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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Tai Shing International (Holdings) Limited (the “Company”), you should, at once, hand this circular to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities.

TAI SHING

TAI SHING INTERNATIONAL (HOLDINGS) LIMITED

泰盛國際（控股）有限公司*

(formerly known as Systek Information Technology (Holdings) Limited 訊泰科技（控股）有限公司*)

(incorporated in the Cayman Islands with limited liability)

MAJOR TRANSACTION PROPOSED PLACING OF NEW SHARES

A letter from the board of directors of the Company is set out on pages 3 to 8 of this circular.

This circular will remain on the GEM website at <http://www.hkgem.com> on the “Latest Company Announcements” page for at least 7 days from the day of its posting and on the website of the Company at www.taishingintl.com.

5 March 2004

* for identification purpose only

CHARACTERISTIC OF GEM

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the main board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. GEM-listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website at www.hkgem.com in order to obtain up-to-date information on GEM-listed issuers.

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DEFINITIONS

In this circular, unless the context requires otherwise, the following terms have the following meanings:

“associate”	has the meaning ascribed to it under the GEM Listing Rules
“Board”	the board of Directors
“Business Day”	means a day (other than a Saturday) on which banks in Hong Kong generally open for business
“CCASS”	The Central Clearing and Settlement System established and operated by HKSCC
“Company”	Tai Shing International (Holdings) Limited (formerly known as System Information Technology (Holdings) Limited), a company incorporated in the Cayman Islands with limited liability, Shares of which are listed and traded on GEM
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, modified and supplemented from time to time
“Director(s)”	director(s) of the Company
“GEM”	The Growth Enterprise Market of the Stock Exchange
“GEM Listing Committee”	the listing sub-committee of the board of the Stock Exchange with responsibility for GEM
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administration Region of the PRC
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Latest Practicable Date”	2 March 2004, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Placing”	the proposed placing of the Placing Shares under the Placing Agreement

DEFINITIONS

“Placing Agent”	VC CEF Brokerage Limited, a deemed licensed corporation for types 1, 4, 6 and 9 regulated activities under the SFO and the placing agent in relation to the Placing
“Placing Agreement”	the conditional agreement dated 13 February 2004 and entered into between the Company and the Placing Agent
“Placing Price”	HK\$0.48 per Placing Share
“Placing Shares”	6,000,000 new Shares to be placed by the Placing Agent pursuant to the Placing Agreement
“PRC”	the People’s Republic of China
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholders”	holders of the Shares from time to time
“Shares”	ordinary share(s) of HK\$0.05 each in the capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Wide Source”	Wide Source Group Ltd.
“HK\$” or “\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.
“RMB”	Renminbi, the lawful currency of the PRC

LETTER FROM THE BOARD

TAI SHING

TAI SHING INTERNATIONAL (HOLDINGS) LIMITED

泰盛國際（控股）有限公司*

(formerly known as Systek Information Technology (Holdings) Limited 訊泰科技（控股）有限公司*)

(a company incorporated in the Cayman Islands)

Executive directors:

Mr. Luk Yat Hung – *Chairman*

Mr. Ho Cho Hang

Independent non-executive directors:

Mr. Chung Shui Ming, Timpson

Professor Ip Ho Shing, Horace

Registered office:

Century Yard, Cricket Square

Hutchins Drive

P.O. Box 2681GT

George Town

Grand Cayman

British West Indies

Head office and principal

place of business:

24/F, Prosperous Commercial Building

54-58 Jardine's Bazaar

Causeway Bay

Hong Kong

5 March 2004

To the Shareholders

Dear Sir/Madam,

MAJOR TRANSACTION PROPOSED PLACING OF NEW SHARES

INTRODUCTION

The Board announces that on 13 February 2004, the Company has entered into the Placing Agreement, whereby it has conditionally agreed to place 6,000,000 new Shares to independent investors through the services of the Placing Agent at the Placing Price.

* for identification purpose only

LETTER FROM THE BOARD

The Placing constitutes a major transaction of the Company under Chapter 19 of the GEM Listing Rules. The purpose of this circular is to provide you with further information on the Placing and other additional information as required by the GEM Listing Rules.

PLACING AGREEMENT

Date of the Placing Agreement

13 February 2004

Placing Agent

VC CEF Brokerage Limited, an independent third party not connected with any of the directors, chief executive, substantial shareholders or management shareholders of the Company or any of its subsidiaries or their respective associates.

Independence of placees

The Placing Shares will be placed to not less than six placees who are independent third parties not connected with any of the directors, chief executive, substantial shareholders or management shareholders of the Company or any of its subsidiaries or their respective associates. It is expected that the placees will be either (i) professional and institutional investors who generally include brokers, dealers and companies (including fund managers) whose ordinary businesses are dealing in securities and other investment tools; and (ii) corporate entities which regularly invest in securities; and (iii) individual investors.

Basis of Placing

The Placing Agent will place the Placing Shares on a best endeavour basis.

Placing Shares

6,000,000 new Shares, representing about 14.47% of the existing issued share capital of the Company and about 12.64% of the issued share capital of the Company as enlarged by the Placing. The Placing Shares will be allotted and issued pursuant to the general mandate granted to the Directors at the extraordinary general meeting held on 22 October 2003.

The Placing Shares, when allotted and issued, will rank *pari passu* in all respects with the Shares in issue, including the right to receive all dividends, bonuses or distributions declared or proposed to be declared or paid, as from the date of allotment and issue of the Placing Shares.

LETTER FROM THE BOARD

Placing Price

The Placing Price of HK\$0.48 per Placing Share was arrived at after arm's length negotiations between the Company and the Placing Agent with reference to the prevailing market price and the trading volume of the Shares. It represents a discount of 20% to the closing price of HK\$0.60 per Share as quoted on the Stock Exchange on 13 February 2004, being the date of the Placing Agreement and a discount of approximately 19.3% to the average closing price of HK\$0.595 per Share as quoted on the Stock Exchange for the last ten consecutive trading days for Shares up to and including the Latest Practicable Date. The Placing Price also represents a premium of about 3.57 times over the unaudited adjusted consolidated net tangible asset value of the Group per Share of approximately HK\$0.1051 as at 31 December 2003. The Board considered that a discount to the then market price of the Shares was needed to attract potential investors.

Conditions of the Placing

The Placing is conditional upon:

1. the GEM Listing Committee of the Stock Exchange granting or agreeing to grant, the listing of, and permission to deal in, all the Placing Shares to be subscribed by the placees; and
2. there being no occurrence of the force majeure events or any material breach of the representations and warranties set out in the Placing Agreement prior to 12:00 noon on or before the expected completion date of the Placing which in the reasonable opinion of the Placing Agent would or might adversely affect the success of the Placing. Force majeure events are defined to include any change in national, local, financial, political, industrial, economic, or market conditions if in the reasonable opinion of the Placing Agent any such change would materially prejudicially affect the Placing.

Completion of the Placing

Completion of the Placing shall take place on the third Business Day immediately following the date of fulfillment of all the above conditions with or without any waiver thereof. If any of the conditions referred to above are not fulfilled by 19 March 2004 (or such later time or date as may be agreed by the Company and the Placing Agent), all rights, obligations and liabilities of the parties to and thereunder in the Placing Agreement in relation to the Placing will cease and determine.

LETTER FROM THE BOARD

Application for listing

Application has been made by the Company to the Stock Exchange for the listing of, and permission to deal in, all the Placing Shares to be subscribed by the placees in accordance with the GEM Listing Rules.

Subject to the granting of listing of, and permission to deal in, the Placing Shares on GEM and in compliance with the stock admission requirements of HKSCC, the New Placing Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Placing Shares on GEM or such other dates as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject of the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Investors should seek the advice of their stockbroker or other professional adviser for details of those settlement arrangements as such arrangements may affect their rights and interest.

All necessary arrangements will be made for the Placing Shares to be admitted into CCASS.

None of the Placing Shares will be listed or dealt in on any other stock exchange outside Hong Kong.

DILUTION EFFECTS PURSUANT TO THE PLACING

Upon completion of the Placing, the dilution effects of the shareholding of the Company shall be as follows:

	Before completion of the Placing No. of Shares	%	Immediately after completion of the Placing No. of Shares	%
Wide Source (<i>Notes 1 & 2</i>)	21,542,476	51.97	21,542,476	45.40
Suez Asia Holdings Pte Ltd. (<i>Note 3</i>)	3,412,000	8.23	3,412,000	7.19
Placees	0	0	6,000,000	12.64
Public	16,500,524	39.80	16,500,524	34.77
Total	<u>41,455,000</u>	<u>100.00</u>	<u>47,455,000</u>	<u>100.00</u>

LETTER FROM THE BOARD

Notes:

1. Shares held by Wide Source represent the corporate interest of Mr. Luk Yat Hung in the Company.
2. Mr. Ma Bing will be taken to be interested in 21,542,476 Shares as a result of him being beneficially interested in 50% of the issued share capital of Wide Source which in turn holds 21,542,476 Shares.
3. Suez Asia Holdings Pte Ltd. is a private equity investor in Asia holding the said number of Shares in trust.

It is expected that completion of the Placing will not by itself result in the introduction of any new shareholder interested in 5% or more of the nominal value of the Shares or any new substantial shareholder (as defined under the GEM Listing Rules) of the Company.

REASONS FOR THE PLACING AND USE OF PROCEEDS

The Company is an investment holding company. Its operating subsidiaries and/or associated companies are principally engaged in (i) the design, development and deployment of internet enabling software solutions and the provision of information technology consulting and e-business innovation services for commercial enterprises in Hong Kong and the United States of America seeking to deploy and improve their use of the internet and e-business applications; (ii) research, development and provision of information-on-demand system solutions, telecommunication and broadcasting media network solutions and the provision of related products and services, and (iii) distribution of computers and computer-related hardware, medical equipments, domestic appliances, general merchandises and spare parts of automobiles.

The Directors consider that it is in the best interest of the Company to raise capital from the equity market by way of the Placing in order to strengthen the financial position of the Group. The Directors (including the independent non-executive Directors) consider that the terms of the Placing are fair and reasonable and in the interests of the Shareholders as a whole. The net proceeds from the Placing are estimated to be about HK\$2.5 million and will be applied for the future expansion, business development and/or as general working capital of the Group.

IMPLICATION OF THE GEM LISTING RULES

The Placing constitutes a major transaction under the GEM Listing Rules. On the basis that the interest of Wide Source, being the single largest Shareholder in the Placing is the same as all the other Shareholders and the interest in the Shares held by Wide Source will be diluted in the same proportion as other Shareholders as a result of the Placing and thus, Wide Source has no interest in the Placing other than its interest as a Shareholder. As at the Latest Practicable, Wide Source is interested in about 51.97% of the issued Shares. By virtue of the fact that Wide Source holding more than 50% in nominal value of the Shares has given its written approval of the Placing on 13 February 2004, pursuant to Rule 19.39 of the GEM Listing Rules, the Company need not hold a general meeting to consider the Placing.

LETTER FROM THE BOARD

The Company will made a further announcement in respect of the results of the Placing on or before 10 March 2004.

FINANCIAL EFFECTS

The pro forma statement of adjusted net tangible assets of the Group is set out in Appendix I to this circular. Based on the net proceeds of about HK\$2.5 million to be raised under the Placing, upon completion of the Placing, the adjusted net tangible assets of the Group will increase from about HK\$4.36 million to about HK\$6.86 million. Further, based on the total issued share capital of the Company upon completion of the Placing (i.e. 47,455,000 Shares upon issuance of 6,000,000 new Shares), the pro forma unaudited adjusted consolidated net tangible assets of the Group will increase from about HK\$0.1051 to about HK\$0.1445 per Share upon completion of the Placing.

The Placing has no immediate material effect on the earnings of the Group.

EXPENSES

The Company will bear all the costs and expenses of approximately HK\$380,000 incurred or to be incurred in relation to the Placing. For reference purpose only, the net proceeds from the Placing are estimated to be about HK\$2.5 million which is equivalent to about HK\$0.417 per Share.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

By Order of the Board
Tai Shing International (Holdings) Limited
Luk Yat Hung
Chairman

1. SUMMARY OF AUDITED FINANCIAL STATEMENTS

The following is a summary of the audited financial statements of the Group for the two years ended 31 March 2003 together with the accompanying notes as extracted from the annual report of the Company for the year ended 31 March 2003:

Consolidated Income Statement*For the year ended 31 March 2003**(Expressed in Hong Kong dollars)*

	<i>Note</i>	2003 \$'000	2002 \$'000
Turnover	2	37,698	35,292
Cost of services and merchandise sold		(25,490)	(21,724)
Gross profit		12,208	13,568
Other revenue and net income	3	27	1,118
Research and development costs	4(c)	(36,343)	(15,366)
Selling expenses		(3,160)	(10,781)
General and administrative expenses		(25,692)	(36,589)
Other operating expenses		(3,894)	(6,080)
Loss from operations		(56,854)	(54,130)
Finance costs	4(a)	(50)	(23)
Loss from ordinary activities before taxation	4	(56,904)	(54,153)
Taxation	5(a)	75	–
Loss attributable to shareholders	8	(56,829)	(54,153)
Dividends	9	–	–
Loss per share	10		
– Basic (<i>HK cents</i>)		(5.48)	(5.23)
– Diluted (<i>HK cents</i>)		N/A	N/A

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP****Consolidated Balance Sheet***At 31 March 2003**(Expressed in Hong Kong dollars)*

	<i>Note</i>	2003 \$'000	2002 \$'000
Non-current assets			
Fixed assets	12	4,452	8,407
Intangible assets	14	–	30,109
Investment securities	15	–	700
		4,452	39,216
Current assets			
Gross amount due from customers for contracts	16	1,601	2,381
Inventories	17	240	153
Accounts receivable	18	6,059	8,453
Prepayments, deposits and other receivables		792	1,803
Tax recoverable	5(b)	–	1,302
Pledged deposits	20	526	4,342
Cash and cash equivalents	21	2,107	13,600
		11,325	32,034
Current liabilities			
Receipts in advance	22	1,971	1,345
Other payables and accruals		8,369	8,536
Tax payable	5(b)	–	266
		10,340	10,147
Net current assets		985	21,887
Total assets less current liabilities		5,437	61,103
Minority interests		–	–
NET ASSETS		5,437	61,103
CAPITAL AND RESERVES			
Share capital	23	103,638	103,638
Reserves	24(a)	(98,201)	(42,535)
		5,437	61,103

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP****Balance Sheet***At 31 March 2003**(Expressed in Hong Kong dollars)*

	<i>Note</i>	2003 \$'000	2002 \$'000
Non-current assets			
Investments in subsidiaries	<i>13</i>	6,900	3,800
Current assets			
Amounts due from subsidiaries	<i>19</i>	1,741	123,983
Prepayments, deposits and other receivables		–	113
Pledged deposits	<i>20</i>	–	3,742
Cash and cash equivalents	<i>21</i>	–	20
		1,741	127,858
Current liabilities			
Other payables and accruals		2,635	1,717
Net current (liabilities)/assets		(894)	126,141
NET ASSETS		6,006	129,941
CAPITAL AND RESERVES			
Share capital	<i>23</i>	103,638	103,638
Reserves	<i>24(b)</i>	(97,632)	26,303
		6,006	129,941

Consolidated Statement of Changes in Equity*For the year ended 31 March 2003**(Expressed in Hong Kong dollars)*

	<i>Note</i>	2003 \$'000	2002 \$'000
Shareholders' equity at 1 April		<u>61,103</u>	<u>115,582</u>
Exchange differences on translation of the financial statements of subsidiaries outside Hong Kong	24(a)	<u>(37)</u>	<u>(326)</u>
Net loss not recognised in the income statement		<u>(37)</u>	<u>(326)</u>
Net loss for the year	24(a)	(56,829)	(54,153)
Movement in capital reserve:			
Waiver of amount due to a shareholder	24(a)	<u>1,200</u>	<u>–</u>
		<u>(55,629)</u>	<u>(54,153)</u>
Shareholders' equity at 31 March		<u>5,437</u>	<u>61,103</u>

Consolidated Cash Flow Statement*For the year ended 31 March 2003**(Expressed in Hong Kong dollars)*

	2003	2002
<i>Note</i>	\$'000	\$'000
Operating activities		
Loss from ordinary activities before taxation	(56,904)	(54,153)
Interest income from bank deposits	(19)	(977)
Depreciation	2,527	2,617
Amortisation of intangible assets	8,439	6,971
Impairment loss on intangible assets	25,542	–
Impairment loss on fixed assets	391	–
Finance costs	50	23
Loss on disposal of fixed assets	1,293	828
Provision for diminution in value against investment securities	700	5,095
Provision for bad and doubtful debts	242	1,266
Provision for receivable from minority shareholder	–	985
Settlement to a labour dispute paid by a shareholder (<i>note 4(c)</i>)	1,200	–
Operating loss before changes in working capital	(16,539)	(37,345)
Decrease/(increase) in gross amount due from customers for contracts	780	(1,397)
Increase in inventories	(87)	(153)
Decrease in accounts receivable	2,152	1,726
Decrease in prepayments, deposits and other receivables	1,011	1,123
Increase in receipts in advance	626	1,345
Decrease in other payables and accruals	(167)	(797)
Cash used in operations	(12,224)	(35,498)
Tax paid		
– Hong Kong Profits Tax refunded	1,302	–
– Overseas tax paid	(191)	–
Net cash used in operating activities	(11,113)	(35,498)

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP**

	<i>Note</i>	2003	2002
		\$'000	\$'000
Investing activities			
Payment for purchase of fixed assets		(424)	(2,142)
Proceeds from disposal of fixed assets		168	–
Pledged deposits		3,816	35,846
Payment for purchase of investment securities		–	(2,950)
Payment for acquisition of intangible assets		(3,872)	(16,676)
Interest received		19	977
		<hr/>	<hr/>
Net cash (used in)/generated from investing activities		(293)	15,055
		<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
Financing activities			
Interest paid		(50)	(23)
		<hr/>	<hr/>
Net cash used in financing activities		(50)	(23)
		<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
Net decrease in cash and cash equivalents		(11,456)	(20,466)
Cash and cash equivalents at 1 April		13,600	34,392
Effect of foreign exchange rates changes		(37)	(326)
		<hr/>	<hr/>
Cash and cash equivalents at 31 March	<i>21</i>	2,107	13,600
		<hr style="border-top: 3px double black;"/>	<hr style="border-top: 3px double black;"/>

Notes to the Financial Statements

For the year ended 31 March 2003

(Expressed in Hong Kong dollars)

1. Significant accounting policies**(a) Statement of compliance**

These financial statements have been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). A summary of the significant accounting policies adopted by the Group is set out below.

(b) Basis of preparation of the financial statements

The Group continued to make significant losses in the current financial year and its cash position was reduced to \$2.1 million as at 31 March 2003. The sustainability of the Group is dependent on its ability to generate sufficient cash flows from its operations, which are dependent on, among other things, its ability to successfully implement its business development plans. Upon the completion of a sale and purchase agreement in relation to the sale of the Company's shares on 14 May 2003, Wide Source Group Limited ("Wide Source") becomes the largest single shareholder of the Company (*see note 29*). The Directors and Wide Source's directors do not expect that there will have any material impact on the business operation of the Group after the completion of the sale and purchase agreement. The Directors have evaluated all the relevant facts available to them and are of the opinion that there do not exist any material adverse conditions precluding the Group from generating sufficient cash flows from its operations or implementing its business development plans. Accordingly, the financial statements have been prepared on a going concern basis.

The financial statements do not include any adjustments relating to the recoverability and classification of recorded assets amounts or to amounts and classification of liabilities that might be necessary should the going concern basis not be applicable.

The measurement basis used in the preparation of the financial statements is historical costs.

(c) Subsidiaries and controlled enterprises

A subsidiary is an enterprise controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

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

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

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

(d) Investments in securities

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

- (i) Investment held on a continuing basis for an identified long-term purpose is classified as investment securities. Investment securities are stated in the balance sheet at cost less any provisions for diminution in value. Provisions are made when the fair values have declined below the carrying amounts, unless there is evidence that the decline is temporary, and are recognised as an expense in the income statement, such provisions being determined for each investment individually.
- (ii) Provisions against the carrying value of investment securities are written back when the circumstances and events that led to the write-down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.
- (iii) Profits or losses on disposal of investments in securities are determined as the difference between the estimated net disposal proceeds and the carrying amount of the investments and are accounted for in the income statement as they arise.

(e) Fixed assets

- (i) Fixed assets are stated in the balance sheet at cost less accumulated depreciation (*see note 1(h)*) and impairment losses (*see note 1(i)*).
- (ii) Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Group. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.
- (iii) Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the income statement on the date of retirement or disposal.

(f) Intangible assets

(i) Research and development costs

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

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

(ii) Deferred asset

Deferred asset represents the signing bonus paid to certain staff upon joining the Group which is stated at cost less accumulated amortisation (*see note 1(h)*) and impairment losses (*see note 1(i)*).

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

(g) Leased assets

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

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

(h) Amortisation and depreciation

- (i) Depreciation is calculated to write off the cost of fixed assets over their estimated useful lives on a straight-line basis, after taking into account their estimated residual values, as follows:

Leasehold improvement	–	Over the shorter of remaining lease term and 5 years
Furniture and fixtures	–	5 years
Computer and office equipment	–	5 years

- (ii) Amortisation of intangible assets is charged to the income statement on a straight-line basis over the assets' estimated useful lives as follows:

Capitalised development costs	–	Over the life of the relevant project from the date of commencement of commercial operations subject to a maximum of 5 years
Deferred asset	–	Over the respective service term of the relevant employment contracts

(i) Impairment of assets

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

- fixed assets;
- intangible assets;
- investments securities; and
- investments in subsidiaries.

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

(i) Calculation of recoverable amount

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

(ii) *Reversals of impairment losses*

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

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

(j) *Inventories*

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

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

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

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

(k) *Cash equivalents*

Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(l) *Employee benefits*

- (i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.
- (ii) Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance or other retirement benefit schemes, are recognised as an expense in the income statement as incurred, except to the extent that they are included in the cost of intangible assets and inventories not yet recognised as an expense.
- (iii) When the Group grants employees options to acquire shares of the Company at nil consideration, no employee benefit cost or obligations is recognised at the date of grant. When the options are exercised, equity is increased by the amount of the proceeds received.

- (iv) Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(m) *Deferred taxation*

Deferred taxation is provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which are expected with reasonable probability to crystallise in the foreseeable future.

Future deferred tax benefits are not recognised unless their realisation is assured beyond reasonable doubt.

(n) *Provisions and contingent liabilities*

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

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

(o) *Service contracts*

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

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

(p) Revenue recognition

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

(i) Systems development and consultancy services

Revenue arising from the provision of systems development, maintenance and installation as well as consultancy services is recognised when the underlying services are rendered which is estimated by apportionment over the expected duration of each engagement; and the outcome of the contract can be estimated with reasonable certainty.

(ii) Sale of software and hardware products

Revenue arising from the sale of software and hardware products is recognised when the customer has accepted the goods and the related risks and rewards of ownership. Revenue is stated after deduction of any trade discounts.

(iii) Professional service fees

Professional service fees represent fees for the provision of IT engineering services and are recognised when the underlying professional services are rendered.

(iv) Training fees

Training fees represent income earned from the provision of training courses, which is recognised when the related courses are held.

(v) Interest income

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

(q) Translation of foreign currencies

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

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

On disposal of a foreign subsidiary, the cumulative amount of the exchange differences which relate to that foreign enterprise is included in the calculation of the profit or loss on disposal.

(r) Warranty costs

Warranty costs are charged to the income statement as and when incurred.

(s) Related parties

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

(t) Segment reporting

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

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

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

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

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

2. Turnover

The principal activities of the Group are the provision of systems development, sale of software and hardware products, training and technical support services. Turnover represents income arising from the provision of systems development and consultancy services, provision of IT engineering and technical support services, provision of training courses and the sale of software and hardware products.

The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2003	2002
	\$'000	\$'000
Systems development	20,039	18,933
Software and hardware products	3,984	4,583
Professional service fees	11,351	9,382
Training fees	2,324	2,394
	37,698	35,292

3. Other revenue and net income

	2003	2002
	\$'000	\$'000
Interest income	19	977
Sundry income	8	141
	27	1,118

4. Loss from ordinary activities before taxation

Loss from ordinary activities before taxation is arrived at after charging:

	2003	2002
	\$'000	\$'000
(a) Finance costs:		
Interest on bank overdrafts and other borrowings repayable within five years	<u>50</u>	<u>23</u>
(b) Staff costs: #		
Salaries, wages and other benefits	38,945	62,551
Less: Amount capitalised as intangible assets	<u>(3,537)</u>	<u>(14,286)</u>
	35,408	48,265
Retirement costs	<u>1,389</u>	<u>1,980</u>
	<u>36,797</u>	<u>50,245</u>
(c) Other items:		
Cost of services and merchandise sold #	<u>25,490</u>	<u>21,724</u>
Research and development costs #	6,282	25,167
Less: Amount capitalised as intangible assets	<u>(3,872)</u>	<u>(16,676)</u>
Add: Amortisation of research and development costs	8,391	6,875
Add: Amount impaired	<u>25,542</u>	<u>–</u>
	<u>36,343</u>	<u>15,366</u>
Operating lease rentals – properties	5,008	9,602
Less: Amount capitalised as intangible assets	<u>(335)</u>	<u>(1,832)</u>
	<u>4,673</u>	<u>7,770</u>
Pre-operating costs written off	–	67
Amortisation of deferred assets #	48	96
Auditors' remuneration	600	750
Impairment loss on fixed assets	391	–
Depreciation	2,527	2,617
Loss on disposal of fixed assets	1,293	828
Provision for bad and doubtful debts	242	1,266
Provision for receivable from minority shareholder	–	985
Provision for diminution in value against investment securities	700	5,095
Settlement to a labour dispute @	<u>1,850</u>	<u>–</u>

Cost of services and merchandise sold, research and development costs, and amortisation of deferred assets include \$23,311,000 (2002: \$27,243,000) staff costs.

@ For the year ended 31 March 2002, a claim was made against one of the Company's wholly-owned subsidiaries in relation to a labour dispute instigated by a former employee, claiming \$9,522,400 (inclusive of interest and cost). The Group had sought legal advice on the claim that it was not possible to determine the outcome of this matter with reasonable uncertainty as at 31 March 2002. However, based on additional information available to the Group as at 31 March 2002, the Directors had considered that the claim was unlikely to be successful, therefore no provision was made in respect of the alleged claims in the financial statements for the year ended 31 March 2002. On 26 August 2002, the claim was transferred from the Labour Tribunal to the High Court. On 27 February 2003, a consent order was filed by the Group and the former employee with the High Court. According to the consent order, the Group paid a sum of \$650,000 and caused 20,000,000 shares of the Company at market value of \$1,200,000 to be transferred from the substantial shareholder of the Company to the former employee. The aforesaid \$1,200,000 due to the substantial shareholder was waived during the year. The waived amount is in substance equivalent to a capital contribution to the Group. As such the Group records an increase in capital reserve (*note 24(a)*).

5. Taxation

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

	2003	2002
	\$'000	\$'000
Overprovision for overseas tax in respect of prior years	<u>75</u>	<u>–</u>

No provision for taxation has been made for the years ended 31 March 2003 and 2002 as the Group sustained losses for taxation purpose during both years.

Subsidiaries operating in the PRC are exempted from PRC income tax for two years commencing from the first profit making year and are entitled to a 50% relief from PRC income tax for the following three years, after which the profits are subject to PRC income tax at the standard rate of 33%. These subsidiaries sustained losses since establishment and the two-year tax exemption period has not commenced.

(b) *Tax (recoverable)/payable in the consolidated balance sheet represents:*

	2003	2002
	\$'000	\$'000
Balance of Hong Kong Profits Tax recoverable relating to prior years	–	(1,302)
Balance of income tax payable outside Hong Kong relating to prior years	–	266
	<u>–</u>	<u>(1,036)</u>
Representing:		
Tax recoverable	–	(1,302)
Tax payable	–	266
	<u>–</u>	<u>(1,036)</u>

(c) *Deferred taxation*

Major components of unrecognised deferred tax assets are set out below:

	The Group		The Company	
	2003	2002	2003	2002
	\$'000	\$'000	\$'000	\$'000
Unutilised tax losses carried forward	18,079	11,219	2,157	1,215

No deferred tax asset in respect of unutilised tax losses carried forward, which are available to set off against future assessable profits, has been recognised as it is uncertain that these tax losses will be utilised in the foreseeable future.

There were no other material unprovided deferred taxation assets or liabilities as at 31 March 2003 and 2002.

6. Directors' remuneration

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

	2003	2002
	\$'000	\$'000
<i>Executive Directors:</i>		
Salaries and other emoluments	2,712	4,285
Retirement scheme contributions	53	42
Other allowances	–	335
	<u>2,765</u>	<u>4,662</u>
<i>Non-executive Directors:</i>		
Fees	<u>179</u>	<u>321</u>

The remuneration of the Directors is within the following bands:

	Number of Directors	
	2003	2002
Nil – \$1,000,000	14	10
\$1,000,001 – \$2,000,000	–	3
	<u>14</u>	<u>13</u>

The executive Directors and non-executive Directors received individual emoluments of approximately Nil (2002: \$1,000,000), \$870,000 (2002: \$1,095,000), \$579,000 (2002: \$1,012,000), \$306,000 (2002: Nil), \$469,000 (2002: Nil), \$541,000 (2002: Nil), Nil (2002: \$621,000), Nil (2002: \$647,000), Nil (2002: \$287,000), \$21,000 (2002: \$50,000), \$50,000 (2002: \$50,000), Nil (2002: \$21,000) and \$50,000 (2002: \$50,000) respectively.

The independent non-executive Directors received individual emoluments of approximately \$17,000 (2002: \$Nil), Nil (2002: Nil), \$29,000 (2002: \$50,000), \$4,000 (2002: \$50,000) and \$8,000 (2002: \$50,000) respectively.

During the year, Directors' remuneration of \$547,000 (2002: Nil) was waived.

7. Individuals with highest emoluments

Of the five individuals with the highest emoluments, three (2002: three) are Directors whose emoluments are disclosed in note 6 above. The aggregate of the emoluments in respect of the other two (2002: two) individuals are as follows:

	2003	2002
	\$'000	\$'000
Salaries and other emoluments	1,169	2,944
Retirement scheme contributions	24	22
	1,193	2,966

The emoluments of the two (2002: two) individuals with the highest emoluments are within the following bands:

	Number of individuals	
	2003	2002
Nil – \$1,000,000	2	–
\$1,000,001 – \$2,000,000	–	2

8. Loss attributable to shareholders

The loss attributable to shareholders includes a loss of \$125,135,000 (2002: \$4,376,000) which has been dealt with in the financial statements of the Company.

9. Dividends

The Directors do not recommend the payment of any final dividends for the year ended 31 March 2003 (2002: Nil).

10. Loss per share**(a) Basic loss per share**

The calculation of basic loss per share is based on the loss attributable to shareholders of \$56,829,000 (2002: \$54,153,000) divided by 1,036,375,000 (2002: 1,036,375,000) shares in issue during the year.

(b) Diluted earnings per share

There were no potential dilutive ordinary shares in issue as at 31 March 2003 and 2002.

11. Segment reporting

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

Business segments

The Group comprises the following main business segments:

Systems development:	Provision of systems development, maintenance and installation as well as consulting services.
Software and hardware products:	Sales of computer software and hardware products.
Professional services:	Provision of IT engineering and technical support services.
Training:	Provision of training courses.

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	Systems development		Software and hardware products		Professional services		Training		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue from external customers	<u>20,039</u>	<u>18,933</u>	<u>3,984</u>	<u>4,583</u>	<u>11,351</u>	<u>9,382</u>	<u>2,324</u>	<u>2,394</u>	<u>37,698</u>	<u>35,292</u>
Contribution from operations	<u>5,467</u>	<u>5,289</u>	<u>1,778</u>	<u>2,548</u>	<u>4,432</u>	<u>4,448</u>	<u>531</u>	<u>1,283</u>	<u>12,208</u>	<u>13,568</u>
Unallocated operating income and expenses									<u>(69,062)</u>	<u>(67,698)</u>
Loss from operations									<u>(56,854)</u>	<u>(54,130)</u>
Finance costs									<u>(50)</u>	<u>(23)</u>
Taxation									<u>75</u>	<u>-</u>
Minority interests									<u>-</u>	<u>-</u>
Loss attributable to shareholders									<u>(56,829)</u>	<u>(54,153)</u>
Depreciation and amortisation for the year	<u>10,840</u>	<u>9,463</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>126</u>	<u>125</u>	<u>10,966</u>	<u>9,588</u>
Impairment loss for the year	<u>25,933</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>25,933</u>	<u>-</u>
Significant non-cash expenses (other than depreciation and amortisation)	<u>1,536</u>	<u>2,094</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,536</u>	<u>2,094</u>
Unallocated significant non-cash expenses (other than depreciation and amortisation)									<u>1,900</u>	<u>6,080</u>
									<u>3,436</u>	<u>8,174</u>
Segment assets	<u>10,112</u>	<u>48,577</u>	<u>1,000</u>	<u>279</u>	<u>1,394</u>	<u>1,667</u>	<u>638</u>	<u>783</u>	<u>13,144</u>	<u>51,306</u>
Unallocated assets									<u>2,633</u>	<u>19,944</u>
Total assets									<u>15,777</u>	<u>71,250</u>

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	Systems development		Software and hardware products		Professional services		Training		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Segment liabilities	4,156	7,807	196	441	2,316	1,265	585	368	7,253	9,881
Unallocated liabilities									3,087	266
Total liabilities									<u>10,340</u>	<u>10,147</u>
Capital expenditure incurred during the year	<u>4,296</u>	<u>18,818</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,296</u>	<u>18,818</u>
Unallocated capital expenditure incurred during the year									-	1,000
									<u>4,296</u>	<u>19,818</u>

The Group does not have any inter-segment sales.

Geographical segments

The Group's four business segments are conducted mainly in Hong Kong and elsewhere in the PRC.

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

	Hong Kong		The PRC		Other Countries	
	2003	2002	2003	2002	2003	2002
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue from external customers	32,428	31,316	3,598	3,505	1,672	471
Segment assets	11,897	55,869	3,512	14,571	368	810
Capital expenditure incurred during the year	3,883	13,380	323	5,373	90	1,065

12. Fixed assets

The Group

	Leasehold improvements \$'000	Computer and office equipment \$'000	Furniture and fixtures \$'000	Total \$'000
Cost:				
At 1 April 2002	1,976	11,990	1,952	15,918
Additions	44	356	24	424
Disposals	(818)	(1,155)	(801)	(2,774)
At 31 March 2003	1,202	11,191	1,175	13,568
Aggregate depreciation:				
At 1 April 2002	675	5,925	911	7,511
Charge for the year	398	1,845	284	2,527
Written back on disposal	(460)	(456)	(397)	(1,313)
Impairment loss	–	260	131	391
At 31 March 2003	613	7,574	929	9,116
Net book value:				
At 31 March 2003	589	3,617	246	4,452
At 31 March 2002	1,301	6,065	1,041	8,407

13. Investments in subsidiaries

	2003 \$'000	2002 \$'000
Unlisted investments, at cost		
Balance brought forward	3,800	3,800
Additions (<i>note 19</i>)	120,856	–
	124,656	3,800
Less: Impairment loss	(117,756)	–
Balance carried forward	6,900	3,800

Owing to continuous losses incurred by the Group's certain subsidiaries, the Directors have performed an assessment of the recoverable amount of investments in these subsidiaries. Based on this assessment, the carrying amount of investments in these subsidiaries was written down by \$117,756,000. The estimates of recoverable amount were based on their net selling prices by reference to net assets value of these subsidiaries.

Details of the subsidiaries at 31 March 2003 are as follows. The class of shares held is ordinary unless otherwise stated. All of these are controlled subsidiaries as defined under note 1(c), and have been consolidated into the Group's financial statements.

Name of Company	Place of incorporation/ establishment and operation	Percentage of ownership interest			Issued/ registered capital	Principal activities
		Group's effective holding	held by the Company	held by subsidiary		
Productive Finance Limited ("PFL")	British Virgin Islands ("BVI")	100%	100%	–	US\$5,200	Investment holding
Absolute Great Technology Limited	BVI	100%	–	100%	US\$1	Dormant
Systek Information System (Shanghai) Limited (<i>Note</i>)	PRC	100%	–	100%	US\$200,000	Dormant
Systek Information Technology Inc.	United States of America	100%	–	100%	US\$10	Dormant

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Name of Company	Place of incorporation/ establishment and operation	Percentage of ownership interest			Issued/ registered capital	Principal activities
		Group's effective holding	held by the Company	held by subsidiary		
Systek Information Technology Limited ("SITL")	Hong Kong	100%	–	100%	\$520,000	Development and trading of software products and provision of training services
Systek Information Technology (Pte) Limited	Singapore	100%	–	100%	S\$2	Dormant
Systek Information Technology (Shanghai) Limited (<i>Note</i>)	PRC	100%	–	100%	US\$200,000	Development and trading of software products
Systek International Trading Company (Shanghai) Limited (<i>Note</i>)	PRC	100%	–	100%	US\$200,000	Dormant
Systek Investment Inc.	BVI	100%	–	100%	US\$1	Investment holding
Systek Solutions China Limited	Hong Kong	100%	–	100%	\$2	Investment holding
SYSTEKIT Innovations Inc.	Canada	100%	–	100%	C\$1,000	Provision of market research services
Telecare Limited	Hong Kong	80%	–	80%	\$10,000	Provision of interactive customer care services
Systek Research Limited (formerly named Tiger Magic Holdings Limited)	BVI	100%	–	100%	US\$1	Dormant
Transaction Technologies Limited (formerly named United Venture Group Limited)	Hong Kong	100%	–	100%	\$2	Dormant

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Name of Company	Place of incorporation/ establishment and operation	Percentage of ownership interest			Issued/ registered capital	Principal activities
		Group's effective holding	held by the Company	held by subsidiary		
WinClient Technologies (HK) Limited	Hong Kong	100%	–	100%	\$10,000	Development and trading of software products and provision of training services
Wingreat Investments Limited	BVI	100%	–	100%	US\$1	Investment holding

Note: The companies were established as wholly-foreign owned enterprises in the PRC.

14. Intangible assets

	Development costs \$'000	The Group Deferred assets \$'000	Total \$'000
Cost:			
At 1 April 2002	39,187	192	39,379
Addition through internal development	3,872	–	3,872
At 31 March 2003	43,059	192	43,251
Accumulated amortisation:			
At 1 April 2002	9,126	144	9,270
Charge for the year	8,391	48	8,439
Impairment loss	25,542	–	25,542
At 31 March 2003	43,059	192	43,251
Net book value:			
At 31 March 2003	–	–	–
At 31 March 2002	30,061	48	30,109

Owing to unsatisfactory sales records on those self-developed products, the Directors have performed an assessment of the recoverable amount of research and development costs. Based on this assessment, the Directors consider that it is unlikely that these research and development costs have any future value in use and hence the carrying amount of research and development costs was fully impaired (included in “Research and development costs”).

15. Investment securities

	The Group	
	2003	2002
	\$'000	\$'000
Unlisted equity securities, at cost	8,995	8,995
<i>Less:</i> Provision for diminution in value	(8,995)	(8,295)
	<u>–</u>	<u>700</u>

16. Gross amount due from customers for contracts

	The Group	
	2003	2002
	\$'000	\$'000
Costs incurred	15,182	8,773
Recognised profits less (losses), net	(1,728)	(627)
	<u>13,454</u>	<u>8,146</u>
<i>Less:</i> Progress billings	(11,853)	(5,765)
	<u>1,601</u>	<u>2,381</u>

The gross amount due from customers for contracts at 31 March 2003 is expected to be recovered in the next twelve months.

17. Inventories

	The Group	
	2003	2002
	\$'000	\$'000
Finished goods	240	153

None of the inventories at 31 March 2003 was carried at net realisable value.

18. Accounts receivable

An ageing analysis of accounts receivable is as follows:

	The Group	
	2003	2002
	\$'000	\$'000
Within 1 month	4,511	4,129
More than 1 month but within 3 months	1,013	2,968
More than 3 months but less than 12 months	497	607
Beyond 1 year	38	749
	6,059	8,453

All of the accounts receivable are expected to be recovered within one year. General credit term is 30 to 45 days from the date of billing. Debtors with balances that are more than 9 months overdue are requested to settle all outstanding balances before any further credit is granted.

19. Amounts due from subsidiaries

During the year, amounts due from subsidiaries, totalling \$120,856,000 (2002: \$Nil) were waived. The waived amount is in substance equivalent to a capital contribution to the subsidiaries. As such, the Company records an increase in the carrying value of its investment and the subsidiaries record an increase in capital reserve.

During the year, provision for amount due from a subsidiary, totalling \$1,500,000 (2002: Nil), was made. This subsidiary has been making losses and has net liabilities as at 31 March 2003. Accordingly, the Directors consider that it is unlikely that the amount due from the subsidiary would be recoverable.

Amounts due from subsidiaries were unsecured and interest free and have no fixed terms of repayment.

20. Pledged deposits

	The Group		The Company	
	2003	2002	2003	2002
	\$'000	\$'000	\$'000	\$'000
Pledged deposits	<u>526</u>	<u>4,342</u>	<u>-</u>	<u>3,742</u>
Banking facilities granted	<u>526</u>	<u>4,042</u>	<u>-</u>	<u>3,742</u>
Banking facilities utilised	<u>526</u>	<u>100</u>	<u>-</u>	<u>-</u>

Deposits with banks were pledged to secure certain general banking facilities granted to the Group. At 31 March 2003, banking facilities were utilised to issue a bank guarantee to a customer of the Group.

21. Cash and cash equivalents

	The Group		The Company	
	2003	2002	2003	2002
	\$'000	\$'000	\$'000	\$'000
Deposits with banks	-	729	-	-
Cash at bank and in hand	<u>2,107</u>	<u>12,871</u>	<u>-</u>	<u>20</u>
	<u>2,107</u>	<u>13,600</u>	<u>-</u>	<u>20</u>

22. Receipts in advance

Receipts in advance represent advance payments of systems development service fees from customers pursuant to the respective service contracts.

23. Share capital

	2003 and 2002	
	Number of shares '000	Amounts \$'000
<i>Authorised:</i>		
Ordinary shares of \$0.1 each	2,000,000	200,000
<i>Issued and fully paid:</i>		
Ordinary shares of \$0.1 each	1,036,375	103,638

24. Reserves

(a) The Group

	Share premium \$'000	Capital reserve \$'000	Exchange reserves \$'000	Accumulated losses \$'000	Total \$'000
At 1 April 2001	33,144	-	(32)	(21,168)	11,944
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	-	-	(326)	-	(326)
Loss for the year	-	-	-	(54,153)	(54,153)
At 31 March 2002	<u>33,144</u>	<u>-</u>	<u>(358)</u>	<u>(75,321)</u>	<u>(42,535)</u>
At 1 April 2002	33,144	-	(358)	(75,321)	(42,535)
Waiver of amount due to a shareholder (note 4(c))	-	1,200	-	-	1,200
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	-	-	(37)	-	(37)
Loss for the year	-	-	-	(56,829)	(56,829)
At 31 March 2003	<u>33,144</u>	<u>1,200</u>	<u>(395)</u>	<u>(132,150)</u>	<u>(98,201)</u>

According to the relevant PRC accounting rules and regulations, the PRC subsidiaries may appropriate part of its profits after tax to general reserve, at the discretion of the board of directors of the subsidiaries. The general reserve can be used to make good losses and to convert into paid-up capital.

No transfer to the general reserve was made by the PRC subsidiaries which sustained losses during the year.

(b) *The Company*

	Share premium \$'000	Capital reserve \$'000	Accumulated losses \$'000	Total \$'000
At 1 April 2001	33,144	–	(2,465)	30,679
Loss for the year (note 8)	–	–	(4,376)	(4,376)
	<u>33,144</u>	<u>–</u>	<u>(6,841)</u>	<u>26,303</u>
At 31 March 2002	33,144	–	(6,841)	26,303
At 1 April 2002	33,144	–	(6,841)	26,303
Waiver of amount due to a shareholder (note 4(c))	–	1,200	–	1,200
Loss for the year (note 8)	–	–	(125,135)	(125,135)
	<u>–</u>	<u>–</u>	<u>(125,135)</u>	<u>(125,135)</u>
At 31 March 2003	<u>33,144</u>	<u>1,200</u>	<u>(131,976)</u>	<u>(97,632)</u>

Under the Companies Law (revised) of the Cayman Islands, the funds in the share premium account and capital reserve of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

As at 31 March 2003, in the opinion of the Directors of the Company, no reserves of the Company are available for distribution to shareholders (2002: \$26,303,000, subject to the restriction stated above).

25. Commitments under operating leases

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

	The Group	
	2003	2002
	\$'000	\$'000
Within 1 year	2,046	3,194
After 1 year but within 5 years	1,914	344
	<u>3,960</u>	<u>3,538</u>

The Group leases a number of properties under operating leases. The leases typically run for an initial period of one year to two years, with an option to renew the lease when all terms are renegotiated. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

26. Retirement benefits schemes*Hong Kong*

Since 1 December 2000, the Hong Kong subsidiaries are required to join the Mandatory Provident Fund (the “MPF”), managed by an independent approved MPF trustee, under the requirements of the Mandatory Provident Fund Schemes Ordinance.

The Group operates a Mandatory Provident Fund Scheme (“the MPF scheme”) under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees’ relevant income, subject to a cap of monthly relevant income of \$20,000. Contributions to the scheme vest immediately.

Total retirement benefits costs under the MPF charged to the income statement amounted to \$944,000 (2002: \$1,464,000), net of forfeited contributions of \$79,000 (2002: Nil). Minimum contribution to the MPF is 5% of the employees’ basic salaries.

PRC, other than Hong Kong

The PRC subsidiaries of the Group participate in pension schemes organised by the respective municipal governments whereby they are required to pay annual contributions at the rates ranging from 19% to 25.5% of the standard wages determined by the relevant authorities in the PRC.

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

The aggregate employers’ contributions by the Group under the PRC pension schemes amounted to \$445,000 (2002: \$425,000) during the year.

Singapore

A subsidiary of the Group participates in the mandatory central provident fund (the “CPF”) in Singapore. This is a defined contribution scheme available to the employees in Singapore and is funded by contributions from the subsidiary and its employees who contribute respectively to the CPF based on fixed percentages of employees’ salaries as defined under the relevant regulations in Singapore. No contributions to the CPF in respect of the year ended 31 March 2003 were made (2002: \$Nil).

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

27. Share option scheme

The Company has a share option scheme which was adopted on 26 August 2000 whereby the Directors of the Company are authorised, at their discretion, to invite full time employees of the Group, including executive Directors of any Company in the Group excluding non-executive Directors and independent non-executive Directors, to take up options to subscribe for shares of the Company. The exercise price of options was determined by the board and was the higher of (i) the closing price of the shares as stated on the Stock Exchange of Hong Kong Limited's ("Exchange's") daily quotations sheet on the date of grant; (ii) the average closing price of the shares as stated on the Exchange's daily quotations sheets for the five trading days immediately preceding the date of grant; (iii) the nominal value of the shares. Each option gives the holder the right to subscribe for one share.

No option was granted since the inception of the share option scheme.

28. Material related party transactions

During the year, the Group had the following significant transaction with a related party:

Rentals of an office premises in Hong Kong occupied by the Group totalling \$856,730 during the year ended 31 March 2003 (2002: \$856,730) were borne by a related company which is controlled by an executive director of the Company.

29. Post balance sheet event

On 8 April 2003, Trouble Free Technology Limited and Brainy Technology Limited, both of them are 100% beneficially owned by Mr. To Cho Kei, an Executive Director of the Company, has entered a conditional sale and purchase agreement with Wide Source for the sale of 529,421,914 shares, approximately 51.08% issued share of the Company for an aggregate consideration of \$7,300,000, equivalent to approximately \$0.0138 per share.

Upon completion of the transaction on 14 May 2003, Wide Source becomes the largest single shareholder of the Company.

30. Comparative figures

The presentation and classification of items in the consolidated cash flow statement have been changed due to the adoption of the requirements of SSAP 15 (revised 2001) "Cash flow statements". As a result, certain advances from banks have been excluded from the definition of cash equivalents, cash flow items from taxation, returns on investments and servicing of finance have been classified into operating, investing and financing activities respectively and a detailed breakdown of cash flows from operating activities has been included on the face of the consolidated cash flow statement. Comparative figures have been reclassified to conform with the current year's presentation.

31. Ultimate holding company

The Directors consider the ultimate holding company at 31 March 2003 to be Trouble Free Technology Limited, which is incorporated in the BVI.

2. THIRD QUARTERLY REPORT 2003 (UNAUDITED)

The unaudited consolidated results of the Group for the nine months ended 31 December 2003, together with the comparative figures for the corresponding period in 2002 extracted from the quarterly report for the nine months ended 31 December 2003 are as follows:

Consolidated Income Statement

	Note	Unaudited Three months ended 31 December		Unaudited Nine months ended 31 December	
		2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Turnover	2	2,349	9,995	18,301	31,155
Cost of services and merchandise sold		(1,421)	(7,249)	(12,195)	(21,762)
Gross Profit		928	2,746	6,106	9,393
Other revenue		–	8	22	26
Research and development costs		–	(2,127)	(623)	(6,238)
Selling expenses		(11)	(291)	(588)	(2,517)
General and administrative expenses		(566)	(4,835)	(5,414)	(19,323)
Profit/(Loss) from operations	3	351	(4,499)	(497)	(18,659)
Exceptional item – severance payment		–	(421)	–	(421)
Finance cost		(2)	–	(16)	–
Loss on disposal of subsidiaries		(285)	–	(193)	–
Profit/(Loss) from ordinary activities before taxation		64	(4,920)	(706)	(19,080)
Taxation	4	–	–	–	–
Profit/(Loss) from ordinary activities after taxation		64	(4,920)	(706)	(19,080)
Minority interests		–	–	–	–
Profit/(Loss) attributable to the shareholders		64	(4,920)	(706)	(19,080)
Earnings/(Loss) per share – basic (<i>HK cents</i>)	5	0.006	(0.475)	(0.068)	(1.841)

Notes to the Accounts

1. Basis of presentation

The unaudited consolidated results of the Group (the “results”) have been prepared in accordance with the Statement of Standard Accounting Practice issued by the Hong Kong Society of Accountants, and with the applicable disclosure requirements of Chapter 18 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited and the Hong Kong Companies Ordinance (Chapter 32).

The accounting policies and methods of computation used in the preparation of the results are consistent with those used in the audited annual accounts for the year ended 31 March, 2003.

All significant intra-group transactions and balances have been eliminated in the preparation of the results.

2. Turnover

The principal activities of the Group are the provision of systems development, sale of software and hardware products, provision of professional services and provision of training. Turnover represents income arising from the provision of systems development and consultancy services, provision of IT engineering and technical support services, provision of training courses and the sale of software and hardware products.

An analysis of the turnover by principal activities of the operations of the Group during the reporting periods is as follows:

	Unaudited Three months ended 31 December 2003		Unaudited Nine months ended 31 December 2003	
	HK\$'000	2002 HK\$'000	HK\$'000	2002 HK\$'000
<i>Principal activities</i>				
Systems development	1,056	4,883	9,693	18,454
Sales of software and hardware products	370	1,718	3,102	2,789
Professional services fees	890	2,892	4,725	8,638
Training fees	33	502	781	1,274
	2,349	9,995	18,301	31,155

3. Profit/(Loss) from operations

Profit/(Loss) from operations is stated after charging/(crediting):

	Unaudited		Unaudited	
	Three months ended		Nine months ended	
	31 December		31 December	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Crediting				
Interest income	–	1	1	18
	<u>–</u>	<u>1</u>	<u>1</u>	<u>18</u>
	<u><u>–</u></u>	<u><u>1</u></u>	<u><u>1</u></u>	<u><u>18</u></u>
Charging				
Auditors' remuneration	–	150	145	450
Depreciation	10	646	767	1,911
Finance cost				
– bank interests	2	–	16	–
Amortisation of deferred assets	–	–	–	48
Operating lease	110	1,030	1,300	3,231
Staff costs	1,527	7,299	12,791	22,038
Exceptional item				
– severance payment	–	421	–	421
	<u><u>–</u></u>	<u><u>421</u></u>	<u><u>–</u></u>	<u><u>421</u></u>

4. Taxation

No provision for Hong Kong profits tax has been made for the nine months ended 31 December, 2003 and 2002 as the Group sustained losses for taxation purpose during the periods.

Subsidiaries operating in the PRC are exempted from PRC income tax for two years commencing from the first profit making year and are entitled to a 50% relief from PRC income tax for the following three years, after which the profits are subject to PRC income tax at the standard rate of 33%. These subsidiaries sustained losses since incorporation and the two-year tax exemption period has not commenced.

5. Earnings/(Loss) per share

The calculation of basic earnings per share for the three months and basic loss per share for the nine months ended 31 December, 2003 were based on the profit attributable to the shareholders of approximately of HK\$64,000 (2002: loss of HK\$4,920,000) and the loss attributable to the shareholders of approximately of HK\$706,000 (2002: loss of HK\$19,080,000) respectively divided by the weighted average number of 1,036,375,000 (2002: 1,036,375,000) shares in issue during the year.

There were no potential dilutive ordinary shares in issue for the three months and nine months ended 31 December, 2003 and 2002.

3. INDEBTEDNESS

Apart from intra-group liabilities and normal trade payables, the Group did not have any loan capital issued or agreed to be issued, bank overdrafts, loans, debt securities or other similar indebtedness, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance lease or hire purchase commitments, guarantees or other material contingent liabilities outstanding at the close of business on 31 December 2003.

The Directors have confirmed that there had been no material change in the indebtedness and contingent liabilities of the Group since 31 December 2003 up to the Latest Practicable Date.

4. STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

Pro forma statement of unaudited adjusted consolidated net tangible assets of the Group

The following pro forma statement of unaudited adjusted consolidated net tangible assets of the Group is based on the audited consolidated net tangible assets of the Group as at 31 March 2003 and adjusted as follow:

	<i>HK\$'000</i>
Audited consolidated net tangible assets of the Group as at 31 March 2003	5,437
<i>Less:</i> Reserve movement during the period from 1 April 2003 to 31 December 2003	<u>1,081</u>
Unaudited adjusted consolidated net tangible assets of the Group as at 31 December 2003	4,356
<i>Add:</i> Estimated net proceeds from the Placing	<u>2,500</u>
Pro forma unaudited adjusted consolidated net tangible assets of the Group immediately after the Placing	<u><u>6,856</u></u>
Unaudited adjusted consolidated net tangible assets of the Group per Share prior to the Placing (based on 41,455,000 Shares in issue as at the Latest Practicable Date)	<u><u>HK\$0.1051</u></u>
Pro forma unaudited adjusted consolidated net tangible assets of the Group per Share immediately after the Placing (based on 41,455,000 Shares in issue as at the Latest Practicable Date, plus 6,000,000 Placing Shares to be issued in the Placing)	<u><u>HK\$0.1445</u></u>

Note: Based on the number of the Placing Shares of 6,000,000 to be issued under the Placing and the Placing Price of HK\$0.48 per new Share (being a discount of about 19.3% to the average closing price of the Shares as quoted on GEM for the 10 consecutive trading days ended on the Latest Practicable Date), the amount of estimated net proceeds of the Placing is about HK\$2.5 million.

5. WORKING CAPITAL

The Directors are of the opinion that, taking into account the estimated net proceeds from the Placing and based on the internal resources of the Group, the Group has sufficient working capital for its present requirement.

6. DIVIDENDS

The amount of any dividends to be declared in the future will depend on, among other things, the Company's results of operations, cash flows and financial conditions, operating and capital requirements. Dividends for the Shares, if any, will be paid in Hong Kong dollars.

7. BUSINESS TREND AND PROSPECTS

The trend of business of the Group for the nine months ended 31 December 2003, together with the prospects of the Group for the current financial year extracted from the quarterly report for the nine months ended 31 December 2003 are as follows:

Business of the Group for the nine months ended 31 December 2003

The Company had successfully acquired 40% interest in 北京中廣鴻聯網絡技術有限公司 (“Hung Luen”), an information technology company incorporated in Beijing, the People's Republic of China (“PRC”) in a consideration of HK\$1.8 million which was satisfied by an issue of promissory note. Hung Luen is principally engaged in the business of research, development and provision of information-on-demand system solutions, telecommunication and broadcasting media network solutions and the provision of related products and services. In addition, it is also engaged in distribution of computers and computer-related hardware, medical equipments, domestic appliances, general merchandises and spare parts of automobiles. The Board believed that the acquisition provided an opportunity for the Company to widen its assets and earning base and to diversify its business portfolio by capturing a suitable investment opportunity in the information technology industry in the PRC. Upon completion of the acquisition, the Group and Hung Luen can form an alliance with which Hung Luen can offer strong technical know-how and the Group offers its good knowledge of the international market experience in project management and software products quality assurance. The Group can make use of the advantages of Hung Luen in low-cost operating environment and PRC market penetration to explore more sales opportunities in the PRC market.

Prospects of the Group

The Board will continue to simplify the organization of the Group, tightly manage expenses, develop new products and services, dispose of unprofitable businesses and execute strategic acquisitions in order to enhance the profitability of the Group. The Board remains cautiously optimistic about the prospects of the Group.

8. MATERIAL CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 March 2003, being the date to which the latest published audited financial statements of the Group were made up.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:

- (a) the information contained in this circular is accurate and complete in all material respects and not misleading;
- (b) there are no other matters the omission of which would make any statement in this circular misleading; and
- (c) all opinions expressed in this circular have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

2. DISCLOSURE OF INTERESTS**a. Directors' and chief executive's interests in securities of the Company**

As at the Latest Practicable Date, the relevant interests or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they have taken or deemed to have under such provisions of the SFO), or which are required, pursuant to Section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which are required, pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules relating to securities transactions by the directors, to be notified to the Company and the Stock Exchange, were as follows:

Long positions in Shares

Name of Director	Number of Shares held			Total	Percentage of issued share capital
	Personal	Family	Corporate		
Mr. Luk Yat Hung (<i>Note</i>)	-	-	21,542,476	21,542,476	51.97%

Note: Mr. Luk Yat Hung will be taken to be interested in 21,542,476 Shares as a result of him being beneficially interested in 50% of the issued share capital of Wide Source which in turn holds 21,542,476 Shares.

Long positions in underlying shares of equity derivatives and debentures of the Company

As at the Latest Practicable Date, no long positions of the Directors and chief executive of the Company in the underlying shares of equity derivatives and debentures of the Company and its associated corporations were recorded in the register or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.40 of the GEM Listing Rules.

Short positions in shares, underlying shares of equity derivatives and debentures of the Company

During the period under review, no short positions of the Directors and chief executive of the Company in the shares, underlying shares of equity derivatives and debentures of the Company and its associated corporations were recorded in the register or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.40 of the GEM Listing Rules.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interests or short positions in any shares, underlying shares of the Company or any associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

b. Substantial Shareholders

So far as is known to the Directors or chief executive of the Company, as at the Latest Practicable Date, the following persons who had an interest or a short position in the shares and underlying shares in the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:–

Name of Shareholders	<i>Note</i>	Number of shares held	Approximate Percentage of shareholding
Wide Source	<i>1</i>	21,542,476	51.97%
Mr. Luk Yat Hung	<i>2</i>	21,542,476	51.97%
Mr. Ma Bing	<i>3</i>	21,542,476	51.97%
Suez Asia Holdings Pte Ltd.	<i>4</i>	3,412,000	8.23%

Notes:

- Wide Source is a company incorporated in the British Virgin Islands with limited liability and is ultimately and beneficially owned as to 50% by Mr. Luk Yat Hung and as to 50% by Mr. Ma Bing.
- Mr. Luk Yat Hung will be taken to be interested in 21,542,476 Shares as a result of him being beneficially interested in 50% of the issued share capital of Wide Source which in turn holds 21,542,476 Shares.
- Mr. Ma Bing will be taken to be interested in 21,542,476 Shares as a result of him being beneficially interested in 50% of the issued share capital of Wide Source which in turn holds 21,542,476 Shares.
- Suez Asia Holdings Pte Ltd. is a private equity investor in Asia holding the Shares in trust.

Save as disclosed above, as at the Latest Practicable Date, the Directors are not aware of any other person who has an interest or a short position in the shares and underlying shares (including interests in options, if any) of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

c. Share option scheme

The old share option scheme of the Company was adopted on 26 August 2000 (the “Old Share Option Scheme”), the principal terms of which were set out in the Company’s prospectus dated 4 September 2000. No option has been granted by the Company under the Old Share Option Scheme prior to its termination as mentioned below.

To be in line with the changes of the GEM Listing Rules in relation to share option scheme and in order for the Company to attract, retain and motivate talented employees to strive for the goals of the Group and to provide the Company with a flexible means of giving incentives to, rewarding, remunerating and/or providing benefits to the employees, on 9 September, 2003, the Board proposed the termination of the Old Share Option Scheme and an adoption of a new share option scheme (the “New Share Option Scheme”) for the employees of the Group. A summary of the principal terms of the New Share Option Scheme has been set out in Appendix I to the circular of the Company dispatched on 30 September 2003. An extraordinary general meeting was held on 22 October, 2003 during which, all relevant resolutions for, among other things, the said termination of the Old Share Option Scheme and an adoption of the New Share Option Scheme were passed as ordinary resolutions by the Shareholders. As at the Latest Practicable Date, no option has been granted by the Company under the New Share Option Scheme.

Save as disclosed herein, as at the Latest Practicable Date, none of the directors, chief executive, substantial shareholders or management shareholders of the Company or any of its subsidiaries or their respective associates (as defined under the GEM Listing Rules) had right to subscribe for the shares of the Group.

Save as disclosed below, as at the Latest Practicable Date, the Directors are not aware of any person who had an interest or short position in shares or underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or was directly or indirectly interested in 10% or more of the nominal value of the issued share capital carrying rights to vote in all circumstances at general meeting of any other member of the Group.

3. PLACING AGENT’S INTERESTS

VC CEF Brokerage, its respective directors or associates had any interests in any securities of the Company as at the Latest Practicable Date.

4. DIRECTORS' INTERESTS IN CONTRACTS AND ASSETS

Save as disclosed in this circular, no contract or arrangement of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which any of the Directors had a material interest, whether directly or indirectly, subsisted as at the Latest Practicable Date.

Save as disclosed in this circular, none of the Directors is interested in any assets which have been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 March 2003, the date to which the latest published audited accounts of the Company were made up.

5. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors, the management shareholders of the Company (as defined in the GEM Listing Rules) or their respective associates had any interest in a business which competes or may compete with the businesses of the Group and had any other conflict of interest with the Group.

6. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the Company within the two years preceding the date of this circular and are or may be material:

- i The Placing Agreement; and
- ii The sale and purchase agreement dated 8 September 2003 in relation to the acquisition of 40% interest in 北京中廣鴻聯網絡技術有限公司, details of which are disclosed in the circular of the Company dated 30 September 2003.

7. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Group.

8. SERVICE CONTRACTS

Each of the Directors has entered into a service contract with the Company including remuneration with effect from 25 July 2003, for a term of one year and shall continue thereafter, subject to termination in certain circumstances and with such payment of compensation as stipulated in the relevant service contract.

Save as disclosed herein, none of the Directors has entered into any service contract with any member of the Group (excluding contracts expiring or determinable by the Group within one year without payment of compensation other than statutory compensation).

9. GENERAL

- i. The registered office of the Company is located at Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681GT, George Town, Grand Cayman, British West Indies. As at the date hereof, the head office and principal place of business of the Company is situated at 24/F, Prosperous Commercial Building, 54-58 Jardine's Bazaar, Causeway Bay, Hong Kong.
- ii. The Compliance Officer and the Qualified Accountant of the Company is Mr. Luk Yat Hung. He is a member of the Chartered Association of Certified Accountants of the United Kingdom and a member of the Hong Kong Society of Accountants with a master degree in business administration with Oklahoma City University, the United States of America. Mr. Luk has over 18 years of working experience with a number of international conglomerates performing functions of chief financial officer.
- iii. The Company has established an audit committee on 18 May 2000 with written terms of reference in compliance with Rules 5.23 and 5.24 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group. The audit committee comprises two independent non-executive Directors, namely Mr. Chung Shui Ming, Timpson and Professor Ip Ho Shing, Horace, further details of whom are set out below:

Mr. Chung Shui Ming, Timpson, *GBS, JP*, aged 51, graduated from the University of Hong Kong with a Bachelor of Science degree and holds a Master of Business Administration degree with the Chinese University of Hong Kong. Mr. Chung is a Fellow member of Hong Kong Society of Accountants, a member of the Supervisory Board of Hong Kong Housing Society and a member of the National Committee of the 10th Chinese People's Political Consultative Conference.

Professor Ip Ho Shing, Horace, aged 46, graduated from the University of London with a Bachelor of Science degree in Applied Physics and a Doctorate degree in Image Processing. He is the Chair Professor of the Department of Computer Science and a director of the Centre for Innovative Applications of Internet and Multimedia Technologies – AIMtech Centre of the City University of Hong Kong.

- iv. As at the Latest Practicable Date, the authorized share capital of the Company is HK\$200,000,000 divided into 4,000,000,000 Shares and the issued share capital of the Company is HK\$2,072,750 divided into 41,455,000 Shares.

- v. Dealings in the shares of the Company may be settled through CCASS and operated by HKSCC, and investors should seek the advice of their stockbroker or other professional adviser for details of those settlement arrangement and how such arrangement will affect their rights and interests.
- vi. The company secretary of the Company is Mr. Young Wai Ching, a Practicing member of Hong Kong Society of Accountants and a Member of Chartered Association of Certified Accountants of the United Kingdom.
- vii. The Company's Hong Kong branch share registrar is Computershare Hong Kong Investor Services Limited at Shops 1901-1905, 19th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- viii. The English text of this circular and the accompanying form of proxy shall prevail over the Chinese text in the case of any inconsistency.

10. DOCUMENTS FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the office of legal advisors to the Company, Messrs. P C Woo & Co. at 12/Floor, Prince's Building, 10 Chater Road, Hong Kong up to and including 19 March 2004:

- i the memorandum and articles of association of the Company;
- ii the annual reports of the Company for the two financial years ended 31 March 2003;
- iii the third quarterly report of the Group for the nine months ended 31 December 2003;
- iv the circular of the Company dated 30 September 2003;
- v the Placing Agreement;
- vi The service contracts referred to in the section headed "Service Contracts" in this Appendix II; and
- vii the material contracts referred to in the section headed "Material contracts" in this Appendix II.