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EXECUTIVE DIRECTORS

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

NON-EXECUTIVE DIRECTORS

Ha Shu Tong
Lai Kai Ming, Dominic
Lee Kwok On, Matthew Ph.D.

COMPANY SECRETARY

Wong Cheuk Fai, AHKSA

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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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BUSINESS REVIEW

During the year, the Group reported a consolidated revenue of HK$515.87 million (2000: HK$420.65 million), an increase of 22.6% from the previous year. However, the Group recorded a loss from operation of HK$59.97 million (2000: HK$24.19 million profit). The results were consequences of the significant drop in the relatively high profit margin revenues from the Group's solutions services business. In addition, the increased revenue portion contributed by the Group's integration services business was hardware-intensive that suffered from a decreasing profit margin. Lastly, the Group had also made provisions for other operating expenses, such as write-off of goodwill, deficit on revaluation of investment properties, impairment of deferred development cost and fixed assets related to e-business activities, as well as write-off of bad debts. The net loss attributable to shareholders was HK$63.96 million (2000: net profit of HK$19.77 million) and the loss per share amounted to HK$0.2397 (2000: earnings per share of HK$0.077). The Board of Directors does not recommend any final dividend (2000: HK$0.02 per share) or any special dividend (2000: HK$0.01 per share) for the year.

The very disappointing results, the first time in the Group's history of incurring losses since its listing on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in 1998, were also consequences of the overexpansion of the Group's activities in the volatile e-business market, and a very weak business demand, especially in the commercial sector of Hong Kong, for IT services. Accordingly, the Group has made necessary efforts to reduce operating costs through reduction of headcount and consolidation of operation structure.

Restructuring

In year 2000, to scope up with the tremendous demand on e-business enabling and related IT solutions services, the Group had expanded rapidly with new headcount and subsidiaries establishment to timely capture the business opportunities. However, with the sharply shrunken e-business market in last year, the expanded Group became oversized.

To rectify, the Group launched a restructuring programme to downsize workforce together with voluntary salary reduction by senior management and general staff in the second half of 2001. In order to achieve greater cost efficiency and scale of economy, the Group has rearranged its business structure into four business divisions with respective focused areas reinforcing the Group's emphasis on businesses with more service content and recurring revenue.

Divisions	Integration Services	Solutions Services	Application Services		Distribution Business
Group's Major Operating Arm	Computer And Technologies Integration Limited "C&T Integration"	Computer And Technologies Solutions Limited "C&T Solutions"	IPL Research Limited "IPL"	Global e-Business Services Limited "GO-Business"	Maxfair Technology Limited "Maxfair"
	computer technologies	computer technologies solutions	IPL	GO-Business Your Global e-Business Partner	maxfair technology
Business Nature	Provision of systems and network integration services and industry specific IT application implementation services	Provision of IT solutions implementation services and application development services	Provision of human resource management related application software	Provision of enterprise and application services and IT operation outsourcing services	Value-added distribution of multi-media digital video products

With the full support of the employees, the restructuring has been substantially completed. These actions are expected to enable the Group to achieve a relatively lower operating overhead in year 2002.

Integration Services Division

The Integration Services Division continued to be the major source of revenue of the Group in 2001. It contributed 86.6% of the Group's total revenue. However, due to the deterioration in hardware margin and write-off of bad debts, it only recorded a moderate profit.

The telecommunications sector contributed 55.5% of the revenue of the Division. The reorganisation of China Telecom, one of the largest customers of the Group, had led and would probably continue to cause some delay in deployment of their IT projects. Coupled with the market saturated with huge established telecommunications network infrastructure, the Group anticipates a slow-down in the infrastructure spending in the coming year. On the other hand, there will be increasing demand in more sophisticated business and operation support services and solutions.

The Group received steady and repeated businesses from enterprise customer base which typically contained higher service contents and incurred relatively short selling cycle. The Management anticipates the contribution from these enterprise customers to the Division will increase in the years to come.

The Group is effectively sharpening the Division's focus to pursue for a market shift from the high-volume, low-margin network infrastructure building to lower-volume but higher-margin, value-added services and solutions. While it may lead to a decline in revenue, it will improve the gross margin in the coming year.

Solutions Services Division

The Group's Solutions Services Division suffered from substantial fluctuation in market demand for e-business enabling and IT solutions services which resulted in an over-capacity of resources. The cut-throat competitions among rivals and the prolonged decision-making process by clients also caused further deterioration the performance of this Division.

During the year, the Group has integrated four subsidiaries providing IT solutions and implementation services into C&T Solutions which is now operating in Hong Kong, Singapore and Mainland China. The consolidation of C&T Solutions has enabled the Group to accelerate the blending of talents in the respective areas resulting in dynamic and cost-effective structure. The Group's expansion into Singapore through the acquisition of the Breakaway Solutions Asia Pacific Limited ("BSAP") has also established a more comprehensive regional footprint for serving multinationals.

The Division has now developed core capabilities and established successful references in billing and customer relationship management solutions for telecommunications service providers and utilities companies, as well as in large-scale government projects with sophisticated build-and-operate requirement. Such references will not only improve the Group's competitiveness for other large solutions outsourcing services opportunities, but also will provide the Group with a stable income in the coming years.

Application Services Division

After two years of investment in operation resource management ("ORM") related application services, the Group's subsidiary GO-Business has achieved a market leadership in e-procurement services in Hong Kong, especially in the government sector, and demonstrated a proven business model with stable recurring service income.

During the year, GO-Business secured contract from the Central Tender Board of the Hong Kong SAR Government to cover the high-value government tenders. It also successfully replicated the service model into the construction and property management industries as well as government organisations in Mainland China. It has also been introducing to enterprise customers and government departments other value-added services and IT outsourcing services.

In July 2001, the Group acquired IPL, a well-established provider of enterprise-class human resource management systems ("HRMS") solutions. The Management is expediting effort to integrate IPL into the Group particularly to foster the expansion of IPL into Mainland China. Besides, IPL will also collaborate with GO-Business to provide enhanced HRMS application services through existing platforms and channels of GO-Business.

Distribution Business Division

The Group's value-added distribution business, primarily through the Group's subsidiary Maxfair, was also affected by the weak consumer demand and slow-down of business activities. Despite the slight decline in revenue, it maintained a healthy gross margin and operating profit in 2001.

Having reached a dominant position in the mid-range multi-media digital video products distribution business in Hong Kong, the Group had been looking for expansion opportunities to extend the proven model and achieve a higher critical mass. Last year, Maxfair formed a subsidiary with a local partner in Taiwan who was engaged in similar distribution business and product mix. The Taiwan operation is growing rapidly and is anticipated to contribute profit in the coming year.

Leveraging the existing customer base and business setup, the Management is cautiously exploring opportunity to expand further the value-added distribution business of the Group with additional products and geographical markets in the region.

Corporate Development

The Group continued to explore opportunities to grow business through mergers and acquisitions with rigorous screening criteria. In 2001, through the acquisition of IPL and BSAP as well as the establishment of Maxfair's subsidiary in Taiwan, the Group has strengthened its application offerings and regional presence in Asia.

PROSPECT

With the economic uncertainties, the Group remains cautious over the business environment in the coming year. The business momentum in Mainland China continues to be strong and thus growth in IT investment would substain. On the other hand, while Hong Kong and Singapore share similar economy slow-down and hence weak business demand for IT services, especially in the commercial sector, it has become a practice for the government and public sectors to outsource large-scale, multi-year IT projects with increasing scale. The proven track records and strong references are positioning the Group to well capture those opportunities.

To continuously improve corporate efficiency, the Group will invest to strengthen the internal IT infrastructure to facilitate communications and foster synergy among business divisions. Besides, the Group would also invest in further enhancing service quality through standardization of processes and methodology.

The Management believes that the profitability prospect of the Group will improve in the coming years. This belief is based on the fact that the Group has restructured for improved efficiency and has secured more than HK$180 million worth of order backlogs including some large-scale build-and-operate IT outsourcing service contracts to be delivered over a period of seven years.

APPRECIATION

Finally, on behalf of the Board of Directors, I would like to thank all shareholders for their greatest trust and continuous support to the development of the Group. I would also like to take this opportunity to extend my sincerest gratitude to all employees for their hard work and dedication.

Ng Cheung Shing
Chairman and Chief Executive Officer

Hong Kong
9 April 2002

EXECUTIVE DIRECTORS

Mr. Ng Cheung Shing, aged 40, the founder, Chairman and Chief Executive Officer of the Company, is responsible for the business development, corporate strategies, company policies and overall management of the Group. Mr. Ng has over 18 years of IT experience. Before establishing the Company, Mr. Ng held senior positions in companies such as Hewlett-Packard Asia Pacific Ltd. and Sun Hung Kai (China) Ltd. He was also the founding Chairman of the Hong Kong Information and Software Industry Association, Honorable Chairman of the Research Center of Shanghai Jiao Tong University Digital Library, director of the Applied Research Council, council member of Vocational Training Council, vetting committee member of Innovation and Technology Fund (IT Projects) of Hong Kong SAR Government, and also member of Hong Kong SAR Chief Executive Election Committee (IT Subsector). Mr. Ng graduated from University of Manchester in the United Kingdom with a bachelor's degree in computer science (Hons) in 1984. He received the "Young Industrialist Awards of Hongkong" from Federation of Hong Kong Industries, the "Ten Outstanding Young Persons Award" from the Hong Kong Junior Chamber and the "Ten Outstanding Young Digi Persons" and "Hong Kong Top Ten Business Maker Award" from the Hong Kong Productivity Council.

Mr. Leung King San, Sunny, aged 41, is the Chief Financial Officer of the Company. Mr. Leung joined the Group in 1997. He has over 17 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 45, joined the Group in 1994, is the Managing Director of Maxfair, the Group's multi-media digital video products distribution business. Mr. Ma has over 19 years of experience in distribution and customer service businesses in the IT field. He graduated from the Hong Kong Polytechnic with a higher diploma and an associateship in electronic engineering in 1980 and 1981, respectively, and he also obtained a diploma in management studies from the Hong Kong Management Association in 1989.

Mr. So Cheung Ping, Andrew, aged 47, is the Chief Executive Officer of one of the Group's subsidiaries, C&T Solutions. Mr. So joined the Group in 1998 and was responsible for launching the Group's solutions business. He was appointed to the Board in September 2001. Mr. So has over 21 years of IT experience with multinational companies including IBM and SPL WorldGroup. He specialises in applying advanced technologies in solving business problems. Mr. So graduated from the University of London in 1978 and has worked extensively in North America and Asia. Before he engaged in the IT industry, he was a professional civil engineer practising in Hong Kong.

NON-EXECUTIVE DIRECTORS

Mr. Lai Kai Ming, Dominic, aged 48, joined the Board in February 2000. Mr. Lai is an executive director of Hutchison Whampoa Limited. He is also the Deputy Chairman of Hutchison Harbour Ring Limited, and a director of Vanda Systems and Communications Holdings Limited. He has over 20 years of management experience in different industries. He holds a bachelor of science (Hons) degree and a master's degree in business administration.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ha Shu Tong, Albert, aged 53, joined the Board in 1998. Mr. Ha has involved in the financial industry for many years and has substantial experience in corporate finance matters. Mr. Ha is currently an executive director of Capital Consultant Limited, a financial consultancy company in Hong Kong, and an independent non-executive director of Leaptek Limited, a listed company in Hong Kong.

Dr. Matthew K. O. Lee, aged 41, joined the Board in 1998. Dr. Lee is an Associate Dean (Research) and Professor (Information Systems) of the Faculty of Business of the City University of Hong Kong. Professor Lee is also the founding director of the MA E-Business programme at the University. Professor Lee holds a first class honours bachelor's degree in electronic engineering, an MSc in software engineering, a PhD in computer science, an MBA, and two law degrees. He is qualified as a Barrister-at-Law in both Hong Kong SAR and England & Wales, a Chartered Engineer (UK Engineering Council) and is a professional member of both the Hong Kong Computer Society and the British Computer Society.

Professor Lee is a founding Vice-chairman of the Hong Kong Computer Society e-Business Special Interest Group. He is also a vetting committee member of the Innovation and Technology Fund (IT Projects) and he serves as a member on the IT Training Committee of the Vocational Training Council.

SENIOR MANAGEMENT

Mr. Tam Chin Pang, Stephen, aged 38, Chief Operating Officer of C&T Solutions, has over 17 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 a multinational delivering large-scale software solutions to clients worldwide. Mr. Tam studied in Canada as well as Australia and graduated from the University of New South Wales with a bachelor's degree in computer science and a master's degree in commerce. He has worked extensively in North America and Southeast Asia before returning to Hong Kong in 1992.

Mr. Yan King Shun, Peter, aged 40, is in charge of the Group's Application Services Division and also the Chief Executive Officer of GO-Business. He has over 17 years of experience in the IT industry. Before joining the Group in 2000, Mr. Yan was the Chief Operating Officer of Tradelink, one of the largest EDI service providers in the region. He also held senior management positions in large IT and electronic services companies including Accenture. Mr. Yan graduated from the Chinese University of Hong Kong with a bachelor's degree in business administration in 1985 and received executive education for global leadership from the Harvard Business School in 1998. Mr. Yan is also the Director of Community Services for the Hong Kong Computer Society.

Mr. Yeung Sai Cheong, Steve, aged 36, is the Vice-president of Corporate Development and Communications of the Company responsible for investor relationship, new Group initiatives including merger and acquisition activities, as well as other corporate communication functions. Mr. Yeung joined the Group in 1998. Mr. Yeung has 13 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.

The directors herein present their report together with the audited financial statements of the Company and the Group for the year ended 31 December 2001.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The activities of its principal subsidiaries are set out in note 17 to the financial statements. There were no changes in the nature of the Group's principal activities during the year.

SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to results by principal activity and geographical area of operations for the year ended 31 December 2001 is set out in note 4 to the financial statements.

FINANCIAL RESULTS

The Group's loss for the year ended 31 December 2001 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 20 to 69.

FINANCIAL SUMMARY

The Company was incorporated in Bermuda on 31 March 1998 and became the ultimate holding company of the companies now comprising the Group as a result of the reorganisation which became effective on 29 April 1998. Accordingly, the published balance sheets of the Group are prepared as at 31 December 1998, 1999, 2000 and 2001, respectively.

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

RESULTS

		Consolidated		Pro forma combined results Year ended 31 December	
	2001	**2000**	**1999**	**1998**	**1997**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
TURNOVER	**515,868**	420,648	353,480	181,405	247,689
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	**(59,972)**	24,192	15,774	4,046	31,408
Finance costs	**(352)**	(1,259)	(823)	(463)	–
Share of losses of:					
Jointly-controlled entity	**(2,344)**	(441)	–	–	–
Associate	**(26)**	(32)	–	–	–
PROFIT/(LOSS) BEFORE TAX	**(62,694)**	22,460	14,951	3,583	31,408
Tax	**(953)**	(1,946)	(783)	(615)	(1,537)
PROFIT/(LOSS) BEFORE MINORITY INTERESTS	**(63,647)**	20,514	14,168	2,968	29,871
Minority interests	**(312)**	(747)	(366)	(54)	(315)
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	**(63,959)**	19,767	13,802	2,914	29,556

ASSETS AND LIABILITIES

	Consolidated			
	Year ended 31 December			
	2001	**2000**	**1999**	**1998**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
		*(Restated)**		
Total assets	**400,943**	501,219	212,161	147,908
Total liabilities	**(54,240)**	(100,310)	(61,977)	(62,141)
Minority interests	**(1,352)**	(2,330)	(1,583)	(1,217)
	345,351	398,579	148,601	84,550

* Details of the restatement of certain comparative amounts are set out in note 12 to the financial statements.

FIXED ASSETS AND INVESTMENT PROPERTIES

Details of movements in the fixed assets and investment properties of the Group during the year are set out in note 14 to the financial statements. Further details of the Group's investment properties are set out on page 70.

PRE-EMPTIVE RIGHTS

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

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the authorised and issued shares and share options of the Company during the year, together with the reasons therefor, are set out in note 30 to the financial statements.

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

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

SHARE PREMIUM ACCOUNT AND RESERVES

Details of movements in the share premium account and reserves of the Company and the Group during the year are set out in note 31 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2001, the Company had no available distributable reserve, calculated in accordance with the Companies Act 1981 of Bermuda (as amended).

In addition, the Company's share premium may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

	Year ended 31 December 2001
Customers	
Percentage of turnover attributable to the Group's five largest customers	29.0%
Percentage of turnover attributable to the Group's largest customer	10.6%
Suppliers	
Percentage of purchases attributable to the Group's five largest suppliers	85.4%
Percentage of purchases attributable to the Group's largest supplier	57.1%

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

DIRECTORS

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

Executive directors:
Ng Cheung Shing
Leung King San, Sunny
Ma Mok Hoi
So Cheung Ping, Andrew (appointed on 3 September 2001)

Non-executive directors:
Lai Kai Ming, Dominic
Ha Shu Tong *
Lee Kwok On, Matthew, Ph.D *

* *Independent non-executive director*

In accordance with bye-laws 86(2) and 87 of the Company's bye-laws, Mr. So Cheung Ping, Andrew and Dr. Lee Kwok On, Matthew will retire at the forthcoming annual general meeting and, being eligible, will offer himself for re-election.

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

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors entered into a service contract with the Company since 1 April 1998, except for Mr. So Cheung Ping, Andrew who was appointed as a director on 3 September 2001 and entered into a service contract similar to other executive directors with the Company on that day. These service contracts will continue until terminated by either party by serving to the other party a written notice of not less than three months prior to the effective date of termination. As at the date of the report, no termination notice by either party had been received.

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as detailed in note 36 to the financial statements, no director had a significant beneficial interest in any significant contract, whether directly or indirectly, to which the Company or any of its subsidiaries was a party during the year.

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2001, the interests of the directors in the share capital of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), were as follows:

(A) Interests in Shares

(i) The Company

	Nature of interest and number of shares	
Name of director	**Personal interests**	**Corporate interests**
Ng Cheung Shing	1,232,000	110,000,000 *(Note 1)*
Leung King San, Sunny	622,000	–
Ma Mok Hoi	9,000	–

(ii) Associated corporations

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

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

DIRECTORS' INTERESTS IN SHARES (continued)

(A) Interests in Shares (continued)

(ii) Associated corporations (continued)

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

Note 3: Ma Mok Hoi originally held 625,000 shares in Maxfair Technology Limited ("Maxfair") and when Maxfair Technology Holdings Limited ("Maxholdings") was formed during the year, Ma Mok Hoi transferred his interests in Maxfair to the Maxholdings at par value and subscribed for 25 new shares in the Maxholdings in effect maintaining the same minority interests in the Group's distribution business.

(B) Interests in Share Options

The interests of the directors in the share options of the Company are separately disclosed in the section "Share option scheme" below.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

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

SHARE OPTION SCHEME

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 are the Group's employees including the Company's executive directors. The Scheme became effective on 29 April 1998 and, unless otherwise cancelled or amended, remains in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is up to 10% of the shares of the Company in issue at any time without taking into account any shares issued and allotted pursuant to exercise of option granted under the Scheme. At 31 December 2001, the number of shares issuable under the Scheme was 26,515,629 which represented approximately 9.8% of the Company's shares in issue as at that date. The maximum number of share options granted to any eligible individual participant in the Scheme shall not exceed 25% of the issuable shares under the Scheme.

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$10 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.

SHARE OPTION SCHEME (continued)

The exercise price of the share options is determinable by the directors, but being in no event less than the higher of 80% of average of the closing prices of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for the five trading days immediately preceding the date of grant of the option and the nominal value of the shares.

The Company has not adopted share option scheme in accordance with the amendments made to Chapter 17 of the Rule Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") on Share Schemes that took effect on 1 September 2001. Accordingly, the Group has not granted any option since the new requirements became effective. The Company plans to adopt new scheme in the forthcoming annual general meeting.

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

	Number of share options								Price of Company's shares***	
Name or category of participant	At 1 January 2001	Granted during the year	Exercised during the year	Cancelled during the year	At 31 December 2001	Date of grant of share options*	Exercise period of share options	Exercise price of share options** *HK$*	At grant date of options *HK$*	At exercise date of options *HK$*
Directors										
Ng Cheung Shing	13,500	–	(13,500)	–	–	30.11.1999	10.12.1999 to 29.11.2001	1.750	5.200	3.625
	800,000	–	–	–	800,000	03.12.1999	03.12.2000 to 02.11.2004	1.800	4.500	N/A
	813,500	–	(13,500)	–	800,000					
Leung King San, Sunny	10,000	–	(10,000)	–	–	30.11.1999	10.12.1999 to 29.11.2001	1.750	5.200	3.625
	188,000	–	–	–	188,000	03.12.1999	03.12.2000 to 02.11.2004	1.800	4.500	N/A
	198,000	–	(10,000)	–	188,000					
Ma Mok Hoi	9,000	–	(9,000)	–	–	30.11.1999	10.12.1999 to 29.11.2001	1.750	5.200	3.625
	200,000	–	–	–	200,000	03.10.1998	26.10.1999 to 25.10.2003	0.281	0.370	N/A
	209,000	–	(9,000)	–	200,000					

SHARE OPTION SCHEME (continued)

Name or category of participant	Number of share options: At 1 January 2001	Granted during the year	Exercised during the year	Cancelled during the year	At 31 December 2001	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK$	Price of Company's shares***: At grant date of options HK$	At exercise date of options HK$
Other employees In aggregate										
	1,456,000	–	(420,000)	–	1,036,000	09.10.1998	26.10.1999 to 25.10.2003	0.298	0.390	2.350 to 3.500
	348,000	–	(108,000)	–	240,000	09.10.1998	26.10.1999 to 25.10.2003	0.316	0.390	1.800 to 3.425
	520,000	–	(234,000)	–	286,000	18.08.1999	30.08.2000 to 29.08.2004	0.635	0.810	1.800
	702,000	–	(32,000)	–	670,000	18.08.1999	30.08.2000 to 29.08.2004	0.675	0.810	3.500
	708,000	–	(144,000)	–	564,000	18.08.1999	30.08.2000 to 29.08.2002	0.715	0.810	0.880 to 3.325
	112,000	–	(16,000)	–	96,000	03.09.1999	17.09.2000 to 16.09.2004	0.753	0.930	3.325
	–	600,000	–	–	600,000	31.08.2001	06.09.2002 to 05.09.2006	1.563	1.880	N/A
	2,710,000	–	(1,294,000)	–	1,416,000	15.11.1999	10.12.1999 to 31.12.2002	1.750	2.250	3.275 to 3.500
	–	2,653,000	–	–	2,653,000	16.01.2001	23.01.2002 to 22.01.2006	2.672	3.500	N/A
	1,241,000	–	–	(1,241,000)	–	24.10.2000	N/A	4.040	5.350	N/A
	1,252,000	–	–	(1,252,000)	–	14.08.2000	N/A	4.140	5.250	N/A
	9,049,000	3,253,000	(2,248,000)	(2,493,000)	7,561,000					
Total	10,269,500	3,253,000	(2,280,500)	(2,493,000)	8,749,000					

Note: If the last day of any option period is not a business day in Hong Kong, the option period will end on the business day preceding that day.

Each of the grantees paid HK$10 to the Company as consideration for options granted to them.

* 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 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 exercise of the share options is the closing prices of the Stock Exchange for the earliest and latest exercised dates of options within the disclosure category.

SHARE OPTION SCHEME (continued)

Summary details of the Company's share option scheme are also set out in note 30 to the financial statements.

The financial impact of share options granted 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 costs. Upon the exercise of the 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 are deleted from the register of outstanding options.

The directors do not consider it appropriate to disclose a theoretical value of the share options granted during the year to the directors and the employees because the costs associated to derive the theoretical value outweighs the benefits of such information to the shareholders.

Save as disclosed above, as at 31 December 2001, none of the directors or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations, as defined in the SDI Ordinance.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2001, the following interests of 10% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name of shareholder of the Company	Number of shares	Percentage of issued share capital
Chao Lien Technologies Limited *(Note 1)*	110,000,000	40.7%
C.S. (BVI) Limited *(Note 1)*	110,000,000	40.7%
Puttney Investments Limited *(Note 2)*	29,148,938	10.8%
Hutchison International Limited *(Note 2)*	29,148,938	10.8%

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

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

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

SUBSTANTIAL SHAREHOLDERS (continued)

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

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

Save as disclosed above, as at 31 December 2001, no person, other than the directors of the Company whose interests are set out above, had registered an interest in the share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance.

CONNECTED TRANSACTION

Details of the connected transaction for the year are set out in note 36 to the financial statements. The independent non-executive directors of the Company have reviewed the connected transaction set out in note 36, for which the Stock Exchange has granted a waiver from the relevant requirements of the Listing Rules, and confirmed that:

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

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

(c) the transaction was carried out in accordance with the terms of the agreement governing such transaction.

CONTINGENT LIABILITIES

Details of the contingent liabilities of the Company and the Group are set out in note 34 to the financial statements.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 35 to the financial statements.

LIQUIDITY AND FINANCIAL RESOURCES

The Group adopted its financial policy so as to maintain a stable financial condition. As at 31 December 2001, the aggregate of the Group's bank deposits and cash balance amounted to HK$210,263,000, 88% of which was Hong Kong dollars or US dollars.

The Group has banking facilities in Hong Kong dollars, US dollars and Renminbi. The banking facilities are secured by fixed charges over the Group's investment properties situated in Hong Kong and bank fixed deposits. As of the balance sheet date, none of them has been utilised, however due to certain outstanding interest-free "other loan" (details as note 29 to the financial statements) the gearing ratio has become 0.2% (2000: 2.3%) on the basis of total borrowings over total shareholders' equity.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2001, the Group employed around 333 employees (2000: 295 employees) in Hong Kong, Mainland China and elsewhere, and the geographic proportion is approximately 38%, 52% and 10%, respectively (2000: 47%, 53% and 0%). The increase in elsewhere represents the employees employed through business expansion in Taiwan and Singapore. The total employee costs (excluding directors' remuneration) is approximately HK$72,785,000 (2000: HK$60,385,000).

Employees' remuneration is in accordance with individual's responsibility and performance and maintains competitive with the prevailing market rates. Other fringe benefits such as medical insurance, pension funds, etc, are offered to most employees. Share options are granted at the directors' discretion and under the terms and conditions of employees share option schemes of the Company and certain subsidiaries that were approved and adopted on 29 April 1998 and 1 July 2000, respectively. During the year, 3,253,000 share options of the Company were granted to the employees and as at 31 December 2001, 7,561,000 of the Company's share options granted to the employees were not exercised.

CODE OF BEST PRACTICE

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

AUDIT COMMITTEE

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

AUDITORS

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

On behalf of the board
Ng Cheung Shing
Chairman

Hong Kong
9 April 2002

ERNST & YOUNG
安 永 會 計 師 事 務 所

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

We have audited the financial statements on pages 20 to 69 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

BASIS OF OPINION

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

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

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2001 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

Hong Kong
9 April 2002

Consolidated Profit and Loss Account

Year ended 31 December 2001

	Notes	2001 HK$'000	2000 HK$'000
TURNOVER	5	**515,868**	420,648
Cost of sales		**(434,198)**	(330,467)
Gross profit		**81,670**	90,181
Other revenue and gains	5	**11,602**	15,365
Selling and distribution expenses		**(66,845)**	(49,172)
Administrative expenses		**(48,007)**	(32,182)
Other operating expenses	6	**(38,392)**	–
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	6	**(59,972)**	24,192
Finance costs	9	**(352)**	(1,259)
Share of losses of:			
Jointly-controlled entity		**(2,344)**	(441)
Associate		**(26)**	(32)
PROFIT/(LOSS) BEFORE TAX		**(62,694)**	22,460
Tax	10	**(953)**	(1,946)
PROFIT/(LOSS) BEFORE MINORITY INTERESTS		**(63,647)**	20,514
Minority interests		**(312)**	(747)
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	11	**(63,959)**	19,767
DIVIDENDS	12		
Proposed final		**–**	5,273
Proposed special		**–**	2,637
		–	7,910
EARNINGS/(LOSS) PER SHARE	13		
– Basic		**(23.97) cents**	7.71 cents
– Diluted		**N/A**	7.44 cents

Consolidated Statement of Recognised Gains and Losses

Year ended 31 December 2001

	Note	2001 HK$'000	2000 HK$'000
Exchange differences on translation of the financial statements of foreign entities	31	**398**	14
Net gains not recognised in the profit and loss account		**398**	14
Net profit/(loss) from ordinary activities attributable to shareholders		**(63,959)**	19,767
Total recognised gains and losses		**(63,561)**	19,781

Consolidated Balance Sheet

31 December 2001

	Notes	2001 HK$'000	2000 HK$'000 (Restated)
NON-CURRENT ASSETS			
Fixed assets	14	**39,453**	45,019
Intangible assets	15	**2,128**	31,327
Goodwill:	16		
Goodwill		**33,771**	–
Negative goodwill		**(2,480)**	–
Interest in a jointly-controlled entity	18	**–**	5,484
Interest in an associate	19	**–**	2,046
Investment securities	20	**1,000**	1,460
Promissory note receivable	21	**2,000**	–
		75,872	85,336
CURRENT ASSETS			
Inventories	22	**6,278**	41,576
Trade receivables	23	**81,764**	117,906
Amounts due from contract customers	24	**6,172**	4,387
Prepayments, deposits and other receivables		**8,130**	7,485
Short term investments	25	**12,464**	–
Pledged bank deposits	26	**12,992**	12,000
Cash and cash equivalents	26	**197,271**	232,529
		325,071	415,883
CURRENT LIABILITIES			
Trade payables, other payables and accruals	27	**(43,815)**	(87,666)
Deferred income		**(4,610)**	–
Amounts due to minority shareholders of subsidiaries	28	**(2,330)**	–
Tax payable		**(2,746)**	(2,971)
Interest-bearing bank and other borrowings	29	**(443)**	(9,082)
		(53,944)	(99,719)
NET CURRENT ASSETS		**271,127**	316,164
TOTAL ASSETS LESS CURRENT LIABILITIES		**346,999**	401,500
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	29	**(296)**	(591)
MINORITY INTERESTS		**(1,352)**	(2,330)
		345,351	398,579
CAPITAL AND RESERVES			
Issued capital	30	**27,059**	26,330
Reserves	31	**318,292**	364,339
Proposed dividends	12	**–**	7,910
		345,351	398,579

Leung King San, Sunny
Director

Ng Cheung Shing
Director

Consolidated Cash Flow Statement

Year ended 31 December 2001

	Notes	2001 HK$'000	2000 HK$'000
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	32(a)	**4,299**	(41,609)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		**7,334**	13,144
Interest paid		**(352)**	(1,259)
Dividend income from listed investments		**522**	–
Dividends paid		**(7,910)**	(3,942)
Net cash inflow/(outflow) from returns on investments and servicing of finance		**(406)**	7,943
TAXATION			
Hong Kong profits tax paid		**(668)**	(340)
Mainland China tax paid		**(1,301)**	(1,217)
Mainland China tax refunded		**434**	–
Net taxes paid		**(1,535)**	(1,557)
INVESTING ACTIVITIES			
Proceeds on disposal of fixed assets		**–**	151
Purchases of fixed assets		**(8,707)**	(15,827)
Purchases of listed investments		**(54,913)**	(180)
Proceeds on disposal of listed investments		**40,093**	498
Additions to deferred development costs		**–**	(9,191)
Decrease/(increase) in pledged bank deposits		**12,000**	(9,200)
Acquisitions of subsidiaries	32(c)	**(14,157)**	–
Investment in an associate		**–**	(1,125)
Repayment from/(advance to) an associate		**520**	(953)
Disposal of an associate		**1,500**	–
Advance to a jointly-controlled entity		**(5,387)**	(5,925)
Purchase of intangible assets		**–**	(12,480)
Proceeds on disposal of intangible assets		**12,548**	–
Increase in promissory note receivable		**(2,000)**	–
Net cash outflow from investing activities		**(18,503)**	(54,232)
NET CASH OUTFLOW BEFORE FINANCING – page 24		**(16,145)**	(89,455)

Year ended 31 December 2001

	Notes	2001 HK$'000	2000 HK$'000
NET CASH OUTFLOW BEFORE FINANCING – page 23		**(16,145)**	(89,455)
FINANCING	32(b)		
Proceeds from issue of shares		**2,766**	548
Proceeds from issue of convertible bonds		**–**	230,277
Share issue expenses		**–**	(628)
Drawdown of bank loans		**2,830**	8,491
Repayment of bank loans		**(11,321)**	(6,482)
Drawdown of other loan		**–**	1,330
Repayment of other loan		**(443)**	(148)
Net cash inflow/(outflow) from financing		**(6,168)**	233,388
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(22,313)**	143,933
Cash and cash equivalents at beginning of year		**232,529**	88,615
Effect of foreign exchange rate changes, net		**47**	(19)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**210,263**	232,529
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**54,924**	57,242
Non-pledged time deposits with original maturity of less than three months when acquired		**142,347**	175,287
Time deposits with original maturity of less than three months when acquired, pledged as security for banking facilities		**12,992**	–
		210,263	232,529

Balance Sheet

31 December 2001

	Notes	2001 HK$'000	2000 HK$'000 (Restated)
NON-CURRENT ASSETS			
Interests in subsidiaries	*17*	**340,051**	351,136
CURRENT ASSETS			
Prepayments, deposits and other receivables		**78**	120
Cash and cash equivalents	*26*	**7,325**	35,420
		7,403	35,540
CURRENT LIABILITIES			
Other payables and accruals		**(1,364)**	(142)
Other loan, unsecured	*29*	**(443)**	(591)
		(1,807)	(733)
NET CURRENT ASSETS		**5,596**	34,807
TOTAL ASSETS LESS CURRENT LIABILITIES		**345,647**	385,943
NON-CURRENT LIABILITY			
Other loan, unsecured	*29*	**(296)**	(591)
		345,351	385,352
CAPITAL AND RESERVES			
Issued capital	*30*	**27,059**	26,330
Reserves	*31*	**318,292**	351,112
Proposed dividends	*12*	**–**	7,910
		345,351	385,352

Leung King San, Sunny
Director

Ng Cheung Shing
Director

1. CORPORATE INFORMATION

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

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

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

The following recently-issued and revised SSAPs and related Interpretations are effective for the first time for the current year's financial statements:

- SSAP 9 (Revised): "Events after the balance sheet date"
- SSAP 14 (Revised): "Leases"
- SSAP 18 (Revised): "Revenue"
- SSAP 26: "Segment reporting"
- SSAP 28: "Provisions, contingent liabilities and contingent assets"
- SSAP 29: "Intangible assets"
- SSAP 30: "Business combinations"
- SSAP 31: "Impairment of assets"
- SSAP 32: "Consolidated financial statements and accounting for investments in subsidiaries"
- Interpretation 12: "Business combinations – subsequent adjustment of fair values and goodwill initially reported"
- Interpretation 13: "Goodwill – continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves"

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of those SSAPs and Interpretations which have had a significant effect on the financial statements, are summarised as follows:

SSAP 9 (Revised) prescribes which type of events occurring after the balance sheet date require adjustment to the financial statements, and which require disclosure, but no adjustment. Its principal impact on these financial statements is that proposed dividends which are not declared and approved until after the balance sheet date, are no longer recognised as a liability at the balance sheet date, but are disclosed as an allocation of retained earnings on a separate line within the capital and reserves section of the balance sheet. The prior year adjustment arising from the adoption of this new SSAP is detailed in note 12 to the financial statements.

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

SSAP 14 (Revised) prescribes the basis for lessor and lessee accounting for finance and operating leases, and the required disclosures in respect thereof. Certain amendments have been made to the previous accounting measurement treatments, which may be accounted for retrospectively or prospectively, in accordance with the requirements of the SSAP. The revised SSAP requirements do not have a material effect on the amounts previously recorded in the financial statements, therefore no prior year adjustment has been required. The disclosure changes under this SSAP have resulted in changes to the detailed information disclosed for operating leases, which have been accounted for retrospectively as permitted by the SSAP and are further detailed in note 33 to the financial statements.

SSAP 18 (Revised) prescribes the recognition of revenue and was revised as a consequence of the revision to SSAP 9 described above. Proposed final dividends from subsidiaries that are declared and approved by the subsidiaries after the balance sheet date are no longer recognised in the Company's own financial statements for the year. The adoption of the SSAP has resulted in a prior year adjustment, further details of which are included in notes 11, 17 and 31 to the financial statements.

SSAP 26 prescribes the principles to be applied for reporting financial information by segment. It requires that management assesses whether the Group's predominant risks or returns are based on business segments or geographical segments and determines one of these bases to be the primary segment information reporting format, with the other as the secondary segment information reporting format. The impact of this SSAP is the inclusion of significant additional segment reporting disclosures which are set out in note 4 to the financial statements.

SSAP 28 prescribes the recognition criteria and measurement bases to apply to provisions, contingent liabilities and contingent assets, together with the required disclosures in respect thereof. The SSAP requirements do not have a material effect on the amounts previously recorded in the financial statements, therefore no prior year adjustment has been required.

SSAP 29 prescribes the recognition and measurement criteria for intangible assets, together with the disclosure requirements. The adoption of this SSAP has resulted in no change to the previously adopted accounting treatment for intangible assets and the additional disclosures that it requires have not been significant for these financial statements. The SSAP does, however, require that impairment losses on intangible assets are aggregated with the accumulated amortisation (see note 15) whereas previously they would have been deducted from the cost of the relevant asset. This disclosure change has had no effect on the net carrying amount of intangible assets in the balance sheet.

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

SSAP 30 prescribes the accounting treatment for business combinations, including the determination of the date of acquisition, the method for determining the fair values of the assets and liabilities acquired, and the treatment of goodwill or negative goodwill arising on acquisition. The SSAP requires the disclosure of goodwill and negative goodwill in the non-current assets section of the balance sheet. It requires that goodwill is amortised to the consolidated profit and loss account over its estimated useful life. Negative goodwill is recognised in the consolidated profit and loss account depending on the circumstances from which it arose, as further described in the accounting policy for negative goodwill disclosed in note 3 to the financial statements. Interpretation 13 prescribes the application of SSAP 30 to goodwill arising from acquisitions in previous years which remains eliminated against consolidated reserves. The adoption of the SSAP and Interpretation has not resulted in a prior year adjustment, for the reasons detailed in note 16 to the financial statements. The required new additional disclosures are included in notes 16 and 31 to the financial statements.

SSAP 31 prescribes the recognition and measurement criteria for impairments of assets. The SSAP is required to be applied prospectively and therefore, has had no effect on amounts previously reported in prior year financial statements.

SSAP 32 prescribes the accounting treatment and disclosures for the preparation and presentation of consolidated financial statements, and has had no significant impact on the preparation of these financial statements.

In addition to the above new and revised SSAPs and related Interpretations, certain minor revisions to the following SSAPs are effective for the first time for the current year's financial statements:

- SSAP 10: "Accounting for investments in associates"
- SSAP 17: "Property, plant and equipment"
- SSAP 21: "Accounting for interests in joint ventures"

The only significant effect of these revisions is that SSAP 17 requires that impairment losses on fixed assets are aggregated with accumulated depreciation in note 14 to the financial statements, whereas previously they would have been deducted from the cost of the relevant asset. This disclosure change has had no effect on the net carrying amount of fixed assets in the balance sheet.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2001. 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.

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 Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint venture companies

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

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

A joint venture company is treated as:

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Jointly-controlled entities

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

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

Associates

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

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

Goodwill

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

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

In prior years, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. The Group has adopted the transitional provision of SSAP 30 that permits goodwill on acquisitions which occurred prior to 1 January 2001, to remain eliminated against consolidated reserves. Goodwill on subsequent acquisitions is treated according to the new 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 or its net selling price.

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

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

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

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 and overhaul costs, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

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

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

Leasehold land	Over the leases terms
Buildings	2% – 4%
Leasehold improvements	Over the lease terms
Computer equipment and software	20% – 33%
Furniture, fixtures and office equipment	18% – 25%
Motor vehicles	20%

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 except where the unexpired term of the lease is 20 years or less, in which case depreciation is provided on the carrying amount over the remaining term of the lease and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year. Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets

Licences

Purchased licences are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of $3^1/_2$ years.

Research and development costs

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

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

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

Investment securities

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

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

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

Short term investments

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

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

Contracts for services

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

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

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

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

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

Deferred tax

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

Operating leases

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

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

On consolidation, the financial statements of overseas subsidiaries which are expressed in foreign currencies are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. All exchange differences arising on consolidation are dealt with in the exchange fluctuation reserve.

Retirement benefits scheme

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

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

Revenue recognition

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

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

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

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

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

Deferred income

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

Dividends

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

In previous years, the Company recognised its proposed final and special dividends to shareholders, which were declared and approved after the balance sheet date, as a liability in its balance sheet. The Company also recognised the proposed final dividends of subsidiaries, which were declared and approved after the balance sheet date, as income in its profit and loss account for the year. The revised accounting treatments for dividends resulting from the adoption of SSAP 9 (Revised) and SSAP 18 (Revised), have given rise to prior year adjustments in both the Group's and the Company's financial statements, further details of which are included in notes 11, 12 and 31 to the financial statements.

Convertible bonds

Convertible bonds are stated at cost. Interest on convertible bonds is recognised as an expense in the period in which it is incurred.

Related parties

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

4. SEGMENT INFORMATION

SSAP 26 was adopted during the year, as detailed in note 2 to the financial statements. 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 system and network integration service and industry specific IT application implementation service;

(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 multi-media digital video products and other computer accessories;

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

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

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

There were no intersegment sales and transfers during the year.

4. SEGMENT INFORMATION (continued)

(a) Business segments

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

Group

	Integration Services 2001 HK$'000	Integration Services 2000 HK$'000	Solutions Services 2001 HK$'000	Solutions Services 2000 HK$'000	Application Services 2001 HK$'000	Application Services 2000 HK$'000	Distribution 2001 HK$'000	Distribution 2000 HK$'000	Property Investment 2001 HK$'000	Property Investment 2000 HK$'000	Corporate and Other 2001 HK$'000	Corporate and Other 2000 HK$'000	Consolidated 2001 HK$'000	Consolidated 2000 HK$'000
Segment revenue														
– sales to external customers	**446,815**	330,837	**22,941**	53,139	**15,804**	2,052	**30,308**	34,620	**–**	–	**–**	–	**515,868**	420,648
Other revenue	**–**	–	**–**	–	**–**	–	**–**	–	**917**	714	**–**	–	**917**	714
Total	**446,815**	330,837	**22,941**	53,139	**15,804**	2,052	**30,308**	34,620	**917**	714	**–**	–	**516,785**	421,362
Segment results before depreciation, amortisation and other operating expenses	**13,869**	24,615	**(26,330)**	(1,983)	**(5,502)**	(4,063)	**1,979**	3,658	**164**	(86)	**573**	(1,448)	**(15,247)**	20,693
Depreciation	**(2,178)**	(2,060)	**(1,456)**	(979)	**(2,167)**	(462)	**(459)**	(340)	**(456)**	(446)	**(1,635)**	(1,421)	**(8,351)**	(5,708)
Amortisation of intangible assets	**(1,079)**	(1,295)	**(3,837)**	(3,800)	**(2,466)**	–	**–**	–	**–**	–	**–**	–	**(7,382)**	(5,095)
Amortisation of goodwill	**–**	–	**–**	–	**(1,468)**	–	**–**	–	**–**	–	**–**	–	**(1,468)**	–
Impairment losses recognised in the profit and loss account*	**–**	–	**(2,788)**	–	**(2,510)**	–	**–**	–	**–**	–	**–**	–	**(5,298)**	–
Bad debts written off	**(9,105)**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**(9,105)**	–
Impairment of deferred development costs	**–**	–	**(6,692)**	–	**(3,833)**	–	**–**	–	**–**	–	**–**	–	**(10,525)**	–
Deficit on revaluation of investment properties	**–**	–	**–**	–	**–**	–	**–**	–	**(8,052)**	–	**–**	–	**(8,052)**	–
Segment results	**1,507**	21,260	**(41,103)**	(6,762)	**(17,946)**	(4,525)	**1,520**	3,318	**(8,344)**	(532)	**(1,062)**	(2,869)	**(65,428)**	9,890
Interest income, dividend income and unallocated gains													**8,646**	14,302
Unallocated impairment losses**													**(3,190)**	–
Profit/(loss) from operating activities													**(59,972)**	24,192
Finance costs													**(352)**	(1,259)
Share of losses of:														
Jointly-controlled entity	**–**	–	**(2,344)**	(441)	**–**	–	**–**	–	**–**	–	**–**	–	**(2,344)**	(441)
Associate	**–**	–	**–**	–	**(26)**	(32)	**–**	–	**–**	–	**–**	–	**(26)**	(32)
Profit/(loss) before tax													**(62,694)**	22,460
Tax													**(953)**	(1,946)
Profit/(loss) before minority interests													**(63,647)**	20,514
Minority interests													**(312)**	(747)
Net profit/(loss) from ordinary activities attributable to shareholders													**(63,959)**	19,767

* The impairment losses recognised in the Solutions Services and Application Services segments relate to goodwill on acquisition and impairment of computer equipment, respectively (see notes 14 and 16 to the financial statements).

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

4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group

	Integration Services		Solutions Services		Application Services		Distribution		Property Investment		Corporate and Other		Consolidated	
	2001	2000	**2001**	2000	**2001**	2000	**2001**	2000	**2001**	2000	**2001**	2000	**2001**	2000
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment assets	**109,745**	178,100	**40,157**	66,205	**63,220**	37,042	**15,355**	12,776	**15,747**	24,312	**141,255**	173,794	**385,479**	492,229
Interest in an associate	**–**	–	**–**	–	**–**	2,046	**–**	–	**–**	–	**–**	–	**–**	2,046
Interest in a jointly-controlled entity	**–**	–	**–**	5,484	**–**	–	**–**	–	**–**	–	**–**	–	**–**	5,484
Unallocated assets													**15,464**	1,460
Total assets	**109,745**	178,100	**40,157**	71,689	**63,220**	39,088	**15,355**	12,776	**15,747**	24,312	**141,255**	173,794	**400,943**	501,219
Segment liabilities	**26,972**	86,714	**5,805**	6,458	**5,687**	1,105	**7,866**	3,576	**92**	165	**3,946**	2,292	**50,368**	100,310
Unallocated liabilities													**3,872**	–
Total liabilities	**26,972**	86,714	**5,805**	6,458	**5,687**	1,105	**7,866**	3,576	**92**	165	**3,946**	2,292	**54,240**	100,310
Other segment information:														
Capital expenditure	**2,672**	2,286	**5,423**	6,213	**3,235**	22,012	**1,495**	1,016	**–**	–	**708**	5,971	**13,533**	37,498

4. SEGMENT INFORMATION (continued)

(b) Geographical segments

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

Group

	Hong Kong		Mainland China		Other		Consolidated	
	2001	2000	**2001**	2000	**2001**	2000	**2001**	2000
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue – sales to external customers	**53,315**	85,457	**456,507**	335,191	**6,046**	–	**515,868**	420,648
Segment results	**(53,987)**	(2,905)	**(8,676)**	12,795	**(2,765)**	–	**(65,428)**	9,890
Other segment information: Segment assets	**234,211**	282,738	**140,294**	209,491	**10,974**	–	**385,479**	492,229
Capital expenditure	**4,352**	34,337	**4,870**	3,161	**4,311**	–	**13,533**	37,498

5. TURNOVER, REVENUE AND GAINS

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

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

	2001	2000
	HK$'000	*HK$'000*
Turnover		
Sale of goods:		
Computer hardware and software (including systems design and implementation)	**452,779**	344,562
Computer hardware, software and related accessories	**30,308**	34,620
	483,087	379,182
Provision of e-business related services	**26,793**	33,908
Maintenance services, consultancy services and training courses	**5,988**	7,558
Turnover	**515,868**	420,648
Other revenue		
Interest income	**6,494**	13,984
Dividend income from listed investments	**522**	–
Gross rental income	**917**	714
Other	**1,890**	349
	9,823	15,047
Gains		
Gain on disposal of listed investments	**374**	318
Gain on disposal of intangible assets	**1,256**	–
Negative goodwill recognised	**108**	–
Exchange gains, net	**41**	–
	1,779	318
Other revenue and gains	**11,602**	15,365

6. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

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

	2001 HK$'000	2000 HK$'000
Cost of inventories sold	**408,471**	298,778
Cost of services provided	**14,217**	23,350
Depreciation	**8,351**	5,708
Write-off of fixed assets	**217**	–
Amortisation of licence rights*	**1,188**	–
Amortisation of deferred development costs*	**6,194**	5,095
Goodwill:		
Amortisation for the year**	**1,468**	–
Impairment arising during the year**	**2,788**	–
	4,256	–
Minimum lease payments under operating leases in respect of land and buildings	**6,365**	4,560
Auditors' remuneration	**960**	680
Staff costs (excluding directors' remuneration disclosed in note 7)#:		
Wages and salaries	**69,585**	58,258
Pension contributions	**3,524**	2,539
Less: Forfeited contributions	**(324)**	(412)
Net employer's pension contributions##	**3,200**	2,127
Less: Capitalised in deferred development costs	**–**	(8,197)
	72,785	52,188
Unrealised loss on revaluation of short term listed investments carried at fair value**	**2,730**	–
Bad debts written off**	**9,105**	–
Provisions for doubtful debts**	**754**	–
Impairment on investment securities**	**460**	–
Deficit on revaluation of investment properties**	**8,052**	–
Impairment of deferred development costs**	**10,525**	–
Impairment of fixed assets**	**2,510**	–
Exchange losses, net	**–**	29

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

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

\# Inclusive of an amount of HK$14,217,000 (2000: HK$23,350,000) classified under cost of services provided.

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

7. DIRECTORS' REMUNERATION

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

	2001	2000
	HK$'000	*HK$'000*
Fees:		
Executive directors	**–**	–
Non-executive directors	**100**	160
	100	160
Other emoluments (executive directors):		
Salaries, allowances and benefits in kind	**3,123**	2,486
Bonuses paid and payable	**–**	512
Pension scheme contributions	**120**	114
	3,243	3,112
	3,343	3,272

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

	2001	2000
	Number of directors	Number of directors
Nil – HK$1,000,000	**6**	5
HK$1,000,001 – HK$1,500,000	**1**	2
	7	7

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

During the year, no share options were granted to the directors in respect of their services to the Group. Further details of the Group's share option scheme are set out under the heading "Share option scheme" in the Report of the Directors on page 13.

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid individuals of the Group included one (2000: two) director, details of whose remuneration are set out in note 7 to the financial statements. The remuneration of the other four (2000: three) non-director, highest paid individuals, disclosed pursuant to the Listing Rules, is as follows:

	2001	2000
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	**5,251**	3,651
Bonuses paid and payable	**–**	304
Pension scheme contributions	**159**	161
	5,410	4,116

The remuneration of the four (2000: three) non-director, highest paid individuals fell within the following bands:

	2001	2000
	Number of individuals	Number of individuals
HK$1,000,001 – HK$1,500,000	**3**	2
HK$1,500,001 – HK$2,000,000	**1**	1
	4	3

During the year, no share option were granted to the four non-director, highest paid employees in respect of their services to the Group. Further details of the Group's share option scheme are included in the disclosures set out under the heading "Share option scheme" in the Report of the Directors on page 13.

9. FINANCE COSTS

	Group	
	2001	2000
	HK$'000	*HK$'000*
Interest on bank loans	**352**	199
Interest on convertible bonds	**–**	1,060
	352	1,259

10. TAX

	Group	
	2001	2000
	HK$'000	*HK$'000*
Provision for tax in respect of profits for the year:		
Hong Kong	**370**	504
Mainland China	**601**	1,487
	971	1,991
Overprovisions in prior years – Hong Kong	**(18)**	(45)
Tax charge for the year	**953**	1,946

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

No provision for tax is required for the associate or the jointly-controlled entity as no assessable profits were earned by the associate or the jointly-controlled entity during the year.

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

11. NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is HK$50,334,000 (2000: profit of HK$12,026,000).

The comparative amount for 2000 has been restated by prior year adjustments resulting in a net credit of HK$2,500,000 to the Company's net profit for that year, a credit of HK$3,000,000 to the amounts due from subsidiaries in the Company's balance sheet as at 31 December 2000, and a debit of HK$5,500,000 to the retained profits as at 1 January 2000. The prior year adjustments: (i) recognised dividends of HK$5,500,000 from subsidiaries which were declared and approved by the subsidiaries in 2000, but which were recorded by the Company as revenue in its financial statements for the year ended 31 December 1999; and (ii) reversed dividends of HK$3,000,000 from subsidiaries which were declared and approved by the subsidiaries after 31 December 2000, but which were recognised by the Company as revenue in its financial statements for the year ended 31 December 2000. This change in accounting policy has arisen from the adoption of revisions to SSAP 18, as further detailed in notes 2 and 31 to the financial statements.

The effect of this change in accounting policy on the Company's net loss for the current year was to decrease the net loss by HK$3,000,000 to HK$50,334,000, as disclosed above, representing the effect of the prior year adjustment of HK$3,000,000.

12. DIVIDENDS

	2001 HK$'000	2000 HK$'000
Proposed final dividend – Nil (2000: 2 cents per share)	–	5,273
Special dividend – Nil (2000: 1 cent per share)	–	2,637
	–	7,910

During the year, the Group adopted the revised SSAP 9 "Events after the balance sheet date", as further detailed in note 2 to the financial statements. To comply with this revised SSAP, prior year adjustments have been made: (i) to reclassify the proposed dividends for the year ended 31 December 2000 of HK$7,910,000, which were recognised as a current liability at the prior year end, to the proposed dividends reserve account within the capital and reserves section of the balance sheet; and (ii) to reclassify the proposed final dividend payable to a minority shareholder of a subsidiary of HK$1,674,000, which was recognised as a current liability at the prior year end, to the minority interests account of the balance sheet. The result of this has been to reduce both the Group's and the Company's current liabilities and increase the reserves previously reported as at 31 December 2000, by HK$7,910,000; and to reduce the Group's current liabilities and increase the minority interests previously reported as at 31 December 2000, by HK$1,674,000.

There is no effect of this change in accounting policy as at 31 December 2001 as no final dividend has been proposed by the Company or its subsidiaries for the current year.

13. EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the net loss attributable to shareholders for the year of HK$63,959,000 (2000: net profit of HK$19,767,000) and the weighted average of 266,805,000 (2000: 256,455,000) shares of the Company in issue during the year.

(b) Diluted earnings/(loss) per share

No diluted loss per share is presented for the year ended 31 December 2001 as the effect of the Company's outstanding share options was anti-dilutive. The calculation of diluted earnings per share for the year ended 31 December 2000 was based on the net profit attributable to ordinary shareholders for that year of HK$19,767,000 and 265,818,000 shares, which represented the weighted average number of shares in issue during that year plus the weighted average number of 9,363,000 shares deemed to be issued at no consideration if all outstanding options had been exercised.

14. FIXED ASSETS

Group

	Investment properties HK$'000	Leasehold land and buildings HK$'000	Leasehold improve-ments HK$'000	Computer equipment and software HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost or valuation:							
At beginning of year	–	25,353	4,611	16,963	4,621	230	51,778
Reclassification	23,752	(25,353)	–	–	–	–	(1,601)
Additions	–	–	2,191	5,219	309	988	8,707
Acquisitions of subsidiaries	–	–	1,646	2,247	933	–	4,826
Deficit on revaluation *(note 6)*	(8,052)	–	–	–	–	–	(8,052)
Write-off	–	–	(56)	(107)	(149)	–	(312)
Exchange realignment	–	–	5	29	15	–	49
At 31 December 2001	**15,700**	**–**	**8,397**	**24,351**	**5,729**	**1,218**	**55,395**
Analysis of cost or valuation:							
At cost	–	–	8,397	24,351	5,729	1,218	39,695
At 31 December 2001 valuation	15,700	–	–	–	–	–	15,700
	15,700	–	8,397	24,351	5,729	1,218	55,395
Accumulated depreciation and impairment:							
At beginning of year	–	1,156	1,346	3,445	766	46	6,759
Reclassification	–	(1,601)	–	–	–	–	(1,601)
Depreciation provided during the year	–	445	1,174	5,630	976	126	8,351
Impairment during the year recognised in the profit and loss account *(note 6)*	–	–	–	2,510	–	–	2,510
Write-off	–	–	(5)	(10)	(80)	–	(95)
Exchange realignment	–	–	(6)	15	9	–	18
At 31 December 2001	**–**	**–**	**2,509**	**11,590**	**1,671**	**172**	**15,942**
Net book value:							
At 31 December 2001	**15,700**	**–**	**5,888**	**12,761**	**4,058**	**1,046**	**39,453**
At 31 December 2000	–	24,197	3,265	13,518	3,855	184	45,019

14. FIXED ASSETS (continued)

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

	HK$'000
Hong Kong:	
Long term leases	9,800
Mainland China:	
Long term leases	4,100
Medium term leases	1,800
	15,700

The Group's investment properties were revalued on 31 December 2001 by Landscope Surveyors Limited, independent professionally qualified valuers, at HK$15,700,000 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 33 to the financial statements.

Further particulars of the Group's investment properties are included on page 70.

The Group's investment properties situated in Hong Kong were pledged to secure general banking facilities granted to the Group (note 29).

The impairment loss for computer equipment and software represents the write down of certain computer software to their recoverable amount due to technological obsolescence. The recoverable amount was determined at the individual asset level and was based on the net selling price with reference to the amount received in recent transactions for similar assets.

15. INTANGIBLE ASSETS

Group

	Licence rights HK$'000	Deferred development costs HK$'000	Total HK$'000
Cost:			
At beginning of year	12,480	25,351	37,831
Additions	–	–	–
Disposals	(12,480)	–	(12,480)
At 31 December 2001	**–**	**25,351**	**25,351**
Accumulated amortisation and impairment:			
At beginning of year	–	6,504	6,504
Amortisation provided during the year	1,188	6,194	7,382
Impairment during the year recognised in the profit and loss account *(note 6)*	–	10,525	10,525
Disposals	(1,188)	–	(1,188)
At 31 December 2001	**–**	**23,223**	**23,223**
Net book value:			
At 31 December 2001	**–**	**2,128**	**2,128**
At 31 December 2000	12,480	18,847	31,327

The impairment loss for deferred development costs represents the write-off of certain development costs relating to e-business projects due to technological obsolescence. The recoverable amount was determined at the individual asset level and was based on the value in use.

16. GOODWILL AND NEGATIVE GOODWILL

SSAP 30 was adopted during the year, as detailed in note 2 to the financial statements. The amounts of goodwill and negative goodwill capitalised as an asset or recognised in the balance sheet, arising from the acquisitions of subsidiaries, are as follows:

Group

	Goodwill	Negative goodwill
	HK$'000	*HK$'000*
Cost:		
At beginning of year	–	–
Acquisitions of subsidiaries	38,027	(2,588)
Write-off	(2,788)	–
At 31 December 2001	**35,239**	**(2,588)**
Accumulated amortisation and impairment/(recognition as income):		
At beginning of year	–	–
Amortisation provided/(recognised as income) during the year	1,468	(108)
Impairment provided during the year	2,788	–
Write-off	(2,788)	–
At 31 December 2001	**1,468**	**(108)**
Net book value:		
At 31 December 2001	**33,771**	**(2,480)**

As detailed in note 3 to the financial statements, the Group has adopted the transitional provision of SSAP 30 which permits goodwill in respect of acquisitions which occurred prior to 1 January 2001, to remain eliminated against consolidated reserves. The amount of such goodwill amounted to HK$11,117,000 as at 1 January 2001 and 31 December 2001 and is stated at cost (note 31).

Due to the adoption of SSAP 31, the Group has adopted a policy to assess goodwill eliminated against consolidated reserves for impairment. No impairment was resulted from such assessment.

17. INTERESTS IN SUBSIDIARIES

	Company	
	2001	2000
	HK$'000	*HK$'000*
Unlisted shares, at cost	**45,633**	45,633
Due from subsidiaries	**347,370**	305,503
	393,003	351,136
Provision for impairment	**(52,952)**	–
	340,051	351,136

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

The amounts due from subsidiaries in the prior year have been adjusted for the effect of the prior year adjustment of HK$3,000,000 in respect of dividends proposed after the prior year's balance sheet date, as further explained in note 12 to the financial statements.

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

Company	Place of incorporation/ registration	Issued and fully paid share capital/ registered capital *	Percentage of equity interest attributable to the Company		Principal activities
			2001	2000	
Computer And Technologies (BVI) Limited	British Virgin Islands	US$1,000	**100%**	100%	Investment holding
Computer And Technologies International Limited	Hong Kong	Ordinary HK$2 Non-voting deferred ** HK$5,000,000	**100%**	100%	Investment holding
Computer And Technologies Integration Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Provision of system and network integration services
Computer And Technologies Services Limited	Hong Kong	HK$10,000	**100%**	100%	Provision of computer systems and software installation support and training services

17. INTERESTS IN SUBSIDIARIES (continued)

Company	Place of incorporation/ registration	Issued and fully paid share capital/ registered capital *	Percentage of equity interest attributable to the Company 2001	2000	Principal activities
Computer & Technologies International Trading (Shanghai) Company Limited#	Mainland China	US$200,000	**100%**	100%	Trading of computer hardware and software
Computer & Technologies (Shanghai) Co., Ltd.#	Mainland China	US$1,000,000	**100%**	100%	Provision of systems and network integration services
Computer & Technologies Investment Limited	British Virgin Islands	US$1	**100%**	100%	Investment holding
C&T (Guangzhou) Investment Limited	Hong Kong	HK$2	**100%**	100%	Property holding
C&T (Hong Kong) Investment Limited	British Virgin Islands	US$1	**100%**	100%	Property holding
C&T (Nanjing) Investment Limited	Hong Kong	HK$2	**100%**	100%	Property holding
C&T (Shanghai) Investment Limited	Hong Kong	HK$2	**100%**	100%	Property holding
Global e-Business Enabler Limited***	Hong Kong	HK$2	**100%**	100%	Provision of IT solutions and implementation services
Computer And Technologies Software Limited	Hong Kong	HK$500,000	**100%**	100%	Provision of IT solutions and implementation services

17. INTERESTS IN SUBSIDIARIES (continued)

Company	Place of incorporation/ registration	Issued and fully paid share capital/ registered capital *	Percentage of equity interest attributable to the Company 2001	2000	Principal activities
HutchTech Resources Limited	Hong Kong	HK$100	**100%**	50% *(note 18)*	Provision of resources team for IT solutions implementation
Computer & Technologies Solutions (Shenzhen) Co., Ltd.#	Mainland China	HK$1,000,000	**100%**	100%	Provision of IT solutions and implementation services
Computer And Technologies Solutions Limited##	Bermuda	US$12,000	**90%**	–	Provision of IT solutions implementation services
Global e-Business Services Limited	Hong Kong	HK$10,000	**100%**	100%	Provision of enterprise application services
ets.com.hk Limited	Hong Kong	HK$2	**100%**	100%	Provision of e-tendering services for HKSAR Government
e-tendering.com Limited	British Virgin Islands	US$1	**100%**	100%	Provision of e-tendering business
IPL Research Limited	Hong Kong	Ordinary HK$2 Non-voting deferred ** HK$300,000	**100%**	–	Provision of human resources management and related application software

17. INTERESTS IN SUBSIDIARIES (continued)

Company	Place of incorporation/ registration	Issued and fully paid share capital/ registered capital *	Percentage of equity interest attributable to the Company 2001	2000	Principal activities
Maxfair Technology Limited	Hong Kong	HK$2,500,000	**75%**	75%	Distribution of multi-media digital video products
Maxfair Technology (Taiwan) Company Limited	Taiwan	NT$10,000,000	**52.5%**	–	Distribution of multi-media digital video products

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

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

*** *Subsequent to the balance sheet date, on 23 January 2002, this subsidiary was renamed as Computer And Technologies Solutions Limited.*

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

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

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

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

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

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

18. INTEREST IN A JOINTLY-CONTROLLED ENTITY

	Group 2001 HK$'000	Group 2000 HK$'000
Share of net assets	–	(441)
Loan to the jointly-controlled entity	–	5,000
Amount due from the jointly-controlled entity	–	925
	–	5,484

Particulars of the jointly-controlled entity are as follows:

Name	Business structure	Place of incorporation and operation	Percentage of equity interest attributable to the Group 2001	2000	Principal activity
HutchTech Resources Limited ("HutchTech")	Corporate	Hong Kong/ Mainland China	**100%**	50%	Provision of resources team for IT solutions implementation

The jointly-controlled entity was indirectly held by the Company.

During the year, the Group acquired the remaining 50% equity interest in HutchTech after which it has been treated as a subsidiary (note 17).

The balances with the jointly-controlled entity were unsecured, interest-free and had no fixed terms of repayment.

19. INTEREST IN AN ASSOCIATE

	Group 2001 HK$'000	Group 2000 HK$'000
Share of net assets	–	1,093
Amount due from an associate	–	953
	–	2,046

The amount due from the associate was unsecured, interest-free and had no fixed terms of repayment.

19. INTEREST IN AN ASSOCIATE (continued)

Particulars of the associate were as follows:

Name	Business structure	Place of incorporation/ operation	Percentage of equity interest attributable to the Group 2001	2000	Principal activity
StarDB.com Limited	Corporate	Hong Kong/ Mainland China	–	39.47%	Provision of web-casting services

The associate was indirectly held by the Company and was disposed of during the year.

20. INVESTMENT SECURITIES

	Group 2001 HK$'000	2000 HK$'000
Club membership debenture, at cost	**1,460**	1,460
Provision for impairment	**(460)**	–
	1,000	1,460

21. PROMISSORY NOTE RECEIVABLE

The current year promissory note receivable of the Group represented a refund receivable from the seller in respect of the excess consideration paid by the Group for the acquisitions of certain subsidiaries during the year, details of which are set out in note 32(c)(i) to the financial statements. The amount is unsecured, bears interest at 4% per annum and is receivable in August 2003.

22. INVENTORIES

	Group 2001 HK$'000	2000 HK$'000
Work in progress	**1,927**	38,095
Finished goods	**4,351**	3,481
	6,278	41,576

23. TRADE RECEIVABLES

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

	Group	
	2001	2000
	HK$'000	*HK$'000*
Current	**64,061**	108,380
Overdue 1 to 3 months	**13,183**	8,033
Overdue 4 to 6 months	**4,520**	1,493
	81,764	117,906

Credit terms

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

24. CONTRACTS FOR SERVICES

	Group	
	2001	2000
	HK$'000	*HK$'000*
Gross amount due from contract customers	**6,172**	4,387
Gross amount due to contract customers included in other payables	**(83)**	–
	6,089	4,387
Contract costs incurred plus recognised profits less recognised losses to date	**33,252**	27,403
Less: Progress billings	**(27,163)**	(23,016)
	6,089	4,387

25. SHORT TERM INVESTMENTS

	Group	
	2001	2000
	HK$'000	*HK$'000*
Listed equity investments in Hong Kong, at market value	**12,464**	–

26. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

	Group		Company	
	2001	2000	**2001**	2000
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances	**54,924**	57,242	**300**	35,420
Time deposits	**155,339**	187,287	**7,025**	–
	210,263	244,529	**7,325**	35,420
Less: Pledged time deposits:				
Pledged for general banking facilities	**(12,992)**	–	**–**	–
Pledged for bank loans	**–**	(12,000)	**–**	–
Cash and cash equivalents	**197,271**	232,529	**7,325**	35,420

27. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

Included in the balance is an amount of HK$25,443,000 (2000: HK$67,196,000) representing the trade payables of the Group. An aged analysis of such payables is as follows:

	Group	
	2001	2000
	HK$'000	*HK$'000*
Current	**18,145**	62,990
Within 1 to 3 months	**3,935**	4,042
Between 4 to 6 months	**3,363**	164
	25,443	67,196

28. AMOUNTS DUE TO MINORITY SHAREHOLDERS OF SUBSIDIARIES

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

29. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Group		Company	
	2001	2000	**2001**	2000
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Bank loans, secured	**–**	8,491	**–**	–
Other loan wholly repayable within five years, unsecured	**739**	1,182	**739**	1,182
	739	9,673	**739**	1,182
The bank loans and other loan are repayable:				
Within one year	**443**	9,082	**443**	591
In the second year	**296**	591	**296**	591
	739	9,673	**739**	1,182
Portion classified as current liabilities	**(443)**	(9,082)	**(443)**	(591)
Long term portion	**296**	591	**296**	591

The banking facilities of the Group and the Company are secured by fixed charges over the Group's investment property of situated in Hong Kong with a carrying value at the balance sheet date of HK$9,800,000 (2000: leasehold land and buildings with a net book value of HK$15,520,000) and bank deposits of HK$12,992,000 (2000: HK$12,000,000).

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

30. SHARE CAPITAL

Shares

	Company	
	2001	2000
	HK$'000	*HK$'000*
Authorised:		
1,000,000,000 ordinary shares of HK$0.10 each	**100,000**	100,000
Issued and fully paid:		
270,588,198 (2000: 263,300,338) ordinary shares of HK$0.10 each	**27,059**	26,330

30. SHARE CAPITAL (continued)

During the year, the following changes in the Company's issued ordinary share capital took place and, as a result, 7,287,860 ordinary shares were issued:

(a) Pursuant to a share subscription and sales agreement dated 20 June 2001, 5,007,360 new ordinary shares of HK$0.10 each were allotted and issued at HK$3.0908 per share on 26 July 2001 as part of the consideration for the acquisition of subsidiaries (note 32(c)(i)); and

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

Share options

The Company operates a share option scheme (the "Scheme"), further details of which are set out under the heading "Share option scheme" in the Report of the Directors on page 13.

During the year, the movements in the number of share options to subscribe for shares in the Company under the Scheme were as follows:

	Number of share options to subscribe for shares at an exercise price per share of													
	HK$0.281	HK$0.298	HK$0.316	HK$0.635	HK$0.675	HK$0.715	HK$0.753	HK$1.563	HK$1.75	HK$1.8	HK$2.672	HK$4.04	HK$4.14	Total
	'000	'000	'000	'000	'000	'000	'000	'000	'000	'000	'000	'000	'000	'000
At beginning of year	200	1,456	348	520	702	708	112	–	2,743	988	–	1,241	1,252	10,270
Granted during the year*	–	–	–	–	–	–	–	600	–	–	2,653	–	–	3,253
Exercised during the year	–	(420)	(108)	(234)	(32)	(144)	(16)	–	(1,327)	–	–	–	–	(2,281)
Cancelled during the year	–	–	–	–	–	–	–	–	–	–	–	(1,241)	(1,252)	(2,493)
At 31 December 2001	**200**	**1,036**	**240**	**286**	**670**	**564**	**96**	**600**	**1,416**	**988**	**2,653**	**–**	**–**	**8,749**

* *At a consideration of HK$10 per grant.*

The options outstanding at 31 December 2001 expire at various dates up to the close of business day on 5 September 2006, or if that day is not a business day, the expiry date will be the close of the business day preceding 5 September 2006. The exercise in full of the outstanding options would, under the present capital structure of the Company, result in the issue of 8,749,000 additional shares and cash proceeds to the Company in the approximate amount of HK$13,833,000 before the related share issue expenses.

On 21 February 2000, the Company granted an option (the "Option") to a third party to subscribe for 17,489,362 new ordinary shares of the Company at an exercise price of HK$7.90 per share. The Option is exercisable in whole or in part at any time within two years from 21 February 2000. Subsequent to the balance sheet date, on 20 February 2002, the Option lapsed upon expiry.

31. RESERVES

Group

	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 2000	79,515	45,483	(11,117)	(1)	11,402	125,282
Issue of shares during the year	227,814	–	–	–	–	227,814
Share issue expenses	(628)	–	–	–	–	(628)
Net profit for the year	–	–	–	–	19,767	19,767
Proposed 2000 dividends	–	–	–	–	(7,910)	(7,910)
Exchange adjustments	–	–	–	14	–	14
At 31 December 2000 and 1 January 2001	306,701	45,483	(11,117)	13	23,259	364,339
Issue of shares during the year	17,514	–	–	–	–	17,514
Net loss for the year	–	–	–	–	(63,959)	(63,959)
Exchange adjustments	–	–	–	398	–	398
At 31 December 2001	**324,215**	**45,483**	**(11,117)**	**411**	**(40,700)**	**318,292**

* *The goodwill arose on acquisitions of subsidiaries prior to 1 January 2001 and remain eliminated against reserves as explained in note 16 to the financial statements.*

31. RESERVES (continued)

Company

	Share premium account HK$'000	Contributed surplus HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000
At 1 January 2000:				
As previously reported	79,515	45,483	312	125,310
Prior year adjustment:				
SSAP 18 (Revised) – net year-on-year effect of dividends from subsidiaries no longer recognised as income for the year *(notes 2 and 11)*	–	–	(5,500)	(5,500)
As restated	79,515	45,483	(5,188)	119,810
Issue of shares	227,814	–	–	227,814
Share issue expenses	(628)	–	–	(628)
Net profit for the year (as restated)	–	–	12,026	12,026
Proposed 2000 dividends	–	–	(7,910)	(7,910)
At 31 December 2000 and 1 January 2001:	306,701	45,483	(1,072)	351,112
As previously reported	306,701	45,483	1,928	354,112
Prior year adjustment:				
SSAP 18 (Revised) – net year-on-year effect of dividends from subsidiaries no longer recognised as income for the year *(notes 2 and 11)*	–	–	(3,000)	(3,000)
As restated	306,701	45,483	(1,072)	351,112
Issue of shares	17,514	–	–	17,514
Net loss for the year	–	–	(50,334)	(50,334)
At 31 December 2001	**324,215**	**45,483**	**(51,406)**	**318,292**

31. RESERVES (continued)

	Group	
	2001	2000
	HK$'000	*HK$'000*
Profits retained/(losses accumulated) by:		
Company and subsidiaries	**(40,700)**	23,732
Jointly-controlled entity	**–**	(441)
Associate	**–**	(32)
At end of year	**(40,700)**	23,259

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

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

32. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit/(loss) from operating activities to net cash inflow/(outflow) from operating activities

	2001	2000
	HK$'000	*HK$'000*
Profit/(loss) from operating activities	**(59,972)**	24,192
Interest income	**(6,494)**	(13,984)
Dividend income from listed investments	**(522)**	–
Gain on disposal of intangible assets	**(1,256)**	–
Gain on disposal of listed investments	**(374)**	(318)
Negative goodwill recognised as income	**(108)**	–
Depreciation	**8,351**	5,708
Impairment of fixed assets	**2,510**	–
Write-off of fixed assets	**217**	–
Amortisation of intangible assets	**7,382**	5,095
Impairment of investment securities	**460**	–
Deficit on revaluation of investment properties	**8,052**	–
Impairment of deferred development costs	**10,525**	–
Goodwill amortisation and impairment	**4,256**	–
Unrealised loss on revaluation of short term listed investments	**2,730**	–
Decrease/(increase) in trade receivables	**44,071**	(70,019)
Increase in amounts due from contract customers	**(1,785)**	(4,387)
Decrease/(increase) in prepayments, deposits and other receivables	**(1,165)**	2,519
Decrease/(increase) in inventories	**35,298**	(29,110)
Increase/(decrease) in trade payables, other payables and accruals	**(53,143)**	38,695
Increase in deferred income	**4,610**	–
Increase in amounts due to minority shareholders of subsidiaries	**656**	–
Net cash inflow/(outflow) from operating activities	**4,299**	(41,609)

32. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Analysis of changes in financing during the year

	Issued capital (including share premium account) HK$'000	Minority interests HK$'000 (Restated)	Bank and other loans HK$'000	Convertible bonds HK$'000
Balance at 1 January 2000	102,834	1,583	6,482	–
Proceeds from issue of convertible bonds	–	–	–	230,277
Conversion of convertible bonds	230,277	–	–	(230,277)
Proceeds from issue of shares	548	–	–	–
Share issue expenses	(628)	–	–	–
Net cash inflow from financing	–	–	3,191	–
Share of profit for the year	–	747	–	–
Dividend payable to a minority shareholder of a subsidiary	–	(1,674)	–	–
Balance at 31 December 2000 and 1 January 2001				
As previously reported	333,031	656	9,673	–
Prior year adjustment:				
SSAP 9 (Revised) – dividend declared by a subsidiary after year end to its minority shareholder no longer recognised as a liability at balance sheet date *(notes 2 and 12)*	–	1,674	–	–
As restated	333,031	2,330	9,673	–
Proceeds from issue of shares	2,766	–	–	–
Acquisitions of subsidiaries	–	384	–	–
Net cash outflow from financing	–	–	(8,934)	–
Share of profit for the year	–	312	–	–
Dividend declared to a minority shareholder of a subsidiary	–	(1,674)	–	–
Non-cash transaction *(note 30(a))*	15,477	–	–	–
Balance at 31 December 2001	**351,274**	**1,352**	**739**	**–**

32. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (continued)

(c) Acquisitions of subsidiaries

	2001	2000
	HK$'000	*HK$'000*
Net assets acquired:		
Fixed assets	**4,826**	–
Cash and bank balances	**10,391**	–
Trade receivables, prepayments and other receivables	**7,929**	–
Trade payables, other payables and accruals	**(9,292)**	–
Tax payable	**(357)**	–
Minority interests	**(384)**	–
	13,113	–
Goodwill on acquisition	**38,027**	–
Negative goodwill on acquisition	**(2,588)**	–
Consideration*	**48,552**	–
Satisfied by:		
Cash	**24,548**	–
Issue of shares *(note 30(a))*	**15,477**	–
Reclassification of interest in a jointly-controlled entity	**8,527**	–
	48,552	–

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

The subsidiaries acquired during the year contributed HK$2,267,000 to the Group's net operating cash inflows and received HK$181,000 in respect of the net return on investments and servicing of finance.

32. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (continued)

(c) Acquisitions of subsidiaries (continued)

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

	2001	2000
	HK$'000	*HK$'000*
Cash consideration	**(24,548)**	–
Cash and bank balances acquired	**10,391**	–
Net outflow of cash and cash equivalents in respect of acquisitions of subsidiaries	**(14,157)**	–

During the current year, the following material acquisitions took place:

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

Subsequent to the balance sheet date, pursuant to a supplementary agreement dated 4 February 2002 entered into between the Group and the Vendors (the "Supplemental Agreement"), the Group acquired the remaining 1% interest in IPL on 28 February 2002 from the Vendors at nil consideration and the Original Consideration was revised downwards to HK$36,025,000, with the excess consideration of HK$2,000,000 already paid by the Group to the Vendors to be refunded. The effect of this transaction has been reflected in the financial statements and the amount refundable is included as "Promissory note receivable" (note 21) on the face of the consolidated balance sheet.

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

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

32. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (continued)

(c) Acquisitions of subsidiaries (continued)

(ii) On 23 November 2001, the Group acquired a 90% interest in Breakaway Solutions Asia Pacific Limited ("BSAP") (subsequently renamed as Computer And Technologies Solutions Limited) from a Hong Kong listed company. BSAP is engaged in the provision of information technology consulting and solutions implementation services. The purchase consideration of US$10,800 was satisfied by cash on the date of acquisition.

(iii) On 5 December 2001, the Group acquired the remaining 50% interest in its 50%-owned jointly-controlled entity, HutchTech Resources Limited ("HutchTech"), from the other joint venture partner. The purchase consideration of HK$50 was satisfied by cash. The principal activity of HutchTech is the provision of resource teams for the implementation of information technology solutions.

(d) Major non-cash transactions

See notes 30(a) and 32(c)(i) for further details thereof.

33. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 14) under operating lease arrangements, with leases negotiated for terms ranging from 1 to 2 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 2001, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2001	2000
	HK$'000	*HK$'000*
Within one year	**213**	779
In the second to fifth years, inclusive	**–**	60
	213	839

33. OPERATING LEASE ARRANGEMENTS (continued)

(b) As lessee

The Group leases certain of its office properties and under operating lease arrangements. Leases for properties are negotiated for terms ranging from 1 to 6 years.

At 31 December 2001, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2001	2000	**2001**	2000
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
		(Restated)		*(Restated)*
Within one year	**7,264**	4,055	**1,674**	2,205
In the second to fifth years, inclusive	**15,808**	10,163	**7,812**	8,370
After five years	**–**	1,116	**–**	1,116
	23,072	15,334	**9,486**	11,691

SSAP 14 (Revised), which was adopted during the year, requires lessors under operating leases to disclose the total future minimum operating lease receivables under non-cancellable operating leases, as detailed in note (a) above. This disclosure was not previously required. SSAP 14 (Revised) also requires lessees under operating leases to disclose the total future minimum operating lease payments, rather than only the payments to be made during the next year as was previously required. Accordingly, the prior year comparative amounts for operating leases as lessee in note (b) above, have been restated to accord with the current year's presentation.

34. CONTINGENT LIABILITIES

	Group	
	2001	2000
	HK$'000	*HK$'000*
Guarantees given to customers for compliance of service contracts	**2,723**	3,347

During the year, the Company has issued corporate guarantees to certain suppliers of the Group in respect of purchases from these suppliers. At 31 December 2001, the outstanding amount due to these suppliers by the Group amounted to HK$11,230,000.

35. POST BALANCE SHEET EVENT

Details of the significant post balance sheet event are set out in note 32(c)(i) to the financial statements.

36. CONNECTED AND RELATED PARTY TRANSACTIONS

In addition to the transactions and balances described elsewhere in these financial statements, the Group's had the following related party transaction disclosed pursuant to SSAP 20 "Related Party Disclosures" and connected transaction disclosed pursuant to Chapter 14 of the Listing Rules were as follows:

	2001	2000
	HK$'000	*HK$'000*
Rental expense paid to:		
Ng Cheung Shing ("Mr. Ng", a director of the Company)	**531**	531

On 14 January 2000, the Company entered into a rental agreement with Mr. Ng to rent a property in Beijing, Mainland China (the "Property"), as office premises at a monthly rent of US$5,675 (equivalent to HK$44,265) for a term of two years commencing from 1 January 2000.

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

Subsequent to balance sheet date, on 5 February 2002, the rental agreement was renewed on the same terms for further two years commencing from 1 January 2002.

37. COMPARATIVE AMOUNTS

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

38. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 9 April 2002.