

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

For the six months ended 30 June 2001

1 BASIS OF PREPARATION AND ACCOUNTING POLICIES**Basis of preparation**

This interim financial report is unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Society of Accountants ("HKSA"). KPMG's independent review report to the board of directors is included on page 16.

The interim financial report has been prepared in accordance with the requirements of the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited, including compliance with Statement of Standard Accounting Practice ("SSAP") 25 "Interim financial reporting" issued by the HKSA except that comparative figures for the statement of recognised gains and losses and cash flow statement have not been prepared as the Company has taken advantage of the transitional provisions set out in the Main Board Listing Rules.

The financial information relating to the financial year ended 31 December 2000 included in the interim financial report does not constitute the Company's statutory accounts for that financial year but is derived from those accounts. Statutory accounts for the year ended 31 December 2000 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those accounts in their report dated 17 April 2001.

The notes on the interim financial report include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2000 annual accounts.

Accounting policies

The same accounting policies adopted in the 2000 annual accounts have been applied to the interim financial report, except for the change in accounting policy as described below.

Under SSAP 30 "Business combinations", goodwill arising from business combinations after 1 January 2001 is capitalized and amortized over its useful life. The Group has taken advantage of the transitional provisions in SSAP 30 and goodwill which has been previously written off to reserves has not been retroactively restated under the new accounting policy.

2 SEGMENTAL INFORMATION

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

	Group turnover		Contribution to profit from operations	
	Six months ended		Six months ended	
	30 June		30 June	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Principal activities				
Systems value-added services	401,282	210,024	49,035	32,186
Software development and systems integration services	23,095	16,417	3,732	1,509
General software	—	158	—	158
Manufacture and sale of computer related products	15,315	13,780	4,437	3,262
	<u>439,692</u>	<u>240,379</u>	<u>57,204</u>	<u>37,115</u>
Operating expenses net of other income			(40,056)	(24,015)
			<u>17,148</u>	<u>13,100</u>

Geographical location of operations

During the period, more than 90% of the operations of the Group in terms of both turnover and operating profit were derived from its operations in The People's Republic of China ("PRC").

3 OTHER INCOME

Other income for the period ended 30 June 2000 represented profit on disposal of a subsidiary.

4 PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

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

	Six months ended 30 June	
	2001 HK\$'000	2000 HK\$'000
Interest on borrowings	3,291	1,481
Amortization of research and development costs	–	227
Amortization of intangible assets	141	–
Depreciation	2,627	1,916
Provision for inventories	6,474	–
Provision for bad and doubtful debts	420	–
	<u> </u>	<u> </u>

5 TAXATION

	Six months ended 30 June	
	2001 HK\$'000	2000 HK\$'000
Provision for Hong Kong Profits Tax	1,963	2,100
PRC income tax	338	1,330
Deferred taxation	1,814	–
	<u> </u>	<u> </u>
	4,115	3,430
Share of an associate's taxation	1,016	315
	<u> </u>	<u> </u>
	5,131	3,745

Provision for Hong Kong Profits Tax is calculated at 16% of the estimated assessable profits arising in Hong Kong for the periods ended 30 June 2001 and 2000.

PRC income tax and share of an associate's taxation represent provisions for PRC income tax on profits of subsidiaries and an associate operating in the PRC which have been calculated at the prevailing rates under the relevant PRC income tax rules and regulations applicable to the subsidiaries and the associate.

The PRC subsidiaries of the Group prepared their financial statements for the period ended 30 June 2001 in accordance with PRC accounting standards and regulations ("PRC GAAP"). Deferred taxation mainly represents differences between PRC GAAP and SSAP in respect of accounting differences in income recognition.

6 DIVIDENDS

The Directors do not recommend the payment of any interim dividend for the six months ended 30 June 2001 (2000: HK\$NIL).

7 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of HK\$1,924,000 (2000: HK\$5,432,000) and the weighted average number of ordinary shares of 400,644,000 (2000: 374,731,000) shares in issue during the period.

(b) Diluted earnings per share

The effects of all potential ordinary shares are anti-dilutive for the period ended 30 June 2001.

The calculation of diluted earnings per share for the period ended 30 June 2000 is based on the profit attributable to shareholders of HK\$5,432,000 and the weighted average number of ordinary shares of 383,698,000 shares after adjusting for the effects of all dilutive potential ordinary shares.

8 FIXED ASSETS

Investment properties were revalued at 30 June 2001 by the directors, who are not qualified valuers, using relevant market indices, which is not significantly different from the professional valuation that were carried out at 31 December 2000.

During the period, the Group spent approximately HK\$3,247,000 on additions of property, plant and equipment.

9 INTANGIBLE ASSETS

During the period, the Group received a computer software at a value of approximately HK\$1,693,000 in settlement of part of the consideration for partial disposal of a subsidiary. The computer software is amortized over its estimated useful life of three years.

10 INTEREST IN JOINTLY CONTROLLED ENTITIES

This represents interest in Beijing Start Ming Tai Computer Application Technology Development Co., Ltd. ("Start Ming Tai"), a wholly foreign-owned company established in the PRC, and its subsidiary, which are engaged in the development and sales of general software in the PRC.

10 INTEREST IN JOINTLY CONTROLLED ENTITIES *(Continued)*

The Group acquired a 40% interest in Start Ming Tai on 30 June 2000, which was treated as a subsidiary in the Company's accounts for the year ended 31 December 2000 as, pursuant to the shareholders' agreement of Start Ming Tai dated 30 June 2000, the Group controlled the composition of the board of directors of Start Ming Tai.

However, as a result of a change in the composition of the board of directors of Start Ming Tai, which was initiated by the remaining shareholders of Start Ming Tai in early 2001, the Group ceased to control the board of Start Ming Tai. The board of Start Ming Tai is now represented by its shareholders on the principle of proportional representation and its operations are jointly controlled by the shareholders. Accordingly, Start Ming Tai and its subsidiary are treated as jointly controlled entities.

11 DEVELOPMENT PROJECT

The development project of HK\$28,260,000 as at 30 June 2001 represents contribution to a joint venture with an independent third party for the development of a satellite based software for paging and electronic metre reading systems. Pursuant to the agreement dated 25 February 2001, if the progress of the project meets certain criteria as stipulated in the agreement by February 2002, a joint venture company in respect of this project will be set up and the Company has the right to take up a 50% interest in the joint venture, and the contribution will be converted into capital. If the progress of the project fails to meet the criteria on or before February 2002, the outstanding balance will be repayable to the Company.

12 TRADE AND OTHER RECEIVABLES

	At 30 June 2001 HK\$'000	At 31 December 2000 HK\$'000
Accounts receivables	211,643	191,090
Gross amount due from customers for contract work	14,593	4,090
Prepayments, deposits and other receivables	67,992	48,783
	<u>294,228</u>	<u>243,963</u>

12 TRADE AND OTHER RECEIVABLES *(Continued)*

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

	At 30 June 2001 HK\$'000	At 31 December 2000 HK\$'000
Current	119,192	114,490
1 to 3 months overdue	66,959	39,800
More than 3 months but less than 12 months overdue	16,287	11,573
Overdue beyond 1 year	9,205	25,227
	<u>211,643</u>	<u>191,090</u>

Accounts receivables are due within 60 days on average from the customers accepting the goods and the related risks and rewards of ownership. However, accounts receivables with balances that are more than 3 months overdue are requested to settle all outstanding balances before any further credit is granted.

Included in accounts receivables and other receivables as at 30 June 2001 were amounts totalling HK\$7,490,000 (31 December 2000: HK\$14,486,000) due from Fuzhou Bonded Zone Western Industrial Ltd. (the "Debts"). As disclosed in the Company's 2000 Annual Report, Futart Holding Company Limited ("FHCL"), the previous major controlling shareholder of the Company, agreed to indemnify the Group for the Debts. The Debts were fully settled by FHCL on 10 July 2001.

13 TRADE AND OTHER PAYABLES

	At 30 June 2001 HK\$'000	At 31 December 2000 HK\$'000
Accounts payable	188,757	129,492
Bills payable	12,497	5,283
Receipts in advance	48,056	54,611
Other payables and accrued liabilities	74,199	64,412
	<u>323,509</u>	<u>253,798</u>

13 TRADE AND OTHER PAYABLES (Continued)

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

	At 30 June 2001 HK\$'000	At 31 December 2000 HK\$'000
Due within 3 months or on demand	194,133	128,305
Overdue 3 months to 6 months	165	122
Overdue 6 months to 1 year	589	981
Overdue 1 year	6,367	5,367
	<u>201,254</u>	<u>134,775</u>

14 SHARE CAPITAL

	At 30 June 2001 and 31 December 2000	
	No. of shares ('000)	HK\$'000
Authorised :		
Ordinary shares of HK\$0.10 each	<u>1,000,000</u>	<u>100,000</u>
Issued and fully paid:		
Ordinary shares of HK\$0.10 each	<u>400,644</u>	<u>40,064</u>

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

Date options offered	Exercise price (HK\$)	Number of share options			Outstanding at 30 June 2001
		Outstanding at 1 January 2001	Granted during the period	Cancelled during the period	
16 June 1999	1.08	11,677,000	-	(110,000)	11,567,000
2 July 1999	1.21	700,000	-	-	700,000
6 July 1999	1.31	1,500,000	-	(1,500,000)	-
20 December 1999	1.13	6,200,000	-	(5,600,000)	600,000
28 December 1999	1.32	4,560,000	-	(2,100,000)	2,460,000
3 January 2000	1.44	1,830,000	-	(600,000)	1,230,000
28 February 2000	2.06	540,000	-	(500,000)	40,000
21 July 2000	1.14	1,600,000	-	(250,000)	1,350,000
14 May 2001	0.58	-	17,250,000	-	17,250,000
		<u>28,607,000</u>	<u>17,250,000</u>	<u>(10,660,000)</u>	<u>35,197,000</u>

15 RESERVES

	Share premium <i>HK\$'000</i>	General reserve <i>HK\$'000</i>	Trans- lation reserve <i>HK\$'000</i>	Retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>
Balance at 1 January 2001	179,909	5,317	1,140	32,938	219,304
Goodwill written back upon disposal of a subsidiary	—	—	—	846	846
Exchange difference on translation of accounts of subsidiaries outside Hong Kong	—	—	(164)	—	(164)
Profit for the period	—	—	—	1,924	1,924
Balance at 30 June 2001	<u>179,909</u>	<u>5,317</u>	<u>976</u>	<u>35,708</u>	<u>221,910</u>

16 COMMITMENTS**(a) Commitments under operating leases**

At 30 June 2001, the Group had commitments in respect of commercial properties under operating leases to make payments as follows:

	At 30 June 2001 HK\$'000	At 31 December 2000 HK\$'000
Leases expiring:		
Within 1 year	5,090	5,211
After 1 year but within 5 years	<u>1,439</u>	<u>2,165</u>
	<u>6,529</u>	<u>7,376</u>

(b) Capital commitments

At 30 June 2001, the Group had capital commitments in respect of the following matter:

	At 30 June 2001 HK\$'000	At 31 December 2000 HK\$'000
Capital contributions to subsidiaries in the PRC	<u>2,700</u>	<u>18,925</u>

17 CONTINGENT LIABILITIES

At 30 June 2001, guarantees were given by the Group in respect of certain bank loans totalling HK\$21,666,000 (at 31 December 2000: HK\$12,246,000) granted to related parties of the Group in return for guarantees given to banks by the relevant related parties for bank facilities totalling HK\$21,666,000 (at 31 December 2000: HK\$16,956,000) granted to the Group.

18 MATERIAL 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 had interests in the Group's jointly controlled entities as shareholders prior to its disposal of such interests on 1 June 2001.

Details of material transactions between the Group and Fujian Start and its subsidiaries during the six months ended 30 June 2001 are as follows:

		Six months ended 30 June	
	Note	2001 HK\$'000	2000 HK\$'000
Trading transactions			
Sales of stocks	i	6,295	4,603
Purchases of goods	ii	517	3,176

Notes:

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

Included in the above were sales conducted with a related party which is also an associate of the Group amounting to HK\$2,006,000 for the six months ended 30 June 2001 (2000 : HK\$2,003,000).

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

		Six months ended 30 June	
	Note	2001 HK\$'000	2000 HK\$'000
Non-trading transaction			
Cross guarantees given to banks	i	9,420	—

18 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

Note:

- (i) Guarantee has been given by the Group in respect of bank loan in the amount of approximately HK\$9,420,000 (2000: HK\$Nil) granted to a subsidiary of Fujian Start in return for guarantee given by that company for bank loan of an equivalent amount granted to the Group (see note 17). In addition, bank loans of the Group totalling HK\$4,710,000 (2000: HK\$11,304,000) were guaranteed by Fujian Start and its certain subsidiaries as at 30 June 2001.

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.

- (b) The Group has the following material transaction with a related company controlled by a Director who is also a substantial shareholder of a subsidiary of the Group during the six months ended 30 June 2001:

	<i>Note</i>	Six months ended 30 June	
		2001 HK\$'000	2000 HK\$'000
Handling charges	<i>i</i>	<u>474</u>	<u>—</u>

Note:

- (i) Handling charges represent charges paid by the Group to a related company in respect of letter of credit facilities provided to the Group.

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

19 POST BALANCE SHEET EVENT

On 8 August 2001, the Group entered into an agreement with an independent third party for the disposal of its 25% interest in an associate at a consideration of HK\$37,680,000. The completion of the agreement is subject to the approval by the relevant PRC authorities, which is expected to be obtained before the end of October 2001. The disposal of the associate is expected to realise a profit of approximately HK\$4 million.

20 COMPARATIVE FIGURES

Certain comparative figures have been adjusted as a result of the change in recording for inventories used in the subcontracting processes.