## 1. SIGNIFICANT ACCOUNTING POLICIES

### (a) Statement of compliance

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

### (b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is historical cost modified by the revaluation of investment properties and buildings held for own use, and the marking to market of certain investments in securities as explained in the accounting policies set out below.

### (c) Subsidiaries

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

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

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

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet separately from liabilities and the shareholders' equity. Minority interests in the results of the Group for the year are also separately presented in the income statement.

## 1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (c) Subsidiaries *(Continued)*

Where losses attributable to the minority exceed the minority interest in the net assets of a subsidiary, the excess, and any further losses attributable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make good the losses. All subsequent profits of the subsidiary are allocated to the Group until the minority's shares of losses previously absorbed by the Group has been recovered.

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

### (d) Jointly controlled entities

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

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

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

## 1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (e) Goodwill

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

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

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

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

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

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

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

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

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

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

*For the year ended 31 December 2003*
*(Expressed in Hong Kong dollars)*

## 1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (e) Goodwill *(Continued)*

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

### (f) Other investments in securities

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

(i) All securities which are not held on a continuing basis for an identified long-term purpose (whether held for trading or otherwise) are stated in the balance sheet at fair value. Changes in fair value are recognised in the income statement as they arise. Securities are presented as trading securities when they were acquired principally for the purpose of generating a profit from short term fluctuations in price or dealer's margin.

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

### (g) Fixed assets

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

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

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

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

## 1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (g) Fixed assets *(Continued)*

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

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

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

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

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

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

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

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

# NOTES ON THE FINANCIAL STATEMENTS

*For the year ended 31 December 2003*
*(Expressed in Hong Kong dollars)*

## 1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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

### (i) Leased assets

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

*(i) Assets held for use in operating leases*

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

*(ii) Operating lease charges*

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

## 1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (j) Amortisation and depreciation

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

(ii) Depreciation is calculated to write off the cost or valuation of other fixed assets over their estimated useful lives, after taking into account their estimated residual values, as follows:

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

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

| | |
|---|---|
| Leasehold improvements | 5 years |
| Plant and machinery | 10 years |
| Furniture, fixtures and office equipment | 3 to 5 years |
| Motor vehicles | 3 to 8 years |

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

### (k) Impairment of assets

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

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

– investment in subsidiaries and jointly controlled entities (except for those accounted for at fair value under notes 1(c) & (d);

– intangible assets; and

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

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

*For the year ended 31 December 2003*
*(Expressed in Hong Kong dollars)*

## 1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (k) Impairment of assets *(Continued)*

*(i) Calculation of recoverable amount*

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

*(ii) Reversals of impairment losses*

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

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

### (l) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition.

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

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

## 1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (m) Systems integration contracts

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

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

### (n) Cash and cash equivalents

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

### (o) Employee benefits

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

(ii) Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance and other defined contribution schemes are recognised as an expense in the income statement as incurred, except to the extent that they are included in the cost of intangible assets and inventories not yet recognised as an expense.

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

# NOTES ON THE FINANCIAL STATEMENTS

*For the year ended 31 December 2003*
*(Expressed in Hong Kong dollars)*

## 1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (p) Income tax

(i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

(ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

(iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, negative goodwill treated as deferred income, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

## 1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (p) Income tax *(Continued)*

(iii) *(Continued)*

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

(iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if, the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- In the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

### (q) Provisions and contingent liabilities

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

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

*For the year ended 31 December 2003*
*(Expressed in Hong Kong dollars)*

## 1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (r) Revenue recognition

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

*(i) Software development and systems integration services*

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

*(ii) Sale of goods*

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

*(iii) Interest income*

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

*(iv) Rental income from operating leases*

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

*(v) Dividends*

Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

### (s) Translation of foreign currencies

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

The results of enterprises outside Hong Kong are translated into Hong Kong dollars at the average exchange rates for the year; balance sheet items are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with as a movement in reserves.

## 1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (s) Translation of foreign currencies *(Continued)*

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

### (t) Bad and doubtful debts

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

### (u) Discontinued operation

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

### (v) Related parties

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

### (w) Segment reporting

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

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

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

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

# NOTES ON THE FINANCIAL STATEMENTS

*For the year ended 31 December 2003*
*(Expressed in Hong Kong dollars)*

## 1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (w) Segment reporting *(Continued)*

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

## 2. TURNOVER

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

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

| | **2003** | 2002 |
|---|---|---|
| | ***$'000*** | *$'000* |
| **Continuing operations** | | |
| Software development and systems integration services | **30,060** | 61,660 |
| Manufacture and sale of computer related products | **124,822** | 52,970 |
| | **154,882** | 114,630 |
| **Discontinued operation** | | |
| Systems value-added services | **–** | 522,759 |
| | **154,882** | 637,389 |

## 3. DISCONTINUED OPERATION

On 18 May 2002, the Group entered into agreements to dispose of its entire interest, being 40% shareholdings, in the subsidiaries comprising the systems value-added services business segment (note 13) for cash consideration of approximately $72,129,000 (the "Disposal"). The Disposal was completed on 5 July 2002 and a profit on disposal of approximately $4,987,000 was recognised during the financial year ended 31 December 2002. (See also note 34(b))

## 3. DISCONTINUED OPERATION *(Continued)*

The net assets of the discontinued operation as at the date of discontinuance were as follows:

| | At 5 July 2002 $'000 |
|---|---|
| Total assets | 639,766 |
| Total liabilities | (520,824) |
| Net assets | 118,942 |
| Group's share of net assets | 47,577 |
| Consideration less disposal expenses | (71,677) |
| Goodwill written back upon disposal | 19,113 |
| Profit on disposal of discontinued operation | 4,987 |

## 4. OTHER REVENUE AND NET INCOME

| | **2003** **$'000** | 2002 $'000 |
|---|---|---|
| **Other revenue** | | |
| Interest income | **3,833** | 4,766 |
| Marketing fee | **–** | 1,004 |
| Compensation of guarantee profit by a minority shareholder | **–** | 3,057 |
| Dividend income from unlisted investments | **–** | 566 |
| Dividend income from listed investment | **752** | – |
| Guaranteed investment return *(Note 21)* | **426** | – |
| Rental income from investment properties | **292** | 314 |
| Value-added tax ("VAT") refund *(Note)* | **1,287** | – |
| Others | **1,094** | 1,298 |
| | **7,684** | 11,005 |

# NOTES ON THE FINANCIAL STATEMENTS

*For the year ended 31 December 2003*
*(Expressed in Hong Kong dollars)*

## 4. OTHER REVENUE AND NET INCOME *(Continued)*

| | 2003 | 2002 |
|---|---|---|
| | **$'000** | $'000 |
| **Other net income** | | |
| Profit on disposal of unlisted investments | **–** | 1,947 |
| Unrealised loss on trading securities carried at fair value | **–** | (1,414) |
| Profit on disposal of trading securities | **7,635** | – |
| | **7,635** | 533 |

*Note:* Pursuant to the relevant approval document issued by the tax authorities in the People's Republic of China ("PRC"), subsidiaries of the Group operated in the PRC are entitled to a refund of VAT on the sales of self-developed software. The VAT refund represents the amount of VAT paid in excess of 3% of income generated from the sales of self-developed software. The amount of VAT refund is recognised as other revenue when the refund is approved by the relevant tax authorities.

## 5. (LOSS)/PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

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

| | 2003 | 2002 |
|---|---|---|
| | **$'000** | $'000 |
| **(a) Finance costs:** | | |
| Interest expense on bank loans and other borrowings wholly repayable within five years | **324** | 1,598 |
| Other borrowing costs | **173** | 2,865 |
| | **497** | 4,463 |
| **(b) Staff costs:** | | |
| Contributions to defined contribution schemes | **1,178** | 1,236 |
| Salaries, wages and other benefits | **20,685** | 33,423 |
| | **21,863** | 34,659 |

## 5. (LOSS)/PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION *(Continued)*

### (c) Non-operating expenses

Non-operating expenses represent the professional fees written off in respect of a proposed acquisition and a related rights issue which were subsequently terminated during the year ended 31 December 2003.

| | **2003** | 2002 |
|---|---|---|
| | ***$'000*** | *$'000* |
| **(d) Other items:** | | |
| Cost of inventories sold | **123,740** | 544,039 |
| Auditors' remuneration | **1,130** | 1,264 |
| Depreciation | **6,483** | 6,455 |
| Amortisation of intangible assets | **448** | 588 |
| Impairment loss on intangible assets | **–** | 705 |
| Negative goodwill written off included in share of profits less losses of jointly controlled entities | **(1,442)** | – |
| Deemed loss on disposal included in share of profits less losses of jointly controlled entities | **3,375** | – |
| Trademark licence fee | **–** | 1,884 |
| Operating lease charges in respect of properties | **2,711** | 6,756 |
| Loss on disposal of fixed assets | **3** | 931 |
| Provision for bad and doubtful debts | **–** | 6,535 |
| Provision for loans receivable | **283** | 2,747 |
| Rental income from investment properties less direct outgoings of $27,805 (2002: $80,000) | **(264)** | (234) |

Included in the cost of inventories is a provision of $Nil (2002: $5,263,000) against certain obsolete inventories.

## 6. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

### (a) Taxation in the consolidated income statement represents:

| | **2003** | 2002 |
|---|---|---|
| | ***$'000*** | *$'000* |
| **Current tax – Provision for Hong Kong Profits Tax** | | |
| Tax for the year | **–** | 2,507 |
| **Current tax – PRC** | | |
| Tax for the year | **1,393** | 3,868 |
| Under/(over) provision in respect of prior years | **583** | (34) |
| | **1,976** | 3,834 |
| **Deferred tax** | | |
| Origination and reversal of temporary differences | **906** | (105) |
| Effect of increase in tax rate on deferred tax balance at 1 January | **10** | – |
| | **916** | (105) |
| Share of a jointly controlled entity's taxation | **204** | – |
| | **3,096** | 6,236 |

In March 2003, the Hong Kong Government announced an increase in the Profits Tax rate applicable to the Group's operations in Hong Kong from 16% to 17.5%. This increase is taken into account in the preparation of the Group's 2003 financial statements. Accordingly, the provision for Hong Kong Profits Tax for 2003 is calculated at 17.5% (2002: 16%) of the estimated assessable profits for the year.

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

The PRC subsidiaries of the Group prepared their financial statements for the years ended 31 December 2003 and 2002 in accordance with the PRC accounting standards and regulations (the "PRC GAAP"). Deferred taxation mainly represents differences between the PRC GAAP and HKFRS in respect of accounting differences in income recognition.

## 6. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT *(Continued)*

**(b) Reconciliation between tax expense and accounting (loss)/profit at applicable tax rates:**

| | **2003** | | 2002 | |
|---|---|---|---|---|
| | ***$'000*** | **%** | *$'000* | % |
| (Loss)/profit before tax | **(1,576)** | | 13,873 | |
| Notional tax on profit before tax, calculated at the rates applicable to profits in the countries concerned | **(507)** | **32.2** | 9 | 0.1 |
| Tax effect of non-deductible expenses | **113** | **(7.2)** | 1,738 | 12.5 |
| Tax effect of non-taxable revenue | **(2,077)** | **131.8** | (493) | (3.6) |
| Tax effect of unused tax losses not recognised | **4,974** | **(315.6)** | 5,016 | 36.2 |
| Effect of change in tax rates | **10** | **(0.6)** | – | – |
| Under/(over) provision in prior years | **583** | **(37.0)** | (34) | (0.2) |
| Actual tax expense | **3,096** | **(196.4)** | 6,236 | 45.0 |

## 7. DIRECTORS' REMUNERATION

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

| | **2003** | 2002 |
|---|---|---|
| | ***$'000*** | *$'000* |
| Executive directors: | | |
| Salaries and other emoluments | **3,180** | 3,260 |
| Retirement scheme contributions | **48** | 48 |
| Other allowances | **540** | 540 |
| Compensation for loss of office | **1,100** | – |
| | **4,868** | 3,848 |
| Independent non-executive directors: | | |
| Fees | **240** | 240 |

In addition to the above emoluments, certain directors were granted share options under the Company's share option scheme. Details of these benefits in kind are disclosed under note 30 and the section headed "Share option scheme" in the Directors' Report.

## 7. DIRECTORS' REMUNERATION *(Continued)*

The remuneration of the directors is within the following bands:

| | **2003** **Number of directors** | 2002 Number of directors |
|---|---|---|
| Nil – $1,000,000 | **5** | 6 |
| $1,000,001 – $1,500,000 | **1** | 2 |
| $2,000,001 – $2,500,000 | **1** | – |

## 8. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, four of them (2002: three) are directors whose emoluments are disclosed in note 7 above. The emoluments in respect of the remaining (2002: two) individual is as follows:

| | **2003** **$'000** | 2002 $'000 |
|---|---|---|
| Salaries and other emoluments | **600** | 1,866 |
| Retirement scheme contributions | **–** | 12 |
| | **600** | 1,878 |

The emoluments of the (2002: two) individual with the highest emoluments are within the following band:

| | **2003** **Number of individuals** | 2002 Number of individuals |
|---|---|---|
| Nil – $1,000,000 | 1 | 2 |

Other than those disclosed above, no emoluments were paid by the Group to the directors or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. No director has waived or agreed to waive any emolument during the years ended 31 December 2003 and 2002.

## 9. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The consolidated loss attributable to shareholders includes a loss of $25,446,000 (2002: $27,219,000) which has been dealt with in the financial statements of the Company.

## 10. DIVIDENDS

The directors do not recommend the payment of a dividend for the year ended 31 December 2003 (2002: $Nil).

## 11. LOSS PER SHARE

### (a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to ordinary shareholders of $10,108,000 (2002: $10,948,000) and the weighted average number of ordinary shares of 440,644,000 (2002: 440,644,000) shares in issue during the year.

### (b) Diluted loss per share

The effects of all potential ordinary shares are anti-dilutive for the years ended 31 December 2003 and 2002.

## 12. CHANGE IN ACCOUNTING POLICY

In prior years, deferred tax liabilities were provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which were expected with reasonable probability to crystallise in the foreseeable future. Deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt. With effect from 1 January 2003, in order to comply with SSAP 12 (revised) issued by the Hong Kong Society of Accountants, the Group adopted a new policy for deferred tax as set out in note 1(p).

The adoption of the new accounting policy does not significantly affect the Group's loss for 2003 and 2002 and the net assets as at 31 December 2003 and 2002. The new accounting policy has been adopted prospectively with no significant impact on the opening balance of retained earnings.

## 13. SEGMENT REPORTING

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

**Business segments**

The Group comprises the following main business segments:

*Continuing operations*

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

Manufacture and sale of computer related products: Manufacturing and sale of plastic casings for computer equipment.

General software: Development and sale of general software products.

*Discontinued operation*

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

## 13. SEGMENT REPORTING *(Continued)*

| | Continuing operations | | | | | | Discontinued operation | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Software development and systems integration services | | Manufacture and sale of computer related products | | General software | | Systems value-added services | | Unallocated | | Consolidated | |
| | **2003** | 2002 | **2003** | 2002 | **2003** | 2002 | **2003** | 2002 | **2003** | 2002 | **2003** | 2002 |
| | **$'000** | $'000 | **$'000** | $'000 | **$'000** | $'000 | **$'000** | $'000 | **$'000** | $'000 | **$'000** | $'000 |
| Revenue from external customers | **30,060** | 61,660 | **124,822** | 52,970 | **–** | – | **–** | 522,759 | **–** | – | **154,882** | 637,389 |
| Other revenue from external customers | **1,287** | 208 | **522** | 46 | **–** | – | **–** | 2,092 | **864** | 270 | **2,673** | 2,616 |
| | **31,347** | 61,868 | **125,344** | 53,016 | **–** | – | **–** | 524,851 | **864** | 270 | **157,555** | 640,005 |
| Segment result | **(1,997)** | 6,186 | **19,474** | 11,103 | **–** | – | **–** | 27,405 | | | **17,477** | 44,694 |
| Unallocated operating income and expenses | | | | | | | | | | | **(13,575)** | (30,915) |
| Profit from operations | | | | | | | | | | | **3,902** | 13,779 |
| Finance costs | | | | | | | | | | | **(497)** | (4,463) |
| Non-operating expenses | | | | | | | | | | | **(6,509)** | – |
| Share of profits less losses of jointly controlled entities | **–** | – | **–** | – | **1,528** | 4,557 | **–** | – | | | **1,528** | 4,557 |
| Taxation | | | | | | | | | | | **(3,096)** | (6,236) |
| Minority interests | | | | | | | | | | | **(5,436)** | (18,585) |
| Loss attributable to shareholders | | | | | | | | | | | **(10,108)** | (10,948) |
| Depreciation and amortisation for the year | **1,390** | 936 | **2,893** | 2,223 | **–** | – | **–** | 864 | | | | |
| Significant non-cash expenses (other than depreciation and amortisation) | **–** | 1,735 | **–** | – | **–** | – | **–** | 7,325 | | | | |
| Segment assets | **53,506** | 64,416 | **87,166** | 70,937 | **–** | – | **–** | – | | | **140,672** | 135,353 |
| Interest in jointly controlled entities | **–** | – | **–** | – | **23,080** | 12,296 | **–** | – | | | **23,080** | 12,296 |
| Unallocated assets | | | | | | | | | | | **249,483** | 262,676 |
| Total assets | | | | | | | | | | | **413,235** | 410,325 |
| Segment liabilities | **34,563** | 34,742 | **45,655** | 42,694 | **–** | – | **–** | – | | | **80,218** | 77,436 |
| Unallocated liabilities | | | | | | | | | | | **13,742** | 5,251 |
| Total liabilities | | | | | | | | | | | **93,960** | 82,687 |
| Capital expenditure incurred during the year | **1,621** | 1,847 | **6,033** | 8,692 | **–** | – | **–** | 1,279 | | | | |

## 13. SEGMENT REPORTING *(Continued)*

**Geographical segments**

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

## 14. FIXED ASSETS

### (a) The Group

| | Buildings held for own use $'000 | Leasehold improvements $'000 | Plant and machinery $'000 | Furniture, fixtures and office equipment $'000 | Motor vehicles $'000 | Sub-total $'000 | Investment properties $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|---|
| **Cost or valuation:** | | | | | | | | |
| At 1 January 2003 | 8,194 | 2,009 | 24,098 | 6,414 | 9,751 | 50,466 | 3,950 | 54,416 |
| Additions | | | | | | | | |
| – through acquisitions of subsidiaries | – | – | – | 36 | – | 36 | – | 36 |
| – others | – | 406 | 5,437 | 790 | 1,208 | 7,841 | – | 7,841 |
| Disposals | – | – | – | (256) | – | (256) | – | (256) |
| Deficit on revaluation | (366) | – | – | – | – | (366) | – | (366) |
| **At 31 December 2003** | **7,828** | **2,415** | **29,535** | **6,984** | **10,959** | **57,721** | **3,950** | **61,671** |
| **Representing:** | | | | | | | | |
| Cost | – | 2,415 | 29,535 | 6,984 | 10,959 | 49,893 | – | 49,893 |
| Valuation – 2003 | 7,828 | – | – | – | – | 7,828 | 3,950 | 11,778 |
| | 7,828 | 2,415 | 29,535 | 6,984 | 10,959 | 57,721 | 3,950 | 61,671 |
| **Accumulated depreciation:** | | | | | | | | |
| At 1 January 2003 | – | 455 | 6,217 | 3,167 | 2,513 | 12,352 | – | 12,352 |
| Charge for the year | 520 | 461 | 2,344 | 999 | 2,159 | 6,483 | – | 6,483 |
| Written back on disposal | – | – | – | (251) | – | (251) | – | (251) |
| Written back on revaluation | (520) | – | – | – | – | (520) | – | (520) |
| **At 31 December 2003** | **–** | **916** | **8,561** | **3,915** | **4,672** | **18,064** | **–** | **18,064** |
| **Net book value:** | | | | | | | | |
| **At 31 December 2003** | **7,828** | **1,499** | **20,974** | **3,069** | **6,287** | **39,657** | **3,950** | **43,607** |
| At 31 December 2002 | 8,194 | 1,554 | 17,881 | 3,247 | 7,238 | 38,114 | 3,950 | 42,064 |

## 14. FIXED ASSETS *(Continued)*

### (b) The Company

| | Leasehold improvements $'000 | Furniture, fixtures and office equipment $'000 | Motor vehicles $'000 | Total $'000 |
|---|---|---|---|---|
| **Cost:** | | | | |
| At 1 January 2003 | 931 | 1,260 | 6,741 | 8,932 |
| Additions | – | 30 | 3 | 33 |
| Disposals | – | (101) | – | (101) |
| **At 31 December 2003** | **931** | **1,189** | **6,744** | **8,864** |
| **Accumulated depreciation:** | | | | |
| At 1 January 2003 | 203 | 848 | 1,963 | 3,014 |
| Charge for the year | 186 | 178 | 1,543 | 1,907 |
| Written back on disposal | – | (96) | – | (96) |
| **At 31 December 2003** | **389** | **930** | **3,506** | **4,825** |
| **Net book value:** | | | | |
| **At 31 December 2003** | **542** | **259** | **3,238** | **4,039** |
| At 31 December 2002 | 728 | 412 | 4,778 | 5,918 |

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

| | **2003 $'000** | 2002 $'000 |
|---|---|---|
| In Hong Kong | | |
| – long leases | **5,750** | 5,750 |
| – medium-term leases | **3,950** | 3,950 |
| Outside Hong Kong under medium-term leases | **2,078** | 2,444 |
| | **11,778** | 12,144 |

## 14. FIXED ASSETS *(Continued)*

**(d)** The Group's investment properties and buildings held for own use in Hong Kong were revalued at 31 December 2003 by an independent firm of surveyors, B. I. Appraisals Limited, who have among their staff Fellows of the Hong Kong Institute of Surveyors and Royal Institution of Chartered Surveyors, on an open market value basis. The revaluation surplus of $Nil and $154,000 (2002: revaluation deficit of $3,330,000 and $187,000) respectively has been credited to the income statement.

The Group's buildings held for own use outside Hong Kong were estimated at the directors' valuation on an existing use basis, which is not significantly different from the carrying amount at 31 December 2003.

The carrying amount of the buildings held for own use of the Group at 31 December 2003 would have been $7,674,000 (2002: $8,381,000) had they been carried at cost less accumulated depreciation.

**(e)** At 31 December 2003, the Group's investment properties with an aggregate carrying value of $3,950,000 (2002: $3,950,000) were pledged as security for banking facilities granted to the Group (see note 28(i)). In addition, certain buildings held for own use of the Group with an aggregate carrying value of $5,750,000 (2002: $5,750,000) were pledged as security for banking facilities granted to a subsidiary of a former related company (see note 36).

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

At 31 December 2003, the gross carrying amount of investment properties of the Group held for use in operating leases were $3,950,000 (2002: $3,950,000).

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

| | **2003** | 2002 |
|---|---|---|
| | ***$'000*** | *$'000* |
| Within 1 year | **121** | 81 |

## 15. INTEREST IN SUBSIDIARIES

| | The Company | |
|---|---|---|
| | **2003** | 2002 |
| | ***$'000*** | *$'000* |
| Unlisted shares, at cost | **1,586** | 1,586 |
| Amounts due from subsidiaries | **279,013** | 263,498 |
| Amounts due to subsidiaries | **(46,473)** | (13,850) |
| | **234,126** | 251,234 |

Details of the subsidiaries at 31 December 2003 are as follows. The class of shares held is ordinary unless otherwise stated.

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

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

*For the year ended 31 December 2003*
*(Expressed in Hong Kong dollars)*

## 15. INTEREST IN SUBSIDIARIES *(Continued)*

| Name of company | Place of incorporation/ establishment and operation | Attributable ownership interest percentage | | Issued and paid up/ registered capital | Principal activities |
|---|---|---|---|---|---|
| | | Direct | Indirect | | |
| Fortune Years Limited | Hong Kong | – | 100 | $2 | Property holding |
| Start Technology (Guangzhou) Software Co., Ltd. *(note i)* | PRC | – | 100 | RMB15,955,000 | Provision of software development and systems integration services |
| Fujian Star System Integration Co., Ltd. ("Fujian SI") *(note i)* | PRC | – | 100 | RMB4,800,000 | Provision of software development and systems integration services |
| Fuqing Fujie Plastics Co., Ltd. *(note i)* | PRC | – | 65 | RMB24,274,000 | Manufacturing and sale of computer related products |
| Xiamen Start Dragon Information Technology Co., Ltd. ("Xiamen Start Dragon") *(note i)* | PRC | – | 51 | RMB12,633,000 | Provision of software development and systems integration services |
| Fuzhou Start Dragon Information Technology Co., Ltd. ("Fuzhou Start Dragon") *(note i)* | PRC | – | 51 | RMB2,000,000 | Provision of software development and systems integration services |
| Fujian Gallop Information Co., Ltd. *(note i)* | PRC | 100 | – | RMB1,515,000 | Not yet commenced services |
| Start Technology (Beijing) Co., Ltd. *(note i)* | PRC | – | 100 | RMB5,020,490 | Dormant |
| Fujian Hai Tong Technology Development Co., Ltd. *(note ii)* | PRC | – | 51 | RMB3,000,000 | Provision of software development |

## 15. INTEREST IN SUBSIDIARIES *(Continued)*

| Name of company | Place of incorporation/ establishment and operation | Attributable ownership interest percentage Direct | Indirect | Issued and paid up/ registered capital | Principal activities |
|---|---|---|---|---|---|
| Fuzhou Hai Kang Medical Equipment Co., Ltd. *(note ii)* | PRC | – | 51 | RMB500,000 | Trading of medical equipment |
| Anhui Start Technology and Systems Integration Co., Ltd. ("Anhui Start") *(note ii)* | PRC | – | 26 | RMB2,550,000 | Provision of software development and systems integration services |

*Notes:*

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

(ii) These are domestic limited liability companies established in the PRC.

## 16. CONSTRUCTION IN PROGRESS

| | The Group 2003 $'000 | 2002 $'000 |
|---|---|---|
| Balance at 1 January | **–** | – |
| Additions | **1,969** | – |
| Balance at 31 December | **1,969** | – |

*For the year ended 31 December 2003*
*(Expressed in Hong Kong dollars)*

## 17. INTANGIBLE ASSETS

| | The Group Computer software $'000 |
|---|---|
| **Cost:** | |
| **At 1 January 2003 and 31 December 2003** | **3,036** |
| **Accumulated amortisation:** | |
| At 1 January 2003 | 1,716 |
| Charge for the year | 448 |
| **At 31 December 2003** | **2,164** |
| **Net book value:** | |
| **At 31 December 2003** | **872** |
| At 31 December 2002 | 1,320 |

The amortisation charge for the year is included in "cost of sales" in the consolidated income statement. (2002: "Cost of sales" in the amount of $24,000 and "administrative expenses" in the amount of $564,000).

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

## 18. INTEREST IN JOINTLY CONTROLLED ENTITIES

| | The Group | |
|---|---|---|
| | **2003** | 2002 |
| | ***$'000*** | *$'000* |
| Share of net assets | **23,080** | 12,296 |

*(Expressed in Hong Kong dollars)*

## 18. INTEREST IN JOINTLY CONTROLLED ENTITIES *(Continued)*

Details of the Group's interest in the jointly controlled entities as at 31 December 2003 are as follows:

| Name of jointly controlled entity | Form of business structure | Place of incorporation/ establishment | Place of operation | Attributable ownership interest percentage | | Issued and paid up/ registered capital | Principal activities |
|---|---|---|---|---|---|---|---|
| | | | | Direct | Indirect | | |
| SJTU Sunway Software Industry Limited ("SJTU Sunway") | Limited company | Cayman Islands | Hong Kong | – | 49.5 | $200,000 | Investment holding |
| Besto Investment Limited ("Besto") | Limited company | BVI | Hong Kong | – | 49.5 | US$14,833 | Investment holding |
| SJTU Sunway Software Co., Ltd. ("SJTU Sunway (Beijing)") | Wholly foreign-owned enterprise | PRC | PRC | – | 49.5 | RMB15,000,000 | Development and sale of general software |

On 25 November 2003, the Group's jointly controlled entities completed a group reorganisation to rationalise the group structure in preparation for the listing of shares on the Growth Enterprise Market ("GEM") of The Stock Exchange.

Upon completion of the reorganisation, the Group's interest in SJTU Sunway is increased from 40% to 49.5%.

Pursuant to a placing and a capitalisation issue which was complete on 7 January 2004, the Group's interest in SJTU Sunway is diluted to 32.18%.

Dealings of SJTU Sunway's shares on the GEM commenced on 9 January 2004.

## 18. INTEREST IN JOINTLY CONTROLLED ENTITIES *(Continued)*

An extract of the consolidated financial information of SJTU Sunway is as follows:

| | 2003 | 2002 |
|---|---|---|
| | *$'000* | *$'000* |
| Balance sheet as at 31 December | | |
| Non-current assets | **5,040** | 5,566 |
| Current assets | **69,613** | 42,723 |
| Current liabilities | **21,208** | 16,136 |
| Income statement for the year ended 31 December | | |
| Turnover | **35,502** | 41,850 |
| Profit before taxation | **8,654** | 8,970 |
| Taxation | **509** | – |

## 19. INVENTORIES

| | The Group | |
|---|---|---|
| | **2003** | 2002 |
| | *$'000* | *$'000* |
| Raw materials | **17,989** | 13,753 |
| Work in progress | **456** | 436 |
| Finished goods | **5,512** | 8,838 |
| | **23,957** | 23,027 |

All inventories are stated at cost. During the year ended 31 December 2003, no provision was made against the inventories (2002: $5,263,000).

## 20. TRADE AND OTHER RECEIVABLES

| | | The Group | | The Company | |
|---|---|---|---|---|---|
| | | **2003** | 2002 | **2003** | 2002 |
| | *Note* | ***$'000*** | *$'000* | ***$'000*** | *$'000* |
| Accounts receivable | *i* | **50,636** | 37,054 | **–** | – |
| Bills receivable | *i* | **94** | – | **–** | – |
| Retentions receivable from customers *(note 23)* | | **3,114** | 18,570 | **–** | – |
| Gross amount due from customers for contract work *(note 23)* | | **9,587** | 10,605 | **–** | – |
| Prepayments, deposits and other receivables | *ii* | **15,799** | 44,383 | **5,678** | 7,665 |
| Loans receivable | *iii* | **27,630** | 23,982 | **186** | – |
| | | **106,860** | 134,594 | **5,864** | 7,665 |

All of the trade and other receivables, apart from those mentioned in notes 23, 24 and 25, are expected to be recovered within one year.

*Notes:*

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

| | The Group | |
|---|---|---|
| | **2003** | 2002 |
| | ***$'000*** | *$'000* |
| Current | **33,627** | 22,829 |
| 1 to 3 months overdue | **12,253** | 12,705 |
| More than 3 months overdue but less than 12 months overdue | **3,384** | 1,489 |
| Overdue beyond 1 year | **1,466** | 31 |
| | **50,730** | 37,054 |

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

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

## 20. TRADE AND OTHER RECEIVABLES *(Continued)*

*Notes: (Continued)*

(iii) Interest is charged at 1.2% to 10% p.a. (2002: 1.75% to 7.2% p.a.). $20,427,000 was repaid up to 14 April 2004. The remaining balances of $7,203,000 are repayable on or before 30 September 2004.

Balances with related parties included above are as follows:

| | The Group | | | |
|---|---|---|---|---|
| | **2003** | | 2002 | |
| | **Accounts receivable** | **Prepayments, deposits and other receivables** | Accounts receivable | Prepayments, deposits and other receivables |
| | ***$'000*** | ***$'000*** | *$'000* | *$'000* |
| Amount due from a jointly controlled entity *(note 24)* | **–** | **2,911** | – | 4,861 |
| Amounts due from related parties *(note 25)* | **–** | **–** | 141 | 1,683 |
| | **–** | **2,911** | 141 | 6,544 |

## 21. INVESTMENT FUND

Pursuant to an agreement dated 5 September 2003, a subsidiary of the Group entered into an agreement with a PRC company for a term of one year for the provision of ongoing financial advisory services in sourcing IT related development projects or other acquisition projects. As at 31 December 2003, investment fund of $19,336,000 was placed with the PRC company. Service fee calculated at 20% of any investment returns received is payable to the PRC company at the end of the service term.

Investment fund of $16,956,000 as at 31 December 2002 represents funds placed with a PRC company for a term of six months for investments in listed or unlisted companies in the PRC with a guaranteed minimum rate of return of not less than the prevailing bank lending rate in the PRC. The amount was refunded to the Group in February 2003 upon the expiry of the placement term and guaranteed investment return of $426,000 was received.

## 22. TRADING SECURITIES

| | The Group | |
|---|---|---|
| | **2003** | 2002 |
| | ***$'000*** | *$'000* |
| Trading securities, listed in Hong Kong at market value | **–** | 19,168 |

As at 31 December 2002, the trading securities were pledged as security for banking facilities granted to the Group (see note 28(iii)).

## 23. SYSTEMS INTEGRATION CONTRACTS

The aggregate amount of costs incurred plus recognised profits less recognised losses to date, including the gross amount due from/(to) customers for contract work, at 31 December 2003 is $43,704,000 (2002: $41,966,000).

The gross amount due from customers for contract work at 31 December 2003 that is expected to be recovered after more than one year is $Nil (2002: $554,000). The gross amount due to customers for contract work at 31 December 2003 is expected to be settled within one year (2002: $4,258,000).

In respect of systems integration contracts in progress at the balance sheet date, the amount of retentions receivable from customers at 31 December 2003 is $3,114,000 (2002: $18,570,000). The amount of retentions at 31 December 2003 that is expected to be recovered after more than one year is $1,617,000 (2002: $Nil).

## 24. AMOUNT DUE FROM A JOINTLY CONTROLLED ENTITY

Amount due from a jointly controlled entity is unsecured and interest free during the years ended 31 December 2003 and 2002.

Pursuant to an agreement dated 13 May 2003, the amount due from a jointly controlled entity of $6,847,000 (at 31 December 2002: $4,861,000) was converted into a loan to the jointly controlled entity which is payable on 31 December 2006 and bearing interest at a fixed rate of 10% p.a..

In May 2003, a loan of $2,044,000 (Rmb2,170,000) was granted to SJTU Sunway (Beijing) by the Company which carries interest at a fixed rate of 10% p.a..

On 20 September 2003, an additional 4,833 ordinary shares of Besto were issued at a consideration totalling $13,679,000. The above loans from the Group totalling $8,891,000 and the related interest of $225,000 were capitalised to partially satisfy the share proceeds of the additional capital of Besto.

As at 31 December 2003, the amount due from a jointly controlled entity represents certain operating expenses paid on behalf of the jointly controlled entity.

## 25. AMOUNTS DUE FROM/(TO) RELATED PARTIES

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

# NOTES ON THE FINANCIAL STATEMENTS

*For the year ended 31 December 2003*
*(Expressed in Hong Kong dollars)*

## 26. CASH AND CASH EQUIVALENTS

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2003** | 2002 | **2003** | 2002 |
| | ***$'000*** | *$'000* | ***$'000*** | *$'000* |
| Cash at bank and in hand | **49,689** | 17,156 | **109** | 357 |
| Bank overdraft *(note 28)* | **(1,223)** | (1,190) | | |
| Cash and cash equivalents in the cash flow statement | **48,466** | 15,966 | | |

## 27. TRADE AND OTHER PAYABLES

| | | The Group | | The Company | |
|---|---|---|---|---|---|
| | | **2003** | 2002 | **2003** | 2002 |
| | *Note* | ***$'000*** | *$'000* | ***$'000*** | *$'000* |
| Accounts payable | *i* | **46,578** | 33,022 | **–** | – |
| Bills payable | *i* | **2,803** | – | **–** | – |
| Gross amount due to customers for contract work *(note 23)* | | **2,325** | 4,258 | **–** | – |
| Receipts in advance | | **465** | 311 | **–** | – |
| Other payables and accrued liabilities | | **32,207** | 35,336 | **8,062** | 3,652 |
| | | **84,378** | 72,927 | **8,062** | 3,652 |

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

*Note:*

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

| | The Group | |
|---|---|---|
| | **2003** | 2002 |
| | ***$'000*** | *$'000* |
| Due within 3 months or on demand | **43,869** | 30,330 |
| Overdue 3 months to 1 year | **5,253** | 2,522 |
| Overdue beyond 1 year | **259** | 170 |
| | **49,381** | 33,022 |

## 27. TRADE AND OTHER PAYABLES *(Continued)*

Balances with related parties included above are as follows:

| | The Group | | | |
|---|---|---|---|---|
| | **2003** | | 2002 | |
| | **Accounts payable** | **Other payables and accrued liabilities** | Accounts payable | Other payables and accrued liabilities |
| | ***$'000*** | ***$'000*** | *$'000* | *$'000* |
| Amounts due to related parties *(note 25)* | **–** | **–** | – | 1,298 |

## 28. LOANS AND OVERDRAFT

At 31 December 2003, all loans and overdraft were repayable within one year or on demand.

At 31 December 2003, the loans and overdraft were secured as follows:

| | The Group | |
|---|---|---|
| | **2003** | 2002 |
| | ***$'000*** | *$'000* |
| **Secured bank overdraft** *(note 26)* | **1,223** | 1,190 |
| **Bank loans** | | |
| – unsecured | **5,652** | 6,594 |
| | **6,875** | 7,784 |

As at 31 December 2003, the Group had banking facilities totaling of $73,304,000 (2002: $78,600,000) of which $62,000,000 (2002: $72,000,000) was secured by the following:

(i) Mortgages over the Group's investment properties with an aggregate carrying value of $3,950,000 (2002: $3,950,000) at 31 December 2003.

(ii) A charge over the Group's fixed deposits with banks of $17,516,000 (2002: $17,516,000) at 31 December 2003.

(iii) A charge over the Group's trading securities listed in Hong Kong with a market value of $Nil (2002: $19,168,000) at 31 December 2003.

(iv) Corporate guarantee given by the Company.

The banking facilities were utilised to the extent of $8,874,000 (2002: $8,900,000) at 31 December 2003.

# NOTES ON THE FINANCIAL STATEMENTS

*For the year ended 31 December 2003*
*(Expressed in Hong Kong dollars)*

## 29. EMPLOYEE RETIREMENT BENEFITS

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

The retirement benefits costs under the MPF schemes charged to the income statement amounted to $159,000 (2002: $233,000) during the year.

The subsidiaries of the Group in the PRC other than Hong Kong participate in pension schemes organised by the respective municipal governments whereby they are required to pay annual contributions at the rates ranging from 14% to 21% (2002: 19% to 25.5%) of the standard wages determined by the relevant authorities in the PRC.

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

The aggregate employers' contributions by the Group under the PRC pension schemes amounted to $1,019,000 (2002: $1,003,000) during the year.

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

## 30. EQUITY COMPENSATION BENEFITS

Prior to 23 May 2002, the Company operated an option scheme whereby the board of directors could, at their absolute discretion, grant options to employees and executive directors of the Company and any of its subsidiaries to subscribe for shares in the Company (the "Old Scheme"). On 23 May 2002, the Old Scheme was terminated and a new share option scheme (the "New Scheme") was adopted, whereby the board of directors may, at their absolute discretion, grant options to any eligible employees, non-executive directors, any suppliers and customers of the Company or any of its subsidiaries or any invested entity to subscribe for shares in the Company.

For options granted before 1 September 2001, the exercise price of options was the higher of the nominal value of the shares and 80% of the average closing prices of the shares of the Company on the Stock Exchange for the five trading days immediately preceding the date of offer of the options. For options granted after 1 September 2001, the exercise price of the options will be the highest of the nominal value of the shares, the closing price of the shares on the Stock Exchange on the date of offer of the options and the average closing price of the shares on the Stock Exchange for the five trading days immediately preceding the date of offer of the options. Each option gives the holder the right to subscribe for one share.

*(Expressed in Hong Kong dollars)*

## 30. EQUITY COMPENSATION BENEFITS *(Continued)*

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

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

### (a) Movement in share options

| | **2003** *Number* | 2002 *Number* |
|---|---|---|
| At 1 January | **30,221,000** | 35,197,000 |
| Granted | **–** | 2,000,000 |
| Lapsed | **(1,940,000)** | (6,976,000) |
| At 31 December | **28,281,000** | 30,221,000 |
| Option vested at 31 December | **27,341,000** | 23,050,000 |

## 30. EQUITY COMPENSATION BENEFITS *(Continued)*

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

| Date granted | Exercise period | Exercise price | 2003 *Number* | 2002 *Number* |
|---|---|---|---|---|
| 06.07.1999 | 02.10.1999-05.07.2009 | $1.08 | **7,981,000** | 7,981,000 |
| 06.07.1999 | 02.10.1999-05.07.2009 | $1.21 | **–** | 700,000 |
| 30.12.1999 | 02.01.2001-29.12.2009 | $1.13 | **500,000** | 500,000 |
| 17.01.2000 | 02.01.2001-16.01.2010 | $1.32 | **850,000** | 1,050,000 |
| 21.01.2000 | 02.01.2001-20.01.2010 | $1.44 | **560,000** | 900,000 |
| 07.03.2000 | 02.01.2001-06.03.2010 | $2.06 | **40,000** | 40,000 |
| 10.08.2000 | 02.01.2001-09.08.2010 | $1.14 | **800,000** | 800,000 |
| 04.06.2001 | 01.10.2001-03.06.2011 | $0.58 | **16,050,000** | 16,250,000 |
| 28.05.2002 | 28.05.2002-27.05.2012 | $0.67 | **1,500,000** | 2,000,000 |
| | | | **28,281,000** | 30,221,000 |

## 31. INCOME TAX IN THE BALANCE SHEET

### (a) Current taxation in the balance sheet represents:

| | The Group | |
|---|---|---|
| | **2003** **$'000** | 2002 *$'000* |
| PRC income tax payable | **1,065** | 1,371 |

## 31. INCOME TAX IN THE BALANCE SHEET *(Continued)*

### (b) Deferred tax assets and liabilities recognised:

*(i) The Group*

The components of deferred tax (assets)/liabilities recognised in the consolidated balance sheet and the movements during the year are as follows:

| **Deferred tax arising from:** | **Depreciation allowances in excess of related depreciation** | **Revaluation of properties held for own use** | **Cut-off difference in income recognition between the PRC GAAP and HKFRS** | **Total** |
|---|---|---|---|---|
| | *$'000* | *$'000* | *$'000* | *$'000* |
| At 1 January 2002 | 126 | – | 3,292 | 3,418 |
| (Credited)/charged to consolidated income statement | (126) | – | 21 | (105) |
| Disposal of subsidiaries | – | – | (2,708) | (2,708) |
| At 31 December 2002 | – | – | 605 | 605 |
| At 1 January 2003 | – | – | 605 | 605 |
| Charged to consolidated income statement | – | 59 | 857 | 916 |
| **At 31 December 2003** | **–** | **59** | **1,462** | **1,521** |

| | **2003** | 2002 |
|---|---|---|
| | ***$'000*** | *$'000* |
| Net deferred tax asset recognised on the balance sheet | **(121)** | – |
| Net deferred tax liability recognised on the balance sheet | **1,642** | 605 |
| | **1,521** | 605 |

*For the year ended 31 December 2003*
*(Expressed in Hong Kong dollars)*

## 31. INCOME TAX IN THE BALANCE SHEET *(Continued)*

**(b) Deferred tax assets and liabilities recognised:** *(Continued)*

*(ii) The Company*

The components of deferred tax liabilities recognised in the balance sheet and the movements during the year are as follows:

| **Deferred tax arising from:** | **Depreciation allowances in excess of related depreciation** *$'000* |
|---|---|
| At 1 January 2002 | 95 |
| Charged to income statement | (95) |
| **At 31 December 2002 and 2003** | **–** |

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

**(d)** The Group has not recognised deferred tax assets in respect of tax losses of $82,389,000 (2002: $55,864,000). The tax losses do not expire under current tax legislation.

## 32. SHARE CAPITAL

| | **2003** | | 2002 | |
|---|---|---|---|---|
| | **No. of shares** ***('000)*** | ***$'000*** | No. of shares *('000)* | *$'000* |
| **Authorised:** | | | | |
| Ordinary shares of $0.10 each | **3,000,000** | **300,000** | 1,000,000 | 100,000 |
| **Issued and fully paid:** | | | | |
| At 1 January and 31 December | **440,644** | **44,064** | 440,644 | 44,064 |

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

Pursuant to a resolution passed at the special general meeting held on 8 July 2003, the Company's authorised share capital was increased to $300,000,000 by the creation of an additional 2,000,000,000 ordinary shares of $0.1 each, ranking pari passu with the existing shares of the Company.

## 33. RESERVES

### (a) The Group

| | Share premium *(Note i)* *$'000* | General reserve *(Note ii)* *$'000* | Translation reserve *(Note iii)* *$'000* | Retained earnings *$'000* | Total *$'000* |
|---|---|---|---|---|---|
| At 1 January 2002 | 195,909 | 6,675 | 1,168 | 53,674 | 257,426 |
| Transfer between reserves | – | 1,574 | – | (1,574) | – |
| Goodwill written back upon disposal of subsidiaries | – | – | – | 19,113 | 19,113 |
| Exchange difference on translation of financial statements of subsidiaries outside Hong Kong | – | – | (2) | – | (2) |
| Loss for the year | – | – | – | (10,948) | (10,948) |
| At 31 December 2002 | 195,909 | 8,249 | 1,166 | 60,265 | 265,589 |
| At 1 January 2003 | 195,909 | 8,249 | 1,166 | 60,265 | 265,589 |
| Transfer between reserves | – | 2,778 | – | (2,778) | – |
| Exchange difference on translation of financial statements of subsidiaries outside Hong Kong | – | – | 7 | – | 7 |
| Loss for the year | – | – | – | (10,108) | (10,108) |
| **At 31 December 2003** | **195,909** | **11,027** | **1,173** | **47,379** | **255,488** |

Included in the figure for the retained earnings is an amount of $8,061,000 (2002: $6,737,000) being the retained earnings attributable to jointly controlled entities.

*For the year ended 31 December 2003*
*(Expressed in Hong Kong dollars)*

## 33. RESERVES *(Continued)*

### (b) The Company

| | Share premium *(Note i)* $'000 | Retained earnings/ (Accumulated losses) $'000 | Total $'000 |
|---|---|---|---|
| At 1 January 2002 | 195,909 | 48,768 | 244,677 |
| Loss for the year | – | (27,219) | (27,219) |
| At 31 December 2002 | 195,909 | 21,549 | 217,458 |
| At 1 January 2003 | 195,909 | 21,549 | 217,458 |
| Loss for the year | – | (25,446) | (25,446) |
| **At 31 December 2003** | **195,909** | **(3,897)** | **192,012** |

*Notes:*

**(i) Share premium**

Under the Bermuda Companies Act 1981 (as amended), the funds in the share premium account are distributable in the form of fully paid bonus shares.

**(ii) General reserve**

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

**(iii) Translation reserve**

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

**(iv) Distributable reserves**

In the opinion of the directors, the aggregate amount of distributable reserves available for distribution to shareholders of the Company at 31 December 2003 was $Nil (2002: $21,549,000).

## 34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

### (a) Acquisitions of subsidiaries

| | 2003 |
|---|---|
| | *$'000* |
| Net assets acquired: | |
| Fixed assets | 36 |
| Inventories | 11 |
| Accounts receivable | 36 |
| Prepayments, deposits and other receivables | 3,093 |
| Cash and cash equivalents | 163 |
| Receipts in advance | (283) |
| Other payables and accrued liabilities | (370) |
| | 2,686 |
| Satisfied by: | |
| Cash paid | 1,632 |
| Cash payable | 1,054 |
| | 2,686 |
| Analysis of net outflow of cash and cash equivalents in connection with the acquisitions of subsidiaries: | |
| Cash paid | 1,632 |
| Cash and cash equivalents of the subsidiaries acquired | (163) |
| Net outflow of cash and cash equivalents in respect of acquisitions of subsidiaries | 1,469 |

## 34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

### (b) Disposal of subsidiaries

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

## 35. COMMITMENTS

### (a) Commitments under operating leases

At 31 December 2003, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

| | The Group | |
|---|---|---|
| | **2003** | 2002 |
| | ***$'000*** | *$'000* |
| Within 1 year | **2,085** | 2,439 |
| After 1 year but within 5 years | **435** | 195 |
| | **2,520** | 2,634 |

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

### (b) Capital commitments

Capital commitments outstanding at 31 December 2003 not provided for in the financial statements were as follows:

| | The Group | |
|---|---|---|
| | **2003** | 2002 |
| | ***$'000*** | *$'000* |
| Contracted for | **3,297** | – |
| Authorised but not contracted for | **6,989** | – |
| | **10,286** | – |

## 36. CONTINGENT LIABILITIES

At 31 December 2003, there were contingent liabilities in respect of the following:

| | The Group | |
|---|---|---|
| | **2003** | 2002 |
| | ***$'000*** | *$'000* |
| Assets pledged and guarantee given | **15,000** | 15,000 |

Certain buildings held for own use of the Group with an aggregate carrying value of $5,750,000 (2002: $5,750,000) were pledged and corporate guarantee of the Company was given as security for banking facilities amounting to $15,000,000 (2002: $15,000,000) granted to a subsidiary of a former related company. As at 31 December 2003, the amount of the facilities utilised was $5,347,000 (2002: $171,000).

## 37. MATERIAL RELATED PARTY TRANSACTIONS

During the year ended 31 December 2003, the Group has the following material transactions with certain related parties in which a director or shareholder of the Group is in a position to exercise significant influence:

| | | **2003** | 2002 |
|---|---|---|---|
| | *Note* | ***$'000*** | *$'000* |
| **Trading transactions** | | | |
| Systems integration services income | *i* | – | 1,679 |
| Systems value-added services income | *i* | – | 639 |
| Purchases of goods | *ii* | – | 721 |
| Sales commission | *iii* | – | 1,298 |

*Notes:*

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

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

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

## 37. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

| | Note | **2003** **$'000** | 2002 $'000 |
|---|---|---|---|
| **Non-trading transactions** | | | |
| Expenses paid | *i* | **2,911** | – |
| Prepayments | *ii* | **104** | 3,547 |
| Interest received | *iii* | **225** | – |
| Rental income | *iv* | **46** | – |
| Disposal of subsidiaries | *v* | **–** | 72,129 |
| Handling charges | *vi* | **–** | 1,095 |
| Interest paid | *vii* | **–** | 394 |
| Other borrowing costs | *viii* | **–** | 139 |
| Guarantee | *ix* | **–** | 31,200 |
| Advance of loan | *x* | **–** | 12,000 |
| Repayment of loan | *x* | **–** | 12,000 |
| Acquisition of subsidiaries | *xi* | **–** | 697 |

*Notes:*

(i) The amounts represented certain operating expenses paid by the Group on behalf of the jointly controlled entity (note 24).

(ii) Prepayments represented listing expenses paid by the Group on behalf of the jointly controlled entity. The amounts were subsequently converted into a loan from the Company to the jointly controlled entity (note 24).

(iii) Interest received represented interest income in respect of short-term borrowings advanced to jointly controlled entities. Interest under these financing arrangements was charged at 10% p.a. during the year ended 31 December 2003. The outstanding balances of interest bearing advances were subsequently converted into the additional capital of Besto (note 24).

(iv) These represented rental income received from a jointly controlled entity. Certain directors of the Company are also directors of the jointly controlled entity.

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

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

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

   The Disposal was completed on 5 July 2002.

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

*For the year ended 31 December 2003*
*(Expressed in Hong Kong dollars)*

## 37. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

*Notes: (Continued)*

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

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

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

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

(x) A loan was advanced to and repaid by a company. A Director of the Company was also a director of this company during the year ended 31 December 2002.

(xi) On 20 March 2002, the Group entered into an agreement with E-Star Information Systems Holdings Co. Ltd. ("E-Star") to acquire the remaining 30% interest in a subsidiary, Fujian SI, at a consideration of $697,000. After the acquisition, Fujian SI became a wholly owned subsidiary of the Group. A substantial shareholder of E-Star was also a director of certain subsidiaries of the Group.

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

## 38. POST BALANCE SHEET EVENTS

### (a) Capital injection by the minority shareholder

Pursuant to a joint venture agreement dated 30 December 2003, the minority shareholder of Anhui Start paid up its proportionate share of capital of Rmb2,450,000 on 5 January 2004.

### (b) Capitalisation issue and the listing of a jointly controlled entity

Pursuant to a resolution of the directors' meeting of SJTU Sunway on 6 January 2004 (conditional upon the share premium account of SJTU Sunway being credited as a result of the placing on 7 January 2004), an amount of $1,100,000 standing to the credit of the share premium account of SJTU Sunway was applied in paying up in full at par 110,000,000 ordinary shares of $0.01 each for issue and allotment to shareholders of SJTU Sunway as at 25 November 2003 in proportion to their then existing shareholdings in SJTU Sunway.

Upon completion of the capitalisation issue on 7 January 2004, the Group's interest in SJTU Sunway is diluted to 32.18%.

Dealings of SJTU Sunway's shares on the GEM commenced on 9 January 2004.

## 38. POST BALANCE SHEET EVENTS *(Continued)*

### (c) Capital injection in Xiamen Start Dragon

Pursuant to an agreement dated 18 November 2003, the Group agreed to contribute additional capital of $35,900,000 into Xiamen Start Dragon. After the proposed capital contribution, the paid up capital of Xiamen Start Dragon will rise from $11,900,000 to $47,800,000 and the percentage of shareholding of the Group will rise from 51% to 87.8%. $20,000,000 is subsequently paid up by the Group on 3 March 2004.

Xiamen Start Dragon has changed its name to Start-tech (Fujian) Software & System Co., Ltd. with effect from 17 March 2004 after the relevant approval documents were obtained from the PRC authorities.

### (d) Acquisition of 福州固嘉塑膠有限公司

On 18 March 2004, the Group and the minority shareholder of a subsidiary entered into an agreement with Roong Thavorn Plastic Co., Ltd. (泰國恒嘉股份有限公司), an independent third party, on the acquisition of the entire equity interest in 福州固嘉塑膠有限公司 ("福州固嘉"), whose principal activity is production and sale of plastic casing, at a consideration of Rmb13,400,000. Upon completion of the acquisition, 福州固嘉 will become a 65% subsidiary of the Group.

### (e) Establishment of a new company

On 22 March 2004, the Group entered into an articles of association with SJTU Sunway (Beijing) to establish a new company whose principal activity is the provision of translation services. The registered capital of the new company is Rmb5 million and the Group and SJTU Sunway (Beijing) will hold 25% and 75% equity interest and are required to contribute proportionately capital of Rmb1,250,000 and Rmb3,750,000 respectively on or before 3 August 2004.

### (f) Placing of shares

On 20 April 2004, the Company issued 88,000,000 new ordinary shares of $0.10 each at a subscription price of $0.35 per share, by way of share placement, raising net proceeds of approximately $30,000,000.

The directors do not have specific plans to utilise the net proceeds save as general working capital of the Group to further develop its information technology business.

# NOTES ON THE FINANCIAL STATEMENTS

*For the year ended 31 December 2003*
*(Expressed in Hong Kong dollars)*

## 38. POST BALANCE SHEET EVENTS *(Continued)*

**(g) Acquisition of Fuzhou Start Dragon**

On 23 April 2004, the Group entered into agreement with Star Gain Holdings Limited ("Star Gain") to acquire Star Gain's entire interest, being 49% of the total issued capital, in Fuzhou Start Dragon at a consideration of Rmb2,090,000. After the acquisition, Fuzhou Start Dragon will become a wholly owned subsidiary of the Group.

Pursuant to another agreement dated 23 April 2004, the above consideration of Rmb2,090,000 payable to Star Gain will set off against the amount of guarantee profits of $3,313,000 receivable by the Group.

Pursuant to a directors' resolution passed on 20 March 2004, it was resolved that the company name of Fuzhou Start Dragon be changed to 福州實達醫療系統有限公司.

## 39. ULTIMATE HOLDING COMPANY

The directors consider the ultimate holding company at 31 December 2003 to be Leading Value Industrial Limited, which is incorporated in the BVI.