NOTES ON THE FINANCIAL STATEMENTS

For the year ended 31 December 2004
(Expressed in Hong Kong dollars)

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 include all applicable Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), 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.

Early adoption of new HKFRS

The HKICPA has issued a number of new and revised HKFRS and Hong Kong Accounting Standards ("HKAS") ("new HKFRSs") which are effective for accounting periods on or after 1 January 2005. With effect from 1 January 2004, the Group has early adopted the following new HKFRSs:

HKFRS 3	Business combinations
HKAS 36	Impairment of assets
HKAS 38	Intangible assets

The early adoption of HKFRS 3, HKAS 36 and HKAS 38 has resulted in a change in the accounting policy for goodwill. Prior to 1 January 2004:

(i) Goodwill is amortised on a straight-line basis over its estimated useful life and assessed for impairment if there is any indication at each balance sheet date.

(ii) *Negative goodwill is recognised:*

- when future losses and expenses are recognised to the extent of expected future losses;
- over the weighted average useful life of non-monetary assets acquired to the extent of the fair values of the relevant assets; and
- immediately upon acquisition for the portion in excess of the fair values of the non-monetary assets acquired.

In accordance with the provisions of HKFRS 3, from 1 January 2004:

- goodwill is tested annually for impairment, as well as when there are indications of impairment; and
- the excess in the interest in fair value of the net identifiable assets acquired over the cost of acquisition is recognised immediately in the consolidated income statement upon acquisition.

With the early adoption of HKFRS 3, the Group recognised $11,886,000 as "Non-operating income" being the excess of its interest in the fair value of the net identifiable assets acquired over the cost of acquisition arising on the acquisition of a subsidiary. Recognition of this income for the year ended 31 December 2004 would be limited to $689,000, being the annual amortisation over the weighted average useful life of non-monetary assets acquired, had HKFRS 3 not been early adopted with effect from 1 January 2004.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Statement of compliance *(Continued)*

The Group has reassessed the useful lives of intangible assets in accordance with the provision of HKAS 38 and consider the amortisation of intangible assets on a straight-line basis over the estimated finite useful lives of three years to be appropriate. As a result, there is no effect on the amortisation charge for the year ended 31 December 2004 arising from the adoption of HKAS 38.

The adoption of HKAS 36 does not have material impact on the financial statements of the Group.

The new accounting standards early adopted by the Group do not require retrospective application and no comparative figures are restated.

The Group has not early adopted the other new HKFRSs except for those mentioned above in the financial statements for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of the other new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

(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 land and buildings held for own use 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(j)), 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) Associates and jointly controlled entities

An associate is an entity in which the Group or the Company has significant influence, but not control or joint control, over its management, including participation in the financial and reporting policy decisions.

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

An investment in an associate or a jointly controlled entity is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's or the jointly controlled entity's net assets, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions that significantly impair its ability to transfer funds to the 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 associates and jointly controlled entities for the year. When the Group's share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates and jointly controlled entities are eliminated to the extent of the Group's interest in the associates or 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.

(e) Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired.

For subsidiaries, goodwill is stated in the consolidated balance sheet at cost less any impairment losses (see note 1(j)). For associates and jointly controlled subsidiaries, the costs of goodwill less any impairment losses (see note 1(j)) is included in the carrying amount of the interest in associates or jointly controlled entities.

Notes on the Financial Statements

For the year ended 31 December 2004
(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Goodwill *(Continued)*

Goodwill is carried at cost less accumulated impairment losses and tested for impairment annually, as well as when there are indications of impairment.

The excess in the interest in fair value of the net identifiable assets acquired over the cost of acquisition is recognised immediately in the consolidated income statement upon acquisition.

(f) 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;

– land and 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(i)). 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(i)) and impairment losses (see note 1(j)).

(ii) Changes arising on the revaluation of investment properties and land 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.

Notes on the Financial Statements

For the year ended 31 December 2004
(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) 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(i)) and impairment losses (see note 1(j)). Other development expenditure is recognised as an expense in the period in which it is incurred.

(ii) Other intangible assets that are acquired by the Group are stated in the balance sheet at cost less accumulated amortisation (see note 1(i)) and impairment losses (see note 1(j)). 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.

(h) 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(i). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(j). Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies, as set out in note 1(q)(iv).

(ii) Operating lease charges

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

Notes on the Financial Statements

For the year ended 31 December 2004
(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) 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:

– land and 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

(j) Impairment of assets

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

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

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

– intangible assets; and

– goodwill.

If any such indication exists, the asset's recoverable amount is estimated. For intangible assets that are not yet available for use, or have an indefinite useful life and goodwill, the recoverable amount is estimated at each balance sheet date. An impairment loss is recognised in the income statement whenever the carrying amount of such an asset exceeds its recoverable amount.

(i) Calculation of recoverable amount

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

Notes on the Financial Statements

For the year ended 31 December 2004
(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Impairment of assets *(Continued)*

(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. 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.

(k) 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.

(l) Systems integration contracts

The accounting policy for contract revenue of software development and systems integration services is set out in note 1(q)(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".

Notes on the Financial Statements

For the year ended 31 December 2004
(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) 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.

(n) 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.

(o) 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.

Notes on the Financial Statements

For the year ended 31 December 2004
(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Income tax *(Continued)*

(iii) *(Continued)*

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of goodwill, goodwill not deductible for tax purposes, 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.

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.

Notes on the Financial Statements

For the year ended 31 December 2004
(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) 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.

(q) 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) Government grants

Grants that compensate the Group for expenses incurred are recognised as revenue in the income statement on a systematic basis in the same periods in which the expenses are incurred.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Translation of foreign currencies

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

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

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

(s) 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.

(t) 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.

(u) Segment reporting

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

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

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

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

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

Notes on the Financial Statements

For the year ended 31 December 2004
(Expressed in Hong Kong dollars)

2. TURNOVER

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are set out in note 14 on the financial statements.

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

	2004 *$'000*	2003 *$'000*
Manufacture and sale of computer related products	**142,509**	124,822
Software development and systems integration services	**55,247**	30,060
Sale of integrated circuits and computer software	**93,285**	–
	291,041	154,882

3. OTHER REVENUE

	2004 *$'000*	2003 *$'000*
Interest income	**3,308**	3,833
Value added tax ("VAT") refund *(note i)*	**1,545**	1,287
Rental income from investment properties	**556**	292
Government grants *(note ii)*	**669**	–
Dividend income from listed investment	**–**	752
Guaranteed investment return	**–**	426
Others	**1,146**	1,094
	7,224	7,684

Notes:

(i) 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.

(ii) During the year ended 31 December 2004, the Group was granted certain financial supports from the PRC government authorities to encourage innovation in software development.

Notes on the Financial Statements

For the year ended 31 December 2004
(Expressed in Hong Kong dollars)

4. OTHER NET (LOSS)/INCOME

	2004 $'000	2003 $'000
Deemed loss on partial disposal of subsidiaries	**(3,311)**	–
Profit on disposal of trading securities	**–**	7,635
	(3,311)	7,635

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

Profit/(loss) from ordinary activities before taxation is arrived at after charging/(crediting):

	2004 $'000	2003 $'000
(a) Finance costs:		
Interest expense on bank loans and other borrowings wholly repayable within five years	**1,909**	324
Other borrowing costs	**354**	173
	2,263	497
(b) Staff costs:		
Contributions to defined contribution schemes	**1,197**	1,226
Salaries, wages and other benefits	**28,685**	25,505
	29,882	26,731
(c) Other items:		
Cost of inventories sold	**233,363**	123,740
Auditors' remuneration	**1,724**	1,130
Depreciation	**9,316**	6,483
Amortisation of intangible assets	**657**	448
Negative goodwill written off included in share of profits less losses of jointly controlled entities	**–**	(1,442)
Deemed losses on disposal included in share of profits less losses of jointly controlled entities	**–**	3,375
Operating lease charges in respect of properties	**3,638**	2,711
Loss on disposal of fixed assets	**144**	3
Provision for alleged claims in relation to a software copyright dispute	**1,000**	–
Provision for loans receivable	**–**	283
Rental income from investment properties less direct outgoings of $112,197 (2003: $27,805)	**(445)**	(264)

Notes on the Financial Statements

For the year ended 31 December 2004
(Expressed in Hong Kong dollars)

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

(d) Non-operating income

On 18 March 2004, the Group and a minority shareholder of a subsidiary entered into an agreement with Roong Thavorn Plastic Co., Ltd., an independent third party, on the acquisition of the entire equity interest in Fuzhou Roong Thavorn Plastics Co., Ltd. ("Roong Thavorn") at a consideration of RMB13,400,000. Upon completion of the acquisition in May 2004, Roong Thavorn became a 65% subsidiary of the Group. The excess in the interest in the fair value of the net identifiable assets acquired over the cost of acquisition shared by the Group and the minority shareholder amounted to $11,886,000 and $6,360,000 respectively. The respective amounts were recognised in the consolidated income statement as "Non-operating income" and credited to the consolidated balance sheet as "Minority interest".

Included in profit attributable to shareholders for the year ended 31 December 2004 is post-acquisition loss of Roong Thavorn of $1,578,000.

6. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	2004 *$'000*	2003 *$'000*
Current tax – Provision for Hong Kong Profits Tax		
Tax for the year	342	–
Under provision in respect of prior year	37	–
	379	–
Current tax – PRC		
Tax for the year	1,419	1,393
(Over)/under provision in respect of previous years	(281)	583
	1,138	1,976
Deferred tax		
Origination and reversal of temporary differences	1,243	906
Effect of increase in tax rate on deferred tax balance at 1 January	–	10
	1,243	916
Share of a jointly controlled entity's taxation	–	204
	2,760	3,096

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

(a) Taxation in the consolidated income statement represents: *(Continued)*

The provision for Hong Kong Profits Tax is calculated at 17.5% (2003: 17.5%) of the estimated assessable profits for the year ended 31 December 2004.

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. The associates of the Group sustained loss for taxation purpose during the year ended 31 December 2004.

Certain subsidiaries and associates 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 2004 and 2003 in accordance with the PRC accounting standards and regulations (the "PRC GAAP"). Deferred taxation mainly represents differences between the PRC GAAP and HKFRSs in respect of accounting differences in income recognition.

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

	2004 *$'000*	2003 *$'000*
Profit/(loss) before tax	**14,192**	(1,576)
Notional tax on profit before tax, calculated at the rates applicable to profits in the jurisdictions concerned	**2,366**	(507)
Tax effect of non-deductible expenses	**778**	113
Tax effect of non-taxable revenue	**(2,374)**	(2,077)
Tax effect of unused tax losses not recognised	**2,439**	4,974
Utilisation of tax losses	**(205)**	–
Effect of change in tax rates	**–**	10
(Over)/under provision in prior years	**(244)**	583
Actual tax expense	**2,760**	3,096

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7. DIRECTORS' REMUNERATION

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

	2004 *$'000*	2003 *$'000*
Executive directors:		
Salaries and other emoluments	**2,655**	3,180
Retirement scheme contributions	**38**	48
Other allowances	**–**	540
Compensation for loss of office	**–**	1,100
	2,693	4,868
Independent non-executive directors:		
Fees	**271**	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 26 and the section headed "Share option scheme" in the Directors' Report.

The remuneration of the directors is within the following bands:

	2004 *Number of directors*	2003 *Number of directors*
Nil – $1,000,000	**7**	5
$1,000,001 – $1,500,000	**1**	1
$2,000,001 – $2,500,000	**–**	1

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8. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three of them (2003: four) are directors whose emoluments are disclosed in note 7 above. The aggregate of the emoluments in respect of the other two (2003: one) individual is as follows:

	2004	2003
	$'000	*$'000*
Salaries and other emoluments	**1,368**	600
Retirement scheme contributions	**24**	–
	1,392	600

The emoluments of the two (2003: one) individual with the highest emoluments are within the following bands:

	2004	2003
	Number of individuals	*Number of individuals*
Nil – $1,000,000	**1**	1
$1,000,001 – $1,500,000	**1**	–

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 2004 and 2003.

9. PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit/(loss) attributable to shareholders includes a loss of $52,043,000 (2003: $25,446,000) 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 2004 (2003: $Nil).

11. EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the profit attributable to ordinary shareholders of $8,054,000 (2003: loss attributable to ordinary shareholders of $10,108,000) and the weighted average number of ordinary shares of 502,123,000 (2003: 440,644,000) shares in issue during the year.

(b) Diluted earnings/(loss) per share

The effects of all potential ordinary shares are anti-dilutive for the years ended 31 December 2004 and 2003.

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12. 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:

Manufacture and sale of computer: related products	Manufacturing and sale of plastic casings for computer equipment.
Software development and systems integration services:	Development of application software and provision of systems integration services for specific industries.
Sale of integrated circuits and computer software:	Trading of integrated circuits and computer software.
Information localisation services:	Provision of translation and information localisation services and products.

Notes on the Financial Statements

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12. SEGMENT REPORTING *(Continued)*

	Manufacture & sale of computer related products		Software development & systems integration services		Sale of integrated circuits and computer software		Information localisation services		Unallocated		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	'000	'000	'000	'000	'000	'000	'000	'000	'000	'000	'000	'000
Revenue from external customers	142,509	124,822	55,247	30,060	93,285	–	–	–	–	–	291,041	154,882
Other revenue from external customers	–	522	2,218	1,287	–	–	–	–	1,606	864	3,824	2,673
	142,509	125,344	57,465	31,347	93,285	–	–	–	1,606	864	294,865	157,555
Segment result	13,071	19,474	(3,979)	(1,997)	22,671	–	–	–			31,763	17,477
Unallocated operating income and expenses											(18,651)	(13,575)
Profit from operations											13,112	3,902
Finance costs											(2,263)	(497)
Non-operating income	11,886	–	–	–	–	–	–	–			11,886	–
Non-operating expenses											–	(6,509)
Share of losses of associates	–	–	–	–	–	–	(8,543)	–			(8,543)	–
Share of profits less losses of jointly controlled entities	–	–	–	–	–	–	–	1,528			–	1,528
Income tax											(2,760)	(3,096)
Minority interests											(3,378)	(5,436)
Profit/(loss) attributable to shareholders											8,054	(10,108)
Depreciation and amortisation for the year	5,361	2,893	2,128	1,390	33	–	–	–				
Significant non-cash expenses (other than depreciation and amortisation)	–	–	1,000	1,735	–	–	–	–				
Segment assets	157,878	87,166	70,305	53,506	80,940	–	–	–			309,123	140,672
Interest in associates	–	–	–	–	–	–	15,715	–			15,715	–
Interest in jointly controlled entities	–	–	–	–	–	–	–	23,080			–	23,080
Unallocated assets											233,223	249,483
Total assets											558,061	413,235
Segment liabilities	84,720	45,655	45,035	34,563	44,223	–	–	–			173,978	80,218
Unallocated liabilities											11,248	13,742
Total liabilities											185,226	93,960
Capital expenditure incurred during the year	14,079	6,033	4,130	1,621	288	–	–	–				

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12. SEGMENT REPORTING *(Continued)*

Geographical segments

The Group's business participates in two (2003: two) major economic environment, namely the PRC and Hong Kong.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets and capital expenditure are based on the geographical location of the assets.

	2004			2003		
	PRC	**Hong Kong**	**Total**	PRC	Hong Kong	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Revenue from external customers	**215,541**	**75,500**	**291,041**	154,882	–	154,882
Segmental assets	**460,027**	**98,034**	**558,061**	361,115	52,120	413,235
Capital expenditure incurred during the year	**19,423**	**243**	**19,666**	9,772	38	9,810

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13. FIXED ASSETS

(a) The Group

	Land and buildings held for own use	Leasehold improvements	Plant and machinery	Furniture, fixtures and office equipment	Motor vehicles	Sub-total	Investment properties	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Cost or valuation:								
At 1 January 2004	7,828	2,415	29,535	6,984	10,959	57,721	3,950	61,671
Additions								
– through acquisition of a subsidiary	15,787	–	14,893	42	–	30,722	–	30,722
– others	–	671	3,540	3,385	1,767	9,363	–	9,363
Disposals	–	–	(307)	(129)	(500)	(936)	–	(936)
Surplus on revaluation	2,850	–	–	–	–	2,850	2,350	5,200
At 31 December 2004	**26,465**	**3,086**	**47,661**	**10,282**	**12,226**	**99,720**	**6,300**	**106,020**
Representing:								
Cost	–	3,086	47,661	10,282	12,226	73,255	–	73,255
Valuation – 2004	26,465	–	–	–	–	26,465	6,300	32,765
	26,465	3,086	47,661	10,282	12,226	99,720	6,300	106,020
Accumulated depreciation:								
At 1 January 2004	–	916	8,561	3,915	4,672	18,064	–	18,064
Charge for the year	1,020	658	4,115	1,431	2,092	9,316	–	9,316
Written back on disposal	–	–	(168)	(49)	(475)	(692)	–	(692)
Written back on revaluation	(154)	–	–	–	–	(154)	–	(154)
At 31 December 2004	**866**	**1,574**	**12,508**	**5,297**	**6,289**	**26,534**	**–**	**26,534**
Net book value:								
At 31 December 2004	**25,599**	**1,512**	**35,153**	**4,985**	**5,937**	**73,186**	**6,300**	**79,486**
At 31 December 2003	7,828	1,499	20,974	3,069	6,287	39,657	3,950	43,607

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13. FIXED ASSETS *(Continued)*

(b) The Company

	Leasehold improvements *$'000*	Furniture, fixtures and office equipment *$'000*	Motor vehicles *$'000*	Total *$'000*
Cost:				
At 1 January 2004	931	1,189	6,744	8,864
Additions	35	206	–	241
Disposals	–	(10)	(500)	(510)
At 31 December 2004	**966**	**1,385**	**6,244**	**8,595**
Accumulated depreciation:				
At 1 January 2004	389	930	3,506	4,825
Charge for the year	187	175	1,175	1,537
Written back on disposal	–	(10)	(475)	(485)
At 31 December 2004	**576**	**1,095**	**4,206**	**5,877**
Net book value:				
At 31 December 2004	**390**	**290**	**2,038**	**2,718**
At 31 December 2003	542	259	3,238	4,039

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

	2004 *$'000*	2003 *$'000*
In Hong Kong		
– long leases	**8,600**	5,750
– medium-term leases	**6,300**	3,950
Outside Hong Kong under medium-term leases	**16,999**	2,078
	31,899	11,778

Notes on the Financial Statements

For the year ended 31 December 2004
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13. FIXED ASSETS *(Continued)*

(d) The Group's investment properties and buildings held for own use in Hong Kong were revalued at 31 December 2004 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 $2,350,000 (2003: $Nil) in relation to the Group's investment properties have been credited to the income statement. The revaluation surplus of $3,004,000 (2003: $154,000) in relation to the Group's buildings held for own use in Hong Kong has been transferred to the revaluation reserve (note 29(a)) (2003: credited to the income statement).

The Group's land and 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 2004.

The carrying amount of the land and buildings held for own use of the Group at 31 December 2004 would have been $22,441,000 (2003: $7,674,000) had they been carried at cost less accumulated depreciation.

(e) At 31 December 2004, the Group's investment properties with an aggregate carrying value of $6,300,000 (2003: $3,950,000) were pledged as security for banking facilities granted to the Group (see note 24(i)). In addition, certain buildings held for own use of the Group with an aggregate carrying value of $8,600,000 (2003: $5,750,000) were pledged as security for banking facilities granted to a subsidiary of a former related company (note 32).

(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 2004, the gross carrying amount of investment properties of the Group held for use in operating leases were $6,300,000 (2003: $3,950,000).

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

	2004	2003
	$'000	*$'000*
Within one year	**311**	121
After 1 year but within 5 years	**111**	–
	422	121

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(Expressed in Hong Kong dollars)

14. INTEREST IN SUBSIDIARIES

	The Company	
	2004	2003
	$'000	*$'000*
Unlisted shares, at cost	**5,586**	1,586
Amounts due from subsidiaries	**287,694**	279,013
Amounts due to subsidiaries	**(35,429)**	(46,473)
	257,851	234,126
Less: impairment loss	**(50,066)**	–
	207,785	234,126

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. 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	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	Sale of integrated circuits and computer software
Fortune Jet International Limited	Hong Kong	–	100	$10,000,000	Investment holding
Regal Harbour Limited	Hong Kong	–	100	$2	Property holding
Fortune Years Limited	Hong Kong	–	100	$2	Property holding

Notes on the Financial Statements

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14. INTEREST IN SUBSIDIARIES *(Continued)*

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
Start-tech (Guangzhou) Medical System Co., Ltd. (Formerly known as 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. *(note i)*	PRC	–	100	RMB4,800,000	Provision of software development and systems integration services
Fuqing Fujie Plastics Co., Ltd. ("Fuqing Fujie") *(note iii)*	PRC	–	60	RMB31,700,000	Manufacturing and sale of computer related products
Start-tech (Fujian) Software and System Co., Ltd. ("Start-tech (Fujian)") (Formerly known as Xiamen Start Dragon Information Technology Co., Ltd.) *(note i)*	PRC	–	88	RMB50,713,450	Provision of software development and systems integration services
Fuzhou Start Medical Systems Co., Ltd. (Formerly known as Fuzhou Start Dragon Information Technology Co., Ltd.) *(note i)*	PRC	–	100	RMB2,000,000	Provision of software development and systems integration services
Fujian Gallop Information Co., Ltd. *(note i)*	PRC	100	–	RMB5,754,428	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	–	89	RMB3,000,000	Trading of medical equipment
Fuzhou Hai Kang Medical Equipment Co., Ltd. *(note ii)*	PRC	–	89	RMB500,000	Trading of medical equipment

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14. INTEREST IN SUBSIDIARIES *(Continued)*

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
Anhui Start Technology and System Integration Co., Ltd. *(note ii)*	PRC	–	45	RMB2,550,000	Provision of software development and systems integration services
Roong Thavorn *(note iii)*	PRC	–	61	USD5,700,000	Manufacture and sale of computer related products
Inner Mongolia Start-Tech Software and System Co., Ltd. *(note ii)*	PRC	–	88	RMB3,000,000	Provision of software development and systems integration services
Fujian Start Information Facility Co., Ltd. *(note i)*	PRC	–	100	RMB4,404,940	Not yet commenced operation
Wuhan Fujie Plastics Co., Ltd. ("Wuhan Fujie") *(note iii)*	PRC	–	61	– *(note iv)*	Not yet commenced operation

Notes:

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

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

(iii) These are sino-foreign equity joint venture companies established in the PRC.

(iv) Wuhan Fujie was incorporated on 1 November 2004. Pursuant to a capital verification report dated 1 March 2005, capital contribution in the form of cash totalling RMB1,505,000 has been injected by the shareholders of Wuhan Fujie.

15. CONSTRUCTION IN PROGRESS

	The Group	
	2004	2003
	$'000	*$'000*
Balance at 1 January	**1,969**	–
Additions	**9,361**	1,969
Balance at 31 December	**11,330**	1,969

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(Expressed in Hong Kong dollars)

16. INTANGIBLE ASSETS

	The Group Computer software
	$'000
Cost:	
At 1 January 2004	3,036
Additions	942
At 31 December 2004	**3,978**
Accumulated amortisation:	
At 1 January 2004	2,164
Charge for the year	657
At 31 December 2004	**2,821**
Net book value:	
At 31 December 2004	**1,157**
At 31 December 2003	872

Amortisation of intangible assets is included in "Cost of sales" in the consolidated income statement.

17. INTEREST IN ASSOCIATES/JOINTLY CONTROLLED ENTITIES

	The Group	
	2004	2003
	$'000	*$'000*
Share of net assets	**15,715**	23,080

(Expressed in Hong Kong dollars)

17. INTEREST IN ASSOCIATES/JOINTLY CONTROLLED ENTITIES *(Continued)*

Details of the Group's interest in the associates as at 31 December 2004 are as follows:

Name of associates	Form of business structure	Place of incorporation/ establishment	Place of operation	Particulars of issued and paid up capital	Attributable ownership interest percentage Direct	Attributable ownership interest percentage Indirect	Principal activities
SJTU Sunway Software Industry Limited ("SJTU Sunway")	Limited company	Cayman Islands	Hong Kong	$2,000,000	–	32.2	Investment holding
Besto Investment Limited	Limited company	BVI	Hong Kong	US$14,833	–	32.2	Investment holding
SJTU Sunway Information Technology Co., Ltd. (Formerly known as SJTU Sunway Software Co., Ltd.) ("SJTU Sunway (Beijing)")	Wholly foreign-owned enterprise	PRC	PRC	RMB15,000,000	–	32.2	Provision of information localisation services
SUNV (Beijing) Century Information Technology Co., Ltd.	Wholly foreign-owned enterprise	PRC	PRC	RMB6,000,000	–	32.2	Provision of information localisation services
Beijing Guoxin Sunway IT Co., Ltd.	Limited company	PRC	PRC	RMB2,000,000	–	32.2	Provision of information localisation services
Shanghai Sunway Century IT Co., Ltd.	Limited company	PRC	PRC	RMB5,000,000	–	32.2	Provision of information localisation services
Fujian Multi Language Translation Service Company Limited ("FMLT")*	Limited company	PRC	PRC	RMB5,000,000	–	49.1	Provision of information localisation services

Upon the completion of a placing and capitalisation issue on 7 January 2004, the Group's interest in SJTU Sunway was diluted from 49.5% to 32.2% and SJTU Sunway became an associate of the Group as the Group has significant influence, but not control or joint control, over the management of SJTU Sunway. The shares of SJTU Sunway commenced dealings in the Growth Enterprise Market of the Stock Exchange on 9 January 2004.

* FMLT is owned as to 75% by SJTU Sunway (Beijing) and 25% by a subsidiary, Start-tech (Fujian).

Notes on the Financial Statements

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17. INTEREST IN ASSOCIATES/JOINTLY CONTROLLED ENTITIES *(Continued)*

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

	2004	2003
	$'000	*$'000*
Balance sheet as at 31 December		
Non-current assets	**22,179**	6,946
Current assets	**49,412**	67,707
Current liabilities	**23,088**	21,208
Income statement for the year ended 31 December		
Turnover	**13,949**	35,502
(Loss)/profit from ordinary activities before taxation	**(25,982)**	8,654
Income tax	**1**	509

18. INVESTMENT FUNDS

(a) Pursuant to an agreement dated 5 September 2003, a subsidiary of the Group entered into an agreement with a PRC domestic company for the provision of ongoing financial advisory services in sourcing IT related development projects or other acquisition projects. As at 31 December 2004, investment fund of $19,336,000 (2003: $19,336,000) was placed with the PRC domestic company. Service fee calculated at 20% of any investment returns received is payable to the PRC domestic company at the end of the service term.

(b) On 25 November 2004, the Group entered into a memorandum of understanding with an independent third party to acquire 51% equity interest in certain PRC domestic companies. As at 31 December 2004, an investment fund of $12,000,000 was placed with this independent third party as a deposit for the acquisition.

(c) Pursuant to an agreement dated 19 January 2004, the Company entered into agreement with a Hong Kong company for the provision of ongoing financial advisory service in sourcing capital investment projects. As at 31 December 2004, investment fund of $2,150,000 was placed with the Hong Kong company. Service fee of $150,000 is payable to the Hong Kong company at the end of the service term for any capital investment projects sourced.

19. INVENTORIES

	The Group	
	2004	2003
	$'000	*$'000*
Raw materials	**18,568**	17,989
Work in progress	**225**	456
Finished goods	**8,921**	5,512
	27,714	23,957

All inventories are stated at cost. During the year ended 31 December 2004, no provision was made against the inventories (2003: $Nil).

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20. TRADE AND OTHER RECEIVABLES

		The Group		The Company	
		2004	2003	2004	2003
	Note	*$'000*	*$'000*	*$'000*	*$'000*
Accounts receivable	*i*	**120,009**	50,636	**–**	–
Bills receivable	*i*	**19**	94	**–**	–
Retentions receivable from customers *(note 21)*		**3,257**	3,114	**–**	–
Gross amount due from customers for contract work *(note 21)*		**12,598**	9,587	**–**	–
Prepayments, deposits and other receivables		**23,149**	15,799	**5,934**	5,678
Loans receivable	*ii*	**11,869**	27,630	**4,056**	186
		170,901	106,860	**9,990**	5,864

All of the trade and other receivables 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	
	2004	2003
	$'000	*$'000*
Current	**100,392**	33,627
1 to 3 months overdue	**6,743**	12,253
More than 3 months overdue but less than 12 months overdue	**8,796**	3,384
Overdue beyond 1 year	**4,097**	1,466
	120,028	50,730

Credit terms granted by the Group to the customers generally range from 30 days to 150 days. Accounts receivable with balances that are more than 6 months overdue are requested to settle all outstanding balances before any further credit is granted.

(ii) Interest is charged at 1.25% to 7.2% per annum (2003: 1.20% to 10% per annum). $6,891,000 was repaid up to April 2005. The remaining balances of $4,978,000 are repayable on or before 30 November 2005.

20. TRADE AND OTHER RECEIVABLES *(Continued)*

Balances with related parties included above are as follows:

	The Group				The Company			
	2004		2003		2004		2003	
	Loans receivable	Prepayments, deposits and other receivables	Loans receivable	Prepayments, deposits and other receivables	Loans receivable	Prepayments, deposits and other receivables	Loans receivable	Prepayments, deposits and other receivables
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Amount due from an associate/ jointly controlled entity *(note i)*	-	106	-	2,911	-	106	-	-
Loans to associates *(note ii)*	2,322	-	-	-	1,471	-	-	-
	2,322	106	-	2,911	1,471	106	-	-

Notes:

(i) At 31 December 2004, the amount due from an associate represents rental income receivable. At 31 December 2003, the amount due from jointly controlled entity represented operating expenses paid on behalf of the jointly controlled entity.

(ii) Loans to associates are unsecured, bearing interest ranged from 1.6% to 2.7% per annum and are due in October 2005.

21. 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, during the year ended 31 December 2004 amounted to $61,013,000 (2003: $43,704,000).

The gross amount due from customers for contract work at 31 December 2004 and 2003 are expected to be recovered within one year. The gross amount due to customers for contract work at 31 December 2004 and 2003 are expected to be settled within one year.

In respect of systems integration contracts in progress at the balance sheet date, the amount of retentions receivable from customers at 31 December 2004 is $3,257,000 (2003: $3,114,000). The amount of retentions at 31 December 2004 are expected to be recovered within one year. (2003: after more than one year of $1,617,000).

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22. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2004	2003	**2004**	2003
	$'000	*$'000*	***$'000***	*$'000*
Cash at bank and in hand	**74,391**	49,689	**30**	109
Bank overdraft *(note 24)*	**(20,001)**	(1,223)		
Cash and cash equivalents in the cash flow statement	**54,390**	48,466		

23. TRADE AND OTHER PAYABLES

		The Group		The Company	
		2004	2003	**2004**	2003
	Note	***$'000***	*$'000*	***$'000***	*$'000*
Accounts payable	*i*	**73,978**	46,578	**–**	–
Bills payable	*i*	**3,133**	2,803	**–**	–
Gross amount due to customers for contract work *(note 21)*		**4,769**	2,325	**–**	–
Receipts in advance		**498**	465	**–**	–
Other payables and accrued liabilities		**30,191**	32,207	**5,444**	8,062
		112,569	84,378	**5,444**	8,062

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	
	2004	2003
	$'000	*$'000*
Due within 3 months or on demand	**46,026**	43,869
Overdue 3 months to 1 year	**30,618**	5,253
Overdue beyond 1 year	**467**	259
	77,111	49,381

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24. LOANS AND OVERDRAFT

	The Group		The Company	
	2004	2003	2004	2003
	$'000	*$'000*	*$'000*	*$'000*
Secured bank overdraft *(note 22)*	**20,001**	1,223	**–**	–
Bank loans – unsecured	**46,540**	5,652	**–**	–
Other loans – unsecured	**1,250**	–	**1,100**	–
	67,791	6,875	**1,100**	–

At 31 December 2004, all loans and overdraft were repayable within one year or on demand.

As at 31 December 2004, the Group had banking facilities totaling of $102,970,000 (2003: $73,304,000) of which $70,000,000 (2003: $62,000,000) was secured by the following:

(i) Mortgages over the Group's investment properties with an aggregate carrying value of $6,300,000 at 31 December 2004 (2003: $3,950,000).

(ii) A charge over the Group's fixed deposits with banks of $17,516,000 (2003: $17,516,000) at 31 December 2004.

(iii) Corporate guarantee given by the Company.

The banking facilities were utilised to the extent of $69,674,000 (2003: $8,874,000) at 31 December 2004.

25. 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 $77,000 (2003: $159,000) 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 25% (2003: 14% to 21%) of the standard wages determined by the relevant authorities in the PRC.

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25. EMPLOYEE RETIREMENT BENEFITS *(Continued)*

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 $1,120,000 (2003: $1,019,000) during the year.

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

26. 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.

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%

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26. EQUITY COMPENSATION BENEFITS *(Continued)*

(a) Movement in share options

	2004 *Number*	2003 *Number*
At 1 January	**28,281,000**	30,221,000
Granted	**–**	–
Lapsed	**(1,400,000)**	(1,940,000)
At 31 December	**26,881,000**	28,281,000
Option vested at 31 December	**26,881,000**	27,341,000

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

Date granted	Exercise period	Exercise price	2004 *Number*	2003 *Number*
06.07.1999	02.10.1999-05.07.2009	$1.08	**7,981,000**	7,981,000
30.12.1999	02.01.2001-29.12.2009	$1.13	**100,000**	500,000
17.01.2000	02.01.2001-16.01.2010	$1.32	**850,000**	850,000
21.01.2000	02.01.2001-20.01.2010	$1.44	**560,000**	560,000
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	**300,000**	800,000
04.06.2001	01.10.2001-03.06.2011	$0.58	**16,050,000**	16,050,000
28.05.2002	28.05.2002-27.05.2012	$0.67	**1,000,000**	1,500,000
			26,881,000	28,281,000

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27. INCOME TAX IN THE BALANCE SHEET

(a) Current taxation in the balance sheet represents:

	The Group	
	2004	2003
	$'000	*$'000*
Hong Kong Profit Tax payable	**342**	–
PRC income tax payable	**1,097**	1,065
	1,439	1,065

(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:	**Revaluation of properties held for own use**	**Cut-off difference in income recognition between the PRC GAAP and HKFRSs**	**Total**
	$'000	*$'000*	*$'000*
At 1 January 2003	–	605	605
Charged to consolidated income statement *(note 6(a))*	59	857	916
At 31 December 2003	59	1,462	1,521
At 1 January 2004	59	1,462	1,521
Charged to consolidated income statement *(note 6(a))*	13	1,230	1,243
Charged to reserve *(note 29(a))*	526	–	526
At 31 December 2004	598	2,692	3,290

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27. INCOME TAX IN THE BALANCE SHEET *(Continued)*

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

	The Group	
	2004	2003
	$'000	*$'000*
Net deferred tax asset recognised on the balance sheet	**(137)**	(121)
Net deferred tax liability recognised on the balance sheet	**3,427**	1,642
	3,290	1,521

(c) The Group has not recognised deferred tax assets in respect of tax losses of $50,035,000 (2003: $82,389,000). The tax losses do not expire under current tax legislation.

28. SHARE CAPITAL

	2004		2003	
	No. of shares *('000)*	*$'000*	No. of shares *('000)*	*$'000*
Authorised:				
Ordinary shares of $0.10 each	**3,000,000**	**300,000**	3,000,000	300,000
Issued and fully paid:				
At 1 January	**440,644**	**44,064**	440,644	44,064
Placing of new shares	**88,000**	**8,800**	–	–
At 31 December	**528,644**	**52,864**	440,644	44,064

On 20 April 2004, the Company issued 88,000,000 new ordinary shares of $0.1 each at a subscription price of $0.35 per share, by way of placement, raising net proceeds of $29,946,000.

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

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29. RESERVES

(a) The Group

	Share Premium *(note i)* *$'000*	General reserve *(note ii)* *$'000*	Translation reserve *(note iii)* *$'000*	Land and buildings revaluation reserve *(note iv)* *$'000*	Retained earnings *$'000*	Total *$'000*
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
At 1 January 2004	195,909	11,027	1,173	–	47,379	255,488
Transfer between reserves	–	2,153	–	–	(2,153)	–
Placing of new shares *(note 28)*	21,146	–	–	–	–	21,146
Surplus on revaluation of buildings held for own use *(note 13(d))*	–	–	–	3,004	–	3,004
Deferred tax liability arising from revaluation *(note 27(b))*	–	–	–	(526)	–	(526)
Exchange difference on translation of financial statements of subsidiaries outside Hong Kong	–	–	(6)	–	–	(6)
Profit for the year	–	–	–	–	8,054	8,054
At 31 December 2004	**217,055**	**13,180**	**1,167**	**2,478**	**53,280**	**287,160**

Included in the figure for the retained earnings is accumulated losses of $482,000 (2003: retained earnings of $8,061,000) being the accumulated losses attributable to jointly controlled entities and associates.

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29. RESERVES *(Continued)*

(b) The Company

	Share premium *(note i)* *$'000*	Accumulated losses *$'000*	Total *$'000*
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
At 1 January 2004	195,909	(3,897)	192,012
Placing of new shares	21,146	–	21,146
Loss for the year	–	(52,043)	(52,043)
At 31 December 2004	**217,055**	**(55,940)**	**161,115**

Notes:

(i) Share premium

Under the Companies Act 1981 of Bermuda (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, associates and jointly controlled entities operating outside Hong Kong.

(iv) Land and buildings revaluation reserve

The land and buildings revaluation reserve has been set up and is dealt with in accordance with the accounting policy adopted for revaluation of land and buildings held for own use (note 1(f)).

(v) Distributable reserves

In the opinion of the directors, these was no distributable reserve under the bye-law of the Company. In addition, the Company's share premium account of $217,055,000 at 31 December 2004 (2003: $195,909,000) may be available for distribution in the form of fully paid bonus shares.

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30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisitions of subsidiaries

	2004 $'000	2003 $'000
Net assets acquired:		
Fixed assets	30,722	36
Inventories	–	11
Accounts receivable	206	36
Prepayments, deposits and other receivables	–	3,093
Cash and cash equivalents	129	163
Receipts in advance	–	(283)
Other payables and accrued liabilities	(262)	(370)
	30,795	2,686
Minority interest	(7,390)	–
Excess in the interest in the fair value of the net identifiable assets acquired over the cost of acquisition	(11,886)	–
	11,519	2,686
Satisfied by:		
Cash paid	11,519	1,632
Cash payable	–	1,054
	11,519	2,686
Analysis of net outflow of cash and cash equivalents in connection with the acquisitions of subsidiaries:		
Cash paid	11,519	1,632
Cash and cash equivalents of the subsidiaries acquired	(129)	(163)
Net outflow of cash and cash equivalents in respect of acquisitions of subsidiaries	11,390	1,469

31. COMMITMENTS

(a) Commitments under operating leases

At 31 December 2004, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group		The Company	
	2004	2003	**2004**	2003
	$'000	*$'000*	***$'000***	*$'000*
Within 1 year	**2,078**	2,085	**202**	199
After 1 year but within 5 years	**422**	435	**–**	–
	2,500	2,520	**202**	199

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 2004 not provided for in the financial statements were as follows:

	The Group	
	2004	2003
	$'000	*$'000*
Contracted for	**13,440**	3,297
Authorised but not contracted for	**–**	6,989
	13,440	10,286

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32. CONTINGENT LIABILITIES

At 31 December 2004, there were contingent liabilities in respect of the following:

		The Group		The Company	
		2004	2003	**2004**	2003
	Note	*$'000*	*$'000*	*$'000*	*$'000*
Guarantees given to banks by the Company in respect of banking facilities utilised by a wholly owned subsidiary		–	–	**42,814**	3,222
Assets pledged and guarantee given	*i*	**788**	5,347	**788**	5,347
		788	5,347	**43,602**	8,569

Note:

(i) Certain land and buildings held for own use of the Group with an aggregate carrying value of $8,600,000 (2003: $5,750,000) were pledged and corporate guarantee of the Company was given as security for banking facilities amounting to $15,000,000 (2003: $15,000,000) granted to a subsidiary of a former related company. As at 31 December 2004, the amount of the facilities utilised was $788,000 (2003: $5,347,000).

33. MATERIAL RELATED PARTY TRANSACTIONS

During the year ended 31 December 2004, the Group has the following material transactions with certain related parties in which a director or shareholder of the Group is in a position to exercise significant influence:

	Note	**2004** *$'000*	2003 *$'000*
Non-trading transactions			
Advancement of loans	*i*	**2,322**	–
Rental income	*ii*	**274**	46
Expenses paid	*iii*	**–**	2,911
Prepayments	*iv*	**–**	104
Interest received	*v*	**–**	225

Notes:

(i) Loans to associates are unsecured, bearing interest ranged from 1.6% to 2.7% per annum and are due in October 2005.

(ii) These represented rental income received from an associate/jointly controlled entity (note 20). Certain directors of the Company are also directors of the associate/jointly controlled entity.

(iii) The amounts represented operating expenses paid by the Group on behalf of the jointly controlled entity (note 20).

(iv) Prepayments represented listing expenses paid by the Group on behalf of the jointly controlled entity.

(v) 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% per annum during the year ended 31 December 2003.

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.

34. POST BALANCE SHEET EVENTS

(a) Acquisition of Start-tech (Fujian)

On 17 February 2005, the Group entered into an agreement with Star Gain Holdings Limited ("Star Gain") to acquire Star Gain's entire equity interest, being 12.2% of the total issued capital, in Start-tech (Fujian) at a consideration of RMB9,000,000. Upon completion of the acquisition, Start-tech (Fujian) will become a wholly owned subsidiary of the Group.

(b) Private placing of unlisted warrants

On 10 January 2005, the Company issued 90,000,000 non-listed warrants at an issue price of $0.02 per warrant by private placement and the warrants were placed to six independent parties. Each warrant entitles the holder to subscribe for one ordinary share of $0.1 each at an initial subscription price $0.35 per share, subject to adjustment, during the three-year period from the date of allotment and issue of the warrants.

(c) Possible disposal of Fuqing Fujie, Roong Thavorn and Wuhan Fujie

On 23 March 2005, the Group entered into a memorandum of understanding with Smart Eastern International Limited ("Smart Eastern"), an independent third party, on the possible disposal of the Group's entire equity interest in the subsidiaries engaged in the manufacture and sale of computer related products, including Fuqing Fujie, Roong Thavorn and Wuhan Fujie (the "Subsidiaries"). Pursuant to the memorandum of understanding, Smart Eastern is required to pay a deposit of RMB5,000,000 but no detailed terms, including the amount and payment terms of the consideration for the disposal of the Subsidiaries, have been agreed upon by these parties.

(d) Acquisition of 30% equity interests in Loten Technology Co., Ltd. ("Loten")

On 29 March 2005, the Company entered into a sale and purchase agreement with the existing shareholders of Loten, who are independent third parties (the "Vendors"), to acquire 30% equity interest in Loten at a consideration of RMB50,000,000. Pursuant to the sale and purchase agreement, the Company is granted a right of first refusal over the remaining 70% equity direct or indirect interest in Loten at a price to be negotiated and agreed between the Company and the Vendors.

35. ULTIMATE HOLDING COMPANY

The directors consider the ultimate holding company at 31 December 2004 to be Leading Value Industrial Limited, which is incorporated in the BVI.