Beijing 100081.

During the year, the Group was involved in the provision of information technology ("IT") contract services and systems development and integration.

3. IMPACT OF A REVISED HONG KONG STATEMENT OF STANDARD ACCOUNTING PRACTICE

The following revised Hong Kong Statement of Standard Accounting Practice ("SSAP") is effective for the first time for the current year's financial statements:

- SSAP 12 (Revised): "Income taxes"

This SSAP prescribes new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of adopting this SSAP are summarised as follows:

SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

The SSAP has had no significant impact for these financial statements on the amounts recorded for income taxes. However, the related note disclosures are now more extensive than previously required. These are detailed in note 11 to the financial statements and include a reconciliation between the accounting loss and the tax expense for the year.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2003. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsidiaries

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

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Negative goodwill

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

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/ amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

Prior to the adoption of SSAP 30 "Business combinations" in 2001, negative goodwill arising on acquisitions was credited to the capital reserve in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of the SSAP that permitted such negative goodwill to remain credited to the capital reserve. Negative goodwill on acquisitions subsequent to the adoption of the SSAP is treated according to the SSAP 30 negative goodwill accounting policy above.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated profit and loss account and any relevant reserves as appropriate. Any attributable negative goodwill previously credited to the capital reserve at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

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

Impairment of assets

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises.

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

Fixed assets and depreciation

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

Depreciation is calculated on the straight-line basis to write off the cost of each asset after considering its estimated residual value, over the following estimated useful lives:

Leasehold improvements	Over the lease terms
Furniture and fixtures	5 years
Computer equipment, software and office equipment	5 years
Motor vehicles	5 years

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets and depreciation (continued)

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

Software development costs

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

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

Software development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products of not exceeding three years, commencing from the date when the software is put into commercial production.

Long term investments

Long term investments in unlisted equity securities, intended to be held for a continuing strategic or long term purpose, are stated at cost less any impairment losses, on an individual investment basis.

When a decline in the fair value of a security below its carrying amount has occurred, unless there is evidence that the decline is temporary, the carrying amount of the security is reduced to its fair value, as estimated by the directors. The amount of the impairment is charged to the profit and loss account for the period in which it arises. When the circumstances and events which led to the impairment in value cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged is credited to the profit and loss account to the extent of the amount previously charged.

Inventories

Inventories, comprising purchased merchandise and contracts in progress, are stated at the lower of cost and net realisable value. Contracts in progress comprise purchased merchandise and direct costs incurred for IT contract work in progress. Cost is determined on the first-in, first-out basis. Net realisable value is based on estimated selling prices less any estimated costs expected to be incurred to disposal.

Trade receivables

Trade receivables, which generally have credit terms of 7 to 90 days, are recognised and carried at the original invoiced amount, less provision for doubtful debts when the collection of the full amount is no longer probable. Bad debts are written off as incurred.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred revenue

Deferred revenue represents fees received in advance from customers. Revenue is recognised and deferred revenue is released to the profit and loss account when the corresponding services are rendered.

Operating leases

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

Employee benefits

Retirement benefits scheme

The Company and Datasys BVI have not participated in any retirement benefits scheme since the dates of their incorporation.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the profit and loss account as they become payable in accordance with the rules of the central pension scheme.

Share option scheme

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

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from negative goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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 deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

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

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries, are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

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

Cash and cash equivalents

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

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

Provisions

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

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

(a) from the provision of professional IT contract services, based on the stage of completion of the respective IT contracts, which is determined with reference to percentage of work completed and acknowledged by customers;

(b) from systems development and integration, based on the stage of completion of the respective contracts, which is determined with reference to percentage of work completed and acknowledged by customers;

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

(d) value-added tax refunds, when the acknowledgement of the refund from the tax bureau has been received.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

5. SEGMENT INFORMATION

Segment information is presented by way of the Group's primary segment reporting basis, by business segment. In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets. No further geographical segment information is presented as over 90% of the Group's revenue is derived from customers based in Mainland China, and over 90% of the Group's assets are located in Mainland China.

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

(a) the provision of IT contract services; and

(b) systems development and integration.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

5. SEGMENT INFORMATION (continued)

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

	Provision of IT contract services		Systems development and integration		Elimination		Consolidated	
	2003	2002	**2003**	2002	**2003**	2002	**2003**	2002
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:								
Sales to external customers	**2,441**	23,314	**17,350**	79,025	**–**	–	**19,791**	102,339
Intersegment sales	**2,033**	15,681	**–**	–	**(2,033)**	(15,681)	**–**	-
Total	**4,474**	38,995	**17,350**	79,025	**(2,033)**	(15,681)	**19,791**	102,339
Segment results	**(9,632)**	13,554	**(60,614)**	14,184	**–**	–	**(70,246)**	27,738
Unallocated income and expenses							**(72,859)**	(23,911)
Profit/(loss) from operating activities							**(143,105)**	3,827
Finance costs							**(4,020)**	(2,106)
Profit before tax							**(147,125)**	1,721
Tax							**–**	(1,387)
Profit/(loss) before minority interests							**(147,125)**	334
Minority interests							**2,519**	217
Net profit/(loss) from ordinary activities attributable to shareholders							**(144,606)**	551

5. SEGMENT INFORMATION (continued)

	Provision of IT contract services		Systems development and integration		Elimination		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Segment assets	1,694	19,078	76,158	88,340	–	–	77,852	107,418
Unallocated assets	–	–	–	–	–	–	31,615	115,400
Total assets							109,467	222,818
Segment liabilities	2,084	6,885	97,432	25,789	–	–	99,516	32,674
Unallocated liabilities	–	–	–	–	–	–	26,041	59,109
Total liabilities							125,557	91,783
Other segment information:								
Depreciation	378	1,434	1,033	201	–	–	1,411	1,635
Unallocated depreciation	–	–	–	–	–	–	632	274
							2,043	1,909
Impairment losses recognised in the profit and loss account	1,712	–	–	–	–	–	1,712	–
Unallocated impairment loss	–	–	–	–	–	–	327	–
							2,039	–
Amortisation	1,713	457	–	–	–	–	1,713	457
							5,795	2,366
Capital expenditure	–	4,342	3,173	284	–	–	3,173	4,626

6. TURNOVER AND OTHER REVENUE

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts, excluding value-added tax and business tax; the value of services rendered. An analysis of turnover and other revenue is as follows:

	Group	
	2003	2002
	HK$'000	HK$'000
Turnover		
Provision of IT contract services	**2,441**	23,314
Systems development and integration	**17,350**	79,025
	19,791	102,339
Other revenue		
Interest income	**3,026**	695
Value-added tax refunds	**267**	2,237
Others	**152**	841
	3,445	3,773
	23,236	106,112

7. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

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

		Group	
		2003	2002
	Notes	**HK$'000**	HK$'000
Cost of inventories sold		**19,612**	64,841
Cost of services provided		**6,229**	9,760
Staff costs (including directors' remuneration (note 8));			
Wages and salaries		**13,660**	14,251
Retirement benefits scheme contributions		**436**	1,158
		14,096	15,409
Depreciation	15	**2,043**	1,909
Auditors' remuneration		**745**	483
Inventories written off**		**38,529**	183
Amortisation of software development costs*	16	**1,713**	457
Minimum lease payments under operating leases in respect of buildings		**3,624**	3,352
Provision/(write-back of provision) for bad and doubtful debts, net**		**23,955**	(650)
Provision for an amount due from a related company**		**3,741**	–
Provision for amounts due from directors**		**3,176**	–
Loss on disposal of fixed assets**		**814**	613
Provision for impairment of software development costs**		**1,712**	–
Provision for other receivables**		**40,124**	–
Provision for impairment of a long term investment**		**327**	–

* The amortisation of software development costs for the year is included in "Cost of sales" on the face of the profit and loss account.

** The provisions for other receivables, amounts due from a related company and directors, impairment of software development costs and a long term investment, bad and doubtful debts, inventories written off and loss on disposal of fixed assets for the year are included in "Other operating expenses" on the face of the consolidated profit and loss account.

8. DIRECTORS' REMUNERATION

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

	Group	
	2003	2002
	HK$'000	HK$'000
Fees for independent non-executive directors	**280**	140
Other emoluments:		
Salaries, allowances and benefits in kind	**3,246**	1,434
Retirement benefits scheme contributions	**38**	5
	3,284	1,439
	3,564	1,579

The six executive directors received remunerations of HK$1,409,000 (2002: HK$324,000), HK$1,221,000 (2002: HK$319,000), HK$179,000 (2002: HK$179,000), HK$119,000 (2002: HK$184,000), HK$178,000 (2002: HK$179,000) and HK$178,000 (2002: Nil), respectively, for the year ended 31 December 2003.

Two independent non-executive directors received remuneration of HK$112,000 (2002: HK$84,000) and HK$168,000 (2002: HK$56,000), respectively, for the year ended 31 December 2003. There was no remuneration paid to the remaining director for the year ended 31 December 2003 (2002: Nil).

After considering the results of the Group for year 2003, the directors waived remuneration of HK$849,000 (2002: HK$1,641,000) for the year, which represented the differences between the salaries under their service contracts.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year comprised five directors (2002: five), details of whose remuneration are set out in note 8 above.

10. FINANCE COSTS

	Group	
	2003	2002
	HK$'000	HK$'000
Interest on bank loans	**4,020**	2,106

11. TAX

	Group	
	2003	2002
	HK$'000	HK$'000
Mainland China corporate income tax charge	**–**	600
Underprovision in prior years	**–**	787
Total tax charge for the year	**–**	1,387

A reconciliation of the tax expense applicable to profit/(loss) before tax using the statutory rates for the countries in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates are as follows:

	Group	
	2003	2002
	HK$'000	HK$'000
Profit/(loss) before tax	**(147,125)**	1,721
Tax at the statutory rate of 33% (2002: 33%)	**(48,551)**	568
Lower tax rate for specific provinces in Mainland China	**22,470**	(88)
Income not subject to tax	**–**	(366)
Expenses not deductible for tax	**8,135**	1,209
Tax benefit from tax holiday	**992**	(723)
Tax losses not recognised	**16,954**	–
Adjustment in respect of current tax of previous tax	**–**	787
Tax charge at the Group's effective rate	**–**	1,387

11. TAX (continued)

The Group did not derive any assessable profits in Hong Kong and thus no provision for Hong Kong profits tax has been made during the year ended 31 December 2003 (2002: Nil). Taxes on profits assessable elsewhere have been calculated at the applicable rates of tax prevailing in the jurisdiction in which the respective companies of the Group operate, based on existing legislation, interpretations and practices in respect thereof during the year.

Beijing DIS Electronic Datasystem Company Limited ("Datasys DIS"), a subsidiary of the Company, obtained a "New Technology Enterprise" certificate on 18 July 2000 and it is therefore subject to Mainland China corporate income tax at a rate of 15%, pursuant to an approval granted by the local tax authority on 21 November 2000. In addition, Datasys DIS is fully exempted from Mainland China local income tax.

Pursuant to an approval obtained from the local tax authority, Beijing DIS Aipu Company Limited ("DIS Aipu"), a subsidiary of the Company, which was fully exempted from Mainland China corporate income tax for the period from 1 July 1998 to 31 December 2000, was subject to corporate income tax at a rate of 7.5% from 2001 to 2003, and is subject to a rate of 15% on its taxable income thereafter. In addition, DIS Aipu is fully exempted from Mainland China local income tax.

Deferred tax has not been provided as there were no significant temporary differences as at 31 December 2003 (2002: Nil).

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

The net loss from ordinary activities attributable to shareholders for the year ended 31 December 2003 dealt with in the financial statements of the Company, was HK$108,822,000 (2002: net profit from ordinary activities attributable to shareholders of HK$8,608,000) (note 30(b)).

13. DIVIDEND

	2003 **HK$'000**	2002 HK$'000
Special dividend of HK$4.36 per ordinary share	**–**	8,714

A special dividend of approximately HK$8,713,500 was declared and approved by the board of directors of the Company on 24 July 2002 for the benefit of the shareholders whose names appeared on the register of members of the Company on 31 December 2001 prior to the listing.

14. EARNINGS/(LOSS) PER SHARE

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the year of HK$144,606,000 (2002: net profit attributable to shareholders of HK$551,000), and the weighted average of 800,000,000 (2002: 673,976,987) ordinary shares in issue during the year.

Diluted earnings/(loss) per share amounts for the years ended 31 December 2003 and 2002 has not been disclosed as no diluting events existed during the years.

15. FIXED ASSETS

Group

	Leasehold improvements	Furniture and fixtures	Computer equipment, software and office equipment	Motor vehicles	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Cost:					
At 1 January 2003	638	1,176	10,069	1,151	13,034
Additions	75	1,034	461	1,603	3,173
Disposals	(38)	(1,202)	(27)	(743)	(2,010)
At 31 December 2003	675	1,008	10,503	2,011	14,197
Accumulated depreciation:					
At 1 January 2003	–	942	6,393	1,142	8,477
Provided during the year	190	364	1,405	84	2,043
Disposals	(9)	(448)	(16)	(669)	(1,142)
At 31 December 2003	181	858	7,782	557	9,378
Net book value:					
At 31 December 2003	494	150	2,721	1,454	4,819
At 31 December 2002	638	234	3,676	9	4,557

16. SOFTWARE DEVELOPMENT COSTS

Group

	2003 HK$'000
Cost:	
At 1 January 2003 and at 31 December 2003	3,882
Accumulated amortisation and impairment:	
At 1 January 2003	457
Amortisation provided during the year	1,713
Impairment during the year recognised in the profit and loss account	1,712
At 31 December 2003	3,882
Net book value:	
At 31 December 2003	–
At 31 December 2002	3,425

17. INTERESTS IN SUBSIDIARIES

	Company	
	2003 HK$'000	2002 HK$'000
Unlisted shares, at cost	53,017	53,017
Amounts due from subsidiaries	45,514	43,836
	98,531	96,853
Less: provision for impairment	(98,531)	–
	–	96,853

17. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the subsidiaries are as follows:

Name	Place of registration/ incorporation and operations	Nominal value of issued ordinary/registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Datasys (BVI) Limited (“Datasys BVI”)	British Virgin Islands /Hong Kong	US$20,000	100	–	Investment holding, the provision of systems development and integration support services
Beijing DIS Electronic Datasystem Company Limited (“Datasys DIS”)	Mainland China	US$10,000,000	–	98	Investment holding, systems development and integration, and the provision of professional IT contract services
Beijing DIS Aipu Company Limited (“DIS Aipu”)	Mainland China	RMB2,000,000	–	99	Provision of professional IT contract services

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

18. LONG TERM INVESTMENT

	Group 2003 HK$'000	2002 HK$'000
Unlisted equity investment, at cost	**327**	–
Provision for impairment	**(327)**	–
	–	–

19. DUE FROM DIRECTORS

Particulars of the Group's amounts due from directors are as follows:

	31 December 2003 HK$'000	Maximum amount outstanding during the year HK$'000	1 January 2003 HK$'000
Mr. Ding Wei Ming ("Mr. Ding")	1,742	1,742	1,403
Mr. Shang Gang	1,434	4,120	4,120
Ms. Cao Ze Lan	–	98	98
Mr. Li Wei Min	–	387	387
	3,176		6,008
Less: provision	(3,176)		–
	–		6,008

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

20. DUE FROM A RELATED COMPANY

Particulars of the Group's amount due from a related company are as follows:

	31 December 2003 HK$'000	Maximum amount outstanding during the year HK$'000	1 January 2003 HK$'000
Central DIS Datasystem Company Limited	3,741	3,741	3,741
Less: provision	(3,741)		–
	–		3,741

At the balance sheet date, Central DIS Datasystem Company Limited owns a 1.8% equity interest in Datasys DIS, a subsidiary of the Group. The amount due from the related company, representing an advance, is unsecured, interest-free and has no fixed terms of repayment.

21. INVENTORIES

	Group	
	2003	2002
	HK$'000	HK$'000
Computer equipment	–	5,493
Contracts in progress	4,721	4,643
	4,721	10,136

At the balance sheet date, no inventories were stated at net realisable value (2002: Nil).

22. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit. The credit period is generally for a period of 7 to 90 days. Overdue balances are required to be reviewed regularly by senior management. However, due to the significant turnover in staff and management of the Group, the trade receivable collection process has been affected and could not be properly carried out. Provision for bad and doubtful debts is made when the collection of the full amount is no longer probable. Bad debts are written off as incurred.

An aged analysis of the trade receivables as at the balance sheet date, based on payment due date, is as follows:

	Group	
	2003	2002
	HK$'000	HK$'000
0 to 30 days	264	26,402
31 to 60 days	173	10,352
61 to 90 days	1,164	6,428
91 to 180 days	15	11,525
181 days to 1 year	8,188	178
Between 1 to 2 years	20,779	21,237
Over 2 years	18,694	3,518
Less: provision for bad and doubtful debts	(30,531)	(6,304)
	18,746	73,336

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2003	2002	**2003**	2002
	HK$'000	HK$'000	**HK$'000**	HK$'000
Prepayments	**574**	3,521	**–**	–
Deposits	**562**	13,095	**–**	7,373
Other receivables	**28,895**	29,010	**6,338**	6,451
	30,031	45,626	**6,338**	13,824

24. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS

	Group		Company	
	2003	2002	**2003**	2002
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**4,028**	10,858	**863**	5,642
Time deposits	**47,122**	65,131	**–**	–
	51,150	75,989	**863**	5,642
Less time deposits:				
Pledged time deposits for securing bank loans (note 27)	**(46,403)**	(63,609)	**–**	–
Pledged time deposits for securing project bidding	**(719)**	(1,522)	**–**	–
	4,028	10,858	**863**	5,462

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to approximately HK$2.4 million (2002: HK$3.2 million). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Subsequent to the balance sheet date, in March 2004, the pledged time deposits for securing bank loans were released following the repayment of the respective bank loans (note 36(a)).

25. TRADE PAYABLES

An aged analysis of the trade payables as at the balance sheet date, based on invoice date, is as follows:

	Group	
	2003	2002
	HK$'000	HK$'000
Within 180 days	**8,233**	3,018
Between 181 days to 1 year	**7,947**	–
Between 1 to 2 years	**75**	–
	16,255	3,018

26. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2003	2002	**2003**	2002
	HK$'000	HK$'000	**HK$'000**	HK$'000
Other payables	**24,250**	22,249	**–**	–
Accruals	**1,791**	1,920	**532**	648
	26,041	24,169	**532**	648

27. INTEREST-BEARING BANK BORROWINGS

	2003	2002
	HK$'000	HK$'000
Bank loans wholly repayable within one year, secured	**73,832**	58,411

As at 31 December 2003, bank borrowings of RMB45 million (equivalent to HK$42.1 million) (2002: RMB62.5 million (equivalent to HK$58.4 million)) were secured by pledged time deposits of approximately US$5.8 million (equivalent to HK$45.2 million) (2002: US$8.2 million (equivalent to HK$63.6 million)) (note 24). The remaining borrowings balance of RMB34 million (equivalent to HK$31.7 million) as at 31 December 2003 was secured by pledged time deposits of HK$1.2 million (2002: Nil) and corporate guarantees executed by independent third parties to the extent of RMB20 million (note 34(a)). Subsequent to the balance sheet date, in March 2004, bank loans totalling HK$42.1 million were repaid (note 36(a)).

28. SHARE CAPITAL

Shares

	2003 HK$'000	2002 HK$'000
Authorised:		
2,000,000,000 shares of HK$0.10 each	**200,000**	200,000
Issued and fully paid:		
800,000,000 shares of HK$0.10 each	**80,000**	80,000

There were no movements in the issued and fully paid share capital during the year. Details of movements in the issued and fully paid share capital of the Company during the year ended 31 December 2002 were as follows:

(i) On 11 June 2002, 142,857 ordinary shares of HK$0.10 each were allotted and issued to an independent third party for a total cash consideration of HK$14,408,000.

(ii) On 24 July 2002, the authorised share capital of the Company was increased to HK$200,000,000 by the creation of 1,000,000,000 additional ordinary shares of HK$0.10 each ranking pari passu with the existing shares.

(iii) On 16 August 2002, 172,000,000 ordinary shares of HK$0.10 each were issued to the public by way of a new issue and placement of shares at a price of HK$0.38 per share, for a total cash consideration of HK$65,360,000, before related issuing expenses.

(iv) On 16 August 2002, 625,857,143 ordinary shares of HK$0.10 each were allotted and issued as fully paid at par to the holders of the Company's shares whose names appeared on the register of members of the Company at the close of business on 10 July 2002 by capitalisation of a sum HK$62,585,714 of share premium account of the Company, pursuant to shareholders' resolution of the Company passed on 29 July 2002.

28. SHARE CAPITAL (continued)

	Notes	Number of shares in issue	Issued share capital HK$'000	Share premium account HK$'000	Total HK$'000
At 1 January 2002		2,000,000	200	37,188	37,388
Issue of shares	(i)	142,857	14	14,394	14,408
New issue and placing of shares to public	(iii)	172,000,000	17,200	48,160	65,360
Capitalisation of share premium account	(iv)	625,857,143	62,586	(62,586)	–
		800,000,000	80,000	37,156	117,156
Share issue expenses		–	–	(17,188)	(17,188)
At 31 December 2002, 1 January 2003 and 31 December 2003		800,000,000	80,000	19,968	99,968

29. SHARE OPTION SCHEME

Pursuant to the pre-IPO share option scheme adopted by the Company on 29 July 2002, the directors may, at their discretion, invite any employee, officer, agent, consultant or representative of the Group ("participants"), including any executive or non-executive director of the Group to subscribe for shares of the Company at a price to be determined by the board of directors. The purpose of the share option scheme is to provide incentives to the eligible participants to contribute to the Company and to enable the Company to recruit high-calibre employees and attract human resources that are valuable to the Group. The share option scheme became effective on 29 July 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

29. SHARE OPTION SCHEME (continued)

The maximum number of shares of the Company which may be issued upon exercise of all outstanding options granted and yet to be issued under the share option scheme or any other schemes must not, in aggregate, exceed 30% of the shares of the Company in issue from at any time. The maximum number of shares which may be granted under the share option scheme of the Company must not exceed 80,000,000, being 10% of the issued share capital as at the listing of the Company's shares on the GEM on 16 August 2002. The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not less than three years and not later than 10 years from the date of the offer of the share options or the expiry date of the share option scheme, if earlier.

The maximum number of shares issuable under share options to each eligible participant in the scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

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

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

The exercise price of the share options is determinable by the directors, and may not be less than the highest of:

(a) the closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a business day;

(b) the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and

(c) the nominal value of a share of the Company.

As at the date of these financial statements, no options have been granted by the Company under the share option scheme of the Company (2002: Nil).

30. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 28 of the financial statements.

Share premium account

The Group's share premium account originally represented (i) the difference between the nominal value of the shares and share premium account of the subsidiaries acquired pursuant to the Reorganisation undertaken by the Group in 2002 prior to the listing of the Company's shares, over the nominal value of the Company's shares issued in exchange therefor; and (ii) shares issued at a premium.

Capital reserve

Negative goodwill arising on the acquisition of subsidiaries in prior years, amounting to HK$7,236,000 (2002: HK$7,236,000) remains credited to the consolidated capital reserve as explained in the accounting policy for "Negative goodwill" in note 4 to the financial statements.

Reserve funds

Pursuant to the relevant laws and regulations for Sino-foreign equity joint ventures in Mainland China and the articles of association of Datasys DIS, Datasys DIS is required to appropriate an enterprise reserve fund, an enterprise expansion fund and a staff welfare fund from its annual statutory profit after tax under accounting principles generally accepted in Mainland China ("PRC GAAP"). The appropriations to the reserve funds are determined at the sole discretion of its board of directors after offsetting any prior years' losses. Such reserve funds are restricted as to use.

The enterprise reserve fund can be used to offset the accumulated losses of Datasys DIS. No appropriation to the enterprise reserve fund was made during the year ended 31 December 2003 (2002: Nil).

The enterprise expansion fund can be used for the expansion of Datasys DIS and/or to increase the capital of Datasys DIS upon the approval of the relevant authorities. No appropriation to the enterprise expansion fund was made during the year ended 31 December 2003 (2002: Nil).

The staff welfare fund is used for the collective welfare of the employees of Datasys DIS. No appropriation to the staff welfare fund was made by Datasys DIS for the year ended 31 December 2003 (2002: Nil).

30. RESERVES (continued)

(a) Group (continued)

Pursuant to the relevant laws and regulations of Mainland China and the articles of association of DIS Aipu, DIS Aipu is required to appropriate a statutory common reserve of 10%, a discretionary common reserve at a rate solely determined by its board of directors, and a statutory public welfare fund at 5% from its annual statutory profit after tax under PRC GAAP after offsetting any prior years' losses. Such reserves are restricted as to use.

The statutory common reserve and discretionary common reserve can be used to offset the accumulated losses and increase the capital of DIS Aipu. During the year, DIS Aipu appropriated HK$99,000 (2002: 1,106,000) to the statutory common reserve. No appropriation to the discretionary common reserve was made by DIS Aipu for the year ended 31 December 2003 (2002: Nil).

The statutory public welfare fund is used for the collective welfare of the employees of DIS Aipu. During the year, DIS Aipu appropriated HK$50,000 (2002: HK$553,000) to the statutory public welfare fund.

(b) Company

	Notes	**Share premium account** HK$'000	**Accumulated losses** HK$'000	**Total** HK$'000
Balance at 1 January 2002		52,817	–	52,817
Issue of shares	28	14,394	–	14,394
Special dividend	13	–	(8,714)	(8,714)
New issue and placing of shares to public	28	48,160	–	48,160
Capitalisation of share premium account	28	(62,586)	–	(62,586)
Share issue expenses	28	(17,188)	–	(17,188)
Net profit for the year		–	8,608	8,608
At 31 December 2002 and at 1 January 2003		35,597	(106)	35,491
Net loss for the year		–	(108,822)	(108,822)
At 31 December 2003		35,597	(108,928)	(73,331)

30. RESERVES (continued)

(b) Company (continued)

Share premium account

The Company's share premium account originally represented (i) the excess of the fair value of the shares of the subsidiaries acquired pursuant to the Reorganisation over the nominal value of the Company's shares issued in exchange therefor; and (ii) shares issued at a premium. Under the Companies Law (2000 Revised) of the Cayman Islands, the share premium account is distributable to the shareholders of the Company subject to the Company's articles of association and provided that immediately following the distribution of dividend, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Major non-cash transaction

(a) During the year ended 31 December 2002, the Reorganisation of the Group in preparation for the public listing of the Company's shares involved the capitalisation of approximately HK$62,585,714 as share capital, as detailed in note 28 to the financial statements.

(b) During the year ended 31 December 2003, the Group purchased two motor vehicles from two directors at a consideration of approximately HK$1,417,000 and the balance was settled through the current account with the directors. The directors of the Company consider that the consideration was arrived at with reference to the second hand market value of the vehicles.

32. OPERATING LEASE ARRANGEMENTS

The Group leases its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to three years.

As at 31 December 2003, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2003	2002
	HK$'000	HK$'000
Within one year	**293**	1,308
In the second to third years, inclusive	**–**	403
	293	1,711

33. COMMITMENTS

Capital commitments

	Group	
	2003	2002
	HK$'000	HK$'000
Capital contributions payable to Datasys DIS	**12,377**	–
Capital contributions payable to a long term investment	**234**	–
	12,611	–

Save as the aforesaid, the Group and the Company did not have any other significant commitments at 31 December 2003 (2002: Nil).

34. CONTINGENT LIABILITIES

(a) During the year, Datasys DIS entered into cross guarantee arrangements with 航天固體運載火箭有限公司 (the "Guarantor"), an independent third party. According to the arrangements, the Guarantor provided a corporate guarantee to the Group for bank loans (note 27) to the extent of RMB20 million (equivalent to approximately HK$18.7 million), and Datasys DIS also provided a corporate guarantee to the Guarantor for a bank loan of RMB20 million (equivalent to approximately HK$18.7 million) granted by Shanghai Pudong Development Bank Beijing Branch. Further details of the above cross guarantee arrangements are set out in the announcement made by the Company on 14 July 2003.

(b) On 30 December 2003, Datasys DIS received a notice from the court in the Mainland of China as a defendant in a lawsuit brought by 南通江海電容器有限公司 ("Nan Tong Jiang Hai"), an independent third party, which claimed against Datasys DIS for the repayment of an alleged net loan amounting to RMB12 million (equivalent to approximately HK$11.2 million) plus interest of RMB716,000, based on a loan agreement, and related legal costs for the lawsuit.

Subsequent to the balance sheet date, on 31 May 2004, a court ruling was issued by 江蘇省南通市中級人民法院. Pursuant to the court ruling, Datasys DIS is required to repay Nan Tong Jiang Hai the alleged loan amount plus interest, related legal costs and a penalty totalling approximately HK$13.4 million (the "Judgement Claim"). According to the aforesaid court ruling, the net loan amount of RMB12 million was received by an independent third party on behalf of Datasys DIS some time in November 2002.

The directors, with the advice from the legal counsel, are of the opinion that since the aforesaid loan transaction has never been authorised by the board of directors, Datasys DIS has a valid defence against the claim. Subsequent to the balance sheet date, in June 2004, Datasys DIS filed an appeal against the court ruling. Accordingly, the Group has not made any provision for the claims arising from this litigation at the balance sheet date.

35. RELATED PARTY TRANSACTIONS

In addition to the transactions related to the Reorganisation and the transactions and balances detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

	Notes	2003 HK$'000	2002 HK$'000
Provision for an amount due from a related company	(i)	**3,741**	–
Provision for amounts due from directors	(i)	**3,176**	–
Purchases of motor vehicles from directors	(ii)	**1,417**	–

Notes:

(i) The provisions were made in view of the long outstanding nature of the amounts.

(ii) The motor vehicles were purchased from two directors and the balance was settled through the current account with the directors. The directors of the Company consider that the consideration was arrived at with reference to the second hand market value of the vehicles.

(iii) Pursuant to a guarantee agreement dated 30 April 2004 between a subsidiary of the Group and its banker, the Loan was supported by a guarantee executed by 中加陽光 .

36. POST BALANCE SHEET EVENTS

(a) Subsequent to the balance sheet date, in March 2004, certain of the Group's bank loans totalling HK$42.1 million (note 27) as at 31 December 2003 were repaid and the corresponding pledged time deposits of HK$46.4 million (note 24) as at 31 December 2003 were released.

(b) Subsequent to the balance sheet date, on 22 April 2004, a court ruling related to a claim of an unsettled purchase amount of RMB5.8 million filed by a supplier during the year was received. Adequate provision has been made in the financial statements during the year.

(c) Subsequent to the balance sheet date, on 31 May 2004, the court ruling was issued by the court in respect of a lawsuit brought by Nan Tong Jiang Hai, which is detailed in note 34(b).

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 14 June 2004.

Summary Financial Information

	For the year ended 31 December			
	2003	2002	2001	2000
	HK$'000	HK$'000	HK$'000	HK$'000
Results				
Turnover	**19,791**	102,339	127,244	88,712
Profit/(loss) before tax	**(147,125)**	1,721	23,094	13,044
Tax	**–**	(1,387)	(1,958)	(733)
Net profit/(loss) attributable to shareholders	**(144,606)**	551	20,116	7,839

	As at 31 December			
	2003	2002	2001	2000
	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS AND LIABILITIES				
Total assets	**109,467**	222,818	136,446	98,210
Total liabilities	**125,557**	94,302	62,347	44,227
Balance of shareholders' fund	**(16,090)**	128,516	74,099	53,983