

Notes on the Accounts

For the year ended 31 December 2000
(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These accounts have been prepared in accordance with all applicable Statements of Standard Accounting Practice ("SSAP") and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The accounts also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). A summary of the significant accounting policies adopted by the Group is set out below.

(b) Basis of preparation of the accounts

The measurement basis used in the preparation of the accounts is historical cost modified by the revaluation of investment properties and buildings, as explained in the accounting policies set out below.

(c) Basis of consolidation

- (i) The consolidated accounts include the accounts of the Company and all 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 profit and loss account from or to the date of their acquisition or disposal, as appropriate. All material intercompany transactions and balances are eliminated on consolidation.
- (ii) Goodwill arising on the acquisition of subsidiaries, being the excess of the cost of investments in these companies over the fair value of the Group's share of the separable net assets acquired, is eliminated against reserves immediately on acquisition. The excess of the Group's share of the fair value of the separable net assets of subsidiaries acquired over the cost is credited directly to reserves.

On disposal of a subsidiary during the year, any attributable amount of purchased goodwill which has previously been dealt with as a movement on group reserves is included in the calculation of the profit or loss on disposal of a subsidiary.

Notes on the Accounts

For the year ended 31 December 2000

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Basis of consolidation (Continued)

- (iii) Losses attributable to minority shareholders of partly owned subsidiaries are accounted for based on the respective equity owned by the minority shareholders up to the amount of the capital contributed by and other reserves attributable to the minority shareholders. Thereafter, all further losses are assumed by the Group.

(d) Interests in subsidiaries

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

Investments in subsidiaries in the Company's balance sheet are stated at cost less any provisions for diminution in value, which is other than temporary as determined by the Directors for each subsidiary individually. Any such provisions are recognised as an expense in the profit and loss account.

(e) Associate

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

Unless the interest in the associate is acquired and held exclusively with a view to subsequent disposal in the near future, an investment in an associate is accounted for in the consolidated accounts under the equity method and is initially recorded at cost and adjusted thereafter for the post-acquisition change in the Group's share of the associate's net assets. The consolidated profit and loss account reflects the Group's share of the post-acquisition results of the associate for the year. Goodwill arising on the acquisition of an associate being the excess of the cost over the fair value of the Group's share of the separable net assets acquired, is eliminated against reserves immediately on acquisition. The excess of the Group's share of the fair value of the separable net assets acquired over the cost of the investment is credited directly to reserves.

Notes on the Accounts

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(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Associate (Continued)

Unrealised profits and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the profit and loss account.

On disposal of an associate during the year, any attributable amount of purchased goodwill which has previously been dealt with as a movement on group reserves is included in the calculation of the profit or loss on disposal.

The results of the associate are included in the Company's profit and loss account to the extent of dividends received and receivable, provided that the dividend is in respect of a period ending on or before that of the Company and the Company's right to receive the dividend is established before the accounts of the Company are approved by the Directors. In the Company's balance sheet, its investments in the associate are stated at cost less any provision for diminution in value which is other than temporary as determined by the Directors for each associate individually. Any such provisions are recognised as an expense in the profit and loss account.

(f) Investments

Investments held on a continuing basis for an identified long-term purpose are classified as "investments". Investments are stated in the balance sheet at cost less any provision for diminution in value. Provisions are made when the fair values have declined below the carrying amounts, unless there is evidence that the decline is temporary, and are recognised as an expense in the profit and loss account, such provisions being determined for each investment individually.

Profits or losses on disposal of investments are determined as the difference between the estimated net disposal proceeds and the carrying amount of the investments and are accounted for in the profit and loss account as they arise.

Notes on the Accounts

For the year ended 31 December 2000

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Fixed assets

- (i) Fixed assets are carried in the balance sheets on the following bases:
 - investment properties with an unexpired lease term of more than 20 years are stated at their open market value which is assessed annually by external qualified valuers or Directors' valuation; and
 - buildings, plant, machinery and other fixed assets are stated at cost less accumulated depreciation.
- (ii) Changes arising on the revaluation of investment properties and land and buildings held for own use are generally dealt with in reserves. The only exceptions are as follows:
 - when a deficit arises on revaluation, it will be charged to the profit and loss account, if and to the extent that it exceeds the amount held in the reserve in respect of that same assets, or solely in the case of investment properties, the portfolio of investment properties, immediately prior to the revaluation; and
 - when a surplus arises on revaluation, it will be credited to the profit and loss account, if and to the extent that a deficit on revaluation in respect of that same assets, or solely in the case of investment properties, the portfolio of investment properties, had previously been charged to the profit and loss account.
- (iii) The carrying amount of fixed assets (other than investment properties with an unexpired lease term of more than 20 years) is reviewed periodically in order to assess whether the recoverable amount has declined below the carrying amount. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The amount of the reduction is recognised as an expense in the profit and loss account except to the extent it relates to land and buildings, in which case it is dealt with in accordance with (ii) above. In determining the recoverable amount, expected future cash flows generated by the fixed assets are discounted to their present values.

Notes on the Accounts

For the year ended 31 December 2000

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Fixed assets (Continued)

When the circumstances and events that led to the write-down or write-off cease to exist, any subsequent increase in the recoverable amount of an asset is written back to the profit and loss account, except to the extent it relates to land and buildings, in which case it is dealt with in accordance with (ii) above. The amount written back is reduced by the amount that would have been recognised as depreciation had the write-down or write-off not occurred.

- (iv) Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Group. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.
- (v) Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised as income or expense in the profit and loss account on the date of retirement or disposal. On disposal of an investment property, the related portion of surpluses or deficits previously taken to the investment properties revaluation reserve is also transferred to the profit and loss account for the year. For all other fixed assets, any related revaluation surplus is transferred from the revaluation reserve to retained profits.

Notes on the Accounts

For the year ended 31 December 2000

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Depreciation

- (i) No depreciation is provided on investment properties with an unexpired lease term of over 20 years.
- (ii) Depreciation is provided to write off the cost or revaluation of other fixed assets over their estimated useful lives on a straight-line basis, after taking into account their estimated residual values, as follows:

| | |
|--|---------------|
| Buildings | 50 years |
| Leasehold improvements | 20 years |
| Plant and machinery | 10 years |
| Furniture, fixtures and office equipment | 3 to 5 years |
| Motor vehicles | 3 to 12 years |

(i) Intangible assets

(i) Patent right

The acquisition costs of a patent right are amortised annually on a straight line basis over its estimated economic life of 10 years.

(ii) Research and development costs

Research and development costs comprise all costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities. Research and development costs are charged to the profit and loss account as incurred, except insofar as those products development costs which relate to a clearly defined project and the future benefits therefrom are reasonably assured.

Development costs recognised as an asset are amortised on a systematic basis over the expected period of return of the related project. The unamortised balance of development costs is reviewed at the end of each period and is written off to the extent that the unamortised balance, taken together with further development and directly related costs, is no longer likely to be recovered. Development costs written off, less attributable amortisation, are written back when the circumstances and events that led to the write off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

Notes on the Accounts

For the year ended 31 December 2000

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Inventories

Inventories comprise mainly computers and the components which are valued at the lower of cost and net realisable value.

For self-manufactured inventories, cost includes the cost of materials determined on the weighted average basis and, in the case of work in progress and finished goods, direct labour and an appropriate proportion of production overheads. For trading inventories purchased, cost is computed on a weighted average basis.

Net realisable value is determined by reference to the sales proceeds of items sold in the ordinary course of business after the balance sheet date or to management estimates based on prevailing market conditions.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(k) Systems integration contracts

The accounting policy for contract revenue of software development and systems integration services is set out in note 1(l)(i). When the outcome of a systems integration contract can be estimated reliably, contract costs are recognised as expense by reference to the stage of completion of the contract activity at the balance sheet date. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of a systems integration contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

Notes on the Accounts

For the year ended 31 December 2000

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Systems integration contracts (Continued)

Systems integration contracts in progress at the balance sheet date are recorded in the balance sheet at the net amount of costs incurred plus recognised profit less recognised losses and progress billings, and are presented in the balance sheet as the "Gross amount due from customers for contract work" (as an asset) or the "Gross amount due to customers for contract work" (as a liability), as applicable. Progress billings not yet paid by the customer are included in the balance sheet under "Trade and other receivables". Amount received before the related work is performed are included in the balance sheet, as a liability, as "Receipts in advance".

(l) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the profit and loss account as follows:

(i) Software development and systems integration services

Revenue arising from the provision of software development and systems integration services is recognised when services are rendered, which are estimated by apportionment over the expected duration of each job and the outcome of the contracts can be assured with reasonable certainty. Revenue excludes value-added tax and is after deduction of any trade discounts.

(ii) Sale of goods

Revenue arising from sale of goods is recognised when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value-added or other sales taxes and is after deduction of any trade discounts.

(iii) Interest income

Interest income from bank deposits and other loans receivable is accrued on a time-apportioned basis on the principal outstanding and the rate applicable.

Notes on the Accounts

For the year ended 31 December 2000

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Deferred taxation

Deferred taxation is provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which are expected with reasonable probability to crystallise in the foreseeable future.

Future deferred tax benefits are not recognised unless their realisation is assured beyond reasonable doubt.

(n) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Differences on foreign currency translation are dealt with in the profit and loss account.

The results of subsidiaries outside Hong Kong and the Group's share of results of an associate outside Hong Kong are translated into Hong Kong dollars at the average exchange rates for the year; balance sheet items are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with as a movement in reserves.

(o) Operating leases

Rentals payable under operating leases are accounted for in the profit and loss account on a straight line basis over the periods of the respective leases.

(p) Borrowing costs

Borrowing costs are expensed in the profit and loss account in the year in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use.

Notes on the Accounts

For the year ended 31 December 2000

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Retirement benefits

Contributions to retirement benefit schemes are charged to the profit and loss account as and when incurred.

(r) Bad and doubtful debts

Accounts receivable are shown net of provision for bad and doubtful debts. Specific provision is made for accounts receivable as and when they are considered doubtful by the Directors.

(s) Related parties

For the purposes of these accounts, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

(t) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

(u) Cash equivalents

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired. For the purposes of the cash flow statement, cash equivalents would also include advances from banks repayable within three months from the date of the advance.

Notes on the Accounts

For the year ended 31 December 2000

(Expressed in Hong Kong dollars)

2 TURNOVER

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are set out in note 13 on the accounts.

Turnover represents income arising from the provision of software development and systems integration services, systems value-added services and the net invoiced value of goods sold after allowances for goods returned, trade discount and value-added tax and excludes intra-group transactions. The amount of each significant category of revenue recognised in turnover during the year is as follows:

| | 2000 \$'000 | 1999 \$'000 |
|---|----------------|----------------|
| Systems value-added services | 513,252 | — |
| Software development and systems integration services | 62,702 | 104,044 |
| General software | 21,135 | — |
| Manufacture and sale of computer related products | 29,137 | 24,813 |
| Distribution of computer related products | — | 27,670 |
| | <u>626,226</u> | <u>156,527</u> |

Notes on the Accounts

For the year ended 31 December 2000

(Expressed in Hong Kong dollars)

3 SEGMENTAL INFORMATION

The analyses of the principal activities and geographical locations of the operations of the Company and its subsidiaries during the financial year are as follows:

| | Group turnover | | Contribution to profit from operations | |
|---|----------------|----------------|--|-----------------|
| | 2000 | 1999 | 2000 | 1999 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Principal activities | | | | |
| Systems value-added services | 513,252 | — | 59,739 | — |
| Software development and systems integration services | 62,702 | 104,044 | 18,463 | 19,012 |
| General software | 21,135 | — | 14,263 | — |
| Manufacture and sale of computer related products | 29,137 | 24,813 | 9,125 | 8,264 |
| Distribution of computer related products | — | 27,670 | — | 5,514 |
| | <u>626,226</u> | <u>156,527</u> | <u>101,590</u> | <u>32,790</u> |
| Operating expenses net of other income | | | <u>(71,460)</u> | <u>(18,829)</u> |
| | | | <u>30,130</u> | <u>13,961</u> |

Geographical locations of operations

| | Group turnover | |
|--|----------------|----------------|
| | 2000 | 1999 |
| | \$'000 | \$'000 |
| The People's Republic of China ("PRC") | 626,226 | 154,675 |
| Other countries | — | 1,852 |
| | <u>626,226</u> | <u>156,527</u> |

Notes on the Accounts

For the year ended 31 December 2000

(Expressed in Hong Kong dollars)

4 OTHER REVENUE/INCOME

| | 2000 \$'000 | 1999 \$'000 |
|--|----------------|----------------|
| Other revenue | | |
| Interest income | 6,316 | 10,572 |
| Dividend income from unlisted investments | — | 2,399 |
| Rental income from operating leases | 536 | 242 |
| Installation and promotion fee | 3,165 | — |
| Technology subsidies | 471 | — |
| Handling charge | — | 269 |
| Written back of provision for bad and doubtful debts | 1,663 | — |
| Others | 1,752 | 441 |
| | <u>13,903</u> | <u>13,923</u> |
| Other income | | |
| Profit on disposal of a subsidiary | <u>7,040</u> | <u>5,727</u> |

Notes on the Accounts

For the year ended 31 December 2000

(Expressed in Hong Kong dollars)

5 PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

Profit from ordinary activities before taxation is arrived at after charging:

| | 2000 | 1999 |
|--|---------------------|--------------|
| | \$'000 | \$'000 |
| (a) Finance cost: | | |
| Interest expense on bank loans and other borrowings | | |
| – wholly repayable within five years | 4,705 | 4,387 |
| Interest on other loans | – | 48 |
| Finance charges | 760 | 297 |
| | <u>5,465</u> | <u>4,732</u> |
| (b) Other items: | | |
| Staff costs (including retirement costs of \$951,000 (1999: \$476,000)) | 38,370 | 10,769 |
| Research and development costs | 1,259 | 7,309 |
| Less: Government subsidy | – | (654) |
| Amount capitalised | – | (1,234) |
| | <u>1,259</u> | <u>5,421</u> |
| Auditors' remuneration | 1,666 | 1,233 |
| Depreciation | 4,654 | 2,304 |
| Amortisation of research and development costs | 823 | 411 |
| Pre-operating costs written off | – | 1,730 |
| Operating lease charges – properties | 5,840 | 2,489 |
| Provision for bad and doubtful debts | 1,462 | 3,472 |
| Provision for inventories | <u>7,244</u> | <u>1,280</u> |

Notes on the Accounts

For the year ended 31 December 2000

(Expressed in Hong Kong dollars)

6 TAXATION

(a) Taxation in the consolidated profit and loss account represents:

| | 2000 \$'000 | 1999 \$'000 |
|--|----------------|----------------|
| Provision for Hong Kong Profits Tax for the year | 464 | 174 |
| Underprovision/(overprovision) in respect of prior years | 16 | (166) |
| | <u>480</u> | <u>8</u> |
| PRC income tax | 1,497 | 181 |
| | <u>1,977</u> | <u>189</u> |
| Deferred taxation (note 25) | 1,174 | — |
| | <u>3,151</u> | <u>189</u> |
| Share of an associate's taxation | 1,150 | 555 |
| | <u>4,301</u> | <u>744</u> |

Provision for Hong Kong Profits Tax is calculated at 16 per cent. (1999: 16 per cent.) of the estimated assessable profits arising in Hong Kong for the year ended 31 December 2000.

PRC income tax is calculated based on the estimated taxable income of subsidiaries for PRC taxation purposes at the rate of taxation applicable, except Beijing Start Ming Tai Computer Application Technology Development Co., Ltd. and Shanghai Futong ComputerLand Co., Ltd. which were exempted from PRC income tax during the year.

Taxation of the associate represents provision for PRC income tax on profits calculated at the applicable rate under the relevant PRC income tax rules and regulations applicable to the associate.

Notes on the Accounts

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(Expressed in Hong Kong dollars)

6 TAXATION (Continued)

(b) (Tax refundable)/taxation in the balance sheets represents:

| | The Group | | The Company | |
|--|-----------|---------|-------------|--------|
| | 2000 | 1999 | 2000 | 1999 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Provision for Hong Kong Profits | | | | |
| Tax for the year | 464 | 174 | – | 17 |
| Provisional Hong Kong Profits | | | | |
| Tax paid | (1,870) | (1,910) | (33) | – |
| | (1,406) | (1,736) | (33) | 17 |
| Balance of PRC income tax payable for the year | 1,342 | 23 | – | – |
| | (64) | (1,713) | (33) | 17 |

7 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

| | 2000 | 1999 |
|--------------------------------------|--------|--------|
| | \$'000 | \$'000 |
| Executive Directors: | | |
| Salaries and other emoluments | 3,486 | 2,628 |
| Compensation in lieu of notice | 1,089 | – |
| Retirement scheme contributions | 69 | 29 |
| Other allowances | 349 | 300 |
| | 4,993 | 2,957 |
| Independent Non-executive Directors: | | |
| Fees | 260 | 260 |

Notes on the Accounts

For the year ended 31 December 2000

(Expressed in Hong Kong dollars)

7 DIRECTORS' REMUNERATION (Continued)

In addition to the above emoluments, certain Directors were granted share options under the Company's share option scheme. The details of these benefits in kind are disclosed under the paragraph "Directors' rights to acquire shares" in the Directors' Report and note 27(b) below.

In the absence of a ready market for the options granted on the shares of the Company, the Directors are unable to arrive at an accurate assessment of the value of the options granted to the respective Directors.

The remuneration of the Directors is within the following bands:

| | 2000 | 1999 |
|---------------------------|------------------|-----------|
| | Number of | Number of |
| | directors | directors |
| Nil – \$1,000,000 | 13 | 15 |
| \$1,000,001 – \$2,000,000 | 1 | – |

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, one of them (1999: four) is a Director whose emoluments are disclosed in note 7 above. The aggregate of the emoluments in respect of the other four (1999: one) individuals are as follows:

| | 2000 | 1999 |
|---------------------------------|---------------|--------|
| | \$'000 | \$'000 |
| Salaries and other emoluments | 4,768 | 525 |
| Retirement scheme contributions | 51 | 12 |
| Discretionary bonus | 207 | – |
| | 5,026 | 537 |

Notes on the Accounts

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8 INDIVIDUALS WITH HIGHEST EMOLUMENTS (Continued)

The emoluments of the four (1999: one) individuals with the highest emoluments are within the following bands:

| | 2000 Number of individuals | 1999 Number of individuals |
|---------------------------|----------------------------------|----------------------------------|
| Nil – \$1,000,000 | – | 1 |
| \$1,000,001 – \$1,500,000 | 3 | – |
| \$1,500,001 – \$2,000,000 | <u>1</u> | <u>–</u> |

9 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Profit attributable to shareholders includes a loss of \$3,006,000 (1999: profit of \$1,035,000) which has been dealt with in the accounts of the Company.

10 DIVIDENDS

The Directors do not recommend the payment of a dividend for the year ended 31 December 2000 (1999: \$Nil).

11 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of \$9,388,000 (1999: \$13,226,000) and the weighted average number of ordinary shares of 387,723,000 (1999: 334,373,000) shares in issue during the year.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to shareholders of \$9,388,000 (1999: \$13,226,000) and the weighted average number of ordinary shares of 397,896,000 (1999: 335,780,000) shares after adjusting for the effects of all dilutive potential ordinary shares.

Notes on the Accounts

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(Expressed in Hong Kong dollars)

11 EARNINGS PER SHARE (Continued)

(c) Reconciliations

| | Number of shares | |
|--|--------------------|-------------|
| | 2000 | 1999 |
| Weighted average number of ordinary shares used in calculating basic earnings per share | 387,723,000 | 334,373,000 |
| Deemed issue of ordinary shares for no consideration | 10,173,000 | 1,407,000 |
| | <hr/> | <hr/> |
| Weighted average number of ordinary shares used in calculating diluted earnings per share | 397,896,000 | 335,780,000 |
| | <hr/> | <hr/> |

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(Expressed in Hong Kong dollars)

12 FIXED ASSETS

(a) The Group

| | Buildings | Leasehold improvements | Plant and machinery | Furniture, fixtures and office equipment | Motor vehicles | Sub- total | Investment properties | Total |
|--|--------------|---------------------------|------------------------|---|-------------------|---------------|--------------------------|---------------|
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Cost or valuation: | | | | | | | | |
| At 1 January 2000 | 10,682 | 1,181 | 13,545 | 6,156 | 1,950 | 33,514 | – | 33,514 |
| Exchange adjustments | 9 | 3 | 102 | 26 | 11 | 151 | – | 151 |
| Additions – through acquisitions | | | | | | | | |
| of subsidiaries | – | 823 | – | 2,407 | 1,013 | 4,243 | 1,753 | 5,996 |
| – others | 76 | 62 | 4,385 | 6,040 | 1,738 | 12,301 | – | 12,301 |
| Disposals | – | – | – | (607) | (815) | (1,422) | – | (1,422) |
| Disposals of subsidiaries | – | – | (709) | (3,720) | (182) | (4,611) | – | (4,611) |
| Reclassification as investment properties | (9,500) | – | – | – | – | (9,500) | 9,500 | – |
| Deficit on revaluation | – | – | – | – | – | – | (2,200) | (2,200) |
| At 31 December 2000 | <u>1,267</u> | <u>2,069</u> | <u>17,323</u> | <u>10,302</u> | <u>3,715</u> | <u>34,676</u> | <u>9,053</u> | <u>43,729</u> |
| Representing: | | | | | | | | |
| Cost | 1,267 | 2,069 | 17,323 | 10,302 | 3,715 | 34,676 | – | 34,676 |
| Valuation - 2000 | – | – | – | – | – | – | 9,053 | 9,053 |
| | <u>1,267</u> | <u>2,069</u> | <u>17,323</u> | <u>10,302</u> | <u>3,715</u> | <u>34,676</u> | <u>9,053</u> | <u>43,729</u> |

Notes on the Accounts

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(Expressed in Hong Kong dollars)

12 FIXED ASSETS (Continued)

(a) The Group (Continued)

| | Buildings | Leasehold improvements | Plant and machinery | Furniture, fixtures and office equipment | Motor vehicles | Sub- total | Investment properties | Total |
|--------------------------------|---------------|---------------------------|------------------------|---|-------------------|---------------|--------------------------|---------------|
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Aggregate depreciation: | | | | | | | | |
| At 1 January 2000 | – | 153 | 1,651 | 1,240 | 580 | 3,624 | – | 3,624 |
| Exchange adjustments | – | – | 12 | 4 | 1 | 17 | – | 17 |
| Charge for the year | 139 | 318 | 1,287 | 2,522 | 329 | 4,595 | 59 | 4,654 |
| Written back on disposals | – | – | – | (425) | (496) | (921) | – | (921) |
| Disposals of subsidiaries | – | – | (160) | (630) | (49) | (839) | – | (839) |
| Written back on revaluation | – | – | – | – | – | – | (59) | (59) |
| At 31 December 2000 | <u>139</u> | <u>471</u> | <u>2,790</u> | <u>2,711</u> | <u>365</u> | <u>6,476</u> | <u>–</u> | <u>6,476</u> |
| Net book value: | | | | | | | | |
| At 31 December 2000 | <u>1,128</u> | <u>1,598</u> | <u>14,533</u> | <u>7,591</u> | <u>3,350</u> | <u>28,200</u> | <u>9,053</u> | <u>37,253</u> |
| At 31 December 1999 | <u>10,682</u> | <u>1,028</u> | <u>11,894</u> | <u>4,916</u> | <u>1,370</u> | <u>29,890</u> | <u>–</u> | <u>29,890</u> |

Notes on the Accounts

For the year ended 31 December 2000

(Expressed in Hong Kong dollars)

12 FIXED ASSETS (Continued)

(b) The Company

| | Leasehold improvements \$'000 | Furniture, fixtures and office equipment \$'000 | Motor vehicle \$'000 | Total \$'000 |
|--------------------------------|-------------------------------------|---|----------------------------|-----------------|
| Cost: | | | | |
| At 1 January 2000 | 786 | 1,043 | — | 1,829 |
| Additions | — | 117 | 1,020 | 1,137 |
| Disposals | — | (56) | — | (56) |
| | <u>786</u> | <u>1,104</u> | <u>1,020</u> | <u>2,910</u> |
| At 31 December 2000 | <u>786</u> | <u>1,104</u> | <u>1,020</u> | <u>2,910</u> |
| Aggregate depreciation: | | | | |
| At 1 January 2000 | 60 | 307 | — | 367 |
| Charge for the year | 39 | 306 | 51 | 396 |
| Written back on disposals | — | (41) | — | (41) |
| | <u>99</u> | <u>572</u> | <u>51</u> | <u>722</u> |
| At 31 December 2000 | <u>99</u> | <u>572</u> | <u>51</u> | <u>722</u> |
| Net book value: | | | | |
| At 31 December 2000 | <u>687</u> | <u>532</u> | <u>969</u> | <u>2,188</u> |
| At 31 December 1999 | <u>726</u> | <u>736</u> | <u>—</u> | <u>1,462</u> |

Notes on the Accounts

For the year ended 31 December 2000

(Expressed in Hong Kong dollars)

12 FIXED ASSETS (Continued)

- (c) The Group's properties are held under medium term leases. An analysis of the net book value of the Group's properties by geographical location is as follows:

| | The Group | |
|-------------------|----------------|----------------|
| | 2000 \$'000 | 1999 \$'000 |
| In Hong Kong | 7,300 | 9,500 |
| Outside Hong Kong | 2,881 | 1,182 |
| | <u>10,181</u> | <u>10,682</u> |

- (d) Investment properties of the Group in Hong Kong were revalued at 31 December 2000 by an independent firm of surveyors, Chung, Chan & Associates, who have among their staff Fellows of the Royal Institution of Chartered Surveyors, on an open market value basis. The revaluation deficit of \$2,141,000 (1999: \$1,965,000) has been charged to the profit and loss account.

Investment properties of the Group outside Hong Kong were estimated by the Directors' valuation on an existing use basis, which is not significantly different from the cost as at 31 December 2000.

- (e) At 31 December 2000, certain of the Group's investment properties with an aggregate carrying value of \$7,300,000 (1999: \$9,500,000) were pledged as security for banking facilities amounting to \$36,900,000 (1999: \$40,230,000) granted to the Group. The amount utilised was \$3,882,000 (1999: \$19,929,000) as at 31 December 2000.

Notes on the Accounts

For the year ended 31 December 2000

(Expressed in Hong Kong dollars)

13 INTEREST IN SUBSIDIARIES

| | The Company | |
|-------------------------------|----------------|----------------|
| | 2000 \$'000 | 1999 \$'000 |
| Unlisted shares, at cost | 156 | 156 |
| Amounts due from subsidiaries | 250,802 | 168,135 |
| Amounts due to subsidiaries | (78) | (11,587) |
| | <u>250,880</u> | <u>156,704</u> |

Details of the subsidiaries at 31 December 2000 are as follows. The class of shares held is ordinary unless otherwise stated.

| Name of company | Place of incorporation/ establishment and operation | Attributable equity interest percentage | | Issued/ registered capital | Principal activities |
|---|--|--|----------|----------------------------------|-------------------------|
| | | Direct | Indirect | | |
| Win Perfect Limited | British Virgin Islands ("BVI") | 100 | – | US\$11,000 | Investment holding |
| Futart Industry Company Limited | BVI | 100 | – | US\$10,000 | Investment holding |
| Stepping Stones Limited | BVI | – | 100 | US\$11,000 | Investment holding |
| Start Futong Technology Company Limited | BVI | – | *40 | US\$50,000 | Investment holding |
| Besto Investment Limited ("Besto") | BVI | – | *40 | US\$10,000 | Investment holding |

Notes on the Accounts

For the year ended 31 December 2000

(Expressed in Hong Kong dollars)

13 INTEREST IN SUBSIDIARIES (Continued)

| Name of company | Place of incorporation/ establishment and operation | Attributable equity interest percentage | | Issued/ registered capital | Principal activities |
|--|---|--|----------|----------------------------------|---|
| | | Direct | Indirect | | |
| China Star Group (Hong Kong) Corporation Limited | Hong Kong | – | 100 | \$100,000 | Provision of trading facility services |
| Fortune Jet International Limited | Hong Kong | – | 100 | \$10,000,000 | Investment holding |
| Start Futong (Hong Kong) Company Limited | Hong Kong | – | *40 | \$1,000,000 | Provision of systems value- added services |
| Start Technology (Guangzhou) Software Co., Ltd. (note i) | PRC | – | 100 | RMB15,955,000 | Provision of software development and systems integration services |
| Fujian Star System Integration Co., Ltd. ("Fujian SI") (note i) | PRC | – | 100 | RMB4,800,000 | Provision of software development and systems integration services |
| Fuqing Fujie Plastics Co., Ltd. ("Fujie Plastics") (note i) | PRC | – | 65 | RMB10,138,000 | Manufacturing and trading of computer related products |

Notes on the Accounts

For the year ended 31 December 2000

(Expressed in Hong Kong dollars)

13 INTEREST IN SUBSIDIARIES (Continued)

| Name of company | Place of incorporation/ establishment and operation | Attributable equity interest percentage | | Issued/ registered capital | Principal activities |
|---|--|--|----------|----------------------------------|---|
| | | Direct | Indirect | | |
| Xiamen Start Dragon Information Technology Co., Ltd. ("Start Dragon") (note ii) | PRC | – | 51 | RMB12,633,000 | Provision of software development and systems integration services |
| Beijing Start Ming Tai Computer Application Technology Development Co., Ltd. ("Start Ming Tai") (note i) | PRC | – | *40 | RMB5,000,000 | Development and sales of general software |
| Beijing Ya Xin Cheng Software Technology Co., Ltd. (note iii) | PRC | – | *20 | RMB500,000 | Development and sales of general software |
| Beijing Futong Times Computer Co., Ltd. (note i) | PRC | – | *40 | RMB20,000,000 | Provision of systems value- added services |
| Beijing Futong ComputerLand Co., Ltd. ("Beijing Futong") (note iii) | PRC | – | *40 | RMB10,000,000 | Provision of systems value- added services |

Notes on the Accounts

For the year ended 31 December 2000

(Expressed in Hong Kong dollars)

13 INTEREST IN SUBSIDIARIES (Continued)

| Name of company | Place of incorporation/ establishment and operation | Attributable equity interest percentage | | Issued/ registered capital | Principal activities |
|--|--|--|----------|----------------------------------|--|
| | | Direct | Indirect | | |
| Guangzhou Futong ComputerLand Co., Ltd. (note iii) | PRC | – | *40 | RMB500,000 | Provision of systems value- added services |
| Shanghai Futong ComputerLand Co., Ltd. (note iii) | PRC | – | *40 | RMB1,000,000 | Provision of systems value- added services |

* These companies are deemed to be the subsidiaries of the Group as the Group controls the composition of the boards of directors of these companies.

Notes:

- (i) These are wholly foreign-owned companies established in the PRC.
- (ii) These are sino-foreign equity joint venture companies established in the PRC.
- (iii) These are domestic enterprises established in the PRC.

Notes on the Accounts

For the year ended 31 December 2000

(Expressed in Hong Kong dollars)

14 INTANGIBLE ASSETS

| | The Group | |
|--|-------------------|-------------------|
| | 2000 | 1999 |
| | \$'000 | \$'000 |
| Patent right: | | |
| At cost | — | 1,967 |
| Less: disposals | — | (1,967) |
| | <u> </u> | <u> </u> |
| | — | — |
| | ----- | ----- |
| Research and development costs: | | |
| At cost | 1,234 | 1,234 |
| Less: Accumulated amortisation | (1,234) | (411) |
| | <u> </u> | <u> </u> |
| | — | 823 |
| | ----- | ----- |
| | <u> </u> | <u> </u> |
| | — | 823 |

15 INTEREST IN AN ASSOCIATE

| | The Group | |
|---------------------|---------------|---------------|
| | 2000 | 1999 |
| | \$'000 | \$'000 |
| Share of net assets | <u>23,239</u> | <u>21,217</u> |

Notes on the Accounts

For the year ended 31 December 2000

(Expressed in Hong Kong dollars)

15 INTEREST IN AN ASSOCIATE (Continued)

Details of the associate, which is a sino-foreign equity joint venture established in the PRC, are as follows:

| Name of company | Attributable equity interest percentage | | Issued/ registered capital | Principal activities |
|---|---|----------|----------------------------------|---|
| | Direct | Indirect | | |
| Fujian Star Printer Equipment Co., Ltd. ("Start Printer") | — | 25 | RMB60,000,000 | Manufacturing and trading of computer equipment |

An extract of the financial information of Start Printer is as follows:

| | 2000 \$'000 | 1999 \$'000 |
|--|----------------|----------------|
| Balance sheet as at 31 December | | |
| Non-current assets | 13,689 | 10,027 |
| Current assets | 294,692 | 138,385 |
| Current liabilities | 215,426 | 63,544 |
| Profit and loss account for the year ended 31 December | | |
| Turnover | 528,478 | 264,713 |
| Profit before taxation | 12,016 | 20,979 |
| Profit after taxation | 7,415 | 18,761 |

Notes on the Accounts

For the year ended 31 December 2000

(Expressed in Hong Kong dollars)

16 INVENTORIES

| | The Group | |
|------------------|----------------|--------------|
| | 2000 | 1999 |
| | \$'000 | \$'000 |
| Raw materials | 1,451 | 2,180 |
| Work in progress | 80 | 277 |
| Finished goods | 138,349 | 3,564 |
| | <u>139,880</u> | <u>6,021</u> |

Included in finished goods are inventories of \$Nil (1999: \$212,000), stated net of a provision made in order to state these inventories at the lower of their cost and estimated net realisable value. During the year ended 31 December 2000, a provision of \$7,244,000 (1999: \$1,280,000) was made against certain obsolete inventories. The remaining inventories are all valued at cost.

17 TRADE AND OTHER RECEIVABLES

| | The Group | | The Company | |
|---|----------------|----------------|--------------|------------|
| | 2000 | 1999 | 2000 | 1999 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Accounts receivable | 191,090 | 100,346 | — | — |
| Gross amount due from customers for contract work | 4,090 | — | — | — |
| Prepayments, deposits and other receivables | 48,783 | 50,248 | 1,305 | 489 |
| | <u>243,963</u> | <u>150,594</u> | <u>1,305</u> | <u>489</u> |

All of the trade and other receivables, apart from those mentioned in notes 19 and 20, are expected to be recovered within one year.

Notes on the Accounts

For the year ended 31 December 2000

(Expressed in Hong Kong dollars)

17 TRADE AND OTHER RECEIVABLES (Continued)

Included in trade and other receivables are accounts receivable (net of specific provision for bad and doubtful debts) with the following ageing analysis:

| | The Group | | The Company | |
|---|----------------|----------------|-------------|----------|
| | 2000 | 1999 | 2000 | 1999 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Current | 114,490 | 6,023 | — | — |
| 1 to 3 months overdue | 39,800 | 13,125 | — | — |
| More than 3 months overdue but less than 12 months overdue | 11,573 | 8,062 | — | — |
| Overdue beyond 1 year | 25,227 | 73,136 | — | — |
| | <u>191,090</u> | <u>100,346</u> | <u>—</u> | <u>—</u> |

Included in accounts receivable and other receivables as at 31 December 2000 were amounts totalling \$14,486,000 (1999: \$43,765,000) and \$5,390,000 (1999: \$5,390,000) respectively due from Fuzhou Bonded Zone Western Industrial Ltd ("Western Industrial"), a former subsidiary of the Company which was disposed of in 1999 to China Jin Xin Investment Co., Ltd. ("Jin Xin"), an independent third party.

Pursuant to an agreement dated 28 April 2000 with Jin Xin, the Group agrees not to call upon Western Industrial to repay the outstanding balances before 31 December 2000 or until the investigation by the Fuzhou litigation department in respect of Western Industrial's importation activities prior to September 1997 is finalised, whichever is the earlier.

In addition, the Group received an undertaking from Futart Holding Company Limited ("FHCL") whereby FHCL agrees to indemnify the Group against any losses arising from the amounts due from Western Industrial and take over the outstanding balances due from Western Industrial at their carrying value upon request by the Company on or before 31 December 2000.

Pursuant to a supplementary agreement dated 15 February 2001, FHCL agreed to satisfy the indemnified amounts due from Western Industrial, under which \$6,000,000 was paid on 31 March 2001 and the remaining balance of \$13,876,000 will be paid on or before 30 June 2001.

Notes on the Accounts

For the year ended 31 December 2000

(Expressed in Hong Kong dollars)

17 TRADE AND OTHER RECEIVABLES (Continued)

Balances with related parties included above are as follows:

| | The Group | | | |
|---|---------------------|---|---------------------|---|
| | 2000 | | 1999 | |
| | Accounts receivable | Prepayments, deposits and other receivables | Accounts receivable | Prepayments, deposits and other receivables |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Amounts due from fellow subsidiaries (<i>note 19</i>) | – | 1 | 8 | 1,222 |
| Amount due from an associate (<i>note 19</i>) | 4,665 | – | 4,166 | 1,040 |
| Amounts due from related parties (<i>note 20</i>) | 27,046 | 8,151 | 18,224 | 5,440 |
| | <u>31,711</u> | <u>8,152</u> | <u>22,398</u> | <u>7,702</u> |

18 SYSTEMS INTEGRATION CONTRACTS

The aggregate amount of costs incurred plus recognised profits less recognised losses to date, included in the gross amount due from/to customers for contract work at 31 December 2000, is \$25,563,000 (1999: \$Nil).

The gross amount due from customers for contract work at 31 December 2000 is expected to be recovered within one year.

In respect of systems integration contracts in progress at the balance sheet date, the amount of retentions receivable from customers, recorded under “accounts receivable” at 31 December 2000 is \$670,000 (1999: \$Nil). The amount of retentions is expected to be recovered within one year.

Notes on the Accounts

For the year ended 31 December 2000

(Expressed in Hong Kong dollars)

19 AMOUNTS DUE FROM/TO ULTIMATE HOLDING COMPANY, FELLOW SUBSIDIARIES AND AN ASSOCIATE

Amounts due from/to ultimate holding company, fellow subsidiaries and an associate are unsecured, interest free and have no fixed terms of repayment.

20 AMOUNTS DUE FROM/TO RELATED PARTIES

Amounts due from/to related parties are unsecured, interest free and have no fixed terms of repayment.

21 LOANS RECEIVABLE

On 10 May 2000, the Company entered into a deed of assignment ("the Deed") whereby the Company assigned all the rights and benefits of the outstanding loans receivable, including interest accrued as at 28 April 2000, totalling approximately \$51,513,000 to FHCL.

Pursuant to the Deed, the assignment was settled by the set-off of a subordinated loan from FHCL and an amount due to FHCL, in the amount of \$50,504,000 (note 26) and \$2,592,000 respectively as at 28 April 2000. The difference of approximately \$1,583,000 was settled by the Company during the year ended 31 December 2000.

22 CASH AND CASH EQUIVALENTS

| | The Group | | The Company | |
|--------------------------|----------------|---------------|-------------|---------------|
| | 2000 | 1999 | 2000 | 1999 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Cash at bank and in hand | <u>118,838</u> | <u>49,543</u> | <u>303</u> | <u>36,074</u> |

Notes on the Accounts

For the year ended 31 December 2000

(Expressed in Hong Kong dollars)

23 TRADE AND OTHER PAYABLES

| | The Group | | The Company | |
|---------------------------------------|----------------|---------------|--------------|--------------|
| | 2000 | 1999 | 2000 | 1999 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Accounts payable | 129,492 | 16,050 | — | — |
| Bills payable | 5,283 | — | — | — |
| Receipts in advance | 54,611 | 235 | — | — |
| Other payable and accrued liabilities | 64,412 | 15,502 | 2,831 | 3,576 |
| | <u>253,798</u> | <u>31,787</u> | <u>2,831</u> | <u>3,576</u> |

All of the trade and other payables are expected to be settled within one year.

Included in trade and other payables are accounts payable and bills payable with the following ageing analysis:

| | The Group | | The Company | |
|----------------------------------|----------------|---------------|-------------|----------|
| | 2000 | 1999 | 2000 | 1999 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Due within 3 months or on demand | 128,305 | 9,875 | — | — |
| Overdue 3 months to 6 months | 122 | 18 | — | — |
| Overdue 6 months to 1 year | 981 | 962 | — | — |
| Overdue 1 year | 5,367 | 5,195 | — | — |
| | <u>134,775</u> | <u>16,050</u> | <u>—</u> | <u>—</u> |

Notes on the Accounts

For the year ended 31 December 2000

(Expressed in Hong Kong dollars)

23 TRADE AND OTHER PAYABLES (Continued)

Balances with related parties included above are as follows:

| | The Group | | |
|--|------------------|---------------------------------------|--|
| | 2000 | | 1999 |
| | Accounts payable | Other payable and accrued liabilities | Accounts payable and accrued liabilities |
| | \$'000 | \$'000 | \$'000 |
| Amount due to ultimate holding company (note 19) | – | – | – |
| Amount due to a fellow subsidiary (note 19) | – | 627 | – |
| Amounts due to related parties (note 20) | 3,191 | 6,978 | 7,048 |
| | <u>3,191</u> | <u>7,605</u> | <u>7,048</u> |
| | <u>3,191</u> | <u>7,605</u> | <u>6,330</u> |

Notes on the Accounts

For the year ended 31 December 2000

(Expressed in Hong Kong dollars)

24 BANK LOANS

At 31 December 2000, bank loans were repayable as follows:

| | The Group | |
|----------------------------------|----------------|----------------|
| | 2000 \$'000 | 1999 \$'000 |
| Within 1 year or on demand | 32,498 | 28,580 |
| After 1 year but within 2 years | — | 668 |
| After 2 years but within 5 years | — | 2,479 |
| After 5 years | — | 2,602 |
| | — | 5,749 |
| | 32,498 | 34,329 |

At 31 December 2000, bank loans were secured as follows:

| | The Group | |
|-----------|----------------|----------------|
| | 2000 \$'000 | 1999 \$'000 |
| Secured | 8,571 | 21,245 |
| Unsecured | 23,927 | 13,084 |
| | 32,498 | 34,329 |

Notes on the Accounts

For the year ended 31 December 2000

(Expressed in Hong Kong dollars)

24 BANK LOANS (Continued)

As at 31 December 2000, the Group had banking facilities totalling \$105,572,000 (1999: \$58,830,000) which were secured by the following:

- (i) Mortgages over the Group's properties with an aggregate carrying value of \$7,300,000 (1999: \$9,500,000) at 31 December 2000.
- (ii) A charge over the Group's fixed deposits with banks of \$48,336,000 (1999: \$23,399,000) at 31 December 2000.
- (iii) Corporate guarantee given by the Company.

25 DEFERRED TAXATION

(a) Movements on deferred taxation comprise:

| | The Group | | The Company | |
|--|-----------|--------|-------------|--------|
| | 2000 | 1999 | 2000 | 1999 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| At 1 January | 126 | 126 | 95 | — |
| Transfer from the profit and loss account (note 6(a)) | 1,174 | — | — | 95 |
| At 31 December | 1,300 | 126 | 95 | 95 |

- (b) The PRC subsidiaries of the Group prepared their financial statements for the year ended 31 December 2000 in accordance with PRC accounting standards and regulations ("PRC GAAP"). Deferred taxation mainly represents differences between PRC GAAP and SSAP regarding the cut-off differences in income recognition. Others represent the timing differences arising from depreciation allowances in excess of the related depreciation. There is no significant potential deferred tax liability for which a provision has not been made.
- (c) No deferred tax benefit has been recognised in respect of the revaluation deficit arising on properties as the disposal of these assets at their carrying value would result in capital losses which the Directors consider are not deductible against tax liability.

Notes on the Accounts

For the year ended 31 December 2000

(Expressed in Hong Kong dollars)

26 SUBORDINATED LOAN

The Company entered into a supplemental subordinated loan agreement with FHCL on 13 December 1999 whereby the repayment of the subordinated loan of \$50,504,000 and an additional subordinated loan facility of \$40,000,000 was conditional upon the receipt in full of the loans totalling \$53,282,000 advanced by the Company as at 30 November 1999.

On 10 May 2000, the Company entered into the Deed whereby the Company assigned all the rights and benefits of the outstanding loans receivable, including interest accrued as at 28 April 2000, totalling approximately \$51,513,000 to FHCL (note 21).

Pursuant to the Deed, the assignment was settled by the set-off of a subordinated loan from FHCL and an amount due to FHCL, in the amount of \$50,504,000 and \$2,592,000 respectively as at 28 April 2000. The difference of approximately \$1,583,000 was settled by the Company during the year ended 31 December 2000.

27 SHARE CAPITAL

| | 2000 | | 1999 | |
|--|-------------------------------------|----------------|-------------------------------------|----------------|
| | No. of shares (<i>'000</i>) | \$ <i>'000</i> | No. of shares (<i>'000</i>) | \$ <i>'000</i> |
| Authorised: | | | | |
| Ordinary shares of \$0.10 each | <u>1,000,000</u> | <u>100,000</u> | <u>1,000,000</u> | <u>100,000</u> |
| Issued and fully paid: | | | | |
| At 1 January | 347,345 | 34,735 | 320,000 | 32,000 |
| Issuance of new shares | | | | |
| (<i>note (a)</i>) | 50,000 | 5,000 | 27,000 | 2,700 |
| Shares issued under share | | | | |
| option scheme (<i>note (b)</i>) | 4,017 | 401 | 345 | 35 |
| Shares repurchased (<i>note (c)</i>) | <u>(718)</u> | <u>(72)</u> | <u>—</u> | <u>—</u> |
| At 31 December | <u>400,644</u> | <u>40,064</u> | <u>347,345</u> | <u>34,735</u> |

Notes on the Accounts

For the year ended 31 December 2000

(Expressed in Hong Kong dollars)

27 SHARE CAPITAL (Continued)

All the shares issued by the Company rank pari passu and do not carry pre-emptive rights.

Notes:

(a) Issuance of new shares

(i) Placement of existing shares and subscription for new shares

Pursuant to a placing agreement dated 10 January 2000, FHCL placed 30,000,000 existing shares of \$0.10 each of the Company at a price of \$2.10 per share on a cum-div basis with independent investors. FHCL also entered into a subscription agreement with the Company on the same date to subscribe for 20,000,000 new shares of \$0.10 each at a price of \$2.10 per share on a cum-div basis.

The proceeds to the Company of the subscription are \$42,000,000 of which \$2,000,000 was credited to share capital and the balance of \$40,000,000 was credited to the share premium account.

(ii) Subscription of new shares and unlisted warrants

On 24 March 2000, an independent investor entered into a subscription agreement with the Company to subscribe for 20,000,000 new shares of \$0.10 each at a price of \$2.30 per share, and 20,000,000 warrants at an issue price of \$0.30 per warrant.

At the initial subscription price of \$2.00 per share, the holders of the warrants will be entitled to subscribe up to an aggregate of 20,000,000 new shares. The warrants may be exercised at any time within three months from the date of their issue. No warrant was exercised before the expiry date.

The proceeds to the Company of the subscription are \$52,000,000 of which \$2,000,000 was credited to share capital and the balance of \$50,000,000 was credited to the share premium account.

Notes on the Accounts

For the year ended 31 December 2000

(Expressed in Hong Kong dollars)

27 SHARE CAPITAL (Continued)

(a) Issuance of new shares (Continued)

(iii) Issue and allotment of new shares for acquisition of subsidiary

On 27 April 2000, an agreement was entered into by the Company for the acquisition of a 40% equity interest in Besto. Part of the consideration was satisfied by the issue and allotment of 10,000,000 new shares of \$0.10 each at a price of \$1.896 per share.

The proceeds to the Company of the issue and allotment are \$18,960,000 of which \$1,000,000 was credited to share capital and the balance of \$17,960,000 was credited to the share premium account.

(b) Shares issued under the share option scheme

Pursuant to the share option scheme of the Company, the Directors may, at their discretion, offer to any Director or full time employee of the Company, or any of its subsidiaries, options to subscribe for shares of the Company at a price to be determined by the Board which will not be less than 80% of the average closing prices of the shares of the Company on the Stock Exchange for the five trading days immediately preceding the date of offer of the option or the nominal value of the shares, whichever is the higher.

The maximum number of shares in respect of which options may be granted under the share option scheme of the Company may not (when aggregated with shares subject to any other employees share option scheme) exceed in nominal amount 10 per cent. of the issued share capital of the Company from time to time, excluding for this purpose shares issued on the exercise of any options granted under the share option scheme (or any other employee share option scheme).

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27 SHARE CAPITAL (Continued)

(b) Shares issued under the share option scheme (Continued)

During the year, the movements in the number of share options outstanding under the aforesaid share option scheme were as follows:

| For the year ended 31 December 1999 | | | | | |
|-------------------------------------|----------------|-------------------------|------------------------|---------------------------|---------------------------------|
| Date options offered | Exercise price | Number of share options | | | Outstanding at 31 December 1999 |
| | | Granted during the year | Lapsed during the year | Exercised during the year | |
| 16 June 1999 | \$1.08 | 20,250,000 | (1,210,000) | (345,000) | 18,695,000 |
| 2 July 1999 | \$1.21 | 1,000,000 | – | – | 1,000,000 |
| 6 July 1999 | \$1.31 | 3,500,000 | (1,800,000) | – | 1,700,000 |
| 20 December 1999 | \$1.13 | 6,300,000 | – | – | 6,300,000 |
| | | <u>31,050,000</u> | <u>(3,010,000)</u> | <u>(345,000)</u> | <u>27,695,000</u> |

| For the year ended 31 December 2000 | | | | | | |
|-------------------------------------|----------------|-------------------------------|-------------------------|------------------------|---------------------------|---------------------------------|
| Date options offered | Exercise price | Number of share options | | | | Outstanding at 31 December 2000 |
| | | Outstanding at 1 January 2000 | Granted during the year | Lapsed during the year | Exercised during the year | |
| 16 June 1999 | \$1.08 | 18,695,000 | – | (3,501,000) | (3,517,000) | 11,677,000 |
| 2 July 1999 | \$1.21 | 1,000,000 | – | – | (300,000) | 700,000 |
| 6 July 1999 | \$1.31 | 1,700,000 | – | – | (200,000) | 1,500,000 |
| 20 December 1999 | \$1.13 | 6,300,000 | – | (100,000) | – | 6,200,000 |
| 28 December 1999 | \$1.32 | – | 5,000,000 | (440,000) | – | 4,560,000 |
| 3 January 2000 | \$1.44 | – | 2,460,000 | (630,000) | – | 1,830,000 |
| 28 February 2000 | \$2.06 | – | 540,000 | – | – | 540,000 |
| 21 July 2000 | \$1.14 | – | 2,000,000 | (400,000) | – | 1,600,000 |
| | | <u>27,695,000</u> | <u>10,000,000</u> | <u>(5,071,000)</u> | <u>(4,017,000)</u> | <u>28,607,000</u> |

Notes on the Accounts

For the year ended 31 December 2000

(Expressed in Hong Kong dollars)

27 SHARE CAPITAL (Continued)

(b) Shares issued under the share option scheme (Continued)

Options granted are exercisable within 10 years from the date of grant.

During the year, options were exercised to subscribe for 4,017,000 shares of \$0.10 each in the Company at a consideration of \$4,423,000 of which \$401,000 was credited to share capital and the balance of \$4,022,000 was credited to the share premium account.

(c) Shares repurchased

During the year, the Company repurchased its own shares on the Stock Exchange as follows:

| Month/year | Number of shares repurchased | Highest price paid per share | Lowest price paid per share | Aggregate price paid |
|------------|------------------------------------|------------------------------------|-----------------------------------|-------------------------|
| June 2000 | 718,000 | \$1.70 | \$1.50 | \$1,156,000 |

The repurchased shares were cancelled and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. The premium paid on the repurchase of the shares of \$1,084,000 was charged against the share premium account (note 28).

Notes on the Accounts

For the year ended 31 December 2000

(Expressed in Hong Kong dollars)

28 RESERVES

| | Share premium (Note i) \$'000 | General reserve (Note ii) \$'000 | Translation reserve (Note iii) \$'000 | Retained earnings \$'000 | Total \$'000 |
|---|--|---|--|--------------------------------|-----------------|
| (a) The Group | | | | | |
| Balance at | | | | | |
| 1 January 1999 | 44,306 | 3,158 | 742 | 102,676 | 150,882 |
| Premium on issuance of shares | 27,878 | — | — | — | 27,878 |
| Share issuance expenses | (1,198) | — | — | — | (1,198) |
| Goodwill arising from acquisitions of subsidiaries | — | — | — | (4,237) | (4,237) |
| Transfer between reserves | — | 212 | — | (212) | — |
| Exchange difference on translation of accounts of subsidiaries outside Hong Kong | — | — | 112 | — | 112 |
| Profit for the year | — | — | — | 13,226 | 13,226 |
| Balance at | | | | | |
| 31 December 1999 | <u>70,986</u> | <u>3,370</u> | <u>854</u> | <u>111,453</u> | <u>186,663</u> |

Notes on the Accounts

For the year ended 31 December 2000

(Expressed in Hong Kong dollars)

28 RESERVES (Continued)

| | Share premium (Note i) \$'000 | General reserve (Note ii) \$'000 | Translation reserve (Note iii) \$'000 | Retained earnings \$'000 | Total \$'000 |
|---|--|---|--|--------------------------------|-----------------|
| (a) The Group (Continued) | | | | | |
| Balance at | | | | | |
| 1 January 2000 | 70,986 | 3,370 | 854 | 111,453 | 186,663 |
| Premium on issuance of shares | 111,982 | — | — | — | 111,982 |
| Repurchase of shares | (1,084) | — | — | — | (1,084) |
| Share issuance expenses | (1,975) | — | — | — | (1,975) |
| Goodwill arising from acquisitions of subsidiaries | — | — | — | (93,441) | (93,441) |
| Transfer between reserves | — | 1,911 | — | (1,911) | — |
| Exchange reserve realised upon deemed disposal of a subsidiary | — | — | 64 | — | 64 |
| Goodwill written back upon disposal of a subsidiary | — | — | — | 7,477 | 7,477 |
| Exchange difference on translation of accounts of subsidiaries outside Hong Kong | — | 36 | 222 | (28) | 230 |
| Profit for the year | — | — | — | 9,388 | 9,388 |
| Balance at | | | | | |
| 31 December 2000 | <u>179,909</u> | <u>5,317</u> | <u>1,140</u> | <u>32,938</u> | <u>219,304</u> |

Notes on the Accounts

For the year ended 31 December 2000

(Expressed in Hong Kong dollars)

28 RESERVES (Continued)

| | Share premium (Note i) \$'000 | General reserve (Note ii) \$'000 | Translation reserve (Note iii) \$'000 | Retained earnings \$'000 | Total \$'000 |
|----------------------------------|--|---|--|--------------------------------|-------------------|
| (b) The Company | | | | | |
| Balance at | | | | | |
| 1 January 1999 | 44,306 | – | – | 33,781 | 78,087 |
| Premium on issuance of shares | 27,878 | – | – | – | 27,878 |
| Share issuance expenses | (1,198) | – | – | – | (1,198) |
| Profit for the year | – | – | – | 1,035 | 1,035 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Balance at | | | | | |
| 31 December 1999 | <u>70,986</u> | <u>–</u> | <u>–</u> | <u>34,816</u> | <u>105,802</u> |
| Balance at | | | | | |
| 1 January 2000 | 70,986 | – | – | 34,816 | 105,802 |
| Premium on issuance of shares | 111,982 | – | – | – | 111,982 |
| Repurchase of shares | (1,084) | – | – | – | (1,084) |
| Share issuance expenses | (1,975) | – | – | – | (1,975) |
| Loss for the year | – | – | – | (3,006) | (3,006) |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Balance at | | | | | |
| 31 December 2000 | <u>179,909</u> | <u>–</u> | <u>–</u> | <u>31,810</u> | <u>211,719</u> |

Notes on the Accounts

For the year ended 31 December 2000

(Expressed in Hong Kong dollars)

28 RESERVES (Continued)

Notes:

(i) Share premium

Under the bye laws of the Company, this amount is distributable in the form of fully paid bonus shares.

(ii) General reserve

According to the relevant rules and regulations in the PRC, the Group's subsidiaries in the PRC should appropriate part of their profits after taxation to general reserve:

- Fujie Plastics and Start Dragon are required to transfer at least 10 per cent. of its profits after tax determined in accordance with the relevant PRC accounting regulations until the balance of its general reserve reaches 50 per cent. of the company's registered capital, where further appropriation will be at the directors' discretion.
- Other PRC subsidiaries may allocate to general reserve at the discretion of the board of directors of these companies.

The general reserve can be used to make good losses and to convert into paid-up capital.

(iii) Translation reserve

Translation reserve represents exchange differences arising from the translation of the accounts of subsidiaries and an associate operating outside Hong Kong.

(iv) Distributable reserves

At 31 December 2000, the aggregate amount of distributable reserves under the bye laws of the Company was \$31,810,000 (1999: \$34,816,000). In addition, the Company's share premium account of \$179,909,000 as at 31 December 2000 (1999: \$70,986,000) may be available for distribution in the form of fully paid bonus shares.

Notes on the Accounts

For the year ended 31 December 2000

(Expressed in Hong Kong dollars)

29 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit before taxation to net cash inflow/(outflow) from operating activities:

| | 2000 | 1999 |
|--|-----------------|----------|
| | \$'000 | \$'000 |
| Profit before taxation | 27,669 | 13,889 |
| Interest income | (6,316) | (10,572) |
| Dividend income from unlisted investments | – | (2,399) |
| Interest expense | 4,705 | 4,435 |
| Depreciation | 4,654 | 2,304 |
| Share of profit of an associate | (3,004) | (4,660) |
| Pre-operating costs written off | – | 1,730 |
| Amortisation of research and development costs | 823 | 411 |
| Loss on disposal of fixed assets | 471 | 154 |
| Profit on disposal of a subsidiary | (7,040) | (5,727) |
| Deficit on property revaluation | 2,141 | 1,965 |
| (Increase)/decrease in inventories | (59,107) | 2,547 |
| Increase in accounts receivable | (38,051) | (11,826) |
| Increase in gross amount due from customers for contract work | (4,090) | – |
| Decrease in prepayments, deposits and other receivables | 1,348 | 91,813 |
| Increase/(decrease) in accounts payable | 53,835 | (45,627) |
| Increase/(decrease) in bills payable | 5,283 | (13,589) |
| Increase/(decrease) in receipts in advance | 36,291 | (15,270) |
| Increase/(decrease) in other payable and accrued liabilities | 28,900 | (21,596) |
| Net cash inflow/(outflow) from operating activities | 48,512 | (12,018) |

Notes on the Accounts

For the year ended 31 December 2000

(Expressed in Hong Kong dollars)

29 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Acquisitions of subsidiaries

| | 2000 \$'000 | 1999 \$'000 |
|--|-----------------|----------------|
| Net assets acquired: | | |
| Fixed assets | 5,996 | 1,339 |
| Intangible assets | – | 318 |
| Inventories | 74,752 | 892 |
| Accounts receivable | 52,700 | 1,523 |
| Prepayments, deposits and other receivables | 1,615 | 463 |
| Cash and bank balances | 37,475 | 789 |
| Accounts payable | (59,793) | (157) |
| Receipts in advance | (18,085) | – |
| Other payable and accrued liabilities | (18,674) | (2,302) |
| Bank loans | (13,188) | (1,121) |
| | <u>62,798</u> | <u>1,744</u> |
| Minority interests | (42,734) | (1,581) |
| Goodwill arising on acquisitions | <u>93,441</u> | <u>4,237</u> |
| | <u>113,505</u> | <u>4,400</u> |
| Satisfied by: | | |
| Cash | 94,545 | 4,400 |
| Issuance of share capital | <u>18,960</u> | <u>–</u> |
| Total consideration | <u>113,505</u> | <u>4,400</u> |
| Analysis of net outflow of cash and cash equivalents in connection with the acquisitions of subsidiaries: | | |
| Cash consideration paid | 94,545 | 4,400 |
| Bank balances and cash acquired | <u>(37,475)</u> | <u>(789)</u> |
| Net outflow of cash and cash equivalents in respect of acquisitions of subsidiaries | <u>57,070</u> | <u>3,611</u> |

Subsidiaries acquired during the year contributed \$6,170,000 (1999: \$2,515,000 net cash inflow) to the Group's net cash outflow from operating activities, paid \$3,062,000 (1999: \$62,000) in respect of the net returns on investment and servicing of finance and utilised \$6,446,000 (1999: \$88,000) for investing activities.

Notes on the Accounts

For the year ended 31 December 2000

(Expressed in Hong Kong dollars)

29 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(c) Disposals of subsidiaries

| | 2000 \$'000 | 1999 \$'000 |
|--|----------------|----------------|
| Net assets disposed of: | | |
| Fixed assets | 3,772 | 3,896 |
| Intangible assets | – | 1,967 |
| Construction in progress | – | 5,277 |
| Loans receivable | – | 40,188 |
| Accounts receivable | 9 | 11,312 |
| Deposits with Fuzhou customs office | – | 13,271 |
| Prepayments, deposits and other receivables | 1,731 | 90,660 |
| Cash and bank balances | 987 | 3,516 |
| Accounts payable | (186) | (8,639) |
| Receipts in advance | – | (28,885) |
| Other payable and accrued liabilities | (3,512) | (20,516) |
| Amounts due from/ (to) group companies | 4,847 | (20,567) |
| Bank loans | – | (2,166) |
| | <u>7,648</u> | <u>89,314</u> |
| Minority interests | 196 | (39,024) |
| Profit on disposal | 7,040 | 5,727 |
| Exchange reserve written back | (64) | – |
| Goodwill written off on acquisition | 7,477 | – |
| | <u>22,297</u> | <u>56,017</u> |
| Satisfied by: | | |
| Cash | | |
| – received | 22,297 | 41,437 |
| – receivable | – | 14,580 |
| | <u>22,297</u> | <u>56,017</u> |
| Analysis of net inflow of cash and cash equivalents in connection with the disposals of subsidiaries: | | |
| Cash received | 22,297 | 41,437 |
| Bank balances and cash disposed of | (987) | (3,516) |
| Net inflow of cash and cash equivalents in respect of disposals of subsidiaries | <u>21,310</u> | <u>37,921</u> |

Notes on the Accounts

For the year ended 31 December 2000

(Expressed in Hong Kong dollars)

29 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(d) Analysis of changes in financing during the year

| | Share capital including premium \$'000 | Sub- ordinated loan \$'000 | Bank loans \$'000 | Minority interests (including advances) \$'000 | Pledged deposits \$'000 |
|---|--|-------------------------------------|----------------------|--|-------------------------------|
| Balance at | | | | | |
| 1 January 1999 | 76,306 | 49,755 | 9,026 | 39,024 | — |
| Cash flow from financing activities | 29,415 | 749 | 10,519 | 1,124 | 23,399 |
| Acquisitions of subsidiaries | — | — | 1,121 | 1,602 | — |
| Disposal of a subsidiary | — | — | (2,166) | (39,024) | — |
| Share of loss by minority interests | — | — | — | (81) | — |
| Balance at | | | | | |
| 31 December 1999 | <u>105,721</u> | <u>50,504</u> | <u>18,500</u> | <u>2,645</u> | <u>23,399</u> |
| Balance at | | | | | |
| 1 January 2000 | 105,721 | 50,504 | 18,500 | 2,645 | 23,399 |
| Off-set with loans receivable | — | (50,504) | — | — | — |
| Cash flow from financing activities | 95,292 | — | 810 | 6,584 | 24,937 |
| Acquisitions of subsidiaries | 18,960 | — | 13,188 | 42,734 | — |
| Disposals of subsidiaries | — | — | — | 196 | — |
| Share of profit by minority interests | — | — | — | 13,980 | — |
| Exchange reserve | — | — | — | 32 | — |
| Capital injection by minority shareholder to subsidiary | — | — | — | 3,089 | — |
| Balance at | | | | | |
| 31 December 2000 | <u>219,973</u> | <u>—</u> | <u>32,498</u> | <u>69,260</u> | <u>48,336</u> |

Notes on the Accounts

For the year ended 31 December 2000

(Expressed in Hong Kong dollars)

29 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(e) Major non-cash transactions

- (i) Loans receivable totalling approximately \$51,513,000 were assigned to FHCL which were settled by the set off of a subordinated loan of \$50,504,000 from and an amount of \$2,592,000 due to FHCL. The difference of approximately \$1,583,000 was settled by the Company during the year ended 31 December 2000 (notes 21 and 26).
- (ii) During the year ended 31 December 2000, 10,000,000 ordinary shares of \$0.1 each were issued as the consideration for the acquisition of subsidiary (notes 27(a)(iii) and 29(b)).

30 COMMITMENTS

(a) Commitment under operating leases

At 31 December 2000, the Group had commitments in respect of commercial properties under operating leases to make payments in the next year as follows:

| | 2000 \$'000 | 1999 \$'000 |
|---------------------------------|----------------|----------------|
| Leases expiring: | | |
| Within 1 year | 1,773 | 1,027 |
| After 1 year but within 5 years | 3,734 | 1,654 |
| | <u>5,507</u> | <u>2,681</u> |

Notes on the Accounts

For the year ended 31 December 2000

(Expressed in Hong Kong dollars)

30 COMMITMENTS (Continued)

(b) Capital contributions

At 31 December 2000, the Group had commitments totalling \$18,925,000 (1999: \$18,692,000) in respect of following matters:

- (i) Additional capital contribution to subsidiaries of the Group in the PRC totalling \$17,964,000.
- (ii) A capital commitment amounting to \$961,000 which represents the capital contribution to a new subsidiary, Fuzhou Start Dragon Information Technology Co., Ltd.

31 CONTINGENT LIABILITIES

At 31 December 2000, there were contingent liabilities in respect of the following:

- Guarantees are given by the Group in respect of certain bank loans totalling \$12,246,000 (1999: \$Nil) granted to a related party of the Group in return for guarantees given to banks by the related party for bank facilities totalling \$16,956,000 (1999: \$Nil) granted to the Group.

Notes on the Accounts

For the year ended 31 December 2000

(Expressed in Hong Kong dollars)

32 RETIREMENT BENEFITS SCHEME

The Company and the Hong Kong subsidiaries operated a defined contribution retirement benefits scheme (the "Previous Scheme") for all qualifying employees in Hong Kong prior to 30 November 2000. Since 1 December 2000, the Group is required to join the Mandatory Provident Fund ("MPF"), managed by an independent approved MPF trustee, under the requirement of the Mandatory Provident Fund Schemes Ordinance.

Total retirement benefits costs under the Previous Scheme and the MPF charged to the profit and loss account amounted to \$182,000 (1999: \$110,000). Minimum contributions to the MPF is at 5% of the employees' basic salaries.

At 31 December 2000, the amount of forfeited contributions arising from employees leaving the Previous Scheme before fully vested was approximately \$74,000 (1999: \$Nil), which can be used to reduce the Group's future contributions. In addition, the Group received \$32,000 (1999: \$Nil) refund of forfeited contributions during the year ended 31 December 2000.

The subsidiaries of the Group in the PRC other than Hong Kong participate in a pension schemes organised by the respective municipal governments whereby they are required to pay annual contributions at the rates ranging from 19% to 25.5% of the standard wages determined by the relevant authorities in the PRC.

Under the above schemes, retirement benefits of existing and retired employees are payable by the relevant PRC scheme administrators and the Group has no further obligations beyond the annual contributions.

One of the subsidiaries of the Group in the PRC participates in an additional defined contribution pension scheme organised by an insurance company whereby it is required to pay annual contributions at predetermined rates pursuant to the relevant insurance policies.

The aggregate employers' contributions by the Group under the PRC pension schemes amounted to \$769,000 (1999: \$366,000) during the year.

The Group does not operate any other schemes for retirement benefits provided to the Group's employees.

Notes on the Accounts

For the year ended 31 December 2000

(Expressed in Hong Kong dollars)

33 RELATED PARTY TRANSACTIONS

- (a) The following transactions represent related party transactions between the Group and Fujian Start Computer Group Co., Ltd. ("Fujian Start") and its subsidiaries. Fujian Start has interests in the Group's associate as a major shareholder. It also has an interest in one of the Group's subsidiaries as a shareholder.

Details of material transactions between the Group and Fujian Start and its subsidiaries during the year are as follows:

| | Note | 2000 \$'000 | 1999 \$'000 |
|-------------------------------------|------------|----------------|----------------|
| Trading transactions | | | |
| Systems integration services income | <i>i</i> | 364 | 975 |
| Distribution income | <i>ii</i> | — | 328 |
| Sales of stocks | <i>iii</i> | 11,839 | 7,730 |
| Purchases of goods | <i>iv</i> | 5,529 | 673 |
| Systems value-added services | <i>v</i> | <u>3,231</u> | <u>—</u> |

Notes:

- (i) This represents income from the provision of systems integration services to Fujian Start and its subsidiaries in relation to management information systems during the year ended 31 December 2000. This income is charged on a cost plus basis.

Included in the above is income from the provision of systems integration services received from related parties which is also an associate of the Group amounted to \$21,000 (1999: \$31,000).

- (ii) Distribution income represents handling charges received and receivable from Fujian Start and its subsidiaries in relation to sourcing of computer equipment and parts. The handling charges were calculated based on predetermined percentage of purchase prices of the related computer equipment and parts during the year ended 31 December 1999.

Notes on the Accounts

For the year ended 31 December 2000

(Expressed in Hong Kong dollars)

33 RELATED PARTY TRANSACTIONS (Continued)

- (a) (iii) All the sales between the Group and the related parties during the year were entered into in the ordinary course of business.

Included in the above is sales conducted with related parties which is also an associate of the Group amounted to \$5,134,000 for the year ended 31 December 2000 (1999: \$3,344,000).

- (iv) Computer products were purchased from related parties for systems integration projects. All the purchases between the Group and the related parties during the year were entered into in the ordinary course of business.

- (v) During the year, the Group provided systems value-added services to a subsidiary of Fujian Start. All the sales for the systems value-added services between the Group and the related party were entered into in the ordinary course of business.

| | Note | 2000 \$'000 | 1999 \$'000 |
|---------------------------------|-----------|----------------|----------------|
| Non-trading transactions | | | |
| Acquisition of fixed assets | <i>i</i> | 90 | 938 |
| Rental expenses | <i>ii</i> | <u>726</u> | <u>314</u> |

Notes:

- (i) Fixed assets were acquired at their net book value from certain subsidiaries of Fujian Start.
- (ii) Rental expenses represent rentals paid to Fujian Start and its subsidiary for the leasing of certain properties.
- (iii) Bank loans of the Group totalling \$6,971,000 (1999: \$13,085,000) were guaranteed by Fujian Start and certain subsidiaries as at 31 December 2000.
- (iv) On 27 April 2000, the Company and its wholly owned subsidiary, Futart Industry Company Limited, entered into agreements which were completed on 30 June 2000:
- To acquire a 40% equity interest in Besto holding 100% equity interest in Start Ming Tai, which was indirectly held by Fujian Start as to 48.45% prior to the acquisition. The aggregate consideration of the acquisition was \$52,000,000.

Approximately 36% of the consideration was satisfied by the issue and allotment of 10,000,000 new shares at \$1.896 per share and the remaining balance was settled in cash (note 27(a)(iii)).
 - To dispose of a 20% equity interest of Supernet Technology Limited ("Supernet"), which has become the 100% owner of Start-Soyou Internet Technology Co., Ltd. ("Start Soyou"), to the then shareholders of Start Ming Tai. The aggregate cash consideration of the disposal was \$16,400,000.

Save as disclosed above, the Directors of the Company are of the opinion that the above transactions with Fujian Start and its subsidiaries were conducted on normal commercial terms and in the ordinary course of business.

Notes on the Accounts

For the year ended 31 December 2000

(Expressed in Hong Kong dollars)

33 RELATED PARTY TRANSACTIONS (Continued)

- (b) The Group has the following material transactions with certain related parties in which a Director or a shareholder of the Group is in a position to exercise significant influence.

| | Note | 2000 \$'000 | 1999 \$'000 |
|-------------------------------------|-----------|----------------|----------------|
| Trading transactions | | | |
| Systems integration services income | <i>i</i> | 7,976 | — |
| Purchases of goods | <i>ii</i> | <u>4,956</u> | <u>—</u> |

Notes:

- (i) This represents income from the provision of systems integration services to a related company of which a director of a subsidiary of the Group is a substantial shareholder during the year ended 31 December 2000.
- (ii) Computer products were purchased from a related company, of which a director of a subsidiary of the Group is a substantial shareholder, for systems integration projects during the year ended 31 December 2000.

| | Note | 2000 \$'000 | 1999 \$'000 |
|---------------------------------------|------------|----------------|----------------|
| Non-trading transactions | | | |
| Interest paid to minority shareholder | <i>i</i> | 396 | — |
| Unsettled debts indemnity | <i>ii</i> | 190 | — |
| Rental income | <i>iii</i> | 77 | — |
| Interest paid - others | <i>iv</i> | — | 477 |
| Acquisition of fixed asset | <i>v</i> | <u>998</u> | <u>—</u> |

Notes on the Accounts

For the year ended 31 December 2000

(Expressed in Hong Kong dollars)

33 RELATED PARTY TRANSACTIONS (Continued)

(b) Notes:

- (i) This represents interest expense in respect of short term borrowings advanced by a minority shareholder, who is also a Director of the Company, of a partly owned subsidiary during the year ended 31 December 2000. Interest was charged at 10.5% p.a. at the principal of RMB6,000,000 for a period of nine months.
- (ii) The subsidiary of the Group entered into an agreement with a minority shareholder, who is also a Director of the Company, whereby the minority shareholder indemnified the subsidiary for losses resulted from debts as at 31 January 2000 outstanding for more than 3 months, which remained unsettled as at 31 December 2000 to the extent of approximately \$7,032,000. The unsettled debts indemnified by the minority shareholder amounted to \$190,000.
- (iii) Rental income represents rentals received from a subsidiary of FHCL for letting part of the office of the Company.
- (iv) Interest paid represents interest expense in respect of short term borrowings advanced by a fellow subsidiary of the Company. Interest under this financing arrangement was charged at a range between 17 per cent. to 24 per cent. per annum and related loan agreements expired on 31 August 1999.
- (v) This represents the consideration paid by the Company for the acquisition of a motor vehicle from a company controlled by a Director during the year ended 31 December 2000.
- (vi) On 7 June 2000, the Group entered into an agreement with 福建信息產業集團有限公司 for the acquisition of the remaining 49% interest in a subsidiary, Fujian SI at a cash consideration of RMB2,352,000. After the completion of the agreement, Fujian SI has become a wholly owned subsidiary of the Group.
- (vii) On 24 July 2000, the Group entered into an agreement with Batco Limited whereby the Group and Batco Limited agreed to inject cash of \$88,450 and \$3,325,000 respectively into a subsidiary, Fujie Plastics. As a result, the Group's interest in Fujie Plastics was diluted from 100% before the capital injection to 65%. Batco Limited is controlled and owned as to 71.43% by Mr ZHENG Ping, a director of Fujie Plastics and the remaining 28.57% by the employees of Fujie Plastics.
- (viii) On 19 October 2000, the Group entered into an agreement with Hongkong Sunway Technology Development Limited ("HK Sunway") for the disposal of the remaining 40% interest in a subsidiary Supernet, which is the 100% owner of Start Soyoy, at a cash consideration of approximately \$3,700,000. HK Sunway is owned by a group of individual shareholders. In addition to their respective interest in HK Sunway, two of them are also directors of certain subsidiaries of the Group.
- (ix) Guarantees are given by the Group in respect of certain bank loans totalling \$12,246,000 as at 31 December 2000 (1999: \$Nil) granted to a company related to a Director of the Company in return for guarantees given to banks by the related company for bank facilities totalling \$16,956,000 (1999: \$Nil) granted to the Group.

Save as disclosed above, the Directors of the Company are of the opinion that the above transactions with related parties were conducted on normal commercial terms and in the ordinary course of business.

Notes on the Accounts

For the year ended 31 December 2000

(Expressed in Hong Kong dollars)

33 RELATED PARTY TRANSACTIONS (Continued)

(c) Assignment of loans receivable

On 10 May 2000, the Company entered into the Deed whereby the Company assigned all the rights and benefits of the outstanding loans receivable, including interest accrued as at 28 April 2000, totalling approximately \$51,513,000 to FHCL. Pursuant to the Deed, the assignment was settled by the set-off of a subordinated loan from FHCL and an amount due to FHCL, in the amount of \$50,504,000 and \$2,592,000 as at 28 April 2000 respectively. The difference of approximately \$1,583,000 was settled by the Company during the year ended 31 December 2000.

34 POST BALANCE SHEET EVENTS

On 15 December 2000, FHCL has entered a conditional sale and purchase agreement with Leading Value Industrial Limited ("Leading Value") for the sale of 132,434,953 shares, approximately 33.06% equity interest of the Company for a cash consideration of \$124,832,650.

Upon completion of the transaction on 15 February 2001, the aggregate interest in the Company held by FHCL is reduced from 43.40% to 10.34%, and Leading Value becomes the largest single shareholder of the Company.

35 COMPARATIVE FIGURES

Certain comparative figures have been adjusted as a result of the change in recording for inventories used in the subcontracting processes and the reclassification of the pledged deposits from cash and cash equivalents.

36 ULTIMATE HOLDING COMPANY

The Directors consider the ultimate holding company at 31 December 2000 to be FHCL, which is incorporated in the BVI.