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Corporate Profile

Technology Venture Holdings Limited (SEHK: 61) is an information technology enabler focusing its expert systems-integration services on the banking, finance and telecommunication industries. Over the years, TVH has built an effective business model and created competitive advantages from the integration of its niche hardware products with the development and deployment of new applications, comprehensive maintenance and consultancy services, and newly introduced Internet networking and security services.

As a TVH shareholder, you own a stake in an information technology group itself engaged in a wide range of systems integration, software and applications development, e-commerce enabling and Internet networking and security provision as well as involved, through strategic investment, in the provision of satellite-based broadband Internet services in China. Through continued expansion, mergers with niche industry participants and investments in information technology (“IT”) incubation projects, we have now substantially completed our IT product and service offerings. We now operate one of the largest banking and finance systems integration teams in China, are actively strengthening our Internet networking and security team’s presence in the region and are connected to a pioneering satellite communications operation with an active network roll-out planned for the near future.

TVH is headquartered in Hong Kong and operates a network of more than 10 regional offices in China, supported by a staff of more than 350. The Company was listed on The Stock Exchange of Hong Kong Limited in July 1999. We were named one of the world’s best 300 SMEs for 2001, by FORBES GLOBAL.

Principal Operating Units

Banking and finance systems-integration services

- Sequent China/Hong Kong Limited
- Topasia Computer Limited
- Advanced Digital Technology Company Limited

e-Commerce and public sector information enabling

- Topsoft Limited

Broadband Internet Protocol networking and Internet security products

- DMX Technologies (Hong Kong) Limited
(formerly Skynet Consultants Company
Limited)

Chairman's Statement

2001 is a year of focus and consolidation for TVH. We have been critically re-examining our position and competitiveness in various business sectors in order to fine-tune our business strategies for and to re-allocate our resources among our operating units.



Dear Members,

The year 2000 was a difficult period for the information technology industry. Not only did we experience a slow-down in the industry in general, but the 'dotcom' phenomenon which arrived and departed so abruptly has also caused confusion among many people both within and outside the industry. Last year, when the 'dotcoms' were at their apex of their development, the public suddenly developed a new perspective on as well as considerable interest in the IT industry while many industry participants, including us, shifted part of their focus and resources to capture the new business opportunities expected to present themselves with the 'e'-era. Now, with the 'dotcom' phenomenon behind us, many people have veered to the other extreme and are, in my opinion, overly cautious about the industry; and many industry participants are, again in my opinion, overly pessimistic about the future of e-business development.

As a participant in the IT industry, we are not insulated from the global slow-down in the development of e-business and our software development operations have inevitably been affected. Although the division has experienced some difficulties over the past year, we believe the experience acquired and lessons learned in the process have enabled the team to refocus and position themselves better in the market. We maintain full confidence in our team. We also believe the industry adjustments seen last year were a healthy sign and will ultimately help the New Economy build a more sturdy and lasting platform for the continued development of e-business which we believe is here to stay.

The Group's mainframe systems-integration operations have also experienced a slow-down in growth rate after years of robust growth. We believe this is an industry phenomenon. To achieve a healthy and steady growth for this operation in the future, investments and all-out efforts have been and are being made to enhance the service and applications development elements within our projects. In addition, we have successfully expanded our industry coverage and product offerings through our new member, Advanced Digital Technology (ADT).

Performance of our peripherals systems-integration operations was encouraging. The team maintains a clear and focused objective of becoming a leading ATM systems integrator in China. In 2000, we have made considerable grounds in the ATM market by, for the first time, becoming one of the top five NCR ATM integrators in China. As we gain increased market share in the ATM market, we foresee continued pressure on our pricing strategy, which will in turn lead to lower margins. The team intends to make up this anticipated lowering in margins by, on the one hand, obtaining additional discounts from vendors as the volume of business grows and, on the other, by expanding the ATM machine services operations which command higher margins. In short, our increasing market share and the considerable growth of this business line are likely to continue throughout 2001.

In September last year, TVH completed the acquisition of a 55% interest in ADT for a total consideration of HK\$68.2 million of which HK\$31.45 million is payable upon ADT meeting of the profit guarantee in respect of the acquisition. ADT is a company engaged in the provision of systems integration, software development, engineering, maintenance and professional outsourcing services, customized for banking and finance, telecommunications and public sector clients. Through this acquisition, we have combined the technology focus, marketing networks and IT talent of the Group's existing mainframe SI team with those of ADT. This acquisition also makes the Group the owner and operator of one of the largest and most experienced banking and finance SI teams in China.

We also entered into an agreement in November last year to acquire a 51% stake in DMX Technologies (Hong Kong) Limited (formerly Skynet Consultants Company Limited), a systems integrator specializing in Internet Protocol networking, Internet security and Web-based television solutions in Hong Kong, China and certain other countries in Asia. DMX Technologies' IP network infrastructure skills have given the Group fast-track re-entry to the data communications business as we promised our shareholders at the beginning of last year. We believe that the addition of DMX Technologies will not only benefit the Group financially through its profit contribution; but will also contribute added value through its industry insights and knowledge. The consideration for this acquisition totalled HK\$140 million (subject to adjustments).

The year 2000 was not without difficulty for TVH. We ended the year with a total turnover of approximately HK\$417,247,000, an increase of approximately 19% from 1999, and a profit attributable to shareholders of approximately HK\$18,213,000, a decrease of approximately 47% from 1999. 2001 is a year of focus and consolidation for TVH. We have been critically re-examining our position and competitiveness in various business sectors in order to fine-tune our business strategies for and to re-allocate our resources among our operating units. Another major task for us this year is to consolidate the ADT and DMX Technologies teams into the Group and to create as much synergy among the various business divisions as possible. One of the steps we have taken in this direction was the establishment of an intra-divisional corporate development team comprised of members from each business division to be responsible for formulating corporate business strategies and direction for the Group.

Chairman's Statement *(continued)*

We are pleased to report that ChinaCast Technology (CCT), in which TVH holds a 19.9% interest, in September 2000 received total investments of US\$28.6 million from Hughes Network Systems (HNS), Intel Capital and SUNeVision (HKGEM: 8008). CCT is committed to the ongoing evolution of Internet and broadband services in China, and has supported the launch of Turbo163, the first nationwide satellite-based broadband service in the country. This pioneering broadband service was inaugurated in Beijing in January 2001.

With the State's vision to make China the region's information hub of tomorrow, our teams across the country are now poised to help realize this transformation into a new Digital China. In the next section, team members of our various units will report their achievements in 2000 and their plans for the future.

We are also proud to announce that TVH was named one of the world's best 300 SMEs for 2001, by FORBES GLOBAL, as selected from 20,000 enterprises by polling money managers, securities analysts and entrepreneurs around the world.

As a final note, I would like to thank all our staff, our technology and business partners and shareholders for their support over the year. I would also like to welcome ADT and DMX Technologies to our family. I am sure that together we can make TVH a much more successful company.



Chan Tze-ngon, Ron

Chairman

Hong Kong, 25 April 2001

Management Discussion and Analysis

REVIEW OF PERFORMANCE

The Group ended the year with a total turnover of approximately HK\$417,247,000, an increase of approximately 19% to that of approximately HK\$350,298,000 of 1999, and a profit attributable to shareholders of approximately HK\$18,213,000, a decrease of approximately 47% to that of approximately HK\$34,278,000 of 1999.

DIVIDEND

The directors recommended the payment of a final dividend of HK\$0.5 cent per share in respect of the year ended 31 December 2000 to shareholders whose names appear on the register of members of the Company on Wednesday, 30 May 2001.



Sequent China has developed easily implementable solutions, supplemented by one-stop services, to help local banks better equip themselves in the face of global competition.

REVIEW OF OPERATIONS

Sequent China

Since 1994, Sequent China has specialized in mainframe systems integration facilitating the increasing use of information technology by the banking sector in China. Today we continue to be an engine of that growth. Although the division experienced a slow-down in the year 2000 after several years of robust growth, as has been the case for many other banking systems integrators, Sequent China nevertheless won a number of significant projects during the year. Some of these are discussed below.

Last year, Sequent China was entrusted by the Construction Bank of China (CCB) to implement its Server Consolidation

Program, one of the bank's major projects to equip all its provincial branches with new IBM Numa-Q systems. The Program commenced in 2000 with installations in Zhejiang, Heilongjiang and Jiangxi branches. Implementation works, including the provision of hardware and professional services, will continue into 2001. The project marked the eighth year of collaboration in Sequent China's long-standing relationship with CCB.

Management Discussion and Analysis (continued)

The Bank of China (BOC) has also earmarked further investment in enhancing its Credit Card System, an important profit contributor in its business portfolio. As part of the Enhancement Program, BOC will continue to require its existing NIC/NAP Card Network established by Sequent China to be extended to as many provinces as possible. Another task will be to enable the Network to ultimately accept an extensive range of credit cards issued overseas. In 2000, Sequent China successfully completed the interface between BOC's Network and the Gold Card Settlement Program initiated by the People's Bank of China (PBOC).

Other notable projects in 2000 included the completion of the Core Banking System Enhancement and IC Card Enabling Program for Hunan Postal Savings Bank, which allows the bank's four sub-systems to be interconnected and linked to the Beijing Clearing Center. Sequent China has also provided banking solutions to the Agricultural Development Bank with the establishment of the Core Banking System at two of its branches. A Card Issuing and Acquiring System was also installed at the Shenzhen Development Bank which plans to issue internationally accepted credit cards to its customers by mid-2001.

In view of the more intense competition in the banking and finance sector, in particular after China's accession to the WTO, local banks are now more than ever seeking more sophisticated support from solutions partners. To help local banks better equip themselves in the face of global competition, in particular in the areas of card business and trade finance, Sequent China has developed easily implementable solutions including TopCard and TopTrade, supplementing them with project management, requirement analysis, systems analysis and transition-period management services as part of its total banking solutions.

Sequent China was the first and so far the only BP in China to be granted the authorization to provide after-sales service for IBM products. Over the years, Sequent China has installed over 200 sites in China, and maintenance services for them will form the basis of a stable revenue stream. In addition, given our expertise in the credit-card SI market, heavy investment and all-out efforts have been and are being made to increase the service and applications-development elements of our projects leading to expected higher margins as well as the healthy and steady growth of the operation.



In 2000, Topasia reported considerable growth in the sales of ATMs. The next step is to expand into supplementary systems-integration and technical services.

Topasia

Topasia provides a range of financial peripherals, in a natural progression of TVH's development to tap its success in the banking and finance sector. Based in Shanghai, Topasia operates technical support centers in Beijing, Shanghai, Guangzhou, Nanjing and Hangzhou. This after-sales network was further bolstered last year with the addition of centers in Chengdu, Wuhan, Xian, Changsha and Shenyang.

To explore new room for growth, Topasia formed a joint-venture software company with Zhejiang Jiandar Electronic Company to specialize in Call Center and CRM systems software development. The joint venture, Hangzhou Topasia Technology Co., Ltd. constitutes a research & development team with extensive experience in telecoms projects in China.

In 2000, Topasia reported considerable growth in the sales of ATMs. More than 350 ATMs were installed during the year, representing a growth rate in excess of 40%. Topasia is an appointed provider of self-service products to CCB and China Merchants Banks, and was selected by BOC as a designated supplier. Last year, Topasia was awarded a contract for 100 ATMs by BOC headquarters.

The year 2000 also saw Topasia expanding into the provision of supplementary systems-integration services in collaboration with EMC, the world's largest independent provider of enterprise intelligence storage systems and software. This strategic alliance provides solutions targeted at mainframes and open systems, and has won contracts from the Shanghai Securities Exchange, Jiangsu Mobile Communications, Jiangsu Telecom, and the Bank of Shanghai.

A new area of potential and active development for Topasia is technical services. In addition to building a stronger team, Topasia has also strengthened its ties with IBM, EMC, NCR and Avaya (of Lucent Technologies). In anticipation of a significant demand surge, Topasia plans to grow this operation, as an independent business line, into a leading professional services provider in China.

Management Discussion and Analysis (continued)

TopSoft

TopSoft continues to concentrate on the banking, e-commerce and public sectors with a business focus that goes beyond the building of e-business operations and online marketplaces. As a technology enabler, TopSoft partners with its clients throughout the entire transformation process to make the Internet work for them, ensuring the successful merging of a traditional business, the integration of their strategies, and daily operations and philosophy with the Internet.

As mentioned in the Chairman's Statement, the division suffered to some extent as a result of the sudden arrival and departure of the 'dotcom' phenomenon. When the phenomenon began in Hong Kong at the beginning of 2000, we determined to become a leading e-commerce enabler in the territory. Thanks to considerable effort and investment, the company achieved that target within a relatively short period of time. Unfortunately, with the abrupt slow-down in the e-commerce market in the latter part of the year, the company found this effort and investment to be not entirely justified. Despite these difficulties, TopSoft achieved notable results in a number of areas last year.

In 2000, TopSoft implemented Hong Kong's first bank-hosted online credit-card payment gateway and the i-Mall for Dah Sing Bank, and extended the Global Banking System of the Bank of East Asia to all its branches in Canada. The company is now also acting as solutions partner for Card Alliance to help them streamline the maintenance of credit-card systems.

In e-commerce enabling, TopSoft has captured a considerable share of the enterprise e-business market with its pool of redeemable technology and business models. The TopSoft implementation portfolio includes the e-shop of Lane Crawford, eNet, a vertical B2B2C marketplace for the IT industry in China, i-Med2000, a B2B medical portal with aggregate buy functions, and iLogistics.

One of the most encouraging developments over the past year was TopSoft's geographical expansion into other parts of the Asia-Pacific region. This follows on from its participation in projects including: eWEB21, a multi-level marketing platform being rolled out in Korea, Japan, Australia, Europe and China; my2020 for an e-procurement ASP in Malaysia; and SpotLight, the largest department store in Melbourne, Australia.



TopSoft has steered itself through a drastically changing digital landscape, and is now set to gather momentum again for a new phase in business development in the coming year.

In the public sector, TopSoft continues to be the leading services provider in the area of Component Based Development (CBD) methodology. CBD methodology was first introduced to the Information Technology Services Department (ITSD) of the Hong Kong SAR Government in 1999 and, to date, we continue to provide the ITSD with enabling software technology and training courseware. We have further developed a Component Management and Technical Architecture for the Hong Kong Police Force to smooth out the adoption process.

As noted in the Group's previous annual report, TopSoft will actively pursue business opportunities in data mining. Last year, the company implemented a pan-Asia Marketing Campaign Management System and the Telesales Automation project for Federal Express, as part of the client's Customer Relationship Management (CRM) initiatives.

During the year 2000, the company steered itself through a drastically changing digital landscape, and is now set to gather momentum again for a new phase in business development in the coming year. Business development will be geared towards the 'productization' and 'componentization' of our knowledge in e-business enabling, in particular as regards payment gateways and e-business model support. As regards our markets, we will utilize our China-specific knowledge and world-leading e-business platforms, such as that of Intershop, to localize and globalize our solutions, and to help us establish a foothold in new markets in Asia.

ADT

Advanced Digital Technology (ADT), in which TVH holds a 55% interest, is a dominant force driving the trend toward electronic banking in China. With a dedicated focus on the banking and finance sector, ADT's business roll-outs will be technology-oriented and geared to network products and proprietary software.

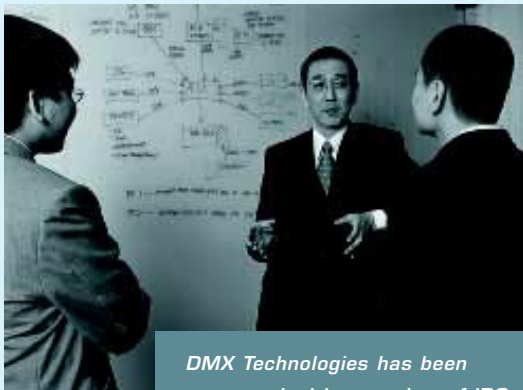
In the year ahead, ADT will be working on a network transformation and consolidation project for the Industrial and Commerce Bank of China (ICBC) which involves the sale of new-generation terminal systems. ADT will also work with CCB on the transformation of its core application systems, and the development and construction of new front-end and back-end systems.

ADT's product range will also be broadened by the addition of a new financial front-end system, a personal foreign-exchange trading system, and a new Call Center system as well as NOVA, a new-generation Web-based development platform. ADT's niche market is currently found in China's northern provinces, but the company intends to extend its reach aggressively to the southern region of China in the near future.



With a dedicated focus on the banking and finance sector, ADT is a dominant force driving the trend toward electronic banking in China.

Management Discussion and Analysis (continued)



DMX Technologies has been entrusted with a number of iDC and MAN projects, and is planning to introduce a new DDN network into the Hong Kong and China

DMX Technologies

DMX Technologies, in which TVH has a 51% stake, is a strategic business unit and a vehicle facilitating TVH's re-entry into the telecommunications arena. The company, formerly called Skynet Consultants Company Limited, is a network solutions provider operating in Hong Kong, China and certain other countries in Asia. It specializes in broadband network infrastructures, e-commerce enabling solutions and information security, serving telecommunications and service providers as well as individual business enterprises.

Metropolitan Area Networks (MAN) and Internet Data Center (iDC) solutions have been the major focus for DMX Technologies in the year 2001. During the year, DMX Technologies was awarded

MAN contracts from Xian, Shunde and Fuzhou PTTs. All three of these networks will provide state-of-the-art broadband IP services to both corporate and domestic users.

DMX Technologies has also implemented a number of iDC solutions in Hong Kong and China. One major installation is Sky Datamann, one of the most sophisticated Internet Data Centers in Hong Kong providing an array of value-added services such as bandwidth guarantee, server load-balancing, caching and content distribution services in addition to the conventional facilities management and co-location services offered by most iDCs. Sky Datamann will be replicating this business model in China, Taiwan and other Asian regions. Other iDC customers last year included Hutchison Global Crossing, Diyixian, and renren Media among others.

The China market will continue to be the main focus for MAN and iDC solutions in 2001. It is estimated that over 100 MAN projects will be implemented on behalf of China Telecom during 2001. In addition, several telephone companies, including the current competitor carriers are building iDCs in China.

To complement these, DMX will introduce the new Broadband DDN network solution into the Hong Kong and China markets as a unified network infrastructure for voice, leased circuit, FR, ATM and IP services. This network infrastructure will allow telecoms companies, especially the new carriers, to reduce capital and operations expenditure as well as accelerate time to market.

An additional business strategy for DMX is geographical expansion. The company is now in the process of setting up offices in Singapore, Malaysia, and various cities in China in order to extend its business and services to new markets.



One project is to bring China's 90 million cable-TV subscribers into seamless connection with satellite broadband transmissions through ChinaCastTV.

ChinaCast

ChinaCast Technology achieved several noteworthy milestones in 2000, including the introduction of Hughes Network Systems, Intel Capital and SUNeVision as strategic shareholders and partners, and the inauguration of the Turbo163 broadband service in China in January 2001.

ChinaCast Technology is the technology and management partner of ChinaCast Co, Ltd, who joined hands with China Telecom to launch Turbo 163, the first nationwide satellite-based broadband Internet service in China. Targeting a niche segment of the Internet market with a niche service, ChinaCast's customer portfolio already includes Ingram Micro, IBM, Netease, and the Bureau of Agriculture and Development, Heilongjiang. An active network roll-out is planned for 2001, with a target of 20,000 DirecPC® broadcast sites to be established across China.

ChinaCast will also seek to leverage the unique advantages of satellite transmission in the provision of distance-learning programs to the remoter parts of China. A co-operative agreement has been concluded with the People's Government of the Tibet Autonomous Region for the development of multi-media educational content for students living in the vast regions of Western China. Also under development is a distance-learning, interactive MBA program in collaboration with Guanghua Management School, Peking University.

Going forward, ChinaCast will continue to work with HNS and other world-leading partners to embrace the latest satellite technologies which can advance communications services throughout China. One project is to bring China's 90 million cable-TV subscribers into seamless connection with satellite broadband transmissions through ChinaCastTV, a solution designed to enable cable-TV networks to provide such value-added services as multi-media distance learning and financial information. The solution will also incorporate video-on-demand and e-commerce functions, both essential elements of the modern digitalized home.

TVH has a 19.9% interest in ChinaCast Technology. Through our investment in this pioneering satellite operation, we aim to provide our shareholders with an excellent opportunity of participating in the exciting boom in Internet applications and services in China.

Management Discussion and Analysis (continued)

LIQUIDITY AND FINANCIAL RESOURCES

Net assets

As at 31 December 2000, the Group recorded total assets of approximately HK\$473,285,000 which were financed by liabilities of approximately HK\$131,703,000 and equity of approximately HK\$337,042,000. The Group's net asset value as at 31 December 2000 increased by approximately 179% to approximately HK\$337,042,000 as compared to approximately HK\$120,607,000 as at 31 December 1999.

Liquidity

The Group had total cash and bank balances of approximately HK\$146,454,000 as at 31 December 2000 (1999: approximately HK\$54,080,000). After deducting bank loans and overdrafts of approximately HK\$12,498,000 (1999: approximately HK\$21,673,000), the Group recorded a net cash balance of approximately HK\$133,956,000 as compared to that of approximately HK\$32,407,000 as at 31 December 1999. As at 31 December 2000, the Group had both improved the working capital as to the current ratio of 2.91 (1999:1.65) and as to the bank and other borrowings to equity ratio of 0.04 (1999:0.19) with equity being defined as the total of capital and reserves.

Charges on assets

At 31 December 2000, fixed deposits of approximately HK\$15,885,000 were pledged to banks to secure banking facilities granted.

Treasury policies

The Group generally finances its operations with internally generated resources and banking and credit facilities provided by banks in Hong Kong. Borrowing methods used by the Group mainly include trust receipt loans and overdrafts facilities. The interest rates of most of these are fixed by reference to the Hong Kong Dollar Prime Rate. Both bank deposits and borrowings are mainly in Hong Kong dollars and United States dollars ("US dollars").

Contingent liabilities

At 31 December 2000, the Company had contingent liabilities in relation to guarantees given to banks in connection with facilities granted to certain subsidiaries amounting to approximately HK\$12.5 million and guarantees in respect of performance bonds in favour of contract customers amounted to approximately HK\$0.1 million.

Foreign Exchange Exposure

The Group mainly earns revenue and incurs costs in US dollars and Hong Kong dollars. Foreign exchange exposure of the Group is minimal as long as the Hong Kong SAR Government's policy to link the Hong Kong dollars to the US dollars remains in effect.

APPLICATION OF PROCEEDS

The Company raised net proceeds of approximately HK\$72 million through a placing and new issue in June 1999 (the "placing and new issue"). Further to the interim report of the Company dated 9 September 2000, the Group has used approximately HK\$4 million for the purposes of research and development in IT business; approximately HK\$0.8 million for the development of the Group's own application software products; and approximately HK\$10 million for the development of data communications business after 30 June 2000. As at the date of this report, the Group has utilised a total of approximately HK\$72 million of the net proceeds raised through the placing and new issue.

In January 2000, the Company received net proceeds of approximately HK\$116 million through another placement to institutional and professional investors (the "second placement"). Further to the interim report of the Company dated 9 September 2000, the Group has used HK\$41 million for the expansion of internet business. As at the date of this report, the Group has utilised a total of approximately HK\$116 million of the net proceeds raised through the second placement.

In September 2000, the Company received net proceeds of approximately HK\$108 million through a further placement to institutional and professional investors (the "third placement"). As at the date of this report, the Group has utilised approximately HK\$40 million for expansion of the systems integration business in China; approximately HK\$4 million for the expansion of the software training business; and approximately HK\$58 million as working capital of the Group.

The remaining proceeds of the third placement are now placed on short term deposits with banks.

Corporate Information

Board of Directors

Executive

Mr Chan Tze-ngon, Ron (*chairman*)
Mr Luk Chung-po, Terence (*vice-chairman*)
Mr Tang Kin-hung, Barry
Mr Chow Siu-lam, Cliff

Independent Non-executive

Dr Lo Siew-kiong, John OBE, JP
Dr Chou Tao-hsiung, Joseph

Honorary Chairman

Mr Derek Peter Althorp

Company Secretary

Ms Pang Lin, Elaine

Registered Office

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head Office and Principal Place of Business

8th Floor
Tianjin Building
167 Connaught Road West
Hong Kong

Principal Banker

Sin Hua Bank Limited
2A Des Voeux Road Central
Hong Kong

Solicitors

Fairbairn Catley Low & Kong
43/F Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

Auditors

Ernst & Young
Certified Public Accountants
15th Floor Hutchison House
10 Harcourt Road
Central
Hong Kong

Principal Share Registrar and Transfer Office

The Bank of Bermuda Limited
Bank of Bermuda Building
6 Front Street
Hamilton HM 11
Bermuda

Hong Kong Branch Registrar and Transfer Office

Tengis Limited
4th Floor Hutchison House
10 Harcourt Road
Central
Hong Kong

Website

www.tvh.com.hk

Management's Profile

Executive Directors

Mr Chan Tze-ngon, Ron, aged 45, chairman of the company, founded the Group in November 1993. He has overall responsibility for the Group's strategic direction and shapes its business model and master plan. He holds master's degrees in mathematics and computer science from Concordia University, Canada. Before founding the Group, Mr Chan has more than 17 years of experience working with multi-national IT vendors, where he had held senior management positions.

Mr Luk Chung-po, Terence, aged 46, vice-chairman of TVH, where he is responsible for the strategic development and management of i-enabling operations in China. He received his bachelor's degree in business administration from the Chinese University of Hong Kong and commands extensive experience in telecoms and information technology for 22 years. Prior to joining the Group in September 1996, Mr Luk has held senior marketing and management positions in and served as the major contributor of growth to the China operations of various multi-national IT entities.

Mr Tang Kin-hung, Barry, aged 40, executive director, takes charge of the Group's banking and e-commerce enabling operations in China. He graduated from University of Hong Kong with a bachelor's degree in social sciences. Mr Tang joined the Group in February 1994 following previous senior marketing and management assignments with various multi-national vendors for over 14 years.

Mr Chow Siu-lam, Cliff, aged 36, executive director, is responsible for TVH's finance and corporate finance functions. He earned his bachelor's degree from the University of Washington, US and has over 11 years of experience in accounting and investment banking. Mr Chow joined the Group in April 2000 and prior to that has held senior positions in leading investment banks in Hong Kong. He is a member of the American Institute of Certified Public Accountants.

Management's Profile (continued)

Non-Executive Directors

Dr Lo Siew-kiong, John, O.B.E., J.P., aged 62, is an independent non-executive director. Dr Lo has over 32 years of senior management experience in various manufacturing fields in Asia, ranging from consumer, industrial to aerospace military specification products manufacturing. He is the honorary chairman of the Hong Kong Quality Assurance Agency, the honorary chairman of the Hong Kong Standards and Testing Centre and the chairman of Hong Kong Quality & Reliability Centre of the Hong Kong Polytechnic University. Dr Lo was also the vice-chairman of the Hong Kong Productivity Council from 1988 to 1993. In addition, he serves in several government advisory committees.

Dr Chou Tao-hsiung, Joseph, aged 77, is an independent non-executive director. Dr Chou currently holds senior management positions in several companies in the information technology industry. He is the director of Fortune Information Systems Corp., Taiwan and eSkylink.com Limited, Taiwan. He has also previously held senior positions in a number of reputable IT firms. Dr Chou received his master's degree in agriculture economics from Cornell University, the US and his Ph.D. in Econometrics from Iowa State University, the US.

Honorary Chairman

Mr Derek Peter Althorp, aged 60, is the honorary chairman of the company. Mr Althorp is the chairman of the Singapore-listed Datacraft Asia Ltd. He has over 30 years of experience in information technology and before being appointed to the current position in Datacraft Asia Ltd, he was the managing director and chief executive officer of that company for 10 years. Prior to that, Mr Althorp was a founder and the vice-president of the European operations of Telematics International Inc., where he was instrumental in its successful listing on the NASDAQ. He previously worked for ModComp and DEC and led the development of its networking business opportunities with British Telecom.

Senior Management

Mr Tse Pak-kong, Johnny, aged 37, is responsible for managing the operations of the Group's Shanghai and Guangzhou representative offices. He holds a bachelor's degree in electrical engineering from University of Hong Kong. He has more than 12 years' IT experience and joined the Group in July 1994.

Mr Wang Li-wei, aged 44, oversees the Group's banking enabling operations and financial peripheral product offering. He holds a bachelor's degree in computer science from the East China Teacher University, China and has over 18 years' IT experience. Mr Wang joined the Group in December 1995.

Mr Fan Li, aged 44, is responsible for managing the Group's financial peripheral product operations in southern China. He holds a bachelor's degree in electrical technology from Nanjing University of Science and Technology, China. Mr Fan has more than 15 years of IT experience and joined the Group in August 1997.

Mr Cheung Chun-hing, aged 42, assumes overall management responsibility for the Group's e-commerce and public sector enabling operations. He received his bachelor's degree in computing science from University of Alberta, Canada. Mr Cheung joined the Group in September 1996, bringing with him over 17 years' IT experience.

Mr Cheng Siu-wa, Samson, aged 34, is the chief architect of TVH and is responsible for providing consultancy services in relation to systems development cycle, particularly in architectural design. He holds a master's and a bachelor's degree in computer science from City University of Hong Kong. Mr Cheng joined the Group in July 1996.

Mr Liu Kwok-leung, Tim, aged 35, is the project manager responsible for providing consultancy services in relation to application development, particularly in architectural design. He holds a master's and a bachelor's degree in mathematics and computer science from University of Western Ontario, Canada. Mr Liu joined the Group in February 1996.

Mr Siu Hon-kwan, aged 39, is the logistics manager responsible for the shipping and logistics functions of the Group. He holds a diploma in business management from Glasgow Polytechnic, UK. Mr Siu joined the Group in February 1994.

Ms Pang Lin, Elaine, aged 31, is the Group's finance manager and company secretary. She received her bachelor's degree in accountancy from Hong Kong Polytechnic University and has more than 10 years of experience in accounting, finance and administration. She is a member of the Hong Kong Society of Accountants and the Association of Chartered Certified Accountants of the UK. Ms Pang joined the Group in April 1998.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the annual general meeting of Technology Venture Holdings Limited (the "**Company**") will be held at Board Room, The Dynasty Club Limited, 7th Floor, South West Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong on Wednesday, 30 May 2001 at 11:00 a.m. to transact the following ordinary business:

1. to receive and consider the audited consolidated financial statements and reports of the directors and auditors for the year ended 31 December 2000;
2. to declare a final dividend for the year ended 31 December 2000;
3. to re-elect retiring directors and to authorise the board of directors to fix the directors' remuneration;
4. to re-appoint auditors and to authorise the board of directors to fix their remuneration;

and, as special business, to consider and, if thought fit, pass the following resolutions as ordinary resolutions:

5. **"THAT:**
 - (a) subject to paragraph (c) below, pursuant to the Rules (the "**Listing Rules**") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), the exercise by the directors of the Company during the Relevant Period (as defined in paragraph (d) below) of all the powers of the Company to allot, issue and deal with unissued shares of HK\$0.10 each in the capital of the Company (each a "**Share**") and to make or grant offers, agreements and options, including warrants to subscribe for Shares, which might require the exercise of such powers be and the same is hereby generally and unconditionally approved;
 - (b) the approval in paragraph (a) above shall authorise the directors of the Company during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;
 - (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to options or otherwise) by the directors of the Company pursuant to the approval in paragraph (a) above, otherwise than pursuant to (i) a Rights Issue (as defined in paragraph (d) below); or (ii) the exercise of any options granted under the share option scheme of the Company; or (iii) any scrip dividend or similar arrangements providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the bye-laws of the Company in force from time to time; or (iv) any issue of Shares upon the exercise of rights of subscription or conversion under the terms of any warrants of the Company or any securities which are convertible into Shares, shall not exceed the aggregate of:
 - (aa) 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this Resolution; and
 - (bb) (if the directors of the Company are so authorised by a separate ordinary resolution of the shareholders of the Company) the nominal amount of any share capital of the Company repurchased by the Company subsequent to the passing of this Resolution (up to a maximum equivalent to 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this Resolution),and the authority pursuant to paragraph (a) of this Resolution shall be limited accordingly; and

- (d) for the purposes of this Resolution:

"Relevant Period" means the period from the date of the passing of this Resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company, the Companies Act 1981 of Bermuda (the "**Companies Act**") or any other applicable law of Bermuda to be held; and
- (iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the directors of the Company by this Resolution;

"Rights Issue" means an offer of Shares, or offer or issue of warrants, options or other securities giving rights to subscribe for Shares open for a period fixed by the directors of the Company to holders of Shares on the register on a fixed record date in proportion to their then holdings of Shares (subject to such exclusion or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements, or having regard to any restrictions or obligations under the laws of, or the requirements of, or the expense or delay which may be involved in determining the existence or extent of any restrictions or obligations under the laws of, or the requirements of, any jurisdiction outside Hong Kong or any recognised regulatory body or any stock exchange outside Hong Kong)."

6. **"THAT:**
- (a) the exercise by the directors of the Company during the Relevant Period (as defined in paragraph (c) below) of all powers of the Company to purchase the Shares on the Stock Exchange or any other stock exchange on which the Shares may be listed and recognised by the Securities and Futures Commission of Hong Kong and the Stock Exchange for such purpose, and otherwise in accordance with the rules and regulations of the Securities and Futures Commission of Hong Kong, the Stock Exchange, the Companies Act and all other applicable laws in this regard, be and the same is hereby generally and unconditionally approved;
 - (b) the aggregate nominal amount of Shares which may be purchased by the Company pursuant to the approval in paragraph (a) during the Relevant Period shall not exceed 10 per cent. of the aggregate nominal amount of the issued share capital of the Company as at the date of the passing of this Resolution and the authority pursuant to paragraph (a) of this Resolution shall be limited accordingly; and
 - (c) for the purposes of this Resolution, "**Relevant Period**" means the period from the date of the passing of this Resolution until whichever is the earliest of:
 - (i) the conclusion of the next annual general meeting of the Company;
 - (ii) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company, the Companies Act or any other applicable law of Bermuda to be held; and
 - (iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the directors of the Company by this Resolution."
7. **"THAT** the directors of the Company be and they are hereby authorised to exercise the authority referred to in paragraph (a) of Resolution no. 5 above in respect of the share capital of the Company referred to in subparagraph (bb) of paragraph (c) of such Resolution."

By order of the board of directors
Technology Venture Holdings Limited
Chan Tze Ngon, Ron
Chairman

Hong Kong, 25 April 2001

Registered Office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

*Head Office and Principal Place
of Business in Hong Kong:*
8th Floor, Tianjin Building
167 Connaught Road West
Hong Kong

Notes:

1. A member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies to attend and, subject to the provisions of the bye-laws of the Company, vote in his stead. A proxy need not be a member of the Company.
2. A form of proxy for use at the annual general meeting is enclosed. In order to be valid, the form of proxy must be duly completed and signed in accordance with the instructions printed thereon and deposited together with a power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power or authority, at the offices of the Company's Hong Kong branch registrar, Tengis Limited at 4th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong, not later than 48 hours before the time of the meeting or adjourned meeting. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the above meeting or any adjournment thereof, should be so wish.
3. In relation to proposed Resolution no. 3 above, Dr. Lo Siew Kiong, John and Dr. Chou Tao Hsiung, Joseph will retire from their respective offices of directors at the above meeting pursuant to bye-law 111 of the bye-laws of the Company and, being eligible, offer themselves for re-election.
4. In relation to proposed Resolution nos. 5 and 7 above, approval is being sought from the shareholders for the grant to the directors of a general mandate to authorise the allotment and issue of Shares under the Listing Rules. The directors have no immediate plans to issue any new Shares other than Shares which may fall to be issued under the share option scheme of the Company or any scrip dividend scheme which may be approved by the shareholders.
5. In relation to proposed Resolution no. 6 above, the directors wish to state that they will exercise the powers conferred thereby to purchase Shares in circumstances which they deem appropriate for the benefit of the shareholders. An explanatory statement containing the information necessary to enable the shareholders to make an informed decision to vote on the proposed Resolution as required by the Listing Rules is set out in the accompanying document.

Report of the Directors

The directors herein present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2000.

Principal activities

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 14 to the financial statements. There were no changes in the nature of the Group's principal activities during the year.

Segmental information

An analysis of the Group's turnover and contribution to profit before tax by principal activity and geographical area of operations for the year ended 31 December 2000 is as follows:

| | Turnover | | Contribution to profit before tax | |
|---|----------------|----------|-----------------------------------|----------|
| | 2000 | 1999 | 2000 | 1999 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| By principal activity: | | | | |
| Distribution of computer hardware products | 275,343 | 252,749 | 6,628 | 21,286 |
| Distribution of computer software products | 76,698 | 42,181 | 4,764 | 7,416 |
| Provision of computer technology services | 65,206 | 55,368 | 9,320 | 13,703 |
| | 417,247 | 350,298 | 20,712 | 42,405 |
| By geographical area: | | | | |
| The People's Republic of China (the "PRC"): | | | | |
| Hong Kong | 40,721 | 35,412 | 1,657 | 4,087 |
| Elsewhere | 376,526 | 314,886 | 19,055 | 38,318 |
| | 417,247 | 350,298 | 20,712 | 42,405 |

Results and dividends

The Group's profit for the year ended 31 December 2000 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 31 to 70.

An interim dividend of HK1.5 cents per share was paid on 13 October 2000. The directors recommend the payment of a final dividend of HK0.5 cent per share in respect of the year ended 31 December 2000 to shareholders whose names appear on the register of members on 30 May 2001. This recommendation has been incorporated in the financial statements.

Summary financial information

The following is a summary of the published consolidated/combined results and of the assets and liabilities of the Group prepared on the basis set out in the notes below.

RESULTS

| | Year ended 31 December | | | | |
|--|------------------------|----------|----------|----------|----------|
| | 2000 | 1999 | 1998 | 1997 | 1996 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| TURNOVER | 417,247 | 350,298 | 251,490 | 171,857 | 179,105 |
| PROFIT BEFORE TAX | 20,712 | 42,405 | 27,780 | 21,623 | 18,994 |
| Tax | (871) | (6,205) | (4,771) | (3,688) | (3,247) |
| PROFIT BEFORE MINORITY INTERESTS | 19,841 | 36,200 | 23,009 | 17,935 | 15,747 |
| Minority interests | (1,628) | (1,922) | (30) | (270) | (102) |
| NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS | 18,213 | 34,278 | 22,979 | 17,665 | 15,645 |

ASSETS AND LIABILITIES

| | 31 December | | |
|---------------------------------------|------------------|-----------|-----------|
| | 2000 | 1999 | 1998 |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| NON-CURRENT ASSETS | 94,675 | 27,983 | 6,152 |
| CURRENT ASSETS | 378,610 | 245,195 | 175,589 |
| CURRENT LIABILITIES | (130,174) | (148,580) | (151,651) |
| NET CURRENT ASSETS | 248,436 | 96,615 | 23,938 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | 343,111 | 124,598 | 30,090 |
| NON-CURRENT LIABILITIES | (1,529) | (1,833) | (1,037) |
| MINORITY INTERESTS | (4,540) | (2,158) | (544) |
| | 337,042 | 120,607 | 28,509 |

Report of the Directors (continued)

Summary financial information (continued)

Notes:

1. The summary of the published combined results of the Group for each of the three years ended 31 December 1998 has been extracted from the Company's prospectus dated 22 June 1999. The summary was prepared based on the audited financial statements of the companies then comprising the Group as at 31 December 1998, after appropriate adjustments and reclassifications, as if the Group structure had been in existence throughout these financial years. The results of the Group for the years ended 31 December 1999 and 2000 are set out on page 31 of the financial statements.
2. The only published consolidated/combined balance sheets are those as at 31 December 1998, 1999 and 2000. The consolidated/combined balance sheets as at 31 December 1998 and 1999 are extracted from the published financial statements for the year ended 31 December 1999, prepared on the basis as if the Group had been in existence for each of these years.

Fixed assets

Details of movements in the fixed assets of the Company and the Group during the year are set out in note 12 to the financial statements.

Subsidiaries

Particulars of the Company's principal subsidiaries are set out in note 14 to the financial statements.

Borrowings

Details of the borrowings of the Company and the Group are set out in notes 21 and 22 to the financial statements.

Share capital and share options

Details of movements in the Company's share capital during the year, together with the reasons therefor, and details of the Company's share option scheme are set out in note 24 to the financial statements.

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 25 to the financial statements.

Distributable reserves

At 31 December 2000, the Company's reserves available for distribution, calculated in accordance with The Companies Act 1981 of Bermuda, amounted to HK\$39,729,000. In addition, the Company's share premium account, in the amount of HK\$277,121,000 at 31 December 2000, may be distributed in the form of fully paid bonus shares.

Pre-emptive rights

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Purchase, redemption or sale of listed securities of the Company

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

Major customers and suppliers

In the year under review, sales to the Group's five largest customers accounted for 40% of the total sales for the year and sales to the largest customer included therein amounted to 19%. Purchases from the Group's five largest suppliers accounted for 37% of the total purchases for the year and purchases from the largest supplier included therein amounted to 9%.

To the best knowledge of the directors, neither the directors, their associates, nor any shareholders who owned more than 5% of the Company's issued share capital, had any beneficial interest in any of the Group's five largest customers or suppliers during the year.

Directors

The directors of the Company during the year and up to the date of this report were as follows:

Executive directors:

Mr. Chan Tze Ngon, Ron

Mr. Luk Chung Po, Terence

Mr. Tang Kin Hung, Barry

Mr. Chow Siu Lam, Cliff

(appointed on 17 April 2000)

Mr. Leung Yat Chuen, Kennard

(resigned on 17 April 2000)

Mr. Ng Kin Wah, Francis

(resigned on 31 March 2001)

Non-executive director:

Mr. Derek Peter Althorp

Independent non-executive directors:

Dr. Lo Siew Kiong, John

Dr. Chou Tao Hsiung, Joseph

In accordance with bye-law 111 of the Company's bye-laws, Dr. Lo Siew Kiong, John and Dr. Chou Tao Hsiung, Joseph will retire at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election. Apart from Mr. Chan Tze Ngon, Ron and Mr. Luk Chung Po, Terence, all the other directors of the Company, including the non-executive directors, are subject to retirement by rotation and re-election in accordance with the provisions of the Company's bye-laws.

Report of the Directors (continued)

Directors' and senior management's biographies

Biographical details of the directors of the Company and of the senior management of the Group are set out on pages 17 to 19 of this annual report.

Directors' service contracts

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment other than statutory compensation.

Directors' interests in contracts

Save as disclosed in note 3 to the financial statements, no director had a significant beneficial interest, either direct or indirect, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

Related party transactions and connected transactions

Details of the related party transactions and connected transactions of the Group are set out in note 3 to the financial statements.

Directors' remuneration and the five highest paid employees

Details of the emoluments of the directors and of the five highest paid employees are set out in note 7 to the financial statements.

Directors' interests in share capital

At 31 December 2000, the interests of the directors and their associates in the share capital of the Company or its associated corporations, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), were as follows:

| Name of director | Number of issued ordinary shares of HK\$0.10 each | | |
|---------------------------|---|-----------------------|-----------------|
| | Personal interests | Corporate interests | Total interests |
| Mr. Chan Tze Ngon, Ron | 13,814,000 | 128,800,000 (Note) | 142,614,000 |
| Mr. Luk Chung Po, Terence | 4,830,000 | – | 4,830,000 |
| Mr. Tang Kin Hung, Barry | 12,600,000 | – | 12,600,000 |
| Mr. Ng Kin Wah, Francis | 8,450,000 | – | 8,450,000 |

Note: These shares are beneficially owned by and registered in the name of Clear Goal Holding Limited ("Clear Goal"), a company incorporated in the British Virgin Islands, whose entire issued share capital is beneficially owned as to 68.7% by Mr. Chan Tze Ngon, Ron and as to 31.3% by Mr. Luk Chung Po, Terence. Pursuant to a shareholders' agreement dated 12 June 1999 made between, among other persons, Mr. Chan Tze Ngon, Ron and Mr. Luk Chung Po, Terence, each of Mr. Chan Tze Ngon, Ron and Mr. Luk Chung Po, Terence was granted pre-emptive rights over the other's shares in the Company and in Clear Goal.

In addition to the above, certain directors have non-beneficial personal equity interests in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed above, at 31 December 2000, none of the directors or their associates had any personal, family, corporate or other interest in the issued share capital of the Company or any of its associated corporations, as defined in the SDI Ordinance.

Directors' rights to acquire shares or debentures

Under the terms of a share option scheme (the "Scheme") adopted by the Company on 12 June 1999, the board of directors is authorised, on or before 11 June 2009, at its absolute discretion, to grant options to employees, including executive directors of the Company or any of its subsidiaries, to subscribe for shares in the Company. Further details of the share option scheme are set out in note 24 to the financial statements. The Scheme became effective upon the listing of the Company's shares on The Stock Exchange of Hong Kong Limited on 6 July 1999.

Report of the Directors (continued)

Directors' rights to acquire shares or debentures (continued)

Pursuant to the Scheme, the Company granted options on the Company's ordinary shares in favour of certain directors, the details of which are as follows:

| Name of director | Number of share options granted during the year | Number of share options exercised during the year | Number of share options outstanding at 31 December 2000 | Exercise price | Exercise period |
|-------------------------|---|---|---|----------------|---------------------------------------|
| Mr. Ng Kin Wah, Francis | 1,320,000 | – | 1,320,000 | HK\$2.532 | 21 January 2001 to 20 January 2010 |
| Mr. Chow Siu Lam, Cliff | 500,000 | – | 500,000 | HK\$1.82 | 31 May 2001 to 30 May 2010 |
| | <u>1,820,000</u> | <u>–</u> | <u>1,820,000</u> | | |

Save as disclosed above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; nor was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

Substantial shareholders

Other than the shares held by Clear Goal, as disclosed in the section headed "Directors' interests in share capital" above, which represent 35.6% of the Company's issued share capital at the balance sheet date, no other person had registered an interest of 10% or more in the issued share capital of the Company that was required to be recorded in the register of interests pursuant to Section 16(1) of the SDI Ordinance.

Pension schemes

Details of the pension schemes of the Group and the employer's pension costs charged to the profit and loss account for the year are set out in notes 2 and 5 to the financial statements, respectively.

Code of Best Practice

In the opinion of the directors, the Company complied with the Code of Best Practice, as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, throughout the accounting period covered by this report, except that the non-executive directors of the Company were not appointed for specific terms but were subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's bye-laws. The Company established an audit committee in 1999, which comprises two independent non-executive directors, in accordance with paragraph 14 of the Code of Best Practice. The audit committee meets regularly mainly to consider the nature and scope of audit reviews, the effectiveness of the internal control systems and compliance with the relevant rules and regulations.

Auditors

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Chan Tze Ngon, Ron

Chairman

Hong Kong
25 April 2001

Report of the Auditors



To the members

Technology Venture Holdings Limited

(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 31 to 70 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2000 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young

Certified Public Accountants

Hong Kong
25 April 2001

Consolidated Profit and Loss Account

Year ended 31 December 2000

| | Notes | 2000 | 1999 |
|---|-------|------------------|-----------|
| | | HK\$'000 | HK\$'000 |
| TURNOVER | 4 | 417,247 | 350,298 |
| Cost of sales | | (316,198) | (248,118) |
| Gross profit | | 101,049 | 102,180 |
| Other revenue | | 8,839 | 4,432 |
| Selling and distribution expenses | | (20,449) | (17,564) |
| Administrative expenses | | (62,759) | (42,084) |
| Other operating expenses | | (5,427) | (3,123) |
| PROFIT FROM OPERATING ACTIVITIES | 5 | 21,253 | 43,841 |
| Finance costs | 6 | (541) | (1,436) |
| PROFIT BEFORE TAX | | 20,712 | 42,405 |
| Tax | 8 | (871) | (6,205) |
| PROFIT BEFORE MINORITY INTERESTS | | 19,841 | 36,200 |
| Minority interests | | (1,628) | (1,922) |
| NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS | 9 | 18,213 | 34,278 |
| Dividends | 10 | (6,640) | (12,936) |
| RETAINED PROFIT FOR THE YEAR | 25 | 11,573 | 21,342 |
| EARNINGS PER SHARE | 11 | | |
| Basic | | HK\$0.06 | HK\$0.14 |
| Diluted | | HK\$0.05 | N/A |

Consolidated Statement of Recognised Gains and Losses

Year ended 31 December 2000

| | 2000 | | 1999 |
|---|-------|-----------------|--------------|
| | Notes | HK\$'000 | HK\$'000 |
| Exchange differences on translation of the financial statements of foreign entities | 25 | <u>45</u> | <u>–</u> |
| Net gains not recognised in the profit and loss account | | <u>45</u> | <u>–</u> |
| Net profit from ordinary activities attributable to shareholders | | 18,213 | 34,278 |
| Total recognised gains | | 18,258 | 34,278 |
| Goodwill eliminated directly against reserves | 25 | <u>(36,946)</u> | <u>(602)</u> |
| | | (18,688) | 33,676 |

Consolidated Balance Sheet

31 December 2000

| | Notes | 2000 | 1999 |
|--|-------|----------------|----------------|
| | | HK\$'000 | HK\$'000 |
| NON-CURRENT ASSETS | | | |
| Fixed assets | 12 | 15,922 | 8,930 |
| Deferred development costs | 13 | 2,672 | 3,453 |
| Long term investment | 15 | 51,081 | 15,600 |
| Deposit paid for unlisted investment | 16 | 25,000 | – |
| | | 94,675 | 27,983 |
| CURRENT ASSETS | | | |
| Inventories | 17 | 11,468 | 7,829 |
| Accounts receivable | 18 | 184,898 | 167,724 |
| Bills receivable | | – | 5,414 |
| Prepayments, deposits and other receivables | | 35,469 | 10,071 |
| Tax recoverable | 8 | 321 | 77 |
| Pledged time deposits | 21 | 15,885 | 25,895 |
| Cash and bank balances | | 130,569 | 28,185 |
| | | 378,610 | 245,195 |
| CURRENT LIABILITIES | | | |
| Accounts and bills payable | 19 | 41,053 | 62,952 |
| Tax payable | | 16,387 | 16,295 |
| Accrued liabilities and other payables | 20 | 57,703 | 38,257 |
| Trust receipt loans, secured | 21 | 12,498 | 15,455 |
| Bank overdrafts, secured | 21 | – | 6,218 |
| Current portion of finance lease payables | 22 | 723 | 387 |
| Proposed final dividend | | 1,810 | 9,016 |
| | | 130,174 | 148,580 |
| NET CURRENT ASSETS | | 248,436 | 96,615 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 343,111 | 124,598 |
| NON-CURRENT LIABILITIES | | | |
| Long term portion of finance lease payables | 22 | 1,218 | 922 |
| Deferred tax | 23 | 311 | 911 |
| | | 1,529 | 1,833 |
| MINORITY INTERESTS | | 4,540 | 2,158 |
| | | 337,042 | 120,607 |
| CAPITAL AND RESERVES | | | |
| Share capital | 24 | 36,200 | 28,000 |
| Reserves | 25 | 300,842 | 92,607 |
| | | 337,042 | 120,607 |

Chan Tze Ngon, Ron
Director

Luk Chung Po, Terence
Director

Consolidated Cash Flow Statement

Year ended 31 December 2000

| | 2000 | | 1999 |
|---|-------|------------------|----------|
| | Notes | HK\$'000 | HK\$'000 |
| NET CASH OUTFLOW FROM OPERATING ACTIVITIES | 26(a) | (46,313) | (9) |
| RETURNS ON INVESTMENTS AND SERVICING OF FINANCE | | | |
| Interest received | | 6,099 | 1,532 |
| Interest paid | | (404) | (1,185) |
| Interest element on finance lease rental payments | | (137) | (251) |
| Dividends paid | | (13,846) | (3,920) |
| Net cash outflow from returns on investments and servicing of finance | | (8,288) | (3,824) |
| TAX | | | |
| Hong Kong profits tax paid | | (1,328) | (413) |
| Hong Kong profits tax refunded | | 68 | 133 |
| Overseas profits taxes paid | | (363) | (339) |
| Taxes paid | | (1,623) | (619) |
| INVESTING ACTIVITIES | | | |
| Purchases of fixed assets | | (10,798) | (6,726) |
| Proceeds from disposal of fixed assets | | 1,025 | 539 |
| Increase in deferred development costs | | (5,238) | (2,449) |
| Purchase of long term investment | | (18,161) | (15,600) |
| Acquisition of additional equity interest in a subsidiary | | - | (910) |
| Acquisition of a subsidiary | 26(c) | (16,371) | - |
| Deposit paid for unlisted investment | | (25,000) | - |
| Net cash outflow from investing activities | | (74,543) | (25,146) |
| NET CASH OUTFLOW BEFORE FINANCING ACTIVITIES | | (130,767) | (29,598) |
| FINANCING ACTIVITIES | | | |
| Proceeds from issue of share capital | 26(b) | 233,800 | 89,600 |
| Share issue expenses | 26(b) | (9,357) | (18,242) |
| Interest income on over-subscription for new shares issued | | - | 1,876 |
| Repayment to a related company | 26(b) | - | (26,449) |
| Advance from a minority shareholder | 26(b) | 4,129 | - |
| Additional minority shareholders' investments in subsidiaries | 26(b) | 750 | - |
| Capital element of finance lease rental payments | 26(b) | (1,029) | (1,215) |
| Decrease/(increase) in pledged time deposits | 26(b) | 10,010 | (8,419) |
| Net cash inflow from financing activities | | 238,303 | 37,151 |
| INCREASE IN CASH AND CASH EQUIVALENTS – page 35 | | 107,536 | 7,553 |

| | 2000 | 1999 |
|--|-----------------|----------|
| | HK\$'000 | HK\$'000 |
| INCREASE IN CASH AND CASH EQUIVALENTS – page 34 | 107,536 | 7,553 |
| Cash and cash equivalents at beginning of year | 10,490 | 2,937 |
| Effect of foreign exchange rate changes, net | 45 | – |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | 118,071 | 10,490 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | |
| Cash and bank balances | 130,569 | 28,185 |
| Bank overdrafts, secured | – | (6,218) |
| Trust receipt loans with original maturity of less than three months from date of advance | (12,498) | (11,477) |
| | 118,071 | 10,490 |

Balance Sheet

31 December 2000

| | 2000 | | 1999 |
|--|-------|-----------------------|----------------|
| | Notes | HK\$'000 | HK\$'000 |
| NON-CURRENT ASSETS | | | |
| Fixed assets | 12 | 3,704 | 1,280 |
| Interests in subsidiaries | 14 | 310,992 | 111,430 |
| | | <u>314,696</u> | <u>112,710</u> |
| CURRENT ASSETS | | | |
| Dividend receivable | | 1,810 | 9,016 |
| Prepayments, deposits and other receivables | | 1,535 | 145 |
| Cash and bank balances | | 38,583 | 714 |
| | | <u>41,928</u> | <u>9,875</u> |
| CURRENT LIABILITIES | | | |
| Accrued liabilities and other payables | 20 | 500 | 323 |
| Current portion of finance lease payables | 22 | 370 | 270 |
| Proposed final dividend | | 1,810 | 9,016 |
| | | <u>2,680</u> | <u>9,609</u> |
| NET CURRENT ASSETS | | <u>39,248</u> | <u>266</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 353,944 | 112,976 |
| NON-CURRENT LIABILITIES | | | |
| Long term portion of finance lease payables | 22 | 894 | 922 |
| | | <u>353,050</u> | <u>112,054</u> |
| CAPITAL AND RESERVES | | | |
| Share capital | 24 | 36,200 | 28,000 |
| Reserves | 25 | 316,850 | 84,054 |
| | | <u>353,050</u> | <u>112,054</u> |

Chan Tze Ngon, Ron
Director

Luk Chung Po, Terence
Director

Notes to Financial Statements

31 December 2000

1. CORPORATE INFORMATION

During the year, the Group was involved in the distribution of computer hardware and software products and the provision of computer technology services.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of certain fixed assets, as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2000. The results of the subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital, or controls the composition of its board of directors.

Interests in subsidiaries are stated at cost unless, in the opinion of the directors, there have been permanent diminutions in values, when they are written down to values determined by the directors.

Goodwill

Goodwill arising on the consolidation of subsidiaries represents the excess purchase consideration paid over the fair values ascribed to the net underlying assets acquired and is eliminated against reserves in the year of acquisition.

On disposal of subsidiaries, the relevant portion of attributable goodwill previously eliminated against reserves is written back and included in the calculation of the gain or loss on disposal.

Notes to Financial Statements (continued)

31 December 2000

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) from the rendering of services, including fixed price service contracts, based on the stage of completion of the transaction, provided that this and the costs incurred, as well as the estimated costs to completion can be measured reliably. The stage of completion of a transaction associated with the rendering of such services is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction;
- (c) maintenance income, on a time proportion basis over the period of the contract;
- (d) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and
- (e) rental income, on a time proportion basis over the lease terms.

Fixed assets and depreciation

Fixed assets are stated at cost or valuation less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Changes in the values of fixed assets are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the revaluation reserve realised in respect of previous valuations is transferred to retained earnings as a movement in reserves.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Fixed assets and depreciation** (continued)

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

| | |
|-----------------------------------|----------------------|
| Leasehold land | Over the lease terms |
| Building | 5% |
| Leasehold improvements | 33 $\frac{1}{3}$ % |
| Furniture, fixtures and equipment | 33 $\frac{1}{3}$ % |
| Motor vehicles | 33 $\frac{1}{3}$ % |

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and is recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and are depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Research and development costs

All research costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Products development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding three years, commencing from the date when the products are put into commercial production.

Long term investments

Long term investments are investments in unlisted equity securities which are intended to be held on a continuing basis and which are stated at cost less provisions for diminutions in values which are expected to be other than temporary.

Notes to Financial Statements (continued)

31 December 2000

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value after making due allowances for obsolete and slow moving items. Cost is determined on a first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on the estimated selling prices less any estimated costs to be incurred to completion and disposal.

Accounts receivable

The payment terms granted by the Group vary from project to project and may include cash on delivery, advance payment and credit of 30 days to 90 days from different stages of the projects. Trade receivables are recognised and carried at original invoiced amount less provisions for doubtful debts which are recorded when collection thereof is no longer probable. Bad debts are written off as incurred.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

Retirement benefit schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the Scheme. The Scheme became effective on 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the Scheme. The assets of the Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the Scheme.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Retirement benefit schemes (continued)

The Group has joined a mandatory central pension scheme operated by the PRC government for its PRC employees, the assets of which are held separately from those of the Group. Contributions made are based on a percentage of the eligible employees' salaries and are charged to the profit and loss account as they become payable, in accordance with the rules of the scheme. The employers' contributions vest fully once they are made.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance.

Notes to Financial Statements (continued)

31 December 2000

3. RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS

The Group had the following transactions with related parties and connected parties during the year:

| | 2000 | 1999 |
|--|----------|----------|
| | HK\$'000 | HK\$'000 |
| Purchase of information technology products from: | | |
| Minority shareholders of certain subsidiaries of the Company | | |
| – Open Environment Corporation | 34 | 739 |
| – Internet Dynamics, Inc. | – | 26 |
| Related companies | | |
| – certain members of the Datacraft Asia Ltd group (note) | 6,652 | 16,730 |
| Sales of information technology products to: | | |
| – a member of the Datacraft Asia Ltd group (note) | – | 1,918 |
| Management fees received from a member of the Datacraft Asia Ltd group (note) | 235 | 470 |
| Acquisition of 1% equity interest in Sequent China/Hong Kong Limited ("SCHKL") from Sequent Computer Systems, Inc. ("Sequent") | – | 910 |
| Software development service fees paid to a company in which the spouse of a director of the Company at the balance sheet date, is a director | 608 | – |
| Systems integration service income received from a company in which the spouse of a director of the Company at the balance sheet date, is a director | 942 | – |

Note: Mr. Derek Peter Althorp, a director of the Company, is a director of Datacraft Asia Ltd, a company listed on The Singapore Exchange Securities Trading Limited. Mr. Luk Chung Po, Terence, a director of the Company, resigned as a director of a member of the Datacraft Asia Ltd group during the year.

In the opinion of the directors, the above related party transactions were entered into by the Group in the ordinary course of business and on terms agreed with the minority shareholders and related companies. The directors consider that these transactions were made according to prices and conditions similar to those offered to other third parties.

3. RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS (continued)

During the prior year, the Group purchased information technology products of approximately HK\$58,824,000 from Sequent. Following the disposal of 1% equity interest in SCHKL to the Group in 1999, Sequent's equity interest in SCHKL decreased from 10% in 1998 to 9% in 1999 and Sequent ceased to be a connected party thereafter.

Details of the terms of the outstanding balances with related parties and minority shareholders of certain subsidiaries at 31 December 2000 are set out in notes 19 and 20 to the financial statements.

4. TURNOVER AND REVENUE

Turnover represents the net invoiced value of goods sold, after allowance for returns and trade discounts and services rendered. All significant intra-Group transactions have been eliminated on consolidation.

An analysis of turnover and revenue is as follows:

| | Group | |
|--|----------------|----------|
| | 2000 | 1999 |
| | HK\$'000 | HK\$'000 |
| Sale of goods | 352,041 | 294,930 |
| Provision of computer technology services | 65,206 | 55,368 |
| Turnover | 417,247 | 350,298 |
| Interest income | 6,099 | 3,408 |
| Management fee received from a related company | 235 | 470 |
| Gross rental income | 177 | 252 |
| Gain on disposal of fixed assets | 453 | 248 |
| Exchange gains, net | 1,587 | – |
| Sundry income | 288 | 54 |
| Total revenue | 426,086 | 354,730 |

Pursuant to the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"), the turnover by geographical area of principal markets of the Group is analysed as follows:

| | Group | |
|--|----------------|----------|
| | 2000 | 1999 |
| | HK\$'000 | HK\$'000 |
| By geographical area: | | |
| The People's Republic of China (the "PRC") | | |
| Hong Kong | 40,721 | 35,412 |
| Elsewhere | 376,526 | 314,886 |
| | 417,247 | 350,298 |

Notes to Financial Statements (continued)

31 December 2000

5. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

| | 2000 | 1999 |
|---|----------------|----------|
| | HK\$'000 | HK\$'000 |
| Cost of inventories sold and services provided | 316,198 | 248,118 |
| Depreciation: | | |
| Owned fixed assets | 4,105 | 1,988 |
| Leased fixed assets | 790 | 509 |
| | 4,895 | 2,497 |
| Research and development costs: | | |
| Amortisation of deferred development costs | 1,802 | 1,316 |
| Current year expenditure | 1,210 | 1,100 |
| Written off | 4,217 | – |
| | 7,229 | 2,416 |
| Deficit on revaluation of leasehold land and building | – | 95 |
| Operating lease rentals in respect of land and buildings | 5,505 | 4,778 |
| Auditors' remuneration | 1,106 | 1,000 |
| Staff costs (excluding directors' remuneration – note 7): | | |
| Salaries | 25,983 | 22,444 |
| Pension contributions | 417 | 357 |
| Mandatory provident fund contributions | 56 | – |
| | 26,456 | 22,801 |
| Exchange losses/(gains), net | (1,587) | 1,928 |
| Gain on disposal of fixed assets, net | (453) | (153) |
| Net rental income | (163) | (198) |
| Management fee received from a related company | (235) | (470) |
| Interest income | (6,099) | (3,408) |

6. FINANCE COSTS

| | Group | |
|--|------------|--------------|
| | 2000 | 1999 |
| | HK\$'000 | HK\$'000 |
| Interest on trust receipt loans and bank overdrafts wholly repayable within five years | 404 | 1,185 |
| Interest on finance leases | 137 | 251 |
| | 541 | 1,436 |

7. DIRECTORS' REMUNERATION AND THE FIVE HIGHEST PAID EMPLOYEES

The remuneration of the Company's directors disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance is as follows:

| | Group | |
|---|---------------|---------------|
| | 2000 | 1999 |
| | HK\$'000 | HK\$'000 |
| Fees: | | |
| Executive directors and non-executive director | 200 | – |
| Independent non-executive directors | 500 | 200 |
| | 700 | 200 |
| Other emoluments of executive directors: | | |
| Basic salaries, other allowances and benefits in kind | 11,434 | 11,090 |
| Mandatory provident fund contributions | 5 | – |
| | 11,439 | 11,090 |
| | 12,139 | 11,290 |

Notes to Financial Statements (continued)

31 December 2000

7. DIRECTORS' REMUNERATION AND THE FIVE HIGHEST PAID EMPLOYEES (continued)

The remuneration of the directors fell within the following bands:

| | Number of directors | |
|--------------------------------|---------------------|------|
| | 2000 | 1999 |
| Nil to HK\$1,000,000 | 4 | 3 |
| HK\$1,000,001 to HK\$1,500,000 | 2 | 1 |
| HK\$1,500,001 to HK\$2,000,000 | 1 | 2 |
| HK\$2,500,001 to HK\$3,000,000 | 1 | 1 |
| HK\$4,000,001 to HK\$4,500,000 | 1 | 1 |

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (1999: Nil). During the year, no emoluments were paid by the Group to the directors as an inducement to join, or upon joining the Group, or as a compensation for loss of office.

During the year, the Company granted a total of 1,820,000 share options to two executive directors. In the absence of a readily available market value for options on the Company's shares, the directors are unable to arrive at an accurate assessment of the value of the options granted and, therefore, no value in respect of the share options granted during the year has been attributed to the remuneration set out above. Further details of the share options granted to the directors during the year are set out in the section "Directors' rights to acquire shares or debentures" in the Report of the Directors on page 28.

The five highest paid employees included five (1999: five) directors during the year, whose remuneration is set out above.

In the opinion of the directors of the Company, the Group had no significant obligations for long service payments to its employees pursuant to the requirements under the Employment Ordinance, Chapter 57 of the Laws of Hong Kong, at 31 December 2000.

8. TAX

| | 2000 | 1999 |
|-------------------------------|----------|----------|
| | HK\$'000 | HK\$'000 |
| Group: | | |
| Hong Kong | 472 | 433 |
| Elsewhere | 999 | 5,580 |
| Rebate relating to prior year | – | (133) |
| Deferred – note 23 | (600) | 325 |
| Tax charge for the year | 871 | 6,205 |

Hong Kong profits tax has been provided at the rate of 16% (1999: 16%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof. Tax recoverable represents provisional tax paid in excess of the estimated tax liability of the Group.

9. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders dealt with in the financial statements of the Company for the year ended 31 December 2000 was HK\$5,873,000 (period from 29 March 1999 (date of incorporation) to 31 December 1999: HK\$14,001,000).

10. DIVIDENDS

| | 2000 | 1999 |
|---|----------|----------|
| | HK\$'000 | HK\$'000 |
| Interim – HK1.5 cents (1999: HK1.4 cents) per share | 4,830 | 3,920 |
| Proposed final – HK0.5 cent (1999: HK2.8 cents) per share | 1,810 | 9,016 |
| | 6,640 | 12,936 |

Notes to Financial Statements (continued)

31 December 2000

11. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year of HK\$18,213,000 (1999: HK\$34,278,000) and the weighted average of 330,180,328 (1999: 245,095,890) shares in issue during the year. The weighted average number of shares used to calculate the prior year's earnings per share included the then pro forma issued share capital of the Company, comprising 1,000,000 shares issued nil paid on incorporation of the Company, 1,000,000 shares issued for the acquisition of the entire issued share capital of Technology Venture Investments Limited ("TVIL", formerly Technology Venture (Hardware) Holdings Limited) and the capitalisation issue of 208,000,000 shares.

The calculation of diluted earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year of HK\$18,213,000. The weighted average number of ordinary shares used in the calculation of diluted earnings per share is 331,780,035, which includes 330,180,328 ordinary shares in issue during the year, as used in the basic earnings per share calculation; and the weighted average of 1,599,707 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the year.

Diluted earnings per share for the year ended 31 December 1999 had not been calculated as no diluting events existed in the prior year.

12. FIXED ASSETS

Group

| | Medium term leasehold land and building in Hong Kong | Leasehold improvements | Furniture, fixtures and equipment | Motor vehicles | Total |
|--------------------------------|--|---------------------------|---|-------------------|----------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Cost or valuation: | | | | | |
| At beginning of year | 650 | 2,368 | 14,789 | 4,319 | 22,126 |
| Additions | – | 1,979 | 8,819 | 1,661 | 12,459 |
| Disposals | – | (630) | (1,764) | (1,340) | (3,734) |
| At 31 December 2000 | 650 | 3,717 | 21,844 | 4,640 | 30,851 |
| Accumulated depreciation: | | | | | |
| At beginning of year | 23 | 1,575 | 8,715 | 2,883 | 13,196 |
| Provided during the year | 34 | 517 | 3,442 | 902 | 4,895 |
| Disposals | – | (314) | (1,508) | (1,340) | (3,162) |
| At 31 December 2000 | 57 | 1,778 | 10,649 | 2,445 | 14,929 |
| Net book value: | | | | | |
| At 31 December 2000 | 593 | 1,939 | 11,195 | 2,195 | 15,922 |
| At 31 December 1999 | 627 | 793 | 6,074 | 1,436 | 8,930 |
| Analysis of cost or valuation: | | | | | |
| At cost | – | 3,717 | 21,844 | 4,640 | 30,201 |
| At 30 April 1999 valuation | 650 | – | – | – | 650 |
| | 650 | 3,717 | 21,844 | 4,640 | 30,851 |

Notes to Financial Statements (continued)

31 December 2000

12. FIXED ASSETS (continued)

Company

| | Leasehold | Furniture, | Motor | Total |
|---------------------------|--------------|---------------------------|----------|----------|
| | improvements | fixtures and equipment | vehicles | |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Cost: | | | | |
| At beginning of year | – | 7 | 1,350 | 1,357 |
| Additions | 1,867 | 858 | 541 | 3,266 |
| At 31 December 2000 | 1,867 | 865 | 1,891 | 4,623 |
| Accumulated depreciation: | | | | |
| At beginning of year | – | 2 | 75 | 77 |
| Provided during the year | 183 | 164 | 495 | 842 |
| At 31 December 2000 | 183 | 166 | 570 | 919 |
| Net book value: | | | | |
| At 31 December 2000 | 1,684 | 699 | 1,321 | 3,704 |
| At 31 December 1999 | – | 5 | 1,275 | 1,280 |

The net book value of the fixed assets of the Company and the Group held under finance leases included in the total amount of motor vehicles at 31 December 2000 amounted to HK\$1,321,000 (1999: HK\$1,275,000) and HK\$2,160,000 (1999: HK\$1,364,000), respectively.

Had the land and building been carried at historical cost less accumulated depreciation, its carrying value would have been approximately HK\$680,000 (1999: HK\$718,000).

13. DEFERRED DEVELOPMENT COSTS

| | Group | |
|---------------------------|-----------------|----------|
| | 2000 | 1999 |
| | HK\$'000 | HK\$'000 |
| Cost: | | |
| At beginning of year | 5,929 | 3,480 |
| Additions | 5,238 | 2,449 |
| Written off | (6,415) | – |
| At 31 December | 4,752 | 5,929 |
| Accumulated amortisation: | | |
| At beginning of year | 2,476 | 1,160 |
| Provided during the year | 1,802 | 1,316 |
| Written off | (2,198) | – |
| At 31 December | 2,080 | 2,476 |
| Net book value: | | |
| At 31 December | 2,672 | 3,453 |

14. INTERESTS IN SUBSIDIARIES

| | Company | |
|--------------------------|-----------------|----------|
| | 2000 | 1999 |
| | HK\$'000 | HK\$'000 |
| Unlisted shares, at cost | 39,631 | 39,631 |
| Due from subsidiaries | 271,361 | 71,799 |
| | 310,992 | 111,430 |

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Notes to Financial Statements (continued)

31 December 2000

14. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows:

| Company | Place of incorporation/ registration and operations | Paid-up share/ registered capital | Attributable equity interest | Principal activities |
|--|--|--------------------------------------|------------------------------|---|
| Held directly: | | | | |
| Technology Venture Investments Limited (formerly Technology Venture (Hardware) Holdings Limited) | British Virgin Islands | Ordinary US\$1,000 | 100% | Investment holding |
| Held indirectly: | | | | |
| Light International Holdings Limited | British Virgin Islands/PRC | Ordinary US\$10,000 | 100% | Provision of procurement services |
| Open Environment China/Hong Kong Limited | Hong Kong | Ordinary HK\$10,000 | 90% | Distribution of information technology products and provision of computer technology services |
| Sequent China/Hong Kong Limited | Hong Kong/PRC | Ordinary HK\$10,000 | 91% | Distribution of information technology products and provision of computer technology services |
| Technology Venture (Software) Holdings Limited | British Virgin Islands | Ordinary US\$1,000 | 100% | Investment holding |

14. INTERESTS IN SUBSIDIARIES (continued)

| Company | Place of incorporation/ registration and operations | Paid-up share/ registered capital | Attributable equity interest | Principal activities |
|--|---|------------------------------------|------------------------------|---|
| Held indirectly: (continued) | | | | |
| Topasia Computer Limited | Hong Kong/ PRC | Ordinary HK\$10,000 | 100% | Distribution of information technology products and provision of computer technology services |
| Topsoft Limited | Hong Kong | Ordinary HK\$10,000 | 100% | Distribution of information technology products and provision of computer technology services |
| Windsor Enterprises Limited | British Virgin Islands/PRC | Ordinary US\$10,000 | 100% | Provision of marketing services |
| Advanced Digital Technology Company Limited (formerly Lightyear Enterprises Limited) * | British Virgin Islands | Ordinary US\$1,000 | 55% | Investment holding |
| Advanced Digital Technology Company Limited # | Hong Kong/ PRC | Ordinary HK\$2 | 55% | Provision of systems integration services and software development |
| 北京先進數通信息技術有限公司# | PRC | Registered capital RMB8,270,321 | 55% | Provision of systems integration services and software development |
| TopTrain Limited # | British Virgin Islands | Ordinary US\$100,000 | 86% | Investment holding |
| TopTrain (Hong Kong) Limited # | Hong Kong | Ordinary HK\$2 | 86% | Provision of information technology education services |

Notes to Financial Statements (continued)

31 December 2000

14. INTERESTS IN SUBSIDIARIES (continued)

| Company | Place of incorporation/ registration and operations | Paid-up share/ registered capital | Attributable equity interest | Principal activities |
|------------------------------|---|------------------------------------|------------------------------|---|
| Held indirectly: (continued) | | | | |
| 杭州冠亞科技有限公司# | PRC | Registered capital RMB1,635,072 | 61% | Distribution of information technology products and provision of computer technology services |

* Subsidiaries acquired during the year

Subsidiaries incorporated/registered during the year

The above table lists the subsidiaries of the Company, which in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

15. LONG TERM INVESTMENT

The unlisted long term investment represents the cost of the Group's investment in a 19.9% equity interest in ChinaCast Technology (BVI) Limited ("CCT"), a company incorporated in the British Virgin Islands. CCT is an Internet content provider based in Hong Kong which is principally engaged in the provision of Internet and related services in Hong Kong and the PRC.

As at 31 December 1999, the investment in CCT amounted to approximately HK\$15,600,000. During the year, the Group's investment in CCT increased by approximately HK\$35,481,000 to approximately HK\$51,081,000 as at 31 December 2000. The additional investment was satisfied by the payment of cash consideration of approximately HK\$18,161,000 and the issue of 8,000,000 new ordinary shares of the Company at a price of HK\$2,165 (note 24(c)).

16. DEPOSIT PAID FOR UNLISTED INVESTMENT

The balance represents a deposit paid for the acquisition of a 51% shareholding in a company incorporated in Hong Kong, the details of which are as follows:

| Company | Place of incorporation/ operations | Paid-up capital | Principal activities |
|---|--|------------------------|---|
| DMX Technologies (Hong Kong) Limited ("DMX", formerly Skynet Consultants Company Limited) | Hong Kong | Ordinary HK\$10,000 | Provision of networking, Internet security, e-commerce and web-based television solutions |

Further details of this investment acquisition are set out in note 27(a)(iii) to the financial statements.

17. INVENTORIES

| | Group | |
|---|----------|----------|
| | 2000 | 1999 |
| | HK\$'000 | HK\$'000 |
| Information technology products held for resale | 11,468 | 7,067 |
| Work in progress | – | 762 |
| | 11,468 | 7,829 |

None of the above inventories is carried at net realisable value (1999: HK\$1,542,000).

18. ACCOUNTS RECEIVABLE

The aged analysis of accounts receivable as at 31 December 2000 was as follows:

| | Group | |
|----------------------|----------|----------|
| | 2000 | 1999 |
| | HK\$'000 | HK\$'000 |
| Current to 90 days | 163,592 | 135,459 |
| 91 days to 180 days | 2,585 | 3,633 |
| 181 days to 365 days | 2,981 | 28,632 |
| Over 365 days | 15,740 | – |
| | 184,898 | 167,724 |

Notes to Financial Statements (continued)

31 December 2000

19. ACCOUNTS AND BILLS PAYABLE

| | Notes | Group | |
|--------------------------------------|-------|---------------|----------|
| | | 2000 | 1999 |
| | | HK\$'000 | HK\$'000 |
| Trade and bills payable | | 22,571 | 20,539 |
| Due to certain minority shareholders | (a) | 14,460 | 31,098 |
| Due to related companies | (b) | 4,022 | 11,315 |
| | | 41,053 | 62,952 |

The aged analysis of accounts and bills payable as at 31 December 2000 was as follows:

| | Group | |
|----------------------|---------------|----------|
| | 2000 | 1999 |
| | HK\$'000 | HK\$'000 |
| Current to 90 days | 16,260 | 34,417 |
| 91 days to 180 days | 7,223 | 12,301 |
| 181 days to 365 days | 15,538 | 13,976 |
| Over 365 days | 2,032 | 2,258 |
| | 41,053 | 62,952 |

Notes:

- (a) The amounts due to certain minority shareholders of certain subsidiaries represent trade payables, which are unsecured, interest-free and are repayable according to the terms agreed with these minority shareholders.
- (b) The amounts due to related companies, representing trade payables to certain members of the Datacraft Asia Ltd group, are unsecured, interest-free and have no fixed terms of repayment.

20. ACCRUED LIABILITIES AND OTHER PAYABLES

| | Group | | Company | |
|--------------------------------------|---------------|----------|------------|----------|
| | 2000 | 1999 | 2000 | 1999 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Accrued and other liabilities | 32,995 | 38,257 | 500 | 323 |
| Due to a minority shareholder (note) | 24,708 | – | – | – |
| | 57,703 | 38,257 | 500 | 323 |

Note: Part of the balance due to a minority shareholder of a subsidiary, amounting to approximately HK\$20,579,000, represents the outstanding purchase consideration payable for the acquisition of a 55% shareholding in a subsidiary in the current year (note 27(a)(ii)). The remaining balance of approximately HK\$4,129,000 represents an amount advanced from the minority shareholder for use as working capital of the above mentioned subsidiary. Both balances are unsecured, interest-free and are repayable on demand.

21. BANKING FACILITIES

As at 31 December 2000, the Group's banking facilities were secured by the pledge of the Group's time deposits amounting to approximately HK\$15.9 million (1999: HK\$25.9 million).

22. FINANCE LEASE PAYABLES

There were obligations under finance leases at the balance sheet date as follows:

| | Group | | Company | |
|---|--------------|----------|--------------|----------|
| | 2000 | 1999 | 2000 | 1999 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Amounts payable: | | | | |
| Within one year | 869 | 466 | 455 | 337 |
| In the second year | 834 | 337 | 455 | 337 |
| In the third to fifth years, inclusive | 644 | 813 | 644 | 813 |
| Total minimum finance lease payments | 2,347 | 1,616 | 1,554 | 1,487 |
| Future finance charges | (406) | (307) | (290) | (295) |
| Total net finance lease payables | 1,941 | 1,309 | 1,264 | 1,192 |
| Portion classified as current liabilities | (723) | (387) | (370) | (270) |
| Long term portion | 1,218 | 922 | 894 | 922 |

Notes to Financial Statements (continued)

31 December 2000

23. DEFERRED TAX

| | Group | |
|---------------------------------------|-----------------|----------|
| | 2000 | 1999 |
| | HK\$'000 | HK\$'000 |
| At beginning of year | 911 | 586 |
| Charge/(credit) for the year – note 8 | (600) | 325 |
| At 31 December | 311 | 911 |

The principal components of the Group's deferred tax liability/(asset) position and the amounts not provided for in the financial statements are as follows:

| | Provided | | Not provided | |
|-------------------------------------|-----------------|----------|---------------------|----------|
| | 2000 | 1999 | 2000 | 1999 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Accelerated depreciation allowances | 311 | 911 | – | 27 |
| Tax losses carried forward | – | – | (548) | (2,169) |
| | 311 | 911 | (548) | (2,142) |

There were no significant potential deferred tax liabilities for which provision has not been made for the Company as at 31 December 2000 (1999: Nil).

The revaluation of the Group's leasehold land and building does not constitute a timing difference and, consequently, the amount of potential deferred tax thereon has not been quantified.

24. SHARE CAPITAL

Shares

| | 2000 | 1999 |
|---|----------------|----------|
| | HK\$'000 | HK\$'000 |
| Authorised: | | |
| 1,000,000,000 (1999: 1,000,000,000) ordinary shares of HK\$0.10 (1999: HK\$0.10) each | 100,000 | 100,000 |
| Issued and fully paid: | | |
| 362,000,000 (1999: 280,000,000) ordinary shares of HK\$0.10 (1999: HK\$0.10) each | 36,200 | 28,000 |

During the year, the following movements in the Company's issued share capital took place:

- (a) On 10 January 2000, the Company entered into a placing and subscription agreement with Clear Goal Holding Limited ("Clear Goal"), which was the Company's then ultimate holding company, and an independent placing agent. According to this agreement, Clear Goal agreed to place 56,000,000 existing ordinary shares of HK\$0.10 each in the share capital of the Company at a price of HK\$2.90 per share to the independent placing agent, and thereafter subscribed for 42,000,000 new shares of HK\$0.10 each in the Company also at a price of HK\$2.90 per share. The placing and the subscription of the new shares were completed on 13 January 2000 and 24 January 2000, respectively. A sum of approximately HK\$116,060,000, net of placement expenses, was raised and used partly for the expansion of the Group's e-commerce and Internet businesses, and partly used as additional working capital.
- (b) Pursuant to a placing agreement and a subscription agreement both dated 13 September 2000, the Company, through another independent placing agent, placed 32,000,000 new ordinary shares of HK\$0.10 each in the Company at a price of HK\$3.50 per share to independent third parties. A sum of approximately HK\$108,383,000, net of placement expenses, was raised and used partly for the expansion of the systems integration business in the PRC and the software training business, and partly used as working capital of the Group.
- (c) Pursuant to an ordinary resolution passed by the shareholders of the Company at a special general meeting held on 19 October 2000, 8,000,000 new ordinary shares of HK\$0.10 each were issued at a price of HK\$2.165 per share to independent third parties for the partial settlement of the additional investment in CCT, an unlisted long term equity investment.

Notes to Financial Statements (continued)

31 December 2000

24. SHARE CAPITAL (continued)**Shares** (continued)

A summary of the above movements in the Company's issued ordinary share capital during the year is as follows:

| | | Carrying | No. of | Carrying | No. of |
|---|----------|-------------------|--------------------|------------|-------------|
| | | amount | shares | amount | shares |
| | | 2000 | 2000 | 1999 | 1999 |
| | | HK\$ | | HK\$ | |
| At beginning of year | | 28,000,000 | 280,000,000 | 200,000 | 210,000,000 |
| Placement of new shares | (a), (b) | 7,400,000 | 74,000,000 | – | – |
| Issue of shares for additional investment in CCT | (c) | 800,000 | 8,000,000 | – | – |
| Issue of shares of HK\$0.10 each to public | | – | – | 7,000,000 | 70,000,000 |
| Capitalisation of share premium account as a result of public share issue | | – | – | 20,800,000 | – |
| At end of year | | 36,200,000 | 362,000,000 | 28,000,000 | 280,000,000 |

Share options

Under the terms of the share option scheme adopted by the Company on 12 June 1999, the board of directors is authorised, on or before 11 June 2009, at its absolute discretion, to invite any employee, including any executive director of the Company or any of its subsidiaries, to take up options to subscribe for shares in the Company. The subscription price will be the higher of 80% of the average of the closing price of the Company's shares on The Stock Exchange of Hong Kong Limited for the five trading days immediately preceding the date of the offer of grant of the option and the nominal value of the shares. The maximum number of shares in respect of which options may be granted under the share option scheme may not exceed, in nominal amount, 10% of the issued share capital of the Company from time to time which have been duly allotted and issued. The share option scheme became effective upon the listing of the Company's shares on The Stock Exchange of Hong Kong Limited on 6 July 1999.

24. SHARE CAPITAL (continued)

Share options (continued)

The movements in the number of share options to subscribe for shares in the Company during the year were as follows:

| Date of grant of share options | Number of share options granted during the year | Number of share options lapsed during the year | Number of share options outstanding at 31 December 2000 | Exercise price | Exercise period |
|--------------------------------|---|--|---|----------------|--|
| 21 January 2000 | 5,600,000 | 622,000 | 4,978,000 | HK\$2.532 | 21 January 2001 to 20 January 2010 |
| 31 May 2000 | 500,000 | – | 500,000 | HK\$1.82 | 31 May 2001 to 30 May 2010 |
| 29 September 2000 | 200,000 | – | 200,000 | HK\$2.108 | 29 September 2001 to 28 September 2010 |
| 27 December 2000 | 800,000 | 50,000 | 750,000 | HK\$1.481 | 27 December 2001 to 26 December 2010 |
| | 7,100,000 | 672,000 | 6,428,000 | | |

At the balance sheet date, the Company had 6,428,000 share options outstanding. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 6,428,000 new ordinary shares of HK\$0.10 each in the Company.

Notes to Financial Statements (continued)

31 December 2000

25. RESERVES

Group

| | Share | Contributed | Goodwill | Exchange | Retained | Total |
|---|--------------------|-------------|----------|------------------------|----------|----------|
| | premium account | surplus | reserve | fluctuation reserve | profits | |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At 1 January 1999 | – | (19) | – | – | 28,328 | 28,309 |
| Issue of shares | 82,600 | – | – | – | – | 82,600 |
| Capitalisation issue of shares | (20,800) | – | – | – | – | (20,800) |
| Share issue expenses | (18,242) | – | – | – | – | (18,242) |
| Arising from acquisition of additional interest in a subsidiary | – | – | (602) | – | – | (602) |
| Retained profit for the year | – | – | – | – | 21,342 | 21,342 |
| At 31 December 1999 and 1 January 2000 | 43,558 | (19) | (602) | – | 49,670 | 92,607 |
| Issue of shares (note 24) | 242,920 | – | – | – | – | 242,920 |
| Share issue expenses (note 24) | (9,357) | – | – | – | – | (9,357) |
| Arising from acquisition of a subsidiary | – | – | (36,946) | – | – | (36,946) |
| Exchange realignments | – | – | – | 45 | – | 45 |
| Retained profit for the year | – | – | – | – | 11,573 | 11,573 |
| At 31 December 2000 | 277,121 | (19) | (37,548) | 45 | 61,243 | 300,842 |

25. RESERVES (continued)

Company

| | Share | Contributed | Retained | Total |
|---|----------|-------------|----------|----------|
| | premium | surplus | profits | |
| | account | | | |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Arising on acquisition of TVIL | – | 39,531 | – | 39,531 |
| Applied in payment of 1,000,000 shares allotted nil paid on incorporation | – | (100) | – | (100) |
| Issue of shares | 82,600 | – | – | 82,600 |
| Capitalisation issue of shares | (20,800) | – | – | (20,800) |
| Share issue expenses | (18,242) | – | – | (18,242) |
| Net profit for the period | – | – | 14,001 | 14,001 |
| Dividends | – | – | (12,936) | (12,936) |
| At 31 December 1999 and 1 January 2000 | 43,558 | 39,431 | 1,065 | 84,054 |
| Issue of shares (note 24) | 242,920 | – | – | 242,920 |
| Share issue expenses (note 24) | (9,357) | – | – | (9,357) |
| Net Profit for the year | – | – | 5,873 | 5,873 |
| Dividends | – | – | (6,640) | (6,640) |
| At 31 December 2000 | 277,121 | 39,431 | 298 | 316,850 |

The contributed surplus of the Group represents the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to the Group reorganisation on 12 June 1999 over the nominal value of the share capital of the Company issued in exchange therefor.

The contributed surplus of the Company represents the excess of the combined net assets value of the subsidiaries acquired pursuant to the same reorganisation, over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Act 1981 of Bermuda, the Company may make distributions to its members out of contributed surplus under certain circumstances.

Notes to Financial Statements (continued)

31 December 2000

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT**(a) Reconciliation of profit from operating activities to net cash outflow from operating activities**

| | Group | |
|---|-----------------|----------|
| | 2000 | 1999 |
| | HK\$'000 | HK\$'000 |
| Profit from operating activities | 21,253 | 43,841 |
| Interest income | (6,099) | (3,408) |
| Depreciation | 4,895 | 2,497 |
| Amortisation of deferred development costs | 1,802 | 1,316 |
| Deferred development costs written off | 4,217 | – |
| Gain on disposal of fixed assets, net | (453) | (153) |
| Deficit on revaluation of leasehold land and building | – | 95 |
| Decrease/(increase) in inventories | (3,639) | 7,132 |
| Increase in accounts receivable | (17,174) | (90,872) |
| Decrease in bills receivable | 5,414 | 48,760 |
| Increase in prepayments, deposits and other receivables | (25,390) | (3,454) |
| Increase/(decrease) in trade and bills payable | 2,032 | (12,190) |
| Increase/(decrease) in trust receipt loans with original maturity of more than three months | (3,978) | 3,978 |
| Decrease in accrued and other liabilities | (5,262) | (22,784) |
| Increase/(decrease) in amounts due to certain minority shareholders | (16,638) | 13,918 |
| Increase/(decrease) in amounts due to related companies | (7,293) | 11,315 |
| Net cash outflow from operating activities | (46,313) | (9) |

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Analysis of changes in financing during the year

| | Share capital and share premium | Due to a related company | Due to a minority shareholder | Finance lease payables | Pledged time deposits | Minority interests |
|---|---------------------------------|--------------------------|-------------------------------|------------------------|-----------------------|--------------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At 1 January 1999 | 200 | 26,449 | – | 1,174 | (17,476) | 544 |
| Cash inflow/(outflow) from financing activities, net | 71,358 | (26,449) | – | (1,215) | (8,419) | – |
| Inception of finance lease contracts | – | – | – | 1,350 | – | – |
| Share of profit for the year | – | – | – | – | – | 1,922 |
| Acquisition of additional equity interest in a subsidiary | – | – | – | – | – | (308) |
| At 31 December 1999 and 1 January 2000 | 71,558 | – | – | 1,309 | (25,895) | 2,158 |
| Cash inflow/(outflow) from financing activities, net | 224,443 | – | 4,129 | (1,029) | 10,010 | 750 |
| Inception of finance lease contracts | – | – | – | 1,661 | – | – |
| Share of profit for the year | – | – | – | – | – | 1,628 |
| Acquisition of a subsidiary | – | – | – | – | – | 4 |
| Issue of shares for additional investment in CCT | 17,320 | – | – | – | – | – |
| At 31 December 2000 | 313,321 | – | 4,129 | 1,941 | (15,885) | 4,540 |

Notes to Financial Statements (continued)

31 December 2000

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)**(c) Acquisition of a subsidiary**

| | Group | |
|---|---------------|----------|
| | 2000 | 1999 |
| | HK\$'000 | HK\$'000 |
| Net assets acquired: | | |
| Other receivables | 8 | – |
| Minority interests | (4) | – |
| | <u>4</u> | – |
| Legal expenses incurred incidental to the acquisition | (200) | – |
| Goodwill on acquisition | 36,946 | – |
| | <u>36,750</u> | – |
| Consideration | 36,750 | – |
| Satisfied by: | | |
| Cash consideration paid and payable | 36,750 | – |

Analysis of the net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary:

| | Group | |
|--|---------------|----------|
| | 2000 | 1999 |
| | HK\$'000 | HK\$'000 |
| Cash consideration paid and payable | 36,750 | – |
| Cash consideration payable (note 20(a)) | (20,579) | – |
| | <u>16,171</u> | – |
| Cash consideration paid | 16,171 | – |
| Legal expenses paid incidental to the acquisition | 200 | – |
| | <u>200</u> | – |
| Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary | 16,371 | – |

The subsidiary acquired during the year made no significant contribution to the Group in respect of the cash flows, turnover or net profit attributable to shareholders for the year.

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(d) Major non-cash transactions

- (i) Part of the consideration for the additional investment in CCT during the year, with an amount of HK\$17,320,000, was satisfied by the issue of 8,000,000 ordinary shares of the Company of HK\$0.10 each at a price of HK\$2.165 per share.
- (ii) During the year, the Group entered into finance lease arrangements in respect of fixed assets with a total capital value at the inception of the leases of HK\$1,661,000 (1999: HK\$1,350,000).
- (iii) During the year, the Group acquired a 55% shareholding in a subsidiary with total cash consideration of HK\$36,750,000 of which HK\$20,579,000 (note 20) remained outstanding as at the balance sheet date.
- (iv) The reorganisation of the Group in preparation for the public listing of the Company's shares in the prior year involved the acquisition of the entire issued share capital of TVIL by the issue of 1,000,000 shares of HK\$0.10 each of the Company.

27. COMMITMENTS

(a) Capital commitments

- (i) At the balance sheet date, the Group was committed to make capital injection to two subsidiaries in the PRC of approximately HK\$16,263,000 (1999: Nil).
- (ii) During the year, the Group entered into a sale and purchase agreement (the "S&P Agreement") with an independent third party (the "Seller") for the acquisition of a 55% shareholding in a subsidiary (the "Subsidiary") for a total consideration of HK\$36,750,000, of which HK\$16,171,000 has been settled up to the balance sheet date.

In addition, pursuant to the S&P Agreement, the Seller will be entitled to additional consideration calculated as follows:

- (1) The first additional consideration is to be calculated by multiplying HK\$6.20 million to the quotient of the audited after tax profits of the Subsidiary for the first 12 months following its acquisition by the Group and HK\$15 million.
- (2) The second additional consideration is to be calculated by multiplying HK\$11.17 million to the quotient of the audited after tax profits of the Subsidiary for the second 12 months following its acquisition by the Group and HK\$27 million.
- (3) The third additional consideration is to be calculated by multiplying HK\$14.08 million to the quotient of the audited after tax profits of the Subsidiary for the third 12 months following its acquisition by the Group and HK\$34 million.

Notes to Financial Statements (continued)

31 December 2000

27. COMMITMENTS (continued)

(a) Capital commitments (continued)

(ii) (continued)

Half of the additional consideration may be satisfied either by way of cash, or by the allotment and issue of the equivalent value of shares of HK\$0.10 in the capital of the Company at the option of the Group, with reference to the closing prices of the Company's shares as quoted on The Stock Exchange of Hong Kong Limited on the relevant dates of payments. Pursuant to the S&P Agreement, the number of shares to be allotted and issued to the Seller shall not be equal to or exceed 9.9% of the issued share capital of the Company from time to time, or otherwise the consideration shall be paid in cash. Further details of the transaction and the adjustment basis of the additional consideration are set out in the Company's circular to the shareholders dated 15 August 2000.

(iii) On 28 November 2000, the Group entered into a sale and subscription agreement (the "Agreement") with, inter alia, an independent third party (the "Vendor") to acquire 2,710 existing issued shares ("Existing Shares") and to subscribe for 4,880 new shares ("New Shares") in DMX, further details of which are set out in note 16 to the financial statements. The considerations for the Existing Shares and the New Shares are HK\$50 million ("Existing Shares Consideration"), subject to adjustments detailed below, and HK\$90 million ("New Shares Consideration"), respectively. Immediately upon the completion of the Agreement, the Group will own 51% of the issued share capital of DMX.

Pursuant to the Agreement, HK\$10 million of the Existing Shares Consideration is payable upon the completion of the Agreement (the "Completion"). The remaining balance of HK\$40 million, subject to adjustments, is payable in three instalments. HK\$20 million, HK\$10 million and HK\$10 million of the Existing Shares Consideration will be settled to the Vendor if the audited profits after tax of DMX for the year ending 31 December 2001 ("2001 PAT"), the aggregate of the 2001 PAT and the audited profits after tax of DMX for the year ending 31 December 2002 ("Cumulative 2002 PAT"), and the aggregate of the Cumulative 2002 PAT and the audited profits after tax of DMX for the year ending 31 December 2003 ("Cumulative 2003 PAT") reach HK\$11.6 million, HK\$30.5 million and HK\$59.5 million, respectively.

Should the 2001 PAT, Cumulative 2002 PAT and Cumulative 2003 PAT exceed HK\$19.0 million, HK\$50.1 million and HK\$97.8 million, respectively, or fall below HK\$11.6 million, HK\$30.5 million and HK\$59.5 million, respectively, the remaining Existing Shares Consideration will be adjusted based on the 2001 PAT, Cumulative 2002 PAT and Cumulative 2003 PAT, respectively. Further details of the transaction and the basis of adjustments are set out in the Company's circular to the shareholders dated 5 December 2000.

27. COMMITMENTS (continued)

(a) Capital commitments (continued)

(iii) (continued)

For the New Shares Consideration, a refundable up-front deposit of HK\$25 million had been paid by the Group at the balance sheet date. The remaining portions of the New Shares Consideration, of HK\$25 million, HK\$5 million, HK\$15 million and HK\$20 million are payable upon the Completion, on 30 June 2001, 2002 and 2003, respectively, pursuant to the Agreement.

According to the Agreement, the Group may, at its sole discretion, elect to satisfy the whole or any part of the remaining balance of the Existing Shares Consideration by the allotment and issue of such number of ordinary shares of HK\$0.10 each in the Company ("Consideration Shares") to the Vendor calculated by reference to the average of the closing prices of the Company's shares as quoted on The Stock Exchange of Hong Kong Limited for the five trading days immediately before the relevant dates of payments. However, if the exercise of the right of election would result in the Vendor becoming interested in 10% or more of the issued share capital of the Company at the relevant time, the Group shall pay the Existing Shares Consideration in cash to the Vendor.

The Agreement was completed in January 2001 and HK\$10 million of Existing Shares Consideration and HK\$50 million of New Shares Consideration have been paid by the Group to the Vendor up to the date of approval of these financial statements in accordance with the Agreement.

The Company had no capital commitments at the balance sheet date (1999: Nil).

(b) Commitments under operating leases

| | Group | | Company | |
|--|----------|----------|----------|----------|
| | 2000 | 1999 | 2000 | 1999 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Annual commitments payable in the following year under non-cancellable operating leases in respect of land and buildings expiring: | | | | |
| Within one year | 951 | 1,395 | – | – |
| In the second to fifth years, inclusive | 3,854 | 905 | 1,152 | – |
| | 4,805 | 2,300 | 1,152 | – |

Notes to Financial Statements (continued)

31 December 2000

28. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

| | Group | | Company | |
|---|------------|----------|---------------|----------|
| | 2000 | 1999 | 2000 | 1999 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Guarantees in respect of performance bonds in favour of contract customers | 275 | – | 130 | – |
| Guarantees given to banks in connection with facilities granted to certain subsidiaries | – | – | 12,498 | 21,673 |
| | 275 | – | 12,628 | 21,673 |

29. COMPARATIVE AMOUNTS

The research and development expenditure of HK\$1,100,000, net exchange losses of HK\$1,928,000 and deficit on revaluation of leasehold land and building of HK\$95,000 included in the administrative expenses in the prior year have been reclassified to the other operating expenses to conform with the current year's presentation.

30. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 25 April 2001.