

Notes to the Financial Statements

For the year ended December 31, 2003

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 and associates is the distribution of computer products.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARD

In the current year, the Group has adopted, for the first time, the following Hong Kong Financial Reporting Standard ("HKFRS") – Statement of Standard Accounting Practice ("SSAP") 12 (Revised) "Income Taxes" issued by the Hong Kong Society of Accountants ("HKSA"), the term of HKFRS is inclusive of SSAPs and interpretations approved by the HKSA.

The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method under which a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. As a result of this change in policy, the balance of retained profits at January 1, 2002 has been increased by HK\$2,762,000, representing the cumulative effect of the change in policy on the results for periods prior to January 1, 2002. The change has resulted in an increase in profit of HK\$913,000 for the year ended December 31, 2003 (2002: HK\$617,000).

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.

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For the year ended December 31, 2003

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 on or 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.

Negative goodwill arising on acquisitions on or 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 the net profit or loss for the period.

Club membership

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

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.

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.

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For the year ended December 31, 2003

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.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (continued)

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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, 2003

4. TURNOVER

Turnover represents the net amount received and receivable for goods sold by the Group to outsiders, property rentals, and service fee income during the year and is analysed as follows:

	2003 HK\$'000	2002 HK\$'000
Sales of goods	3,461,305	3,518,855
Service income	5,051	10,792
Rental income	3,008	3,431
	3,469,364	3,533,078

5. SEGMENTAL INFORMATION

Geographical segments

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

For the year ended December 31, 2003

	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	1,623,115	555,936	242,720	956,338	91,255	-	3,469,364
Inter-segment sales	2,789	5,802	767	8	-	(9,366)	-
Total revenue	1,625,904	561,738	243,487	956,346	91,255	(9,366)	3,469,364
SEGMENT RESULT	25,955	(13,569)	(5,613)	16,947	11	-	23,731
Interest income							2,419
Gain on disposal of investments in securities		758					758
Revaluation increase (decrease) on investment properties	1,710	(1,825)					(115)
Unallocated corporate income							4,913
Profit from operations							31,706
Gain on partial disposal of a subsidiary		23,733					23,733
Finance costs							(9,613)
Share of results of associates			962	885			1,847
Profit before taxation							47,673
Taxation							(9,642)
Profit before minority interests							38,031
Minority interests							(1,978)
Profit for the year							36,053

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, 2003

5. SEGMENTAL INFORMATION (CONTINUED)

Geographical segments (continued)

Balance sheet

	At 12.31.2003				
	Hong Kong and the PRC	Singapore	Malaysia	Thailand	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
ASSETS					
Segment assets	454,899	213,018	112,003	–	779,920
Interests in associates	–	–	4,632	16,850	21,482
Unallocated corporate assets					82,651
Consolidated total assets					884,053
LIABILITIES					
Segment liabilities	193,155	117,753	61,181	–	372,089
Unallocated corporate liabilities					64,159
Consolidated total liabilities					436,248
OTHER INFORMATION					
Allowance for doubtful debts	9,660	8,288	121	1,043	19,112
Capital additions	352	663	300	1,609	2,924
Depreciation and amortisation	975	663	615	2,522	4,775

Notes to the Financial Statements

For the year ended December 31, 2003

5. SEGMENTAL INFORMATION (CONTINUED)

Geographical segments (continued)

For the year ended December 31, 2002

	Hong Kong and the PRC	Singapore	Malaysia	Thailand	Others	Eliminations	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
REVENUE							
External sales	1,774,099	658,003	358,337	685,079	57,560	–	3,533,078
Inter-segment sales	1,730	1,918	51	–	–	(3,699)	–
Total revenue	1,775,829	659,921	358,388	685,079	57,560	(3,699)	3,533,078
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							(6,244)
Profit before minority interests							10,620
Minority interests							(1,305)
Profit for the year							9,315

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

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5. SEGMENTAL INFORMATION (CONTINUED)

Geographical segments (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					87,147
Consolidated total assets					1,052,364
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					
Allowance for doubtful debts	2,321	3,383	(43)	574	6,235
Capital additions	433	637	83	1,052	2,205
Depreciation and amortisation	1,993	1,482	854	2,723	7,052

Business segments

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

6. OTHER OPERATING INCOME

Included in other operating income is interest earned on bank deposits of HK\$2,419,000 (2002: HK\$2,553,000).

7. IMPAIRMENT LOSSES RECOGNISED IN RESPECT OF INVESTMENTS IN SECURITIES

In the prior year, 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 had been released to the income statement.

Notes to the Financial Statements

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8. PROFIT FROM OPERATIONS

	2003 HK\$'000	2002 HK\$'000
Profit from operations has been arrived at after charging:		
Auditors' remuneration	1,001	1,016
Depreciation and amortisation:		
Owned assets	4,515	6,828
Assets held under finance leases	260	224
	4,775	7,052
Loss on disposal of property, plant and equipment	-	2,895
Operating leases in respect of rented premises	9,371	12,118
Allowance for doubtful debts	19,112	6,235
Staff costs including directors' emoluments	68,733	76,270
and after crediting:		
Dividend income from investments in securities:		
Listed	-	68
Unlisted	8	78
	8	146
Gross rental income:		
Property	3,008	3,431
Equipment	615	962
Exchange gain, net	8,859	3,767
Gain on disposal of property, plant and equipment	4,594	-

9. GAIN ON PARTIAL DISPOSAL OF A SUBSIDIARY

During the year, the Group disposed of a 26% equity interest in a subsidiary for an agreed consideration of HK\$39,165,000 and the attributable amount of negative goodwill has been released to the income statement. However, subsequent to the acquisition, a dispute has arisen with the purchasers in respect of the consideration and an allowance for doubtful debts of HK\$6,500,000 had been provided and charged to the income statement. Details of the transaction are set out in note 34. The company became an associate of the Group and its remaining carrying value upon disposal has been reclassified to interests in associates.

Notes to the Financial Statements

For the year ended December 31, 2003

10. FINANCE COSTS

	2003 HK\$'000	2002 HK\$'000
Interest on:		
Bank borrowings wholly repayable within five years	7,459	5,441
Other loans	2,115	2,440
Finance leases	39	74
	9,613	7,955

No interest was capitalised by the Group during the year.

11. DIRECTORS' EMOLUMENTS

	2003 HK\$'000	2002 HK\$'000
Directors' fees	850	850
Other emoluments – executive directors		
Salaries and other benefits	6,829	6,354
Contributions to retirement benefit scheme	206	220
Total emoluments	7,885	7,424

The directors' fees disclosed above include an amount of HK\$300,000 (2002: HK\$300,000) payable to independent non-executive directors.

Emoluments of the directors were within the following bands:

	2003 No. of Directors	2002 No. of Directors
Nil to HK\$1,000,000	2	3
HK\$1,000,001 to HK\$1,500,000	2	2
HK\$1,500,001 to HK\$2,000,000	3	2

Notes to the Financial Statements

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12. EMPLOYEES' EMOLUMENTS

The five highest paid individuals in the Group in 2003 include five directors (2002: 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:

	2002 HK\$'000
Salaries and other benefits	1,630
Retirement benefit scheme contribution	24
	1,654

13. TAXATION

	2003 HK\$'000	2002 HK\$'000
The charge comprises:		
Current tax		
Hong Kong	5,760	4,675
Overseas	4,210	4,037
	9,970	8,712
Under(over)provisions in prior years		
Hong Kong	-	(1,856)
Overseas	310	(29)
	310	(1,885)
Deferred taxation (<i>Note 30</i>)		
Current year	(1,028)	(794)
Attributable to a change in tax rate	(156)	-
	(1,184)	(794)
Taxation attributable to the Company and its subsidiaries	9,096	6,033
Share of taxation attributable to associates	546	211
Taxation charge for the year	9,642	6,244

Hong Kong Profits Tax is calculated at 17.5% (2002: 16%) of the estimated assessable profit for the year. In June 2003, the Hong Kong Profits Tax rate was increased from 16% to 17.5% with effect from the 2003/2004 year of assessment. The effect of this increase has been reflected in the calculation of current and deferred tax balances at December 31, 2003.

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

Notes to the Financial Statements

For the year ended December 31, 2003

13. TAXATION (CONTINUED)

The tax charge for the year can be reconciled to the profit per the income statement as follows:

	2003		2002	
	HK\$'000	%	HK\$'000	%
Profit before taxation	47,673		16,864	
Tax at the domestic income tax rate of 17.5% (2002: 16%)	8,343	17.5	2,699	16.0
Tax effect of expenses not deductible for tax purpose	7,755	16.3	5,246	31.1
Tax effect of income not taxable for tax purpose	(13,122)	(27.5)	(2,758)	(16.3)
Under(over)provision in respect of prior year	310	0.6	(1,885)	(11.2)
Tax effect of tax losses/deferred tax assets not recognised	6,368	13.3	2,378	14.1
Increase in opening deferred tax asset resulting from an increase in applicable tax rate	(156)	(0.3)	—	—
Effect of different tax rates of subsidiaries and associates	144	0.3	564	3.3
Tax effect and effective tax rate for the year	9,642	20.2	6,244	37.0

Note: The domestic tax rate in Hong Kong is used as it is where the operation of the Group is substantially based.

14. DIVIDEND

	2003 HK\$'000	2002 HK\$'000
Final, proposed – 2 cents per share (2002: 2 cents per share)	5,371	5,371

The final dividend of 2 cents (2002: 2 cents) per share has been proposed by the directors and is subject to approval by the shareholders in general meeting.

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15. EARNINGS PER SHARE

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

	2003 HK\$'000	2002 HK\$'000 (Restated)
Earnings for the purposes of basic earnings per share and diluted earnings per share	36,053	9,315

	Number of shares	
	2003 '000	2002 '000
Weighted average number of ordinary shares for the purpose of basic earnings per share	268,550	268,364
Effect of dilutive potential ordinary shares:		
Options	-	658
Weighted average number of ordinary shares for the purpose of diluted earnings per share	268,550	269,022

The adjustment to comparative basic and diluted earnings per share, arising from the changes in accounting policies shown in note 2 above, is as follows:

	Basic HK cents	Diluted HK cents
Reconciliation of 2002 earnings per share:		
Reported figures before adjustments	3.24	3.23
Adjustments arising from the adoption of SSAP12 (Revised)	0.23	0.23
Restated	3.47	3.46

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16. INVESTMENT PROPERTIES

THE GROUP

HK\$'000

At January 1, 2003	59,977
Exchange realignment	174
Additions	120
Revaluation decrease	(115)

At December 31, 2003	60,156
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An analysis of the investment properties of the Group is as follows:

	2003	2002
	HK\$'000	HK\$'000
In Hong Kong on long-term leases	49,500	48,000
In Singapore on long-term leases	9,126	10,777
In PRC under medium-term leases	1,530	1,200
	60,156	59,977

Investment properties were valued at their open market value at December 31, 2003 by Norton Appraisals Limited, Chartered Surveyor for properties located in Hong Kong and the PRC and Knight Frank Pte. Ltd., Chartered Surveyor for properties located in Singapore. The valuation gave rise to a revaluation decrease of HK\$115,000, which has been debited to the income statement.

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

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17. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Leasehold improvements	Furniture, fixtures and equipment	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP					
COST					
At January 1, 2003	20,697	6,895	34,634	6,292	68,518
Exchange realignment	–	114	933	102	1,149
Additions	–	272	2,008	524	2,804
Disposal of a subsidiary	–	(1,274)	(13,412)	(1,058)	(15,744)
Disposals	(1,809)	(169)	(9,672)	(148)	(11,798)
At December 31, 2003	18,888	5,838	14,491	5,712	44,929
DEPRECIATION AND AMORTISATION					
At January 1, 2003	939	4,210	27,087	4,287	36,523
Exchange realignment	–	61	670	46	777
Provided for the year	223	730	3,403	419	4,775
Eliminated on disposal of a subsidiary	–	(492)	(9,700)	(659)	(10,851)
Eliminated on disposals	(181)	(69)	(9,552)	(119)	(9,921)
At December 31, 2003	981	4,440	11,908	3,974	21,303
NET BOOK VALUES					
At December 31, 2003	17,907	1,398	2,583	1,738	23,626
At December 31, 2002	19,758	2,685	7,547	2,005	31,995

All land and buildings are located in Hong Kong and held under long leases.

The net book value of property, plant and equipment includes furniture, fixtures and equipment of nil (2002: HK\$250,000) and motor vehicles of nil (2002: HK\$279,000) held under finance leases.

18. INTERESTS IN SUBSIDIARIES

	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	9,665	9,665
Amounts due from subsidiaries	122,031	128,834
	131,696	138,499

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18. INTERESTS IN SUBSIDIARIES (CONTINUED)

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, 2003 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	Inactive
SiS Technologies Pte. Ltd.	Singapore	Ordinary	S\$1,000,000	–	100	Distribution of computer products
SiS Distribution (M) Sdn. Bhd.	Malaysia	Ordinary	M\$7,500,000	–	100	Distribution of computer products

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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 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
Tallgrass Technologies Sdn. Bhd.	Malaysia	Ordinary	M\$2	–	100	Inactive
SiS Netrepreneur Ventures Corp.	British Virgin Islands	Ordinary	US\$1	–	100	Investment holding

Notes to the Financial Statements

For the year ended December 31, 2003

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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	
				%	%	
Maxima Technology Limited	British Virgin Islands	Ordinary	US\$1	–	100	Inactive
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	Distribution of computer products

Note: Wholly-owned foreign enterprises registered in the PRC

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

19. INTERESTS IN ASSOCIATES

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Share of net assets	21,482	3,978

The details of the associates as at December 31, 2003 are as follows:

Name of company	Form of business structure	Place/ country of incorporation or registration/ operation	Class of shares held	Proportion of nominal value of issued capital held indirectly by the Company	Principal activities
ECS Pericomp Sdn. Bhd.	Limited company	Malaysia	Ordinary	20%	Distribution of computer products
SIS Distribution (Thailand) Co. Ltd.	Limited company	Thailand	Ordinary	49%	Distribution of computer products

Notes to the Financial Statements

For the year ended December 31, 2003

20. INVESTMENTS IN SECURITIES

	OTHER SECURITIES	
	THE GROUP	THE COMPANY
	2003 HK\$'000	2002 HK\$'000
Equity securities:		
Listed	2,390	3,758
Unlisted	275	—
	2,665	203
Listed		
Hong Kong	2,039	—
Overseas	351	3,758
Unlisted	275	—
	2,665	203
Market value of listed securities	2,390	203
Carrying amount analysed for reporting purposes as:		
Non-current	2,665	203

21. STAFF ADVANCES

	THE GROUP
	2003 HK\$'000
The staff advances is analysed as follows:	
Current	793
Non-current	1,083
	1,876

22. INVENTORIES

Inventories of the Group comprise trading merchandise. Included in the balance are merchandise of HK\$57,118,000 (2002: HK\$18,320,000) which are carried at net realisable value.

Notes to the Financial Statements

For the year ended December 31, 2003

23. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

The Group maintains 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		
	2003 HK\$'000	2002 HK\$'000
Within 30 days	256,417	324,602
31 to 90 days	33,560	58,578
91 to 120 days	8,627	8,051
Over 120 days	34,804	27,078
Trade receivables	333,408	418,309
Deposits, prepayments and other receivables	67,106	27,211
	400,514	445,520

24. BALANCES WITH AN ASSOCIATE AND A RELATED COMPANY

The balances with an associate and a related company are unsecured, interest free and repayable on demand.

25. AMOUNTS DUE FROM RELATED COMPANIES

THE GROUP

Name of company	Term	Balance at 12.31.2003 HK\$'000	Balance at 1.1.2003 HK\$'000	Maximum amount outstanding during the year HK\$'000
P.T. SiSTech Kharisma	Unsecured, interest free and repayable on demand	1	4,037	4,037
Netband Technology Far East Limited	Unsecured, interest free and repayable on demand	3,910	3,928	4,786
Regent Pacific Media (S) Pte. Ltd.	Unsecured, interest free and repayable on demand	–	10	10
		3,911	7,975	

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 Technology Far East Limited.

Mr. Lim Kia Hong holds a 50% interest in Regent Pacific Media (S) Pte. Ltd.

Notes to the Financial Statements

For the year ended December 31, 2003

26. TRADE AND OTHER PAYABLES

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

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Within 30 days	189,197	282,477
31 to 90 days	34,352	58,737
91 to 120 days	8,271	594
Over 120 days	10,718	12,065
Trade payables	242,538	353,873
Accruals and other payables	98,449	101,381
	340,987	455,254

27. BILLS PAYABLE

The aged analysis of bills payable as at December 31, 2003 and 2002 is within 90 days.

28. OBLIGATIONS UNDER FINANCE LEASES

	THE GROUP			
	Minimum lease payments		Present value of minimum lease payments	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Amounts payable under finance leases:				
Within one year	-	242	-	206
In the second to fifth year inclusive	-	380	-	319
	-	622	-	525
Less: future finance charges	-	(97)	-	-
Present value of lease obligations	-	525	-	525
Less: Amount due within one year			-	(206)
Amount due after one year			-	319

Notes to the Financial Statements

For the year ended December 31, 2003

29. BORROWINGS

THE GROUP		
	2003 HK\$'000	2002 HK\$'000
Bank overdrafts	16,958	23,430
Bank loans	34,347	84,161
Trust receipt loans	–	26,767
	51,305	134,358
Secured	28,818	104,661
Unsecured	22,487	29,697
	51,305	134,358

The above overdrafts and loans are repayable within one year.

30. DEFERRED TAXATION

The following are the major deferred tax assets (liabilities) recognised and movements thereon during the current and prior year:

THE GROUP

	Accelerated tax depreciation HK\$'000	Allowances for doubtful debt/ inventories HK\$'000	Tax Total HK\$'000
At January 1, 2002			
– as previously reported	(29)	–	(29)
– adjustment on adoption of SSAP12 (Revised)	557	2,601	3,158
– as restated	528	2,601	3,129
Credit to income for the year	197	597	794
At January 1, 2003	725	3,198	3,923
(Charge) credit to income for the year	(35)	1,063	1,028
Disposal of a subsidiary	24	(3,286)	(3,262)
Effect of change in tax rate			
Credit to the income statement	64	92	156
At December 31, 2003	778	1,067	1,845

Notes to the Financial Statements

For the year ended December 31, 2003

30. DEFERRED TAXATION (CONTINUED)

For the purposes of balance sheet presentation, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	12.31.2003 HK\$'000	12.31.2002 HK\$'000
Deferred tax liabilities	-	(29)
Deferred tax assets	1,845	3,952
	1,845	3,923

At the balance sheet date, the Group has deductible temporary differences of HK\$14,684,000 (2002: HK\$11,615,000) and unutilised tax losses of HK\$36,310,000 (2002: HK\$15,213,000). No deferred tax asset has been recognised in relation to such deductible temporary differences and tax losses as it is not probable that taxable profit will be available against which the deductible temporary differences and tax losses can be utilised.

31. 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.

32. SHARE CAPITAL

	Number of shares		Share capital	
	2003 '000	2002 '000	2003 HK\$'000	2002 HK\$'000
Ordinary shares of HK\$0.10 each				
Authorised	350,000	350,000	35,000	35,000
Issued and fully paid				
At beginning of year	268,550	268,050	26,855	26,805
Exercise of share options	-	500	-	50
At end of year	268,550	268,550	26,855	26,855

Notes to the Financial Statements

For the year ended December 31, 2003

33. 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 18.

	Share premium HK\$'000	Contributed surplus HK\$'000	Investments reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
THE COMPANY					
At January 1, 2002	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	52,834	29,186	–	105,859	187,879
Profit for the year	–	–	–	14,872	14,872
Dividend paid	–	–	–	(5,371)	(5,371)
Revaluation increase	–	–	87	–	87
At December 31, 2003	52,834	29,186	87	115,360	197,467

The retained profits of the Group include HK\$14,103,000 (2002: HK\$2,612,000) 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:

	2003 HK\$'000	2002 HK\$'000
Contributed surplus	29,186	29,186
Retained earnings	115,360	105,859
	144,546	135,045

Notes to the Financial Statements

For the year ended December 31, 2003

34. DISPOSAL OF A SUBSIDIARY

The Group disposed of a subsidiary during the year. The net assets of this subsidiary at the date of disposal were as follows:

	2003 HK\$'000	2002 HK\$'000
NET ASSETS (LIABILITIES) DISPOSED OF:		
Property, plant and equipment	4,893	143
Deferred tax assets	3,262	—
Inventories	80,142	—
Trade and other receivables, deposits and prepayments	149,775	870
Pledged bank deposits	74,383	—
Bank balances and cash	5,135	147
Trade and other payables	(131,726)	(1,843)
Amounts due to related companies	—	(124)
Taxation	(1,575)	(11)
Deferred tax liabilities	—	(29)
Obligations under finance leases	(425)	—
Borrowings	(148,954)	—
Minority interests	(8,727)	(51)
	26,183	(898)
Reclassified to interests in associates	(17,106)	—
Attributable negative goodwill	(751)	—
Exchange gain realised	(215)	—
Gain on disposal	23,733	898
	31,844	—
Satisfied by:		
Cash (<i>Note</i>)	392	—
Deferred consideration less allowance for doubtful recovery	32,273	—
Less: Expenses incurred on disposal of a subsidiary	(821)	—
	31,844	—
Net cash outflow arising on disposal:		
Cash consideration (<i>Note</i>)	392	—
Less: Expenses paid on disposal of a subsidiary	(167)	—
Bank balances and cash disposed of	(5,135)	(147)
Bank overdrafts disposed of	4,142	—
	(768)	(147)

Note: In the prior year, the cash consideration for the disposal of subsidiaries was HK\$16.

The deferred consideration will be settled in cash in twelve equal instalments by the purchasers on or before December 31, 2004.

The subsidiary disposed of during the year contributed HK\$956,338,000 to the Group's turnover and HK\$17,602,000 to the Group's profit from operations. The subsidiaries disposed of in the prior year did not contribute significantly to the Group's turnover and profit from operations.

Notes to the Financial Statements

For the year ended December 31, 2003

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	
	2003 HK\$'000	2002 HK\$'000
Within one year	5,916	9,801
In the second to fifth year inclusive	6,284	10,232
	12,200	20,033

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 December 31, 2003, the Company had no commitments under non-cancellable operating leases (2002: 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			
	2003		2002	
	Rented premises HK\$'000	Equipment HK\$'000	Rented premises HK\$'000	Equipment HK\$'000
Within one year	545	–	2,908	438
In the second to fifth year inclusive	116	–	375	146
	661	–	3,283	584

Property rental income earned during the year was HK\$3,008,000 (2002: HK\$3,431,000). The Group's properties are expected to generate rental yields of 5% on an ongoing basis.

36. OTHER COMMITMENTS

At December 31, 2003, there were outstanding foreign exchange hedging contracts amounting to HK\$117,502,000 (2002: HK\$19,870,000) entered into by the Group with certain financial institutions to hedge against the Group's trade payables.

Notes to the Financial Statements

For the year ended December 31, 2003

37. SHARE OPTION SCHEME

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 share options were granted under the Scheme during the year.

The following table discloses the prior year movements in the Company's share options under the old share option scheme of the Company which had expired in July 2002:

	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)	-

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

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For the year ended December 31, 2003

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\$6,000 (2002: HK\$12,000) from the ORSO scheme, is HK\$3,957,000 (2002: HK\$4,851,000).

At the balance sheet date, the total amount of forfeited contributions which arose upon employees leaving the ORSO scheme and which are available to reduce the contributions payable in the future years, was HK\$31,370 (2002: Nil).

39. CONTINGENT LIABILITIES

	THE COMPANY	
	2003 HK\$'000	2002 HK\$'000
Guarantees given to banks for banking facilities utilised by subsidiaries	138,840	136,988
Guarantees given to suppliers for goods supplied to subsidiaries of the Company	54,600	—

At the balance sheet date, the Group had no contingent liabilities (2002: Nil).

40. PLEDGE OF ASSETS

At December 31, 2003, the Group has pledged bank deposits amounting to HK\$20,381,000 (2002: HK\$69,754,000) to banks to secure general banking facilities granted to the Group.

Notes to the Financial Statements

For the year ended December 31, 2003

41. RELATED PARTY TRANSACTIONS

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

	<i>Notes</i>	Related companies	
		2003	2002
		HK\$'000	HK\$'000
Sales of goods	1	194,358	135,411
Operating lease rentals paid	2	4,122	5,455
Legal fee paid	2	158	210

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 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 balances arising from the above transactions with related parties are set out in notes 24 and 25 respectively.

42. POST BALANCE SHEET EVENTS

The following events took place subsequent to December 31, 2003:

- (i) The Group acquired an investment property for an aggregate consideration of HK\$63,800,000. Details of the acquisition are set out in the Group's press announcement on January 16, 2004.
- (ii) The Group disposed of 11.46% equity interest in an associate to three independent third parties for an aggregate cash consideration of HK\$14,375,000, resulting in a gain on disposal of HK\$11,000,000.