

# Notes to the Financial Statements

For the year ended December 31, 2002

## 1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate holding company is Summertown Limited, incorporated in the British Virgin Islands.

The Company acts as an investment holding company and provides corporate management services. The principal activity of its subsidiaries is the distribution of computer products.

## 2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted, for the first time, a number of new and revised Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants. The adoption of these SSAPs has resulted in a change in the format of presentation of the cash flow statement and the introduction of the statement of changes in equity, but has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

### Foreign currencies

The revisions to SSAP 11 "Foreign currency translation" have eliminated the choice of translating the income statements of overseas operations at the closing rate for the year. They are now required to be translated at an average rate. This change in accounting policy has not had any significant effect on the results for the current or prior accounting periods.

### Cash flow statements

The Group has adopted SSAP 15 (Revised) "Cash flow statements". Under SSAP 15 (Revised), cash flows are classified under three headings – operating, investing and financing, rather than the previous five headings. Interest and dividends, which were previously presented under a separate heading, are classified on a consistent basis under either operating, investing or financing activities. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities. Cash flows of overseas operations have been re-translated at the rates prevailing at the dates of the cash flows rather than the rate of exchange ruling on the balance sheet date.

### Employee benefits

The Group has adopted SSAP 34 "Employee benefits", which introduces measurement rules for employee benefits, including retirement benefit plans. Because the Group participates only in defined contribution retirement benefit schemes, the adoption of SSAP 34 has not had any material impact on the financial statements.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of investments in securities and investment properties.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to December 31 each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

### **Goodwill**

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or associate at the date of acquisition.

Goodwill arising on acquisitions prior to January 1, 2001 continues to be held in reserves, and will be charged to the income statement at the time of disposal of the relevant subsidiary or associate, or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisitions after January 1, 2001 is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of an associate is included within the carrying amount of the associate. Goodwill arising on the acquisition of subsidiaries is presented as a separate intangible asset.

On disposal of a subsidiary or associate, the attributable amount of goodwill previously eliminated against or credited to reserves is included in the determination of the profit or loss on disposal.

### **Negative goodwill**

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or associate at the date of acquisition over the cost of acquisition.

Negative goodwill arising on acquisitions prior to January 1, 2001 continues to be held in reserves and will be credited to income at the time of disposal of the relevant subsidiary or associate.

# Notes to the Financial Statements

For the year ended December 31, 2002

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### **Negative goodwill (continued)**

Negative goodwill arising on acquisitions after January 1, 2001 is presented as deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised in income immediately.

Negative goodwill arising on the acquisition of an associate is deducted from the carrying value of that associate. Negative goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet as a deduction from assets.

### **Investments in subsidiaries**

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

### **Interests in associates**

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates, less any identified impairment loss.

The results of associates are accounted for by the Company on the basis of dividends received and receivable during the year. In the Company's balance sheet, investments in associates are stated at cost, as reduced by any identified impairment loss.

### **Investments in securities**

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

All securities other than held-to-maturity debt securities are measured at subsequent reporting dates at fair value.

Where securities are held for trading purposes, unrealised gains and losses are included in net profit or loss for the period. For other securities, unrealised gains and losses are dealt with in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in net profit or loss for the period.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Club membership

Club membership is carried at cost less any identified impairment loss.

### Turnover

Turnover represents the net amount received and receivable for goods sold by the Group to outsiders, property rentals, management fee income and service fee income during the year.

### Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

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

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Management fee and service fee income are recognised when the services are provided.

Rentals receivable under operating leases are recognised and credited to the income statement on a straight-line basis over the relevant lease term.

### Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation and amortisation and accumulated impairment losses.

Depreciation and amortisation are provided or amortised to write off the cost of items of property, plant and equipment over their estimated useful lives, using the straight-line method, at the following rates per annum:

Leasehold land	Over the term of the lease
Buildings	2% – 2.5%
Leasehold improvements	20% or the term of the lease, whichever is shorter
Furniture, fixtures and equipment	15% – 33.3%
Motor vehicles	20%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

# Notes to the Financial Statements

For the year ended December 31, 2002

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### **Investment properties**

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value. Any revaluation increase or decrease arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve is charged to the income statement. Where a decrease has previously been charged to the income statement and a revaluation increase subsequently arises, this increase is credited to the income statement to the extent of the decrease previously charged.

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property is transferred to retained profits.

No depreciation is provided for investment properties except where the unexpired term of the relevant lease is 20 years or less.

### **Impairment**

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average cost method.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### **Taxation**

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

### **Assets held under finance leases**

Assets held under finance leases are capitalised at their fair values at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant leases so as to produce a constant periodic rate of charge on the remaining balances of the obligations for each accounting period.

### **Operating leases**

Rentals payable on properties under operating leases are charged to the income statement on a straight line basis over the terms of the respective leases.

### **Foreign currencies**

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the year.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the year in which the operation is disposed of.

### **Retirement benefits costs**

Payments to defined contribution retirement benefit plans and the Mandatory Provident Fund Scheme are charged as an expense as they fall due.

# Notes to the Financial Statements

For the year ended December 31, 2002

## 4. SEGMENTAL INFORMATION

### Geographical segments

The following table provides an analysis of the Group's sales by geographical market:

For the year ended December 31, 2002

	Hong Kong and The People's Republic of China (the "PRC") HK\$'000	Singapore HK\$'000	Malaysia HK\$'000	Thailand HK\$'000	Others HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
REVENUE							
External sales	1,773,928	658,003	358,337	685,079	57,560	–	3,532,907
Inter-segment sales	1,730	1,918	51	–	–	(3,699)	–
Total revenue	1,775,658	659,921	358,388	685,079	57,560	(3,699)	3,532,907
SEGMENT RESULT	25,944	(5,709)	1,100	12,022	(55)	–	33,302
Interest income							2,553
Impairment losses recognised in respect of investments in securities		(2,298)					(2,298)
Gain on disposal of investments in securities		33					33
Revaluation decrease on investment properties							(8,693)
Unallocated corporate expenses							(1,677)
Profit from operations							23,220
Gain on disposal of subsidiaries		898					898
Finance costs							(7,955)
Share of results of associates			701				701
Profit before taxation							16,864
Taxation							(7,038)
Profit before minority interests							9,826
Minority interests							(1,128)
Profit for the year							8,698

Inter-segment sales are charged at prevailing market prices or where no market price is available, at cost plus a percentage profit mark-up.

# Notes to the Financial Statements

For the year ended December 31, 2002

## 4. SEGMENTAL INFORMATION (CONTINUED)

### BALANCE SHEET

	At 12.31.2002				
	Hong Kong and the PRC	Singapore	Malaysia	Thailand	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
ASSETS					
Segment assets	473,323	188,052	100,753	199,111	961,239
Interests in associates			3,978		3,978
Unallocated corporate assets					83,195
Consolidated total assets					1,048,412
LIABILITIES					
Segment liabilities	222,522	101,512	57,764	97,734	479,532
Unallocated corporate liabilities					151,196
Consolidated total liabilities					630,728
OTHER INFORMATION					
Capital additions	433	637	83	1,052	2,205
Depreciation and amortisation	1,993	1,482	854	2,723	7,052



# Notes to the Financial Statements

For the year ended December 31, 2002

## 4. SEGMENTAL INFORMATION (CONTINUED)

For the year ended December 31, 2001

	Hong Kong and the PRC HK\$'000	Singapore HK\$'000	Malaysia HK\$'000	Thailand HK\$'000	Others HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
REVENUE							
External sales	2,286,543	799,623	400,057	592,074	2,122	–	4,080,419
Inter-segment sales	5,173	6,331	1,381	–	–	(12,885)	–
Total revenue	2,291,716	805,954	401,438	592,074	2,122	(12,885)	4,080,419
SEGMENT RESULT	16,800	1,744	2,324	8,213	6	–	29,087
Interest income							5,058
Impairment losses recognised in respect of investments in securities		(32,533)					(32,533)
Loss on disposal of investments in securities		(158)					(158)
Release of provision for management fee and interest	36,631	1,758					38,389
Unallocated corporate expenses							(4,433)
Profit from operations							35,410
Impairment losses recognised in respect of subsidiaries and associates		(3,165)					(3,165)
Loss on deemed disposal of associates		(128)					(128)
Finance costs							(6,566)
Share of results of associates		480	1,388				1,868
Profit before taxation							27,419
Taxation							(11,643)
Profit before minority interests							15,776
Minority interests							(1,192)
Profit for the year							14,584

Inter-segment sales are charged at prevailing market prices or where no market price is available, at cost plus a percentage profit mark-up.

# Notes to the Financial Statements

For the year ended December 31, 2002

## 4. SEGMENTAL INFORMATION (CONTINUED)

### BALANCE SHEET

	At 12.31.2001				
	Hong Kong and the PRC	Singapore	Malaysia	Thailand	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
ASSETS					
Segment assets	543,170	238,321	121,340	113,186	1,016,017
Interests in associates			3,488		3,488
Unallocated corporate assets					60,010
Consolidated total assets					1,079,515
LIABILITIES					
Segment liabilities	268,203	137,745	84,354	85,443	575,745
Unallocated corporate liabilities					88,466
Consolidated total liabilities					664,211
OTHER INFORMATION					
Capital additions	4,470	2,114	1,330	1,683	9,597
Depreciation and amortisation	3,008	1,750	919	2,633	8,310

### Business segments

The Company's sole principal activity is the distribution of computer products. No business segment analysis is presented.

## 5. OTHER OPERATING INCOME

Included in other revenue is interest earned on bank deposits of HK\$2,553,000 (2001: HK\$5,058,000).

## 6. IMPAIRMENT LOSSES RECOGNISED IN RESPECT OF INVESTMENTS IN SECURITIES

The directors have cautiously reviewed the carrying value of the Group's investments engaging in internet related business with reference to the current market conditions. It is anticipated that certain of the investments will not generate positive cash flows for the foreseeable future and consequently the revaluation deficit previously transferred to revaluation reserve has been released to the income statement.

# Notes to the Financial Statements

For the year ended December 31, 2002

## 7. RELEASE OF PROVISION FOR MANAGEMENT FEE AND INTEREST

In the prior year, the Group reached a settlement agreement with an independent third party on its non-payment of the balance of the purchase consideration of a Group's subsidiary. Accordingly, in the opinion of the directors, the provision for management fee and interest payable to that third party made in prior years was no longer required and was released to the income statement in the year ended December 31, 2001.

## 8. PROFIT FROM OPERATIONS

	<b>2002</b> <b>HK\$'000</b>	2001 HK\$'000
Profit from operations has been arrived at after charging:		
Auditors' remuneration	<b>1,016</b>	1,146
Depreciation and amortisation:		
Owned assets	<b>6,828</b>	7,950
Assets held under finance leases	<b>224</b>	360
	<b>7,052</b>	8,310
Loss on disposal of property, plant and equipment	<b>2,895</b>	366
Operating leases in respect of rented premises	<b>12,118</b>	12,648
Allowance for doubtful debts	<b>6,235</b>	17,290
Staff costs including directors' emoluments	<b>76,270</b>	89,362
Exchange loss, net	<b>–</b>	679
and after crediting:		
Dividend income from investments in securities:		
Listed	<b>68</b>	–
Unlisted	<b>78</b>	–
	<b>146</b>	–
Gross rental income:		
Property	<b>3,431</b>	3,784
Equipment	<b>962</b>	880
Exchange gain, net	<b>3,767</b>	–

# Notes to the Financial Statements

For the year ended December 31, 2002

## 9. IMPAIRMENT LOSSES RECOGNISED IN RESPECT OF SUBSIDIARIES AND ASSOCIATES

	<b>2002</b> <b>HK\$'000</b>	2001 HK\$'000
Impairment losses recognised on goodwill arising on acquisition of subsidiaries	–	200
Impairment losses recognised on interests in associates (including recognition of impairment of goodwill held in reserves)	–	2,965
	<b>–</b>	<b>3,165</b>

## 10. FINANCE COSTS

	<b>2002</b> <b>HK\$'000</b>	2001 HK\$'000
Interest on:		
Bank borrowings wholly repayable within five years	<b>5,441</b>	4,459
Other loans	<b>2,440</b>	2,021
Finance leases	<b>74</b>	86
	<b>7,955</b>	<b>6,566</b>

No interest was capitalised by the Group during the year.

# Notes to the Financial Statements

For the year ended December 31, 2002

## 11. DIRECTORS' EMOLUMENTS

	<b>2002</b> <b>HK\$'000</b>	2001 HK\$'000
Directors' fees	<b>850</b>	1,149
Other emoluments – executive directors		
Salaries and other benefits	<b>6,354</b>	6,671
Contributions to retirement benefits scheme	<b>220</b>	215
<b>Total emoluments</b>	<b>7,424</b>	8,035

The directors' fees disclosed above include an amount of HK\$300,000 (2001: HK\$300,000) payable to independent non-executive directors.

Emoluments of the directors were within the following bands:

	<b>2002</b> <b>No. of</b> <b>Directors</b>	2001 No. of Directors
Nil to HK\$1,000,000	<b>3</b>	2
HK\$1,000,001 to HK\$1,500,000	<b>2</b>	2
HK\$1,500,001 to HK\$2,000,000	<b>2</b>	3

## 12. EMPLOYEES' EMOLUMENTS

The five highest paid individuals in the Group in 2002 include four directors (2001: four directors), details of whose emoluments are set out in note 11 above. The emoluments of the remaining highest paid individual for the year ended December 31, 2002 were as follows:

	<b>2002</b> <b>HK\$'000</b>	2001 HK\$'000
Salaries and other benefits	<b>1,630</b>	1,770
Retirement benefit scheme contribution	<b>24</b>	24
	<b>1,654</b>	1,794

# Notes to the Financial Statements

For the year ended December 31, 2002

## 13. TAXATION

	<b>2002</b> <b>HK\$'000</b>	2001 HK\$'000
The charge comprises:		
Profits Tax for the year		
Hong Kong	<b>4,675</b>	6,942
Overseas	<b>4,037</b>	3,810
	<b>8,712</b>	10,752
Prior years		
Hong Kong	<b>(1,856)</b>	962
Overseas	<b>(29)</b>	(501)
	<b>(1,885)</b>	461
Deferred taxation ( <i>note 29</i> )	<b>–</b>	13
Taxation attributable to the Company and its subsidiaries	<b>6,827</b>	11,226
Share of taxation attributable to associates	<b>211</b>	417
Taxation charge for the year	<b>7,038</b>	11,643

Hong Kong Profits Tax is calculated at 16% (2001: 16%) of the estimated assessable profit for the year.

Overseas taxation is calculated at the rates prevailing in the respective jurisdictions.

Details of the unprovided deferred taxation are set out in note 29.

## 14. DIVIDEND

	<b>2002</b> <b>HK\$'000</b>	2001 HK\$'000
Final, proposed – 2 cents per share (2001: 3 cents per share)	<b>5,371</b>	8,056

The final dividend of 2 cents (2001: 3 cents) per share has been proposed by the directors and is subject to approval by the shareholders in general meeting.

# Notes to the Financial Statements

For the year ended December 31, 2002

## 15. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	<b>2002</b> <b>HK\$'000</b>	2001 HK\$'000
Earnings for the purposes of basic earnings per share and diluted earnings per share	<b>8,698</b>	14,584

	<b>Number of shares</b>	
	<b>2002</b> <b>'000</b>	2001 '000
Weighted average number of ordinary shares for the purposes of basic earnings per share	<b>268,364</b>	268,050
Effect of dilutive potential ordinary shares:		
Options	<b>658</b>	162
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<b>269,022</b>	268,212

## 16. INVESTMENT PROPERTIES

	<b>THE GROUP</b> HK\$'000
At January 1, 2002	69,798
Exchange realignment	575
Additions	120
Revaluation decrease	(10,516)
At December 31, 2002	<b>59,977</b>

An analysis of the investment properties of the Group is as follows:

	<b>2002</b> <b>HK\$'000</b>	2001 HK\$'000
In Hong Kong on long-term leases	<b>48,000</b>	57,000
In Singapore on long-term leases	<b>10,777</b>	11,548
In PRC under medium-term leases	<b>1,200</b>	1,250
	<b>59,977</b>	69,798

# Notes to the Financial Statements

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## 16. INVESTMENT PROPERTIES (CONTINUED)

Investment properties were valued at their open market value at December 31, 2002 by Norton Appraisals Limited, Chartered Surveyor for properties located in Hong Kong and the PRC and Knight Frank Pte. Ltd., Chartered Surveyor for property located in Singapore. The valuation gave rise to a revaluation decrease of HK\$10,516,000, of which HK\$1,823,000 has been debited to the investment property revaluation reserve and HK\$8,693,000 has been debited to the income statement.

The investment properties of the Group are rented out under operating leases.

## 17. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings HK\$'000	Leasehold improvements HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
<b>THE GROUP</b>					
<b>COST</b>					
At January 1, 2002	25,019	7,256	34,799	5,956	73,030
Exchange realignment	—	158	936	86	1,180
Additions	—	5	1,726	354	2,085
Disposal of subsidiaries	—	(393)	(1,502)	—	(1,895)
Disposals	(4,322)	(131)	(1,325)	(104)	(5,882)
At December 31, 2002	20,697	6,895	34,634	6,292	68,518
<b>DEPRECIATION AND AMORTISATION</b>					
At January 1, 2002	1,249	3,607	23,343	3,874	32,073
Exchange realignment	—	109	756	10	875
Provided for the year	298	974	5,303	477	7,052
Eliminated on disposal of subsidiaries	—	(393)	(1,359)	—	(1,752)
Eliminated on disposals	(608)	(87)	(956)	(74)	(1,725)
At December 31, 2002	939	4,210	27,087	4,287	36,523
<b>NET BOOK VALUES</b>					
At December 31, 2002	<b>19,758</b>	<b>2,685</b>	<b>7,547</b>	<b>2,005</b>	<b>31,995</b>
At December 31, 2001	23,770	3,649	11,456	2,082	40,957

The net book value of land and buildings held under long leases is analysed as follows:

	<b>2002 HK\$'000</b>	2001 HK\$'000
Hong Kong	<b>19,758</b>	19,988
PRC	—	3,782
	<b>19,758</b>	23,770

The net book value of property, plant and equipment includes furniture, fixtures and equipment of HK\$250,000 (2001: HK\$276,000) and motor vehicles of HK\$279,000 (2001: HK\$499,000) held under finance leases.



# Notes to the Financial Statements

For the year ended December 31, 2002

## 18. INTERESTS IN SUBSIDIARIES

	<b>2002 HK\$'000</b>	2001 HK\$'000
Unlisted shares, at cost	<b>9,665</b>	9,665
Amounts due from subsidiaries	<b>128,834</b>	171,487
	<b>138,499</b>	181,152

The amounts due from subsidiaries are unsecured and interest free. In the opinion of the directors, no repayment will be demanded within the next twelve months. Accordingly, the amounts are classified as non-current assets.

Details of the Company's subsidiaries at December 31, 2002 are as follows:

Name of subsidiary	Country of incorporation or registration/operation	Class of shares held	Issued and fully paid ordinary share capital/registered capital	Proportion of nominal value of issued capital/registered capital held by the Company		Principal activities
				Directly %	Indirectly %	
SiS Investment Holdings Limited	British Virgin Islands	Ordinary	US\$1	100	–	Investment holding
SiS Distribution Limited	British Virgin Islands	Ordinary	US\$45,000	100	–	Investment holding
SiS TechVentures Corp.	British Virgin Islands	Ordinary	US\$1	100	–	Investment holding
SiS International Limited	Hong Kong	Ordinary	HK\$100,000	–	100	Distribution of computer products
SiS China Limited	Hong Kong	Ordinary	HK\$2	–	100	Properties investment
SiS Technologies Pte. Ltd.	Singapore	Ordinary	S\$1,000,000	–	100	Distribution of computer products

# Notes to the Financial Statements

For the year ended December 31, 2002

## 18. INTERESTS IN SUBSIDIARIES (CONTINUED)

Name of subsidiary	Country of incorporation or registration/ operation	Class of shares held	Issued and fully paid ordinary share capital/ registered capital	Proportion of nominal value of issued capital/registered capital held by the Company		Principal activities
				Directly %	Indirectly %	
SiS Distribution (M) Sdn. Bhd.	Malaysia	Ordinary	M\$7,500,000	–	100	Distribution of computer products
SiS International Trading (Shanghai) Co., Ltd. (Note)	PRC	–	US\$200,000	–	100	Distribution of computer products and provision of technical consultancy services
Chuang Long Trading (Shanghai) Co. Ltd. (Note)	PRC	–	US\$200,000	–	100	Distribution of computer products and provision of technical consultancy services
Computer Zone Limited	Hong Kong	Ordinary	HK\$2	–	100	Inactive
SiS HK Limited	Hong Kong	Ordinary	HK\$400,000	–	100	Properties investment
SiS Asia Pte. Ltd.	Singapore	Ordinary	S\$2	–	100	Provision of hardware and software services and corporate management services

# Notes to the Financial Statements

For the year ended December 31, 2002

## 18. INTERESTS IN SUBSIDIARIES (CONTINUED)

Name of subsidiary	Country of incorporation or registration/operation	Class of shares held	Issued and fully paid ordinary share capital/registered capital	Proportion of nominal value of issued capital/registered capital held by the Company		Principal activities
				Directly	Indirectly	
				%	%	
Tallgrass Technologies Sdn. Bhd.	Malaysia	Ordinary	M\$2	–	100	Inactive
SiS Nentrepreneur Ventures Corp.	British Virgin Islands	Ordinary	US\$1	–	100	Investment holding
Maxima Technology Limited	British Virgin Islands	Ordinary	US\$1	–	100	Investment holding
SiS Distribution (Thailand) Co. Ltd.	Thailand	Ordinary	Baht60,000,000	–	75	Distribution of computer products
Metier Career Management Pte. Ltd.	Singapore	Ordinary	S\$75,000	–	60	Operating employment agencies and human resource centres
Computer Network Centre Sdn. Bhd.	Malaysia	Ordinary	M\$2	–	100	Trading of computer products

*Note:* Wholly-owned foreign enterprises registered in the PRC

None of the subsidiaries had any debt capital at the end of the year, or at any time during the year.

# Notes to the Financial Statements

For the year ended December 31, 2002

## 19. INTERESTS IN ASSOCIATES

	<b>THE GROUP</b>	
	<b>2002</b> <b>HK\$'000</b>	2001 HK\$'000
Share of net assets	<b>3,978</b>	3,488

The details of the associates as at December 31, 2002 are as follows:

<b>Name of company</b>	<b>Form of business structure</b>	<b>Place/ country of incorporation or registration/ operation</b>	<b>Class of shares held</b>	<b>Proportion of nominal value of issued capital held indirectly by the Company</b>	<b>Principal activities</b>
ECS Pericomp Sdn. Bhd. (Formerly Pericomp SiSTech Sdn. Bhd.)	Limited company	Malaysia	Ordinary	20%	Distribution of computer products
Inchone.com Pte. Ltd.	Limited company	Singapore	Ordinary	23.5%	Developing, providing and marketing e-learning services and facilities

## 20. INVESTMENTS IN SECURITIES

<b>THE GROUP</b>	<b>Other securities</b>	
	<b>2002</b> <b>HK\$'000</b>	2001 HK\$'000
Equity securities:		
Listed shares overseas	<b>3,758</b>	5,983
Market value of listed shares	<b>3,758</b>	5,983
Carrying amount analysed for reporting purposes as:		
Non-current	<b>3,758</b>	5,983

# Notes to the Financial Statements

For the year ended December 31, 2002

## 21. STAFF ADVANCES

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
The staff advances is analysed as follows:		
Current	889	2,174
Non-current	1,623	2,512
	<b>2,512</b>	<b>4,686</b>

## 22. INVENTORIES

Inventories of the Group comprise trading merchandise. Included in the balance are merchandise of HK\$18,320,000 (2001: Nil) which are carried at net realisable value.

## 23. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

The Group maintained a defined credit policy. For sales of goods, the Group allows an average credit period of 30 – 60 days to its trade customers. Service income receivable from customers are payable on presentation of invoices.

The following is an aged analysis of trade receivables at the balance sheet date:

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Within 30 days	324,602	371,339
31 to 90 days	58,578	98,463
91 to 120 days	8,051	12,971
Over 120 days	27,078	20,755
Trade receivables	<b>418,309</b>	<b>503,528</b>
Deposits, prepayments and other receivables	<b>27,211</b>	<b>39,526</b>
	<b>445,520</b>	<b>543,054</b>

# Notes to the Financial Statements

For the year ended December 31, 2002

## 24. AMOUNTS DUE FROM RELATED COMPANIES

### THE GROUP

Name of company	Term	Balance	Balance	Maximum
		at 12.31.2002	at 1.1.2002	amount outstanding during the year
		HK\$'000	HK\$'000	HK\$'000
P.T. SiSTech Kharisma	Unsecured, interest free and repayable on demand	4,037	712	7,201
Netband Technologies Far East Limited	Unsecured, interest free and repayable on demand	3,928	2,484	4,723
Regent Pacific Media (S) Pte. Ltd.	Unsecured, interest free and repayable on demand	10	8	24
SiS Realty Pte. Limited	Unsecured, interest free and repayable on demand	–	20	20
		7,975	3,224	

The wife of Mr. Lim Kiah Meng holds a 90% interest in P.T. SiSTech Kharisma.

The wife of Mr. Lim Kiah Meng has a 70% indirect interest in Netband Technologies Far East Limited.

Mr. Lim Kia Hong, the director of the Company, holds a 50% interest in Regent Pacific Media (S) Pte. Ltd.

All executive directors (and their respective associates) together hold a 51% indirect interest in the issued share capital of SiS Realty Pte. Limited.

# Notes to the Financial Statements

For the year ended December 31, 2002

## 25. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables at the balance sheet date:

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Within 30 days	282,477	353,549
31 to 90 days	58,737	69,778
91 to 120 days	594	1,102
Over 120 days	12,065	8,821
Trade payables	353,873	433,250
Accruals and other payables	101,381	103,807
	455,254	537,057

## 26. BILLS PAYABLE

The aged analysis of bills payable as at December 31, 2002 and 2001 are both within 90 days.

## 27. OBLIGATIONS UNDER FINANCE LEASES

	THE GROUP			
	Minimum lease payments		Present value of minimum lease payments	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Amounts payable under finance leases:				
Within one year	242	351	206	318
In the second to fifth year inclusive	380	221	319	221
Less: future finance charges	622 (97)	572 (33)	525 -	539 -
Present value of lease obligations	525	539	525	539
Less: Amount due within one year			(206)	(318)
Amount due after one year			319	221

# Notes to the Financial Statements

For the year ended December 31, 2002

## 28. BORROWINGS

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Bank overdrafts	23,430	19,768
Bank loans	84,161	43,611
Trust receipt loans	26,767	–
Other loans	–	7,520
	<b>134,358</b>	<b>70,899</b>
Secured	104,661	24,057
Unsecured	29,697	46,842
	<b>134,358</b>	<b>70,899</b>

The above overdrafts and loans are repayable within one year.

## 29. DEFERRED TAXATION

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
At beginning of year	55	44
Eliminated on disposal of subsidiaries	(29)	–
Exchange realignment	3	(2)
Charge for the year ( <i>note 13</i> )	–	13
At end of year	<b>29</b>	<b>55</b>



# Notes to the Financial Statements

For the year ended December 31, 2002

## 29. DEFERRED TAXATION (CONTINUED)

At the balance sheet date, the major components of the deferred taxation liabilities (assets), provided and unprovided, are as follows:

	THE GROUP				THE COMPANY	
	Provided		Unprovided		Unprovided	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Tax effect of timing differences because of:						
Excess (shortfall) of tax allowances over depreciation	29	55	(1,750)	(338)	-	-
Tax effect of taxation losses	-	-	(5,757)	(1,144)	(1,209)	(511)
Other timing differences	-	-	(976)	(1,019)	-	-
	29	55	(8,483)	(2,501)	(1,209)	(511)

The amount of the unprovided deferred tax (credit) charge for the year is as follows:

	THE GROUP		THE COMPANY	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Tax effect of timing differences because of:				
Shortfall of tax allowances over depreciation	(1,412)	(1,290)	-	-
Tax losses arising	(4,613)	(113)	(698)	(26)
Other timing differences	43	(40)	-	-
	(5,982)	(1,443)	(698)	(26)

Deferred tax has not been provided on the revaluation surplus or deficit arising on the revaluation of investment properties and investments in securities as profits or losses arising on the disposal of those assets would not be subject to taxation. Accordingly, the revaluation does not constitute a timing difference for tax purposes.

# Notes to the Financial Statements

For the year ended December 31, 2002

## 30. ADVANCES FROM MINORITY SHAREHOLDERS

Advances from minority shareholders are interest free and have no fixed repayment terms but are not expected to be repayable within one year from the balance sheet date.

## 31. SHARE CAPITAL

	Number of shares		Share capital	
	2002 '000	2001 '000	2002 HK\$'000	2001 HK\$'000
Shares of HK\$0.10 each				
Authorised	<b>350,000</b>	350,000	<b>35,000</b>	35,000
Issued and fully paid				
At beginning of year	<b>268,050</b>	268,050	<b>26,805</b>	26,805
Exercise of share options	<b>500</b>	–	<b>50</b>	–
At end of year	<b>268,550</b>	268,050	<b>26,855</b>	26,805

## 32. SHARE PREMIUM AND RESERVES

Details of the movements in the share premium and reserves of the Group are set out in the Consolidated Statement of Changes in Equity on page 21.

	Share premium HK\$'000	Contributed surplus HK\$'000	Retained profits HK\$'000	Total HK\$'000
<b>THE COMPANY</b>				
At January 1, 2001	52,694	29,186	119,509	201,389
Profit for the year	–	–	27,037	27,037
Dividend paid	–	–	(5,361)	(5,361)
At December 31, 2001	52,694	29,186	141,185	223,065
Loss for the year	–	–	(27,270)	(27,270)
Dividend paid	–	–	(8,056)	(8,056)
Shares issued at premium	140	–	–	140
At December 31, 2002	<b>52,834</b>	<b>29,186</b>	<b>105,859</b>	<b>187,879</b>

# Notes to the Financial Statements

For the year ended December 31, 2002

## 32. SHARE PREMIUM AND RESERVES (CONTINUED)

The retained profits of the Group include HK\$2,612,000 (2001: HK\$2,122,000) retained by associates.

The statutory reserves of the Group refer to the PRC statutory reserve fund. Appropriations to such reserve fund are made out of net profit after taxation of the statutory financial statements of the PRC subsidiaries and the amount should not be less than 10% of the profit after taxation unless the aggregate amount exceeded 50% of registered capital of the PRC subsidiaries. The statutory reserve fund can be used to make up prior year losses of the PRC subsidiaries, if any, and can be applied in conversion into capital after approval by PRC authority.

The contributed surplus of the Group represents the difference between the nominal value of the shares of the acquired subsidiaries and the nominal value of the Company's shares issued for the acquisition at the time of the group reorganisation prior to the listing of the Company's shares in 1992.

The contributed surplus of the Company represents the difference between the consolidated net assets of the subsidiaries at the date on which they were acquired by the Company, and the nominal value of the Company's shares issued for the acquisition at the time of the group reorganisation prior to the listing of the Company's shares in 1992.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

- (a) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

In the opinion of the directors, the Company's reserves available for distribution to shareholders were as follows:

	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Contributed surplus	<b>29,186</b>	29,186
Retained earnings	<b>105,859</b>	141,185
	<b>135,045</b>	170,371

# Notes to the Financial Statements

For the year ended December 31, 2002

## 33. DISPOSAL OF SUBSIDIARIES

During the year, the Group disposed of certain subsidiaries. The net liabilities of these subsidiaries at the date of disposal were as follows:

	HK\$'000
<b>NET LIABILITIES DISPOSED OF:</b>	
Property, plant and equipment	143
Trade and other receivables	870
Bank balances and cash	147
Trade and other payables	(1,843)
Amounts due to related companies	(124)
Taxation	(11)
Deferred taxation	(29)
Minority interests	(51)
	(898)
Gain on disposal	898
Total consideration ( <i>Note</i> )	—
Satisfied by:	
Cash consideration ( <i>Note</i> )	—
Net cash outflow arising on disposal:	
Cash consideration ( <i>Note</i> )	—
Bank balances and cash disposed of	(147)
	(147)

*Note:* The cash consideration for the disposal of subsidiaries was HK\$16.

The subsidiaries disposed of during the year did not contribute significantly to the Group's cash flows, turnover and profit from operations.

## 34. NON-CASH TRANSACTIONS

During the year, the Group entered into finance lease arrangements in respects of assets with a total capital value at the inception of the contracts of HK\$358,000 (2001: HK\$302,000).

# Notes to the Financial Statements

For the year ended December 31, 2002

## 35. OPERATING LEASE COMMITMENTS

### The Group as lessee

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Within one year	9,801	10,748
In the second to fifth year inclusive	10,232	3,996
	<b>20,033</b>	<b>14,744</b>

Operating lease payments represent rentals payable by the Group for certain of its rented premises. Leases are negotiated for an average term of three years and rentals are fixed for an average of three years.

At the balance sheet date, the Company had no commitments under non-cancellable operating leases (2001: Nil).

### The Group as lessor

At the balance sheet date, the Group had contracted with lessees for the following future minimum lease payments:

	THE GROUP			
	2002		2001	
	Rented premises HK\$'000	Equipment HK\$'000	Rented premises HK\$'000	Equipment HK\$'000
Within one year	2,908	438	3,994	402
In the second to fifth year inclusive	375	146	2,619	536
	<b>3,283</b>	<b>584</b>	<b>6,613</b>	<b>938</b>

Property rental income earned during the year was HK\$3,431,000 (2001: HK\$3,784,000). The Group's properties are expected to generate rental yields of 5% on an ongoing basis. Majority of the properties held have committed tenants for the following year.

## 36. OTHER COMMITMENTS

At the balance sheet date, there were outstanding foreign exchange hedging contracts amounting to HK\$19,870,000 (2001: HK\$10,804,000) entered into by the Group with certain financial institutions to hedge against the Group's trade payables.

## 37. SHARE OPTION SCHEME

Pursuant to the share option scheme adopted by the Company in 1992, the Company may grant options to any employee of the Company or its subsidiaries to subscribe for shares in the Company at a subscription price which is the higher of 80% of the average closing price of the Company's shares for the five business days immediately preceding the date of grant or the nominal value of the shares. This scheme expired in July 2002 and all outstanding options then lapsed.

The Company's existing share option scheme ("the Scheme") was adopted pursuant to a resolution passed on May 31, 2002 for the primary purpose of providing incentives to directors and eligible employees, and will expire on May 30, 2012. Under the Scheme, the Board of Directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries and associates, to subscribe for shares in the Company. Additionally, the Company may, from time to time, grant share options to outside third parties with a view to maintain business relationship with such persons and as an alternative for settlement of the Company's payment obligations.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK\$5 million must be approved in advance by the Company's shareholders.

Options granted must be taken up within the period as specified in the offer letter together with a payment of HK\$10 as consideration of grant. Options may be exercised at any time from the second anniversary of the date of grant to the tenth anniversary of the date of grant. The exercise price is determined by the directors of the Company, and will not be less than the higher of the closing price of the Company's shares on the date of grant, and the average closing price of the shares for the five business days immediately preceding the date of grant.

No options were granted under the Scheme during the year.

# Notes to the Financial Statements

For the year ended December 31, 2002

## 37. SHARE OPTION SCHEME (CONTINUED)

The following table discloses movements in the Company's share options under the 1992 share option scheme during the year:

The closing price of the Company's shares on May 16, 2002, the exercise date of the options, was HK\$0.52.

	Date of grant	Vesting period	Exercise price HK\$	Exercisable period	Outstanding at 1.1.2002	Exercised during the year	Lapsed during the year	Outstanding at 12.31.2002
Directors	February 21, 2000	6 months	0.94	August 20, 2000 to July 28, 2002	5,000,000	–	(5,000,000)	–
Employees	August 31, 2001	6 months	0.38	February 28, 2002 to July 28, 2002	7,500,000	(500,000)	(7,000,000)	–
Total					12,500,000	(500,000)	(12,000,000)	–

	Date of grant	Vesting period	Exercise price HK\$	Exercisable period	Outstanding at 1.1.2001	Granted during the year	Outstanding at 12.31.2001
Directors	February 21, 2000	6 months	0.94	August 20, 2000 to July 28, 2002	5,000,000	–	5,000,000
Employees	August 31, 2001	6 months	0.38	February 28, 2002 to July 28, 2002	–	7,500,000	7,500,000
Total					5,000,000	7,500,000	12,500,000

Total consideration received in the prior year from employees for taking up the options granted amounted to HK\$110 and no charge was recognised in the income statement in respect of the value of options granted.

# Notes to the Financial Statements

For the year ended December 31, 2002

## 38. RETIREMENT BENEFITS SCHEMES

The Group participates in both a defined contribution scheme which is registered under the Occupational Retirement Scheme Ordinance (the "ORSO Scheme") and a Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Ordinance in December 2000. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. Employees who were members of the ORSO Scheme prior to the establishment of the MPF Scheme were offered a choice of staying within the ORSO Scheme or switching to the MPF Scheme, whereas all new employees joining the Group on or after December 1, 2000 are required to join the MPF Scheme.

For members of the MPF Scheme, the Group contributes 5% of relevant payroll costs to the Scheme, which contribution is matched by the employee.

The ORSO Scheme is funded by monthly contributions from both employees and the Group at 5% of the employee's basic salary. Where there are employees who leave the ORSO Scheme prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions.

During the year, the total retirement benefit contributions charged to income statement, net of forfeited contribution of HK\$12,000 (2001: HK\$42,000) from the ORSO scheme, is HK\$4,851,000 (2001: HK\$5,400,000).

At both balance sheet dates, there are no forfeited contributions which arose upon employees leaving the ORSO scheme and which are available to reduce the contributions payable in the future years.

## 39. CONTINGENT LIABILITIES

	THE COMPANY	
	2002 HK\$'000	2001 HK\$'000
Guarantees given to banks for banking facilities utilised by subsidiaries	136,988	134,175
Guarantees given to suppliers for goods supplied to subsidiaries of the Company	—	55,600

At the balance sheet date, the Group had no contingent liabilities (2001: Nil).

## 40. PLEDGE OF ASSETS

At December 31, 2002, the Group has pledged bank deposits amounting to HK\$69,754,000 (2001: HK\$26,397,000) to banks to secure general banking facilities granted to the Group.



# Notes to the Financial Statements

For the year ended December 31, 2002

## 41. RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following transactions with related parties:

	<i>Notes</i>	<b>Related companies</b>	
		<b>2002</b>	2001
		<b>HK\$'000</b>	HK\$'000
Sales of goods	1	<b>135,411</b>	62,486
Operating lease rentals paid	2	<b>5,455</b>	5,841
Service fee paid	2	<b>–</b>	97
Legal fee paid	2	<b>210</b>	–

*Notes:*

1. Trade sales was carried out at market price or, where no market price was available, at cost plus a percentage profit mark-up.
2. Operating lease rentals, service fee and legal fee paid were determined on the basis of estimated market value.

The directors, directly and indirectly, hold beneficial interests in these related companies.

Outstanding balance arising from the above transactions with related parties are set out in note 24.