Notes to Financial Statements

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1. CORPORATE INFORMATION

During the year, the Group was involved in the distribution of computer hardware and software products and the provision of computer technology services and commenced the provision of broadband Internet equipments, network security software and business software systems.

2. IMPACT OF NEW AND REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE

The following recently-issued and revised Hong Kong Statements of Standard Accounting Practice ("SSAPs") and related Interpretations have been adopted for the first time in the preparation of the current year's financial statements:

- SSAP 9 (Revised) — Events after the balance sheet date
- SSAP 14 (Revised) — Leases
- SSAP 18 (Revised) — Revenue
- SSAP 26 — Segment reporting
- SSAP 28 — Provisions, contingent liabilities and contingent assets
- SSAP 29 — Intangible assets
- SSAP 30 — Business combinations
- SSAP 31 — Impairment of assets
- SSAP 32 — Consolidated financial statements and accounting for investments in subsidiaries
- Interpretation 12 — Business combination — subsequent adjustment of fair values and goodwill initially reported
- Interpretation 13 — Goodwill — continuing requirements for goodwill previously eliminated against/credited to reserves

2. IMPACT OF NEW AND REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE (continued)

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in the financial statements of adopting these SSAPs and Interpretations are summarised as follows:

SSAP 9 (Revised) prescribes which type of events occurring after the balance sheet date require adjustments to the financial statements, and which require disclosure but no adjustment. Its principal impact on these financial statements is that a proposed final dividend which is not declared and approved until after the balance sheet date, is no longer recognised as a liability at the balance sheet date, but is disclosed as an allocation of retained profits on a separate line within the capital and reserves section of the balance sheet. The prior year adjustment arising from the adoption of the revised SSAP 9 is detailed in note 11 to the financial statements.

SSAP 14 (Revised) prescribes the basis for lessor and lessee accounting for finance and operating leases, and the required disclosures in respect thereof. Certain amendments have been made to the previous accounting measurement treatments. The revised SSAP 14 requirements have not had a material effect on the amounts previously recorded in the financial statements, and therefore no prior year adjustments have been required. The disclosure changes under the SSAP have resulted in changes to the detailed information disclosed for finance leases and operating leases, as further detailed in note 29(b) to the financial statements.

SSAP 18 (Revised) prescribes the recognition of revenue and was revised as a consequence of the revision to SSAP 9 described above. Proposed final dividends from subsidiaries that are declared and approved by the subsidiaries after the balance sheet date are no longer recognised in the Company's own financial statements for the year. The adoption of the revised SSAP 18 has resulted in a prior year adjustment, further details of which are included in notes 10 and 27 to the financial statements.

SSAP 26 prescribes the principles to be applied for reporting financial information by segment. It requires that management assesses whether the Group's predominant risks or returns are based on business segments or geographical segments and determines one of these bases to be the primary segment reporting format, with the other as the secondary segment reporting format. The principal impact of the SSAP 26 is the inclusion of significant additional segment reporting disclosures which are included in note 4 to the financial statements.

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2. IMPACT OF NEW AND REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE (continued)

SSAP 28 prescribes the recognition criteria and measurement bases to apply to provisions, contingent liabilities and contingent assets, together with the required disclosures in respect thereof, and has had no major impact on these financial statements.

SSAP 29 prescribes the recognition and measurement criteria for intangible assets, together with the disclosure requirements and has had no major impact on these financial statements.

SSAP 30 prescribes the accounting treatment for business combinations, including the determination of the date of acquisition, the method for determining the fair values of the assets and liabilities acquired, and the treatment of goodwill or negative goodwill arising on acquisition. SSAP 30 requires the disclosure of goodwill in the non-current assets section of the consolidated balance sheet. It requires that goodwill is amortised to the consolidated profit and loss account over its estimated useful life. Interpretation 13 prescribes the application of SSAP 30 to goodwill arising from acquisitions in previous years which remains eliminated against consolidated reserves. The adoption of the SSAP and Interpretation has not resulted in a prior year adjustment, for the reasons detailed in note 16 to the financial statements. The required new additional disclosures are included in note 16 to the financial statements.

SSAP 31 prescribes the recognition and measurement criteria for impairment of assets. SSAP 31 is required to be applied prospectively and therefore, has had no effect on amounts previously reported in prior year financial statements.

SSAP 32 prescribes the accounting treatment and disclosures for the preparation and presentation of consolidated financial statements, and has had no major impact on the preparation of these financial statements.

In addition to the above new and revised SSAPs, certain minor revisions to SSAP 17 "Property, plant and equipment" are effective for the first time for the current year's financial statements. The only significant effect of these revisions is that SSAP 17 requires that impairment losses on fixed assets are aggregated with accumulated depreciation, whereas previously they would be deducted from the cost of the relevant asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of certain fixed assets, as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2001. The results of the subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Subsidiaries

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

The Company's interests in subsidiaries are stated at cost less any impairment losses.

Goodwill

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

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of a maximum period of 10 years.

In prior years, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. The Group has adopted the transitional provision of SSAP 30 that permits goodwill on acquisitions which occurred prior to 1 January 2001, to remain eliminated against consolidated reserves. Goodwill on subsequent acquisitions is treated according to the new accounting policy above.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Impairment of assets

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

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

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from the rendering of services, including fixed price service contracts, based on the stage of completion of the transaction, provided that this and the costs incurred, as well as the estimated costs to completion can be measured reliably. The stage of completion of a transaction associated with the rendering of such services is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction;

(c) maintenance income, on a time proportion basis over the period of the contract;

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

(e) rental income, on a time proportion basis over the lease terms.

Dividends

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Dividends (continued)

In previous years, the Company recognised its proposed final dividends to shareholders, which were declared and approved after the balance sheet date, as a liability in the balance sheet. The Company also recognised the proposed final dividends of subsidiaries, which were declared and approved after the balance sheet date, as income in its profit and loss account for the year. The revised accounting treatments for dividends resulting from the adoption of SSAP 9 (Revised) and SSAP 18 (Revised), have given rise to prior year adjustments in both the Group's and the Company's financial statements, further details of which are included in notes 10, 11 and 27 to the financial statements.

Fixed assets and depreciation

Fixed assets are stated at cost or valuation less accumulated depreciation and any impairment losses.

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets and depreciation (continued)

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

Medium term leasehold land	Over the remaining lease terms
Buildings	5%
Leasehold improvements	$33^{1}/_{3}$% or over the lease terms, whichever is shorter
Furniture, fixtures and equipment	$33^{1}/_{3}$%
Motor vehicles	$33^{1}/_{3}$%

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

Leased assets

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

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

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Research and development costs

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

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

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

Long term investments

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

Where impairments in values have occurred, the carrying amounts of the securities are reduced to their fair values, as estimated by the directors, and the amounts of the impairments are charged to the profit and loss account for the period in which they arise. When the circumstances and events which led to the impairments in values cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amounts of the impairments previously charged are credited to the profit and loss account to the extent of the amounts previously charged.

The gains or losses arising from impairments or reversals of impairments of such securities are credited or charged to the profit and loss account in the period in which they arise.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

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

Accounts receivable

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

Provisions

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

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

Deferred tax

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

Notes to Financial Statements

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

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

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

Retirement benefit schemes

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

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

Related parties

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash and bank balances represent assets which are not restricted as to use.

4. SEGMENT INFORMATION

SSAP 26 was adopted during the year, as detailed in note 2 to the financial statements. Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

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

(a) the banking and finance systems integration services segment engages in the provision of systems integration, software development, engineering, maintenance and professional outsourcing services customised for banking and finance, telecommunications and public sector clients;

(b) the software solution for banks and public sector segment concentrates on the banking, e-commerce and public sectors with a business focus of e-business operations and online marketplaces; and

(c) the broadband Internet equipments, network security software and business software systems segment specialises in Internet Protocol networking, Internet security and web-based television solutions.

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

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4. SEGMENT INFORMATION (continued)

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

(a) Business segments

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

Group

	Banking and finance systems integration services	Software solution for banks and public sector	Broadband Internet equipments, network security software and business software systems	Eliminations	**Consolidated**
	2001 HK$'000	2001 HK$'000	2001 HK$'000	2001 HK$'000	**2001** **HK$'000**
Segment revenue:					
Sales to external customers	325,517	123,167	127,703	—	**576,387**
Intersegment sales	99	1,437	6,388	(7,924)	**—**
Interest income	964	442	583	—	**1,989**
Other income	2,014	183	216	—	**2,413**
Total	328,594	125,229	134,890	(7,924)	**580,789**
Segment results	(37,413)	(11,592)	4,855	—	**(44,150)**
Unallocated interest income					**820**
Unallocated gains					**243**
Unallocated expenses					**(39,012)**
Loss from operating activities					**(82,099)**
Finance costs					**(2,224)**
Loss before tax					**(84,323)**
Tax					**(333)**
Loss before minority interests					**(84,656)**
Minority interests					**(4,152)**
Net loss from ordinary activities attributable to shareholders					**(88,808)**

4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group	Banking and finance systems integration services 2000 HK$'000	Software solution for banks and public sector 2000 HK$'000	Broadband Internet equipments, network security software and business software systems 2000 HK$'000	Eliminations 2000 HK$'000	**Consolidated 2000 HK$'000**
Segment revenue:					
Sales to external customers	362,107	55,140	—	—	**417,247**
Intersegment sales	7,618	1,513	—	(9,131)	**—**
Interest income	1,526	127	—	—	**1,653**
Other income	2,131	26	—	—	**2,157**
Total	373,382	56,806	—	(9,131)	**421,057**
Segment results	53,429	2,187	—	—	**55,616**
Unallocated interest income					**4,446**
Unallocated gains					**583**
Unallocated expenses					**(39,392)**
Profit from operating activities					**21,253**
Finance costs					**(541)**
Profit before tax					**20,712**
Tax					**(871)**
Profit before minority interests					**19,841**
Minority interests					**(1,628)**
Net profit from ordinary activities attributable to shareholders					**18,213**

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4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group

	Banking and finance systems integration services	Software solution for banks and public sector	Broadband Internet equipments, network security software and business software systems	Eliminations	**Consolidated**
	2001 HK$'000	2001 HK$'000	2001 HK$'000	2001 HK$'000	**2001 HK$'000**
Segment assets	195,220	90,231	195,873	(24,604)	**456,720**
Unallocated assets:					
Long Term investment					**51,081**
Others					**29,852**
Total assets					**537,653**
Segment liabilities	67,627	66,498	70,949	(24,604)	**180,470**
Unallocated liabilities					**59,364**
Total liabilities					**239,834**
Other segment information:					
Cash and bank balances included in segment assets	60,309	13,033	3,256	—	**76,598**
Pledged time deposits included in segment assets	3,036	12,144	16,756	—	**31,936**
Depreciation and amortisation	(3,779)	(2,587)	(8,362)	—	**(14,728)**
Unallocated amounts					**(2,137)**
					(16,865)
Provison for doubtful debts	(23,697)	(6,018)	(4,165)	—	**(33,880)**
Other non-cash expenses	(236)	(598)	—	—	**(834)**
Unallocated amounts					**(59)**
					(893)
Capital expenditure	(2,528)	(2,643)	(5,509)	—	**(10,680)**
Unallocated amounts					**(14)**
					(10,694)

4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group

	Banking and finance systems integration services 2000 HK$'000	Software solution for banks and public sector 2000 HK$'000	Broadband Internet equipments, network security software and business software systems 2000 HK$'000	Eliminations 2000 HK$'000	**Consolidated 2000 HK$'000**
Segment assets	310,640	58,783	—	(22,761)	**346,662**
Unallocated assets:					
Long term investment					**51,081**
Others					**75,542**
Total assets					**473,285**
Segment liabilities	77,735	51,322	—	(22,761)	**106,296**
Unallocated liabilities					**23,597**
Total liabilities					**129,893**
Other segment information:					
Cash and bank balances included in segment assets	88,798	3,115	—	—	**91,913**
Pledged time deposits included in segment assets	12,759	3,126	—	—	**15,885**
Depreciation and amortisation	(2,649)	(3,139)	—	—	**(5,788)**
Unallocated amounts					**(909)**
					(6,697)
Provision for doubtful debts					**—**
Other non-cash expenses	—	(4,217)	—	—	**(4,217)**
Unallocated amounts					**—**
					(4,217)
Capital expenditure	(5,155)	(9,278)	—	—	**(14,433)**
Unallocated amounts					**(3,264)**
					(17,697)

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4. SEGMENT INFORMATION (continued)

(b) Geographical segments

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

Group	Hong Kong	Elsewhere in the PRC	Asia Pacific other than the PRC	Eliminations	**Consolidated**
	2001	2001	2001	2001	**2001**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Segment revenue:					
Sales to external customers	40,960	521,809	13,618	—	**576,387**
Intersegment sales	6,760	99	709	(7,568)	**—**
	47,720	521,908	14,327	(7,568)	**576,387**
Segment results*	(32,766)	(49,851)	518	—	**(82,099)**
Other segment information:					
Segment assets	244,824	323,623	18,170	(100,045)	**486,572**
Unallocated amount:					
Long term investment					**51,081**
					537,653
Cash and bank balances included in segment assets	38,047	59,033	29	—	**97,109**
Pledged time deposits included in segment assets	21,829	10,107	—	—	**31,936**
Capital expenditure	4,555	5,023	1,116	—	**10,694**

* disclosed pursuant to the requirements of the Listing Rules.

4. SEGMENT INFORMATION (continued)

(b) Geographical segments (continued)

Group	Hong Kong 2000 HK$'000	Elsewhere in the PRC 2000 HK$'000	Asia Pacific other than the PRC 2000 HK$'000	Eliminations 2000 HK$'000	**Consolidated 2000 HK$'000**
Segment revenue:					
Sales to external customers	40,721	376,526	—	—	**417,247**
Intersegment sales	106	7,618	—	(7,724)	**—**
	40,827	384,144	—	(7,724)	**417,247**
Segment results*	(8,215)	29,468	—	—	**21,253**
Other segment information:					
Segment assets	328,310	324,164	—	(230,270)	**422,204**
Unallocated amount:					
Long term investment					**51,081**
					473,285
Cash and bank balances included in segment assets	73,928	56,641	—	—	**130,569**
Pledged time deposits included in segment assets	15,885	—	—	—	**15,885**
Capital expenditure	12,442	5,255	—	—	**17,697**

* disclosed pursuant to the requirements of the Listing Rules.

5. TURNOVER AND INCOME

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

An analysis of turnover and income is as follows:

	Group	
	2001	2000
	HK$'000	HK$'000
Sale of goods	536,188	352,041
Provision of computer technology services	40,199	65,206
Turnover	576,387	417,247
Interest income	2,809	6,099
Management fee received from a related company	—	235
Gross rental income	771	177
Gain on disposal of fixed assets	—	453
Exchange gains, net	1,635	1,587
Sundry income	250	288
Other income	5,465	8,839
Total income	581,852	426,086

6. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

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

	2001 HK$'000	2000 HK$'000
Costs of inventories sold and services provided	485,653	316,198
Depreciation	8,327	4,895
Amortisation of goodwill — note 16	7,537	—
Provision for doubtful debts	33,880	—
Research and development costs:		
Amortisation of deferred development costs	1,001	1,802
Current year expenditure	—	1,210
Written off	—	4,217
	1,001	7,229
Minimum lease payments under operating leases in respect of land and buildings	7,371	5,505
Auditors' remuneration	918	1,106
Staff costs (excluding directors' remuneration — note 7):		
Salaries	66,567	25,983
Pension contributions	792	417
Mandatory provident fund contributions	825	56
	68,184	26,456
Exchange gains, net	(1,635)	(1,587)
Loss/(gain) on disposal of fixed assets, net	893	(453)
Net rental income	(710)	(163)
Management fee received from a related company	—	(235)
Interest income	(2,809)	(6,099)

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6. PROFIT/(LOSS) FROM OPERATING ACTIVITIES (continued)

The cost of sales for the year ended 31 December 2001 include HK$19,032,000 (2000: HK$9,130,000), relating to direct staff costs and amortisation of deferred development costs, which are also included in the respective total amounts disclosed separately above for each of these types of expenses for the year.

The amortisation of goodwill and provision for doubtful debts for the year are included in "Other operating expenses" on the face of the consolidated profit and loss account.

7. DIRECTORS' REMUNERATION AND THE FIVE HIGHEST PAID EMPLOYEES

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

	Group	
	2001 HK$'000	2000 HK$'000
Fees:		
Executive directors	—	—
Non-executive director	200	200
Independent non-executive directors	400	500
	600	700
Other emoluments of executive directors:		
Basic salaries, other allowances and benefits in kind	7,844	11,434
Mandatory provident fund contributions	56	5
	7,900	11,439
	8,500	12,139

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

The remuneration of the directors fell within the following bands:

	Number of directors 2001	2000
Nil to HK$1,000,000	4	4
HK$1,000,001 to HK$1,500,000	1	2
HK$1,500,001 to HK$2,000,000	2	1
HK$2,500,001 to HK$3,000,000	—	1
HK$3,000,001 to HK$3,500,000	1	—
HK$4,000,001 to HK$4,500,000	—	1
	8	9

The five highest paid employees included four (2000: five) directors during the year, details of whose remuneration is set out above.

Details of the remuneration of the remaining sole (2000: Nil) non-director, highest paid employee are as follows:

	2001 HK$'000	2000 HK$'000
Basic salaries, other allowances and benefits in kind	1,140	—
Mandatory provident fund contributions	13	—
	1,153	—

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

During the year, 400,000 and 92,000 share options were granted to an executive director and the sole non-director, highest paid employee, respectively, in respect of their services to the Group, further details which are set out under the heading "Share option scheme" in the Report of the Directors on page 40 to 42. No estimate value of such options has been charged to the profit and loss account as at the date of the grant.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2000: Nil). During the year, no emoluments were paid by the Group to the directors or the non-director, highest paid employee as an inducement to join, or upon joining the Group, or as a compensation for loss of office (2000: Nil).

In the opinion of the directors of the Company, the Group had no significant obligations for long service payments to its employees pursuant to the requirements under the Employment Ordinance, Chapter 57 of the Laws of Hong Kong, at 31 December 2001.

8. FINANCE COSTS

	Group	
	2001 HK$'000	2000 HK$'000
Interest on trust receipt loans and bank overdrafts wholly repayable within five years	2,124	404
Interest on finance leases	100	137
	2,224	541

9. TAX

	Group	
	2001 HK$'000	2000 HK$'000
Current:		
Hong Kong	2,276	472
Elsewhere	(1,865)	999
	411	1,471
Deferred — note 25	(78)	(600)
Tax charge for the year	333	871

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof. Tax recoverable represents provisional tax paid in excess of the estimated tax liability of the Group.

北京先進數通信息技術有限公司("先進數通"), a subsidiary of the Company established in the PRC, was exempted from PRC income tax for three years starting from the year ended 31 December 2001, and thereafter is eligible for a 50% relief from income tax for the following three years under the Income Tax Law of the PRC. The standard PRC income tax rate applicable to 先進數通 is 15%. As a result of the exemptions, 先進數通 was exempted from the paying of income tax for the year ended 31 December 2001 and the years ending 31 December 2002 and 2003, and the PRC income tax rate for the three years ending 31 December 2004, 2005 and 2006 is 7.5%.

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

The net loss from ordinary activities attributable to shareholders dealt with in the financial statements of the Company for the year ended 31 December 2001 was HK$105,493,000 (2000: net profit of HK$14,889,000 as restated).

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

The comparative amount for 2000 has been restated by a prior year adjustment resulting in a net debit of HK$1,810,000 to the Company's net profit for that year, and a credit of the same amount to the dividend receivables in the Company's balance sheet. The prior year adjustment reversed dividends from subsidiaries which were declared and approved by the subsidiaries after the prior year's balance sheet date, but which were recognised by the Company as revenue in its financial statements for that year. The prior year adjustment result in no change to the amount of retained profits as at 1 January 2000. This change in accounting policy has arisen from the adoption of revisions to SSAP 18, as further detailed in notes 2 and 27 to the financial statements.

The effect of this change in accounting policy on the Company's net loss for the current year, was to increase the net loss by HK$1,810,000 to HK$105,493,000, as disclosed above, representing the effect of the prior year adjustment of HK$1,810,000 in respect of the dividends declared by the subsidiaries after the prior year's balance sheet date.

11. DIVIDENDS

	2001 HK$'000	2000 HK$'000
Interim — nil (2000: HK1.5 cents) per ordinary share	—	4,830
Proposed final — nil (2000: HK0.5 cents) per ordinary share	—	1,810
	—	6,640

During the year, the Group adopted the revised SSAP 9, as detailed in note 2 to the financial statements. To comply with this revised SSAP 9, a prior year adjustment has been made to reclassify the proposed final dividend for the year ended 31 December 2000 of HK$1,810,000, which was recognised as a current liability at the prior year end, to the proposed final dividend reserve account within the capital and reserves section of the balance sheet. The result of this has been to reduce both the Group's and the Company's current liabilities and increase the reserves previously reported as at 31 December 2000, by HK$1,810,000.

The revised SSAP 9 has had no major impact to the current year's financial statements.

12. EARNINGS/(LOSS) PER SHARE

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the year of HK$88,808,000 (2000: net profit of HK$18,213,000) and the weighted average of 362,000,000 (2000: 330,180,328) ordinary shares in issue during the year.

A diluted loss per share amount for the year ended 31 December 2001 has not been disclosed as the share options outstanding during the year has an anti-dilutive effect on the basic loss per share for the year.

The calculation of diluted earnings per share for the year ended 31 December 2000 was based on the net profit from ordinary activities attributable to shareholders for that year of HK$18,213,000. The weighted average number of ordinary shares used in the calculation of diluted earnings per share was 331,780,035, which included 330,180,328 ordinary shares in issue during the year ended 31 December 2000 as used in the basic earnings per share calculation, and the weighted average of 1,599,707 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during that year.

The effects of the Company's shares issuable for settlement of additional consideration for the acquisitions of certain subsidiaries as further detailed in notes 29(a)(ii) and (iii) to the financial statements have not been included in the computation of diluted earnings/(loss) per share as the shares so to be issued would be fairly priced and are assumed to be neither dilutive nor anti-dilutive.

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13. FIXED ASSETS

Group

	Medium term leasehold land and building in Hong Kong HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost or valuation:					
At beginning of year	650	3,717	21,844	4,640	30,851
Additions	—	2,003	8,451	240	10,694
Acquisition of subsidiaries	—	—	403	—	403
Disposals	—	(43)	(1,862)	(1,661)	(3,566)
At 31 December 2001	650	5,677	28,836	3,219	38,382
Accumulated depreciation:					
At beginning of year	57	1,778	10,649	2,445	14,929
Provided during the year	32	1,677	5,891	727	8,327
Acquisition of subsidiaries	—	—	164	—	164
Disposals	—	(28)	(1,024)	(564)	(1,616)
At 31 December 2001	89	3,427	15,680	2,608	21,804
Net book value:					
At 31 December 2001	561	2,250	13,156	611	16,578
At 31 December 2000	593	1,939	11,195	2,195	15,922
Analysis of cost or valuation:					
At cost	—	5,677	28,836	3,219	37,732
At 30 April 1999 valuation	650	—	—	—	650
	650	5,677	28,836	3,219	38,382

13. FIXED ASSETS (continued)

Company

	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost:				
At beginning of year	1,867	865	1,891	4,623
Additions	2	11	—	13
Disposals	—	—	(541)	(541)
At 31 December 2001	1,869	876	1,350	4,095
Accumulated depreciation:				
At beginning of year	183	166	570	919
Provided during the year	1,219	288	630	2,137
Disposals	—	—	(225)	(225)
At 31 December 2001	1,402	454	975	2,831
Net book value:				
At 31 December 2001	467	422	375	1,264
At 31 December 2000	1,684	699	1,321	3,704

The net book value of the fixed assets of the Company and the Group held under finance leases included in the total amount of motor vehicles at 31 December 2001 amounted to HK$375,000 (2000: HK$1,321,000) and HK$375,000 (2000: HK$2,160,000), respectively.

Notes to Financial Statements

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13. FIXED ASSETS (continued)

Had the Group's leasehold land and building been carried at historical cost less accumulated depreciation and any impairment losses, their carrying value would have been approximately HK$640,000 (2000: HK$680,000).

14. DEFERRED DEVELOPMENT COSTS

Group

	HK$'000
Cost:	
At beginning of year and at 31 December 2001	4,752
Accumulated amortisation:	
At beginning of year	2,080
Provided during the year	1,001
At 31 December 2001	3,081
Net book value:	
At 31 December 2001	1,671
At 31 December 2000	2,672

15. INTERESTS IN SUBSIDIARIES

	Company 2001 HK$'000	Company 2000 HK$'000
Unlisted shares, at cost	39,631	39,631
Due from subsidiaries	272,391	271,361
Due to subsidiaries	(2,699)	—
	309,323	310,992
Provision for impairment	(91,925)	—
	217,398	310,992

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

Particulars of the principal subsidiaries are as follows:

Company	Place of incorporation/ registration and operations	Nominal value of paid-up share/ registered capital	Percentage of equity attributable to the Company	Principal activities
Held directly:				
Technology Venture Investments Limited	British Virgin Islands	Ordinary US$1,000	100	Investment holding
Held indirectly:				
Light International Holdings Limited	British Virgin Islands/PRC	Ordinary US$10,000	100	Provision of procurement services
Open Environment China/ Hong Kong Limited	Hong Kong	Ordinary HK$10,000	90	Distribution of information technology products and provision of computer technology services

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15. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows:

Company	Place of incorporation/ registration and operations	Nominal value of paid-up share/ registered capital	Percentage of equity attributable to the Company	Principal activities
Held indirectly (continued):				
Sequent China/Hong Kong Limited	Hong Kong/ PRC	Ordinary HK$10,000	91	Distribution of information technology products and provision of computer technology services
Technology Venture (Software) Holdings Limited	British Virgin Islands	Ordinary US$1,000	100	Investment holding
Topasia Computer Limited	Hong Kong/ PRC	Ordinary HK$10,000	100	Distribution of information technology products and provision of computer technology services
Topsoft Limited	Hong Kong	Ordinary HK$10,000	100	Distribution of information technology products and provision of computer technology services
DMX Technologies (Hong Kong) Limited ("DMX", formerly Skynet Consultants Company Limited) * #	Hong Kong	Ordinary HK$14,880	51	Provision of broadband Internet equipments, network security software and business software systems

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15. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows:

Company	Place of incorporation/ registration and operations	Nominal value of paid-up share/ registered capital	Percentage of equity attributable to the Company	Principal activities
Held indirectly (continued):				
Windsor Enterprises Limited	British Virgin Islands/PRC	Ordinary US$10,000	100	Provision of marketing services
Advanced Digital Technology Company Limited	British Virgin Islands	Ordinary US$1,000	55	Investment holding
Advanced Digital Technology Company Limited	Hong Kong/ PRC	Ordinary HK$2	55	Provision of systems integration services and software development
北京先進數通信息技術有限公司	PRC	Registered capital US$3,000,000	55	Provision of systems integration services and software development
TVH Cyber Technology Limited	Hong Kong	Oridinary HK$1,000	80	Provision of computer technology services and distribution of IT products

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15. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows:

Company	Place of incorporation/ registration and operations	Nominal value of paid-up share/ registered capital	Percentage of equity attributable to the Company	Principal activities
Held indirectly (continued):				
杭州冠亞科技有限公司	PRC	Registered capital RMB3,000,000	61	Distribution of information technology products and provision of computer technology services
Topasia Technology (Shanghai) Company Limited	PRC	Registered Capital USD 300,964	100	Distribution of information technology products and provision of computer technology services

* Acquired during the year

\# Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms

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

16. GOODWILL

SSAP 30 was adopted during the year, as detailed in note 2 to the financial statements. The amount of the goodwill capitalised as an asset in the balance sheet arising from the acquisition of a subsidiary is as follows:

Group

	HK$'000
Cost:	
At beginning of year	—
Acquisition of a subsidiary	75,372
At 31 December 2001	75,372
Accumulated amortisation:	
At beginning of year	—
Provided during the year	7,537
At 31 December 2001	7,537
Net book value:	
At 31 December 2001	67,835
At 31 December 2000	—

As detailed in notes 2 and 3 to the financial statements, the Group has adopted the transitional provision of SSAP 30 which permits goodwill in respect of acquisitions which occurred prior to 1 January 2001 to remain eliminated against consolidated reserves.

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16. GOODWILL (continued)

The amounts of goodwill remaining in consolidated reserves, arising from the acquisition of subsidiaries prior to 1 January 2001, are as follows:

Group

	HK$'000
Cost:	
At beginning of year	37,548
Additional consideration paid and payable	2,500
At 31 December 2001	40,048
Accumulated impairment:	
At beginning of year and at 31 December 2001	—
Net amount:	
At 31 December 2001	40,048
At 31 December 2000	37,548

17. LONG TERM INVESTMENT

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

Of the HK$8,329,000 (2000: Nil) due from the investee company included in current assets, HK$6,000,000, represents a loan advanced to the investee company. The loan is unsecured, interest-bearing at the Hong Kong prime rate plus 2% per annum and is repayable on or before 15 May 2002. The remaining balance of approximately HK$2,329,000 represents an "other receivable" due from the investee company and is unsecured, interest-free and has no fixed terms of payment.

18. DEPOSIT PAID FOR AN UNLISTED INVESTMENT

The prior year balance represented a deposit paid for the acquisition of a 51% shareholding in DMX.

During the year, the acquisition of this unlisted investment has been completed and the balance has been transferred to investments in subsidiaries of the Company.

Further details of this subsidiary are set out in note 15 to the financial statements.

19. INVENTORIES

	Group	
	2001 HK$'000	2000 HK$'000
Information technology products held for resale	14,795	11,468

None of the above inventories is carried at net realisable value (2000: Nil).

20. ACCOUNTS AND BILLS RECEIVABLE

An aged analysis of the accounts and bills receivable as at 31 December 2001, based on invoice date and net of provisions, is as follows:

	Group	
	2001 HK$'000	2000 HK$'000
Current to 90 days	145,678	163,592
91 days to 180 days	9,887	2,585
181 days to 365 days	25,594	2,981
Over 365 days	16,638	15,740
	197,797	184,898

Included in the Group's accounts receivable is an amount due from the Group's related company, in which certain directors of a subsidiary of the Company are directors, of HK$5,208,000 (2000: Nil), which is repayable on similar credit terms to those offered to other customers of the Group.

21. ACCOUNTS AND BILLS PAYABLE

		Group	
		2001	2000
	Notes	HK$'000	HK$'000
Trade and bills payables		84,236	22,571
Due to certain minority shareholders	(a)	1,052	14,460
Due to related companies	(b)	872	4,022
		86,160	41,053

Notes:

(a) The amounts due to certain minority shareholders of certain subsidiaries represent trade payables, which are unsecured, interest-free and are repayable according to the terms agreed with these minority shareholders.

(b) The amounts due to related companies, representing trade payables to certain members of the Datacraft Asia Ltd group and certain related companies in which the directors of certain subsidiaries of the Company are also directors, are unsecured, interest-free and have no fixed terms of repayment.

An aged analysis of accounts and bills payable as at 31 December 2001, based on invoice date, is as follows:

	Group	
	2001	2000
	HK$'000	HK$'000
Current to 90 days	67,009	16,260
91 days to 180 days	10,966	7,223
181 days to 365 days	1,979	15,538
Over 365 days	6,206	2,032
	86,160	41,053

22. ACCRUED LIABILITIES AND OTHER PAYABLES

		Group		Company	
		2001	2000	2001	2000
	Notes	HK$'000	HK$'000	HK$'000	HK$'000
Accrued and other liabilities		53,195	32,995	691	500
Due to a minority shareholder	(a)	27,208	24,708	—	—
Due to another minority shareholder	(b)	18,720	—	—	—
		99,123	57,703	691	500

Notes:

(a) Part of the amount due to a minority shareholder of a subsidiary of approximately HK$16,074,000 (2000: HK$20,579,000) represents the outstanding purchase consideration payable for the acquisition of a 55% shareholding in a subsidiary in the prior year (note 29(a)(ii)). This balance is unsecured and interest-free. Except for an amount of approximately HK$2,500,000 (2000: Nil) which is repayable upon the issue of the signed/certified accounts of the first post-acquisition accounting period of the subsidiary by the auditors of the subsidiary, the remainder of this balance of approximately HK$13,574,000 (2000: HK$20,579,000) is repayable on demand.

The remaining balance of approximately HK$11,134,000 (2000: HK$4,129,000) represents an amount advanced from the minority shareholder for use as working capital of the above mentioned subsidiary. The balance is unsecured, interest-free and is repayable on demand.

(b) The balance due to another minority shareholder represents the outstanding purchase consideration payable for the acquisition of a 51% shareholding in a subsidiary in the current year (note 16 and 29(a)(iii)). The balance is unsecured, interest-free and is repayable upon the issue of the signed/certified accounts of the subsidiary for the year ended 31 December 2001 by the auditors of the subsidiary.

23. INTEREST-BEARING AND SECURED BANK LOANS

	Group	
	2001	2000
	HK$'000	HK$'000
Trust receipt loans repayable within one year, secured	26,917	12,498
Bank loans repayable within one year, secured (note a)	10,000	—
	36,917	12,498

As at 31 December 2001, the Group's banking facilities were secured by:

(a) corporate guarantees executed by the Company to the extent of HK$86,000,000 (2000: HK$26,000,000);

(b) a corporate guarantee executed by a minority shareholder of a subsidiary of the Company, to the extent of RMB1,000,000 (equivalent to approximately HK$935,000) (2000: Nil); and

(c) the pledge of the Group's time deposits amounting to approximately HK$31.9 million (2000: HK$15.9 million).

24. FINANCE LEASE PAYABLES

The Company and the Group lease a motor vehicle for its business use. This lease is classified as a finance lease and has remaining lease terms of more than two years.

As at 31 December 2001, the total future minimum lease payments under finance leases were as follows:

	Group		Company	
	2001 HK$'000	2000 HK$'000	2001 HK$'000	2000 HK$'000
Amounts payable:				
Within one year	337	869	337	455
In the second year	337	834	337	455
In the third to fifth years, inclusive	140	644	140	644
Total minimum finance lease payments	814	2,347	814	1,554
Future finance charges	(148)	(406)	(148)	(290)
Total net finance lease payables	666	1,941	666	1,264
Portion classified as current liabilities	(270)	(723)	(270)	(370)
Long term portion	396	1,218	396	894

24. FINANCE LEASE PAYABLES (continued)

The present value of minimum lease payments under finance leases is further analysed as follows:

	Group		Company	
	2001 HK$'000	2000 HK$'000	2001 HK$'000	2000 HK$'000
Amounts payable:				
Within one year	270	723	270	370
In the second year	302	734	302	410
In the third to fifth years, inclusive	94	484	94	484
Total present value of minimum lease payments	666	1,941	666	1,264

SSAP 14 was revised and implemented during the year, as detailed in note 2 to the financial statements. Certain new disclosures are required and have been included above. The prior year comparative amounts for the new disclosures have also been included were appropriate.

25. DEFERRED TAX

	Group	
	2001 HK$'000	2000 HK$'000
At beginning of year	311	911
Credit for the year — note 9	(78)	(600)
At 31 December	233	311

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25. DEFERRED TAX (continued)

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

	Provided		Not provided	
	2001 HK$'000	2000 HK$'000	2001 HK$'000	2000 HK$'000
Accelerated depreciation allowances	233	311	—	—
Tax losses carried forward	—	—	(3,718)	(548)
	233	311	(3,718)	(548)

The Company had no significant potential deferred tax liabilities for which provision has not been made as at 31 December 2001 (2000: Nil).

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

26. SHARE CAPITAL

Shares

	2001 HK$'000	2000 HK$'000
Authorised:		
1,000,000,000 ordinary shares of HK$0.10 each	100,000	100,000
Issued and fully paid:		
362,000,000 ordinary shares of HK$0.10 each	36,200	36,200

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26. SHARE CAPITAL (continued)

Shares (continued)

Subsequent to the balance sheet date, on 2 March 2002, 30,769,231 ordinary shares were issued at an issue price of HK$0.65 per share to a minority shareholder of a subsidiary for the settlement of the first instalment of the outstanding consideration in relation to the acquisition of a 51% equity interest in DMX. Further details of the acquisition are set out in notes 29(a)(iii) and 32 to the financial statements.

Share options

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

26. SHARE CAPITAL (continued)

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

Date of grant of share options	Number of share options outstanding at 1 January 2001	Number of share options granted during the year	Number of share options cancelled during the year	Number of share options outstanding at 31 December 2001	Exercise price	Exercise period
21 January 2000	4,978,000	—	2,780,000	2,198,000	HK$2.532	21 January 2001 to 20 January 2010
31 May 2000	500,000	—	—	500,000	HK$1.82	31 May 2001 to 30 May 2010
29 September 2000	200,000	—	—	200,000	HK$2.108	29 September 2001 to 28 September 2010
27 December 2000	750,000	—	700,000	50,000	HK$1.481	27 December 2001 to 26 December 2010
26 March 2001	—	100,000	100,000	—	HK$1.2	26 March 2002 to 25 March 2011
24 May 2001	—	5,200,000	646,000	4,554,000	HK$0.91	24 May 2002 to 23 May 2011
	6,428,000	5,300,000	4,226,000	7,502,000		

At the balance sheet date, the Company had 7,502,000 share options outstanding. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 7,502,000 additional ordinary shares of HK$0.10 each in the Company and proceeds, before relevant share issue expenses, of HK$11,115,000.

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27. RESERVES

Group

	Share premium account HK$'000	Contributed surplus HK$'000	Goodwill reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000
At 1 January 2000	43,558	(19)	(602)	—	49,670	92,607
Issue of shares	242,920	—	—	—	—	242,920
Share issue expenses	(9,357)	—	—	—	—	(9,357)
Arising from acquisition of additional interest in a subsidiary	—	—	(36,946)	—	—	(36,946)
Exchange realignment	—	—	—	45	—	45
Net profit for the year	—	—	—	—	18,213	18,213
Interim dividend	—	—	—	—	(4,830)	(4,830)
Proposed final dividend	—	—	—	—	(1,810)	(1,810)
At 31 December 2000 and 1 January 2001	277,121	(19)	(37,548)	45	61,243	300,842
Additional consideration paid for acquisition of subsidiaries in prior year	—	—	(2,500)	—	—	(2,500)
Exchange realignment	—	—	—	13	—	13
Net loss for the year	—	—	—	—	(88,808)	(88,808)
At 31 December 2001	277,121	(19)	(40,048)	58	(27,565)	209,547

As further detailed in note 29(a)(ii), the Group acquired a 55% shareholding in a subsidiary during the year ended 31 December 2000. The goodwill of HK$36,946,000 so arising from such acquisition was eliminated against reserves during the year ended 31 December 2000. Pursuant to the sale and purchase agreement, the seller will be entitled to additional consideration. In the current year, the first additional consideration was quantified to be HK$2,500,000, which has been accounted for as an adjustment to the cost of acquisition previously recognised, and accordingly the goodwill then arising was adjusted.

27. RESERVES (continued)

Company

	Share premium account HK$'000	Contributed surplus HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000
At 1 January 2000:				
As previously reported	43,558	39,431	1,065	84,054
Prior year adjustment:				
SSAP 18 (Revised)				
— net year-on-year effect of dividends from subsidiaries no longer recognised as income for the year (note 2)	—	—	(9,016)	(9,016)
As restated	43,558	39,431	(7,951)	75,038
Issue of shares	242,920	—	—	242,920
Share issue expenses	(9,357)	—	—	(9,357)
Net profit for the year (as restated)	—	—	14,889	14,889
Interim dividend	—	—	(4,830)	(4,830)
Proposed final dividend	—	—	(1,810)	(1,810)
At 31 December 2000 and 1 January 2001:				
As previously reported	277,121	39,431	298	316,850
Prior year adjustment:				
SSAP 18 (Revised)				
— net year-on-year effect of dividends from subsidiaries no longer recognised as income for the year (note 2)	—	—	(1,810)	(1,810)
As restated	277,121	39,431	(1,512)	315,040
Net loss for the year	—	—	(105,493)	(105,493)
At 31 December 2001	277,121	39,431	(107,005)	209,547

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27. RESERVES (continued)

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

The contributed surplus of the Company represents the excess of the combined net asset value of the subsidiaries acquired pursuant to the same reorganisation, over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Act 1981 of Bermuda, the Company's contributed surplus is currently unable to be distributed.

28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit/(loss) from operating activities to net cash outflow from operating activities

	Group	
	2001 HK$'000	2000 HK$'000
Profit/(loss) from operating activities	(82,099)	21,253
Interest income	(2,809)	(6,099)
Depreciation	8,327	4,895
Amortisation of goodwill	7,537	—
Amortisation of deferred development costs	1,001	1,802
Deferred development costs written off	—	4,217
Loss/(gain) on disposal of fixed assets, net	893	(453)
Decrease/(increase) in inventories	2,899	(3,639)
Decrease/(increase) in accounts and bills receivable	703	(11,760)
Decrease/(increase) in prepayments, deposits and other receivables	5,240	(25,390)
Increase/(decrease) in accounts and bills payables	34,987	(21,899)
Decrease in trust receipt loans with original maturity of more than three months	—	(3,978)
Increase/(decrease) in accrued liabilities and other payables	10,697	(5,262)
Net cash outflow from operating activities	(12,624)	(46,313)

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

(b) Analysis of changes in financing during the year

	Issued capital and share premium account HK$'000	Due from an investee company HK$'000	Bank loans, secured HK$'000	Finance lease payables HK$'000	Minority interests HK$'000	Due to a minority shareholder HK$'000
At 1 January 2000	71,558	—	—	1,309	2,158	—
Cash inflow/(outflow) from financing activities, net	224,443	—	—	(1,029)	750	4,129
Inception of finance lease contracts	—	—	—	1,661	—	—
Share of profit for the year	—	—	—	—	1,628	—
Acquisition of a subsidiary	—	—	—	—	4	—
Issue of shares for purchase of additional interest in a long term investment	17,320	—	—	—	—	—
At 31 December 2000 and 1 January 2001	313,321	—	—	1,941	4,540	4,129
Cash inflow/(outflow) from financing activities, net	—	(8,329)	10,000	(1,275)	503	7,005
Share of profit for the year	—	—	—	—	4,152	—
Acquisition of a subsidiary	—	—	—	—	42,877	—
At 31 December 2001	313,321	(8,329)	10,000	666	52,072	11,134

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

(c) Acquisition of a subsidiary

	Group	
	2001 HK$'000	2000 HK$'000
Net assets acquired:		
Fixed assets	239	—
Cash and bank balances	1,898	—
Accounts receivable, prepayments and other receivables	33,765	8
Inventories	6,226	—
Due from a company of the Group for subscription of new shares of the subsidiary	65,000	—
Accounts payable and other accrued liabilities	(19,623)	—
Minority interests	(42,877)	(4)
	44,628	4
Goodwill on acquisition	75,372	36,946
Legal expenses incurred incidental to the acquisition	—	(200)
	120,000	36,750

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

(c) Acquisition of a subsidiary (continued)

	Group	
	2001 HK$'000	2000 HK$'000
Satisfied by:		
Cash consideration paid and payable	95,000	36,750
Reclassification from deposit paid for unlisted investment	25,000	—
	120,000	36,750

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

	Group	
	2001 HK$'000	2000 HK$'000
Cash consideration paid and payable	95,000	36,750
Cash consideration payable for subscription of new shares of the subsidiary which eliminated on consolidation	(65,000)	—
Cash consideration payable (note 22(b))	(18,720)	(20,579)
Cash consideration paid	11,280	16,171
Cash and bank balances acquired	(1,898)	—
Legal expenses paid incidental to the acquisition	—	200
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	9,382	16,371

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

(c) Acquisition of a subsidiary (continued)

During the year, the Group acquired a 51% interest in DMX, further details of which are set out in note 15 to the financial statements. For accounting purposes, the effective date of acquisition was 2 January 2001. Further details of the acquisition of DMX are set out in note 29(a)(iii) to the financial statements.

The acquired subsidiary contributed HK$127,000,000 to the Group's turnover and HK$12,100,000 to the consolidated loss after tax and before minority interests for the year ended 31 December 2001 since the acquistion.

For the year ended 31 December 2001, the subsidiary contributed HK$19,100,000 to the Group's net operating cash flows, paid HK$22,500,000 in respect of the cash flows for investing activities, but had no significant impact in respect of the Group's cash flows for net returns on investments and servicing of finance, financing activities or the payment of tax.

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

(d) Major non-cash transactions

(i) During the prior year, the Group acquired a 55% shareholding in a subsidiary with a total cash consideration of HK$36,750,000. During the current year, an additional consideration of HK$2,500,000 was quantified according to the acquisition agreement. Of these balances, HK$16,074,000 (2000: HK$20,579,000) remained outstanding as at the balance sheet date.

(ii) Part of the consideration for the additional investment in CCT during the year ended 31 December 2000, in an amount of HK$17,320,000, was satisfied by the issue of 8,000,000 ordinary shares of the Company of HK$0.10 each at a price of HK$2.165 per share.

(iii) During the prior year, the Group entered in finance lease arrangements in respect of fixed assets with a total capital value at the inception of the leases of HK$1,661,000.

29. COMMITMENTS

(a) Capital commitments

(i) At the balance sheet date, the Group was committed to make a capital injection to two subsidiaries in the PRC of approximately HK$21,052,481 (2000: HK$16,263,000).

(ii) During the prior year, the Group entered into a sale and purchase agreement (the "S&P Agreement") with an independent third party (the "Seller") for the acquisition of a 55% shareholding in a subsidiary (the "Subsidiary") for a total consideration of HK$36,750,000, of which HK$23,176,000 has been settled up to the balance sheet date.

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

(1) The first additional consideration is to be calculated by multiplying HK$6,200,000 to the quotient of the audited after tax profits of the Subsidiary for the first 12 months following its acquisition by the Group and HK$15,000,000.

During the current year, the first additional consideration to the Seller was quantified to be HK$2,500,000. Further details are set out in note 22(a) to the financial statements.

(2) The second additional consideration is to be calculated by multiplying HK$11,170,000 to the quotient of the audited after tax profits of the Subsidiary for the second 12 months following its acquisition by the Group and HK$27,000,000.

(3) The third additional consideration is to be calculated by multiplying HK$14,080,000 to the quotient of the audited after tax profits of the Subsidiary for the third 12 months following its acquisition by the Group and HK$34,000,000.

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

29. COMMITMENTS (continued)

(a) Capital commitments (continued)

(iii) During the prior year, the Group entered into a sale and subscription agreement (the "Agreement") with, inter alia, an independent third party (the "Vendor") to acquire 2,710 existing issued shares (the "Existing Shares") and to subscribe for 4,880 new shares (the "New Shares") in DMX, further details of which are set out in note 18 to the financial statements. The considerations for the Existing Shares and the New Shares are HK$50,000,000 (the "Existing Shares Consideration"), subject to the adjustments detailed below, and HK$90,000,000 (the "New Shares Consideration"), respectively. Immediately upon the completion of the Agreement, the Group will own 51% of the issued share capital of DMX.

Pursuant to the Agreement, HK$10,000,000 of the Existing Shares Consideration was paid upon the completion of the Agreement (the "Completion") during the current year. The remaining balance of HK$40,000,000, subject to adjustments, is payable in three instalments. HK$20,000,000, HK$10,000,000 and HK$10,000,000 of the Existing Shares Consideration will be settled to the Vendor if the audited profit after tax of DMX for the year ending 31 December 2001 (the "2001 PAT"), the aggregate of the 2001 PAT and the audited profit after tax of DMX for the year ending 31 December 2002 (the "Cumulative 2002 PAT"), and the aggregate of the Cumulative 2002 PAT and the audited profit after tax of DMX for the year ending 31 December 2003 (the "Cumulative 2003 PAT") reach HK$11,600,000, HK$30,500,000 and HK$59,500,000, respectively.

Should the 2001 PAT, Cumulative 2002 PAT and Cumulative 2003 PAT exceed HK$19,000,000, HK$50,100,000 and HK$97,800,000, respectively, or fall below HK$11,600,000, HK$30,500,000 and HK$59,500,000, respectively, the remaining Existing Shares Consideration will be adjusted based on the 2001 PAT, Cumulative 2002 PAT and Cumulative 2003 PAT, respectively. Further details of the transaction and the basis of adjustments are set out in the Company's circular to the shareholders dated 5 December 2000.

For the New Shares Consideration, HK$65,000,000 had been paid by the Group up to the balance sheet date. The remaining portions of the New Shares Consideration, of HK$15,000,000 and HK$20,000,000 are payable on 30 June 2002 and 2003, respectively, pursuant to the Agreement.

29. COMMITMENTS (continued)

(a) Capital commitments (continued)

(iii) (continued)

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

The Agreement was completed in January 2001 and HK$10,000,000 of the Existing Shares Consideration and HK$50,000,000 of the New Shares Consideration have been paid by the Group to the Vendor up to the date of approval of these financial statements in accordance with the Agreement.

Subsequent to the balance sheet date, on 2 March 2002, 30,769,231 Consideration Shares were issued to the Vendor for the settlement of the first instalment of the outstanding consideration of HK$20,000,000 (notes 26 and 32).

(b) Operating lease arrangements

(i) As lessor

The Group sub-leased certain of its office properties under operating lease arrangements, with no fixed lease terms.

At 31 December 2001, the Group had no future minimum lease receivables under non-cancellable operating leases with its tenants in respect of land and buildings (2000: Nil).

The Group did not recognise any contingent rentals receivable during the year (2000: Nil).

29. COMMITMENTS (continued)

(b) Operating lease arrangements (continued)

(ii) As lessee

The Group leased certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to five years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2001, the Company and the Group had total future minimum lease payments under non-cancellable operating leases in respect of land and buildings falling due as follows:

	Group		Company	
	2001 HK$'000	2000 HK$'000	2001 HK$'000	2000 HK$'000
Within one year	2,117	951	698	—
In the second to fifth years, inclusive	324	3,854	—	1,152
	2,441	4,805	698	1,152

SSAP 14 (Revised), which was adopted during the year, requires lessors under operating leases to disclose the total future minimum operating lease receivables under non-cancellable operating leases, as detailed in note (i) above. This disclosure was not previously required. SSAP 14 (Revised) also requires lessees under operating leases to disclose the total future minimum operating lease payments, rather than only the payments to be made during the next year as was previously required. Accordingly, the prior year comparative amounts for operating leases as lessee in note (ii) above, have been restated to accord with the current year's presentation.

Save as aforesaid, the Company and the Group did not have any other significant commitments as at 31 December 2001.

30. CONTINGENT LIABILITIES

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

	Group		Company	
	2001 HK$'000	2000 HK$'000	2001 HK$'000	2000 HK$'000
Guarantees in respect of performance bonds in favour of contract customers	236	275	—	130
Guarantees given to finance lease companies in respect of the finance lease facilities granted to certain directors of the Company	1,108	—	315	—
Guarantees given to banks in connection with banking facilities granted to certain subsidiaries	—	—	31,194	12,498
	1,344	275	31,509	12,628

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31. RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS

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

	2001 HK$'000	2000 HK$'000
Purchases of information technology products from:		
Minority shareholders of certain subsidiaries of the Company		
— Open Environment Corporation	—	34
Related companies		
— certain members of the Datacraft Asia Ltd group (note)	225	6,652
— a company in which a director of a subsidiary of the Company, has beneficial interest	2,346	—
Sales of information technology products to:		
— a company in which directors of a subsidiary of the Company, are also directors	11,619	—
Management fees received from a member of the Datacraft Asia Ltd group (note)	—	235
Software development service fees paid to a company in which the spouse of a director of the Company at the balance sheet date, is a director	—	608
Systems integration service income received from a company in which the spouse of a director of the Company at the the balance sheet date, is a director	—	942
Rental income received from:		
— a company in which the Group has a 19.9% equity interest	526	—
— a company in which a director of a subsidiary of the Company, has a beneficial interest	307	—
Proceeds from sales of a motor vehicle to a director of the Company	257	—
Proceeds from sales of a motor vehicle to a resigned director of the Company	664	—
Advances to an investee company (note 17)	8,329	—
Bank loan secured by a corporate guarantee from a minority shareholder of a subsidiary of the Company	935	—

31. RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS (continued)

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

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

Details of the terms of the outstanding balances with related parties and minority shareholders of certain subsidiaries at 31 December 2001 are set out in notes 20, 21 and 22 to the financial statements.

32. POST BALANCE SHEET EVENT

As further explained in note 29(a)(iii) to the financial statements, the Group may elect to satisfy three outstanding instalments of the consideration for the acquisition of 51% equity interests in DMX by the issue of the Consideration Shares according to the acquisition agreement. On 2 March 2002, 30,769,231 Consideration Shares (or 7.8% of the enlarged share capital of the Company) were issued to the vendor for settlement of the first instalment of the outstanding consideration of HK$20,000,000 in this regard (note 26).

33. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements and certain supporting notes have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative figures have been reclassified to conform with the current year's presentation. The changes made are explained in the relevant notes to the financial statements.

34. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 19 April 2002.