

Annual Report 2004



computer  technologies

Contents



2	Corporate Profile
3	Corporate Information
4-5	Chairman's Statement
6-9	Management Discussion and Analysis
10-12	Directors and Senior Management
13-19	Report of the Directors
20	Report of the Auditors
21	Consolidated Profit and Loss Account
22-23	Consolidated Balance Sheet
24	Consolidated Summary Statement of Changes in Equity
25-26	Consolidated Cash Flow Statement
27	Balance Sheet
28-68	Notes to Financial Statements
69	Schedule of Properties
70	Five Year Financial Summary



Corporate Profile

Computer And Technologies Holdings Limited is one of the leading Information Technology (“IT”) services providers in Asia involved in the design, delivery and operating 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 organizations to progress by optimizing their information systems efficiency. Founded in 1991, the Group’s headquarters is based in Hong Kong with regional operations throughout Mainland China and Taiwan. Offices as well as support and software development centers have also been established in major commercial regions of Mainland China such as Beijing, Shanghai, Nanjing and 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 And Technologies Integration Limited

- Provision of IT systems and network with related design, implementation and on-going support services

Solutions Services



Computer And Technologies Solutions Limited

- Provision of IT solutions with related consulting, implementation and outsourcing services.
- Provision of application software development services

Electronic Services



Global e-Business Services Limited

- Provision of on-line e-Government and e-Business platforms and related business process outsourcing services
- Provision of the Electronic Tendering System and Government Electronic Trading Services

Enterprise Application



IPL Research Limited

- Provision of human resource management and related application software

Distribution Business



Maxfair Technology Holdings Limited

- Distribution of digital audio/video related systems and software

EXECUTIVE DIRECTORS

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

NON-EXECUTIVE DIRECTORS

Ha Shu Tong
Lee Kwok On, Matthew, Ph.D.
Ting Leung Huel, Stephen

COMPANY SECRETARY

Cheung Siu Yiu

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>



Chairman's Statement

Dear Shareholders,

For the passed few years, the Group has invested substantial efforts in business transformations and has turned itself from a traditional hardware oriented systems integrator to a software and service oriented solutions provider. Although the process for such business transformations has been lengthier and more challenging than expected, I am pleased to report that it has reached its final stage. The Group has managed to build up customer contracts and service platforms that will generate strong recurring income from its maintenance and outsourcing services ("Outsourcing Services") and electronic transaction services in the coming years.

Despite unforeseen additional project delivery costs, the Group has successfully completed the construction phase of the two existing large-scale solutions outsourcing contracts from the Land Registry (the "LR") and the Water Supplies Department (the "WSD") of the Hong Kong SAR Government (the "HKSAR"). The unforeseen additional project delivery costs together with the reduction of revenue have adversely impacted the overall results of the Solutions Services division. Nevertheless, the completion of the construction phase of the outsourcing contracts has not only resulted in strong cash inflow but also has activated the outsourcing services phase of the contracts.

The Group has launched its Government Electronic Trading Services ("GETS") in early 2004. During the year, the average daily transaction volume of such service has been constantly increasing and therefore the related e-Service incomes are also growing healthily. For the month of December 2004, GETS business has generated around HK\$1.4 million e-Service incomes for the Group.

The software license revenue and the related annual maintenance income that are generated from the Group's own branded Human Resource Management Software ("HRMS") have improved substantially during the reporting period. The software enhancement and new modules that are launched in the reporting year have been well received by the market and the Group has won several major HRMS related contracts from large multinational corporations in Hong Kong and Mainland China.

Meanwhile, the revenue from the Group's Integration Services division has also rebounded strongly in the second half of year 2004. The momentum is fueled up primarily by the strong repeating orders and increasing demands on service-oriented projects from the established customer base in Mainland China. In addition, the increasing service contents have also positively lifted up the overall gross profit margin for this division.

Besides, the Distribution business of the Group has widened its footprint by setting up a subsidiary in Mainland China during the reporting period. Such subsidiary will help to complete the Group's distribution coverage in the Greater China Region.

PROSPECT

Since the construction phase of the two large-scale solutions outsourcing contracts have been completed, the Solutions Services division of the Group is expected to record lower revenue as well as operation costs in 2005. However, the commencement of the Outsourcing Services will help to improve its overall gross profit margin significantly. It is foreseen that these contracts will generate more than HK\$250 million Outsourcing Services income for the Group in the coming 10 years. In addition, with the long-term strategic relationships that have been established for the above-mentioned departments of the HKSAR Government, the Group is in a good position to capture additional businesses from their future system enhancements and service upgrades.

Entering into the second year of operations, the Group's GETS business will further expand its market share based on its enlarged customer base and stabilized operation platform and support structures. More management attention will be focused on accelerating the critical mass building through the introduction of new value-added services, and through exploring opportunities in the acquisition of and co-operation with GETS related entities.

Apart from expanding the offering of its existing HRMS, the Group will expand its software and solutions offerings in Customer Relationship Management and Enterprise Resource Management arena through partnerships with world class leading software vendors. It is anticipated that the enlarged offerings will position the Group well to capture the growing demands on cost-effective business management systems from foreign enterprises and their joint ventures in Mainland China.

For the traditional systems integration business, it is anticipated that on top of a stable growth in revenue, the trend in increasing the service proportion of the related projects will further improve the overall gross profit margin of such business.

To further improve the cost efficiency in application development and operation, the Group will continue its best efforts in leveraging its resource centres in Mainland China. The Group's challenges are to continuously improving the economy of scale of these centers and strengthening their quality control processes and methodologies. The success in building up a high quality and price competitive development and support team will allow the Group to capture the increasing business demands for high quality software development and outsourcing services.

APPRECIATION

On behalf of the Board and the Management, I would like to thank for the supports to the Group from the staff and the shareholders. I am confident that our collective endeavors will result in encouraging returns for each of the stakeholders of the Group in long-term.

Ng Cheung Shing

Chairman

Hong Kong, April 19 2005



Management Discussion and Analysis

DIVISIONAL OPERATIONS HIGHLIGHT

Integration Services

The results on the Integration Services division have been improved substantially in the second half of the reporting period. Although its revenue has dropped from the previous year, the division has managed to improve its gross margin and profit contributions that primarily due to the increases in service contents of the related contracts.

The division has been receiving strong repeated businesses from enterprise customers in finance and manufacturing industries in Mainland China. Leveraging strong customer reference and partnership, the Group has managed to capture long-term maintenance services business from its existing customer base and to expand its coverage in new customers within the related industries such as broker companies through relationship with the Shanghai Stock Exchange. With the strong proven track records and a stable organization the division will be able to capture business from customers in Mainland China with growing demand for high quality services. It is anticipated that the division will continue to contribute profits to the Group with stable growth.

Solutions Services

During the reporting period, the Solutions Services division has completed the construction phase of the two large-scale solutions outsourcing contracts from the HKSAR Government (“Government Projects”), namely the Integrated Registration Information System (“IRIS”) for the Land Registry (the “LR”) and the Customer Care and Billing System (“CCBS”) for the Water Supplies Department (the “WSD”). Among them, the official roll out of IRIS in February 2005 is described by the Secretary of Finance in his latest budgetary speech as a major e-government achievement that assist to create a more user-friendly business environment in Hong Kong.

Towards the end of the development phase, the revenue that is generated from the Government Projects declined significantly compared with previous year and it has impacted the overall revenue of the Solutions Services division to drop by about 55%. In addition, the division has experienced unforeseen delays in completing these Government Projects and hence has incurred additional project delivery costs that also have adversely impacted the overall performances of this division.

Apart from serving repeating contracts from the LR and the WSD, the division has managed to expand its service coverage to other departments of HKSAR. With the enlarged customer base and the completion of the construction phase of IRIS and CCBS, the division will be able to benefit from the higher margin multi-year outsourcing service contents and improve its performance significantly.

In addition, the division is in the process of strengthening its the control on delivery processes and is aiming to adopt international quality models to ascertain its production quality and management efficiency.

Application Services

Electronic Applications

In early 2004, the Group has successfully launched the Government Electronic Trading Services ("GETS") for the provision of e-business services to the trading community with services related to the submission of Import/Export Declaration (TDEC).

By strategically allying with major logistics operators in Hong Kong, the Group has rapidly built up its business momentum as well as sales and servicing channels in a cost-effective manner. In addition, the focused sales and marketing effort in major accounts and the Paper-to-Electronic Conversion Services ("PCS") have proved to be effective in capturing market share while maintaining a healthy margin.

On the other hand, the investment from The China Fund Inc., an independent third party investor, has provided additional resources in accelerating the division's growth in its start-up stage. As in December 2004, the Group has achieved a market share in excess of 5% with more than 80,000 submissions.

In the coming year, the division will focus to further expand its GETS market share. The management will continue to expand its sales and servicing channels through strategic partnership and to strengthen its scope of services in PCS and in the small and medium-sized enterprises market. Additional value-added services will also be launched to attract new customers and to create more income stream from the existing customer base. The management is optimistic that the division will accelerate its growth rate and to reach a critical mass with profit contribution to the Group.

Enterprise Applications

During the reporting period, the Group has managed to expand its business in terms of revenue, profit contributions to the Group as well as market position towards large enterprise clients.

In 2004, the Group has launched a number of new solution offerings. In particular, the Employee Self-Services ("ESS") modules enable our clients to empower and facilitate its employees to process routine human resource ("HR") related business processes (e.g. MPF enquiry, leave application, expense claim, etc.) through Internet in self-service manner which improve the overall corporate efficiency in administering those HR processes. The functions of ESS modules that extended the usage of Human Resource Management System ("HRMS") beyond HR department into the entire enterprise have been well received by the market and hence have attributed to the growth of the business.

During the reporting period, the Group has obtained a number of significant contracts from multinational corporations for HRMS across the region. The increasing number of installations and size of the HRMS projects provide the Group with stable and growing sources of software license income as well as related maintenance income.

Distribution

The Distribution division of the Group has recorded a decrease in revenue primarily due to the slow down in demands for the video capturing and editing products distributed by the Group. The management is aggressively identifying new product lines to boost sales and to improve the division's results. The enlargements of the business footprint in Mainland China will also enhance the division's economy of scale and operation efficiency.

FINANCIAL HIGHLIGHTS

Results

For the year ended 31 December 2004, the consolidated revenue of the Group is HK\$251,800,000 (2003: HK\$362,136,000) or a decrease of approximately 30.5%. The net profit attributable to shareholders is HK\$4,322,000 (2003: HK\$6,066,000) or a decrease of approximately 28.8% and the basic earnings per share is 1.57 Hong Kong cents (2003: 2.21 Hong Kong cents). The Solutions Services division has mainly caused the drops in revenue and net profits and the reasons are explained in the previous section.

The Group's gross profit margin for the year has been increased to 25.2% from the previous year of 21.0%. The percentage increase has confirmed the effects on the Group's business transformation toward the earning of higher profit margin services revenue.

Liquidity and Financial Resources

As at 31 December 2004, the Group's cash and bank balances (excluded pledged bank deposits of HK\$23,836,000) amounting to HK\$98,050,000 when compared with HK\$101,441,000 as at 31 December 2003, represented a slight decrease of 3.3%. The net cash outflow is mainly caused by the unforeseen delay in project deliveries of the Government Projects. However, in early of 2005, the Group has large cash inflows, in particular payments from the LR and the WSD amounting approximately HK\$81 million and has fully repaid the bank borrowings of HK\$15,000,000. As a result, the Group's cash and bank balances (excluding pledged bank deposits) as at 31 March 2005 is approximately HK\$146,450,000, which has been increased by 49.4% as compared with 31 December 2004 position.

As at 31 December 2004, the Group's gearing ratio, measured on the basis of total borrowings as a percentage of net current assets, has been decreased to 5.9% from 14.9% as at 31 December 2003. The borrowings are denominated in Hong Kong dollars. In view of the structure and the duration of the borrowings, Management considers the exposures to interest rate and foreign exchange fluctuations are insignificant and no hedging measures are required. As mentioned above, the Group has in early of 2005 fully repaid the borrowings, therefore, as at the current date, the Group has no borrowings.

Pledged Assets

As at 31 December 2004, the Group's fixed assets of HK\$10,000,000 (2003: HK\$8,500,000), deposits of HK\$23,836,000 (2003: HK\$43,969,000) and the held-to-maturity securities of HK\$1,265,000 (2003: HK\$8,565,000) are pledged to secure general banking facilities and performance bonds/guarantees to the customers.

Contingent Liabilities

As at 31 December 2004, guarantees given to banks by the Company for performance bonds issuance by the banks in relation to services contracts undertaken by the Group amounting to HK\$58,320,000 (2003: HK\$66,120,000) of which HK\$21,789,000 (2003: HK\$40,582,000) had been utilised.

Employee and Remuneration Policies

As at 31 December 2004, the Group has employed approximately 300 full time and 63 contract-based employees (2003: 271 full time and 139 contract-based employees) in Hong Kong, Mainland China and elsewhere. Employees' remuneration is in accordance with individual's responsibility and performance and remains competitive with the prevailing market rates. Other fringe benefits such as medical insurance, pension funds, etc., are offered to most employees. Share options are granted at the directors' discretion and under the terms and conditions of 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, a total of 2,772,000 shares options of the Company are granted to the employees. As of 31 December 2004, 5,573,000 of the Company's option shares granted to the employees are not exercised.



Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Ng Cheung Shing, aged 43, 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 20 years of experience in IT industry. 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 the Founding Chairman and is currently an Honorable Adviser of the Hong Kong Information and Software Industry Association, council member of Vocational Training Council, member of Digital 21 Strategy Advisory Committee of the HKSAR Government, member of SME Development Fund Vetting Committee of the HKSAR Government, Chairman of Information Technology Sub-Committee of the Chinese Manufacturers' Association of Hong Kong, Committee Member of the Chinese General Chamber of Commerce (CGCC) and 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. Ng is also an independent non-executive director of Baltrans Holdings Limited which is listed on The Stock Exchange of Hong Kong Limited.

Mr. Leung King San, Sunny, aged 44, is the Chief Financial Officer of the Group. Mr. Leung joined the Group in 1997. He has over 20 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 48, joined the Group in 1994, is in charge of the Group's 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. He also obtained a diploma in management studies from the Hong Kong Management Association in 1989.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ha Shu Tong, Albert, aged 56, 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 Landune International Limited, a company listed on the Stock Exchange of Hong Kong Limited and an executive director of Capital Consultant Limited, a financial consultancy company in Hong Kong.

INDEPENDENT NON-EXECUTIVE DIRECTORS (continued)

Professor Matthew K. O. Lee, Ph.D., aged 45, joined the Board in 1998. Professor Lee is the Associate Dean (Research and Graduate Programmes) of the Faculty of Business and a Professor of Information Systems at the City University of Hong Kong (the "University"). Professor Lee was previously Head of Information Systems Department and Founding Director of the MA E-Business programme at the University. He holds a number of university degrees including BEng (1st Class Honours) in electronic engineering, MSc in software engineering, Ph.D. in computer science, MBA, LLB, and LLM in Corporate and Commercial Law. Professor Lee has substantial experience and published widely 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 both in 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 an Assessor for the Innovation and Technology Support Programme of the HKSAR Government's Innovation and Technology Fund. He is also a member of the Public Affairs Forum appointed by the Secretary for Home Affairs of HKSAR.

Mr. Ting Leung Huel, Stephen, MH, FCCA, FCPA (Practising), FTIHK, FHKIoD, aged 51, is an accountant in public practice as managing partner of Messrs. Ting Ho Kwan & Chan, Certified Public Accountants since 1987. Mr. Ting is a member of the 9th Chinese People Political & Consultative Conference, Fujian. He is now a non-executive director of Chow Sang Sang Holdings International Limited and holds independent non-executive directorship in six other listed companies namely, Tongda Group Holdings Limited, eForce Holdings Limited, Oriental Metals (Holdings) Company Limited, Tong Ren Tang Technologies Company Limited, MACRO-LINK International Holdings Limited and Texhong Textile Group Limited.

SENIOR MANAGEMENT

Mr. Cheung Siu Yiu, Edwind, aged 30, is the Financial Controller of the Group and the Secretary of the Company. He has over 7 years of experience in finance, auditing and business advisory. Before joining the Group in 2004, he was a manager of assurance and advisory business services department of Ernst & Young Certified Public Accountants. Mr. Cheung graduated from the Hong Kong Baptist University with a bachelor's degree in business administration (Hons). He is a practising member of the Hong Kong Institute of Certified Public Accountants and is also a member of the Institute of Chartered Accountants in England & Wales, and the Association of Chartered Certified Accountants.

Mr. Lam Man Wah, Vinton, aged 44, is the Managing Consultant of IPL Research Limited ("IPL"). Mr. Lam has over 20 years of experience in IT industry and software development. He had extensive experiences in working for multi-national enterprises in Europe and Asia Pacific before he established IPL as one of the founders in 1989. Mr. Lam joined the Group in 2001 when IPL became a wholly owned subsidiary of the Group. He has dedicated its career in developing and implementing enterprise-class human resource management and related information systems. He graduated from the Hong Kong Polytechnic in Mathematics and Computing and has obtained a MBA degree from the University of Western Sydney. He is a professional member of the British Computer Society and is qualified as a Chartered IT Professional.



Directors and Senior Management (continued)

SENIOR MANAGEMENT (continued)

Mr. Tam Chin Pang, Stephen, aged 41, who is in charge of the Group's Solutions Services division, has over 20 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. Wang Zhi Hui, aged 41, is the Senior Director of C&T Integration Limited. Mr. Wang joined the Group in 1996. He has over 15 years of experience in the IT industry with extensive sales management exposure in working for multinational companies such as HP China and WANG Computer. Mr. Wang graduated from the East China University of Science and Technology with bachelor degree of electronic engineering in 1986.

Mr. Yan King Shun, Peter, aged 43, is in charge of the Group's Application Services division. He has over 20 years of experience in the IT industry. Before joining the Group in 2000, Mr. Yan was the Chief Operating Officer of Tradelink Electronic Commerce Ltd. 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 39, is the Vice President of Corporate Development and Communications of the Group responsible for investor relationship and business development including merger and acquisition activities, and other corporate communications. Joined the Group in 1998, Mr. Yeung has 16 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 Director of Public Communications of the Hong Kong Information and Software Industry Association.

The directors herein present their report together with the audited financial statements of the Company and the Group for the year ended 31 December 2004.

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.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2004 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 21 to 68.

The directors do not recommend the payment of any dividend in respect of the year.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 70. This summary does not form part of the audited 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 69.

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 27 and 28 to the financial statements.

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.

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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 the Group during the year are set out in notes 27 and 29 to the financial statements.



DISTRIBUTABLE RESERVES

At 31 December 2004, the Company has reserves available for distribution, calculated in accordance with the Bermuda Companies Act 1981, amounted to HK\$43,374,000.

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 2004
Customers	
Percentage of turnover attributable to the Group's five largest customers	<u>64.3</u>
Percentage of turnover attributable to the Group's largest customer	<u>45.2</u>
Suppliers	
Percentage of purchases attributable to the Group's five largest suppliers	<u>61.2</u>
Percentage of purchases attributable to the Group's largest supplier	<u>32.3</u>

None of the directors of the Company, or any of their associates or any shareholders, which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital, had any beneficial 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 (*Chairman*)
Leung King San, Sunny
Ma Mok Hoi

Independent non-executive directors:

Ha Shu Tong
Lee Kwok On, Matthew, Ph.D.
Ting Leung Huel, Stephen (appointed on 9 August 2004)

In accordance with bye-laws 86(2) and 87 of the Company's bye-laws, Leung King San, Sunny and Ting Leung Huel, will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

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. These service contracts will continue until termination 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

No director had a significant beneficial interest, whether directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2004, the interests of the directors in the share capital and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Long positions in ordinary shares of the Company:

Name of director	Note	Number of shares held, capacity and nature of interest			Percentage of the Company's issued share capital
		Directly beneficially owned	Through controlled corporation	Total	
Ng Cheung Shing	(a)	2,032,000	110,000,000	112,032,000	40.71
Leung King San, Sunny		810,000	–	810,000	0.29
Ma Mok Hoi		209,000	–	209,000	0.08
		<u>3,051,000</u>	<u>110,000,000</u>	<u>113,051,000</u>	<u>41.08</u>

The interests of the directors in the share options of the Company are separately disclosed in note 28 to the financial statements.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES (continued)

Long positions in shares of associated corporations:

Name of director	Name of associated corporation	Relationship with the Company	Class of shares	Number of shares		Percentage of the associated corporation's issued shares capital
				Directly beneficially owned	Through controlled corporation	
Ng Cheung Shing	Computer And Technologies International Limited	Company's subsidiary	Non-voting deferred	1,750,000	3,250,000 <i>(note b)</i>	N/A
Ma Mok Hoi	Maxfair Technology Holdings Limited	Company's subsidiary	Ordinary	25	–	25

Notes:

- (a) 110,000,000 shares were held by Chao Lien Technologies Limited ("Chao Lien"). Mr. 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, Mr. Ng Cheung Shing was deemed, under the SFO, to be interested in all shares held by Chao Lien.
- (b) 3,250,000 non-voting deferred shares were held by Chao Lien.

Save as disclosed above, as at 31 December 2004, none of the directors had registered an interest or short position in the shares or underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from the share option scheme disclosures in note 28 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 minor children, 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

Concerning the share options granted during the year to the directors and employees, as detailed in note 28, the directors do not consider it appropriate to disclose a theoretical value of the options granted, because the costs associated to derive the theoretical value outweighs the benefits of such information to the shareholders.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES

As at 31 December 2004, the following interests of 5% 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 336 of the SFO:

Long positions:

Name of shareholder of the Company	Notes	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital	Number of share options held
Chao Lien Technologies Limited	1	Directly beneficially owned	110,000,000	40.0	–
C.S. (BVI) Limited	1	Through a controlled corporation	110,000,000	40.0	–
Puttney Investments Limited ("PIL")	2	Directly beneficially owned	29,148,938	10.6	–
Hutchison International Limited ("HIL")	2	Through a controlled corporation	29,148,938	10.6	–
Hutchison Whampoa Limited ("HWL")	2	Through a controlled corporation	29,148,938	10.6	–
Cheung Kong (Holdings) Limited ("CKH")	2, 3	Through a controlled corporation	29,148,938	10.6	–
Li Ka-Shing Unity Trustee Company Limited ("TUT1")	2, 3	Through a controlled corporation	29,148,938	10.6	–
Li Ka-Shing Unity Trustee Corporation Limited ("TDT1")	2, 3	Through a controlled corporation	29,148,938	10.6	–

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES (continued)

Name of shareholder of the Company	<i>Notes</i>	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital	Number of share options held
Li Ka-Shing Unity Trustcorp Limited ("TDT2")	2, 3	Through a controlled corporation	29,148,938	10.6	–
Li Ka-Shing	2, 3	Through a controlled corporation	29,148,938	10.6	–
Hui Yau Man		Directly beneficially owned	26,782,000	9.7	–

Notes

1. The interest was also disclosed as an interest of Mr. Ng Cheung Shing in the section "Directors' interests in shares and underlying shares" of this report.
2. PIL is a wholly-owned subsidiary of HIL, which in turn is a wholly-owned subsidiary of HWL. By virtue of the SFO, HWL and HIL were deemed to be interested in the 29,148,938 shares held by PIL.
3. Li Ka-Shing Unity Holdings Limited ("TUHL"), of which each of Li Ka-Shing, Li Tzar Kuoi, Victor, and Li Tzar Kai, Richard, is interested in one-third of the entire issued share capital, owns the entire issued share capital of 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, hold more than one-third of the issued share capital of CKH. Subsidiaries of CKH are entitled to exercise or control the exercise of more than one-third of the voting power at the general meetings of HWL.

In addition, TUHL also owns the entire issued share capital of TDT1 as trustee of The Li Ka-Shing Unity Discretionary Trust ("DT1") and TDT2 as trustee of another discretionary trust ("DT2"). Each of TDT1 and TDT2 holds units in The Li Ka-Shing Unity Trust.

By virtue of the SFO, each of Li Ka-Shing, being the settlor and may being regarded as a founder of DT1 and DT2 for the purpose of the SFO, TDT1, TDT2, TUT1 and CKH was deemed to be interested in the 29,148,938 shares held by PIL.

Save as disclosed above, as at 31 December 2004, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

CONNECTED TRANSACTION

Details of the connected transaction for the year are set out in note 33 to the financial statements. The independent non-executive directors of the Company have reviewed the connected transaction set out in note 33 to the financial statements.

CONTINGENT LIABILITIES

Details of the contingent liabilities of the Company and the Group are set out in note 32 to the financial statements.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Listing Rules, 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.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules ("Model Code") as the Company's code of conduct for dealings in securities of the Company by the directors. Based on specific enquiry of the Company's directors, the directors have complied with the required standard set out in the Model Code, throughout the accounting period covered by the annual report.

AUDIT COMMITTEE

The Company has an audit committee which was established in compliance with Rule 3.21 of the Listing Rules, for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the three 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
19 April 2005



Report of the Auditors



To the members

Computer And Technologies Holdings Limited

(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 21 to 68 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 financial statements and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public 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 2004 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young

Certified Public Accountants

Hong Kong
19 April 2005

Consolidated Profit and Loss Account

	Notes	2004 HK\$'000	2003 HK\$'000
TURNOVER	5	251,800	362,136
Cost of sales		<u>(188,257)</u>	<u>(286,076)</u>
Gross profit		63,543	76,060
Other revenue and gains	5	5,472	7,766
Gain on deemed disposal of subsidiaries	16	15,309	–
Selling and distribution expenses		(40,724)	(39,992)
General and administrative expenses		(38,950)	(35,926)
Other operating expenses		<u>(1,713)</u>	<u>(1,879)</u>
PROFIT FROM OPERATING ACTIVITIES	6	2,937	6,029
Finance costs	9	<u>(875)</u>	<u>(359)</u>
PROFIT BEFORE TAX		2,062	5,670
Tax	10	<u>1,460</u>	<u>663</u>
PROFIT BEFORE MINORITY INTERESTS		3,522	6,333
Minority interests		<u>800</u>	<u>(267)</u>
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	11	<u>4,322</u>	<u>6,066</u>
EARNINGS PER SHARE	12		
Basic		<u>1.57 cents</u>	<u>2.21 cents</u>
Diluted		<u>1.57 cents</u>	<u>2.20 cents</u>



Consolidated Balance Sheet

31 December 2004

	Notes	2004 HK\$'000	2003 HK\$'000
NON-CURRENT ASSETS			
Fixed assets	13	37,146	40,343
Intangible assets	14	9,275	10,780
Goodwill	15	23,790	27,462
Held-to-maturity securities	17	1,265	1,265
Investment securities	18	1,000	1,000
Deferred tax asset	26	1,050	1,050
		73,526	81,900
CURRENT ASSETS			
Inventories	19	11,856	6,260
Trade receivables	20	56,922	21,027
Amounts due from contract customers	21	123,826	164,895
Prepayments, deposits and other receivables		5,055	5,789
Held-to-maturity securities	17	–	8,860
Pledged bank deposits	22	23,836	43,969
Cash and cash equivalents	22	98,050	101,441
		319,545	352,241
CURRENT LIABILITIES			
Trade payables, other payables and accruals	23	(43,380)	(73,789)
Deferred income		(4,261)	(4,516)
Amounts due to minority shareholders of subsidiaries	24	(2,649)	(2,232)
Tax payable		(258)	(2,049)
Interest-bearing bank borrowings, secured	25	(15,000)	(35,000)
		(65,548)	(117,586)
NET CURRENT ASSETS		253,997	234,655
TOTAL ASSETS LESS CURRENT LIABILITIES		327,523	316,555
MINORITY INTERESTS		(8,004)	(1,542)
		319,519	315,013

	Notes	2004 HK\$'000	2003 <i>HK\$'000</i>
CAPITAL AND RESERVES			
Issued capital	27	27,520	27,485
Reserves	29	291,999	287,528
		319,519	315,013

Leung King San, Sunny
Director

Ng Cheung Shing
Director



Consolidated Summary Statement of Changes in Equity

Year ended 31 December 2004

	<i>Notes</i>	2004 HK\$'000	2003 <i>HK\$'000</i>
Total equity at 1 January		315,013	309,187
Issue of shares, including share premium	27	268	858
Exchange differences on translation of the financial statements of foreign entities and net losses not recognised in the profit and loss account	29	(84)	(1,098)
Net profit for the year attributable to shareholders		4,322	6,066
Total equity at 31 December		319,519	315,013

	Notes	2004 HK\$'000	2003 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		2,062	5,670
Adjustments for:			
Interest income	5	(1,791)	(2,840)
Exchange gains, net		(238)	(1,264)
Dividend income from listed investments	5	–	(318)
Gain on disposal of listed investments	5	(138)	(1,413)
Negative goodwill recognised as income	5	–	(1,186)
Gain on deemed disposal of subsidiaries	16	(15,309)	–
Depreciation	6	8,735	7,458
Write-off of fixed assets	6	–	32
Loss on disposal of fixed assets	6	14	–
Amortisation of deferred development costs	6	2,319	413
Amortisation of goodwill	6	3,672	3,635
Deficit/(surplus) on revaluation of investment properties	6	(1,958)	200
Finance costs	9	875	359
Operating profit/(loss) before working capital changes		(1,757)	10,746
Decrease/(increase) in inventories		(5,596)	6,153
Decrease/(increase) in trade receivables		(35,895)	26,640
Decrease/(increase) in amounts due from contract customers		41,069	(145,246)
Decrease in an amount due from a minority shareholder of a subsidiary		–	1,852
Decrease in prepayments, deposits and other receivables		734	1,456
Increase/(decrease) in trade payables, other payables and accruals		(30,409)	21,504
Increase/(decrease) in deferred income		(255)	161
Increase/(decrease) in amounts due to minority shareholders of subsidiaries		417	(120)
Cash used in operations		(31,692)	(76,854)
Interest paid		(875)	(359)
Hong Kong profits tax paid		(215)	(918)
Overseas taxes paid		(116)	(291)
Net cash outflow from operating activities		(32,898)	(78,422)



Consolidated Cash Flow Statement (continued)

Year ended 31 December 2004

	Notes	2004 HK\$'000	2003 HK\$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of fixed assets	13	(3,932)	(18,958)
Purchases of listed investments		(3,000)	–
Purchases of held-to-maturity securities		–	(1,265)
Proceeds on disposal of fixed assets		369	–
Proceeds on disposal of listed investments		3,138	11,122
Held-to-maturity securities settled		8,860	–
Additions to deferred development costs		(814)	(8,540)
Decrease/(increase) in pledged bank deposits		17,133	(37,900)
Acquisition of a subsidiary	30	–	(636)
Net proceeds from deemed disposal of subsidiaries	16	22,543	–
Promissory note settled		–	2,080
Dividends received from listed securities		–	318
Interest received		1,791	2,840
		<hr/>	<hr/>
Net cash inflow/(outflow) from investing activities		46,088	(50,939)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	27	268	858
New bank loans		28,000	35,000
Repayment of bank loans		(48,000)	–
Repayment of other loan		–	(296)
		<hr/>	<hr/>
Net cash inflow/(outflow) from financing activities		(19,732)	35,562
NET DECREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of year		104,441	198,181
Effect of foreign exchange rate changes, net		151	59
		<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT END OF YEAR		98,050	104,441
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	22	65,707	61,298
Non-pledged time deposits with original maturity of less than three months when acquired	22	32,343	40,143
Time deposits with original maturity of less than three months when acquired, pledged as security for banking facilities	22	–	3,000
		<hr/>	<hr/>
		98,050	104,441

	Notes	2004 HK\$'000	2003 HK\$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	16	306,938	306,954
CURRENT ASSETS			
Prepayments, deposits and other receivables		73	73
Cash and cash equivalents	22	1,203	1,913
		1,276	1,986
CURRENT LIABILITIES			
Other payables and accruals		(10)	(110)
NET CURRENT ASSETS			
		1,266	1,876
		308,204	308,830
CAPITAL AND RESERVES			
Issued capital	27	27,520	27,485
Reserves	29	280,684	281,345
		308,204	308,830

Leung King San, Sunny
Director

Ng Cheung Shing
Director



1. CORPORATE INFORMATION

During the year, the Group was involved in the following principal activities:

- trading of computer hardware, software and related accessories;
- provision of system and network platform with integration services;
- provision of e-business and e-Government services;
- provision of IT solutions and outsourcing services;
- provision of software application packages with implementation, consultancy, training and maintenance services; and
- property and treasury investments.

2. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards, herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004.

The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Statements of Standard Accounting Practice (“SSAPs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, 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 2004. 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.



3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 5 to 10 years.

Prior to the adoption of SSAP 30 "Business combinations" in 2001, 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 the SSAP that permitted such goodwill to remain eliminated against consolidated reserves. Goodwill on acquisitions subsequent to the adoption of the SSAP 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.



3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 and 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 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.

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

Leasehold land	Over the lease terms
Buildings	2% – 4%
Leasehold improvements	Over the lease terms
Computer equipment and software	20% – 33 $\frac{1}{3}$ %
Furniture, fixtures and office equipment	18% – 25%
Motor vehicles	20%

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.

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, if any, 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.



3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 stated at cost less any impairment losses and are amortised using the straight-line basis over the expected commercial lives of the underlying products not exceeding five years, commencing from the date when the products are put into commercial production.

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, on an individual investment basis.

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 a decline in the fair value of a security below its carrying amount has occurred, unless there is evidence that the decline is temporary, the carrying amount of the security is reduced to its fair value, as estimated by the directors. The amount of the impairment is charged to the profit and loss account for the period in which it arises. When the circumstances and events which led to the impairment in value cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged is credited to the profit and loss account to the extent of the amount previously charged.

The gain 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.



3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 estimated costs to be incurred to completion and disposal.

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.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from negative goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with interests in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.



3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

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.

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, on the percentage of completion basis, as further explained in the accounting policy for "Contracts for services" below;
- (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;



3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

- (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.

Contracts for services

Contract revenue on 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 the revenue, the costs incurred and 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 profits less recognised losses, the surplus is treated as an amount due to contract customers.

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.



3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling 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 into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Employee benefits

Paid leave carried forward

The Group provides paid annual 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.

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.



3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Retirement benefits schemes

The Group operates defined contribution retirement benefits schemes under the Hong Kong Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the schemes. 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.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central retirement benefits scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central retirement benefits scheme. The contributions are charged to the profit and loss account as they become payable in accordance with the rules of the central retirement benefits scheme.

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.



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 other business segments. Summary details of the business segments are as follows:

- (a) the integration services segment is engaged in the provision of systems and network integration services 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; and
- (e) the investments segment is primarily engaged in various types of investing activities including, inter alia, property investments for rental income and treasury investments in short term investments and held-to-maturity securities for dividend income and interest income.

In determining the Group's geographical segments, revenues 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 material intersegment sales and transfers during the current and the prior years.

The Group's corporate general and administrative expenses (the "Corporate Expenses") were partially allocated to the respective segments with reference to certain reasonable bases in the prior year's financial statements. Moreover, the Group separately presented certain segment information in relation to the corporate segment in the prior year's financial statements. During the current year, due to changes in the volume of business activities of the segments, the Group did not allocate the Corporate Expenses to the respective segments, nor separately report segment information of the Group under a corporate segment, as in the opinion of the directors, it is difficult to arrive at an objective and reasonable basis for the allocation of the Corporate Expenses. Accordingly, the directors consider it is more appropriate to present the Corporate Expenses as unallocated expenses and to present the information previously reported under the corporate segment as unallocated for segment information reporting purposes.

4. SEGMENT INFORMATION (continued)

To conform with the current year's presentation, (i) the segment expenses of the integration services segment, the solutions services segment, the application services segment, the distribution segment and the investments segment for the year ended 31 December 2003 were decreased by HK\$1,783,000, HK\$7,983,000, HK\$3,855,000, HK\$826,000 and HK\$480,000, respectively, resulting in a corresponding increase in the segment results of the respective business segments for that year by the same amount and (ii) the segment revenue, loss, assets, liabilities and capital expenditure of the corporate segment as at 31 December 2003 or for that year then ended of HK\$105,000, HK\$1,930,000, HK\$19,674,000, HK\$1,333,000 and HK\$337,000, respectively were disclosed as unallocated. This resulted in no change to the amount of accumulated losses as at 1 January 2003.

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		Solutions Services		Application Services		Distribution		Investments		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Restated)		(Restated)		(Restated)		(Restated)		(Restated)		(Restated)	
Segment revenue:												
Sales to external customers	114,953	135,420	75,677	168,865	30,764	17,973	29,003	37,543	1,403	2,335	251,800	362,136
Other revenue and gains	360	774	552	2,165	9	72	1,936	1,405	936	1,736	3,793	6,152
Total	115,313	136,194	76,229	171,030	30,773	18,045	30,939	38,948	2,339	4,071	255,593	368,288
Segment results before depreciation, amortisation and other operating expenses	8,453	5,417	(3,336)	13,561	4,886	5,922	1,599	2,482	2,109	1,998	13,711	29,380
Depreciation	(955)	(1,520)	(3,562)	(2,219)	(1,645)	(1,101)	(752)	(852)	(319)	(19)	(7,233)	(5,711)
Amortisation of deferred development costs	-	(208)	-	(205)	(2,319)	-	-	-	-	-	(2,319)	(413)
Amortisation of goodwill	-	-	-	-	(3,672)	(3,635)	-	-	-	-	(3,672)	(3,635)
Write back of provision for doubtful debts	-	1,956	-	-	-	-	-	-	-	-	-	1,956
Surplus/(deficit) on revaluation of investment properties	-	-	-	-	-	-	-	-	1,958	(200)	1,958	(200)
Segment results	7,498	5,645	(6,898)	11,137	(2,750)	1,186	847	1,630	3,748	1,779	2,445	21,377
Unallocated interest income and gains											1,679	1,614
Gain on deemed disposal of subsidiaries											15,309	-
Unallocated expenses											(16,496)	(16,962)
Profit from operating activities											2,937	6,029
Finance costs											(875)	(359)
Profit before tax											2,062	5,670
Tax											1,460	663
Profit before minority interests											3,522	6,333
Minority interests											800	(267)
Net profit from ordinary activities attributable to shareholders											4,322	6,066

4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group

	Integration Services		Solutions Services		Application Services		Distribution		Investments		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	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	66,356	61,811	161,413	186,212	46,269	53,850	15,936	16,929	67,428	50,507	357,402	369,309
Unallocated assets											35,669	64,832
Total assets											393,071	434,141
Segment liabilities	13,993	10,550	16,649	53,006	10,175	7,532	7,920	7,845	175	271	48,912	79,204
Unallocated liabilities											16,636	38,382
Total liabilities											65,548	117,586
Other segment information:												
Capital expenditure	389	92	1,104	8,310	2,505	11,772	351	531	191	6,738	4,540	27,443
Unallocated capital expenditure											206	337
											4,746	27,780

(b) Geographical segments

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

Group

	Hong Kong		Mainland China		Others		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:								
Sales to external customers	119,390	207,150	117,573	136,819	14,837	18,167	251,800	362,136
Other segment information:								
Segment assets	302,472	357,632	82,649	67,213	7,950	9,296	393,071	434,141
Capital expenditure	3,922	21,965	609	5,658	215	157	4,746	27,780

5. TURNOVER, REVENUE AND GAINS

Turnover represents the aggregate of the invoiced value of goods sold, net of trade discounts, returns and business tax, where applicable; income earned from the provision of IT solutions, e-business and related services; income earned from the provision of maintenance services, consultancy services and training courses; gross rental income earned from investment properties; and interest income earned from treasury investments, after elimination of all significant intra-group transactions.

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

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Turnover		
Sale of goods:		
Computer network and system platform	109,433	132,202
Computer hardware, software and related accessories	29,003	37,543
	138,436	169,745
Provision of IT solutions, e-business and related services	78,806	169,296
Provision of maintenance services, consultancy services and training courses	33,155	20,760
Gross rental income from investment properties	909	1,004
Interest income from treasury investments	494	1,331
	251,800	362,136
Other revenue and gains		
Bank interest income	1,297	1,509
Dividend income from listed investments	–	318
Gross sub-lease rental income	1,211	989
Gain on disposal of listed investments	138	1,413
Exchange gains, net	952	1,122
Negative goodwill recognised as income	–	1,186
Others	1,874	1,229
	5,472	7,766

6. PROFIT FROM OPERATING ACTIVITIES

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

	2004 HK\$'000	2003 <i>HK\$'000</i>
Cost of inventories sold	141,467	261,399
Cost of services provided	40,847	22,533
Depreciation	8,735	7,740
Less: Capitalised as deferred development costs	–	(282)
	8,735	7,458
Write-off of fixed assets	–	32
Loss on disposal of fixed assets	14	–
Amortisation of deferred development costs*	2,319	413
Amortisation of goodwill**	3,672	3,635
Minimum lease payments under operating leases in respect of land and buildings	7,419	7,624
Auditors' remuneration	950	953
Staff costs (excluding directors' remuneration – note 7)^#: <ul style="list-style-type: none"> Wages and salaries Retirement benefits scheme contributions (defined contribution scheme) Less: Forfeited contributions 	80,125 4,015 (209)	65,128 2,740 (228)
Net retirement benefits scheme contributions##	3,806	2,512
Less: Capitalised as deferred development costs	(789)	(8,471)
	83,142	59,169
Write back of provision for doubtful debts**	–	(1,956)
Deficit/(surplus) on revaluation of investment properties**	(1,958)	200

* The amortisation of deferred development costs is included in "Cost of sales" on the face of the consolidated profit and loss account.

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

^ During the year, 2,122,000 (2003: Nil) share options were granted to certain employees in respect of their services to the Group under the share option scheme of the Company, further details of which are included in the disclosures in note 28 to the financial statements. In addition, an option for the purchase of certain shares of a subsidiary was granted to an employee, further details of which are set out in note 33 to the financial statements. No value in respect of these share options granted during the year has been charged to the profit and loss account, or is otherwise included in the above disclosures.

Inclusive of an amount of HK\$39,935,000 (2003: HK\$22,533,000) classified under cost of services provided above.

The amounts of forfeited contributions available to reduce the Group's contributions to the retirement benefits schemes in future years were not material as at 31 December 2004 and 2003.

7. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), is as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Fees:		
Executive directors	–	–
Independent non-executive directors*	<u>172</u>	<u>100</u>
	172	100
Other emoluments (executive directors):		
Salaries, allowances and benefits in kind	2,820	4,226
Bonuses paid and payable	384	539
Retirement benefits scheme contributions (defined contribution scheme)	<u>36</u>	<u>46</u>
	3,240	4,811
	3,412	4,911

* There were no other emoluments payable to the independent non-executive directors during the year (2003: Nil).

The number of directors whose remuneration fell within the following bands is as follows:

	2004	2003
	Number of directors	Number of directors
Nil – HK\$1,000,000	4	4
HK\$1,000,001 – HK\$1,500,000	1	1
HK\$1,500,001 – HK\$2,000,000	<u>1</u>	<u>1</u>
	6	6

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

During the year, certain directors were granted share options in respect of their services to the Group under the share option scheme of the Company, further details of which are set out in note 28 to the financial statements. No value in respect of the share options granted during the year has been charged to the profit and loss account, or is otherwise included in the above directors' remuneration disclosures.

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year included two (2003: three) directors, details of whose remuneration are set out in note 7 to the financial statements. Details of the remuneration of the remaining three (2003: two) non-director, highest paid employees for the year are as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Salaries, allowances and benefits in kind	3,594	2,542
Bonuses paid and payable	484	–
Retirement benefits scheme contributions	36	24
	4,114	2,566

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	2004	2003
	Number of employees	Number of employees
Nil – HK\$1,000,000	1	–
HK\$1,000,001 – HK\$1,500,000	1	2
HK\$1,500,001 – HK\$2,000,000	1	–
	3	2

During the year, 302,000 (2003: Nil) share options were granted to the non-director, highest paid employees in respect of their services to the Group under the share option scheme of the Company, further details of which are included in the disclosures in note 28 to the financial statements. No value in respect of the share options granted during the year has been charged to the profit and loss account, or is otherwise included in the above non-director, highest paid employees' remuneration disclosures.

9. FINANCE COSTS

	Group	
	2004	2003
	HK\$'000	HK\$'000
Interest on bank loans wholly repayable within five years	875	359

10. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) 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.

Group

	2004	2003
	HK\$'000	HK\$'000
Current – Hong Kong		
Charge for the year	90	246
Overprovisions in prior years	(52)	(13)
Current – elsewhere		
Charge for the year	251	154
Overprovisions in prior year	(1,749)	–
Deferred (<i>note 26</i>)	–	(1,050)
Total tax credit for the year	(1,460)	(663)

A reconciliation of the tax expense applicable to profit before tax using the statutory tax rate of Hong Kong in which the Company and the majority of its principal subsidiaries are operating/domiciled to the tax credit at the effective tax rate, and a reconciliation of the applicable rate (i.e., the statutory tax rate) to the effective tax rate, are as follows:

Group

	2004		2003	
	HK\$'000	%	HK\$'000	%
Profit before tax	2,062		5,670	
Tax at the Hong Kong statutory tax rate	361	17.5	992	17.5
Higher tax rates for overseas subsidiaries	1,744	84.6	1,149	20.3
Adjustments in respect of current tax of prior years	(1,801)	(87.3)	(13)	(0.2)
Income not subject to tax	(3,608)	(175.0)	(1,007)	(17.8)
Expenses not deductible for tax	1,050	50.9	1,729	30.5
Tax losses utilised from previous periods	(3,696)	(179.2)	(5,469)	(96.5)
Tax losses for the year not recognised	4,490	217.7	3,006	53.0
Effect of unused tax losses carried forward from prior years recognised as deferred tax asset	–	–	(1,050)	(18.5)
Tax credit at the Group's effective rate	(1,460)	(70.8)	(663)	(11.7)

**10. TAX (continued)**

Under the income tax laws of the People's Republic of China ("PRC"), enterprises are subject to corporate income tax ("CIT") generally at a rate of 33% (2003: 33%). However, certain of the Group's PRC subsidiaries are operating in specific development zones of the PRC and the relevant tax authorities have granted those subsidiaries a preferential CIT rate of 15% (2003: 15%).

11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31 December 2004 dealt with in the financial statements of the Company was a net loss of HK\$894,000 (2003: HK\$1,215,000) (note 29).

12. EARNINGS PER SHARE**(a) Basic earnings per share**

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of HK\$4,322,000 (2003: HK\$6,066,000), and the weighted average of 275,173,000 (2003: 274,107,000) ordinary shares of the Company in issue during the year.

(b) Diluted earnings per share

The calculation of diluted earnings per share for the year ended 31 December 2004 is based on the net profit attributable to shareholders for the year of HK\$4,322,000 (2003: HK\$6,066,000). The weighted average number of ordinary shares used in the calculation is the 275,173,000 (2003: 274,107,000) ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average of 176,000 (2003: 1,032,000) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the year.

13. FIXED ASSETS**Group**

	Investment properties <i>HK\$'000</i>	Leasehold land and buildings <i>HK\$'000</i>	Leasehold improve- ments <i>HK\$'000</i>	Computer equipment and software <i>HK\$'000</i>	Furniture, fixtures and office equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost or valuation:							
At beginning of year	14,339	6,994	7,012	33,509	5,838	1,524	69,216
Additions	–	164	143	2,987	352	286	3,932
Surplus on revaluation	1,958	–	–	–	–	–	1,958
Disposals	–	–	(143)	(220)	(30)	(526)	(919)
Exchange realignment	–	–	22	38	18	2	80
At 31 December 2004	16,297	7,158	7,034	36,314	6,178	1,286	74,267
Analysis of cost or valuation:							
At cost	–	7,158	7,034	36,314	6,178	1,286	57,970
At 31 December 2004 valuation	16,297	–	–	–	–	–	16,297
	<u>16,297</u>	<u>7,158</u>	<u>7,034</u>	<u>36,314</u>	<u>6,178</u>	<u>1,286</u>	<u>74,267</u>
Accumulated depreciation and impairment:							
At beginning of year	–	14	4,822	19,959	3,737	341	28,873
Depreciation provided during the year	–	270	1,176	6,003	1,042	244	8,735
Disposals	–	–	(125)	(202)	(4)	(205)	(536)
Exchange realignment	–	–	8	35	6	–	49
At 31 December 2004	–	284	5,881	25,795	4,781	380	37,121
Net book value:							
At 31 December 2004	16,297	6,874	1,153	10,519	1,397	906	37,146
At 31 December 2003	14,339	6,980	2,190	13,550	2,101	1,183	40,343

13. FIXED ASSETS (continued)

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

	Investment properties <i>HK\$'000</i>	Leasehold land and buildings <i>HK\$'000</i>
Hong Kong:		
Medium term leases	852	481
Long term leases	10,000	–
	10,852	481
Mainland China:		
Medium term leases	1,600	5,227
Long term leases	3,845	1,166
	5,445	6,393
	16,297	6,874

The Group's investment properties were revalued on 31 December 2004 by Landscape Surveyors Limited, independent professionally qualified valuers, at HK\$16,297,000 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 31(a) to the financial statements.

At 31 December 2004, certain of the Group's investment properties situated in Hong Kong, with an aggregate carrying value of approximately HK\$10,000,000 (2003: HK\$8,500,000) were pledged to secure general banking facilities granted to the Group.

Further particulars of the Group's investment properties are included on page 69.

**14. INTANGIBLE ASSETS****Group**

	Deferred development costs <i>HK\$'000</i>
Cost:	
At beginning of year	10,780
Additions	814
At 31 December 2004	11,594
Accumulated amortisation:	
At beginning of year	–
Amortisation provided during the year	2,319
At 31 December 2004	2,319
Net book value:	
At 31 December 2004	9,275
At 31 December 2003	10,780

15. GOODWILL

The amount of the goodwill capitalised as an asset in the consolidated balance sheet, arising from the acquisition of subsidiaries, is as follows:

Group

	Goodwill <i>HK\$'000</i>
Cost:	
At beginning of year and at 31 December 2004	36,089
Accumulated amortisation:	
At beginning of year	8,627
Amortisation provided during the year	3,672
At 31 December 2004	12,299
Net book value:	
At 31 December 2004	23,790
At 31 December 2003	27,462

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

15. GOODWILL (continued)

Details of the goodwill remaining in consolidated reserves as at 31 December 2004, arising from the acquisition of subsidiaries prior to the adoption of SSAP 30 in 2001, are as follows:

Group

	Goodwill eliminated against consolidated reserves
	<i>HK\$'000</i>
Cost:	
At beginning of year and at 31 December 2004	11,117
Accumulated impairment:	
At beginning of year and at 31 December 2004	(3,890)
Net amount:	
At 31 December 2004	7,227
At 31 December 2003	7,227

16. INTERESTS IN SUBSIDIARIES

	Company	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares/investments, at cost	45,633	45,633
Due from subsidiaries	352,948	353,670
Due to a subsidiary	–	(706)
	398,581	398,597
Provision for impairment	(91,643)	(91,643)
	306,938	306,954

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

16. INTERESTS IN SUBSIDIARIES (continued)

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

Company	Place of incorporation/ registration and operations	Nominal value of issued and fully paid share capital/ registered capital*	Percentage of equity attributable to the Company		Principal activities
			2004	2003	
Apex Result Trading Limited	Hong Kong	Ordinary HK\$2	100	100	Property holding
Computer And Technologies (BVI) Limited	British Virgin Islands	Ordinary 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	Ordinary HK\$2	100	100	Provision of system and network integration services
Computer & Technologies International Trading (Shanghai) Company Limited#	PRC/ Mainland China	US\$200,000	100	100	Trading of computer hardware and software
Computer & Technologies (Shanghai) Co., Ltd.##	PRC/ Mainland China	US\$3,500,000	100	100	Provision of systems and network integration services
Computer & Technologies Investment Limited	British Virgin Islands/ Hong Kong	Ordinary US\$1	100	100	Investment holding and treasury investments
C&T (Guangzhou) Investment Limited	Hong Kong	Ordinary HK\$2	100	100	Property holding
C&T (Hong Kong) Investment Limited	British Virgin Islands/ Hong Kong	Ordinary US\$1	100	100	Property holding

16. INTERESTS IN SUBSIDIARIES (continued)

Company	Place of incorporation/ registration/ and operations	Nominal value of issued and fully paid share capital/ registered capital*	Percentage of equity attributable to the Company		Principal activities
			2004	2003	
C&T (Nanjing) Investment Limited	Hong Kong	Ordinary HK\$2	100	100	Property holding
C&T (Shanghai) Investment Limited	Hong Kong	Ordinary HK\$2	100	100	Property holding
Computer And Technologies Solutions Limited	Hong Kong	Ordinary HK\$2	100	100	Provision of IT solutions and implementation services
Computer & Technologies Solutions (Shenzhen) Co., Ltd.##	PRC/ Mainland China	US\$1,128,000	100	100	Provision of IT solutions and implementation services
Global e-Business Services (BVI) Limited ("GEBS-BVI") (note)	British Virgin Islands	Class A *** US\$1,600 Class B *** US\$400	80	100	Investment holding
Global e-Business Services Limited^	Hong Kong	Ordinary HK\$1,010,000	80	100	Provision of enterprise application services
Global e-Trading Services Limited^	Hong Kong	Ordinary HK\$2,501,000	80	100	Provision of government electronic trading services
ets.com.hk Limited^	Hong Kong	Ordinary HK\$2	80	100	Provision of e-tendering services for HKSAR Government

16. INTERESTS IN SUBSIDIARIES (continued)

Company	Place of incorporation/ registration/ and operations	Nominal value of issued and fully paid share capital/ registered capital*	Percentage of equity attributable to the Company		Principal activities
			2004	2003	
e-tendering.com Limited [^]	British Virgin Islands/ Hong Kong	Ordinary US\$1	80	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 resources management and related application software
Maxfair Technology Limited	Hong Kong	Ordinary HK\$2,500,000	75	75	Distribution of digital media products
Maxfair Technology (Taiwan) Company Limited	Taiwan	Ordinary NT\$10,000,000	52.5	52.5	Distribution of digital media products
Modern Lucky Investments Limited	Hong Kong	Ordinary HK\$2	100	100	Property holding

* Registered capital applies only to companies established in the 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 holders of the deferred shares 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.

*** Immediately before the completion of the Subscription as further detailed in the note below, a shareholder's resolution was passed approving the classification of the share capital of GEBS-BVI into ordinary shares of US\$0.01 each designated as Class A shares, which are held by the Group, and Class B shares, which were issued and allotted to the Investor as further detailed in the note below. The Class B shares rank pari passu in all material respects with the Class A shares except that each holder of Class B shares shall at any general meeting of GEBS-BVI have one-tenth of a vote for every Class B share. Accordingly, at 31 December 2004, the Group had 98% voting rights in the general meetings of GEBS-BVI and the Investor had only 2%. Each Class B share shall automatically be converted into one Class A share upon an initial public offering of the shares of GEBS-BVI. After such conversion, the Investor will continue to own 20% of the then issued share capital of GEBS-BVI but its voting rights will increase to 20% of the voting rights in the general meetings of GEBS-BVI.

[^] Subsidiaries of GEBS-BVI.

16. INTERESTS IN SUBSIDIARIES (continued)

The subsidiary is registered as a Sino-foreign equity joint venture under the PRC law.

The subsidiaries are registered as wholly foreign-owned enterprises under the PRC law.

Note:

On 9 June 2004, Computer And Technologies International Limited ("CTIL"), Computer And Technologies e-Services (BVI) Limited ("CTES") and GEBS-BVI, then indirect wholly-owned subsidiaries of the Company, entered into a subscription agreement (the "Subscription Agreement") with an independent third party (the "Investor") for the subscription (the "Subscription") by the Investor 40,000 Class B shares of GEBS-BVI (the "Subscription Shares"), representing 20% of the issued share capital of GEBS-BVI as enlarged by the Subscription and approximately 2% of the voting rights in the general meetings of GEBS-BVI, for a cash consideration of HK\$23,400,000. The Subscription was completed on 18 June 2004 and at the same date, the Company, CTIL, CTES, GEBS-BVI and the Investor entered into a shareholders agreement to provide for their rights and obligations in respect of GEBS-BVI (the "Shareholders Agreement").

The issuance and allotment of the 40,000 Class B shares of GEBS-BVI to the Investor during the year pursuant to the Subscription Agreement resulted in a gain on deemed disposal of GEBS-BVI of approximately HK\$15,309,000 (net of incidental costs of deemed disposal), which was credited to the consolidated profit and loss account for the year.

Pursuant to the Shareholders Agreement, GEBS-BVI has granted to the Investor an option, exercisable in the event that the audited consolidated after-tax net profit of GEBS-BVI for the year ending 31 December 2006 does not meet an agreed threshold of approximately HK\$10.5 million, to require GEBS-BVI to:

- (i) issue at par an additional number of Class B shares of GEBS-BVI to the Investor. The number of such additional Class B shares will be determined in accordance with an agreed formula by reference to the subscription price for the Subscription and a multiple of the then consolidated net profit of GEBS-BVI, subject to a maximum number such that the Investor will not be interested in more than 49.9% of the then enlarged issued share capital of GEBS-BVI, and GEBS-BVI will remain as a subsidiary of the Company; or
- (ii) pay to the Investor an amount in cash to be calculated by reference to the then consolidated net profit of GEBS-BVI, subject to a maximum amount of approximately HK\$14 million. CTIL has guaranteed to the Investor the performance of the relevant payment obligations of GEBS-BVI.

GEBS-BVI has the right to elect whether it will allot additional Class B shares as set out in (i) above or make payment to the Investor as set out in (ii) above.

Under the Shareholders Agreement, in the event that:

- (a) GEBS-BVI has not effected an initial public offering of its shares before 30 April 2007 and the audited consolidated after-tax net profit of GEBS-BVI for the year ending 31 December 2006 does not meet an agreed threshold of approximately HK\$10.5 million; or
- (b) GEBS-BVI has not effected an initial public offering of its shares before 31 December 2008; or
- (c) GEBS-BVI has obtained firm and positive advice from not less than two reputable investment banks in respect of an initial public offering but does not proceed with the offering; or
- (d) GEBS-BVI or any of its subsidiaries is being liquidated,

16. INTERESTS IN SUBSIDIARIES (continued)

the Investor may require the Company to effectively, at the discretion of the Company, either exchange the Subscription Shares into the Company's shares, based on the average market price of the Company's shares for the 30 trading days before the Investor exercises its right, or pay the Investor an amount in cash, in respect of (a), (b) and (d) above, equal to the subscription price for the Subscription (i.e. HK\$23.4 million) and, in respect of (c), an amount (calculated based on the then valuation of GEBS-BVI to be performed by independent investment banks to be appointed by GEBS-BVI) subject to a maximum amount of HK\$93 million (the "Exchangeable Rights").

Further details of the Subscription, the Subscription Agreement, the Shareholders Agreement and the Exchangeable Rights are also set out in a circular of the Company dated 30 June 2004.

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

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 or of particular importance to 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	
	2004	2003
	HK\$'000	HK\$'000
At amortised cost:		
Overseas listed debt securities	–	1,560
Unlisted debt securities	1,265	8,565
	1,265	10,125
Portion classified as current assets	–	(8,860)
Non-current portion	1,265	1,265
Market value of overseas listed debt securities	N/A	1,596

The Group's unlisted debt securities were pledged to secure general banking facilities granted to the Group.

18. INVESTMENT SECURITIES

	Group	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Club membership debenture, at cost	1,460	1,460
Provision for impairment	(460)	(460)
	<u>1,000</u>	<u>1,000</u>

19. INVENTORIES

	Group	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Work in progress	4,438	1,416
Finished goods	7,418	4,844
	<u>11,856</u>	<u>6,260</u>

No inventories were carried at net realisable value as at the balance sheet date.

20. TRADE RECEIVABLES

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

	Group	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Current	45,613	15,566
1 to 3 months	8,595	3,822
4 to 6 months	1,756	566
Over 6 months	958	1,073
	<u>56,922</u>	<u>21,027</u>

Credit terms

For system integration projects and the provision of maintenance services and software development services, the Group's trading terms with its customers vary from contract to contract and may include cash on delivery, advance payment and on credit. For those customers who trade on credit, the credit period is generally for a period of 90 to 120 days, except for certain well established or major customers, where the terms are extended beyond 120 days. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by senior management.

21. CONTRACTS FOR SERVICES

	Group	
	2004 HK\$'000	2003 HK\$'000
Gross amount due from contract customers	123,826	164,895
Gross amount due to contract customers included in other payables	(486)	(477)
	123,340	164,418
Contract costs incurred plus recognised profits less recognised losses to date	257,591	190,778
Less: Progress billings	(134,251)	(26,360)
	123,340	164,418

22. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Cash and bank balances	65,707	61,298	1,203	1,913
Time deposits	56,179	84,112	-	-
	121,886	145,410	1,203	1,913
Less: Pledged time deposits for general banking facilities	-	(3,000)	-	-
Pledged time deposits for performance bonds/guarantees issued by banks	(8,099)	(7,990)	-	-
Pledged time deposits for bank loans (note 25)	(15,737)	(32,979)	-	-
Cash and cash equivalents	98,050	101,441	1,203	1,913

23. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

Included in trade payables, other payables and accruals are trade payables of the Group of HK\$29,108,000 (2003: HK\$62,073,000). An aged analysis of the trade payables as at the balance sheet date, based on invoice date, is as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Current	25,197	54,790
1 to 3 months	2,405	6,234
4 to 6 months	1,506	1,049
	29,108	62,073

24. AMOUNTS DUE TO MINORITY SHAREHOLDERS OF SUBSIDIARIES

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

25. INTEREST-BEARING BANK BORROWINGS, SECURED

	Group	
	2004	2003
	HK\$'000	HK\$'000
Bank loans, secured	15,000	35,000

The bank loans are wholly repayable within one year and are classified as current liabilities.

As at 31 December 2004, the Group's loan facilities amounting to HK\$46,800,000 (2003: HK\$51,800,000), of which HK\$15,000,000 (2003: HK\$35,000,000) had been utilised, are secured by the pledge of certain of the Group's time deposits amounting to HK\$15,737,000 (2003: HK\$32,979,000).

26. DEFERRED TAX

The movement in deferred tax asset during the year is as follows:

Group

	Losses available for offset against future taxable profit	
	2004 HK\$'000	2003 HK\$'000
At beginning of year	1,050	–
Deferred tax credited to the profit and loss account during the year (note 10)	–	1,050
At 31 December	1,050	1,050

The Group has tax losses arising in Hong Kong of HK\$56,825,000 (2003: HK\$39,899,000) and in Mainland China of HK\$4,024,000 (2003: HK\$12,236,000). The tax losses arising in Hong Kong are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose, whilst that arising in Mainland China are available for a maximum period of five years. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

At 31 December 2004, there was no significant unrecognised deferred tax liability (2003: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, as the Group had no liability to additional tax should such amounts be remitted.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

27. SHARE CAPITAL

Shares

	Company	
	2004 HK\$'000	2003 HK\$'000
Authorised:		
1,000,000,000 (2003: 1,000,000,000) ordinary shares of HK\$0.10 each	100,000	100,000
Issued and fully paid:		
275,198,198 (2003: 274,847,698) ordinary shares of HK\$0.10 each	27,520	27,485

27. SHARE CAPITAL (continued)

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

Ordinary shares	<i>Notes</i>	Number of shares in issue	Issued share capital <i>HK\$'000</i>	Share premium account <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2003		273,308,198	27,331	276,091	303,422
Share options exercised	(a)	1,539,500	154	704	858
Offsetting against accumulated losses	29	–	–	(39,718)	(39,718)
At 31 December 2003 and 1 January 2004		274,847,698	27,485	237,077	264,562
Share options exercised	(b)	350,500	35	233	268
At 31 December 2004		275,198,198	27,520	237,310	264,830

Notes:

- (a) During the year ended 31 December 2003, the subscription rights attaching to 1,539,500 share options were exercised at the subscription price of HK\$0.281 to HK\$1.563 per share (note 28), resulting in the issue of 1,539,500 ordinary shares of HK\$0.10 each for a total cash consideration, before expenses, of HK\$858,000.
- (b) During the year ended 31 December 2004, the subscription rights attaching to 350,500 share options were exercised at the subscription price of HK\$0.635 to HK\$1.563 per share (note 28), resulting in the issue of 350,500 ordinary shares of HK\$0.10 each for a total cash consideration, before expenses, of HK\$268,000.

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 28 to the financial statements.



28. SHARE OPTION SCHEME

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, the Company's shareholders, 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. 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.

28. 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					Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK\$	Company's shares price***	
	At 1 January 2004	Granted during the year	Exercised during the year	Lapsed during the year	At 31 December 2004				At exercise date of options HK\$	At grant date of options HK\$
Directors										
Ng Cheung Shing	-	300,000	-	-	300,000	31.08.2004	01.03.2005 to 31.08.2009	1.128	N/A	1.09
Leung King San, Sunny	-	200,000	-	-	200,000	31.08.2004	01.03.2005 to 31.08.2009	1.128	N/A	1.09
Ma Mok Hoi	-	150,000	-	-	150,000	31.08.2004	01.03.2005 to 31.08.2009	1.128	N/A	1.09
Ha Shu Tong	-	100,000	-	-	100,000	31.08.2004	01.03.2005 to 31.08.2009	1.128	N/A	1.09
Lee Kwok On, Matthew	-	100,000	-	-	100,000	31.08.2004	01.03.2005 to 31.08.2009	1.128	N/A	1.09
Ting Leung Huel, Stephen	-	100,000	-	-	100,000	31.08.2004	01.03.2005 to 31.08.2009	1.128	N/A	1.09
	-	950,000	-	-	950,000					
Other employees										
In aggregate	186,000	-	(26,000)	(160,000)	-	18.08.1999	30.08.2000 to 29.08.2004	0.635	1.75	N/A
	414,000	-	(288,000)	(126,000)	-	18.08.1999	30.08.2000 to 20.08.2004	0.675	1.75 - 1.91	N/A
	-	2,122,000	-	-	2,122,000	31.08.2004	01.03.2005 to 31.08.2009	1.128	N/A	1.09
	376,500	-	(36,500)	(192,000)	148,000	31.08.2001	06.09.2002 to 05.09.2006	1.563	1.75 - 1.80	N/A
	2,653,000	-	-	-	2,653,000	16.01.2001	23.01.2002 to 22.01.2006	2.672	N/A	N/A
	3,629,500	2,122,000	(350,500)	(478,000)	4,923,000					
Total	3,629,500	3,072,000	(350,500)	(478,000)	5,873,000					

* 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 of the exercises of options within the disclosure line.

The 350,500 share options exercised during the year resulted in the issue of 350,500 ordinary shares of the Company and new share capital of approximately HK\$35,000 and share premium of approximately HK\$233,000 (before issue expenses), as detailed in note 27 to the financial statements.

28. SHARE OPTION SCHEME (continued)

At the balance sheet date, the Company had 5,873,000 share options outstanding under the Scheme, which represented approximately 2.1% of the Company's ordinary shares in issue as at that date. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 5,873,000 additional ordinary shares of the Company and additional share capital of approximately HK\$587,000 and share premium of approximately HK\$10,198,000 (before issue expenses).

29. RESERVES**Group**

	Note	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 2003		276,091	45,483	(7,227)	(1,445)	(31,046)	281,856
Issue of shares	27	704	-	-	-	-	704
Offsetting against accumulated losses#	27	(39,718)	-	-	-	39,718	-
Net profit for the year		-	-	-	-	6,066	6,066
Exchange adjustment		-	-	-	(1,098)	-	(1,098)
At 31 December 2003 and at 1 January 2004		237,077	45,483	(7,227)	(2,543)	14,738	287,528
Issue of shares	27	233	-	-	-	-	233
Net profit for the year		-	-	-	-	4,322	4,322
Exchange adjustment		-	-	-	(84)	-	(84)
At 31 December 2004		237,310	45,483	(7,227)	(2,627)	19,060	291,999

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

On 19 May 2003, an annual general meeting of the Company was convened and the shareholders approved the offsetting of the accumulated losses of the Company as at 31 December 2002, amounting to HK\$39,718,000, against the share premium account of the Company.

29. RESERVES (continued)**Company**

	Note	Share premium account HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2003		276,091	45,483	(39,718)	281,856
Offsetting against accumulated losses#	27	(39,718)	–	39,718	–
Issue of shares	27	704	–	–	704
Net loss for the year		–	–	(1,215)	(1,215)
At 31 December 2003 and 1 January 2004		237,077	45,483	(1,215)	281,345
Issue of shares	27	233	–	–	233
Net loss for the year		–	–	(894)	(894)
At 31 December 2004		237,310	45,483	(2,109)	280,684

The contributed surplus of the Company and the Group represents the difference between the aggregate net asset value of the subsidiaries acquired at the date of their acquisition pursuant to the Group reorganisation on 29 April 1998 and the nominal value of the Company's shares issued in exchange therefor.

Under the Bermuda Companies Act 1981, a company may make distributions to its members out of the contributed surplus in certain circumstances.

30. NOTE TO CONSOLIDATED CASH FLOW STATEMENT**Acquisition of a subsidiary in the prior year**

	2003 HK\$'000
Net assets acquired:	
Cash and bank balances	2,079
Other payables and accruals	(214)
	1,865
Goodwill on acquisition	850
Consideration*	2,715
Satisfied by:	
Cash*	2,715

* The consideration included incidental costs of acquisition totalling approximately HK\$214,000, comprising primarily commission, legal and professional fees, which were satisfied by cash.

30. NOTE TO CONSOLIDATED CASH FLOW STATEMENT (continued)

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

	2003 HK\$'000
Cash consideration	(2,715)
Cash and bank balances acquired	2,079
Net outflow of cash and cash equivalents	<u>(636)</u>

The subsidiary acquired in the prior year contributed no turnover and a loss of HK\$32,000 to the Group's consolidated profit after tax and before minority interests for that year.

31. 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.

At 31 December 2004, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Within one year	2,161	1,697
In the second to fifth years, inclusive	2,142	1,484
	<u>4,303</u>	<u>3,181</u>

(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 2004, the Group and the Company had total future minimum lease payments under non-cancellable operating leases in respect of office properties falling due as follows:

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Within one year	6,149	7,162	4,639	2,232
In the second to fifth years, inclusive	1,716	5,879	1,317	3,348
	<u>7,865</u>	<u>13,041</u>	<u>5,956</u>	<u>5,580</u>



32. CONTINGENT LIABILITIES

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

- (a) As at 31 December 2004, guarantees given to banks by the Company for performance bonds/guarantees issued by the banks in relation to services contracts undertaken by the Group amounting to HK\$58,320,000 (2003: HK\$66,120,000) of which HK\$21,789,000 (2003: HK\$40,582,000) had been utilised.
- (b) The Company issued corporate guarantees to certain suppliers of the Group in connection with certain purchases from those suppliers. As at 31 December 2004, the outstanding amount due to those suppliers by the Group amounted to HK\$5,112,000 (2003: HK\$5,453,000).

33. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material transaction with a related party (which also constituted a connected transaction) during the year:

On 24 August 2004, CTIL, a wholly-owned subsidiary of the Company, entered into a share option agreement with Mr. Yan King Shun ("Mr. Yan"), a director and the chief executive officer of Global e-Business Services Limited ("Global e-Business"), an indirect 80%-owned subsidiary of the Company, for the granting of an option (the "Option") by CTIL to Mr. Yan for the purchase of 625 shares of US\$0.01 each in the capital of CTES, a wholly-owned subsidiary of the Group, which holds an indirect 80% interest in Global e-Business, for a cash consideration of HK\$351,000. The consideration of the Option was mutually agreed between CTIL and Mr. Yan with reference to the consolidated unaudited net assets value of CTES and its subsidiaries as at 31 July 2004. The Option is exercisable in whole at a total exercise price of HK\$3,159,000 at any time from 24 August 2004 to the earliest of (i) 30 June 2009; (ii) the date on which Mr. Yan ceases to be an employee of Global e-Business; and (iii) 30 days after the date on which CTIL has notified Mr. Yan in writing that Global e-Business or its immediate holding company has made an application to an internationally recognised stock exchange for the listing of its shares. The Option is intended to provide an incentive for Mr. Yan to further accelerate the business development and expansion of Global e-Business and its subsidiaries in the provision of electronic services. Further details of the above are also set out in the Company's announcement dated 24 August 2004.

34. COMPARATIVE AMOUNTS

As further detailed in note 4 to the financial statements, the presentation of certain segment information has been revised. Accordingly, certain comparative amounts have been reclassified/restated to conform with the current year's presentation.

35. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 19 April 2005.

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	Long term lease	100%
2. Unit No. E on Level 12 and Car Parking Space No. 44 Jinming Building No. 8 Zunyi South Road Changning District Shanghai PRC	Commercial	Long term lease	100%
3. Unit Nos. A1 on Level 21 Golden Eagle International Plaza No. 89 Hanzhong Road Jianye District Nanjing Jiangsu Province PRC	Commercial	Long term lease	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 PRC	Commercial	Medium term lease	100%
5. Factory Unit C on 9th Floor Yally Industrial Building No. 6 Yip Fat Street Wong Chuk Hang Hong Kong	Industrial	Medium term lease	100%



Five Year Financial Summary

A summary of the results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the published audited financial statements and reclassified as appropriate, is set out below.

RESULTS

	Year ended 31 December				
	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000
TURNOVER	251,800	362,136	230,357	518,086	420,648
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	2,937	6,029	(39,030)	(60,175)	22,266
Finance costs	(875)	(359)	–	(352)	(1,259)
Share of losses of:					
Jointly-controlled entity	–	–	–	(2,344)	(441)
Associate	–	–	–	(26)	(32)
PROFIT/(LOSS) BEFORE TAX	2,062	5,670	(39,030)	(62,897)	20,534
Tax	1,460	663	(386)	(953)	(1,946)
PROFIT/(LOSS) BEFORE MINORITY INTERESTS	3,522	6,333	(39,416)	(63,850)	18,588
Minority interests	800	(267)	(207)	(312)	(747)
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	4,322	6,066	(39,623)	(64,162)	17,841

ASSETS, LIABILITIES AND MINORITY INTERESTS

	As at 31 December				
	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000
TOTAL ASSETS	393,071	434,141	372,481	400,943	501,219
TOTAL LIABILITIES	(65,548)	(117,586)	(61,945)	(56,369)	(102,236)
MINORITY INTERESTS	(8,004)	(1,542)	(1,349)	(1,352)	(2,330)
	319,519	315,013	309,187	343,222	396,653