



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003

1. GENERAL

The Company was incorporated in the Cayman Islands on 5 December 2000 as an exempted company with limited liability under the Companies Law (2001 Second Revision) Chapter 22 of the Cayman Islands.

The shares of the Company have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 24 October 2001.

The Company is an investment holding company and the principal activities of the Group are the trading of computer components and the provision of e-enabling solutions and technical services.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARD

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

SSAP 12 (Revised)	Income Taxes
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Income Taxes

The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. The adoption of this standard has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

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

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

Investments in subsidiaries

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

Revenue recognition

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

Agency fee income is recognised when the service is provided.

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

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

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the Company. All other leases are classified as operating leases.

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



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Plant and equipment

Plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Depreciation is provided to write off the cost of items of plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, at the rate of 20% per annum.

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

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Inventories

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

Foreign currencies

Transactions in currencies other than Hong Kong Dollars are initially recorded at the rates prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are retranslated at the rates prevailing on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

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



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Retirement benefit costs

The retirement benefit costs charged to the income statement represent the contributions payable in respect of the current year to the Group's defined contribution retirement benefit schemes in Hong Kong and retirement plans in other jurisdictions for its employees.

4. TURNOVER

Turnover represents the amounts received and receivable for goods sold and services provided to outside customers, less trade discounts and returns, during the year.

The Group's turnover for the year analysed by principal activity are as follows:

	2003 HK\$'000	2002 HK\$'000
Turnover by principal activity:		
Distribution of computer components and information technology products	2,101,947	2,043,011
Provision of integrated e-enabling solutions	100,986	79,179
	2,202,933	2,122,190

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into two operating divisions as follows:

- Distribution of computer components and information technology products
- Provision of integrated e-enabling solutions

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Segment information about these businesses is set out as follows:

For the year ended 31 December 2003

	Distribution of computer components and information technology products HK\$'000	Provision of integrated e-enabling solutions HK\$'000	Consolidated HK\$'000
TURNOVER			
External sales	2,101,947	100,986	2,202,933
RESULT			
Segment result	43,575	14,321	57,896
Other operating income			13,137
Unallocated corporate expenses			(3,264)
Profit from operations			67,769
Finance costs			(14,940)
Profit before taxation			52,829
Taxation			(2,549)
Profit attributable to shareholders			50,280
At 31 December 2003			
Assets			
Segment assets	740,233	25,764	765,997
Unallocated corporate assets			151,380
Consolidated total assets			917,377
Liabilities			
Segment liabilities	165,671	4,514	170,185
Unallocated corporate liabilities			329,769
Consolidated total liabilities			499,954
OTHER INFORMATION			
Capital additions	947	–	947
Depreciation	926	9	935

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

For the year ended 31 December 2002

	Distribution of computer components and information technology products	Provision of integrated e-enabling solutions	Consolidated
	HK\$'000	HK\$'000	HK\$'000
TURNOVER			
External sales	2,043,011	79,179	2,122,190
RESULT			
Segment result	71,572	12,150	83,722
Other operating income			4,963
Unallocated corporate expenses			(2,411)
Profit from operations			86,274
Finance costs			(10,403)
Profit before taxation			75,871
Taxation			(9,868)
Profit attributable to shareholders			66,003
At 31 December 2002			
Assets			
Segment assets	868,005	64,710	932,715
Unallocated corporate assets			249,998
Consolidated total assets			1,182,713
Liabilities			
Segment liabilities	341,688	29,438	371,126
Unallocated corporate liabilities			431,391
Consolidated total liabilities			802,517
OTHER INFORMATION			
Capital additions	1,153	8	1,161
Depreciation	761	9	770

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Geographical segments

The Group's operations are substantially located in Hong Kong and the People's Republic of China (the "PRC") throughout the year. An analysis of the Group's sales by geographical market is set out as follows:

	2003	2002
	HK\$'000	HK\$'000
Turnover by geographical market		
PRC	1,020,999	610,040
Hong Kong	1,181,934	1,512,150
	2,202,933	2,122,190
Contribution to gross profit by geographical market		
PRC	52,374	46,746
Hong Kong	40,147	73,436
	92,521	120,182
Carrying amount of segment assets analysed by location of assets		
PRC	485,740	387,424
Hong Kong	431,637	795,289
	917,377	1,182,713
Additions to plant and equipment analysed by location of assets		
PRC	–	41
Hong Kong	947	1,120
	947	1,161



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003

6. COST OF SALES

	2003 HK\$'000	2002 HK\$'000
Cost of sales comprises		
Cost of goods sold	2,196,802	2,067,705
Rebates	(86,390)	(65,697)
	2,110,412	2,002,008

7. OTHER OPERATING INCOME

	2003 HK\$'000	2002 HK\$'000
Agency fee income	9,800	–
Gain on disposal of plant and equipment	13	3
Interest on bank deposits	1,283	2,600
Sundry income	2,041	2,360
	13,137	4,963

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003

8. PROFIT FROM OPERATIONS

Profit from operations has been arrived at after charging:

	2003	2002
	HK\$'000	HK\$'000
Auditors' remuneration	730	730
Depreciation of plant and equipment	935	770
Operating lease rentals in respect of rented premises	3,905	3,039
Staff costs		
Directors' remuneration		
– fees	480	480
– other emoluments	6,125	8,360
– retirement benefit scheme contributions	35	36
	6,640	8,876
Staff costs excluding directors' remuneration	15,135	14,702
Retirement benefit scheme contributions, excluding amounts included in directors' remuneration	273	193
	15,408	14,895
Total staff costs	22,048	23,771

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Directors' emoluments

	2003 HK\$'000	2002 HK\$'000
Fees		
Executive directors	–	–
Independent non-executive directors	480	480
	480	480
Other emoluments (executive directors)		
Salaries and other benefits (<i>note</i>)	6,125	4,944
Bonus	–	3,416
Retirement benefit scheme contributions	35	36
	6,160	8,396
Total emoluments	6,640	8,876

Note: The directors' salaries and other benefits include the operating lease rentals amounting to HK\$800,000 (2002: HK\$579,000) in respect of rented premises provided to a director. The amounts are also included in the operating lease rentals in respect of rented premises under note 8 above.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

The emoluments of directors were within the following bands:

	Number of directors	
	2003	2002
Up to HK\$1,000,000	2	3
HK\$1,000,001 to HK\$1,500,000	1	–
HK\$1,500,001 to HK\$2,000,000	1	–
HK\$2,000,001 to HK\$2,500,000	–	2
HK\$2,500,001 to HK\$3,000,000	1	–
HK\$3,500,001 to HK\$4,000,000	–	1
	5	6

Employees' emoluments

During the year, the five highest paid individuals included three (2002: three) directors, details of whose emoluments are set out above. The emoluments of the remaining two (2002: two) highest paid individuals are as follows:

	2003 HK\$'000	2002 HK\$'000
Salaries and other benefits	1,942	1,426
Retirement benefit scheme contributions	19	15
	1,961	1,441

The emoluments of the remaining two (2002: two) highest paid individuals are within the following bands:

	Number of employees	
	2003	2002
Up to HK\$1,000,000	2	2

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003

10. FINANCE COSTS

	2003 HK\$'000	2002 HK\$'000
Interest on bank overdrafts and short-term bank borrowings wholly repayable within five years	11,777	7,237
Bank charges	3,163	3,166
	14,940	10,403

11. TAXATION

	2003 HK\$'000	2002 HK\$'000
Hong Kong Profits Tax		
Current year	2,314	11,540
Under(over)provision in previous years	235	(1,672)
Taxation attributable to the Company and its subsidiaries	2,549	9,868

Hong Kong Profits Tax is calculated at 17.5% (2002: 16%) of the estimated assessable profit for the year.

No provision for taxation has been made in respect of the Company's subsidiaries operating in other jurisdictions as they did not have assessable profits for both years.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003

11. TAXATION (continued)

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

	2003 HK\$'000	2002 HK\$'000
Profit before tax	52,829	75,871
Tax at Hong Kong Profits Tax rate of 17.5% (2002: 16%)	9,245	12,139
Tax effect of non-deductible expenses	88	8
Tax effect of exempted offshore profits	(7,450)	–
Tax effect of non-taxable income	(40)	(148)
Tax effect of utilisation of tax losses not previously recognised	–	(10)
Tax effect of tax losses not recognised	368	310
Under (over) provision in previous years	235	(1,672)
Effect of different tax rates of subsidiaries operating in other jurisdictions	15	7
Others	88	(766)
Tax charge for the year	2,549	9,868

At the balance sheet date, the Group had unused tax losses of approximately HK\$4,546,000 (2002: HK\$2,921,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams of relevant subsidiaries. The unrecognised tax losses may be carried forward indefinitely except the losses of HK\$2,170,000 (2002: HK\$1,554,000) which will expire as follows:

Year of expiry	2003 HK\$'000	2002 HK\$'000
2005	351	351
2006	496	496
2007	707	707
2008	616	–
	2,170	1,554

At the balance sheet date, there were no other significant temporary differences.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003

12. DIVIDENDS

	2003 HK\$'000	2002 HK\$'000
Interim dividend	–	11,200
Final dividend proposed	–	9,600
	–	20,800

Notes:

- (a) No dividend for 2003 has been paid or declared by the Company during the year. The directors do not recommend the payment of a final dividend.
- (b) In respect of the year ended 31 December 2002, an interim dividend at HK\$0.007 per share was paid and a final dividend at HK\$0.006 per share was proposed.

13. EARNINGS PER SHARE

The calculation of the basic earnings per share for the year is based on the net profit for the year of HK\$50,280,000 (2002: HK\$66,003,000) and on the 1,600,000,000 shares in issue.

The calculation of the diluted earnings per share is based on the net profit for the year of HK\$50,280,000 and on the weighted average of 1,602,729,443 shares in issue and issuable on the assumption that the outstanding options are exercised on the date on which they are granted.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003

14. PLANT AND EQUIPMENT

	Furniture, fixtures and equipment	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000
THE GROUP			
COST			
At 1 January 2003	2,715	1,734	4,449
Additions	317	630	947
Disposals	(85)	–	(85)
At 31 December 2003	2,947	2,364	5,311
DEPRECIATION			
At 1 January 2003	1,084	647	1,731
Provided for the year	510	425	935
Eliminated on disposals	(27)	–	(27)
At 31 December 2003	1,567	1,072	2,639
NET BOOK VALUES			
At 31 December 2003	1,380	1,292	2,672
At 31 December 2002	1,631	1,087	2,718

The Company did not have any plant and equipment during the year and at the balance sheet date.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003

15. INVESTMENT IN A SUBSIDIARY

THE COMPANY

2003 & 2002

HK\$'000

Unlisted shares	112,569
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The carrying value of the unlisted shares is based on the fair values of the underlying net assets of the subsidiaries at the time they became members of the Group under the group reorganisation of the Group in August 2001.

Particulars of the Company's subsidiaries at 31 December 2003 are set out in note 27.

16. INVENTORIES

THE GROUP

2003

2002

HK\$'000

HK\$'000

Finished goods	331,924	632,178
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All inventories are carried at cost at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003

17. TRADE RECEIVABLES, PREPAYMENTS AND DEPOSITS

The credit terms of the Group range from 30 to 180 days. The aged analysis of trade receivables at the reporting date is as follows:

	2003 HK\$'000	2002 HK\$'000
Aged		
0 to 30 days	119,229	61,373
31 to 60 days	55,403	90,301
61 to 90 days	69,436	117,300
91 to 180 days	177,608	20,100
Total trade receivables	421,676	289,074
Prepayments, deposits and other receivables	13,545	16,647
	435,221	305,721

18. TRADE PAYABLES, SALES DEPOSITS AND ACCRUED CHARGES

The aged analysis of trade payables at the reporting date is as follows:

	2003 HK\$'000	2002 HK\$'000
Aged		
0 to 30 days	164,441	360,883
31 to 60 days	–	4,871
61 to 90 days	–	3,172
91 to 120 days	–	15
Total trade payables	164,441	368,941
Sales deposits	5,744	2,186
Accrued charges	5,299	6,528
	175,484	377,655

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003

19. BANK OVERDRAFTS AND SHORT-TERM BANK BORROWINGS

	2003 HK\$'000	2002 HK\$'000
Bank overdrafts, unsecured	–	232
Short-term bank borrowings		
– secured	256,067	424,630
– unsecured	68,403	–
	324,470	424,862

20. SHARE CAPITAL

	No. of shares	HK\$'000
Shares of HK\$0.01 each		
Authorised		
At 1 January 2002, 31 December 2002 and 31 December 2003	10,000,000,000	100,000
Issued and fully paid		
At 1 January 2002, 31 December 2002 and 31 December 2003	1,600,000,000	16,000

There were no changes in the Company's authorised, issued and fully paid share capital during the two years ended 31 December 2003.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003

21. SHARE OPTION SCHEME

The Company's share option scheme (the "Option Scheme") was adopted pursuant to a resolution passed on 29 August 2001 for the purpose of recognition of the contribution from directors and eligible employees of the Group, and will expire in August 2011. Under the Option Scheme, the board of directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

Subject to the condition that the total number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Option Scheme and any other schemes of the Company must not exceed 30% of the shares of the Company in issue from time to time, the total number of shares in respect of which options may be granted under the Option Scheme, when aggregated with any shares subject to any other schemes is not permitted to exceed 10% of the issued share capital of the Company immediately upon the listing of the shares on the Stock Exchange, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual in aggregate in any 12-month period is not permitted to exceed 1% of the shares of the Company in issue, without prior approval from the Company's shareholders.

Options granted must be taken up within 28 days of the date of grant, upon payment of HK\$1 per option. Options may be exercised at any time from the expiry of 6 months from the date of acceptance of the share option to such date as determined by the board of directors but in any event not exceeding 10 years. The exercise price is determined by the directors of the Company and will not be less than the higher of the average closing price of the shares for the five business days immediately preceding the date of grant or the closing price of the shares on the date of grant.

As the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") relating to the share option schemes were amended on 1 September 2001, share option can be granted under the Option Scheme provided that the existing Listing Rules on share option schemes are complied with.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003

21. SHARE OPTION SCHEME (continued)

On 30 May 2003, the shareholders of the Company resolved to make certain amendments to the Option Scheme. Under the amendments, the board of the directors of the Company may grant options to eligible participants in recognition of their contribution to the Group. Eligible participants are defined as any full-time or part-time employees of the Group (including any executive, non-executive and independent non-executive directors of the Company or any of its subsidiaries) and any suppliers, consultants and distributors of the Group who, in the sole discretion of the board of the directors of the Company, have contributed or may contribute to the Group. The options granted may be exercised at any time from the business day immediately after the date of acceptance to such date to be determined by the board of directors of the Company but in any event shall not exceed the period of 10 years.

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

For the year ended 31 December 2003

	Outstanding at 1 January 2003	Granted during the year	Exercised during the year	Outstanding at 31 December 2003
Employees	–	45,370,000	–	45,370,000

There were no options granted or exercised during the year ended 31 December 2002.

Total consideration received during the year from employees for taking up the options granted amounted to HK\$28.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recognised in the income statement in respect of the value of options granted in the year. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which lapse or are cancelled prior to their exercise dates are deleted from the register of outstanding options.

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22. RESERVES

	Share premium HK\$'000	Special reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
THE GROUP				
At 1 January 2002	165,557	9,370	171,421	346,348
2001 final dividend paid	(32,000)	–	–	(32,000)
2002 interim dividend paid	(11,200)	–	–	(11,200)
Net profit for the year	–	–	66,003	66,003
At 31 December 2002 and 1 January 2003	122,357	9,370	237,424	369,151
2002 final dividend paid	–	–	(9,600)	(9,600)
Net profit for the year	–	–	50,280	50,280
At 31 December 2003	122,357	9,370	278,104	409,831
	Share premium HK\$'000	Contributed surplus HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
THE COMPANY				
At 1 January 2002	165,557	112,369	60	277,986
2001 final dividend paid	(32,000)	–	–	(32,000)
2002 interim dividend paid	(11,200)	–	–	(11,200)
Net profit for the year	–	–	7	7
At 31 December 2002 and 1 January 2003	122,357	112,369	67	234,793
2002 final dividend paid	–	–	(9,600)	(9,600)
Net profit for the year	–	–	9,607	9,607
At 31 December 2003	122,357	112,369	74	234,800

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003

22. RESERVES (continued)

The contributed surplus of the Company represents the difference between the carrying amounts of the underlying net assets of the subsidiaries at the date on which they were acquired by the Company and the nominal amount of the Company's shares issued under the group reorganisation of the Group in August 2001.

The special reserve of the Group represents the difference between the nominal value of the shares of the acquired subsidiaries and the nominal value of the Company's shares issued for the acquisition under the group reorganisation.

The Company's reserves available for distribution to shareholders as at 31 December 2003 represent the aggregate of share premium, contributed surplus, accumulated profits of HK\$234,800,000 (2002: HK\$234,793,000).

23. PLEDGE OF ASSETS

In accordance with the terms of the distribution agreement entered into between the Group and a major supplier, the Group has granted the major supplier a security interest in the inventories supplied and in any proceeds (including accounts receivable) as security for any outstanding amount due by the Group. The aggregate amount of relevant assets pledged at the respective balance sheet dates is as follows:

	2003 HK\$'000	2002 HK\$'000
Assets pledged	118,877	357,264

In addition, the Group's bank deposits at the balance sheet date pledged to bankers to secure certain banking facilities were as follows:

	2003 HK\$'000	2002 HK\$'000
Bank deposits pledged	65,999	120,060

NOTES TO THE FINANCIAL STATEMENTS

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24. CONTINGENT LIABILITIES

The Group had no contingent liabilities at the balance sheet date.

The Company had executed guarantees for unlimited amounts in favour of its bankers in respect of banking facilities granted to its subsidiaries. The total amounts utilised by the subsidiaries as at 31 December 2003 were approximately HK\$324,470,000 (2002: HK\$424,630,000).

25. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group had commitments for future minimum lease payments in respect of land and buildings under non-cancellable operating leases which fall due as follows:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Within one year	1,010	2,250
In the second to fifth year inclusive	560	361
	1,570	2,611

Operating lease payments represent rentals payable by the Group for certain of its office premises and employees' quarters. Leases are negotiated for an average of 2 years.

The Company had no operating lease commitment at the balance sheet date.



NOTES TO THE FINANCIAL STATEMENTS

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26. RETIREMENT BENEFIT SCHEMES

The Group operates a defined contribution Mandatory Provident Fund Scheme under the Mandatory Provident Fund Scheme Ordinance for all qualifying employees in Hong Kong since December 2000. The assets of the scheme are held separately from those of the Group in funds under the control of trustees.

The employees of the Group's subsidiaries in other jurisdictions are members of state-managed retirement benefit schemes operated by the government of the jurisdictions. The subsidiaries are required to contribute a specified percentage of their payroll costs to the retirement benefit schemes. The only obligation of the Group with respect to the retirement benefit schemes is to make the specified contributions.

The total cost charged to the income statement of HK\$308,000 (2002: HK\$229,000) represents contributions payable to the schemes by the Group at rates specified in the rules of the schemes. As at 31 December 2003, contributions of HK\$26,000 (2002: HK\$22,000) due in respect of the current reporting year had not been paid to the schemes.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003

27. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's subsidiaries, all of which are wholly owned at 31 December 2003 are as follows:

Name of subsidiary	Place of incorporation and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company		Principal activities
			Directly	Indirectly	
Advance Great Limited	Hong Kong	HK\$10,000	–	100%	Trading of computer components
Ariel International Technology Co., Limited	Hong Kong	HK\$10	–	100%	Trading of networking products
亞邦電腦國際貿易(上海)有限公司**	PRC	US\$200,000	–	100%	Trading of computer components and networking products and provision of technical support and after-sales services
Artel Computer Solutions Limited	British Virgin Islands	US\$200,000	–	100%	Investment holding
Artel e-Solutions Limited	British Virgin Islands	US\$110	–	100%	Investment holding
Artel International Holdings Limited	British Virgin Islands	US\$5	100%	–	Investment holding
Artel Industries Limited	Hong Kong	Ordinary – HK\$2 Deferred – HK\$8,000,000*	–	100%	Trading of computer components and networking products and provision of integrated e-enabling solutions

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003

27. PARTICULARS OF SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company		Principal activities
			Directly	Indirectly	
Artel International Investments Limited	British Virgin Islands	US\$1	–	100%	Inactive
Artel Macao Commercial Offshore Limited	Macau	MOP1,000,000	–	100%	Trading of computer components and networking products and provision of integrated e-enabling solutions
ASEP Solutions Limited	Hong Kong	HK\$2	–	100%	Provision of e-enabling solutions and technical services
Best Hero Limited	Hong Kong	HK\$10,000	–	100%	Trading of computer components
Cyber King Group Limited	British Virgin Islands	US\$1	–	100%	Inactive
Hashan Development Company, Limited	Hong Kong	HK\$100,000	–	100%	Assets holding

* The deferred shares are not held by the Group and practically carry no right to dividend or to receive notice of or to attend or vote at any annual general meeting of the subsidiary or to participate in any distribution on winding up.

** This subsidiary is a wholly foreign-owned enterprise.

None of the subsidiaries had issued any debt securities at the end of the year.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003

28. ULTIMATE HOLDING COMPANY

The Company's ultimate holding company is E-Career Investments Limited, a limited company incorporated in the British Virgin Islands.

29. APPROVAL OF FINANCIAL STATEMENTS

The financial statements set out on page 19 to 51 were approved and authorised for issue by the Board of Directors on 26 April 2004.