1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

(b) Basis of preparation of the financial statements

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

(c) Subsidiaries

A subsidiary is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the Group has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

An investment in a controlled subsidiary is consolidated into the consolidated financial statements, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long–term restrictions which significantly impair its ability to transfer funds to the Group, in which case, it is stated in the consolidated balance sheet at fair value with changes in fair value recognised in the consolidated income statement as they arise.

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Notes on the Financial Statements

For the year ended 31 December 2001
(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Subsidiaries (Continued)

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 1(k)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Company, in which case, it is stated at fair value with changes in fair value recognised in the income statement as they arise.

(d) Associates and jointly controlled entities

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

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group or Company and other parties, where the contractual arrangement establishes that the Group or Company and one or more of the other parties share joint control over the economic activity of the entity.

An investment in an associate or a jointly controlled entity is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's or the jointly controlled entity's net assets, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions that significantly impair its ability to transfer funds to the Group or the Company, in which case it is stated at fair value with changes in fair value recognised in the consolidated income statement as they arise. The consolidated income statement reflects the Group's share of the post-acquisition results of the associates and jointly controlled entities for the year, including any amortisation of positive or negative goodwill charged or credited during the year in accordance with note 1(e).

Unrealised profits and losses resulting from transactions between the Group and its associates and jointly controlled entities are eliminated to the extent of the Group's interest in the associate or jointly controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the consolidated income statement.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Associates and jointly controlled entities (Continued)

In the Company's balance sheet, its investments in the associates and jointly controlled entities are stated at cost less impairment losses (see note 1(k)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions that significantly impair its ability to transfer funds to the Group or the Company, in which case, it is stated at fair value with changes in fair value recognised in the income statement as they arise.

(e) Goodwill

Positive goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired. In respect of controlled subsidiaries:

– for acquisitions before 1 January 2001, positive goodwill is eliminated against reserves and is reduced by impairment losses (see note 1(k)); and

– for acquisitions on or after 1 January 2001, positive goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life. Positive goodwill is stated in the consolidated balance sheet at cost less any accumulated amortisation and any impairment losses (see note 1(k)).

In respect of acquisitions of associates and jointly controlled entities, positive goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life. The cost of positive goodwill less any accumulated amortisation and any impairment losses (see note 1(k)) is included in the carrying amount of the interest in associates or jointly controlled entities.

Notes on the Financial Statements

For the year ended 31 December 2001
(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Goodwill (Continued)

Negative goodwill arising on acquisitions of controlled subsidiaries, associates and jointly controlled entities represents the excess of the Group's share of the fair value of the identifiable assets and liabilities acquired over the cost of the acquisition. Negative goodwill is accounted for as follows:

– for acquisitions before 1 January 2001, negative goodwill is credited to a capital reserve; and

– for acquisitions on or after 1 January 2001, to the extent that negative goodwill relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which have not yet been recognised, it is recognised in the consolidated income statement when the future losses and expenses are recognised. Any remaining negative goodwill, but not exceeding the fair values of the non-monetary assets acquired, is recognised in the consolidated income statement over the weighted average useful life of those non-monetary assets that are depreciable/amortisable. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the consolidated income statement.

In respect of any negative goodwill not yet recognised in the consolidated income statement:

– for controlled subsidiaries, such negative goodwill is shown in the consolidated balance sheet as a deduction from assets in the same balance sheet classification as positive goodwill; and

– for associates and jointly controlled entities, such negative goodwill is included in the carrying amount of the interests in associates and jointly controlled entities.

On disposal of a controlled subsidiary, an associate or a jointly controlled entity during the year, any attributable amount of purchased goodwill not previously amortised through the consolidated income statement or which has previously been dealt with as a movement on Group reserves is included in the calculation of the profit or loss on disposal.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Investments

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

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

(g) Fixed assets

(i) Fixed assets are carried in the balance sheet on the following bases:

- investment properties with an unexpired lease term of more than 20 years are stated in the balance sheet at their open market value which is assessed annually by external qualified valuers or Directors' valuation; and

- buildings, plant, machinery and other fixed assets are stated at cost less accumulated depreciation (see note 1(j)) and impairment losses (see note 1(k)).

(ii) Changes arising on the revaluation of investment properties are generally dealt with in reserves. The only exceptions are as follows:

- when a deficit arises on revaluation, it will be charged to the income statement, if and to the extent that it exceeds the amount held in the reserve in respect of the portfolio of investment properties immediately prior to the revaluation; and

- when a surplus arises on revaluation, it will be credited to the income statement, if and to the extent that a deficit on revaluation in respect of the portfolio of investment properties had previously been charged to the income statement.

Notes on the Financial Statements

For the year ended 31 December 2001
(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Fixed assets (Continued)

(iii) Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Group. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

(v) Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the income statement on the date of retirement or disposal. On disposal of an investment property, the related portion of surpluses or deficits previously taken to the investment properties revaluation reserve is also transferred to the income statement for the year.

(h) Intangible assets (other than goodwill)

(i) Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised as an expense in the period in which it is incurred.

Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Capitalised development costs are stated at cost less accumulated amortisation (see note 1(j)) and impairment losses (see note 1(k)). Other development expenditure is recognised as an expense in the period in which it is incurred.

(ii) Other intangible assets that are acquired by the Group are stated in the balance sheet at cost less accumulated amortisation (see note 1(j)) and impairment losses (see note 1(k)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Intangible assets (other than goodwill) (Continued)

(iii) Subsequent expenditure on an intangible asset after its purchase or its completion is recognised as an expense when it is incurred unless it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and this expenditure can be measured and attributed to the asset reliably. If these conditions are met, the subsequent expenditure is added to the cost of the intangible asset.

(i) Leased assets

Leases of assets under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases.

(i) Assets held for use in operating leases

Where the Group leases out assets under operating leases, the assets are included in the the balance sheet according to their nature and, where applicable, are depreciated in accordance with the Group's depreciation policies, as set out in note 1(j). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(k). Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies, as set out in note 1(q)(iv).

(ii) Operating lease charges

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

Notes on the Financial Statements

For the year ended 31 December 2001
(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Amortisation and depreciation

(i) No depreciation is provided on investment properties with an unexpired lease term of over 20 years.

(ii) Depreciation is calculated to write off the cost of other fixed assets over their estimated useful lives on a straight-line basis, after taking into account their estimated residual values, as follows:

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

(iii) Amortisation of intangible assets is charged to the income statement on a straight-line basis over the assets' estimated useful life of three years.

(k) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

– property, plant, machinery and other fixed assets (other than properties carried at revalued amounts);

– investment in subsidiaries, associates and joint ventures (except for those accounted for at fair value under notes 1(c) & (d);

– intangible assets; and

– positive goodwill (whether taken initially to reserves or recognised as an asset).

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Impairment of assets (Continued)

If any such indication exists, the asset's recoverable amount is estimated. For intangible assets that are not yet available for use, or are amortised over more than 20 years from the date when the asset is available for use or goodwill that is amortised over 20 years from initial recognition, the recoverable amount is estimated at each balance sheet date. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

(ii) Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is reversed only if the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

Notes on the Financial Statements

For the year ended 31 December 2001
(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Inventories

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

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

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

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

(m) Systems integration contracts

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

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Systems integration contracts (Continued)

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

(n) Cash equivalents

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

(o) Deferred taxation

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

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

(p) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company or Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Notes on the Financial Statements

For the year ended 31 December 2001
(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Provisions and contingent liabilities (Continued)

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(q) Revenue recognition

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

(i) Software development and systems integration services

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

(ii) Sale of goods

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

(iii) Interest income

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

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Revenue recognition (Continued)

(iv) Rental income from operating leases

Rental income receivable under operating leases is recognised in the income statement in equal instalments over the accounting periods covered by the lease term.

(v) Dividends

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

(r) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses on foreign currency transactions are dealt with in the income statement.

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

On disposal of an enterprise outside Hong Kong, the cumulative amount of the exchange differences which relate to such enterprise is included in the calculation of the profit or loss on disposal.

(s) Retirement benefits

Contributions to retirement benefit schemes are charged to the income statement as and when incurred.

Notes on the Financial Statements

For the year ended 31 December 2001
(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Bad and doubtful debts

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

(u) Related parties

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

(v) Segment reporting

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

In accordance with the Group's internal financial reporting, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

2 TURNOVER

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are set out in note 14 on the financial statements.

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

	2001	2000
	$'000	*$'000*
Systems value-added services	**974,418**	513,252
Software development and systems integration services	**48,692**	62,702
Manufacture and sale of computer related products	**28,287**	29,137
General software	**–**	21,135
	1,051,397	626,226

3 OTHER REVENUE AND INCOME

	2001	2000
	$'000	*$'000*
Other revenue		
Interest income	**4,082**	6,316
Marketing fee	**3,687**	3,165
Compensation of guarantee profit by minority shareholder	**3,439**	–
Dividend income from unlisted investments	**499**	–
Rental income from operating leases	**583**	536
Technology subsidies	**–**	471
Provision for bad and doubtful debts written back	**–**	1,663
Others	**2,305**	1,752
	14,595	13,903
Other income		
Profit on disposal of an associate	**9,214**	–
Profit on securities trading	**350**	–
Profit on disposal of a subsidiary	–	7,040
	9,564	7,040

Notes on the Financial Statements

For the year ended 31 December 2001

(Expressed in Hong Kong dollars)

4 PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

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

	2001	2000
	$'000	*$'000*
(a) Finance costs:		
Interest expense on bank loans and other borrowings wholly repayable within five years	**3,057**	4,705
Other borrowing costs	**9,904**	760
	12,961	5,465
(b) Other items:		
Cost of inventories	**922,132**	521,957
Staff costs (including retirement costs of $943,000 (2000: $951,000))	**40,735**	38,370
Auditors' remuneration	**1,814**	1,666
Depreciation	**5,381**	4,654
Amortisation of intangible assets	**423**	–
Operating lease charges in respect of properties	**7,694**	5,840
Loss on disposal of fixed assets	**601**	471
Provision for bad and doubtful debts	**6,247**	1,462
Amortisation of research and development costs	**–**	823

Included in the cost of inventories is a provision of $9,298,000 (2000: $4,565,000) which is required to state the inventories at net realisable value.

5 TAXATION

(a) Taxation in the consolidated income statement represents:

	2001	2000
	$'000	*$'000*
Provision for Hong Kong Profits Tax for the year	**1,602**	464
Underprovision in respect of prior years	**18**	16
	1,620	480
The People's Republic of China ("the PRC") income tax	**2,033**	1,497
	3,653	1,977
Deferred taxation *(note 26)*	**2,118**	1,174
	5,771	3,151
Share of an associate's taxation	**592**	1,150
	6,363	4,301

The provision for Hong Kong Profits Tax is calculated at 16% (2000: 16%) of the estimated assessable profits for the year ended 31 December 2001.

The PRC income tax is calculated based on the estimated taxable income of subsidiaries for the PRC taxation purposes at the rate of taxation applicable except the following:

A subsidiary has been granted an exemption from the PRC income tax for three years commencing from the first profit making year and is entitled to a 50% relief for the following three years up to 31 August 2002 after which the profits are subject to the PRC income tax of 33%.

Pursuant to a document dated 21 July 1999 issued by the PRC local tax bureau, the income tax rate payable by a subsidiary is reduced to 7.5% for the period from 1 January 1999 to 31 December 2001.

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

Notes on the Financial Statements

For the year ended 31 December 2001
(Expressed in Hong Kong dollars)

5 TAXATION (Continued)

(a) (Continued)

One of the jointly controlled entities has been granted an exemption from the PRC income tax for three years up to 31 December 2002 and is entitled to a 50% relief for the following three years after which the profits are subject to the PRC income tax of 15%.

(b) Taxation/(tax refundable) in the balance sheets represents:

	The Group		The Company	
	2001	2000	**2001**	2000
	$'000	*$'000*	***$'000***	*$'000*
Provision for Hong Kong Profits Tax for the year	**1,602**	464	**–**	–
Provisional Hong Kong Profits Tax paid	**(402)**	(1,870)	**–**	(33)
	1,200	(1,406)	**–**	(33)
Balance of the PRC income tax payable for the year	**1,098**	1,342	**–**	–
	2,298	(64)	**–**	(33)

All tax payable/(tax refundable) is expected to be settled/recovered within one year.

6 DIRECTORS' REMUNERATION

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

	2001	2000
	$'000	*$'000*
Executive Directors:		
Salaries and other emoluments	**5,138**	3,486
Compensation in lieu of notice	**–**	1,089
Retirement scheme contributions	**141**	69
Other allowances	**136**	349
	5,415	4,993
Independent Non-executive Directors:		
Fees	**230**	260

In addition to the above emoluments, certain Directors were granted share options under the Company's share option scheme. Details of these benefits in kind are disclosed under the paragraph "Share option scheme" in the Directors' Report .

The remuneration of the Directors is within the following bands:

	2001	2000
	Number of directors	*Number of directors*
Nil – $1,000,000	**13**	13
$1,000,001 – $1,500,000	**2**	–
$1,500,001 – $2,000,000	**–**	1

Notes on the Financial Statements

For the year ended 31 December 2001
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7 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two of them (2000: one) are Directors whose emoluments are disclosed in note 6 above. The aggregate of the emoluments in respect of the other three (2000: four) individuals are as follows:

	2001	2000
	$'000	*$'000*
Salaries and other emoluments	**3,283**	4,768
Retirement scheme contributions	**47**	51
Discretionary bonus	**–**	207
	3,330	5,026

The emoluments of the three (2000: four) individuals with the highest emoluments are within the following bands:

	2001	2000
	Number of individuals	*Number of individuals*
Nil – $1,000,000	**1**	–
$1,000,001 – $1,500,000	**1**	3
$1,500,001 – $2,000,000	**1**	1

8 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders includes a profit of $16,958,000 (2000: loss of $3,006,000) which has been dealt with in the financial statements of the Company.

9 DIVIDENDS

The Directors do not recommend the payment of a dividend for the year ended 31 December 2001 (2000: $Nil).

10 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary shareholders of $21,248,000 (2000: $9,388,000) and the weighted average number of ordinary shares of 406,123,000 (2000: 387,723,000) shares in issue during the year.

(b) Diluted earnings per share

The effects of all potential ordinary shares are anti-dilutive for the year ended 31 December 2001.

The calculation of diluted earnings per share for the year ended 31 December 2000 is based on the profit attributable to ordinary shareholders of $9,388,000 and the weighted average number of ordinary shares of 397,896,000 shares after adjusting for the effects of all dilutive potential ordinary shares.

11 CHANGE IN ACCOUNTING POLICY FOR GOODWILL

In prior years, positive or negative goodwill arising on acquisition of subsidiaries was eliminated against reserves or was credited to a capital reserve respectively. With effect from 1 January 2001, in order to comply with SSAP 30, the Group adopted a new accounting policy for goodwill as set out in note 1(e).

The Group has taken advantage of the transitional provisions set out in paragraph 88 of SSAP 30 with the effect that the new accounting policy has been adopted prospectively and no adjustments have been made to the opening balances of retained earnings and reserves and comparative information.

As a result of the new accounting policy, there is no impact on the Group's profit for the year and the net assets as at the balance sheet date.

Notes on the Financial Statements

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12 SEGMENT REPORTING

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

Business segments

The Group comprises the following main business segments:

Systems value-added services: Provision of computer mainframes, data storage system, servers, systems application software, networking equipment and comprehensive after-sales services and training services to customers.

Software development and systems integration services: Development of application software and provision of systems integration services for specific industries.

Manufacture and sale of computer related products: Manufacturing and sale of plastic casings for computer equipment. The Group's associate is engaged in the manufacturing and sale of computer peripheral equipment.

General software: Development and sale of general software products.

12 SEGMENT REPORTING (Continued)

Business segments (Continued)

	Systems value-added services		Software development and systems integration services		Manufacture and sale of computer related products		General software		Unallocated		Consolidated	
	2001	2000	**2001**	2000	**2001**	2000	**2001**	2000	**2001**	2000	**2001**	2000
	$'000	*$'000*	***$'000***	*$'000*	***$'000***	*$'000*	***$'000***	*$'000*	***$'000***	*$'000*	***$'000***	*$'000*
Revenue from external customers	**974,418**	513,252	**48,692**	62,702	**28,287**	29,137	**–**	21,135	**–**	–	**1,051,397**	626,226
Other revenue from external customers	**5,537**	4,648	**444**	737	**74**	66	**–**	–	**520**	473	**6,575**	5,924
Total	**979,955**	517,900	**49,136**	63,439	**28,361**	29,203	**–**	21,135	**520**	473	**1,057,972**	632,150
Segment result and contribution from operations	**48,252**	28,771	**1,834**	2,692	**6,857**	6,761	**–**	7,617			**56,943**	45,841
Unallocated operating income and expenses											**(7,817)**	(15,711)
Profit from operations											**49,126**	30,130
Finance costs											**(12,961)**	(5,465)
Share of profits of associate and jointly controlled entities					**11,144**	3,004	**2,180**	–			**13,324**	3,004
Taxation											**(6,363)**	(4,301)
Minority interests											**(21,878)**	(13,980)
Profit attributable to shareholders											**21,248**	9,388
Depreciation and amortisation for the year	**1,429**	687	**1,203**	1,310	**1,891**	1,483	**–**	216				
Significant non–cash expenses (other than depreciation and amortisation)	**4,717**	692	**702**	43	**336**	–	**–**	–				
Segment assets	**536,934**	321,788	**49,808**	78,218	**31,949**	32,776	**–**	14,221			**618,691**	447,003
Interest in associate and jointly controlled entities					**–**	23,239	**7,739**	–			**7,739**	23,239
Unallocated assets											**219,101**	145,982
Total assets											**845,531**	616,224
Segment liabilities	**414,179**	226,422	**20,274**	22,963	**7,002**	8,734	**–**	8,756			**441,455**	266,875
Unallocated liabilities											**102,586**	89,981
Total liabilities											**544,041**	356,856
Capital expenditure incurred during the year	**2,585**	2,095	**1,868**	2,275	**284**	4,614	**–**	2,180				

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12 SEGMENT REPORTING (Continued)

Geographical segments

The Group operates mainly in the PRC and accordingly no geographical segment information is presented.

13 FIXED ASSETS

(a) The Group

	Buildings $'000	Leasehold improvements $'000	Plant and machinery $'000	Furniture, fixtures and office equipment $'000	Motor vehicles $'000	Sub-total $'000	Investment properties $'000	Total $'000
Cost or valuation:								
At 1 January 2001	1,267	2,069	17,323	10,302	3,715	34,676	9,053	43,729
Reclassified from subsidiaries to jointly controlled entities	–	(145)	–	(1,221)	(303)	(1,669)	–	(1,669)
Additions								
– through acquisitions of subsidiaries	6,100	–	–	–	–	6,100	–	6,100
– others	32	1,322	239	4,567	5,657	11,817	–	11,817
Disposals	–	(346)	–	(1,792)	(251)	(2,389)	–	(2,389)
Deficit on revaluation	–	–	–	–	–	–	(20)	(20)
At 31 December 2001	**7,399**	**2,900**	**17,562**	**11,856**	**8,818**	**48,535**	**9,033**	**57,568**
Representing:								
Cost	7,399	2,900	17,562	11,856	8,818	48,535	–	48,535
Valuation – 2001	–	–	–	–	–	–	9,033	9,033
	7,399	2,900	17,562	11,856	8,818	48,535	9,033	57,568
Accumulated depreciation:								
At 1 January 2001	139	471	2,790	2,711	365	6,476	–	6,476
Reclassified from subsidiaries to jointly controlled entities	–	(16)	–	(180)	(20)	(216)	–	(216)
Charge for the year	241	503	1,568	2,262	807	5,381	–	5,381
Written back on disposals	–	(134)	–	(781)	(73)	(988)	–	(988)
At 31 December 2001	**380**	**824**	**4,358**	**4,012**	**1,079**	**10,653**	**–**	**10,653**
Net book value:								
At 31 December 2001	**7,019**	**2,076**	**13,204**	**7,844**	**7,739**	**37,882**	**9,033**	**46,915**
At 31 December 2000	1,128	1,598	14,533	7,591	3,350	28,200	9,053	37,253

13 FIXED ASSETS (Continued)

(b) The Company

	Leasehold improvements	Furniture, fixtures and office equipment	Motor vehicles	Total
	$'000	*$'000*	*$'000*	*$'000*
Cost:				
At 1 January 2001	786	1,104	1,020	2,910
Additions	1,159	731	5,304	7,194
Disposals	–	(24)	–	(24)
At 31 December 2001	**1,945**	**1,811**	**6,324**	**10,080**
Accumulated depreciation:				
At 1 January 2001	99	572	51	722
Charge for the year	45	317	443	805
Written back on disposals	–	(16)	–	(16)
At 31 December 2001	**144**	**873**	**494**	**1,511**
Net book value:				
At 31 December 2001	**1,801**	**938**	**5,830**	**8,569**
At 31 December 2000	687	532	969	2,188

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13 FIXED ASSETS (Continued)

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

	The Group	
	2001	2000
	$'000	*$'000*
In Hong Kong	**13,380**	7,300
Outside Hong Kong	**2,672**	2,881
	16,052	10,181

(d) Investment properties of the Group in Hong Kong were revalued at 31 December 2001 by an independent firm of surveyors, Chung, Chan & Associates, who have among their staff Fellows of the Royal Institution of Chartered Surveyors, on an open market value basis. The revaluation deficit of $20,000 (2000: $2,141,000) has been charged to the income statement.

Investment properties of the Group outside Hong Kong were estimated at the Directors' valuation on an existing use basis, which is not significantly different from the cost as at 31 December 2001.

(e) At 31 December 2001, the Group's investment properties with an aggregate carrying value of $9,033,000 (2000: $7,300,000) were pledged as security for banking facilities granted to the Group (see note 25(i)). In addition, certain buildings of the Group with an aggregate carrying value of $6,100,000 (2000: $Nil) were pledged as security for banking facilities granted to a related company (see notes 31(b) and 32(b)).

(f) The Group leases out investment properties under operating leases. The leases typically run for an initial period of one to two years, with an option to renew the lease after that date at which time all terms are renegotiated. None of the leases includes contingent rentals.

At 31 December 2001, the gross carrying amount of investment properties of the Group held for use in operating leases were $9,033,000 (2000: $9,053,000).

13 FIXED ASSETS (Continued)

(f) (Continued)

The Group's total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	2001	2000
	$'000	*$'000*
Within 1 year	**49**	126

14 INTEREST IN SUBSIDIARIES

	The Company	
	2001	2000
	$'000	*$'000*
Unlisted shares, at cost	**156**	156
Amounts due from subsidiaries	**262,030**	250,802
Amounts due to subsidiaries	**(78)**	(78)
	262,108	250,880

Details of the subsidiaries at 31 December 2001 are as follows. The class of shares held is ordinary unless otherwise stated.

All of these are controlled subsidiaries as defined under note 1(c) and have been consolidated into the Group's financial statements.

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14 INTEREST IN SUBSIDIARIES (Continued)

Name of company	Place of incorporation/ establishment and operation	Attributable ownership interest percentage Direct	Indirect	Issued/ registered capital	Principal activities
Win Perfect Limited	British Virgin Islands ("BVI")	100	–	US$11,000	Investment holding
Futart Industry Company Limited	BVI	100	–	US$10,000	Investment holding
Stepping Stones Limited	BVI	–	100	US$11,000	Investment holding
Start Futong Technology Company Limited	BVI	–	*40	US$50,000	Investment holding
Chatex Investment Limited	BVI	–	100	US$1	Investment holding
China Star Group (Hong Kong) Corporation Limited	Hong Kong	–	100	$100,000	Provision of trading facility services
Fortune Jet International Limited	Hong Kong	–	100	$10,000,000	Investment holding
Start Futong (Hong Kong) Company Limited	Hong Kong	–	*40	$1,000,000	Provision of systems value–added services
Regal Harbour Limited	Hong Kong	–	100	$2	Property holding
Fortune Years Limited	Hong Kong	–	100	$2	Property holding

(Expressed in Hong Kong dollars)

14 INTEREST IN SUBSIDIARIES (Continued)

Name of company	Place of incorporation/ establishment and operation	Attributable ownership interest percentage Direct	Attributable ownership interest percentage Indirect	Issued/ registered capital	Principal activities
Start Technology (Guangzhou) Software Co., Ltd. *(note i)*	PRC	–	51	RMB15,955,000	Provision of software development and systems integration services
Fujian Star System Integration Co., Ltd. *(note i)*	PRC	–	70	RMB4,800,000	Provision of software development and systems integration services
Fuqing Fujie Plastics Co., Ltd. *(note i)*	PRC	–	65	RMB15,655,000	Manufacturing and trading of computer related products
Xiamen Start Dragon Information Technology Co., Ltd. *(note ii)*	PRC	–	51	RMB12,633,000	Provision of software development and systems integration services
Fuzhou Start Dragon Information Technology Co., Ltd. *(note ii)*	PRC	–	51	RMB2,000,000	Provision of software development and systems integration services
Beijing Futong Times Computer Co., Ltd. *(note i)*	PRC	–	*40	RMB20,000,000	Provision of systems value–added services
Beijing Futong ComputerLand Co., Ltd. *(note iii)*	PRC	–	*40	RMB10,000,000	Provision of systems value–added services

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14 INTEREST IN SUBSIDIARIES (Continued)

Name of company	Place of incorporation/ establishment and operation	Attributable ownership interest percentage Direct	Attributable ownership interest percentage Indirect	Issued/ registered capital	Principal activities
Guangzhou Futong ComputerLand Co., Ltd. *(note iii)*	PRC	–	*40	RMB500,000	Provision of systems value–added services
Shanghai Futong ComputerLand Co., Ltd. *(note iii)*	PRC	–	*40	RMB1,000,000	Provision of systems value–added services
Shenzhen Futong ComputerLand Co., Ltd. *(note iii)*	PRC	–	*40	RMB2,000,000	Provision of systems value–added services
Kayford Investment Limited	BVI	–	100	US$1	Dormant
Futong Times Computer (HK) Company Limited	Hong Kong	–	*40	$10,000	Dormant
Fujian Gallop Information Co., Ltd. *(note i)*	PRC	–	100	RMB10,000,000	Dormant

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

Notes:

(i) These are wholly foreign–owned companies established in the PRC.

(ii) These are sino–foreign equity joint venture companies established in the PRC.

(iii) These are domestic enterprises established in the PRC.

15 INTANGIBLE ASSETS

	The Group
	$'000
Cost:	
At 1 January 2001	–
Addition	1,693
At 31 December 2001	**1,693**
Accumulated amortisation:	
At 1 January 2001	–
Charge for the year	423
At 31 December 2001	**423**
Net book value:	
At 31 December 2001	**1,270**
At 31 December 2000	–

Intangible assets represent computer software.

16 INTEREST IN AN ASSOCIATE

	The Group	
	2001	2000
	$'000	*$'000*
Share of net assets	**–**	23,239

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16 INTEREST IN AN ASSOCIATE (Continued)

Details of the associate at 31 December 2000, which was a sino-foreign equity joint venture established in the PRC, were as follows:

Name of company	Attributable ownership interest percentage Direct	Indirect	Issued/ registered capital	Principal activities
Fujian Star Printer Equipment Co., Ltd.	–	25	RMB60,000,000	Manufacturing and trading of computer equipment

The Group disposed of its 25% interest in the associate during the year.

17 INTEREST IN JOINTLY CONTROLLED ENTITIES

	The Group	
	2001	2000
	$'000	*$'000*
Share of net assets	**7,739**	–

(Expressed in Hong Kong dollars)

17 INTEREST IN JOINTLY CONTROLLED ENTITIES (Continued)

Details of the Group's interest in the jointly controlled entities as at 31 December 2001 are as follows:

Name of company	Place of incorporation/ establishment and operation	Attributable ownership interest percentage Direct	Attributable ownership interest percentage Indirect	Issued/ registered capital	Principal activities
Besto Investment Limited ("Besto")	BVI	–	40	US$10,000	Investment holding
Beijing Start Ming Tai Computer Application Technology Development Co., Ltd. ("Start Ming Tai")	PRC	–	40	RMB15,000,000	Development and sales of general software

Start Ming Tai is a wholly foreign-owned company established in the PRC.

The Group acquired a 40% interest in Besto which holds 100% of Start Ming Tai, on 30 June 2000, which was treated as a subsidiary in the Group's financial statements for the year ended 31 December 2000 as the Group controlled the composition of the board of directors of Besto pursuant to the shareholders' agreement dated 30 June 2000.

The Group ceased to control the board of Besto since early 2001 after the change in the composition of its board of directors. The board of Besto is now represented by its shareholders on the principal of proportional representation and its operations are jointly controlled by the shareholders. Accordingly, the Group's interests in Besto and Start Ming Tai are equity accounted for as jointly controlled entities.

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17 INTEREST IN JOINTLY CONTROLLED ENTITIES (Continued)

An extract of the consolidated financial information of Besto is as follows:

	2001
	$'000
Balance sheet as at 31 December	
Non-current assets	**2,457**
Current assets	**25,024**
Current liabilities	**6,847**
Income statement for the year ended 31 December	
Turnover	**33,459**
Profit before taxation and after taxation	**5,312**

18 INVENTORIES

	The Group	
	2001	2000
	$'000	*$'000*
Raw materials	**905**	1,451
Work in progress	**3,163**	80
Finished goods	**253,798**	138,349
	257,866	139,880

Included in finished goods are inventories of $9,520,000 (2000: $Nil), stated at net of a general provision made in order to state these inventories at the lower of cost and estimated net realisable value. During the year ended 31 December 2001, a provision of $9,298,000 (2000: $4,565,000) was made against certain obsolete inventories. The remaining inventories are all valued at cost.

19 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2001	2000	**2001**	2000
	$'000	*$'000*	***$'000***	*$'000*
Accounts receivable	**202,989**	190,420	**–**	–
Retentions receivable from customers	**1,535**	670	**–**	–
Gross amount due from customers for contract work *(note 20)*	**17,944**	4,090	**–**	–
Prepayments, deposits and other receivables	**44,887**	48,783	**6,135**	1,305
Loans receivable	**12,153**	–	**–**	–
	279,508	243,963	**6,135**	1,305

All of the trade and other receivables, apart from those mentioned in notes 21 and 22, are expected to be recovered within one year.

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

	The Group	
	2001	2000
	$'000	*$'000*
Current	**86,352**	114,490
1 to 3 months overdue	**72,934**	39,800
More than 3 months overdue but less than 12 months overdue	**42,025**	11,573
Overdue beyond 1 year	**1,678**	24,557
	202,989	190,420

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

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19 TRADE AND OTHER RECEIVABLES (Continued)

Terms of loans receivable

Loans receivable is interest free. $4,794,000 was repaid in January 2002, the balances of $1,583,000 and $5,776,000 are repayable on or before 24 March 2002 and 30 June 2002 respectively.

Balances with related parties included above are as follows:

	The Group			
	2001		2000	
	Accounts receivable	**Prepayments, deposits and other receivables**	Accounts receivable	Prepayments, deposits and other receivables
	$'000	***$'000***	*$'000*	*$'000*
Amount due from an associate	**–**	**–**	4,665	–
Amount due from a jointly controlled entity *(note 21)*	**–**	**547**	–	–
Amounts due from related parties *(note 22)*	**2,659**	**226**	27,046	8,152
	2,659	**773**	31,711	8,152

20 SYSTEMS INTEGRATION CONTRACTS

The aggregate amount of costs incurred plus recognised profits less recognised losses to date, including the gross amount due from/to customers for contract work, at 31 December 2001 is $70,209,000 (2000: $25,563,000).

The gross amount due from/to customers for contract work at 31 December 2001 is expected to be recovered/settled within one year.

In respect of systems integration contracts in progress at the balance sheet date, the amount of retentions receivable from customers at 31 December 2001 is $1,535,000 (2000: $670,000). The amount of retentions is expected to be recovered within one year.

21 AMOUNT DUE FROM/TO A JOINTLY CONTROLLED ENTITY

Amount due from/to a jointly controlled entity is unsecured, interest free and have no fixed terms of repayment.

22 AMOUNTS DUE FROM/TO RELATED PARTIES

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

23 CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2001	2000	**2001**	2000
	$'000	*$'000*	***$'000***	*$'000*
Deposit with bank	**10,000**	17,238	**10,000**	–
Cash at bank and in hand	**86,032**	101,600	**4,527**	303
	96,032	118,838	**14,527**	303

24 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2001	2000	**2001**	2000
	$'000	*$'000*	***$'000***	*$'000*
Accounts payable	**198,911**	129,492	**–**	–
Bills payable	**3,677**	5,283	**–**	–
Gross amount due to customers for contract work *(note 20)*	**941**	–	**–**	–
Receipts in advance	**93,408**	54,611	**–**	–
Other payable and accrued liabilities	**112,210**	63,470	**2,503**	2,831
	409,147	252,856	**2,503**	2,831

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24 TRADE AND OTHER PAYABLES (Continued)

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

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

	The Group	
	2001	2000
	$'000	*$'000*
Due within 3 months or on demand	**196,179**	128,305
Overdue 3 months to 1 year	**5,697**	1,103
Overdue beyond 1 year	**712**	5,367
	202,588	134,775

Balances with related parties included above are as follows:

	The Group			
	2001		2000	
	Accounts payable	**Other payable and accrued liabilities**	Accounts payable	Other payable and accrued liabilities
	$'000	***$'000***	*$'000*	*$'000*
Amount due to a fellow subsidiary	**–**	**–**	–	627
Amount due to a jointly controlled entity *(note 21)*	**–**	**7**	–	–
Amounts due to related parties *(note 22)*	**–**	**34,504**	3,191	6,978
	–	**34,511**	3,191	7,605

25 SHORT TERM LOANS

	The Group	
	2001	2000
	$'000	*$'000*
Bank loans	**43,116**	32,498
Other loan	**942**	942
	44,058	33,440

Other loan carries interest at a fixed rate of 7% per annum.

At 31 December 2001, all short term loans were repayable within one year or on demand.

At 31 December 2001, the short term loans were secured as follows:

	The Group	
	2001	2000
	$'000	*$'000*
Bank loans		
– secured	**17,682**	8,571
– unsecured	**25,434**	23,927
	43,116	32,498
Other loan – unsecured	**942**	942
	44,058	33,440

As at 31 December 2001, the Group had banking facilities totaling $118,736,000 (2000: $105,572,000) which were secured by the following:

(i) Mortgages over the Group's properties with an aggregate carrying value of $9,033,000 (2000: $7,300,000) at 31 December 2001.

(ii) A charge over the Group's fixed deposits with banks of $25,322,000 (2000: $48,336,000) at 31 December 2001.

25 SHORT TERM LOANS (Continued)

(iii) A charge over the fixed deposit of the minority shareholder of a partly owned subsidiary ("Minority Shareholder"), who is also a Director of the Company, with a bank of $11,700,000 (2000: $Nil) (note 32(b)(vi)).

(iv) Corporate guarantees given by the Company and a subsidiary.

26 DEFERRED TAXATION

(a) Movements on deferred taxation comprise:

	The Group		The Company	
	2001	2000	**2001**	2000
	$'000	*$'000*	***$'000***	*$'000*
At 1 January	**1,300**	126	**95**	95
Transfer from the income statement *(note 5(a))*	**2,118**	1,174	**–**	–
At 31 December	**3,418**	1,300	**95**	95

(b) Major components of deferred tax of the Group are set out below:

	The Group		The Company	
	2001	2000	**2001**	2000
	$'000	*$'000*	***$'000***	*$'000*
Cut-off differences in income recognition between the PRC accounting standards and regulations and SSAP	**1,958**	884	**–**	–
Depreciation allowances in excess of related depreciation	**126**	126	**95**	95
Others	**1,334**	290	**–**	–
	3,418	1,300	**95**	95

(c) There is no significant potential deferred tax liability for which a provision has not been made.

26 DEFERRED TAXATION (Continued)

(d) No deferred tax benefit has been recognised in respect of the revaluation deficit arising on properties as the disposal of these assets at their carrying value would result in capital losses which the Directors consider are not tax deductible.

27 SHARE CAPITAL

	2001		2000	
	No. of shares *('000)*	***$'000***	No. of shares *('000)*	*$'000*
Authorised:				
Ordinary shares of $0.10 each	**1,000,000**	**100,000**	1,000,000	100,000
Issued and fully paid:				
At 1 January	**400,644**	**40,064**	347,345	34,735
Issuance of new shares (note(a))	**40,000**	**4,000**	50,000	5,000
Shares issued under share option scheme (note (b))	–	–	4,017	401
Shares repurchased	–	–	(718)	(72)
At 31 December	**440,644**	**44,064**	400,644	40,064

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

Notes:

(a) Issuance of new shares

On 12 November 2001, the Company entered into subscription agreements with two independent investors for the subscription of 40,000,000 new shares, in aggregate, of $0.10 each at a price of $0.50 per share.

The proceeds to the Company of the subscription amounted to $20,000,000 of which $4,000,000 was credited to share capital and the balance of $16,000,000 was credited to the share premium account.

(b) Shares issued under the share option scheme

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

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27 SHARE CAPITAL (Continued)

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

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

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

			For the year ended 31 December 2000 Number of share options				
Date options granted	Period during which options exercisable	Exercise price	Outstanding at 1 January 2000	Granted during the year	Lapsed during the year	Exercised during the year	Outstanding at 31 December 2000
06.07.1999	02.10.1999 – 05.07.2009	$1.08	18,695,000	–	(3,501,000)	(3,517,000)	11,677,000
06.07.1999	02.10.1999 – 05.07.2009	$1.21	1,000,000	–	–	(300,000)	700,000
06.07.1999	02.10.1999 – 05.07.2009	$1.31	1,700,000	–	–	(200,000)	1,500,000
30.12.1999	02.01.2001 – 29.12.2009	$1.13	6,300,000	–	(100,000)	–	6,200,000
17.01.2000	02.01.2001 – 16.01.2010	$1.32	–	5,000,000	(440,000)	–	4,560,000
21.01.2000	02.01.2001 – 20.01.2010	$1.44	–	2,460,000	(630,000)	–	1,830,000
07.03.2000	02.01.2001 – 06.03.2010	$2.06	–	540,000	–	–	540,000
10.08.2000	02.01.2001 – 09.08.2010	$1.14	–	2,000,000	(400,000)	–	1,600,000
			27,695,000	10,000,000	(5,071,000)	(4,017,000)	28,607,000

			For the year ended 31 December 2001 Number of share options			
Date options granted	Period during which options exercisable	Exercise price	Outstanding at 1 January 2001	Granted during the year	Lapsed during the year	Outstanding at 31 December 2001
06.07.1999	02.10.1999 – 05.07.2009	$1.08	11,677,000	–	(110,000)	11,567,000
06.07.1999	02.10.1999 – 05.07.2009	$1.21	700,000	–	–	700,000
06.07.1999	02.10.1999 – 05.07.2009	$1.31	1,500,000	–	(1,500,000)	–
30.12.1999	02.01.2001 – 29.12.2009	$1.13	6,200,000	–	(5,600,000)	600,000
17.01.2000	02.01.2001 – 16.01.2010	$1.32	4,560,000	–	(2,100,000)	2,460,000
21.01.2000	02.01.2001 – 20.01.2010	$1.44	1,830,000	–	(600,000)	1,230,000
07.03.2000	02.01.2001 – 06.03.2010	$2.06	540,000	–	(500,000)	40,000
10.08.2000	02.01.2001 – 09.08.2010	$1.14	1,600,000	–	(250,000)	1,350,000
04.06.2001	01.10.2001 – 03.06.2011	$0.58	–	17,250,000	–	17,250,000
			28,607,000	17,250,000	(10,660,000)	35,197,000

28 RESERVES

	Share premium (Note i) $'000	General reserve (Note ii) $'000	Translation reserve (Note iii) $'000	Retained earnings $'000	Total $'000
(a) The Group					
At 1 January 2000	70,986	3,370	854	111,453	186,663
Premium on issuance of shares	111,982	–	–	–	111,982
Repurchase of shares	(1,084)	–	–	–	(1,084)
Share issuance expenses	(1,975)	–	–	–	(1,975)
Goodwill arising from acquisitions of subsidiaries	–	–	–	(93,441)	(93,441)
Transfer between reserves	–	1,911	–	(1,911)	–
Exchange reserve realised upon deemed disposal of a subsidiary	–	–	64	–	64
Goodwill written back upon disposal of a subsidiary	–	–	–	7,477	7,477
Exchange difference on translation of financial statements of subsidiaries outside Hong Kong	–	36	222	(28)	230
Profit for the year	–	–	–	9,388	9,388
At 31 December 2000	179,909	5,317	1,140	32,938	219,304
At 1 January 2001	179,909	5,317	1,140	32,938	219,304
Premium on issuance of shares	16,000	–	–	–	16,000
Transfer between reserves	–	1,358	–	(1,358)	–
Goodwill written back upon partial disposal of a subsidiary	–	–	–	846	846
Exchange difference on translation of financial statements of subsidiaries outside Hong Kong	–	–	28	–	28
Profit for the year	–	–	–	21,248	21,248
At 31 December 2001	**195,909**	**6,675**	**1,168**	**53,674**	**257,426**

Included in the figure for the retained earnings is an amount of $2,180,000 (2000: $Nil) being the retained profit attributable to jointly controlled entities.

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28 RESERVES (Continued)

	Share premium *(Note i)* *$'000*	General reserve *(Note ii)* *$'000*	Translation reserve *(Note iii)* *$'000*	Retained earnings *$'000*	Total *$'000*
(b) The Company					
At 1 January 2000	70,986	–	–	34,816	105,802
Premium on issuance of shares	111,982	–	–	–	111,982
Repurchase of shares	(1,084)	–	–	–	(1,084)
Share issuance expenses	(1,975)	–	–	–	(1,975)
Loss for the year	–	–	–	(3,006)	(3,006)
At 31 December 2000	179,909	–	–	31,810	211,719
At 1 January 2001	179,909	–	–	31,810	211,719
Premium on issuance of shares	16,000	–	–	–	16,000
Profit for the year	–	–	–	16,958	16,958
At 31 December 2001	**195,909**	**–**	**–**	**48,768**	**244,677**

Notes:

(i) Share premium

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

(ii) General reserve

According to the relevant rules and regulations in the PRC, the Group's subsidiaries in the PRC should appropriate part of their profits after taxation to general reserve, which can be used to make good losses and to convert into paid–up capital.

(iii) Translation reserve

Translation reserve represents exchange differences arising from the translation of the financial statements of subsidiaries, an associate and jointly controlled entities operating outside Hong Kong.

(iv) Distributable reserves

At 31 December 2001, the aggregate amount of distributable reserves under the bye-laws of the Company was $48,768,000 (2000: $31,810,000). In addition, the Company's share premium account of $195,909,000 as at 31 December 2001 (2000: $179,909,000) may be available for distribution in the form of fully paid bonus shares.

29 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2001	2000
	$'000	*$'000*
Profit before taxation	**49,489**	27,669
Interest income	**(4,082)**	(6,316)
Dividend income from unlisted investments	**(499)**	–
Interest expense	**3,057**	4,705
Depreciation	**5,381**	4,654
Share of profit of an associate	**(11,144)**	(3,004)
Share of profit of jointly controlled entities	**(2,180)**	–
Amortisation of research and development costs	**–**	823
Amortisation of intangible assets	**423**	–
Loss on disposal of fixed assets	**601**	471
Profit on disposal of a subsidiary	**–**	(7,040)
Profit on disposal of an associate	**(9,214)**	–
Deficit on property revaluation	**20**	2,141
Increase in inventories	**(119,984)**	(59,107)
Increase in accounts receivable	**(18,871)**	(38,051)
Increase in gross amount due from customers for contract work	**(13,854)**	(4,090)
Decrease in prepayments, deposits and other receivables	**8,426**	1,348
Increase in accounts payable	**69,613**	53,835
Increase in gross amount due to customers for contract work	**941**	–
(Decrease)/increase in bills payable	**(1,606)**	5,283
Increase in receipts in advance	**38,929**	36,291
Increase in other payable and accrued liabilities	**55,835**	27,958
Net cash inflow from operating activities	**51,281**	47,570

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29 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Acquisitions of subsidiaries

	2001	2000
	$'000	*$'000*
Net assets acquired:		
Fixed assets	**6,100**	5,996
Inventories	**–**	74,752
Accounts receivable	**–**	52,700
Prepayments, deposits and other receivables	**–**	1,615
Cash and bank balances	**–**	37,475
Accounts payable	**–**	(59,793)
Receipts in advance	**–**	(18,085)
Other payable and accrued liabilities	**–**	(18,674)
Bank loans	**–**	(13,188)
	6,100	62,798
Minority interests	**–**	(42,734)
Goodwill arising on acquisitions	**–**	93,441
	6,100	113,505
Satisfied by:		
Cash	**6,100**	94,545
Issuance of share capital	**–**	18,960
Total consideration	**6,100**	113,505
Analysis of net outflow of cash and cash equivalents in connection with the acquisitions of subsidiaries:		
Cash consideration paid	**6,100**	94,545
Bank balances and cash acquired	**–**	(37,475)
Net outflow of cash and cash equivalents in respect of acquisitions of subsidiaries	**6,100**	57,070

Subsidiaries acquired during the year contributed $Nil (2000: $6,170,000) to the Group's net cash outflow from operating activities, paid $Nil (2000: $3,062,000) in respect of the net returns on investment and servicing of finance and utilised $Nil (2000: $6,446,000) for investing activities.

29 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(c) Disposals of subsidiaries

	2001	2000
	$'000	*$'000*
Net assets disposed of:		
Fixed assets	**–**	3,772
Accounts receivable	**–**	9
Prepayments, deposits and other receivables	**–**	1,731
Cash and bank balances	**–**	987
Accounts payable	**–**	(186)
Other payable and accrued liabilities	**–**	(3,512)
Amounts due from group companies	**–**	4,847
	–	7,648
Minority interests	**1,356**	196
Profit on disposal	**–**	7,040
Exchange reserve written back	**–**	(64)
Goodwill written off on acquisition	**846**	7,477
	2,202	22,297
Satisfied by:		
Acquisition of intangible assets	**1,693**	–
Cash – received	**284**	22,297
receivable	**225**	–
	2,202	22,297
Analysis of net inflow of cash and cash equivalents in connection with the disposals of subsidiaries:		
Cash received	**284**	22,297
Bank balances and cash disposed of	**–**	(987)
Net inflow of cash and cash equivalents in respect of disposals of subsidiaries	**284**	21,310

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29 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(d) Analysis of changes in financing during the year

	Share capital including premium $'000	Sub–ordinated loan $'000	Short term loans $'000	Minority interests (including advances) $'000
At 1 January 2000	105,721	50,504	18,500	2,645
Off-set with loans receivable	–	(50,504)	–	–
Cash flow from financing activities	95,292	–	1,752	6,584
Acquisitions of subsidiaries	18,960	–	13,188	42,734
Disposals of subsidiaries	–	–	–	196
Share of profit by minority interests	–	–	–	13,980
Capital injection by minority shareholder to subsidiary	–	–	–	3,089
Exchange reserve	–	–	–	32
At 31 December 2000	219,973	–	33,440	69,260
At 1 January 2001	219,973	–	33,440	69,260
Reclassified from subsidiaries to jointly controlled entities	–	–	(942)	(3,609)
Cash flow from financing activities	20,000	–	11,317	(3,799)
Bank loan repayable within three months from the date of the advance	–	–	243	–
Partial disposal of a subsidiary	–	–	–	1,356
Share of profit by minority interests	–	–	–	21,878
Exchange reserve	–	–	–	34
At 31 December 2001	**239,973**	**–**	**44,058**	**85,120**

29 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(e) Major non–cash transactions

(i) During the year, the Group received computer software at a value of $1,693,000 in settlement of part of the consideration for partial disposal of a subsidiary.

30 COMMITMENT

(a) Commitment under operating leases

At 31 December 2001, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2001	2000
	$'000	*$'000*
Within 1 year	**4,126**	3,678
After 1 year but within 5 years	**1,304**	2,838
	5,430	6,516

The Group leases a number of properties under operating leases. The leases typically run for an initial period of one to five years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

(b) Capital commitments

Capital commitments outstanding at 31 December 2001 not provided for in the financial statements were as follows:

	The Group	
	2001	2000
	$'000	*$'000*
Contracted for	**13,981**	18,925

Notes on the Financial Statements

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31 CONTINGENT LIABILITIES

At 31 December 2001, there were contingent liabilities in respect of the following:

(a) Guarantee given by the Group in respect of a bank loan of $9,420,000 (2000: $Nil) granted to a related party of the Group in return for guarantee given to a bank by the related party for a bank loan of $9,420,000 (2000: $Nil) granted to the Group. (see note 32(a)).

(b) Certain buildings of the Group with an aggregate carrying value of $6,100,000 (2000: $Nil) were pledged as security for banking facilities amounting to $11,000,000 (2000: $Nil) granted to a related company. As at 31 December 2001, the amount of the facilities utilised was $7,530,000 (2000: $Nil) (see note 32(b)).

(c) Guarantee given by the Group in respect of bank loans of $7,536,000 (2000: $12,246,000) granted to a third party company in return for guarantee given by that company for bank loans of $7,536,000 (2000: $12,246,000) granted to the Group.

32 MATERIAL RELATED PARTY TRANSACTIONS

(a) The following transactions represent significant related party transactions between the Group and Fujian Start Computer Group Co., Ltd. (“Fujian Start”), its subsidiaries and associates (“Fujian Start Group”). Prior to 1 June 2001, Fujian Start had interest in the Group’s jointly controlled entities as a shareholder.

32 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(a) (Continued)

Details of material transactions between the Group and Fujian Start Group during the five months ended 31 May 2001 are as follows:

	Note	**Five months ended 31 May 2001** **$'000**	Year ended 31 December 2000 $'000
Trading transactions			
Sales of stocks	*i*	**6,295**	11,839
Purchases of goods	*ii*	**517**	5,529
Systems value–added services income	*i*	**–**	3,231
Systems integration services income	*i*	**–**	364

Notes:

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

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

	Note	**2001** **$'000**	2000 $'000
Non-trading transactions			
Cross guarantee	*i*	**9,420**	–

Note:

(i) Guarantee has been given by the Group in respect of a bank loan granted to Fujian Start Group in return for guarantee given by Fujian Start Group for a bank loan of an equivalent amount granted to the Group (see note 31(a)).

The Directors of the Company are of the opinion that the above transactions with Fujian Start Group were conducted on normal commercial terms and in the ordinary course of business.

Notes on the Financial Statements

For the year ended 31 December 2001
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32 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(b) During the year ended 31 December 2001, the Group has the following material transactions with certain related parties in which a Director or shareholder of the Group is in a position to exercise significant influence:

	Note	2001 $'000	2000 $'000
Trading transactions			
Systems integration services income	*i*	**3,429**	7,976
Systems value–added services income	*i*	**49,552**	–
Purchases of goods	*ii*	**5,334**	4,956

Notes:

(i) These represent income from the provision of systems integration services and systems value-added services to related companies of which a director of a subsidiary of the Group is a substantial shareholder.

(ii) Computer products were purchased from a related company of which a director of a subsidiary of the Group is a substantial shareholder.

	Note	2001 $'000	2000 $'000
Non-trading transactions			
Interest paid to Minority Shareholder	*i*	**675**	396
Handling charges	*ii*	**1,761**	–
Other borrowing costs	*iii*	**759**	–
Guarantee	*iv*	**31,200**	–
Advance of loans	*v*	**19,000**	–
Repayment of loan	*v*	**8,430**	–
Acquisitions of subsidiaries	*vi*	**6,100**	–
Pledge of buildings	*vii*	**6,100**	–
Acquisition of fixed asset	*viii*	**–**	998

Notes:

(i) This represents interest expense in respect of short term borrowings advanced by the Minority Shareholder. Interest was charged at 9.3% (2000: 10.5%) per annum.

(ii) Handling charges represent fees paid to a company owned by the Minority Shareholder in respect of letters of credit issued.

32 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(iii) Other borrowing costs represent interest expense in respect of trust receipt loans recharged by a company owned by the Minority Shareholder.

(iv) A fixed deposit in the amount of $11,700,000 has been pledged and guarantee has been given by the Minority Shareholder in respect of bank facilities totaling approximately $31,200,000 granted to the Group (note 25).

(v) Loans were advanced to certain companies ("the borrowers"). Certain directors of a subsidiary of the Group and the Company are directors of the borrowers.

(vi) The Group acquired two subsidiaries from a company, a director of which was also a Director of the Company during the year, at a total consideration of $6,100,000, representing the prevailing market value of two properties held by the two subsidiaries.

(vii) Certain buildings of the Group with an aggregate carrying value of $6,100,000 (2000: $Nil) were pledged as security for banking facilities amounting to $11,000,000 (2000: $Nil) granted to a company, a director of which was also a director of the Company during the year. As at 31 December 2001, the amount of the facilities utilised was $7,530,000 (2000: $Nil) (see note 31(b)).

(viii) This represented the consideration paid by the Company for the acquisition of a motor vehicle from a company controlled by a Director during the year ended 31 December 2000.

(ix) On 18 April 2001, the Group entered into an agreement with 湖南巨龍軟件產業發展有限公司 ("湖南巨龍") for the disposal of 49% interest in a subsidiary, Start Technology (Guangzhou) Software Co., Ltd. at net book value of RMB532,000 (the "Disposal"). 湖南巨龍 is a 49% shareholder of two subsidiaries of the Group engaged in software development and systems integration business. The Disposal is done as part of the restructuring of the Group's software development and systems integration business.

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

33 POST BALANCE SHEET EVENT

On 20 March 2002, the Group acquired the remaining 30% interest in a subsidiary, Fujian Star System Integration Co., Ltd. ("Fujian SI"), at a consideration of $697,000. After the acquisition, Fujian SI has become a wholly owned subsidiary of the Group.

34 CHANGE OF COMPARATIVE FIGURES

Certain comparative figures have been adjusted as a result of reclassification of cost of sales and selling and distribution expenses.

35 ULTIMATE HOLDING COMPANY

The Directors consider the ultimate holding company at 31 December 2001 to be Leading Value Industrial Limited, which is incorporated in the BVI.