

Notes to Financial Statements

31 December 2000

1. CORPORATE INFORMATION

During the year, the Group was involved in the distribution of computer hardware and software products and the provision of computer technology services.

2. 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, except for the periodic remeasurement of certain fixed assets, as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2000. The results of the 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.

Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital, or controls the composition of its board of directors.

Interests in subsidiaries are stated at cost unless, in the opinion of the directors, there have been permanent diminutions in values, when they are written down to values determined by the directors.

Goodwill

Goodwill arising on the consolidation of subsidiaries represents the excess purchase consideration paid over the fair values ascribed to the net underlying assets acquired and is eliminated against reserves in the year of acquisition.

On disposal of subsidiaries, the relevant portion of attributable goodwill previously eliminated against reserves is written back and included in the calculation of the gain or loss on disposal.

Notes to Financial Statements (continued)

31 December 2000

2. 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 sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) from the rendering of services, including fixed price service contracts, based on the stage of completion of the transaction, provided that this and the costs incurred, as well as the estimated costs to completion can be measured reliably. The stage of completion of a transaction associated with the rendering of such services is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction;
- (c) maintenance income, on a time proportion basis over the period of the contract;
- (d) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and
- (e) rental income, on a time proportion basis over the lease terms.

Fixed assets and depreciation

Fixed assets are stated at cost or valuation less accumulated depreciation. 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 the fixed assets have been put into operation, such as repairs and maintenance, 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.

Changes in the values of fixed assets are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the revaluation reserve realised in respect of previous valuations is transferred to retained earnings as a movement in reserves.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Fixed assets and depreciation** (continued)

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land	Over the lease terms
Building	5%
Leasehold improvements	33 $\frac{1}{3}$ %
Furniture, fixtures and equipment	33 $\frac{1}{3}$ %
Motor vehicles	33 $\frac{1}{3}$ %

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.

Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and is recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and are depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

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

Research and 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. Products development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding three years, commencing from the date when the products are put into commercial production.

Long term investments

Long term investments are investments in unlisted equity securities which are intended to be held on a continuing basis and which are stated at cost less provisions for diminutions in values which are expected to be other than temporary.

Notes to Financial Statements (continued)

31 December 2000

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value after making due allowances for obsolete and slow moving items. Cost is determined on a first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on the estimated selling prices less any estimated costs to be incurred to completion and disposal.

Accounts receivable

The payment terms granted by the Group vary from project to project and may include cash on delivery, advance payment and credit of 30 days to 90 days from different stages of the projects. Trade receivables are recognised and carried at original invoiced amount less provisions for doubtful debts which are recorded when collection thereof is no longer probable. Bad debts are written off as incurred.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange 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 at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

Retirement benefit schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the Scheme. The Scheme became effective on 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the Scheme. The assets of the Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the Scheme.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Retirement benefit schemes (continued)

The Group has joined a mandatory central pension scheme operated by the PRC government for its PRC employees, the assets of which are held separately from those of the Group. Contributions made are based on a percentage of the eligible employees' salaries and are charged to the profit and loss account as they become payable, in accordance with the rules of the scheme. The employers' contributions vest fully once they are made.

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.

Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance.

Notes to Financial Statements (continued)

31 December 2000

3. RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS

The Group had the following transactions with related parties and connected parties during the year:

	2000	1999
	HK\$'000	HK\$'000
Purchase of information technology products from:		
Minority shareholders of certain subsidiaries of the Company		
– Open Environment Corporation	34	739
– Internet Dynamics, Inc.	–	26
Related companies		
– certain members of the Datacraft Asia Ltd group (note)	6,652	16,730
Sales of information technology products to:		
– a member of the Datacraft Asia Ltd group (note)	–	1,918
Management fees received from a member of the Datacraft Asia Ltd group (note)	235	470
Acquisition of 1% equity interest in Sequent China/Hong Kong Limited ("SCHKL") from Sequent Computer Systems, Inc. ("Sequent")	–	910
Software development service fees paid to a company in which the spouse of a director of the Company at the balance sheet date, is a director	608	–
Systems integration service income received from a company in which the spouse of a director of the Company at the balance sheet date, is a director	942	–

Note: Mr. Derek Peter Althorp, a director of the Company, is a director of Datacraft Asia Ltd, a company listed on The Singapore Exchange Securities Trading Limited. Mr. Luk Chung Po, Terence, a director of the Company, resigned as a director of a member of the Datacraft Asia Ltd group during the year.

In the opinion of the directors, the above related party transactions were entered into by the Group in the ordinary course of business and on terms agreed with the minority shareholders and related companies. The directors consider that these transactions were made according to prices and conditions similar to those offered to other third parties.

3. RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS (continued)

During the prior year, the Group purchased information technology products of approximately HK\$58,824,000 from Sequent. Following the disposal of 1% equity interest in SCHKL to the Group in 1999, Sequent's equity interest in SCHKL decreased from 10% in 1998 to 9% in 1999 and Sequent ceased to be a connected party thereafter.

Details of the terms of the outstanding balances with related parties and minority shareholders of certain subsidiaries at 31 December 2000 are set out in notes 19 and 20 to the financial statements.

4. TURNOVER AND REVENUE

Turnover represents the net invoiced value of goods sold, after allowance for returns and trade discounts and services rendered. All significant intra-Group transactions have been eliminated on consolidation.

An analysis of turnover and revenue is as follows:

	Group	
	2000	1999
	HK\$'000	HK\$'000
Sale of goods	352,041	294,930
Provision of computer technology services	65,206	55,368
Turnover	417,247	350,298
Interest income	6,099	3,408
Management fee received from a related company	235	470
Gross rental income	177	252
Gain on disposal of fixed assets	453	248
Exchange gains, net	1,587	-
Sundry income	288	54
Total revenue	426,086	354,730

Pursuant to the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"), the turnover by geographical area of principal markets of the Group is analysed as follows:

	Group	
	2000	1999
	HK\$'000	HK\$'000
By geographical area:		
The People's Republic of China (the "PRC")		
Hong Kong	40,721	35,412
Elsewhere	376,526	314,886
	417,247	350,298

Notes to Financial Statements (continued)

31 December 2000

5. PROFIT FROM OPERATING ACTIVITIES

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

	2000	1999
	HK\$'000	HK\$'000
Cost of inventories sold and services provided	316,198	248,118
Depreciation:		
Owned fixed assets	4,105	1,988
Leased fixed assets	790	509
	4,895	2,497
Research and development costs:		
Amortisation of deferred development costs	1,802	1,316
Current year expenditure	1,210	1,100
Written off	4,217	–
	7,229	2,416
Deficit on revaluation of leasehold land and building	–	95
Operating lease rentals in respect of land and buildings	5,505	4,778
Auditors' remuneration	1,106	1,000
Staff costs (excluding directors' remuneration – note 7):		
Salaries	25,983	22,444
Pension contributions	417	357
Mandatory provident fund contributions	56	–
	26,456	22,801
Exchange losses/(gains), net	(1,587)	1,928
Gain on disposal of fixed assets, net	(453)	(153)
Net rental income	(163)	(198)
Management fee received from a related company	(235)	(470)
Interest income	(6,099)	(3,408)

6. FINANCE COSTS

	Group	
	2000	1999
	HK\$'000	HK\$'000
Interest on trust receipt loans and bank overdrafts wholly repayable within five years	404	1,185
Interest on finance leases	137	251
	541	1,436

7. DIRECTORS' REMUNERATION AND THE FIVE HIGHEST PAID EMPLOYEES

The remuneration of the Company's directors disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance is as follows:

	Group	
	2000	1999
	HK\$'000	HK\$'000
Fees:		
Executive directors and non-executive director	200	–
Independent non-executive directors	500	200
	700	200
Other emoluments of executive directors:		
Basic salaries, other allowances and benefits in kind	11,434	11,090
Mandatory provident fund contributions	5	–
	11,439	11,090
	12,139	11,290

Notes to Financial Statements (continued)

31 December 2000

7. DIRECTORS' REMUNERATION AND THE FIVE HIGHEST PAID EMPLOYEES (continued)

The remuneration of the directors fell within the following bands:

	Number of directors	
	2000	1999
Nil to HK\$1,000,000	4	3
HK\$1,000,001 to HK\$1,500,000	2	1
HK\$1,500,001 to HK\$2,000,000	1	2
HK\$2,500,001 to HK\$3,000,000	1	1
HK\$4,000,001 to HK\$4,500,000	1	1

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (1999: Nil). During the year, no emoluments were paid by the Group to the directors as an inducement to join, or upon joining the Group, or as a compensation for loss of office.

During the year, the Company granted a total of 1,820,000 share options to two executive directors. In the absence of a readily available market value for options on the Company's shares, the directors are unable to arrive at an accurate assessment of the value of the options granted and, therefore, no value in respect of the share options granted during the year has been attributed to the remuneration set out above. Further details of the share options granted to the directors during the year are set out in the section "Directors' rights to acquire shares or debentures" in the Report of the Directors on page 28.

The five highest paid employees included five (1999: five) directors during the year, whose remuneration is set out above.

In the opinion of the directors of the Company, the Group had no significant obligations for long service payments to its employees pursuant to the requirements under the Employment Ordinance, Chapter 57 of the Laws of Hong Kong, at 31 December 2000.

8. TAX

	2000	1999
	HK\$'000	HK\$'000
Group:		
Hong Kong	472	433
Elsewhere	999	5,580
Rebate relating to prior year	–	(133)
Deferred – note 23	(600)	325
Tax charge for the year	871	6,205

Hong Kong profits tax has been provided at the rate of 16% (1999: 16%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof. Tax recoverable represents provisional tax paid in excess of the estimated tax liability of the Group.

9. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders dealt with in the financial statements of the Company for the year ended 31 December 2000 was HK\$5,873,000 (period from 29 March 1999 (date of incorporation) to 31 December 1999: HK\$14,001,000).

10. DIVIDENDS

	2000	1999
	HK\$'000	HK\$'000
Interim – HK1.5 cents (1999: HK1.4 cents) per share	4,830	3,920
Proposed final – HK0.5 cent (1999: HK2.8 cents) per share	1,810	9,016
	6,640	12,936

Notes to Financial Statements (continued)

31 December 2000

11. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year of HK\$18,213,000 (1999: HK\$34,278,000) and the weighted average of 330,180,328 (1999: 245,095,890) shares in issue during the year. The weighted average number of shares used to calculate the prior year's earnings per share included the then pro forma issued share capital of the Company, comprising 1,000,000 shares issued nil paid on incorporation of the Company, 1,000,000 shares issued for the acquisition of the entire issued share capital of Technology Venture Investments Limited ("TVIL", formerly Technology Venture (Hardware) Holdings Limited) and the capitalisation issue of 208,000,000 shares.

The calculation of diluted earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year of HK\$18,213,000. The weighted average number of ordinary shares used in the calculation of diluted earnings per share is 331,780,035, which includes 330,180,328 ordinary shares in issue during the year, as used in the basic earnings per share calculation; and the weighted average of 1,599,707 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the year.

Diluted earnings per share for the year ended 31 December 1999 had not been calculated as no diluting events existed in the prior year.

12. FIXED ASSETS

Group

	Medium term leasehold land and building in Hong Kong	Leasehold improvements	Furniture, fixtures and equipment	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost or valuation:					
At beginning of year	650	2,368	14,789	4,319	22,126
Additions	–	1,979	8,819	1,661	12,459
Disposals	–	(630)	(1,764)	(1,340)	(3,734)
At 31 December 2000	650	3,717	21,844	4,640	30,851
Accumulated depreciation:					
At beginning of year	23	1,575	8,715	2,883	13,196
Provided during the year	34	517	3,442	902	4,895
Disposals	–	(314)	(1,508)	(1,340)	(3,162)
At 31 December 2000	57	1,778	10,649	2,445	14,929
Net book value:					
At 31 December 2000	593	1,939	11,195	2,195	15,922
At 31 December 1999	627	793	6,074	1,436	8,930
Analysis of cost or valuation:					
At cost	–	3,717	21,844	4,640	30,201
At 30 April 1999 valuation	650	–	–	–	650
	650	3,717	21,844	4,640	30,851

Notes to Financial Statements (continued)

31 December 2000

12. FIXED ASSETS (continued)

Company

	Leasehold	Furniture,	Motor	Total
	improvements	fixtures and equipment	vehicles	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost:				
At beginning of year	–	7	1,350	1,357
Additions	1,867	858	541	3,266
At 31 December 2000	1,867	865	1,891	4,623
Accumulated depreciation:				
At beginning of year	–	2	75	77
Provided during the year	183	164	495	842
At 31 December 2000	183	166	570	919
Net book value:				
At 31 December 2000	1,684	699	1,321	3,704
At 31 December 1999	–	5	1,275	1,280

The net book value of the fixed assets of the Company and the Group held under finance leases included in the total amount of motor vehicles at 31 December 2000 amounted to HK\$1,321,000 (1999: HK\$1,275,000) and HK\$2,160,000 (1999: HK\$1,364,000), respectively.

Had the land and building been carried at historical cost less accumulated depreciation, its carrying value would have been approximately HK\$680,000 (1999: HK\$718,000).

13. DEFERRED DEVELOPMENT COSTS

	Group	
	2000	1999
	HK\$'000	HK\$'000
Cost:		
At beginning of year	5,929	3,480
Additions	5,238	2,449
Written off	(6,415)	–
At 31 December	4,752	5,929
Accumulated amortisation:		
At beginning of year	2,476	1,160
Provided during the year	1,802	1,316
Written off	(2,198)	–
At 31 December	2,080	2,476
Net book value:		
At 31 December	2,672	3,453

14. INTERESTS IN SUBSIDIARIES

	Company	
	2000	1999
	HK\$'000	HK\$'000
Unlisted shares, at cost	39,631	39,631
Due from subsidiaries	271,361	71,799
	310,992	111,430

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

Notes to Financial Statements (continued)

31 December 2000

14. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows:

Company	Place of incorporation/ registration and operations	Paid-up share/ registered capital	Attributable equity interest	Principal activities
Held directly:				
Technology Venture Investments Limited (formerly Technology Venture (Hardware) Holdings Limited)	British Virgin Islands	Ordinary US\$1,000	100%	Investment holding
Held indirectly:				
Light International Holdings Limited	British Virgin Islands/PRC	Ordinary US\$10,000	100%	Provision of procurement services
Open Environment China/Hong Kong Limited	Hong Kong	Ordinary HK\$10,000	90%	Distribution of information technology products and provision of computer technology services
Sequent China/Hong Kong Limited	Hong Kong/PRC	Ordinary HK\$10,000	91%	Distribution of information technology products and provision of computer technology services
Technology Venture (Software) Holdings Limited	British Virgin Islands	Ordinary US\$1,000	100%	Investment holding

14. INTERESTS IN SUBSIDIARIES (continued)

Company	Place of incorporation/ registration and operations	Paid-up share/ registered capital	Attributable equity interest	Principal activities
Held indirectly: (continued)				
Topasia Computer Limited	Hong Kong/ PRC	Ordinary HK\$10,000	100%	Distribution of information technology products and provision of computer technology services
Topsoft Limited	Hong Kong	Ordinary HK\$10,000	100%	Distribution of information technology products and provision of computer technology services
Windsor Enterprises Limited	British Virgin Islands/PRC	Ordinary US\$10,000	100%	Provision of marketing services
Advanced Digital Technology Company Limited (formerly Lightyear Enterprises Limited) *	British Virgin Islands	Ordinary US\$1,000	55%	Investment holding
Advanced Digital Technology Company Limited #	Hong Kong/ PRC	Ordinary HK\$2	55%	Provision of systems integration services and software development
北京先進數通信息技術 有限公司#	PRC	Registered capital RMB8,270,321	55%	Provision of systems integration services and software development
TopTrain Limited #	British Virgin Islands	Ordinary US\$100,000	86%	Investment holding
TopTrain (Hong Kong) Limited #	Hong Kong	Ordinary HK\$2	86%	Provision of information technology education services

Notes to Financial Statements (continued)

31 December 2000

14. INTERESTS IN SUBSIDIARIES (continued)

Company	Place of incorporation/ registration and operations	Paid-up share/ registered capital	Attributable equity interest	Principal activities
Held indirectly: (continued)				
杭州冠亞科技有限公司#	PRC	Registered capital RMB1,635,072	61%	Distribution of information technology products and provision of computer technology services

* Subsidiaries acquired during the year

Subsidiaries incorporated/registered during the year

The above table lists the subsidiaries of the Company, which in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

15. LONG TERM INVESTMENT

The unlisted long term investment represents the cost of the Group's investment in a 19.9% equity interest in ChinaCast Technology (BVI) Limited ("CCT"), a company incorporated in the British Virgin Islands. CCT is an Internet content provider based in Hong Kong which is principally engaged in the provision of Internet and related services in Hong Kong and the PRC.

As at 31 December 1999, the investment in CCT amounted to approximately HK\$15,600,000. During the year, the Group's investment in CCT increased by approximately HK\$35,481,000 to approximately HK\$51,081,000 as at 31 December 2000. The additional investment was satisfied by the payment of cash consideration of approximately HK\$18,161,000 and the issue of 8,000,000 new ordinary shares of the Company at a price of HK\$2,165 (note 24(c)).

16. DEPOSIT PAID FOR UNLISTED INVESTMENT

The balance represents a deposit paid for the acquisition of a 51% shareholding in a company incorporated in Hong Kong, the details of which are as follows:

Company	Place of incorporation/ operations	Paid-up capital	Principal activities
DMX Technologies (Hong Kong) Limited ("DMX", formerly Skynet Consultants Company Limited)	Hong Kong	Ordinary HK\$10,000	Provision of networking, Internet security, e-commerce and web-based television solutions

Further details of this investment acquisition are set out in note 27(a)(iii) to the financial statements.

17. INVENTORIES

	Group	
	2000	1999
	HK\$'000	HK\$'000
Information technology products held for resale	11,468	7,067
Work in progress	–	762
	11,468	7,829

None of the above inventories is carried at net realisable value (1999: HK\$1,542,000).

18. ACCOUNTS RECEIVABLE

The aged analysis of accounts receivable as at 31 December 2000 was as follows:

	Group	
	2000	1999
	HK\$'000	HK\$'000
Current to 90 days	163,592	135,459
91 days to 180 days	2,585	3,633
181 days to 365 days	2,981	28,632
Over 365 days	15,740	–
	184,898	167,724

Notes to Financial Statements (continued)

31 December 2000

19. ACCOUNTS AND BILLS PAYABLE

	Notes	Group	
		2000	1999
		HK\$'000	HK\$'000
Trade and bills payable		22,571	20,539
Due to certain minority shareholders	(a)	14,460	31,098
Due to related companies	(b)	4,022	11,315
		41,053	62,952

The aged analysis of accounts and bills payable as at 31 December 2000 was as follows:

	Group	
	2000	1999
	HK\$'000	HK\$'000
Current to 90 days	16,260	34,417
91 days to 180 days	7,223	12,301
181 days to 365 days	15,538	13,976
Over 365 days	2,032	2,258
	41,053	62,952

Notes:

- (a) The amounts due to certain minority shareholders of certain subsidiaries represent trade payables, which are unsecured, interest-free and are repayable according to the terms agreed with these minority shareholders.
- (b) The amounts due to related companies, representing trade payables to certain members of the Datacraft Asia Ltd group, are unsecured, interest-free and have no fixed terms of repayment.

20. ACCRUED LIABILITIES AND OTHER PAYABLES

	Group		Company	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Accrued and other liabilities	32,995	38,257	500	323
Due to a minority shareholder (note)	24,708	–	–	–
	57,703	38,257	500	323

Note: Part of the balance due to a minority shareholder of a subsidiary, amounting to approximately HK\$20,579,000, represents the outstanding purchase consideration payable for the acquisition of a 55% shareholding in a subsidiary in the current year (note 27(a)(ii)). The remaining balance of approximately HK\$4,129,000 represents an amount advanced from the minority shareholder for use as working capital of the above mentioned subsidiary. Both balances are unsecured, interest-free and are repayable on demand.

21. BANKING FACILITIES

As at 31 December 2000, the Group's banking facilities were secured by the pledge of the Group's time deposits amounting to approximately HK\$15.9 million (1999: HK\$25.9 million).

22. FINANCE LEASE PAYABLES

There were obligations under finance leases at the balance sheet date as follows:

	Group		Company	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amounts payable:				
Within one year	869	466	455	337
In the second year	834	337	455	337
In the third to fifth years, inclusive	644	813	644	813
Total minimum finance lease payments	2,347	1,616	1,554	1,487
Future finance charges	(406)	(307)	(290)	(295)
Total net finance lease payables	1,941	1,309	1,264	1,192
Portion classified as current liabilities	(723)	(387)	(370)	(270)
Long term portion	1,218	922	894	922

Notes to Financial Statements (continued)

31 December 2000

23. DEFERRED TAX

	Group	
	2000	1999
	HK\$'000	HK\$'000
At beginning of year	911	586
Charge/(credit) for the year – note 8	(600)	325
At 31 December	311	911

The principal components of the Group's deferred tax liability/(asset) position and the amounts not provided for in the financial statements are as follows:

	Provided		Not provided	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Accelerated depreciation allowances	311	911	–	27
Tax losses carried forward	–	–	(548)	(2,169)
	311	911	(548)	(2,142)

There were no significant potential deferred tax liabilities for which provision has not been made for the Company as at 31 December 2000 (1999: Nil).

The revaluation of the Group's leasehold land and building does not constitute a timing difference and, consequently, the amount of potential deferred tax thereon has not been quantified.

24. SHARE CAPITAL

Shares

	2000	1999
	HK\$'000	HK\$'000
Authorised:		
1,000,000,000 (1999: 1,000,000,000) ordinary shares of HK\$0.10 (1999: HK\$0.10) each	100,000	100,000
Issued and fully paid:		
362,000,000 (1999: 280,000,000) ordinary shares of HK\$0.10 (1999: HK\$0.10) each	36,200	28,000

During the year, the following movements in the Company's issued share capital took place:

- (a) On 10 January 2000, the Company entered into a placing and subscription agreement with Clear Goal Holding Limited ("Clear Goal"), which was the Company's then ultimate holding company, and an independent placing agent. According to this agreement, Clear Goal agreed to place 56,000,000 existing ordinary shares of HK\$0.10 each in the share capital of the Company at a price of HK\$2.90 per share to the independent placing agent, and thereafter subscribed for 42,000,000 new shares of HK\$0.10 each in the Company also at a price of HK\$2.90 per share. The placing and the subscription of the new shares were completed on 13 January 2000 and 24 January 2000, respectively. A sum of approximately HK\$116,060,000, net of placement expenses, was raised and used partly for the expansion of the Group's e-commerce and Internet businesses, and partly used as additional working capital.
- (b) Pursuant to a placing agreement and a subscription agreement both dated 13 September 2000, the Company, through another independent placing agent, placed 32,000,000 new ordinary shares of HK\$0.10 each in the Company at a price of HK\$3.50 per share to independent third parties. A sum of approximately HK\$108,383,000, net of placement expenses, was raised and used partly for the expansion of the systems integration business in the PRC and the software training business, and partly used as working capital of the Group.
- (c) Pursuant to an ordinary resolution passed by the shareholders of the Company at a special general meeting held on 19 October 2000, 8,000,000 new ordinary shares of HK\$0.10 each were issued at a price of HK\$2.165 per share to independent third parties for the partial settlement of the additional investment in CCT, an unlisted long term equity investment.

Notes to Financial Statements (continued)

31 December 2000

24. SHARE CAPITAL (continued)**Shares** (continued)

A summary of the above movements in the Company's issued ordinary share capital during the year is as follows:

		Carrying	No. of	Carrying	No. of
		amount	shares	amount	shares
		2000	2000	1999	1999
		HK\$		HK\$	
At beginning of year		28,000,000	280,000,000	200,000	210,000,000
Placement of new shares	(a), (b)	7,400,000	74,000,000	–	–
Issue of shares for additional investment in CCT	(c)	800,000	8,000,000	–	–
Issue of shares of HK\$0.10 each to public		–	–	7,000,000	70,000,000
Capitalisation of share premium account as a result of public share issue		–	–	20,800,000	–
At end of year		36,200,000	362,000,000	28,000,000	280,000,000

Share options

Under the terms of the share option scheme adopted by the Company on 12 June 1999, the board of directors is authorised, on or before 11 June 2009, at its absolute discretion, to invite any employee, including any executive director of the Company or any of its subsidiaries, to take up options to subscribe for shares in the Company. The subscription price will be the higher of 80% of the average of the closing price of the Company's shares on The Stock Exchange of Hong Kong Limited for the five trading days immediately preceding the date of the offer of grant of the option and the nominal value of the shares. The maximum number of shares in respect of which options may be granted under the share option scheme may not exceed, in nominal amount, 10% of the issued share capital of the Company from time to time which have been duly allotted and issued. The share option scheme became effective upon the listing of the Company's shares on The Stock Exchange of Hong Kong Limited on 6 July 1999.

24. SHARE CAPITAL (continued)

Share options (continued)

The movements in the number of share options to subscribe for shares in the Company during the year were as follows:

Date of grant of share options	Number of share options granted during the year	Number of share options lapsed during the year	Number of share options outstanding at 31 December 2000	Exercise price	Exercise period
21 January 2000	5,600,000	622,000	4,978,000	HK\$2.532	21 January 2001 to 20 January 2010
31 May 2000	500,000	–	500,000	HK\$1.82	31 May 2001 to 30 May 2010
29 September 2000	200,000	–	200,000	HK\$2.108	29 September 2001 to 28 September 2010
27 December 2000	800,000	50,000	750,000	HK\$1.481	27 December 2001 to 26 December 2010
	7,100,000	672,000	6,428,000		

At the balance sheet date, the Company had 6,428,000 share options outstanding. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 6,428,000 new ordinary shares of HK\$0.10 each in the Company.

Notes to Financial Statements (continued)

31 December 2000

25. RESERVES**Group**

	Share	Contributed	Goodwill	Exchange	Retained	Total
	premium account	surplus	reserve	fluctuation reserve	profits	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 1999	–	(19)	–	–	28,328	28,309
Issue of shares	82,600	–	–	–	–	82,600
Capitalisation issue of shares	(20,800)	–	–	–	–	(20,800)
Share issue expenses	(18,242)	–	–	–	–	(18,242)
Arising from acquisition of additional interest in a subsidiary	–	–	(602)	–	–	(602)
Retained profit for the year	–	–	–	–	21,342	21,342
At 31 December 1999 and 1 January 2000	43,558	(19)	(602)	–	49,670	92,607
Issue of shares (note 24)	242,920	–	–	–	–	242,920
Share issue expenses (note 24)	(9,357)	–	–	–	–	(9,357)
Arising from acquisition of a subsidiary	–	–	(36,946)	–	–	(36,946)
Exchange realignments	–	–	–	45	–	45
Retained profit for the year	–	–	–	–	11,573	11,573
At 31 December 2000	277,121	(19)	(37,548)	45	61,243	300,842

25. RESERVES (continued)

Company

	Share	Contributed	Retained	Total
	premium	surplus	profits	
	account			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Arising on acquisition of TVIL	–	39,531	–	39,531
Applied in payment of 1,000,000 shares allotted nil paid on incorporation	–	(100)	–	(100)
Issue of shares	82,600	–	–	82,600
Capitalisation issue of shares	(20,800)	–	–	(20,800)
Share issue expenses	(18,242)	–	–	(18,242)
Net profit for the period	–	–	14,001	14,001
Dividends	–	–	(12,936)	(12,936)
At 31 December 1999 and 1 January 2000	43,558	39,431	1,065	84,054
Issue of shares (note 24)	242,920	–	–	242,920
Share issue expenses (note 24)	(9,357)	–	–	(9,357)
Net Profit for the year	–	–	5,873	5,873
Dividends	–	–	(6,640)	(6,640)
At 31 December 2000	277,121	39,431	298	316,850

The contributed surplus of the Group represents the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to the Group reorganisation on 12 June 1999 over the nominal value of the share capital of the Company issued in exchange therefor.

The contributed surplus of the Company represents the excess of the combined net assets value of the subsidiaries acquired pursuant to the same reorganisation, over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Act 1981 of Bermuda, the Company may make distributions to its members out of contributed surplus under certain circumstances.

Notes to Financial Statements (continued)

31 December 2000

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT**(a) Reconciliation of profit from operating activities to net cash outflow from operating activities**

	Group	
	2000	1999
	HK\$'000	HK\$'000
Profit from operating activities	21,253	43,841
Interest income	(6,099)	(3,408)
Depreciation	4,895	2,497
Amortisation of deferred development costs	1,802	1,316
Deferred development costs written off	4,217	–
Gain on disposal of fixed assets, net	(453)	(153)
Deficit on revaluation of leasehold land and building	–	95
Decrease/(increase) in inventories	(3,639)	7,132
Increase in accounts receivable	(17,174)	(90,872)
Decrease in bills receivable	5,414	48,760
Increase in prepayments, deposits and other receivables	(25,390)	(3,454)
Increase/(decrease) in trade and bills payable	2,032	(12,190)
Increase/(decrease) in trust receipt loans with original maturity of more than three months	(3,978)	3,978
Decrease in accrued and other liabilities	(5,262)	(22,784)
Increase/(decrease) in amounts due to certain minority shareholders	(16,638)	13,918
Increase/(decrease) in amounts due to related companies	(7,293)	11,315
Net cash outflow from operating activities	(46,313)	(9)

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Analysis of changes in financing during the year

	Share capital and share premium	Due to a related company	Due to a minority shareholder	Finance lease payables	Pledged time deposits	Minority interests
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 1999	200	26,449	–	1,174	(17,476)	544
Cash inflow/(outflow) from financing activities, net	71,358	(26,449)	–	(1,215)	(8,419)	–
Inception of finance lease contracts	–	–	–	1,350	–	–
Share of profit for the year	–	–	–	–	–	1,922
Acquisition of additional equity interest in a subsidiary	–	–	–	–	–	(308)
At 31 December 1999 and 1 January 2000	71,558	–	–	1,309	(25,895)	2,158
Cash inflow/(outflow) from financing activities, net	224,443	–	4,129	(1,029)	10,010	750
Inception of finance lease contracts	–	–	–	1,661	–	–
Share of profit for the year	–	–	–	–	–	1,628
Acquisition of a subsidiary	–	–	–	–	–	4
Issue of shares for additional investment in CCT	17,320	–	–	–	–	–
At 31 December 2000	313,321	–	4,129	1,941	(15,885)	4,540

Notes to Financial Statements (continued)

31 December 2000

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)**(c) Acquisition of a subsidiary**

	Group	
	2000	1999
	HK\$'000	HK\$'000
Net assets acquired:		
Other receivables	8	–
Minority interests	(4)	–
	<u>4</u>	–
Legal expenses incurred incidental to the acquisition	(200)	–
Goodwill on acquisition	36,946	–
	<u>36,750</u>	–
Consideration	36,750	–
Satisfied by:		
Cash consideration paid and payable	36,750	–

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

	Group	
	2000	1999
	HK\$'000	HK\$'000
Cash consideration paid and payable	36,750	–
Cash consideration payable (note 20(a))	(20,579)	–
	<u>16,171</u>	–
Cash consideration paid	16,171	–
Legal expenses paid incidental to the acquisition	200	–
	<u>200</u>	–
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	16,371	–

The subsidiary acquired during the year made no significant contribution to the Group in respect of the cash flows, turnover or net profit attributable to shareholders for the year.

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(d) Major non-cash transactions

- (i) Part of the consideration for the additional investment in CCT during the year, with an amount of HK\$17,320,000, was satisfied by the issue of 8,000,000 ordinary shares of the Company of HK\$0.10 each at a price of HK\$2.165 per share.
- (ii) During the year, the Group entered into finance lease arrangements in respect of fixed assets with a total capital value at the inception of the leases of HK\$1,661,000 (1999: HK\$1,350,000).
- (iii) During the year, the Group acquired a 55% shareholding in a subsidiary with total cash consideration of HK\$36,750,000 of which HK\$20,579,000 (note 20) remained outstanding as at the balance sheet date.
- (iv) The reorganisation of the Group in preparation for the public listing of the Company's shares in the prior year involved the acquisition of the entire issued share capital of TVIL by the issue of 1,000,000 shares of HK\$0.10 each of the Company.

27. COMMITMENTS

(a) Capital commitments

- (i) At the balance sheet date, the Group was committed to make capital injection to two subsidiaries in the PRC of approximately HK\$16,263,000 (1999: Nil).
- (ii) During the year, the Group entered into a sale and purchase agreement (the "S&P Agreement") with an independent third party (the "Seller") for the acquisition of a 55% shareholding in a subsidiary (the "Subsidiary") for a total consideration of HK\$36,750,000, of which HK\$16,171,000 has been settled up to the balance sheet date.

In addition, pursuant to the S&P Agreement, the Seller will be entitled to additional consideration calculated as follows:

- (1) The first additional consideration is to be calculated by multiplying HK\$6.20 million to the quotient of the audited after tax profits of the Subsidiary for the first 12 months following its acquisition by the Group and HK\$15 million.
- (2) The second additional consideration is to be calculated by multiplying HK\$11.17 million to the quotient of the audited after tax profits of the Subsidiary for the second 12 months following its acquisition by the Group and HK\$27 million.
- (3) The third additional consideration is to be calculated by multiplying HK\$14.08 million to the quotient of the audited after tax profits of the Subsidiary for the third 12 months following its acquisition by the Group and HK\$34 million.

Notes to Financial Statements (continued)

31 December 2000

27. COMMITMENTS (continued)

(a) Capital commitments (continued)

(ii) (continued)

Half of the additional consideration may be satisfied either by way of cash, or by the allotment and issue of the equivalent value of shares of HK\$0.10 in the capital of the Company at the option of the Group, with reference to the closing prices of the Company's shares as quoted on The Stock Exchange of Hong Kong Limited on the relevant dates of payments. Pursuant to the S&P Agreement, the number of shares to be allotted and issued to the Seller shall not be equal to or exceed 9.9% of the issued share capital of the Company from time to time, or otherwise the consideration shall be paid in cash. Further details of the transaction and the adjustment basis of the additional consideration are set out in the Company's circular to the shareholders dated 15 August 2000.

(iii) On 28 November 2000, the Group entered into a sale and subscription agreement (the "Agreement") with, inter alia, an independent third party (the "Vendor") to acquire 2,710 existing issued shares ("Existing Shares") and to subscribe for 4,880 new shares ("New Shares") in DMX, further details of which are set out in note 16 to the financial statements. The considerations for the Existing Shares and the New Shares are HK\$50 million ("Existing Shares Consideration"), subject to adjustments detailed below, and HK\$90 million ("New Shares Consideration"), respectively. Immediately upon the completion of the Agreement, the Group will own 51% of the issued share capital of DMX.

Pursuant to the Agreement, HK\$10 million of the Existing Shares Consideration is payable upon the completion of the Agreement (the "Completion"). The remaining balance of HK\$40 million, subject to adjustments, is payable in three instalments. HK\$20 million, HK\$10 million and HK\$10 million of the Existing Shares Consideration will be settled to the Vendor if the audited profits after tax of DMX for the year ending 31 December 2001 ("2001 PAT"), the aggregate of the 2001 PAT and the audited profits after tax of DMX for the year ending 31 December 2002 ("Cumulative 2002 PAT"), and the aggregate of the Cumulative 2002 PAT and the audited profits after tax of DMX for the year ending 31 December 2003 ("Cumulative 2003 PAT") reach HK\$11.6 million, HK\$30.5 million and HK\$59.5 million, respectively.

Should the 2001 PAT, Cumulative 2002 PAT and Cumulative 2003 PAT exceed HK\$19.0 million, HK\$50.1 million and HK\$97.8 million, respectively, or fall below HK\$11.6 million, HK\$30.5 million and HK\$59.5 million, respectively, the remaining Existing Shares Consideration will be adjusted based on the 2001 PAT, Cumulative 2002 PAT and Cumulative 2003 PAT, respectively. Further details of the transaction and the basis of adjustments are set out in the Company's circular to the shareholders dated 5 December 2000.

27. COMMITMENTS (continued)

(a) Capital commitments (continued)

(iii) (continued)

For the New Shares Consideration, a refundable up-front deposit of HK\$25 million had been paid by the Group at the balance sheet date. The remaining portions of the New Shares Consideration, of HK\$25 million, HK\$5 million, HK\$15 million and HK\$20 million are payable upon the Completion, on 30 June 2001, 2002 and 2003, respectively, pursuant to the Agreement.

According to the Agreement, the Group may, at its sole discretion, elect to satisfy the whole or any part of the remaining balance of the Existing Shares Consideration by the allotment and issue of such number of ordinary shares of HK\$0.10 each in the Company ("Consideration Shares") to the Vendor calculated by reference to the average of the closing prices of the Company's shares as quoted on The Stock Exchange of Hong Kong Limited for the five trading days immediately before the relevant dates of payments. However, if the exercise of the right of election would result in the Vendor becoming interested in 10% or more of the issued share capital of the Company at the relevant time, the Group shall pay the Existing Shares Consideration in cash to the Vendor.

The Agreement was completed in January 2001 and HK\$10 million of Existing Shares Consideration and HK\$50 million of New Shares Consideration have been paid by the Group to the Vendor up to the date of approval of these financial statements in accordance with the Agreement.

The Company had no capital commitments at the balance sheet date (1999: Nil).

(b) Commitments under operating leases

	Group		Company	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Annual commitments payable in the following year under non-cancellable operating leases in respect of land and buildings expiring:				
Within one year	951	1,395	-	-
In the second to fifth years, inclusive	3,854	905	1,152	-
	4,805	2,300	1,152	-

Notes to Financial Statements (continued)

31 December 2000

28. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Guarantees in respect of performance bonds in favour of contract customers	275	–	130	–
Guarantees given to banks in connection with facilities granted to certain subsidiaries	–	–	12,498	21,673
	275	–	12,628	21,673

29. COMPARATIVE AMOUNTS

The research and development expenditure of HK\$1,100,000, net exchange losses of HK\$1,928,000 and deficit on revaluation of leasehold land and building of HK\$95,000 included in the administrative expenses in the prior year have been reclassified to the other operating expenses to conform with the current year's presentation.

30. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 25 April 2001.