COMPUTER AND TECHNOLOGIES HOLDINGS LIMITED

(科聯系統集團有限公司)

(Incorporated in Bermuda with limited liability)

ANNUAL REPORT 2002

“Our vision is to deliver competitive advantage for enterprises to progress by optimizing their information systems efficiency.”

Contents

Corporate Profile

Computer And Technologies Holdings Limited is one of the leading IT services provider involved in the design, delivery and operation of total IT solutions that meet customers' business requirements.

The Group has built its business for more than a decade on a vision to deliver competitive advantages for enterprises and government organisations to progress by optimising their information systems efficiency.

Founded in 1991, the Group's headquarters is based in Hong Kong with regional operations throughout China, Taiwan and Singapore. Offices as well as support and development centers have also been established in major commercial regions of China such as Beijing, Shanghai, Guangzhou, Nanjing, Shenzhen.

C&T has a long-standing track record in delivering world-class innovative projects and implementing large-scale mission-critical IT solutions. Building on its successful track records, the Group has expanded into an all round IT services provider with a synergetic portfolio of subsidiaries.

INTEGRATION SERVICES

computer technologies

Computer And Technologies Integration Limited	Provision of systems and network integration services and industry specific IT application implementation services

SOLUTIONS SERVICES

computer technologies solutions

Computer And Technologies Solutions Limited	Provision of IT solutions implementation services and application development services

APPLICATION SERVICES

G-Business
Your Global e-Business Partner

Global e-Business Services Limited	Provision of enterprise application services and IT operation outsourcing services

IPL

IPL Research Limited	Provision of human resource management and related application software

DISTRIBUTION BUSINESS

maxfair technology

Maxfair Technology Holdings Limited	Value-added distribution of digital media products

EXECUTIVE DIRECTORS

Ng Cheung Shing *(Chairman)*
Leung King San, Sunny
Ma Mok Hoi
So Cheung Ping, Andrew

NON-EXECUTIVE DIRECTORS

Ha Shu Tong
Lee Kwok On, Matthew, Ph.D.

COMPANY SECRETARY

Wong Cheuk Fai, AHKSA

AUDITORS

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

PRINCIPAL BANKERS

The Hong Kong and Shanghai Banking Corporation Limited
10th Floor, Wayfoong House
82-84 Nathan Road
Tsimshatsui
Kowloon
Hong Kong

REGISTRATION OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

30th Floor, MLC Millennia Plaza
663 King's Road
North Point
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

The Bank of Bermuda Limited
Bank of Bermuda Building
6 Front Street
Hamilton HM11
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tengis Limited
28th Floor, BEA Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

WEBSITE

http://www.ctil.com

BUSINESS REVIEW

Overview

The reporting period is the Group's year of business transformation from a traditional hardware-oriented systems integrator to a software and operation outsourcing oriented solutions and services provider. As a result, the gross profit margin has been improved to 22.6% when compared with 15.8% for the same period in 2001. Also due to the revolutionary focused efforts, the Group has secured more than HK$500 million worth of software and related services orders on hand at the date of this report. Moreover the Group has been awarded by the Government of Hong Kong Special Administrative Region ("HKSAR Government") a five-year licence to provide front-end Government Electronic Trading Services ("GETS") for the trading community to submit their import and export declaration and dutiable commodities permits.

During the process of transformation, the Group has spent certain amount of marketing and pre-sales expenses in building up these new orders and businesses mentioned above. However, given the nature that software and service delivery will spread over a longer period of time, revenue from most of the newly signed software and solutions projects have not yet been recognised and reflected in year 2002. On the other hand, the significant slowdown in the telecommunications industry worldwide, echoed with the lengthy reorganisation of China telecommunications industry has adversely impacted the Group's System Integration business in the reporting year. Furthermore, due to the irrational competitions, the Group has been prudently turning away low-margin hardware-intensive and high collection risks projects. Consequently, the Group's consolidated revenue for the reporting period ended 31 December 2002 fell 55.8% to HK$228.2 million (2001: HK$515.9 million). Net loss attributable to shareholders narrowed down by 38.2% to HK$39.6 million (2001: HK$64.2 million, as restated). Loss per share is HK$0.145 (2001: HK$0.241).

Despite the unsatisfactory results, the Group has continued to maintain stable financial positions without any long-term debt committed and with approximately HK$200 million cash on hand as at 31 December 2002. Besides, the trade receivables for the year ended 2002 decreased to HK$47.67 million from HK$81.76 million in the previous year.

In 2002, Management of the Group has also increased its efforts to tighten the operating expenditures. Substantial measures include closing down of the offices in Chengdu and Shenyang in China; consolidation of the operation of the previous jointly-controlled entity with Hutchison Whampoa Limited (one of the substantial shareholders of the Group), formerly known as HutchTech Resources Limited, with the Group's software operation in Shenzhen, rightsizing the Group's solution operation in Singapore in response to the reduction of market demands, and relocation of the Hong Kong office of IPL Research Limited ("IPL", a subsidiary acquired in year 2001 specialised in human resource management software) to share office premises of the Group. Although these measures have incurred additional expenses during the reporting year, they have effectively leaned the Group's operational structure and will increase the Group's competitiveness in the long run.

Detail Discussions

In year 2002, the Group has focused its pre-sales and marketing efforts in expanding businesses with service-intensive and revenue-recurring natures. As a result, the Group managed to win several large-scale multi-years, software and services outsourcing IT projects from the commercial and the government sectors. These include a HK$146 million worth of contract from the Land Registry of the Hong Kong Special Administrative Region to build and support for 8 years the Integrated Registration Information System; and a HK$368 million, worth of contract from the Water Supplies Department of the HKSAR Government to build and support a new integrated customer care and billing system in the coming 12 years. Coupled with other major government projects on-hand, the Group has become one of the major IT outsourcing service providers in Hong Kong. Those major wins provide the Group not only a stable and recurring income stream in the coming years, but also a recognised market position to capture other large-scale IT service outsourcing opportunities in the future.

In March 2003, the Group has been awarded a five-year (with an option to extend for another two years by the HKSAR Government) GETS licence, from the HKSAR Government. Together with the Electronic Tendering System ("ETS") that the Group is currently operating for the HKSAR Government, the Group is now positioned as a major government-to-business electronic services provider. Both ETS and GETS would generate stable and recurring transaction and subscription based revenue for the Group. In addition, the increased economy of scale in providing these application services will improve the operation efficiency of the Group. The critical mass and the leadership position will also facilitate the Group to capture other government-to-business electronic service opportunities related to general trading and logistic community in the future.

Despite the decreasing demand on building internet and related network infrastructure from the telecommunications sector in China, the demands on high quality network maintenance services and implementation of new value-added application software are increasing. In addition, the Group has maintained a strong momentum in serving its existing major install base with stable and repeated businesses and in developing new enterprise customers especially in insurance and automobile manufacturing industries. The Group's revenue generated from the financial services and manufacturing sectors increased to 33.7% and 9.1% from 16.2% and 6.0%, respectively, in China.

Leveraging the Group's experiences in providing billing and customer care solutions for telecommunications service providers and the established client references, the Group has successfully replicated its success to the fast growing public utility sector. Since the last annual report, the Group has secured a number of major customers in gas and water supplies sectors such as the Water Supplies Department of the HKSAR Government which is one of the largest public utility organisations in Asia, Hong Kong and China Gas Company Limited which is rapidly expanding its business through various joint-ventures in major cities of China, and Guangzhou Water Supply Company which is one of the largest water supply companies in China. The Group would continue to dedicate more resources to further expand this market in the region especially in China in the coming years.

The acquisition of IPL is proven to be successful. IPL had been smoothly integrated into the Group with no change in the management team and increases in profit contributions to the Group in 2002. Despite the challenging business environment, IPL has secured a substantial number of new customers including large and multinational corporations in Hong Kong and China. The enlarged install base has been providing IPL with steady recurring income from maintenance and system enhancement services.

Detail Discussions (continued)

Maxfair Technology Holdings Limited and its subsidiaries (collectively referred as "Maxfair"), the Group's distribution arm, which distributes digital media products, performed well during the year and consistently contributed profits to the Group. Despite the weak consumer spending in both Hong Kong and Taiwan, Maxfair managed to report increases in revenue. The subsidiary in Taiwan has managed to contribute moderate profits in its first full year of operation. Management will continue to look for opportunities in replicating the Maxfair's proven model and extend its geographical coverage of the distribution network in Asia.

PROSPECT

Given the uncertainty of the global economy and the continuous sluggish in IT industry in general, the outlook of the Group in the coming years is difficult to accurately forecast. Nevertheless, the Management believes that the Group will gradually recover from the adverse volatile business environments of the past two years. The business transformation process has turned the Group into a stronger organisation with improved revenue mix.

The substantial software and services contracts on-hand and the repeated orders and recurring maintenance income from existing install base will provide solid income to the Group in the coming years. The Group's transaction and subscription based revenues will also be substantially increased after the GETS's service is launched in 2004. Furthermore, with the repeated successes of the Group in the public utility sector and human resource management software market, Management is anticipating an increase in revenue and gross margin generated from the repeated sales of the Group's software products. Coupled with the consistently stable contribution from the Group's distribution business, the Management envisages that the profitability of the Group will become more stable and predictable and its effects will emerge considerably in the coming financial years.

Last but not the least, given the current uncertainty of the general business environment, the relatively strong financial position of the Group will benefit the Group to expand its business coverage by acquisitions when the right opportunities arrive.

APPRECIATION

On behalf of the Board and the Management, I would like to express gratitude to all the staff of the Group and the shareholders of the Company for their supports.

Ng Cheung Shing
Chairman and Chief Executive Officer

Hong Kong
8 April 2003

EXECUTIVE DIRECTORS

Mr. Ng Cheung Shing, aged 41, the founder, Chairman and Chief Executive Officer of the Group, is responsible for the business development, corporate strategies, company policies and overall management of the Group. Mr. Ng has over 19 years of IT experience. Before establishing the Company, Mr. Ng held senior positions in companies such as Hewlett-Packard Asia Pacific Ltd. and Sun Hung Kai (China) Ltd. He was also the founding Chairman of the Hong Kong Information and Software Industry Association, Honorable Chairman of the Research Center of Shanghai Jiao Tong University Digital Library, director of the Applied Research Council, council member of Vocational Training Council, vetting committee member of Innovation and Technology Fund (IT Projects) of HKSAR Government, member of SME Development Fund Vetting Committee of the HKSAR Government, member of Infrastructure Advisory Committee of the HKSAR Government and also member of HKSAR Chief Executive Election Committee (IT Subsector). Mr. Ng graduated from University of Manchester in the United Kingdom with a bachelor's degree in computer science (Hons) in 1984. He received the "Young Industrialist Awards of Hongkong" from Federation of Hong Kong Industries, the "Ten Outstanding Young Persons Award" from the Hong Kong Junior Chamber and the "Ten Outstanding Young Digi Persons" and "Hong Kong Top Ten Business Maker Award" from the Hong Kong Productivity Council.

Mr. Leung King San, Sunny, aged 42, is the Chief Financial Officer of the Group. Mr. Leung joined the Group in 1997. He has over 18 years of experience in finance, administration and planning in the IT industry. Before joining the Group, Mr. Leung held senior management positions in IBM and its associated company in Asia Pacific. Mr. Leung graduated from Simon Fraser University in Canada with a bachelor's degree in business administration in 1983.

Mr. Ma Mok Hoi, Tony, aged 46, joined the Group in 1994, is the Managing Director of Maxfair, the Group's digital media products distribution business. Mr. Ma has over 20 years of experience in distribution and customer service businesses in the IT field. He graduated from the Hong Kong Polytechnic with a higher diploma and an associateship in electronic engineering in 1980 and 1981, respectively, and he also obtained a diploma in management studies from the Hong Kong Management Association in 1989.

Mr. So Cheung Ping, Andrew, aged 48, is the Chief Executive Officer of one of the Group's subsidiaries, C&T Solutions. Mr. So joined the Group in 1998 and was responsible for launching the Group's solutions business. He was appointed to the Board in September 2001. Mr. So has over 22 years of IT experience with multinational companies including IBM and SPL WorldGroup. He specialises in applying advanced technologies in solving business problems. Mr. So graduated from the University of London in 1978 and has worked extensively in North America and Asia. Before he engaged in the IT industry, he was a professional civil engineer practising in Hong Kong.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ha Shu Tong, Albert, Singaporean, aged 54, joined the Board in 1998. Mr. Ha has involved in the financial industry for 30 years and has substantial experience in corporate finance and corporate development. Mr. Ha is currently an executive director of Singapore Hong Kong Properties Investment Limited, a company listed on the Stock Exchange of Hong Kong Limited, and Capital Consultant Limited, a financial consultancy company in Hong Kong, and an independent non-executive director of Greater China Technology Group Limited and Leaptek Limited, both are listed on the Stock Exchange of Hong Kong Limited.

Professor Matthew K. O. Lee, Ph.D., aged 43, joined the Board in 1998. Professor Lee is an Associate Dean (Research) of the Faculty of Business and Professor (Information Systems) at the City University of Hong Kong. Professor Lee was previously Head of Information Systems Department and Founding Director of the MA E-Business programme at the University. He holds a first class honours bachelor's degree in electronic engineering, an MSc in software engineering, a Ph.D. in computer science, an MBA, and two law degrees. Professor Lee has substantial experience in law and IT matters and is a professional member of both the Hong Kong Computer Society and the British Computer Society. He is qualified as a Chartered Engineer (UK Engineering Council) and a Barrister-at-Law in both Hong Kong SAR and England & Wales.

Professor Lee was a founding Vice-chairman of the Hong Kong Computer Society e-Business Special Interest Group. He is a member of the IT Projects Vetting Committee of the HKSAR Government's Innovation and Technology Fund.

SENIOR MANAGEMENT

Mr. Tam Chin Pang, Stephen, aged 39, Chief Operating Officer of C&T Solutions, has over 18 years of experience in IT and consulting business ranging from software development to enterprise solutions implementation. Before joining the group in 1998, he was the Practice Director for SPL WorldGroup delivering large-scale software solutions to clients worldwide. Mr. Tam studied in Canada as well as Australia and graduated from the University of New South Wales with a bachelor's degree in computer science and a master's degree in commerce. He has worked extensively in North America and Southeast Asia before returning to Hong Kong in 1992.

Mr. Yan King Shun, Peter, aged 41, is in charge of the Group's Application Services Division and also the Chief Executive Officer of GO-Business. He has over 18 years of experience in the IT industry. Before joining the Group in 2000, Mr. Yan was the Chief Operating Officer of Tradelink, one of the largest EDI service providers in the region. He also held senior management positions in large IT and electronic services companies including Accenture. Mr. Yan graduated from the Chinese University of Hong Kong with a bachelor's degree in business administration in 1985 and received executive education for global leadership from the Harvard Business School in 1998. Mr. Yan is also the Vice President (Membership) of the Hong Kong Computer Society.

Mr. Yeung Sai Cheong, Steve, aged 37, is the Vice-president of Corporate Development and Communications of the Group responsible for investor relationship, new Group initiatives including merger and acquisition activities, as well as other corporate communication functions. Mr. Yeung joined the Group in 1998. Mr. Yeung has 14 years of IT experience in sales and business development in multinational companies. He graduated from the University of Hong Kong with a bachelor's degree in computer studies in 1988 and received a master's degree in business administration from the Hong Kong University of Science and Technology in 1999. Mr. Yeung is also the Vice Chairman and Director of Public Communication of the Information and Software Industry Association.

The directors herein present their report together with the audited financial statements of the Company and of the Group for the year ended 31 December 2002.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The activities of its principal subsidiaries are set out in note 16 to the financial statements. There were no changes in the nature of the Group's principal activities during the year.

FINANCIAL RESULTS

The Group's loss for the year ended 31 December 2002 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 18 to 63.

FINANCIAL SUMMARY

The Company was incorporated in Bermuda on 31 March 1998 and became the ultimate holding company of the companies now comprising the Group as a result of the reorganisation which became effective on 29 April 1998.

To ensure consistency of presentation and for comparison purposes, the pro forma combined results for the year ended 31 December 1998 are presented below on the basis that the current Group structure had been in existence throughout the said period.

RESULTS

	Consolidated Year ended 31 December				Pro forma combined results
	2002	2001	2000	1999	1998
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Restated)*	(Restated)*		
TURNOVER	**228,244**	515,868	420,648	353,480	181,405
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	**(39,030)**	(60,175)	22,266	15,774	4,046
Finance costs	**–**	(352)	(1,259)	(823)	(463)
Share of losses of:					
Jointly-controlled entity	**–**	(2,344)	(441)	–	–
Associate	**–**	(26)	(32)	–	–
PROFIT/(LOSS) BEFORE TAX	**(39,030)**	(62,897)	20,534	14,951	3,583
Tax	**(386)**	(953)	(1,946)	(783)	(615)
PROFIT/(LOSS) BEFORE MINORITY INTERESTS	**(39,416)**	(63,850)	18,588	14,168	2,968
Minority interests	**(207)**	(312)	(747)	(366)	(54)
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	**(39,623)**	(64,162)	17,841	13,802	2,914

ASSETS AND LIABILITIES

	Consolidated As at 31 December				
	2002	2001	2000	1999	1998
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Restated)*	(Restated)*		
Total assets	**372,481**	400,943	501,219	212,161	147,908
Total liabilities	**(61,945)**	(56,369)	(102,236)	(61,977)	(62,141)
Minority interests	**(1,349)**	(1,352)	(2,330)	(1,583)	(1,217)
	309,187	343,222	396,653	148,601	84,550

* *Details of the restatement of certain comparative amounts are set out in notes 3 and 25 to the financial statements.*

FIXED ASSETS AND INVESTMENT PROPERTIES

Details of movements in the fixed assets and investment properties of the Group during the year are set out in note 13 to the financial statements. Further details of the Group's investment properties are set out on page 64.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws and there are no restrictions against such rights under the laws of Bermuda, being the jurisdiction in which the Company is incorporated.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the issued shares and share options of the Company during the year, together with the reasons therefor, are set out in notes 28 and 29 to the financial statements.

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

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

SHARE PREMIUM ACCOUNT AND RESERVES

Details of movements in the share premium account and reserves of the Company and of the Group during the year are set out in notes 28 and 30 to the financial statements and in the consolidated summary statement of changes in equity.

DISTRIBUTABLE RESERVES

At 31 December 2002, the Company had no available distributable reserve, calculated in accordance with the Companies Act 1981 of Bermuda (as amended).

The Company's share premium account may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

	Year ended 31 December 2002
Customers	
Percentage of turnover attributable to the Group's five largest customers	**41.1**
Percentage of turnover attributable to the Group's largest customer	**11.1**
Suppliers	
Percentage of purchases attributable to the Group's five largest suppliers	**69.4**
Percentage of purchases attributable to the Group's largest supplier	**47.7**

None of the directors, their respective associates or any shareholders of the Company, which to the knowledge of the directors own more than 5% of the Company's issued share capital, had any interest in the customers and suppliers mentioned above.

DIRECTORS

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

Executive directors:
Ng Cheung Shing
Leung King San, Sunny
Ma Mok Hoi
So Cheung Ping, Andrew

Non-executive directors:
Ha Shu Tong *
Lee Kwok On, Matthew, Ph.D.*
Lai Kai Ming, Dominic (resigned on 18 June 2002)

* *Independent non-executive director*

In accordance with bye-law 87 of the Company's bye-laws, Mr. Leung King San, Sunny and Mr. Ha Shu Tong will retire at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

The independent non-executive directors have not been appointed for a specific term, but are subject to retirement by rotation pursuant to the Company's bye-laws.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors entered into a service contract with the Company since 1 April 1998 and 3 September 2001. These service contracts will continue until terminated by either party by serving to the other party a written notice of not less than three months prior to the effective date of termination. As of the date of this report, no termination notice by either party had been received.

Save as disclosed above, none of the directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as detailed in note 34(a) to the financial statements, no director had a significant beneficial interest in any significant contract, whether directly or indirectly, to which the Company or any of its subsidiaries was a party during the year.

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2002, the interests of the directors in the share capital of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), were as follows:

(A) Interests in shares

(i) The Company

Name of director	Nature of interest and number of shares held Personal interests	 Corporate interests
Ng Cheung Shing	2,032,000	110,000,000 *(Note 1)*
Leung King San, Sunny	810,000	–
Ma Mok Hoi	9,000	–

(ii) Associated corporations

Name of director	Name of associated corporation	Nature of interest and number of shares held Personal interests	 Corporate interests	Class of shares
Ng Cheung Shing	Computer And Technologies International Limited	1,750,000	3,250,000 *(Note 2)*	Non-voting deferred
Ma Mok Hoi	Maxfair Technology Holdings Limited	25	–	Ordinary

DIRECTORS' INTERESTS IN SHARES (continued)

(A) Interests in shares (continued)

Note 1: 110,000,000 shares were held by Chao Lien Technologies Limited ("Chao Lien"). Ng Cheung Shing was entitled to exercise or control the exercise of one-third or more of the voting power at general meetings of C.S. (BVI) Limited which, in turn, was entitled to exercise or control the exercise of one-third or more of the voting power at general meetings of Chao Lien. Accordingly, Ng Cheung Shing was deemed, under the SDI Ordinance, to be interested in all shares held by Chao Lien.

Note 2: 3,250,000 non-voting deferred shares were held by Chao Lien.

(B) Interests in share options

The interests of the directors in the share options of the Company are separately disclosed in note 29 to the financial statements.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Apart from as disclosed under the headings "Directors' interests in shares" above and in the share option scheme disclosures in note 29 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

Due to the adoption during the year of Hong Kong Statement of Standard Accounting Practice No. 34 "Employee benefits", most of the detailed disclosures relating to the Company's share option scheme have been moved to note 29 to the financial statements.

There were no share options granted during the year.

Save as disclosed above, as at 31 December 2002, none of the directors or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations, as defined in the SDI Ordinance.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2002, the following interests of 10% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name of shareholder of the Company	Number of shares	Percentage of issued share capital
Chao Lien Technologies Limited *(Note 1)*	110,000,000	40.2
C.S. (BVI) Limited *(Note 1)*	110,000,000	40.2
Puttney Investments Limited *(Note 2)*	29,148,938	10.7
Hutchison International Limited *(Note 2)*	29,148,938	10.7

Note 1: The interest was also disclosed as an interest of Ng Cheung Shing in the section "Directors' interests in shares" of this report.

Note 2: The two references to 29,148,938 shares related to the same block of shares in the Company. Hutchison International Limited as a wholly owned subsidiary of Hutchison Whampoa Limited ("HWL") holds the entire issued share capital of Puttney Investments Limited. Subsidiaries of Cheung Kong (Holdings) Limited ("CKH") are entitled to exercise or control the exercise of more than one-third of the voting power at the general meeting of HWL.

Li Ka-Shing Unity Holdings Limited (in which Li Ka Shing owns its entire issued share capital) owns the entire issued share capital of Li Ka-Shing Unity Trustee Company Limited ("TUT1"). TUT1 as trustee of The Li Ka-Shing Unity Trust, together with certain companies which TUT1 as trustee of The Li Ka-Shing Unity Trust is entitled to exercise or control the exercise of more than one-third of the voting power at their general meetings (the "related companies"), holds more than one-third of the issued share capital of CKH.

In addition, Li Ka-Shing Unity Holdings Limited also owns the entire issued share capital of Li Ka-Shing Unity Trustee Corporation Limited ("TDT1"). TDT1 as trustee of the Li Ka-Shing Unity Discretionary Trust, holds a majority of units in The Li Ka-Shing Unity Trust.

By virtue of the interest in TDT1 and TUT1 through Li Ka-Shing Unity Holdings Limited, the interest in the shares of CKH held by TUT1 as trustee of the Li Ka-Shing Unity Trust and its related companies, the interest of CKH in the HWL and the interest of Hutchison International Limited in the shares of the Company as described above, Li Ka-Shing is taken to have an interest in the shares of the Company held by Puttney Investments Limited under the SDI Ordinance.

Save as disclosed above, as at 31 December 2002, no person, other than the directors of the Company whose interests are set out above, had registered an interest in the share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance.

CONNECTED TRANSACTIONS

Details of the connected transactions for the year are set out in note 34 to the financial statements. The independent non-executive directors of the Company have reviewed the connected transactions set out in note 34 and confirmed that:

(a) the transactions were entered into by the Group in the ordinary and usual course of its business;

(b) the transactions were entered into on an arm's length basis, on normal commercial terms, and on terms that are fair and reasonable so far as the shareholders of the Company are concerned; and

(c) the transactions were carried out in accordance with the terms of the agreements governing such transactions.

CONTINGENT LIABILITIES

Details of the contingent liabilities of the Company and of the Group are set out in note 33 to the financial statements.

LIQUIDITY AND FINANCIAL RESOURCES

The Group adopted a prudent policy so as to maintain a stable financial condition. As at 31 December 2002, the aggregate of the Group's bank deposits and cash balance amounted to HK$201,250,000, 93% of which was Hong Kong dollars or United States dollars.

The Group has banking facilities in Hong Kong dollars, United States dollars and Renminbi. The banking facilities are secured by fixed charges over the Group's investment properties situated in Hong Kong and certain bank fixed deposits. As of the balance sheet date, none of the facilities has been utilised, however, due to the outstanding interest-free "other loan" (note 27 to the financial statements), the gearing ratio has become 0.1% (2001: 0.2%) on the basis of total borrowings over total shareholders' equity.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2002, the Group employed 296 employees (2001: 333 employees) in Hong Kong, the Mainland PRC and in other locations, primarily in Asia, and the geographic proportion is approximately 61%, 32% and 7%, respectively (2001: 38%, 52% and 10%). The total employee costs (excluding directors' remuneration) is approximately HK$56,515,000 (2001: HK$72,988,000, as restated).

Employees' remuneration is in accordance with individual's responsibility and performance and maintains competitive with the prevailing market rates. Other fringe benefits such as medical insurance, retirement benefits, etc, are offered to most employees. Share options are granted at the directors' discretion and under the terms and conditions of employees share option schemes of the Company and certain subsidiaries that were approved and adopted on 30 May 2002 and 1 July 2000, respectively. During the year, no share options of the Company were granted to the employees and as at 31 December 2002, 5,193,000 of the Company's share options granted to the employees were not exercised.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, throughout the accounting period covered by the annual report, except that the non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation in accordance with the Company's bye-laws.

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the two independent non-executive directors of the Company.

AUDITORS

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

ON BEHALF OF THE BOARD

Ng Cheung Shing
Chairman

Hong Kong
8 April 2003

ERNST & YOUNG
安永會計師事務所

To the members
Computer And Technologies Holdings Limited
(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 18 to 63 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

BASIS OF OPINION

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

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

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2002 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

Hong Kong
8 April 2003

Consolidated Profit and Loss Account

Year ended 31 December 2002

	Notes	2002 HK$'000	2001 HK$'000 (Restated)
TURNOVER	5	**228,244**	515,868
Cost of sales		**(176,591)**	(434,198)
Gross profit		**51,653**	81,670
Other revenue and gains	5	**11,453**	11,602
Selling and distribution expenses		**(43,474)**	(66,845)
Administrative expenses		**(44,341)**	(48,210)
Other operating expenses	6	**(14,321)**	(38,392)
LOSS FROM OPERATING ACTIVITIES	6	**(39,030)**	(60,175)
Finance cost	9	**–**	(352)
Share of losses of:			
Jointly-controlled entity		**–**	(2,344)
Associate		**–**	(26)
LOSS BEFORE TAX		**(39,030)**	(62,897)
Tax	10	**(386)**	(953)
LOSS BEFORE MINORITY INTERESTS		**(39,416)**	(63,850)
Minority interests		**(207)**	(312)
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	11	**(39,623)**	(64,162)
LOSS PER SHARE	12		
– Basic		**(14.54) cents**	(24.05) cents
– Diluted		**N/A**	N/A

Consolidated Balance Sheet

31 December 2002

	Notes	2002 HK$'000	2001 HK$'000 (Restated)
NON-CURRENT ASSETS			
Fixed assets	13	**29,324**	39,453
Intangible assets	14	**2,371**	2,128
Goodwill:	15		
Goodwill		**30,247**	33,771
Negative goodwill		**(1,186)**	(2,480)
Held-to-maturity securities	17	**8,860**	–
Investment securities	18	**1,000**	1,000
Promissory note receivable	19	**–**	2,000
		70,616	75,872
CURRENT ASSETS			
Promissory note receivable	19	**2,080**	–
Inventories	20	**12,413**	6,278
Trade receivables	21	**47,667**	81,764
Amounts due from contract customers	22	**19,649**	6,172
Amount due from a minority shareholder of a subsidiary	26	**1,852**	–
Prepayments, deposits and other receivables		**7,245**	8,130
Short term investments	23	**9,709**	12,464
Pledged bank deposits	24	**15,069**	12,992
Cash and cash equivalents	24	**186,181**	197,271
		301,865	325,071
CURRENT LIABILITIES			
Trade payables, other payables and accruals	25	**(52,071)**	(45,944)
Deferred income		**(4,355)**	(4,610)
Amounts due to minority shareholders of subsidiaries	26	**(2,352)**	(2,330)
Tax payable		**(2,871)**	(2,746)
Other loan, unsecured	27	**(296)**	(443)
		(61,945)	(56,073)
NET CURRENT ASSETS		**239,920**	268,998
TOTAL ASSETS LESS CURRENT LIABILITIES		**310,536**	344,870
NON-CURRENT LIABILITY			
Other loan, unsecured	27	**–**	(296)
MINORITY INTERESTS		**(1,349)**	(1,352)
		309,187	343,222

	Notes	2002 HK$'000	2001 HK$'000 (Restated)
CAPITAL AND RESERVES			
Issued capital	*28*	**27,331**	27,059
Reserves	*30*	**281,856**	316,163
		309,187	343,222

Leung King San, Sunny
Director

Ng Cheung Shing
Director

Consolidated Summary Statement of Changes in Equity

Year ended 31 December 2002

	Notes	2002 HK$'000	2001 HK$'000
Total equity at 1 January:			
As previously reported		**345,351**	398,579
Prior year adjustment	*3, 25*	**(2,129)**	(1,926)
As restated		**343,222**	396,653
Issue of shares, including share premium	*28*	**3,554**	18,243
Impairment of goodwill previously eliminated against consolidated reserves	*15, 30*	**3,890**	–
Exchange differences on translation of the financial statements of foreign entities and net gains/(losses) not recognised in the profit and loss account	*30*	**(1,856)**	398
Net loss from ordinary activities attributable to shareholders		**(39,623)**	(64,162)
Dividends		**–**	(7,910)
Total equity at 31 December		**309,187**	343,222

Consolidated Cash Flow Statement

Year ended 31 December 2002

	Notes	2002 HK$'000	2001 HK$'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from/(used in) operations	*31(a)*	**(4,347)**	4,299
Interest paid		**–**	(352)
Hong Kong profits tax paid		**(13)**	(668)
Mainland PRC tax paid		**(248)**	(867)
Net cash inflow/(outflow) from operating activities		**(4,608)**	2,412
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of fixed assets		**(1,143)**	(8,707)
Purchases of listed investments		**(425)**	(54,913)
Purchases of held-to-maturity securities		**(8,860)**	–
Proceeds on disposal of listed investments		**–**	40,093
Additions to deferred development costs		**(1,958)**	–
Decrease/(increase) in pledged bank deposits		**(3,069)**	12,000
Acquisition of subsidiaries	*31(b)*	**–**	(14,157)
Repayment from an associate		**–**	520
Disposal of an associate		**–**	1,500
Advance to a jointly-controlled entity		**–**	(5,387)
Proceeds on disposal of intangible assets		**–**	12,548
Increase in promissory note receivable		**–**	(2,000)
Dividend income from listed securities		**464**	522
Interest received		**4,393**	7,334
Net cash outflow from investing activities		**(10,598)**	(10,647)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		**3,554**	2,766
Drawdown of bank loans		**–**	2,830
Repayment of bank loans		**–**	(11,321)
Repayment of other loan		**(443)**	(443)
Dividends paid		**–**	(7,910)
Net cash inflow/(outflow) from financing activities		**3,111**	(14,078)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(12,095)**	(22,313)
Cash and cash equivalents at beginning of year		**210,263**	232,529
Effect of foreign exchange rate changes, net		**13**	47
CASH AND CASH EQUIVALENTS AT END OF YEAR		**198,181**	210,263

	Notes	2002 HK$'000	2001 HK$'000 (Restated)
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	*24*	**42,373**	54,924
Non-pledged time deposits with original maturity of less than three months when acquired	*24*	**143,808**	142,347
Time deposits with original maturity of less than three months when acquired, pledged as security for general banking facilities	*24*	**12,000**	12,992
		198,181	210,263

Balance Sheet

31 December 2002

	Notes	2002 HK$'000	2001 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	16	**308,202**	340,051
CURRENT ASSETS			
Prepayments, deposits and other receivables		**73**	78
Cash and cash equivalents	24	**1,318**	7,325
		1,391	7,403
CURRENT LIABILITIES			
Other payables and accruals		**(110)**	(1,364)
Other loan, unsecured	27	**(296)**	(443)
		(406)	(1,807)
NET CURRENT ASSETS		**985**	5,596
TOTAL ASSETS LESS CURRENT LIABILITIES		**309,187**	345,647
NON-CURRENT LIABILITY			
Other loan, unsecured	27	**–**	(296)
		309,187	345,351
CAPITAL AND RESERVES			
Issued capital	28	**27,331**	27,059
Reserves	30	**281,856**	318,292
		309,187	345,351

Leung King San, Sunny
Director

Ng Cheung Shing
Director

1. CORPORATE INFORMATION

During the year, the Group was engaged in the information technology services business and had the following principal activities:

- trading of hardware and software (including systems design and implementation);
- provision of e-business related services; and
- provision of maintenance, consultancy and training services.

2. IMPACT OF NEW AND REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

The following new and revised SSAPs are effective for the first time for the current year and are applicable for these financial statements:

- SSAP 1 (Revised): "Presentation of financial statements"
- SSAP 11 (Revised): "Foreign currency translation"
- SSAP 15 (Revised): "Cash flow statements"
- SSAP 34: "Employee benefits"

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of adopting these SSAPs are summarised as follows:

SSAP 1 prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision to this SSAP is that a consolidated summary statement of changes in equity is now presented on page 21 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required.

SSAP 11 prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of the revision of this SSAP on the consolidated financial statements is that the profit and loss accounts of overseas subsidiaries, jointly-controlled entities and associates are now translated into Hong Kong dollars at the weighted average exchange rates for the year, whereas previously they were translated at the exchange rates ruling at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements.

SSAP 15 prescribes the revised format for the cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flow statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required. The significant reclassifications resulting from the change in presentation are that taxes paid are now included in cash flows from operating activities, interest and dividends received are now included in cash flows from investing activities and dividends paid are now included in cash flows from financing activities. The presentation of the 2001 comparative consolidated cash flow statement has been changed to accord with the new layout. In addition, cash flows from overseas subsidiaries arising during the year are now translated to Hong Kong dollars at the exchange rates at the dates of the transactions, or at an approximation thereto, whereas previously they were translated at the exchange rates at the balance sheet date. Further details of these changes are included in the accounting policy for "Foreign currencies" in note 3 to the financial statements.

2. IMPACT OF NEW AND REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs") (continued)

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in the recognition of an accrual for paid leave carried forward by the Group's employees as at the balance sheet date. The recognition of this accrual has resulted in a prior year adjustment, further details of which are included under the heading "Employee benefits" in notes 3 and 25 to the financial statements. In addition, disclosures are now required in respect of the Company's share option scheme, as detailed in note 29 to the financial statements. These share option scheme disclosures are similar to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") disclosures previously included in the Report of the Directors, which are now required to be included in the notes to the financial statements as a consequence of the SSAP.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with SSAPs, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of investment properties and certain equity investments, as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2002. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint venture companies

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Joint venture companies (continued)

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

(a) a subsidiary, if the Company has unilateral control, directly or indirectly, over the joint venture company;

(b) a jointly-controlled entity, if the Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;

(c) an associate, if the Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or

(d) a long term investment, if the Company holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

Jointly-controlled entities

A jointly-controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of the jointly-controlled entity is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interest in the jointly-controlled entity is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Associates

An associate is a company, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of the associate is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interest in the associate is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of 10 years.

SSAP 30 "Business combinations" was adopted as at 1 January 2001. Prior to that date, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted such goodwill to remain eliminated against consolidated reserves. Goodwill on acquisitions subsequent to 1 January 2001 is treated according to the SSAP 30 goodwill accounting policy above.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Negative goodwill

Negative goodwill arising on the acquisition of subsidiaries represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated profit and loss account and any relevant reserves as appropriate.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Fixed assets and depreciation

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

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

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life, after taking into account its estimated residual value. The principal annual rates used for this purpose are as follows:

Leasehold improvements	Over the lease terms
Computer equipment and software	20% – 33%
Furniture, fixtures and office equipment	18% – 25%
Motor vehicles	20%

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year, except where the unexpired term of the lease is 20 years or less, in which case depreciation is provided on the then carrying amount over the remaining term of the lease.

Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

On disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

Intangible assets

Research and development costs

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

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

Deferred development costs are amortised, using the straight-line method, over the expected useful life of the products subject to a maximum period of five years, commencing from the date when the products are put into commercial production.

Investment securities

Investment securities are securities which are intended to be held on a continuing basis, and which are held for an identified long term purpose documented at the time of acquisition or change of purpose and are clearly identifiable for the documented purpose. Investment securities are included in the balance sheet at cost less any impairment losses, on an individual investment basis.

When impairments in values have occurred, the carrying amounts of the securities are reduced to their fair values, as estimated by the directors, and the amounts of the impairments are charged to the profit and loss account for the period in which they arise. When the circumstances and events which led to the impairments in values cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amounts of the impairments previously charged are credited to the profit and loss account to the extent of the amounts previously charged.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment securities (continued)

The profit or loss on disposal of investment securities is accounted for in the period in which the disposal occurs as the difference between the net sales proceeds and the carrying amount of the securities.

Held-to-maturity securities

Held-to-maturity securities are investments in dated debt securities which the Group has the expressed intention and ability to hold to maturity, and are stated at cost adjusted for the amortisation of premiums or discounts arising on acquisition, less any impairment losses which reflect their credit risk.

Short term investments

Short term investments in listed equity securities are stated at their fair values at the balance sheet date, on an individual investment basis. The fair values of such listed securities are their quoted market prices at the balance sheet date. The gains or losses arising from changes in the fair values of such securities are credited or charged to the profit and loss account in the period in which they arise.

Inventories

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

Contracts for services

Contract revenue from the rendering of services comprises the agreed contract amount. Costs of rendering services comprise labour and other costs of personnel directly engaged in providing the services and attributable overheads.

Revenue from the rendering of services is recognised based on the percentage of completion of the transaction, provided that this and the costs incurred as well as the estimated costs to completion can be measured reliably. The percentage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers.

Where progress billings exceed contract costs incurred to date, plus recognised profit less recognised losses, the surplus is treated as an amount due to contract customers.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred tax

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

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Foreign currencies

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

On consolidation, the financial statements of overseas subsidiaries, jointly-controlled entities and associates which are expressed in foreign currencies are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries, jointly-controlled entities and associates are translated to Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated to Hong Kong dollars at the exchange rates at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated to Hong Kong dollars at the exchange rates at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated to Hong Kong dollars at the weighted average exchange rates for the year.

Prior to the adoption of the revised SSAPs 11 and 15 during the year, as explained in note 2 to the financial statements, the profit and loss accounts of overseas subsidiaries, jointly-controlled entities and associates and the cash flows of overseas subsidiaries were translated to Hong Kong dollars at the exchange rates at the balance sheet date. These changes have had no material effect on the financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

Paid leave carried forward

The Group provides paid leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

Prior to the adoption of SSAP 34 during the year, as explained in note 2 to the financial statements, the Group did not accrue for paid leave carried forward at the balance sheet date. This change in accounting policy has resulted in a prior year adjustment due to the initial recognition of the accrual, further details of which are included in note 25 to the financial statements.

Share option scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

Retirement benefits schemes

The Group operates defined contribution retirement benefits schemes under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the schemes. The assets of the schemes are held separately from those of the Group in independently administered funds. When an employee leaves the Mandatory Provident Fund Exempted ORSO retirement benefits scheme prior to his/her interest in the Group's employer contributions vesting fully, the ongoing contributions payable by the Group may be reduced by the relevant amount of forfeited contributions. In respect to the Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme"), the Group's employer contributions vest fully with the employees when contributed into the MPF Scheme except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

For certain subsidiaries of the Group in the Mainland PRC, contributions to government retirement benefit schemes are charged to the profit and loss account as incurred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

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

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from the rendering of software development services and e-business related services, based on the percentage of completion basis, as further explained in the accounting policy for "Contracts for services" above;

(c) maintenance service income and consultancy service fees, on a time proportion basis over the period of the contract;

(d) income from training courses, when the courses are presented;

(e) proceeds from the sale of short term investments in listed shares, on the transaction dates when the relevant contract notes are exchanged;

(f) rental income, in the period in which the properties are let and on a time proportion basis over the lease terms;

(g) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and

(h) dividend income, when the shareholders' right to receive payment has been established.

Deferred income

Deferred income represents maintenance service income and consultancy service fees received in advance. Revenue is recognised and deferred income is released to the profit and loss account when the corresponding services are rendered.

Dividends

Final and special dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves section in the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Related parties

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

(a) the integration services segment is engaged in the provision of system and network integration service and industry specific IT application implementation services;

(b) the solutions services segment is engaged in the provision of IT solutions implementation and application development services;

(c) the application services segment is engaged in the provision of enterprise applications and IT operation outsourcing services;

(d) the distribution segment is engaged in the distribution of digital media products and other computer accessories;

(e) the property investment segment holds prime office space for rental income; and

(f) the corporate and other segment comprises mainly corporate expense items.

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

There were no intersegment sales and transfers during the year.

4. SEGMENT INFORMATION (continued)

(a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments.

Group

	Integration Services 2002 HK$'000	Integration Services 2001 (Restated) HK$'000	Solutions Services 2002 HK$'000	Solutions Services 2001 (Restated) HK$'000	Application Services 2002 HK$'000	Application Services 2001 (Restated) HK$'000	Distribution 2002 HK$'000	Distribution 2001 (Restated) HK$'000	Property Investment 2002 HK$'000	Property Investment 2001 (Restated) HK$'000	Corporate and Other 2002 HK$'000	Corporate and Other 2001 (Restated) HK$'000	Consolidated 2002 HK$'000	Consolidated 2001 (Restated) HK$'000
Segment revenue														
– sales to external customers	**118,391**	446,815	**49,996**	22,941	**21,433**	15,804	**38,424**	30,308	**–**	–	**–**	–	**228,244**	515,868
Other revenue	**–**	–	**–**	–	**–**	–	**609**	–	**697**	917	**–**	–	**1,306**	917
Total	**118,391**	446,815	**49,996**	22,941	**21,433**	15,804	**39,033**	30,308	**697**	917	**–**	–	**229,550**	516,785
Segment results before depreciation, amortisation and other operating expenses	**(10,981)**	13,850	**(8,688)**	(26,331)	**(480)**	(5,702)	**2,007**	1,976	**204**	164	**(1,200)**	593	**(19,138)**	(15,450)
Depreciation	**(2,137)**	(2,178)	**(2,977)**	(1,456)	**(1,186)**	(2,167)	**(766)**	(459)	**(14)**	(456)	**(1,713)**	(1,635)	**(8,793)**	(8,351)
Amortisation of intangible assets	**(69)**	(1,079)	**(1,646)**	(3,837)	**–**	(2,466)	**–**	–	**–**	–	**–**	–	**(1,715)**	(7,382)
Amortisation of goodwill	**–**	–	**–**	–	**(3,524)**	(1,468)	**–**	–	**–**	–	**–**	–	**(3,524)**	(1,468)
Impairment losses recognised*	**(3,890)**	–	**–**	(2,788)	**–**	(2,510)	**–**	–	**–**	–	**–**	–	**(3,890)**	(5,298)
Provision for doubtful debts	**(3,108)**	–	**–**	–	**–**	–	**(19)**	–	**–**	–	**–**	–	**(3,127)**	–
Bad debts written off	**–**	(9,105)	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	(9,105)
Impairment of deferred development costs	**–**	–	**–**	(6,692)	**–**	(3,833)	**–**	–	**–**	–	**–**	–	**–**	(10,525)
Deficit on revaluation of investment properties	**–**	–	**–**	–	**–**	–	**–**	–	**(600)**	(8,052)	**–**	–	**(600)**	(8,052)
Segment results	**(20,185)**	1,488	**(13,311)**	(41,104)	**(5,190)**	(18,146)	**1,222**	1,517	**(410)**	(8,344)	**(2,913)**	(1,042)	**(40,787)**	(65,631)
Interest and dividend income and unallocated gains													**4,937**	8,646
Unallocated impairment losses**													**(3,180)**	(3,190)
Loss from operating activities													**(39,030)**	(60,175)
Finance cost													**–**	(352)
Share of losses of:														
Jointly-controlled entity	**–**	–	**–**	(2,344)	**–**	–	**–**	–	**–**	–	**–**	–	**–**	(2,344)
Associate	**–**	–	**–**	–	**–**	(26)	**–**	–	**–**	–	**–**	–	**–**	(26)
Loss before tax													**(39,030)**	(62,897)
Tax													**(386)**	(953)
Loss before minority interests													**(39,416)**	(63,850)
Minority interests													**(207)**	(312)
Net loss from ordinary activities attributable to shareholders													**(39,623)**	(64,162)

* The impairment losses recognised in the integration services segment was related to goodwill eliminated against consolidated reserves (note 15). The impairment losses recognised in the solutions services and application services segments in the prior year related to goodwill on acquisition and impairment of computer equipment, respectively.

** The unallocated impairment losses relate to the investment securities and unrealised loss on revaluation of short term listed investments.

4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group

	Integration Services		Solutions Services		Application Services		Distribution		Property Investment		Corporate and Other		Consolidated	
	2002	2001 (Restated)	**2002**	2001 (Restated)	**2002**	2001 (Restated)	**2002**	2001 (Restated)	**2002**	2001 (Restated)	**2002**	2001 (Restated)	**2002**	2001 (Restated)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment assets	**99,021**	109,745	**33,746**	40,157	**54,114**	63,220	**18,032**	15,355	**15,292**	15,747	**130,627**	141,255	**350,832**	385,479
Unallocated assets													**21,649**	15,464
Total assets	**99,021**	109,745	**33,746**	40,157	**54,114**	63,220	**18,032**	15,355	**15,292**	15,747	**130,627**	141,255	**372,481**	400,943
Segment liabilities	**29,886**	27,544	**13,702**	6,705	**6,993**	6,095	**8,193**	7,936	**167**	92	**3,004**	4,125	**61,945**	52,497
Unallocated liabilities													**–**	3,872
Total liabilities	**29,886**	27,544	**13,702**	6,705	**6,993**	6,095	**8,193**	7,936	**167**	92	**3,004**	4,125	**61,945**	56,369
Other segment information:														
Capital expenditure	**99**	2,672	**177**	5,423	**151**	3,235	**594**	1,495	**17**	–	**105**	708	**1,143**	13,533

4. SEGMENT INFORMATION (continued)

(b) Geographical segments

The following table presents revenue and certain asset and capital expenditure information for the Group's geographical segments.

Group

	Hong Kong		Mainland PRC		Other		Consolidated	
	2002	2001	**2002**	2001	**2002**	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue – sales to external customers	**87,370**	53,315	**124,610**	456,507	**16,264**	6,046	**228,244**	515,868
Other segment information:								
Segment assets	**247,069**	234,211	**97,256**	140,294	**6,507**	10,974	**350,832**	385,479
Capital expenditure	**547**	4,352	**179**	4,870	**417**	4,311	**1,143**	13,533

5. TURNOVER, REVENUE AND GAINS

Turnover represents the aggregate of the invoiced value of goods sold, net of trade discounts, returns, value-added tax and business tax where applicable, and income earned from the provision of e-business related services, maintenance services, software development services and training courses, after elimination of all significant intra-group transactions.

An analysis of the Group's turnover, other revenue and gains is as follows:

	2002	2001
	HK$'000	*HK$'000*
Turnover		
Sale of goods:		
Computer hardware and software (including systems design and implementation)	**129,080**	452,779
Computer hardware, software and related accessories	**38,424**	30,308
	167,504	483,087
Provision of e-business related services	**51,573**	26,793
Maintenance services, consultancy services and training courses	**9,167**	5,988
	228,244	515,868
Other revenue		
Interest income	**4,473**	6,494
Dividend income from listed investments	**464**	522
Gross rental income	**1,306**	917
Other	**1,635**	1,890
	7,878	9,823
Gains		
Gain on disposal of listed investments	**–**	374
Gain on disposal of intangible assets	**–**	1,256
Exchange gains, net	**2,281**	41
Negative goodwill recognised	**1,294**	108
	3,575	1,779
	11,453	11,602

6. LOSS FROM OPERATING ACTIVITIES

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

	2002 HK$'000	2001 HK$'000 (Restated)
Cost of inventories sold	**151,046**	408,471
Cost of services provided	**20,862**	14,217
Depreciation	**8,793**	8,351
Write-off of fixed assets	**1,979**	217
Provision for inventories*	**283**	–
Amortisation of licence rights*	**–**	1,188
Amortisation of deferred development costs*	**1,715**	6,194
Goodwill:		
Amortisation for the year**	**3,524**	1,468
Impairment arising during the year**	**3,890**	2,788
	7,414	4,256
Minimum lease payments under operating leases in respect of land and buildings	**9,174**	6,365
Auditors' remuneration	**1,030**	960
Staff costs (excluding directors' remuneration disclosed in note 7)#:		
Wages and salaries	**54,049**	69,788
Pension scheme contributions	**3,147**	3,524
Less: Forfeited contributions	**(681)**	(324)
Net pension contributions##	**2,466**	3,200
Less: Capitalised in deferred development costs	**(1,958)**	–
	54,557	72,988
Unrealised loss on revaluation of short term listed investments carried at fair value**	**3,180**	2,730
Provisions for doubtful debts**	**3,127**	754
Bad debts written off**	**–**	9,105
Impairment on investment securities**	**–**	460
Deficit on revaluation of investment properties**	**600**	8,052
Impairment of deferred development costs**	**–**	10,525
Impairment of fixed assets**	**–**	2,510

6. LOSS FROM OPERATING ACTIVITIES (continued)

* The amortisation of licence rights and deferred development costs, and provision for inventories are included in "Cost of sales" on the face of the profit and loss account.

** These expenses are included in "Other operating expenses" on the face of the profit and loss account.

\# Inclusive of an amount of HK$20,862,000 (2001: HK$14,217,000) classified under cost of services provided.

\#\# The amounts of forfeited contributions available at the year end to reduce contributions in future years were not material.

7. DIRECTORS' REMUNERATION

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

	2002 **HK$'000**	2001 HK$'000
Fees:		
Executive directors	**–**	–
Non-executive directors	**100**	100
	100	100
Other emoluments (executive directors):		
Salaries, allowances and benefits in kind	**4,216**	3,123
Bonuses paid and payable	**202**	–
Pension scheme contributions	**202**	120
	4,620	3,243
	4,720	3,343

The remuneration of the above directors fell within the following bands:

	2002 Number of directors	2001 Number of directors
Nil – HK$1,000,000	**5**	6
HK$1,000,001 – HK$1,500,000	**1**	1
HK$1,500,001 – HK$2,000,000	**1**	–
	7	7

7. DIRECTORS' REMUNERATION (continued)

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

During the year, no share options were granted to the directors in respect of their services to the Group. Further details of the Group's share option scheme are set out in note 29 to the financial statements.

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid individuals of the Group included two (2001: one) directors, details of whose remuneration are set out in note 7 to the financial statements. The remuneration of the other three (2001: four) non-director, highest paid individuals, disclosed pursuant to the Listing Rules, is as follows:

	2002	2001
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	**3,382**	5,251
Bonuses paid and payable	**255**	–
Pension scheme contributions	**139**	159
	3,776	5,410

The remuneration of the three (2001: four) non-director, highest paid individuals fell within the following bands:

	2002	2001
	Number of individuals	Number of individuals
HK$1,000,001 – HK$1,500,000	**2**	3
HK$1,500,001 – HK$2,000,000	**1**	1
	3	4

During the year, no share options were granted to the three non-director, highest paid employees in respect of their services to the Group. Further details of the Group's share option scheme are included in the disclosures in note 29 to the financial statements.

9. FINANCE COST

	Group	
	2002	2001
	HK$'000	*HK$'000*
Interest on bank loans	**–**	352

10. TAX

	Group	
	2002	2001
	HK$'000	*HK$'000*
Provision for tax in respect of profits for the year:		
Hong Kong	**209**	370
Elsewhere	**291**	601
	500	971
Overprovisions in prior years – Hong Kong	**(114)**	(18)
Tax charge for the year	**386**	953

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

At the balance sheet date, the Group and the Company had no material unprovided deferred tax liabilities.

11. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31 December 2002 dealt with in the financial statements of the Company was HK$39,718,000 (2001: HK$50,334,000).

12. LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on the net loss attributable to shareholders for the year of HK$39,623,000 (2001: HK$64,162,000, as restated) and the weighted average of 272,448,000 (2001: 266,805,000) shares of the Company in issue during the year.

(b) Diluted loss per share

No diluted loss per share is presented for the two years ended 31 December 2002 as the effect of the Company's outstanding share options was anti-dilutive.

13. FIXED ASSETS

Group

	Investment properties HK$'000	Leasehold improve-ments HK$'000	Computer equipment and software HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost or valuation:						
At beginning of year	15,700	8,397	24,351	5,729	1,218	55,395
Additions	–	333	474	336	–	1,143
Deficit on revaluation	(600)	–	–	–	–	(600)
Write-off	–	(1,661)	(2,028)	(801)	(230)	(4,720)
Exchange realignment	–	105	58	23	–	186
At 31 December 2002	**15,100**	**7,174**	**22,855**	**5,287**	**988**	**51,404**
Analysis of cost or valuation:						
At cost	–	7,174	22,855	5,287	988	36,304
At 31 December 2002 valuation	15,100	–	–	–	–	15,100
	15,100	7,174	22,855	5,287	988	51,404
Accumulated depreciation and impairment:						
At beginning of year	–	2,509	11,590	1,671	172	15,942
Provided during the year	–	2,268	5,126	1,229	170	8,793
Write-off	–	(520)	(1,852)	(231)	(138)	(2,741)
Exchange realignment	–	78	7	1	–	86
At 31 December 2002	**–**	**4,335**	**14,871**	**2,670**	**204**	**22,080**
Net book value:						
At 31 December 2002	**15,100**	**2,839**	**7,984**	**2,617**	**784**	**29,324**
At 31 December 2001	15,700	5,888	12,761	4,058	1,046	39,453

13. FIXED ASSETS (continued)

The Group's investment properties included above are held under the following lease terms:

	HK$'000
Hong Kong:	
Long term leases	9,000
Mainland PRC:	
Long term leases	4,500
Medium term leases	1,600
	15,100

The Group's investment properties were revalued on 31 December 2002 by Landscope Surveyors Limited, independent professionally qualified valuers, at HK$15,100,000 on an open market, existing use basis. The investment properties are leased to third parties under operating leases, further summary details of which are included in note 32(a) to the financial statements.

Further particulars of the Group's investment properties are included on page 64.

The Group's investment properties situated in Hong Kong were pledged to secure general banking facilities granted to the Group.

14. INTANGIBLE ASSETS

Group

	Deferred development costs HK$'000
Cost:	
At beginning of year	25,351
Additions	1,958
Eliminated on retirement	(15,280)
At 31 December 2002	**12,029**
Accumulated amortisation and impairment:	
At beginning of year	23,223
Amortisation provided during the year	1,715
Eliminated on retirement	(15,280)
At 31 December 2002	**9,658**
Net book value:	
At 31 December 2002	**2,371**
At 31 December 2001	2,128

15. GOODWILL AND NEGATIVE GOODWILL

The amounts of the goodwill and negative goodwill capitalised as an asset or recognised in the consolidated balance sheet, arising from the acquisition of subsidiaries, are as follows:

	Group	
	Goodwill	Negative goodwill
	HK$'000	*HK$'000*
Cost:		
At beginning of year and at 31 December 2002	**35,239**	**(2,588)**
Accumulated amortisation and impairment/ (recognition as income):		
At beginning of year	1,468	(108)
Amortisation provided/(recognised as income) during the year	3,524	(1,294)
At 31 December 2002	**4,992**	**(1,402)**
Net book value:		
At 31 December 2002	**30,247**	**(1,186)**
At 31 December 2001	33,771	(2,480)

As detailed in note 3 to the financial statements, on the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted goodwill in respect of acquisitions which occurred prior to 1 January 2001, to remain eliminated against consolidated reserves.

15. GOODWILL AND NEGATIVE GOODWILL (continued)

The amount of the goodwill remaining in consolidated reserves as at 31 December 2002, arising from the acquisition of subsidiaries prior to 1 January 2001, are as follows:

Group

	Goodwill eliminated against consolidated reserves *HK$'000*
Cost:	
At beginning of year and at 31 December 2002	**11,117**
Accumulated impairment:	
At beginning of year	–
Impairment provided during the year	(3,890)
At 31 December 2002	**(3,890)**
Net amount:	
At 31 December 2002	**7,227**
At 31 December 2001	11,117

During the year, the integration services segment of the Group has suffered from the sluggish demand in the Mainland PRC and recorded a loss of HK$10,981,000 before depreciation, amortisation and other operating expenses (note 4). The market of this segment is not expected to recover in the near future. Hence, a provision for impairment of goodwill amounted to HK$3,890,000 arising from the acquisition of subsidiaries involved in integration services was recorded. The impairment loss is determined by discounting the expected future cash flows arising from that segment at a discount rate of 5%.

16. INTERESTS IN SUBSIDIARIES

	Company 2002 HK$'000	Company 2001 HK$'000
Unlisted shares, at cost	**45,633**	45,633
Due from subsidiaries	**354,480**	347,370
Due to a subsidiary	**(268)**	–
	399,845	393,003
Provision for impairment	**(91,643)**	(52,952)
	308,202	340,051

The balances with the subsidiaries are unsecured, interest-free and not repayable within one year from the balance sheet date.

Particulars of the principal subsidiaries at the balance sheet date were as follows:

Company	Place of incorporation/ registration	Issued and fully paid share capital/ registered capital *	Percentage of equity interest attributable to the Company 2002	2001	Principal activities
Computer And Technologies (BVI) Limited	British Virgin Islands	US$1,000	**100**	100	Investment holding
Computer And Technologies International Limited	Hong Kong	Ordinary HK$2 Non-voting deferred ** HK$5,000,000	**100**	100	Provision of IT services and investment holding
Computer And Technologies Integration Limited	Hong Kong	HK$2	**100**	100	Provision of system and network integration services
Computer & Technologies International Trading (Shanghai) Company Limited#	Mainland PRC	US$200,000	**100**	100	Trading of computer hardware and software
Computer & Technologies (Shanghai) Co., Ltd.#	Mainland PRC	US$1,000,000	**100**	100	Provision of systems and network integration services

16. INTERESTS IN SUBSIDIARIES (continued)

Company	Place of incorporation/ registration	Issued and fully paid share capital/ registered capital *	Percentage of equity interest attributable to the Company 2002	2001	Principal activities
Computer & Technologies Investment Limited	British Virgin Islands	US$1	**100**	100	Investment holding
C&T (Guangzhou) Investment Limited	Hong Kong	HK$2	**100**	100	Property holding
C&T (Hong Kong) Investment Limited	British Virgin Islands	US$1	**100**	100	Property holding
C&T (Nanjing) Investment Limited	Hong Kong	HK$2	**100**	100	Property holding
C&T (Shanghai) Investment Limited	Hong Kong	HK$2	**100**	100	Property holding
Computer And Technologies Solutions Limited (formerly known as Global e-Business Enabler Limited)	Hong Kong	HK$2	**100**	100	Provision of IT solutions and implementation services
Computer And Technologies Resources Limited (formerly known as HutchTech Resources Limited)	Hong Kong	HK$100	**100**	100	Provision of resources team for IT solutions implementation
Computer & Technologies Solutions (Shenzhen) Co., Ltd.#	Mainland PRC	HK$1,000,000	**100**	100	Provision of IT solutions and implementation services
Computer And Technologies Solutions Limited##	Bermuda	US$13,340	**91**	90	Provision of IT solutions and implementation services
Global e-Business Services Limited	Hong Kong	HK$1,010,000	**100**	100	Provision of enterprise application services
ets.com.hk Limited	Hong Kong	HK$2	**100**	100	Provision of e-tendering services for HKSAR Government

16. INTERESTS IN SUBSIDIARIES (continued)

Company	Place of incorporation/ registration	Issued and fully paid share capital/ registered capital *	Percentage of equity interest attributable to the Company 2002	2001	Principal activities
e-tendering.com Limited	British Virgin Islands	US$1	**100**	100	Provision of e-tendering services
IPL Research Limited	Hong Kong	Ordinary HK$2 Non-voting deferred ** HK$300,000	**100**	100	Provision of human resource management and related application software
Maxfair Technology Limited	Hong Kong	HK$2,500,000	**75**	75	Distribution of digital media products
Maxfair Technology (Taiwan) Company Limited	Taiwan	NT$10,000,000	**52.5**	52.5	Distribution of digital media products

* *The concept of registered capital applies only to companies established in the Mainland PRC.*

** *The non-voting deferred shares, which are not held by the Group, carry no rights to dividends or to receive notice of or to attend or vote at any general meeting. In the winding-up of the subsidiaries, the deferred shareholders carry the right to receive a return of capital after the holders of the ordinary shares have received a sum of HK$1,000,000,000 per ordinary share.*

\# *The subsidiaries established in the Mainland PRC are wholly foreign-owned enterprises.*

\#\# *Not audited by Ernst & Young.*

Except for Computer And Technologies (BVI) Limited, all of the above subsidiaries are indirectly held by the Company.

Except for C&T (Hong Kong) Investment Limited, Computer & Technologies Investment Limited and e-tendering.com Limited which are incorporated in the British Virgin Islands but operate in Hong Kong, and Computer And Technologies Solutions Limited, which is incorporated in Bermuda but operates in Singapore, all of the above subsidiaries operate in the place of their incorporation/registration.

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

17. HELD-TO-MATURITY SECURITIES

	Group 2002 HK$'000	2001 HK$'000
At amortised cost:		
Overseas listed debt securities	**1,560**	–
Unlisted debt securities	**7,300**	–
	8,860	–
Market value of overseas listed debt securities	**1,594**	–

18. INVESTMENT SECURITIES

	Group 2002 HK$'000	2001 HK$'000
Club membership debenture, at cost	**1,460**	1,460
Provision for impairment	**(460)**	(460)
	1,000	1,000

19. PROMISSORY NOTE RECEIVABLE

The promissory note receivable of the Group represented a refund receivable from the seller in respect of the excess consideration paid by the Group for the acquisition of certain subsidiaries in the prior year. The amount is unsecured, bears interest at 4% per annum and is receivable in August 2003.

20. INVENTORIES

	Group 2002 HK$'000	2001 HK$'000
Work in progress	**8,346**	1,927
Finished goods	**4,067**	4,351
	12,413	6,278

The carrying amount of inventories carried at net realisable value included in the above balance was HK$283,000 (2001: Nil) as at the balance sheet date.

21. TRADE RECEIVABLES

An aged analysis of the trade receivables, net of provisions, as at the balance sheet date is as follows:

	Group	
	2002	2001
	HK$'000	*HK$'000*
Current	**35,147**	64,061
Overdue 1 to 3 months	**8,887**	13,183
Overdue 4 to 6 months	**1,118**	4,520
Overdue more than 6 months	**2,515**	–
	47,667	81,764

Credit terms

System integration projects, the provision of maintenance services and software development services have terms which vary from contract to contract and may include cash on delivery, advance payment and credit. For those customers who trade on credit, invoices are normally payable within 90 days of issuance. Trade receivables are recognised and carried at original invoiced amount less provision for doubtful debts which is recorded when collection of the full amount is no longer probable. Bad debts are written off as incurred.

22. CONTRACTS FOR SERVICES

	Group	
	2002	2001
	HK$'000	*HK$'000*
Gross amount due from contract customers	**19,649**	6,172
Gross amount due to contract customers included in other payables	**(734)**	(83)
	18,915	6,089
Contract costs incurred plus recognised profits less recognised losses to date	**37,845**	33,252
Less: Progress billings	**(18,930)**	(27,163)
	18,915	6,089

23. SHORT TERM INVESTMENTS

	Group	
	2002	2001
	HK$'000	*HK$'000*
Listed equity investments in Hong Kong, at market value	**9,709**	12,464

24. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

	Group		Company	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances	**42,373**	54,924	**1,318**	300
Time deposits	**158,877**	155,339	**–**	7,025
	201,250	210,263	**1,318**	7,325
Less: Pledged time deposits for general banking facilities	**(12,000)**	(12,992)	**–**	–
Pledged time deposits for guarantees issued by banks	**(3,069)**	–	**–**	–
Cash and cash equivalents	**186,181**	197,271	**1,318**	7,325

25. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

Included in the balance is an amount of HK$36,164,000 (2001: HK$25,443,000) representing the trade payables of the Group. An aged analysis of such payables is as follows:

	Group	
	2002	2001
	HK$'000	*HK$'000*
Current	**27,597**	18,145
Within 1 to 3 months	**8,051**	3,935
Between 4 to 6 months	**516**	3,363
	36,164	25,443

SSAP 34 was adopted during the year, as explained in note 2 and under the heading "Employee benefits" in note 3 to the financial statements. As a result, an accrual is now made at the balance sheet date for the expected future cost of paid leave earned during the year by employees, which remains untaken by the employees at the balance sheet date and is permitted to be carried forward and utilised in the following year.

25. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS (continued)

This change in accounting policy has resulted in HK$1,705,000 and HK$2,129,000 being included in the balance of the Group's accruals in respect of paid leave carried forward as at 31 December 2002 and 2001, respectively. As a consequence, the consolidated net losses attributable to shareholders for the years ended 31 December 2002 and 2001 have been reduced by HK$424,000 and increased by HK$203,000, respectively, and consolidated accumulated losses at 1 January 2002 and consolidated retained profits at 1 January 2001 have been increased by HK$2,129,000 and decreased by HK$1,926,000, respectively, as detailed in the consolidated summary statement of changes in equity.

26. AMOUNTS DUE FROM/TO MINORITY SHAREHOLDERS OF SUBSIDIARIES

The balances are unsecured, interest-free and have no fixed terms of repayment.

27. OTHER LOAN, UNSECURED

	Group and Company	
	2002	2001
	HK$'000	*HK$'000*
Other loan wholly repayable within five years	**296**	739
Portion classified as current liabilities	**(296)**	(443)
Non-current portion	**–**	296

The other loan is unsecured, interest-free and repayable by 27 monthly instalments, with the last instalment due in June 2003.

28. SHARE CAPITAL

Shares

	Company	
	2002	2001
	HK$'000	*HK$'000*
Authorised:		
1,000,000,000 ordinary shares of HK$0.10 each	**100,000**	100,000
Issued and fully paid:		
273,308,198 (2001: 270,588,198) ordinary shares of HK$0.10 each	**27,331**	27,059

28. SHARE CAPITAL (continued)

A summary of the movements of the Company's issued share capital and share premium account is as follows:

Ordinary shares	Notes	Number of shares in issue	Issued share capital HK$'000	Share premium account HK$'000	Total HK$'000
At 1 January 2001		263,300,338	26,330	306,701	333,031
Issue of new shares for acquisition of subsidiaries	*(a)*	5,007,360	501	14,976	15,477
Share options exercised	*(b)*	2,280,500	228	2,538	2,766
At 31 December 2001 and 1 January 2002		270,588,198	27,059	324,215	351,274
Share options exercised	*(c)*	2,720,000	272	3,282	3,554
Offsetting against accumulated losses	*30*	–	–	(51,406)	(51,406)
At 31 December 2002		**273,308,198**	**27,331**	**276,091**	**303,422**

(a) Pursuant to a share subscription and sales agreement dated 20 June 2001, 5,007,360 new ordinary shares of HK$0.10 each were allotted and issued at HK$3.0908 per share on 26 July 2001 as part of the consideration for the acquisition of subsidiaries (note 31(b)).

(b) During the year ended 31 December 2001, 2,280,500 ordinary shares were allotted to the holders of share options who exercised the options under the share option scheme of the Company.

(c) During the year, 2,720,000 ordinary shares were allotted to the holders of the share options who exercised the options under the share option scheme of the Company (note 29).

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 29 to the financial statements.

29. SHARE OPTION SCHEME

SSAP 34 was adopted during the year, as explained in note 2 and under the heading "Employee benefits" in note 3 to the financial statements. As a result, these detailed disclosures relating to the Company's share option scheme are now included in notes to the financial statements. In the prior year, these disclosures were included in the Report of the Directors, as their disclosure is also a requirement of the Listing Rules.

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, and any minority shareholder in the Company's subsidiaries. The Scheme became effective on 30 May 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent to, upon their exercise, 10% of the shares of the Company in issue at any time. At 31 December 2002, the number of shares issuable under share options granted under the Scheme was 8,943,000, which represented approximately 3.3% of the Company's shares in issue as at that date. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than six years from the commencing date of the share options or the expiry date of the Scheme, whichever is earlier.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) The Stock Exchange of Hong Kong Limited (the "Stock Exchange") closing price of the Company's shares on the date of the offer of the share options; and (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

29. SHARE OPTION SCHEME (continued)

The following share options were outstanding under the Scheme during the year:

Name or category of participant	Number of share options: At 1 January 2002	Granted during the year	Exercised during the year	Lapsed during the year	At 31 December 2002	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK$	Price of Company's shares***: At grant date of options HK$	At exercise date of options HK$
Directors										
Ng Cheung Shing	800,000	–	(800,000)	–	–	03.12.99	3.12.2000 to 2.11.2004	1.800	4.500	1.870
Leung King San, Sunny	188,000	–	(188,000)	–	–	03.12.99	3.12.2000 to 2.11.2004	1.800	4.500	1.870
Ma Mok Hoi	200,000	–	–	–	200,000	03.10.98	26.10.1999 to 25.10.2003	0.281	0.370	N/A
	1,188,000	–	(988,000)	–	200,000					
Other employees										
In aggregate	1,036,000	–	(276,000)	–	760,000	09.10.98	26.10.1999 to 25.10.2003	0.298	0.390	1.270 to 1.800
	240,000	–	(168,000)	–	72,000	09.10.98	26.10.1999 to 25.10.2003	0.316	0.390	1.270 to 2.175
	286,000	–	–	–	286,000	18.08.99	30.08.2000 to 29.08.2004	0.635	0.810	N/A
	670,000	–	(144,000)	–	526,000	18.08.99	30.08.2000 to 29.08.2004	0.675	0.810	2.025
	564,000	–	(444,000)	(120,000)	–	18.08.99	30.08.2000 to 29.08.2002	0.715	0.810	1.980 to 2.525
	96,000	–	–	–	96,000	03.09.99	17.09.2000 to 16.09.2004	0.753	0.930	N/A
	600,000	–	–	–	600,000	31.08.01	06.09.2002 to 05.09.2006	1.563	1.880	N/A
	1,416,000	–	(700,000)	(716,000)	–	15.11.99	10.12.1999 to 31.12.2002	1.750	2.250	1.720 to 2.400
	2,653,000	–	–	–	2,653,000	16.01.01	23.01.2002 to 22.01.2006	2.672	3.500	N/A
	7,561,000	–	(1,732,000)	(836,000)	4,993,000					
Others – *note 31(b)*	–	3,750,000	–	–	3,750,000	04.02.02	28.02.2002 to 27.08.2003	2.200	2.025	N/A
Total	8,749,000	3,750,000	(2,720,000)	(836,000)	8,943,000					

* *The vesting period of the share options is from the date of the grant until the commencement of the exercise period.*

** *The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.*

*** *The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options. The price of the Company's shares disclosed as at the date of the exercise of the share options is the weighted average of the Stock Exchange closing prices over all the exercises of options within the disclosure category.*

29. SHARE OPTION SCHEME (continued)

The 2,720,000 share options exercised during the year resulted in the issue of 2,720,000 ordinary shares of the Company and new share capital of HK$272,000 and share premium of HK$3,282,000 (before issue expenses), as detailed in note 28 to the financial statements.

At the balance sheet date, the Company had 8,943,000 share options outstanding under the Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 8,943,000 additional ordinary shares of the Company and additional share capital of HK$894,300 and share premium of HK$16,297,000 (before issue expenses).

30. RESERVES

Group

	Notes	Share premium account HK$'000	Contributed surplus HK$'000	Goodwill reserve* HK$'000	Exchange fluctuation reserve HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000
At 1 January 2001:							
As previously reported		306,701	45,483	(11,117)	13	23,259	364,339
Prior year adjustment:							
SSAP 34 "Employee benefits"	2, 25	–	–	–	–	(1,926)	(1,926)
As restated		306,701	45,483	(11,117)	13	21,333	362,413
Issue of shares	28	17,514	–	–	–	–	17,514
Net loss for the year (as restated)		–	–	–	–	(64,162)	(64,162)
Exchange adjustments		–	–	–	398	–	398
At 31 December 2001		324,215	45,483	(11,117)	411	(42,829)	316,163
At 1 January 2002:							
As previously reported		324,215	45,483	(11,117)	411	(40,700)	318,292
Prior year adjustment:							
SSAP 34 "Employee benefits"	2, 25	–	–	–	–	(2,129)	(2,129)
As restated		324,215	45,483	(11,117)	411	(42,829)	316,163
Issue of shares	28	3,282	–	–	–	–	3,282
Impairment of goodwill	15	–	–	3,890	–	–	3,890
Offsetting against accumulated losses#	28	(51,406)	–	–	–	51,406	–
Net loss for the year		–	–	–	–	(39,623)	(39,623)
Exchange adjustments		–	–	–	(1,856)	–	(1,856)
At 31 December 2002		**276,091**	**45,483**	**(7,227)**	**(1,445)**	**(31,046)**	**281,856**

* *The amount of goodwill arose on the acquisition of subsidiaries prior to 1 January 2001 and remains eliminated against consolidated reserves as explained in note 15 to the financial statements.*

\# *On 30 May 2002, an annual general meeting of the Company was convened and the shareholders approved to offset the accumulated losses of the Company as at 31 December 2001 amounted to HK$51,406,000 by debiting the same amount to the share premium account.*

30. RESERVES (continued)

Company

	Note	Share premium account HK$'000	Contributed surplus HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2001		306,701	45,483	(1,072)	351,112
Issue of shares	28	17,514	–	–	17,514
Net loss for the year		–	–	(50,334)	(50,334)
At 31 December 2001 and 1 January 2002		324,215	45,483	(51,406)	318,292
Offsetting against accumulated losses#	28	(51,406)	–	51,406	–
Issue of shares	28	3,282	–	–	3,282
Net loss for the year		–	–	(39,718)	(39,718)
At 31 December 2002		**276,091**	**45,483**	**(39,718)**	**281,856**

The contributed surplus of the Company and the Group represents the difference between the nominal value of the share capital issued by the Company and the aggregate net asset value of the subsidiaries acquired at the date of their acquisition pursuant to the Group reorganisation on 29 April 1998.

Under the Companies Act 1981 of Bermuda (as amended), the Company may make distributions to its members out of the contributed surplus in certain circumstances.

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of loss before tax to cash generated from/(used in) operations

	Notes	2002 HK$'000	2001 HK$'000 (Restated)
Loss before tax		**(39,030)**	(62,897)
Adjustment for:			
Interest income	5	**(4,473)**	(6,494)
Exchange gain		**(2,179)**	–
Dividend income from listed investments	5	**(464)**	(522)
Gain on disposal of intangible assets	5	**–**	(1,256)
Gain on disposal of listed investments	5	**–**	(374)
Negative goodwill recognised	5	**(1,294)**	(108)
Depreciation	6	**8,793**	8,351
Impairment of fixed assets	6	**–**	2,510
Write-off of fixed assets	6	**1,979**	217
Amortisation of intangible assets	6	**1,715**	7,382
Impairment of investment securities	6	**–**	460
Deficit on revaluation of investment properties	6	**600**	8,052
Impairment of deferred development costs	6	**–**	10,525
Goodwill amortisation and impairment	6	**7,414**	4,256
Unrealised loss on revaluation of short term listed investments	6	**3,180**	2,730
Finance cost		**–**	352
Share of losses of a jointly-controlled entity		**–**	2,344
Share of losses of an associate		**–**	26
Operating loss before working capital changes		**(23,759)**	(24,446)
Decrease/(increase) in inventories		**(6,135)**	35,298
Decrease in trade receivables		**34,097**	44,071
Increase in amounts due from contract customers		**(13,477)**	(1,785)
Increase in amount due from minority shareholder of a subsidiary		**(1,852)**	–
Decrease/(increase) in prepayments, deposits and other receivables		**885**	(1,165)
Increase/(decrease) in trade payables, other payables and accruals		**6,127**	(52,940)
Increase/(decrease) in deferred income		**(255)**	4,610
Increase in amounts due to minority shareholders of subsidiaries		**22**	656
Cash generated from/(used in) operations		**(4,347)**	4,299

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

(b) Acquisition of subsidiaries

	2002 **HK$'000**	2001 *HK$'000*
Net assets acquired:		
Fixed assets	–	4,826
Cash and bank balances	–	10,391
Trade receivables, prepayments and other receivables	–	7,929
Trade payables, other payables and accruals	–	(9,292)
Tax payable	–	(357)
Minority interests	–	(384)
	–	13,113
Goodwill on acquisition	–	38,027
Negative goodwill on acquisition	–	(2,588)
Consideration*	–	48,552
Satisfied by:		
Cash	–	24,548
Issue of shares *(note 28(a))*	–	15,477
Reclassification of interest in a jointly-controlled entity	–	8,527
	–	48,552

* *The prior year's total consideration included incidental costs of acquisition totalling approximately HK$3,916,000, comprising primarily commission, legal and professional fees, which were satisfied by cash.*

The subsidiaries acquired in the prior year contributed HK$10,112,000 to the Group's turnover and a profit of HK$3,073,000 to the Group's loss before tax in that year. In the case of the jointly-controlled entity which was reclassified to a subsidiary, these turnover and loss before tax amounts exclude the former jointly-controlled entity's contribution to the results prior to its becoming a subsidiary.

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	2002 **HK$'000**	2001 *HK$'000*
Cash consideration	–	(24,548)
Cash and bank balances acquired	–	10,391
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	–	(14,157)

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

(b) Acquisition of subsidiaries (continued)

In the prior year, on 26 July 2001, the Group acquired a 99% interest in IPL Research Limited ("IPL") from three independent individuals (collectively the "Vendors"). IPL is engaged in the provision of computer software development and installation services in respect of human resource management system. The purchase consideration of HK$38,025,000 (the "Original Consideration") was satisfied as to HK$22,548,000 by cash and the remaining balance of HK$15,477,000 by the issuance and allotment of the Company's shares.

Pursuant to a supplementary agreement dated 4 February 2002 entered into between the Group and the Vendors (the "Supplemental Agreement"), the Group acquired the remaining 1% interest in IPL on 28 February 2002 from the Vendors at nil consideration and the Original Consideration was revised downwards to HK$36,025,000, with the excess consideration of HK$2,000,000 already paid by the Group to the Vendors to be refunded. The effect of this transaction has been reflected in the prior year's financial statements and the amount refundable is included as "Promissory note receivable" (note 19) on the face of the consolidated balance sheet.

Pursuant to the Supplemental Agreement, (i) the Group was granted a put option by the Vendors, pursuant to which the Group may require the Vendors to purchase 25% equity interests in IPL at a consideration of HK$3,000,000; and (ii) the Vendors were granted share subscription options for 3,750,000 ordinary shares of HK$0.10 each of the Company at a price of HK$2.20 per share. These share subscription options, subject to certain conditions, may be exercised within a period of 18 months from 28 February 2002 (note 29).

Further details of the above transactions are set out in the Group's circulars dated 12 July 2001 and 4 February 2002, respectively.

(c) Restricted cash and cash equivalent balances

Certain of the Group's time deposits are pledged to banks to secure general banking facilities and guarantees granted to the Group, as further explained in note 24 to the financial statements.

32. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 13) under operating lease arrangements, with leases negotiated for terms ranging from one to five years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

32. OPERATING LEASE ARRANGEMENTS (continued)

(a) As lessor (continued)

At 31 December 2002, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2002	2001
	HK$'000	*HK$'000*
Within one year	**1,264**	213
In the second to fifth years, inclusive	**1,642**	–
	2,906	213

(b) As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to six years.

At 31 December 2002, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Within one year	**6,089**	7,264	**2,232**	1,674
In the second to fifth years, inclusive	**10,568**	15,808	**5,580**	7,812
	16,657	23,072	**7,812**	9,486

33. CONTINGENT LIABILITIES

	Group	
	2002	2001
	HK$'000	*HK$'000*
Guarantees given to customers for compliance of service contracts	**17,798**	2,723

The Company had issued corporate guarantees to certain suppliers of the Group in respect of purchases from these suppliers. At 31 December 2002, the outstanding amount due to these suppliers by the Group amounted to HK$4,770,000 (2001: HK$11,230,000).

34. CONNECTED AND RELATED PARTY TRANSACTIONS

In addition to the transactions and balances set out elsewhere in the notes to the financial statements, the Group had the following material connected and related party transactions during the year:

(a)

	2002	2001
	HK$'000	*HK$'000*
Rental expense paid to:		
Ng Cheung Shing ("Mr. Ng", a director of the Company)	**531**	531

On 5 February 2002, the Company entered into a rental agreement with Mr. Ng to rent a property in Beijing, the Mainland PRC, as office premises at a monthly rent of US$5,675 (equivalent to HK$44,265) for a term of two years commencing from 1 January 2002.

The rental was determined by reference to market rental for offices of similar qualities in the same district obtained from independent sources. In the opinion of the directors, this transaction was entered into by the Group in the normal course of its business.

(b) On 10 July 2002, the Group advanced a shareholders' loan of US$670,000 (equivalent to HK$5,226,000) to its then 90%-owned subsidiary, Computer And Technologies Solutions Limited ("C&T Solutions"), a company incorporated in Bermuda, as general working capital. The remaining 10% of C&T Solutions is owned by a subsidiary of a substantial shareholder of the Company. The shareholders' loan is unsecured, bears interest at 3.875% per annum and is not repayable on or before 13 November 2003. In connection with the advance, C&T Solutions allotted 13,400,000 new ordinary shares of US$0.0001 each at par to the Group, representing 1% of the enlarged issued share capital of C&T Solutions. Subsequent to the above allotment of shares, C&T Solutions became a 91%-owned subsidiary of the Group.

The transaction referred to in item (b) constitute a connected transaction disclosed under the Listing Rules while the transaction referred to in item (a) constitute both connected and related party transaction.

35. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, a prior year adjustment has been made and certain comparative amounts have been reclassified to conform with the current year's presentation.

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 8 April 2003.

INVESTMENT PROPERTIES

	Location	Use	Tenure	Attributable interest of the Group
1.	Units 1, 2 and 3 on 11th Floor, Westlands Centre, No. 20 Westlands Road, Quarry Bay, Hong Kong	Industrial	896 years	100%
2.	Unit No. E on Level 12 and Car Parking Space No. 44, Jinming Building, No. 8 Zunyi South Road, Changning District, Shanghai, P.R.C.	Commercial	59 years	100%
3.	Unit Nos. A2 and D3 on Level 21, Golden Eagle International Plaza, No. 89 Hanzhong Road, Jianye District, Nanjing, Jiangsu Province, P.R.C.	Commercial	60 years	100%
4.	Unit No. 2601 on Level 26, South Tower, Guangzhou World Trade Centre Complex, Nos. 371-375 Huanshi East Road, Dongshan District, Guangzhou, Guangdong Province, P.R.C.	Commercial	38 years	100%