For the year ended 31 December 2002
(Expressed in Hong Kong dollars)

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. These 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 and buildings held for own use, and the marking to market of certain investments in securities 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 unrealized profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealized losses resulting from intra-group transactions are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

Notes on the Financial Statements

For the year ended 31 December 2002
(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) Associate 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 associate 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).

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

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

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.

Notes on the Financial Statements

For the year ended 31 December 2002
(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Goodwill (Continued)

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.

(f) Other investments in securities

The Group's and the Company's policies for investments in securities other than investments in subsidiaries, associates and jointly controlled entities are as follows:

(i) 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 provisions 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.

(ii) All other securities (whether held for trading or otherwise) are stated in the balance sheet at fair value. Changes in fair value are recognised in the income statement as they arise. Securities are presented as trading securities when they were acquired principally for the purpose of generating a profit from short term fluctuations in price or dealer's margin.

(iii) Profits or losses on disposal of investments in securities 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.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Fixed assets

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

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

– buildings held for own use are stated in the balance sheet at their revalued amount, being their open market value at the date of revaluation less any subsequent accumulated depreciation (see note 1(j)). Revaluations are performed by qualified valuers or Directors' valuation with sufficient regularity to ensure that the carrying amount of these assets does not differ materially from that which would be determined using fair values at the balance sheet date; and

– plant, machinery and other fixed assets are stated in the balance sheet 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 and buildings held for own use are generally dealt with in reserves. The only exceptions are as follows:

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

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

For the year ended 31 December 2002
(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.

(iv) 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. For all other fixed assets, any related revaluation surplus is transferred from the revaluation reserve to retained earnings.

(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 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(r)(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 2002
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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 or valuation of other fixed assets over their estimated useful lives, after taking into account their estimated residual values, as follows:

– buildings held for own use are depreciated on a straight-line basis over the shorter of their estimated useful lives, being 50 years from the date of completion, and the unexpired terms of the leases; and

– other fixed assets are depreciated on a straight-line basis over their estimated useful lives, after taking into account their estimated residual values, as follows:

Leasehold improvements	5 years
Plant and machinery	10 years
Furniture, fixtures and office equipment	3 to 5 years
Motor vehicles	3 to 8 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 favourable 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 2002
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1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Inventories

Inventories comprise mainly computers and components which are carried at the lower of cost and net realizable 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(r)(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.

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". Amounts received before the related work is performed are included in the balance sheet, as a liability, as "Receipts in advance".

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(o) Employee benefits

(i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group.

(ii) Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance and other defined contribution schemes are recognised as an expense in the income statement as incurred.

(iii) When the Group grants employees options to acquire shares of the Company at nominal consideration, no employee benefit cost or obligation is recognised at the date of grant. When the options are exercised, equity is increased by the amount of the proceeds received.

(p) 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 realization is assured beyond reasonable doubt.

Notes on the Financial Statements

For the year ended 31 December 2002
(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) 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.

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.

(r) 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 tax 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)

(r) 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.

(s) 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 are dealt with in the income statement.

The results of enterprises 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.

(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) Discontinued operation

A discontinued operation is a clearly distinguishable component of the Group's business that is disposed of or abandoned pursuant to a single plan, and which represents a separate major line of business or geographical area of operations.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) 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.

(w) 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 system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

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.

For the year ended 31 December 2002
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2 TURNOVER

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are set out in note 15 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:

	2002	2001
	$'000	*$'000*
Continuing operations		
Software development and systems integration services	**61,660**	48,692
Manufacture and sale of computer related products	**52,970**	28,287
	114,630	76,979
Discontinued operation		
Systems value-added services	**522,759**	974,418
	637,389	1,051,397

For the year ended 31 December 2002
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3 DISCONTINUED 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 13) for cash consideration of approximately $72,129,000 (the "Disposal"). The Disposal was completed on 5 July 2002 and a profit on disposal of approximately $4,987,000 was recognised during the financial year ended 31 December 2002. (See also note 36(a))

The net assets of the discontinued operation as at the date of discontinuance and 31 December 2001 were as follows:

	At 5 July 2002	At 31 December 2001
	$'000	*$'000*
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 discontinued operation	**4,987**	

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4 OTHER REVENUE AND NET INCOME

	2002	2001
	$'000	*$'000*
Other revenue		
Interest income	**4,766**	4,082
Marketing fee	**1,004**	3,687
Compensation of guarantee profit by minority shareholder	**3,057**	3,439
Dividend income from unlisted investments	**566**	499
Rental income from investment properties	**314**	583
Others	**1,298**	2,305
	11,005	14,595
Other net income		
Profit on disposal of unlisted investments	**1,947**	–
Profit on disposal of an associate	**–**	9,214
Profit on securities trading	**–**	350
Unrealized loss on trading securities carried at fair value	**(1,414)**	–
	533	9,564

Notes on the Financial Statements

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5 (LOSS)/PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

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

		2002	2001
		$'000	*$'000*
(a)	**Finance costs:**		
	Interest expense on bank loans and other borrowings wholly repayable within five years	**1,598**	3,057
	Other borrowing costs	**2,865**	9,904
		4,463	12,961
(b)	**Staff costs:**		
	Contributions to defined contribution schemes	**1,236**	943
	Salaries, wages and other benefits	**33,423**	39,792
		34,659	40,735
(c)	**Other items:**		
	Cost of inventories	**544,039**	918,788
	Auditors' remuneration	**1,264**	1,814
	Depreciation	**6,455**	5,381
	Amortisation of intangible assets	**588**	423
	Impairment loss on intangible assets	**705**	–
	Trademark licence fee	**1,884**	189
	Operating lease charges in respect of properties	**6,756**	7,694
	Loss on disposal of fixed assets	**931**	601
	Provision for bad and doubtful debts	**6,535**	5,433
	Provision for loans receivable	**2,747**	814
	Rental income from investment properties less direct outgoings of $80,000 (2001: $38,000)	**(234)**	(545)

Included in the cost of inventories is a provision of $5,263,000 (2001: $9,298,000) against certain obsolete inventories.

6 TAXATION

(a) Taxation in the consolidated income statement represents:

	2002	2001
	$'000	*$'000*
Provision for Hong Kong Profits Tax for the year	**2,507**	1,602
Underprovision in respect of prior years	**–**	18
	2,507	1,620
The People's Republic of China (the "PRC") income tax	**3,834**	2,033
	6,341	3,653
Deferred taxation *(note 30(a))*	**(105)**	2,118
	6,236	5,771
Share of an associate's taxation	**–**	592
	6,236	6,363

Provision for Hong Kong Profits Tax is calculated at 16% (2001: 16%) of the estimated assessable profits for the year ended 31 December 2002.

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 associate operating in the PRC which have been calculated at the prevailing income tax 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 the PRC income tax by the relevant local tax bureau.

The PRC subsidiaries of the Group prepared their financial statements for the years ended 31 December 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.

Notes on the Financial Statements

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6 TAXATION (Continued)

(b) Taxation in the consolidated balance sheet represents:

	2002	2001
	$'000	$'000
Provision for Hong Kong Profits Tax for the year	–	1,602
Provisional Hong Kong Profits Tax paid	–	(402)
	–	1,200
Balance of the PRC income tax payable for the year	1,371	1,098
	1,371	2,298

All tax payable is expected to be settled within one year.

7 DIRECTORS' REMUNERATION

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

	2002	2001
	$'000	$'000
Executive Directors:		
Salaries and other emoluments	3,260	5,138
Retirement scheme contributions	48	141
Other allowances	540	136
	3,848	5,415
Independent Non-executive Directors:		
Fees	240	230

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 note 29 and the section headed "Share option scheme" in the Directors' Report.

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7 DIRECTORS' REMUNERATION (Continued)

The remuneration of the Directors is within the following bands:

	2002 **Number of Directors**	2001 Number of Directors
Nil – $1,000,000	**6**	13
$1,000,001 – $1,500,000	**2**	2

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three of them (2001: two) are Directors whose emoluments are disclosed in note 7 above. The aggregate of the emoluments in respect of the other two (2001: three) individuals are as follows:

	2002 ***$'000***	2001 *$'000*
Salaries and other emoluments	**1,866**	3,283
Retirement scheme contributions	**12**	47
	1,878	3,330

The emoluments of the two (2001: three) individuals with the highest emoluments are within the following bands:

	2002 **Number of individuals**	2001 Number of individuals
Nil – $1,000,000	**2**	1
$1,000,001 – $1,500,000	**–**	1
$1,500,001 – $2,000,000	**–**	1

9 (LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated (loss)/profit attributable to shareholders includes a loss of $27,219,000 (2001: profit of $16,958,000) which has been dealt with in the financial statements of the Company.

Notes on the Financial Statements

For the year ended 31 December 2002
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10 DIVIDENDS

The Directors do not recommend the payment of a dividend for the year ended 31 December 2002 (2001: $Nil).

11 (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the loss attributable to ordinary shareholders of $10,948,000 (2001: profit of $21,248,000) and the weighted average number of ordinary shares of 440,644,000 (2001: 406,123,000) shares in issue during the year.

(b) Diluted (loss)/earnings per share

The effects of all potential ordinary shares are anti-dilutive for the years ended 31 December 2002 and 2001.

12 CHANGES IN ACCOUNTING POLICY FOR FIXED ASSETS

In prior years, buildings held for own use were stated at cost less accumulated depreciation. With effect from 1 January 2002, the Group adopted an accounting policy of stating all buildings held for own use at revalued amounts as set out in note 1(g). The Directors believe that this change in policy will result in a more appropriate presentation of events and transactions in the financial statements.

The adoption of the new accounting policy does not significantly affect the Group's loss for the year, profit for 2001 and the net assets as at 31 December 2002 and 2001. The new accounting policy has been adopted prospectively with no significant impact on the opening balances of retained earnings.

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13 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 system.

Business segments

The Group comprises the following main business segments:

Continuing operations

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 for the year ended 31 December 2001 was engaged in the manufacturing and sale of computer peripheral equipment.

General software: Development and sale of general software products.

Discontinued operation

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.

Notes on the Financial Statements

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13 SEGMENT REPORTING (Continued)

Business segments (Continued)

	Continuing operations						Discontinued operation					
	Software development and systems integration services		Manufacture and sale of computer related products		General software		Systems value-added services		Unallocated		Consolidated	
	2002	2001	**2002**	2001	**2002**	2001	**2002**	2001	**2002**	2001	**2002**	2001
	$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Revenue from external customers	**61,660**	48,692	**52,970**	28,287	**–**	–	**522,759**	974,418	**–**	–	**637,389**	1,051,397
Other revenue from external customers	**208**	444	**46**	74	**–**	–	**2,092**	5,537	**270**	520	**2,616**	6,575
Total	**61,868**	49,136	**53,016**	28,361	**–**	–	**524,851**	979,955	**270**	520	**640,005**	1,057,972
Segment result	**6,186**	1,834	**11,103**	6,857	**–**	–	**27,405**	48,252			**44,694**	56,943
Unallocated operating income and expenses											**(30,915)**	(7,817)
Profit from operations											**13,779**	49,126
Finance costs											**(4,463)**	(12,961)
Share of profits less losses of associate and jointly controlled entities			**–**	11,144	**4,557**	2,180					**4,557**	13,324
Taxation											**(6,236)**	(6,363)
Minority interests											**(18,585)**	(21,878)
(Loss)/profit attributable to shareholders											**(10,948)**	21,248
Depreciation and amortisation for the year	**936**	1,203	**2,223**	1,891	**–**	–	**864**	1,429				
Significant non-cash expenses (other than depreciation and amortisation)	**1,735**	702	**–**	336	**–**	–	**7,325**	14,015				
Segment assets	**64,416**	49,808	**70,937**	31,949	**–**	–	**–**	536,934			**135,353**	618,691
Interest in jointly controlled entities					**12,296**	7,739					**12,296**	7,739
Unallocated assets											**262,676**	219,101
Total assets											**410,325**	845,531
Segment liabilities	**34,742**	20,274	**42,694**	7,002	**–**	–	**–**	414,179			**77,436**	441,455
Unallocated liabilities											**5,251**	17,466
Total liabilities											**82,687**	458,921
Capital expenditure incurred during the year	**1,847**	1,868	**8,692**	284	**–**	–	**1,279**	2,585				

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13 SEGMENT REPORTING (Continued)

Geographical segments

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

14 FIXED ASSETS

(a) The Group

	Buildings held for own use	Leasehold improvements	Plant and machinery	Furniture, fixtures and office equipment	Motor vehicles	Sub-total	Investment properties	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Cost or valuation:								
At 1 January 2002	7,399	2,900	17,562	11,856	8,818	48,535	9,033	57,568
Additions	1,790	846	6,536	2,039	2,129	13,340	–	13,340
Disposals								
– through disposal of subsidiaries	–	(903)	–	(6,588)	(853)	(8,344)	(1,753)	(10,097)
– others	–	(834)	–	(893)	(343)	(2,070)	–	(2,070)
Deficit on revaluation	(995)	–	–	–	–	(995)	(3,330)	(4,325)
At 31 December 2002	**8,194**	**2,009**	**24,098**	**6,414**	**9,751**	**50,466**	**3,950**	**54,416**
Representing:								
Cost	–	2,009	24,098	6,414	9,751	42,272	–	42,272
Valuation – 2002	8,194	–	–	–	–	8,194	3,950	12,144
	8,194	2,009	24,098	6,414	9,751	50,466	3,950	54,416
Accumulated depreciation:								
At 1 January 2002	380	824	4,358	4,012	1,079	10,653	–	10,653
Charge for the year	428	587	1,859	1,776	1,805	6,455	–	6,455
Written back on disposal								
– through disposal of subsidiaries	–	(804)	–	(1,935)	(166)	(2,905)	–	(2,905)
– others	–	(152)	–	(686)	(205)	(1,043)	–	(1,043)
Written back on revaluation	(808)	–	–	–	–	(808)	–	(808)
At 31 December 2002	**–**	**455**	**6,217**	**3,167**	**2,513**	**12,352**	**–**	**12,352**
Net book value:								
At 31 December 2002	**8,194**	**1,554**	**17,881**	**3,247**	**7,238**	**38,114**	**3,950**	**42,064**
At 31 December 2001	7,019	2,076	13,204	7,844	7,739	37,882	9,033	46,915

Notes on the Financial Statements

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14 FIXED ASSETS (Continued)

(b) The Company

	Leasehold improvements	Furniture, fixtures and office equipment	Motor vehicles	Total
	$'000	*$'000*	*$'000*	*$'000*
Cost:				
At 1 January 2002	1,945	1,811	6,324	10,080
Additions	846	383	417	1,646
Disposals	(1,860)	(934)	–	(2,794)
At 31 December 2002	**931**	**1,260**	**6,741**	**8,932**
Accumulated depreciation:				
At 1 January 2002	144	873	494	1,511
Charge for the year	203	226	1,469	1,898
Written back on disposal	(144)	(251)	–	(395)
At 31 December 2002	**203**	**848**	**1,963**	**3,014**
Net book value:				
At 31 December 2002	**728**	**412**	**4,778**	**5,918**
At 31 December 2001	1,801	938	5,830	8,569

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14 FIXED ASSETS (Continued)

(c) An analysis of the net book value of the Group's properties is as follows:

	2002	2001
	$'000	*$'000*
In Hong Kong		
– long leases	**5,750**	6,100
– medium-term leases	**3,950**	7,280
Outside Hong Kong under medium-term leases	**2,444**	2,672
	12,144	16,052

(d) The Group's investment properties and buildings held for own use in Hong Kong were revalued at 31 December 2002 by an independent firm of surveyors, B. I. Appraisals Limited, who have among their staff Fellows of the Hong Kong Institute of Surveyors and Royal Institution of Chartered Surveyors, on an open market value basis. The revaluation deficit of $3,330,000 and $187,000 (2001: $20,000 and $Nil) respectively has been charged to the income statement.

The Group's buildings held for own use outside Hong Kong were estimated at the Directors' valuation on an existing use basis, which is not significantly different from the carrying amount at 31 December 2002.

The carrying amount of the buildings held for own use of the Group at 31 December 2002 would have been $8,381,000 (2001: $7,019,000) had they been carried at cost less accumulated depreciation.

(e) At 31 December 2002, the Group's investment properties with an aggregate carrying value of $3,950,000 (2001: $9,033,000) were pledged as security for banking facilities granted to the Group (see note 27(i)). In addition, certain buildings held for own use of the Group with an aggregate carrying value of $5,750,000 (2001: $6,100,000) were pledged as security for banking facilities granted to a subsidiary of a former related company (see notes 35(i) and 36(a)).

Notes on the Financial Statements

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14 FIXED ASSETS (Continued)

(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 2002, the gross carrying amount of investment properties of the Group held for use in operating leases were $3,950,000 (2001: $9,033,000).

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

	2002	2001
	$'000	*$'000*
Within 1 year	**81**	49

15 INTEREST IN SUBSIDIARIES

	2002	2001
	$'000	*$'000*
Unlisted shares, at cost	**1,586**	156
Amounts due from subsidiaries	**263,498**	262,030
Amounts due to subsidiaries	**(13,850)**	(78)
	251,234	262,108

Details of the subsidiaries at 31 December 2002 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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15 INTEREST IN SUBSIDIARIES (Continued)

Name of company	Place of incorporation/ establishment and operation	Attributable ownership interest percentage Direct	Indirect	Issued and paid up/ 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
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
Regal Harbour Limited	Hong Kong	–	100	$2	Property holding
Fortune Years Limited	Hong Kong	–	100	$2	Property holding
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. ("Fujian SI") *(note i)*	PRC	–	100	RMB4,800,000	Provision of software development and systems integration services
Fuqing Fujie Plastics Co., Ltd. *(note i)*	PRC	–	65	RMB20,352,000	Manufacturing and sale of computer related products

Notes on the Financial Statements

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15 INTEREST IN SUBSIDIARIES (Continued)

Name of company	Place of incorporation/ establishment and operation	Attributable ownership interest percentage Direct	Indirect	Issued and paid up/ registered capital	Principal activities
Xiamen Start Dragon Information Technology Co., Ltd. ("Xiamen Start Dragon") *(note ii)*	PRC	–	51	RMB12,633,000	Provision of software development and systems integration services
Fuzhou Start Dragon Information Technology Co., Ltd. ("Fuzhou Start Dragon") *(note ii)*	PRC	–	51	RMB301,000	Provision of software development and systems integration services
Kayford Investment Limited	BVI	–	100	US$1	Dormant
Fujian Gallop Information Co., Ltd. *(note i)*	PRC	100	–	RMB1,515,000	Dormant
Start Technology (Beijing) Co., Ltd. *(note i)*	PRC	–	100	RMB2,005,000	Dormant

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.

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16 INTANGIBLE ASSETS

	Computer software $'000
Cost:	
At 1 January 2002	1,693
Additions through internal development	1,343
At 31 December 2002	**3,036**
Accumulated amortisation and impairment:	
At 1 January 2002	423
Charge for the year	588
Impairment loss	705
At 31 December 2002	**1,716**
Net book value:	
At 31 December 2002	**1,320**
At 31 December 2001	1,270

The amortisation charge for the year is included in "cost of sales" in the amount of $24,000 and "administrative expenses" in the amount of $564,000 in the consolidated income statement.

In 2002, fewer contracts were entered for certain computer software that caused the Group to assess the recoverable amount of these software. Based on this assessment, the carrying value of these software of $705,000 was fully written off (included in "other operating expenses").

Notes on the Financial Statements

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17 INTEREST IN JOINTLY CONTROLLED ENTITIES

	2002	2001
	$'000	*$'000*
Share of net assets	**12,296**	7,739

Details of the Group's interest in the jointly controlled entities are as follows:

Name of joint venture	Form of business structure	Place of incorporation/ establishment and operation	Attributable ownership interest percentage Direct	Attributable ownership interest percentage Indirect	Issued and paid up/ registered capital	Principal activities
Besto Investment Limited ("Besto")	Limited company	BVI	–	40	US$10,000	Investment holding
SJTU Sunway (Beijing) Software Company Ltd. (Formerly Beijing Start Ming Tai Computer Application Technology Development Co., Ltd.)	Wholly foreign owned enterprise	PRC	–	40	RMB15,000,000	Development and sales of general software

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

	2002	2001
	$'000	*$'000*
Balance sheet as at 31 December		
Non-current assets	**5,566**	2,457
Current assets	**42,723**	25,024
Current liabilities	**16,136**	6,847
Income statement for the year ended 31 December		
Turnover	**41,850**	33,459
Profit before and after taxation	**8,970**	5,312

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18 INVENTORIES

	2002	2001
	$'000	*$'000*
Raw materials	**13,753**	905
Work in progress	**436**	3,163
Finished goods	**8,838**	253,798
	23,027	257,866

Included in finished goods are inventories of $Nil (2001: $9,520,000), stated at net of a general provision, made in order to state these inventories at the lower of cost and estimated net realizable value. The remaining inventories are all valued at cost. During the year ended 31 December 2002, a provision of $5,263,000 (2001: $9,298,000) was made against certain obsolete inventories.

19 TRADE AND OTHER RECEIVABLES

		The Group		The Company	
		2002	2001	**2002**	2001
	Note	**$'000**	*$'000*	**$'000**	*$'000*
Accounts receivable	*i*	**37,054**	202,989	**–**	–
Retentions receivable from customers *(note 22)*		**18,570**	1,535	**–**	–
Gross amount due from customers for contract work *(note 22)*		**10,605**	17,944	**–**	–
Prepayments, deposits and other receivables	*ii*	**44,383**	44,887	**7,665**	6,135
Loans receivable	*iii*	**23,982**	12,153	**–**	–
		134,594	279,508	**7,665**	6,135

All of the trade and other receivables, apart from those mentioned in notes 22, 23 and 24, are expected to be recovered within one year.

Notes on the Financial Statements

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19 TRADE AND OTHER RECEIVABLES (Continued)

Notes:

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

	2002	2001
	$'000	*$'000*
Current	**22,829**	86,352
1 to 3 months overdue	**12,705**	72,934
More than 3 months overdue but less than 12 months overdue	**1,489**	42,025
Overdue beyond 1 year	**31**	1,678
	37,054	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.

(ii) Included in prepayments, deposits and other receivables as at 31 December 2002 was the remaining balance of net proceeds of $29,227,000 receivable from the disposal of 40% of the issued capital of a subsidiary, Start Futong Technology Company Limited ("Futong"), which was secured by a 27.97% equity interest of Futong. The amount was settled on 14 January 2003.

(iii) Interest is charged at 1.75% to 7.2% p.a.. $15,159,000 was repaid in February 2003, the remaining balances of $8,823,000 are repayable on or before 30 June 2003.

Balances with related parties included above are as follows:

	2002		2001	
	Accounts receivable	**Prepayments, deposits and other receivables**	Accounts receivable	Prepayments, deposits and other receivables
	$'000	***$'000***	*$'000*	*$'000*
Amount due from a jointly controlled entity *(note 23)*	**–**	**4,861**	–	547
Amounts due from related parties *(note 24)*	**141**	**1,683**	2,659	226
	141	**6,544**	2,659	773

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20 INVESTMENT FUND

Investment fund of $16,956,000 as at 31 December 2002 represents funds placed with a PRC domestic company for a term of six months for investments in listed or unlisted companies in the PRC with a guaranteed minimum rate of return of not less than the prevailing bank lending rate in the PRC. The amount was refunded to the Group in February 2003 upon the expiry of the placement term.

21 TRADING SECURITIES

	2002	2001
	$'000	*$'000*
Trading securities, listed in Hong Kong at market value	**19,168**	–

Trading securities were pledged as security for banking facilities granted to the Group (see note 27(iii)).

22 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 2002 is $41,966,000 (2001: $70,209,000).

The gross amount due from customers for contract work at 31 December 2002 that is expected to be recovered after more than one year is $554,000 (2001: $Nil). The gross amount due to customers for contract work at 31 December 2002 is expected to be 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 2002 is $18,570,000 (2001: $1,535,000). The amount of retentions is expected to be recovered within one year.

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23 AMOUNT DUE FROM/TO A JOINTLY CONTROLLED ENTITY

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

24 AMOUNTS DUE FROM/TO RELATED PARTIES

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

25 CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2002	2001	**2002**	2001
	$'000	*$'000*	***$'000***	*$'000*
Deposit with bank	**–**	10,000	**–**	10,000
Cash at bank and in hand	**17,156**	86,032	**357**	4,527
Cash and cash equivalents in the balance sheet	**17,156**	96,032	**357**	14,527
Bank overdraft *(note 27)*	**(1,190)**	–		
Cash and cash equivalents in the cash flow statement	**15,966**	96,032		

26 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2002	2001	**2002**	2001
	$'000	*$'000*	***$'000***	*$'000*
Accounts payable	**33,022**	198,911	**–**	–
Bills payable	**–**	3,677	**–**	–
Gross amount due to customers for contract work *(note 22)*	**4,258**	941	**–**	–
Receipts in advance	**311**	93,408	**–**	–
Other payables and accrued liabilities	**35,336**	112,210	**3,652**	2,503
	72,927	409,147	**3,652**	2,503

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26 TRADE AND OTHER PAYABLES (Continued)

All of the trade and other payables are expected to be settled within one year, apart from those mentioned in notes 23 and 24.

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

	2002	2001
	$'000	*$'000*
Due within 3 months or on demand	**30,330**	196,179
Overdue 3 months to 1 year	**2,522**	5,697
Overdue beyond 1 year	**170**	712
	33,022	202,588

Balances with related parties included above are as follows:

	2002		2001	
	Accounts payable	**Other payables and accrued liabilities**	Accounts payable	Other payables and accrued liabilities
	$'000	***$'000***	*$'000*	*$'000*
Amount due to a jointly controlled entity *(note 23)*	**–**	**–**	–	7
Amounts due to related parties *(note 24)*	**–**	**1,298**	–	34,504
	–	**1,298**	–	34,511

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27 LOANS AND OVERDRAFT

At 31 December 2002, all loans and overdraft were repayable within one year or on demand.

At 31 December 2002, the loans and overdraft were secured as follows:

	2002	2001
	$'000	*$'000*
Secured bank overdraft *(note 25)*	**1,190**	–
Bank loans		
– secured	**–**	17,682
– unsecured	**6,594**	25,434
	7,784	43,116
Other loan		
– unsecured	**–**	942
	7,784	44,058

As at 31 December 2002, the Group had banking facilities totalling of $78,600,000 (2001: $144,200,000) of which $72,000,000 (2001: $118,736,000) was secured by the following:

(i) Mortgages over the Group's investment properties with an aggregate carrying value of $3,950,000 (2001: $9,033,000) at 31 December 2002.

(ii) A charge over the Group's fixed deposits with banks of $17,516,000 (2001: $25,322,000) at 31 December 2002.

(iii) A charge over the Group's trading securities listed in Hong Kong with a market value of $19,168,000 (2001: $Nil) at 31 December 2002.

(iv) Corporate guarantee given by the Company.

The banking facilities were utilized to the extent of $8,900,000 (2001: $71,700,000) at 31 December 2002.

28 EMPLOYEE RETIREMENT BENEFITS

The Company and its Hong Kong subsidiaries operate Mandatory Provident Fund Schemes (the "MPF schemes") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF schemes are defined contribution retirement schemes administered by independent trustees. Under the MPF schemes, the employers and employees are each required to make contributions to the MPF schemes at 5% of the employees' relevant income, subject to a cap of monthly relevant income of $20,000. Contributions to the schemes vest immediately.

The retirement benefits costs under the MPF schemes charged to the income statement amounted to $233,000 (2001: $300,000) during the year.

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

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

The aggregate employers' contributions by the Group under the PRC pension schemes amounted to $1,003,000 (2001: $643,000) during the year.

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

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29 EQUITY COMPENSATION BENEFITS

Prior to 23 May 2002, the Company operated an option scheme whereby the Board of Directors could, at their absolute discretion, grant options to employees and executive directors of the Company and any of its subsidiaries to subscribe for shares in the Company (the "Old Scheme"). On 23 May 2002, the Old Scheme was terminated and a new share option scheme (the "New Scheme") was adopted, whereby the Board of Directors may, at their absolute discretion, grant options to any eligible employees and non-executive directors of the Company or any of its subsidiaries or any invested entity, any suppliers of goods or services to any member of the Group or any invested entity, and any customers of the Group or any invested entity to subscribe for shares in the Company. For options granted before 1 September 2001, the exercise price of options was determined by the Board and was the higher of the nominal value of the shares and 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 options. For options granted after 1 September 2001, the exercise price of the options will be the highest of the nominal value of the shares, the closing price of the shares on the Stock Exchange on the date of offer of the options and the average closing price of the shares on the Stock Exchange for the five trading days immediately preceding the date of offer of the options. Each option gives the holder the right to subscribe for one share.

The share options are exercisable for a period of ten years commencing from the date of grant and subject to the vesting provisions as follows:

Date granted	**Vesting period**	**Percentage of options vested**
06.07.1999	06.07.1999–01.10.1999	Nil
	02.10.1999–01.01.2000	10%
	02.01.2000–01.01.2001	30%
	02.01.2001–01.01.2002	60%
	02.01.2002–01.07.2002	90%
	02.07.2002–05.07.2009	100%
30.12.1999, 17.01.2000, 21.01.2000, 07.03.2000 and 10.08.2000	Date of grant–01.01.2001	Nil
	02.01.2001–01.01.2002	30%
	02.01.2002–01.01.2003	60%
	02.01.2003–10 years from the date of grant	100%
04.06.2001	04.06.2001–30.09.2001	Nil
	01.10.2001–01.01.2002	40%
	02.01.2002–01.01.2003	70%
	02.01.2003–03.06.2011	100%
28.05.2002	28.05.2002–01.01.2003	40%
	02.01.2003–01.01.2004	70%
	02.01.2004–27.05.2012	100%

(Expressed in Hong Kong dollars)

29 EQUITY COMPENSATION BENEFITS (Continued)

(a) Movement in share options

	2002 Number	2001 Number
At 1 January	**35,197,000**	28,607,000
Granted	**2,000,000**	17,250,000
Lapsed	**(6,976,000)**	(10,660,000)
At 31 December	**30,221,000**	35,197,000
Option vested at 31 December	**23,050,000**	12,403,000

(b) Terms of unexpired and unexercised share options at balance sheet date

Date granted	Exercise period	Exercise price	**2002 Number**	2001 Number
06.07.1999	02.10.1999–05.07.2009	$1.08	**7,981,000**	11,567,000
06.07.1999	02.10.1999–05.07.2009	$1.21	**700,000**	700,000
30.12.1999	02.01.2001–29.12.2009	$1.13	**500,000**	600,000
17.01.2000	02.01.2001–16.01.2010	$1.32	**1,050,000**	2,460,000
21.01.2000	02.01.2001–20.01.2010	$1.44	**900,000**	1,230,000
07.03.2000	02.01.2001–06.03.2010	$2.06	**40,000**	40,000
10.08.2000	02.01.2001–09.08.2010	$1.14	**800,000**	1,350,000
04.06.2001	01.10.2001–03.06.2011	$0.58	**16,250,000**	17,250,000
28.05.2002	28.05.2002–27.05.2012	$0.67	**2,000,000**	–
			30,221,000	35,197,000

(c) Details of share options granted during the year at nominal consideration of total $3 are as follows:

Exercise period	Exercise price	**2002 Number**	2001 Number
01.10.2001–03.06.2011	$0.58	**–**	17,250,000
28.05.2002–27.05.2012	$0.67	**2,000,000**	–

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30 DEFERRED TAXATION

(a) Movements on deferred taxation comprise:

	The Group		The Company	
	2002	2001	**2002**	2001
	$'000	*$'000*	***$'000***	*$'000*
At 1 January	**3,418**	1,300	**95**	95
Disposal of subsidiaries	**(2,708)**	–	**–**	–
Transfer (to)/from the income statement *(note 6(a))*	**(105)**	2,118	**(95)**	–
At 31 December	**605**	3,418	**–**	95

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

	The Group		The Company	
	2002	2001	**2002**	2001
	$'000	*$'000*	***$'000***	*$'000*
Cut-off differences in income recognition between the PRC GAAP and SSAP	**605**	1,958	**–**	–
Depreciation allowances in excess of related depreciation	**–**	126	**–**	95
Others	**–**	1,334	**–**	–
	605	3,418	**–**	95

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

(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.

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31 SHARE CAPITAL

	2002		2001	
	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	**440,644**	**44,064**	400,644	40,064
Issuance of new shares	**–**	**–**	40,000	4,000
At 31 December	**440,644**	**44,064**	440,644	44,064

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

32 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 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
At 1 January 2002	195,909	6,675	1,168	53,674	257,426
Transfer between reserves	–	1,574	–	(1,574)	–
Goodwill written back upon disposal of subsidiaries	–	–	–	19,113	19,113
Exchange difference on translation of financial statements of subsidiaries outside Hong Kong	–	–	(2)	–	(2)
Loss for the year	–	–	–	(10,948)	(10,948)
At 31 December 2002	**195,909**	**8,249**	**1,166**	**60,265**	**265,589**

Included in the figure for the retained earnings is an amount of $6,737,000 (2001: $2,180,000) being the retained earnings attributable to jointly controlled entities.

32 RESERVES (Continued)

(b) The Company

	Share premium (Note i) $'000	General reserve (Note ii) $'000	Translation reserve (Note iii) $'000	Retained earnings $'000	Total $'000
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
At 1 January 2002	195,909	–	–	48,768	244,677
Loss for the year	–	–	–	(27,219)	(27,219)
At 31 December 2002	**195,909**	**–**	**–**	**21,549**	**217,458**

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 and jointly controlled entities operating outside Hong Kong.

(iv) Distributable reserves

At 31 December 2002, the aggregate amount of distributable reserves under the bye-laws of the Company was $21,549,000 (2001: $48,768,000). In addition, the Company's share premium account of $195,909,000 as at 31 December 2002 (2001: $195,909,000) may be available for distribution in the form of fully paid bonus shares.

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33 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Disposal of subsidiaries	**2002**	2001
	$'000	*$'000*
Net assets disposed of:		
Fixed assets	**7,192**	–
Pledged deposits	**1,715**	–
Inventories	**256,191**	–
Accounts receivable	**229,867**	–
Prepayments, deposits and other receivables	**47,564**	–
Cash and cash equivalents	**97,237**	–
Short term loans	**(90,578)**	–
Accounts payable	**(165,114)**	–
Receipts in advance	**(66,096)**	–
Other payables and accrued liabilities	**(182,808)**	–
Tax payable	**(5,042)**	–
Deferred taxation	**(2,708)**	–
	127,420	–
Minority interests	**(79,843)**	1,356
Profit on disposal	**4,987**	–
Goodwill written off on acquisition	**19,113**	846
	71,677	2,202
Satisfied by:		
Acquisition of intangible assets	**–**	1,693
Cash – received (net of disposal expenses)	**42,450**	284
receivable	**29,227**	225
	71,677	2,202
Analysis of net (outflow)/inflow of cash and cash equivalents in connection with the disposal of subsidiaries:		
Cash received	**42,450**	284
Cash and cash equivalents of the subsidiaries disposed of	**(97,237)**	–
Net (outflow)/inflow of cash and cash equivalents in respect of disposal of subsidiaries	**(54,787)**	284

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34 COMMITMENTS

(a) Commitments under operating leases

At 31 December 2002, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2002	2001
	$'000	*$'000*
Within 1 year	**2,439**	4,126
After 1 year but within 5 years	**195**	1,304
	2,634	5,430

The Group leases a number of properties under operating leases. The leases typically run for an initial period of one to three 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 2002 not provided for in the financial statements were as follows:

	2002	2001
	$'000	*$'000*
Contracted for	**16,336**	13,981

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35 CONTINGENT LIABILITIES

At 31 December 2002, there were contingent liabilities in respect of the following:

	Note	**2002** **$'000**	2001 *$'000*
Assets pledged and guarantee given	*i*	**15,000**	11,000
Cross guarantee given in respect of related company	*ii*	–	9,420
Cross guarantee given in respect of third party company	*iii*	–	7,536

Notes:

(i) Certain buildings held for own use of the Group with an aggregate carrying value of $5,750,000 (2001: $6,100,000) were pledged and corporate guarantee of the Company was given as security for banking facilities amounting to $15,000,000 (2001: $11,000,000) granted to a subsidiary of a former related company. As at 31 December 2002, the amount of the facilities utilized was $171,000 (2001: $7,530,000). (note 36(a))

(ii) As at 31 December 2001, guarantee was given by the Group in respect of a bank loan of $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 $9,420,000 granted to the Group. (note 36(b))

(iii) As at 31 December 2001, guarantee was given by the Group in respect of bank loans of $7,536,000 granted to a third party company in return for guarantee given by that company for bank loans of $7,536,000 granted to the Group.

36 MATERIAL RELATED PARTY TRANSACTIONS

(a) During the year ended 31 December 2002, 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	2002 *$'000*	2001 *$'000*
Recurring transactions			
Systems integration services income	*i*	**1,679**	3,429
Systems value-added services income	*i*	**639**	49,552
Purchases of goods	*ii*	**721**	5,334
Sales commission	*iii*	**1,298**	–

Notes:

(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.

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

(iii) These represent sales commission paid to a related company of which a director of a subsidiary of the Group is a substantial shareholder.

	Note	2002 *$'000*	2001 *$'000*
Non-recurring transactions			
Disposal of subsidiaries	*i*	**72,129**	–
Handling charges	*ii*	**1,095**	1,761
Interest paid	*iii*	**394**	675
Other borrowing costs	*iv*	**139**	759
Guarantee	*v*	**31,200**	31,200
Advance of loan	*vi*	**12,000**	19,000
Repayment of loan	*vi*	**12,000**	8,430
Pledge of buildings	*vii*	**5,750**	6,100
Acquisition of subsidiaries	*viii*	**697**	6,100

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36 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(a) *Notes:*

(i) On 18 May 2002, the Group entered into agreements for the disposal of its entire interests, being 40% of the total issued capital, in Futong at a total consideration of approximately $72,129,000. The Disposal comprises two parts:

(a) the Buy Back Agreement under which Futong bought back and the Group sold 12.03% of the total existing issued capital of Futong at a consideration of approximately $21,686,000; and

(b) the Sale and Purchase Agreement under which the Group sold and Mr. Chen Jian ("Mr. Chen") purchased 27.97% of the total existing issued capital of Futong at a consideration of approximately $50,443,000.

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 was also a substantial shareholder of Futong, holding, together with his associates, 42% of the equity interest of Futong prior to the Disposal.

(ii) Handling charges represent fees paid to a company owned by Mr. Chen in respect of letters of credit issued on behalf of the subsidiaries of Futong before the Disposal.

(iii) This represented interest expense in respect of short term borrowings advanced by Mr. Chen to the subsidiaries of Futong before the Disposal. Interest was charged at 9.3% per annum during the period.

(iv) Other borrowing costs represented interest expense in respect of trust receipt loans recharged by a company owned by Mr. Chen to the subsidiaries of Futong before the Disposal.

(v) A fixed deposit in the amount of $11,700,000 was pledged and guarantee was given by Mr. Chen in respect of banking facilities totalling approximately $31,200,000 granted to the subsidiaries of Futong before the Disposal.

(vi) A loan was advanced to and repaid by a company. A Director of the Company was also a director of this company during the year.

(vii) Certain buildings held for own use of the Group with an aggregate carrying value of $5,750,000 (2001: $6,100,000) were pledged and corporate guarantee of the Company was given as security for banking facilities amounting to $15,000,000 (2001: $11,000,000) granted to a subsidiary of a former related company. As at 31 December 2002, the amount of the facilities utilized was $171,000 (2001: $7,530,000) (see note 35(i)).

36 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(a) (viii) 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 SI, at a consideration of $697,000. 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.

During the year ended 31 December 2001, the Group acquired two subsidiaries from a company, a director of which was also a Director of the Company at a total consideration of $6,100,000, representing the prevailing market value of two properties held by the two subsidiaries.

(ix) On 30 July 2002, the Group entered into agreements (the "Agreements") with 湖南巨龍軟件產業發展有限公司 ("湖南巨龍"), the minority shareholder of Xiamen Start Dragon and Fuzhou Start Dragon (the "Subsidiaries"), to acquire an additional 19% equity interests in the Subsidiaries at a total consideration of RMB7,657,000 (equivalent to approximately $7,224,000). On 10 March 2003, the Group and 湖南巨龍 have agreed to terminate the Agreements as the approval from the relevant authorities in the PRC to the Agreements, being one of the conditions for completion, have not been obtained. Accordingly, the Group's shareholding in each of the Subsidiaries remains to be 51%, being the same as before entering into the Agreements.

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.

(b) 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") for the five months ended 31 May 2001. Prior to 1 June 2001, Fujian Start had interest in the Group's jointly controlled entities as a shareholder.

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

	Note	*$'000*
Recurring transactions		
Sales of stocks	*i*	6,295
Purchases of goods	*ii*	517

Notes:

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

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36 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(b) (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	*$'000*
Non-recurring transaction		
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.

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.

37 COMPARATIVE FIGURES

The presentation and classification of items in the consolidated cash flow statement have been changed due to the adoption of the requirements of SSAP 15 (revised 2001) "Cash flow statement". As a result, certain advances from banks have been excluded from the definition of cash equivalents, cash flow items from taxation, returns on investments and servicing of finance have been classified into operating, investing and financing activities respectively and a detailed breakdown of cash flows from operating activities has been included on the face of the consolidated cash flow statement. Comparative figures have been reclassified to conform with the current year's presentation.

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

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38 ULTIMATE HOLDING COMPANY

The Directors consider the ultimate holding company at 31 December 2002 to be Leading Value Industrial Limited, which is incorporated in the BVI.