

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

For the six months ended 30 June 2002

1 BASIS OF PREPARATION AND ACCOUNTING POLICIES

Basis of preparation

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Society of Accountants ("HKSA"). KPMG's independent review report to the board of directors is included on page 18.

The interim financial report has been prepared in accordance with the requirements of the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited, including compliance with Statement of Standard Accounting Practice ("SSAP") 25 "Interim financial reporting" issued by the HKSA.

The financial information relating to the financial year ended 31 December 2001 included in the interim financial report does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2001 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 18 April 2002.

The notes on the interim financial report include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2001 annual financial statements.

Accounting policies

The same accounting policies adopted in the 2001 annual financial statements have been applied to the interim financial report.

2 SEGMENTAL INFORMATION

Business segments

Segment information is presented in respect of the Group's businesses as follows:

	Continuing operations				Discontinuing operation					
	Software development and systems integration services		Manufacture and sale of computer related products		Systems value-added services		Unallocated		Consolidated	
	Six months ended 30 June									
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from										
external customers	27,560	23,095	14,577	15,315	522,759	401,282	–	–	564,896	439,692
Other revenue from										
external customers	27	14	–	23	2,092	1,137	230	465	2,349	1,639
Total	27,587	23,109	14,577	15,338	524,851	402,419	230	465	567,245	441,331
Segment result and contribution from operations	1,142	(4,058)	3,211	3,240	27,405	26,367			31,758	25,549
Unallocated operating income and expenses									(10,662)	(8,401)
Profit from operations									21,096	17,148

Geographical segments

The Group operates mainly in The People's Republic of China ("the PRC") and accordingly no geographical segment information is presented.

3 DISCONTINUING OPERATION

On 18 May 2002, the Group entered into agreements to dispose of its entire interest, being 40% shareholdings, in the subsidiaries comprising the systems value-added services business segment (Note 2), for cash consideration of approximately HK\$72,129,000 (the "Disposal"). The Disposal was completed on 5 July 2002 and a profit on Disposal of approximately HK\$4,987,000 will be recognized in the second half of the financial year. (See also Note 15)

The net assets of the discontinuing operation as at 30 June 2002 and 31 December 2001 were as follows:

	At 30 June 2002 <i>HK\$'000</i>	At 31 December 2001 <i>HK\$'000</i>
Total assets	639,766	537,087
Total liabilities	(520,824)	(437,366)
Net assets	118,942	99,721
Group's share of net assets	47,577	
Consideration less disposal expenses	(71,677)	
Goodwill written back upon disposal	19,113	
Profit on disposal of discontinuing operation	4,987	

4 OTHER INCOME

Other income for the period ended 30 June 2002 represents profit on disposal of investment.

5 (LOSS)/PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

(Loss)/profit from ordinary activities before taxation is arrived at after charging/(crediting):

	Six months ended 30 June	
	2002	2001
	HK\$'000	HK\$'000
Compensation of guarantee profit by minority shareholder	(1,613)	—
Dividend income from unlisted investment	(566)	(499)
Interest on bank borrowings	1,363	1,108
Amortization of intangible assets	283	141
Depreciation	3,460	2,627
Loss on disposal of fixed assets	860	681
Provision for inventories	5,263	6,474
Provision for bad and doubtful debts	2,000	420

6 TAXATION

	Six months ended 30 June	
	2002	2001
	HK\$'000	HK\$'000
Provision for Hong Kong Profits Tax	2,507	1,963
The PRC income tax	2,382	338
Deferred taxation	(584)	1,814
	4,305	4,115
Share of an associate's taxation	—	1,016
	4,305	5,131

Provision for Hong Kong Profits Tax of the Group is calculated at 16% of the estimated assessable profits arising in Hong Kong for the periods ended 30 June 2002 and 2001.

6 TAXATION (Continued)

The PRC income tax of the Group and share of an associate's taxation represent provisions for the PRC income tax on profits of subsidiaries and an associate operating in the PRC which have been calculated at the prevailing rates under the relevant PRC income tax rules and regulations applicable to the subsidiaries and the associate. Certain subsidiaries and a jointly controlled entity were granted exemptions and relief from PRC income tax by the relevant local tax bureaus.

The PRC subsidiaries of the Group prepared their financial statements for the periods ended 30 June 2002 and 2001 in accordance with the PRC accounting standards and regulations ("the PRC GAAP"). Deferred taxation mainly represents differences between the PRC GAAP and SSAP in respect of accounting differences in income recognition.

7 DIVIDENDS

The Directors do not recommend the payment of any interim dividend for the six months ended 30 June 2002 (2001: HK\$NIL).

8 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 HK\$1,796,000 (2001: HK\$1,924,000) and the weighted average number of ordinary shares of 440,644,000 (2001: 400,644,000) shares in issue during the period.

(b) *Diluted earnings per share*

The effects of all potential ordinary shares are anti-dilutive for the six months ended 30 June 2002 and 2001.

9 FIXED ASSETS

Investment properties were revalued at 30 June 2002 by the directors, who are not qualified valuers, based on the relevant market indices, which is not significantly different from the professional valuation carried out at 31 December 2001.

During the period, the Group spent approximately HK\$6,756,000 on additions of property, plant and equipment.

10 TRADE AND OTHER RECEIVABLES

	At 30 June 2002 HK\$'000	At 31 December 2001 HK\$'000
Accounts receivable	245,691	202,989
Retentions receivable from customers	1,449	1,535
Gross amount due from customers for contract work	21,252	17,944
Prepayments, deposits and other receivables	75,637	44,887
Loans receivable	30,188	12,153
	374,217	279,508

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

	At 30 June 2002 HK\$'000	At 31 December 2001 HK\$'000
Current	167,220	86,352
1 to 3 months overdue	30,706	72,934
More than 3 months but less than 12 months overdue	36,735	42,025
Overdue beyond 1 year	11,030	1,678
	245,691	202,989

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.

Terms of loans receivable

Interest is charged at 2.5% to 7% p.a. HK\$18,840,000 was repaid in August 2002, the balances of HK\$4,409,000 and HK\$6,939,000 are repayable on or before 31 December 2002 and 30 June 2003 respectively.

11 TRADE AND OTHER PAYABLES

	At 30 June 2002 HK\$'000	At 31 December 2001 HK\$'000
Accounts payable	177,347	198,911
Bills payable	—	3,677
Gross amount due to customers for contract work	593	941
Receipts in advance	68,273	93,408
Other payables and accrued liabilities	157,521	112,210
	403,734	409,147

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

	At 30 June 2002 HK\$'000	At 31 December 2001 HK\$'000
Due within 3 months or on demand	154,265	196,179
Overdue 3 months to 1 year	22,248	5,697
Overdue beyond 1 year	834	712
	177,347	202,588

12 SHARE CAPITAL

	At 30 June 2002 and 31 December 2001	
	No. of shares (‘000)	HK\$'000
Authorised :		
Ordinary shares of HK\$0.10 each	1,000,000	100,000
Issued and fully paid:		
Ordinary shares of HK\$0.10 each	440,644	44,064

12 SHARE CAPITAL *(Continued)*

During the period, 2,000,000 share options had been granted under the share option schemes of the Company and 3,630,000 share options lapsed as a result of the resignation of certain option holders. As at 30 June 2002, total options to subscribe for 33,567,000 shares remained outstanding. Details of the movements in respect of the share option schemes of the Company during the six months ended 30 June 2002 are set out under the section headed "Share Option Schemes" on page 25.

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

At 30 June 2002, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 30 June 2002 HK\$'000	At 31 December 2001 HK\$'000
Within 1 year	5,240	4,126
After 1 year but within 5 years	1,186	1,304
	6,426	5,430

(b) Capital commitments

Capital commitments outstanding at 30 June 2002 not provided for in the interim financial report were as follows:

	At 30 June 2002 HK\$'000	At 31 December 2001 HK\$'000
Contracted for	18,229	13,981

14 CONTINGENT LIABILITIES

At 30 June 2002, there were contingent liabilities in respect of the following:

		At 30 June 2002 HK\$'000	At 31 December 2001 HK\$'000
	Note		
Assets pledged and guarantee given	<i>i</i>	15,000	11,000
Cross guarantee given in respect of related company	<i>ii</i>	—	9,420
Cross guarantee given in respect of third party company	<i>iii</i>	—	7,536

Notes:

- (i) Certain buildings of the Group with an aggregate carrying value of HK\$6,100,000 (31 December 2001: HK\$6,100,000) were pledged and corporate guarantee of the Company was given as security for banking facilities amounting to HK\$15,000,000 (31 December 2001: HK\$11,000,000) granted to a subsidiary of a former related company. As at 30 June 2002, the amount of the facilities utilized was HK\$10,038,000 (31 December 2001: HK\$7,530,000).
- (ii) As at 31 December 2001, guarantee was given by the Group in respect of a bank loan of HK\$9,420,000 granted to a related company in return for guarantee given to a bank by the related company for a bank loan of HK\$9,420,000 granted to the Group.
- (iii) As at 31 December 2001, guarantee was given by the Group in respect of bank loans of HK\$7,536,000 granted to a third party company in return for guarantee given by that company for bank loans of HK\$7,536,000 granted to the Group.

15 MATERIAL RELATED PARTY TRANSACTIONS

During the six months ended 30 June 2002, the Group has the following material transactions with related parties in which a Director or shareholder of the Group is in a position to exercise significant influence:

		Six months ended 30 June	
		2002	2001
	Note	HK\$'000	HK\$'000
Trading transactions			
Systems integration services income	i	1,679	—
Systems value-added services income	i	639	—

Note:

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

		Six months ended 30 June	
		2002	2001
	Note	HK\$'000	HK\$'000
Non-trading transactions			
Handling charges	ii	1,095	474
Guarantee	iii	31,200	—
Advance of loan	iv	12,000	—

Notes:

- (i) On 18 May 2002, the Group entered into agreements for the disposal of its entire interests in, being 40% of the total issued capital of, Start Futong Technology Company Limited ("Futong") at a total consideration of approximately HK\$72,129,000 ("the Disposal"). The Disposal comprises two parts:
- (a) the Buy Back Agreement under which Futong would buy back and the Group would sell 12.03% of the total existing issued capital of Futong, at a consideration of approximately HK\$21,686,000; and
- (b) the Sale and Purchase Agreement under which the Group would sell and Mr. Chen Jian ("Mr. Chen") would purchase 27.97% of the total existing issued capital of Futong at a consideration of approximately HK\$50,443,000.

15 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(i) (Continued)

The Disposal was completed on 5 July 2002.

Mr. Chen was a director of the Company prior to his resignation on 30 April 2002. He is also a substantial shareholder of Futong, holding, together with his associates, 42% of the equity interest of Futong.

- (ii) Handling charges represent fees paid to a company owned by Mr. Chen in respect of letters of credit issued on the Group's behalf.
- (iii) A fixed deposit in the amount of HK\$11,700,000 has been pledged and guarantee has been given by Mr. Chen in respect of banking facilities totalling approximately HK\$31,200,000 granted to the Group.
- (iv) A loan was advanced to a company, whose director is also a Director of the Company.
- (v) On 20 March 2002, the Group entered into an agreement with E-Star Information Systems Holdings Co. Ltd. ("E-Star") to acquire the remaining 30% interest in a subsidiary, Fujian Star System Integration Co., Ltd. ("Fujian SI"), at a consideration of HK\$697,000. Prior to the acquisition, Fujian SI was held as to 70% by the Group and 30% by E-Star. After the acquisition, Fujian SI has become a wholly owned subsidiary of the Group. A substantial shareholder of E-Star is also a director of certain subsidiaries of the Group.

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.

16 POST BALANCE SHEET EVENTS

- (a) As described in Notes 3 and 15, the Disposal of Futong was completed on 5 July 2002.
- (b) On 30 July 2002, the Group entered into agreements with 湖南巨龍軟件產業發展有限公司 ("湖南巨龍") to acquire additional 19% interests in Xiamen Start Dragon Information Technology Company Limited and Fuzhou Start Dragon Information Technology Company Limited (the "Subsidiaries") at a total consideration of RMB7,657,001 (equivalent to approximately HK\$7,224,001) (the "Acquisition"). Prior to the Acquisition, the Subsidiaries were held as to 51% by the Group and 49% by 湖南巨龍. After the Acquisition, the Group holds a 70% interest in the Subsidiaries. Of the total consideration, RMB4,882,000 was payable in cash. The remaining RMB2,775,000, at the option of the Group, will be settled in cash or by the issue and allotment of 2,618,000 new shares of the Company at HK\$1 per share.

17 COMPARATIVE FIGURES

The format of the Consolidated Cash Flow Statement has been revised to follow the new requirements of SSAP 15 (revised) "Cash Flow Statements".

The presentation of items in the interim financial report has been changed due to the discontinuance of systems value-added services business segment by the Group during the period as described in Note 3. As a result, the consolidated income statements for the current and previous periods were segregated into continuing operations and discontinuing operation.

18 APPROVAL OF INTERIM FINANCIAL REPORT

The interim financial report was approved by the Board of Directors on 16 September 2002.