

COMPUTER AND TECHNOLOGIES HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

INTERIM RESULTS FOR SIX MONTHS ENDED 30 JUNE 2003

UNAUDITED INTERIM RESULTS

The Board of Directors (the "Board") of Computer And Technologies Holdings Limited (the "Company") herein present the unaudited consolidated financial statements of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2003 together with the comparative figures for the corresponding period as follows:

Condensed Consolidated Profit And Loss Account

		Unaudited six months ended 30 June	
		2003	**2002** (Restated)
	Notes	*HK$'000*	*HK$'000*
TURNOVER	*2*	170,070	103,015
Cost of sales		(130,018)	(77,921)
Gross profit		40,052	25,094
Other revenue		3,010	3,806
Selling and distribution expenses		(24,833)	(24,940)
Administrative expenses		(13,952)	(12,917)
Other operating expenses		(1,797)	(4,503)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	*3*	2,480	(13,460)
Finance costs		(334)	(442)
PROFIT/(LOSS) BEFORE TAX		2,146	(13,902)
Tax	*4*	(36)	133
PROFIT/(LOSS) BEFORE MINORITY INTERESTS		2,110	(13,769)
Minority interests		(243)	(358)
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		1,867	(14,127)

EARNINGS/(LOSS) PER SHARE	*5*		
– Basic		0.682 Cent	(5.20) Cents
– Diluted		0.680 Cent	N/A

Condensed Consolidated Balance Sheet

	Unaudited as at 30 June 2003	Audited as at 31 December 2002 (Restated)
	HK$'000	*HK$'000*
NON-CURRENT ASSETS	99,283	70,616
CURRENT ASSETS	312,574	301,865
CURRENT LIABILITIES	(99,128)	(62,276)
NET CURRENT ASSETS	213,446	239,589
TOTAL ASSETS LESS CURRENT LIABILITIES	312,729	310,205
MINORITY INTEREST	(1,629)	(1,349)
	311,100	308,856
CAPITAL AND RESERVES	311,100	308,856

Notes to the Condensed Consolidated Interim Financial Statements

1. Accounting Policies

The unaudited condensed consolidated interim financial statements of the Group are prepared in accordance with the Hong Kong Statement of Standard Accounting Practice ("SSAP") No. 25 "interim financial reporting" issued by the Hong Kong Society of Accountants. The accounting policies and basis of presentation of these unaudited financial statements are the same as those used in the audited financial statements for the year ended 31 December 2002, except SSAP 12 (Revised) "Income Taxes" has been adopted for the first time in the preparation of the current period's consolidated financial statements.

SSAP 12 (Revised) prescribed the basis for accounting for income taxes payable or recoverable, arising the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carry forward of unused tax losses (deferred tax).

The principal impact of the revision of this SSAP on these condensed consolidated interim financial statements is that a deferred tax liability has been provided arising in the prior period and the related note disclosures are now more extensive than previously required. These disclosures are presented in note 4 to these condensed consolidated interim financial statements.

The SSAP has no specific transitional arrangement and therefore the provisions in SSAP 2 should be applied, which requires the changes to be applied retrospectively. Thus comparative amounts for 2002 have been restated accordingly. The opening accumulated losses as at 1 January 2002 and 2003 have been increased by HK$629,000 and HK$331,000 respectively, which represented the cumulative effects of change in accounting policy. Tax income for the six months ended 30 June 2002 was increased by HK$149,000.

2. Segment Information

An analysis of the Group's turnover and contribution to profit from operating activities and by principal activity and geographical area of operations are as follows:

(a) Business segments

	Integration Services		Solutions Services		Application Services		Distribution		Property Investment		Corporate and Other		Consolidated	
	Unaudited six months ended 30 June													
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002 (Restated)	2003	2002 (Restated)	2003	2002 (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 revenue – sales to external customers	67,965	53,357	73,419	19,001	9,406	11,842	19,280	18,607	–	–	–	–	170,070	102,807
Other revenue	–	–	647	647	–	–	–	–	347	192	–	16	994	855
Total	67,965	53,357	74,066	19,648	9,406	11,842	19,280	18,607	347	192	–	16	171,064	103,662
Segment results before depreciation, amortisation and other operating expenses	4,464	(2,822)	1,881	(2,268)	661	1,890	1,537	2,111	314	85	(1,802)	(3,122)	7,055	(4,126)
Depreciation and amortisation	(844)	(1,113)	(1,258)	(2,580)	(672)	(572)	(412)	(367)	(4)	(11)	(855)	(859)	(4,045)	(5,502)
Impairment of fixed assets	–	(400)	–	(1,609)	–	–	–	–	–	–	–	–	–	(2,009)
Amortisation of goodwill	–	–	–	–	(1,797)	(1,762)	–	–	–	–	–	–	(1,797)	(1,762)
Segment results	3,620	(4,335)	623	(6,457)	(1,808)	(444)	1,125	1,744	310	74	(2,657)	(3,981)	1,213	(13,399)

Interest income, dividend income and unallocated gains	1,267	2,332
Unallocated impairment losses	–	(2,393)
Profit/(loss) from operating activities	2,480	(13,460)
Finance costs	(334)	(442)
Profit/(loss) before tax	2,146	(13,902)
Tax	(36)	133
Profit/(loss) before minority interests	2,110	(13,769)
Minority interests	(243)	(358)
Net profit/(loss) from ordinary activities attributable to shareholders	1,867	(14,127)

(b) Geographical segments

	Hong Kong		Mainland China		Other		Consolidated	
	Unaudited six months ended 30 June							
	2003	2002	2003	2002	2003	2002	2003	2002
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue – Sales to external customers	92,532	44,906	68,845	55,615	8,693	2,494	170,070	103,015
Segment results	(124)	(4,813)	898	(5,895)	439	(2,691)	1,213	(13,399)

3. Profit/(Loss) from Operating Activities

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

	Unaudited Six months ended 30 June 2003	Unaudited Six months ended 30 June 2002
	HK$'000	*HK$'000*
Depreciation	3,636	4,614
Amortisation of deferred development costs	413	888
Amortisation of goodwill	1,150	1,762
Impairment of fixed assets	–	2,009
Interest Income	(1,002)	(1,361)

4. Tax

Hong Kong profits tax has been provided at the applicable rate of 17.5% (2002: 16%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable in elsewhere have been calculated at rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

With the implementation of the SSAP 12 (Revised), deferred tax is providing using the liability method and the Group recognized all temporary difference between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases.

A prior year adjustment has been made to recognized the deferred tax liability of HK$331,000 as at 31 December 2002. The effect on the deferred tax income for the period ended 30 June 2002 was HK$149,000. As the effect of the deferred tax is not material, no provision is made for the current period.

5. Earnings/(Loss) Per Share

(a) Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the net profit attributable to shareholders for the six months ended 30 June 2003 of HK$1,867,000 (2002: net loss of HK$14,127,000, as restated) and the weighted average of 273,625,000 (2002: 271,999,000) shares of the Company in issue during the period.

(b) Diluted earnings/(loss) per share

The calculation of diluted earnings per share for the six months ended 30 June 2003 was based on the net profit attributable to ordinary shareholders for the period of HK$1,867,000 and 274,644,000 shares, which represented the weighted average number of shares in issue during that period plus the weighted average number of 1,019,000 shares deemed to be issued at no consideration if all outstanding options has been exercised. (2002: no diluted loss per share was presented as the effect of the Company's outstanding share options was anti-dilutive.)

6. Dividend

The Board of Directors (the "Board") does not recommend the payment of interim dividend for the six months ended 30 June 2003 (2002: Nil).

BUSINESS REVIEW

Overview

The consolidated revenue of the Group increased to HK$170.1 million (2002: 103.0 million) for the 6-month period ended 30 June 2003, representing an increase of 65.1% compared with the same period last year. The net profit attributable to shareholders is HK$1.9 million (2002: net loss of HK$14.1 million, as restated) and earnings per share is 0.682 Hong Kong cent (2002: loss per share 5.2 Hong Kong cents, as restated).

The Group has managed to improve its revenue substantially and return into profitable. Its performance could have been better if it were not adversely affected by the outbreak of the Severe Acute Respiratory Syndrome (SARS) in the first half of the year. The unusually difficult business environment and the extremely weak business demands had impacted the Group's distribution business in both Hong Kong and Taiwan, software and systems integration ("SI") business in Beijing and Hong Kong.

While the general business environment of the information technology ("IT") industry has been still very difficult, the Group managed to secure a number of significant contracts during the reporting period. It includes a HK$368 million worth contract with the Water Supplies Department of the Government of the Hong Kong SAR ("SAR Government") to develop and service their Customer Services and Billing System ("CCBS") and various SI contracts signed with enterprise customers in Mainland China. Together with the other contracts signed last year, the Group has currently approximately HK$500 million worth of orders on hand out of which most are solutions oriented contracts with multi-year of related outsourcing services. Such orders on-hand will not only provide the Group with substantial revenue in the next 12 to 18 months but also secure the Group with stable recurring revenue in the coming years.

Furthermore, the Group has also been awarded by the SAR Government a five-year license to operate the front-end Government Electronic Trading Services ("GETS") for the trading community to submit import and export declarations and dutiable commodities permits. During the reporting period, the Group has been developing the technology and servicing platforms to prepare for the launch of the Group's GETS operation in early 2004. It is estimated that the current GETS market has an annual revenue potential exceeding HK$200 million. Becoming one of the only two providers of such services, the Group is confident that the related business will in long run generate satisfactory return. While the initial investments on building up the platforms may affect the immediate financial performance of the related business division, the commencement of GETS operation will enable the Group to receive stable and recurring income from GETS related transactions and value-added services.

The multi-year outsourcing contracts and GETS license have been giving strong indication on the Group's initial success in transforming towards a software and business process outsourcing oriented services provider. The revenue model of the Group has also migrated from project base to increasingly recurring nature.

While the market environment of the SI business remains very competitive in Mainland China, the Group has managed to improve the revenue and profitability of the related business.

The cost control measures implemented previously have resulted into a more cost effective operation, which allowed the Group to sell and deliver SI related products and services competitively.

Although business from telecommunications sector remained weak, the Group received strong repeated orders from enterprise customers in manufacturing, insurance, transportation and government sectors in Mainland China. In addition, customers in Mainland China have gradually raised their appreciation of software and services. In the reporting period, the Group has been receiving outsourcing service contracts from China Telecom and China Mobile to maintain their provincial network infrastructure. The strong market potential together with the Group's successful track records in outsourcing services will help the Group generate significant software and services revenue when the related market picks up in Mainland China.

The acquisition of IPL Research Limited ("IPL") has taken place for more than two years and it has now been smoothly integrated into the Group. Leveraging the business network of the Group, IPL has successfully concluded contracts with various departments of the SAR Government and expanded its business in Mainland China. It has also extended its business scope to cover business process outsourcing services related to human resource management such as payroll outsourcing.

The Group's distribution business through Maxfair Technology Limited, despite the weak consumer spending, managed to report an increase in revenue contribution through its expansion in Taiwan and responsive time-to-market execution. The new subsidiary in Taiwan has maintained a stable operation although it was also affected by the SARS.

Liquidity and financial resources

The Group has continued to maintain stable financial positions without any long-term debt committed and with approximately HK$179.7 million cash on hand as at 30 June 2003 (31 December 2002: HK$201.3 million), 87% of which was Hong Kong dollars or US dollars that has very low fluctuation risks from exchange rate change, and therefore the Group has no hedging activity. Besides, the trade receivables decreased to HK$27.5 million (31 December 2002: HK$47.7 million).

As of 30 June 2003, the Group's net asset value is HK$311.1 million (31 December 2002: HK$308.9 million, as restated).

Employee

As at 30 June 2003, the Group employed approximately 260 full time employee (2002: around 300 employee) in Hong Kong, Mainland China and in other locations, primarily in Asia. Employee's remuneration is in accordance with individual's responsibility and performance. Other fringe benefits such as medical insurance, pension funds, education/training subsidies are offered to most employees. Share options are granted at directors' discretion under the terms and conditions of employees share option schemes.

Prospect

With the economy in the region gradually recovering from the adversely impact of SARS, the business activities are generally improving and we believe the worst situation for the Group has been over. However, the business environment is still challenging and it remains uncertain if the business demands for IT solutions and services will rebound in the near term.

Nevertheless, the Management is prudently optimistic that the Group would be able to continue revealing the fruitful results of the business transformation. The service income from multi-year contracts with the SAR Government, strong transaction and business outsourcing based revenue, as well as the increasingly repeated maintenance income will lead the Group to be a stronger organization with improved business mix and more predictable revenue pattern.

The Group's leading position in government IT outsourcing services and its proven track record will help the Group in winning new projects in both government and commercial sectors including a number of new government tender opportunities that the Group is working on currently.

The recently announced Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) has also opened up new channels for collaboration between the government organizations of Hong Kong and the Mainland which created opportunities for the Group to provide more e-Government solutions and services in Mainland China.

In the last few years, through in-house research and development as well as acquisition, the Group has built a portfolio of software solutions such as human resource management system and customer service and billing system. With its strong installation references and marketing infrastructure, the Group is well positioned to rapidity replicate such software products sales into Mainland China and other countries of the region. The strong and healthy financial position also allows the Group to proactively seek for growth opportunities by continuously improving its software portfolio through acquisition.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the period, neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of unaudited interim financial statements.

THE CODE OF BEST PRACTICE

None of the Directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of accounting period covered by this interim report, in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

PUBLICATION OF FURTHER INFORMATION

All information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Listing Rules will be published on both the Stock Exchange's website and the Company's website in due course.

APPRECIATION

The Board and the Management would like to express gratitude to the staff and shareholders of the Group for their support to the Company.

By order of the Board
Ng Cheung Shing
Chairman

Hong Kong, 28 August 2003

"Please also refer to the published version of this announcement in China Daily".