Notes to Financial Statements

31 December 2005

1. CORPORATE INFORMATION

Computer And Technologies Holdings Limited is a limited liability company incorporated in Bermuda. The principal place of business of the Company is located at 30th Floor, MLC Millennia Plaza, 663 King's Road, North Point, Hong Kong.

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

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

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties and an available-for-sale investment, which have been measured at fair value. These financial statements are presented in Hong Kong dollars.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2005. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

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

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2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The following new and revised HKFRSs affect the Group and are adopted for the first time for the current year's financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 11	Construction Contracts
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKAS 40	Investment Property
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HKAS-Int 21	Income Taxes – Recovery of Revalued Non-depreciable Assets
HK-Int 4	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases

The adoption of HKASs 2, 7, 8, 10, 11, 12, 14, 16, 18, 19, 21, 23, 27, 33, 37, 38, HKAS-Int 21 and HK-Int 4 has had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.

HKAS 1 has affected the presentation of minority interests on the face of the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity and other disclosures.

Notes to Financial Statements

31 December 2005

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

HKAS 17 has specific provisions regarding the classification of the land and buildings elements of a lease of land and buildings.

In prior years, the Group classified its entire interests in leasehold land and buildings held under operating leases as property, plant and equipment, without considering the land and building elements separately for the purposes of lease classification.

Upon the adoption of HKAS 17, the land and buildings elements of the Group's leasehold interests in land and buildings are considered separately for the purposes of lease classification. As permitted by HKAS 17, as the Group's prepaid land lease payments under operating leases cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease.

HKAS 17 has had no material impact for these financial statements on the amount recorded for leasehold land and buildings.

HKAS 24 has expanded the definition of related parties and affected the Group's related party disclosures.

The impact of adopting the other HKFRSs is summarised as follows:

(a) HKAS 32 and HKAS 39 – Financial Instruments

(i) Equity securities

In prior years, the Group classified its investments in securities as investment securities, which were held for non-trading purposes and were stated at cost less any impairment losses, on an individual investment basis. Upon the adoption of HKAS 39, the investment security held by the Group at 1 January 2005 in the amount of HK$1,000,000 is designated as an available-for-sale investment under the transitional provisions of HKAS 39 and accordingly is stated at its fair value at that date with gains or losses being recognised as a separate component of equity until subsequent derecognition or impairment.

The effects of the above changes are summarised in note 2.4 to the financial statements. In accordance with the transitional provisions of HKAS 39, comparative amounts have not been restated.

Notes to Financial Statements

31 December 2005

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

(a) HKAS 32 and HKAS 39 – Financial Instruments (continued)

(ii) Contractual obligations

In prior years, contractual obligations to deliver cash or another financial assets or a variable number of the Company's/one of its subsidiaries' equity instruments upon the occurrence or non-occurrence of certain future events or if certain future conditions were not met, such as those set out in note 29 to the financial statements, were not recognised as a financial liability.

Upon the adoption of HKAS 32, such obligations are recognised as a financial liability. The effects of the above changes are summarised in note 2.4 to the financial statements. In accordance with HKAS 32, comparative amounts have been restated.

(b) HKAS 40 – Investment Property

In prior years, changes in the fair values of investment properties were dealt with as movements in the asset revaluation reserve. If the total of this reserve was insufficient to cover a deficit, on a portfolio basis, the excess of the deficit was charged to the income statement. Any subsequent revaluation surplus was credited to the income statement to the extent of the deficit previously charged.

Upon the adoption of HKAS 40, gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise. As the Group did not have any asset revaluation reserve as at 1 January 2004 and 2005, the adoption of HKAS 40 has had no impact on the opening balances of retained profits and the results for the comparative period.

(c) HKFRS 2 – Share-based Payment

In prior years, no recognition and measurement of share-based payment transactions in which employees (including directors) were granted share options over shares in the Company were required until such options were exercised by employees, at which time the share capital and share premium were credited with the proceeds received.

Upon the adoption of HKFRS 2, when employees (including directors) render services as consideration for equity instruments ("equity-settled transactions"), the cost of the equity-settled transactions with employees is measured by reference to the fair value at the date at which the instruments are granted.

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31 December 2005

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

(c) HKFRS 2 – Share-based Payment (continued)

The main impact of HKFRS 2 on the Group is the recognition of the cost of these transactions and a corresponding entry to equity for employee share options. The revised accounting policy for share-based payment transactions is described in more detail in note 2.5 "Summary of significant accounting policies" below.

The Group has adopted the transitional provisions of HKFRS 2 under which the new measurement policies have not been applied to (i) options granted to employees on or before 7 November 2002; and (ii) options granted to employees after 7 November 2002 but which had vested before 1 January 2005.

The effects of adopting HKFRS 2 on the Group's share options granted to employees after 7 November 2002 but had not vested before 1 January 2005 are summarised in note 2.4 to the financial statements. Comparative amounts have been restated in accordance with HKFRS 2.

(d) HKFRS 3 – Business Combinations and HKAS 36 – Impairment of Assets

In prior years, goodwill arising on acquisitions prior to 1 January 2001 was eliminated against the consolidated reserves in the year of acquisition and was not recognised in the income statement until disposal or impairment of the acquired business. Goodwill arising on acquisitions on or after 1 January 2001 was capitalised and amortised on the straight-line basis over its estimated useful life and was subject to impairment testing when there was any indication of impairment.

In prior years, negative goodwill was carried in the balance sheet and was recognised in the consolidated income statement on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets, except to the extent that it related to expectations of future losses and expenses that were identified in the acquisition plan and that can be measured reliably, but which did not represent identifiable liabilities as at the date of acquisition, in which case, it was recognised as income in the consolidated income statement when the future losses and expenses were recognised.

The adoption of HKFRS 3 and HKAS 36 has resulted in the Group ceasing annual goodwill amortisation and commencing testing for impairment at the cash-generating unit level annually (or more frequently if events or changes in circumstances indicate that the carrying value may be impaired).

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of the acquisition of subsidiaries (previously referred to as negative goodwill), after reassessment, is recognised immediately in the income statement.

Notes to Financial Statements

31 December 2005

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

(d) HKFRS 3 – Business Combinations and HKAS 36 – Impairment of Assets (continued)

The transitional provisions of HKFRS 3 have required the Group to eliminate at 1 January 2005 the carrying amounts of accumulated amortisation with a corresponding adjustment to the cost of goodwill. Goodwill previously eliminated against the consolidated reserves remains eliminated against the consolidated reserves and is not recognised in the income statement when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

The effects of the above changes are summarised in note 2.4 to the financial statements. In accordance with the transitional provisions of HKFRS 3, comparative amounts have not been restated.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, herein collectively referred to as the new HKFRSs, that have been issued but are not yet effective, in these financial statements. Unless otherwise stated, these HKFRSs are effective for accounting periods beginning on or after 1 January 2006:

HKAS 1 Amendment	Capital Disclosures
HKAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKFRSs 1 & 6 Amendments	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease
HK(IFRIC)-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies

Notes to Financial Statements

31 December 2005

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

The HKAS 1 Amendment shall be applied for accounting periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 incorporates the disclosure requirements of HKAS 32 relating to financial instruments. This HKFRS shall be applied for accounting periods beginning on or after 1 January 2007.

In accordance with the amendments to HKAS 39 regarding financial guarantee contracts, financial guarantee contracts are initially recognised at fair value and are subsequently measured at the higher of (i) the amount determined in accordance with HKAS 37 and (ii) the amount initially recognised, less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18.

The HKAS 19 Amendment, HKAS 39 Amendment regarding cash flow hedge accounting of forecast intragroup transactions, HKFRSs 1 and 6 Amendments, HKFRS 6, HK(IFRIC)-Int 5 and HK(IFRIC)-Int 6 do not apply to the activities of the Group. HK(IFRIC)-Int 6 shall be applied for accounting periods beginning on or after 1 December 2005.

The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2005. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

Except as stated above, the Group expects that the adoption of the other pronouncements listed above will not have any significant impact on the Group's financial statements in the period of initial application.

Notes to Financial Statements

31 December 2005

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

(a) Effect on the consolidated balance sheet

At 1 January 2005

	Effect of adopting				
	HKAS 1#	HKASs 32# and 39*	HKAS 32#	HKFRS 2#	
Effect of new policies (Increase/(decrease))	Presentation HK$'000	Change in classification of equity investments HK$'000	Contractual obligations HK$'000	Equity-settled share option arrangements HK$'000	Total HK$'000
Assets					
Property, plant and equipment	(16,297)	–	–	–	(16,297)
Investment properties	16,297	–	–	–	16,297
Available-for-sale investment	–	750	–	–	750
Investment security	–	(1,000)	–	–	(1,000)
					(250)
Liabilities/equity					
Other financial liabilities	–	–	23,400	–	23,400
Available-for-sale investment revaluation reserve	–	(250)	–	–	(250)
Share option reserve	–	–	–	837	837
Retained profits	–	–	(17,005)	(837)	(17,842)
Minority interests	–	–	(6,395)	–	(6,395)
					(250)

* Adjustments taken effect prospectively from 1 January 2005

\# Adjustments/presentation taken effect retrospectively

Notes to Financial Statements

31 December 2005

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES (continued)

(a) Effect on the consolidated balance sheet (continued)

At 31 December 2005

	Effect of adopting				
	HKAS 1#	HKASs 32# and 39*	HKAS 32#	HKFRS 2#	
Effect of new policies (Increase/(decrease))	Presentation HK$'000	Change in classification of equity investments HK$'000	Contractual obligations HK$'000	Equity-settled share option arrangements HK$'000	Total HK$'000
Assets					
Property, plant and equipment	(17,820)	–	–	–	(17,820)
Investment properties	17,820	–	–	–	17,820
Available-for-sale investment	–	750	–	–	750
Investment security	–	(1,000)	–	–	(1,000)
					(250)
Liabilities/equity					
Other financial liabilities	–	–	23,400	–	23,400
Available-for-sale investment revaluation reserve	–	(250)	–	–	(250)
Share option reserve	–	–	–	1,144	1,144
Retained profits	–	–	(18,090)	(1,144)	(19,234)
Minority interests	–	–	(5,310)	–	(5,310)
					(250)

Effect of adopting HKFRS 3

Had the amortisation of goodwill been made for the year ended 31 December 2005 and included in these financial statements, the goodwill and retained profits of the Group at 31 December 2005 would have been reduced by HK$3,672,000.

Notes to Financial Statements

31 December 2005

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES (continued)

(b) Effect on the consolidated income statement for the years ended 31 December 2005 and 2004

Effect of new policies	Effect of adopting HKFRS 2 Employee share option scheme HK$'000	HKAS 32 Contractual obligations HK$'000	HKFRS 3 Discontinuation of amortisation of goodwill HK$'000	Total HK$'000
Year ended 31 December 2005				
Increase in general and administrative expenses	(307)	–	–	(307)
Decrease in other expenses	–	–	3,672	3,672
Decrease in minority interests' share of losses	–	(1,085)	–	(1,085)
Total increase/(decrease) in profit	(307)	(1,085)	3,672	2,280
Increase/(decrease) in basic earnings per share	(0.11) cent	(0.40) cent	1.34 cents	0.83 cent

Notes to Financial Statements

31 December 2005

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES (continued)

(b) Effect on the consolidated income statement for the years ended 31 December 2005 and 2004 (continued)

		Effect of adopting		
	HKFRS 2	HKAS 32#	HKFRS 3	
Effect of new policies	Employee share option scheme HK$'000	Contractual obligations HK$'000	Discontinuation of amortisation of goodwill HK$'000	Total HK$'000
Year ended 31 December 2004				
Decrease in gain on deemed disposal of subsidiaries	–	(15,309)	–	(15,309)
Increase in general and administrative expenses	(837)	(857)	–	(1,694)
Decrease in minority interests' share of losses	–	(839)	–	(839)
Total decrease in profit	(837)	(17,005)	–	(17,842)
Increase in basic loss per share	(0.30) cent	(6.18) cents	–	(6.48) cents

Notes to Financial Statements

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2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the business combination over the Group's interest in the fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill on acquisitions for which the agreement date is on or after 1 January 2005

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 "Segment Reporting".

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

Notes to Financial Statements

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

Goodwill previously eliminated against the consolidated reserves

Prior to the adoption of SSAP 30 "Business combinations" in 2001, goodwill arising on acquisition was eliminated against the consolidated reserves in the year of acquisition. On the adoption of HKFRS 3, such goodwill remains eliminated against the consolidated reserves and is not recognised in profit or loss when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

Excess over the cost of business combinations (applicable to business combinations for which the agreement date is on or after 1 January 2005)

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of the acquisition of subsidiaries (previously referred to as negative goodwill), after reassessment, is recognised immediately in the income statement.

Impairment of assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than, inter alia, inventories, deferred tax assets, financial assets, investment properties and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill 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 income statement in the period in which it arises.

Notes to Financial Statements

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment 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 items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement 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 an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land	Over the lease terms
Buildings	2% – 4%
Leasehold improvements	Over the lease terms
Computer equipment and software	20% – $33^1/_3$%
Furniture, fixtures and office equipment	18% – 25%
Motor vehicles	20%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Notes to Financial Statements

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date.

Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

Intangible assets (other than goodwill)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

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

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31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets

Applicable to the year ended 31 December 2004:

The Group classified its equity investments, other than subsidiaries, as investment securities.

Investment securities

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

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

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

Applicable to the year ended 31 December 2005:

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, i.e., the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Notes to Financial Statements

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Applicable to the year ended 31 December 2005: (continued)

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Other long term investments that are intended to be held to maturity, such as bonds, are subsequently measured at amortised cost. Amortised cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets in listed and unlisted equity securities that are designated as available for sale or are not classified in any of the other three categories. After initial recognition, available for sale financial assets are measured at fair value, with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Notes to Financial Statements

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Applicable to the year ended 31 December 2005: (continued)

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

Impairment of financial assets (applicable to the year ended 31 December 2005)

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Notes to Financial Statements

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (applicable to the year ended 31 December 2005) (continued)

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available-for-sale are not reversed through profit or loss.

Impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event, occurring after the impairment loss was recognised in profit or loss.

Derecognition of financial assets (applicable to the year ended 31 December 2005)

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Trade and other financial liabilities

Trade and other financial liabilities are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process.

Notes to Financial Statements

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial liabilities (applicable to the year ended 31 December 2005)

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of finished goods and work in progress, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Deferred income

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

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Income tax

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

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

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

Notes to Financial Statements

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with interests in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with interests in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Notes to Financial Statements

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

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

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

Revenue recognition

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

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

(b) from the provision of IT solutions, e-business and related services, on the percentage of completion basis, as further explained in the accounting policy for "Contracts for services" below;

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

(d) income from providing 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, on a time proportion basis over the lease terms;

(g) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset; and

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

Notes to Financial Statements

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contracts for services

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

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

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

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

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

Operating leases

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

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Notes to Financial Statements

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

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

Employee benefits

Paid leave carried forward

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

Notes to Financial Statements

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 32. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options, if any, is reflected as additional share dilution in the computation of earnings per share.

The Group has adopted the transitional provisions of HKFRS 2 in respect of equity-settled awards and has applied HKFRS 2 only to equity-settled awards granted after 7 November 2002 that had not vested on 1 January 2005 and to those granted on or after 1 January 2005.

Notes to Financial Statements

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Retirement benefits schemes

The Group operates defined contribution retirement benefits schemes under the Hong Kong Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the schemes. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement 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 of the Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme"), the Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

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

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is a member of the key management personnel of the Group or its parent;

(c) the party is a close member of the family of any individual referred to in (a) or (b);

(d) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (b) or (c); or

(e) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

Notes to Financial Statements

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Operating lease commitments – Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as investment property.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2005 was HK$23,790,000 (2004: HK$23,790,000). More details are given in note 16.

Notes to Financial Statements

31 December 2005

4. SEGMENT INFORMATION

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

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

(a) the integration and solution services segment is engaged in the provision of system and network integration services, industry-specific IT application implementation services, IT solutions implementation and application development services;

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

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

(d) the investments segment is primarily engaged in various types of investing activities including, inter alia, property investments for rental income and treasury investments in listed securities and held-to-maturity securities for dividend income and interest income.

The Group presented separate segment information for integration services and solutions services in the prior year's financial statements. During the current year, the integration services division has moved increasingly towards the provision of customised IT solutions by providing software design, implementation and application development services to businesses, where in the past the focus of integration services was on the sale of finished networking hardware with minimal system development support and customisation. This trend has aligned the core underlying business of integration services with solutions services. Accordingly, the directors consider it is appropriate to combine the "Integration Services" segment and the "Solutions Services" segment to form a single business segment in the current year.

To conform with the current year's presentation, the segment assets, liabilities and results of the "Integration Services" segment and the "Solutions Services" segment as at 31 December 2004 and for the year then ended have been combined and disclosed under the new "Integration and Solutions Services" segment.

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

There were no material intersegment sales and transfers during the current and the prior years.

Notes to Financial Statements

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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 for the years ended 31 December 2005 and 2004.

Group

	Integration and Solutions Services		Application Services		Distribution		Investments		Consolidated	
	2005 HK$'000	2004 HK$'000	**2005 HK$'000**	2004 HK$'000	**2005 HK$'000**	2004 HK$'000	**2005 HK$'000**	2004 HK$'000	**2005 HK$'000**	2004 HK$'000 (Restated)
Segment revenue:										
Sales to external customers	**135,350**	190,630	**48,528**	30,764	**27,680**	29,003	**1,316**	1,403	**212,874**	251,800
Other revenue and gains	**654**	912	**88**	9	**1,925**	1,936	**1,999**	2,894	**4,666**	5,751
Total	**136,004**	191,542	**48,616**	30,773	**29,605**	30,939	**3,315**	4,297	**217,540**	257,551
Segment results before significant non-cash expenses	**17,199**	5,117	**12,164**	4,029	**(273)**	1,599	**2,620**	4,067	**31,710**	14,812
Depreciation	**(3,294)**	(4,517)	**(1,434)**	(1,645)	**(710)**	(752)	**(265)**	(319)	**(5,703)**	(7,233)
Amortisation of deferred development costs	**–**	–	**(2,807)**	(2,319)	**–**	–	**–**	–	**(2,807)**	(2,319)
Amortisation of goodwill	**–**	–	**–**	(3,672)	**–**	–	**–**	–	**–**	(3,672)
Provision for bad and doubtful debts	**(2,211)**	–	**(301)**	–	**–**	–	**–**	–	**(2,512)**	–
Segment results	**11,694**	600	**7,622**	(3,607)	**(983)**	847	**2,355**	3,748	**20,688**	1,588
Unallocated interest income and gains									**3,615**	1,679
Unallocated expenses									**(16,581)**	(17,333)
Finance costs									**(17)**	(875)
Profit/(loss) before tax									**7,705**	(14,941)
Tax									**(232)**	1,460
Profit/(loss) for the year									**7,473**	(13,481)

Notes to Financial Statements

31 December 2005

4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group

	Integration and Solutions Services		Application Services		Distribution		Investments		Consolidated	
	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000
Assets and liabilities:										
Segment assets	**74,950**	227,769	**77,096**	46,269	**13,736**	15,936	**120,925**	67,428	**286,707**	357,402
Unallocated assets									**92,144**	35,669
Total assets									**378,851**	393,071
Segment liabilities	**23,727**	30,642	**15,390**	10,175	**6,685**	7,920	**322**	175	**46,124**	48,912
Unallocated liabilities									**25,563**	40,036
Total liabilities									**71,687**	88,948
Other segment information:										
Capital expenditure	**2,117**	1,493	**272**	2,505	**332**	351	**–**	191	**2,721**	4,540
Unallocated capital expenditure									**282**	206
									3,003	4,746

(b) Geographical segments

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments for the years ended 31 December 2005 and 2004.

Group

	Hong Kong		Mainland China		Others		Consolidated	
	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000
Segment revenue:								
Sales to external customers	**83,283**	119,390	**112,953**	117,573	**16,638**	14,837	**212,874**	251,800
Other segment information:								
Segment assets	**263,626**	302,472	**107,115**	82,649	**8,110**	7,950	**378,851**	393,071
Capital expenditure	**972**	3,922	**1,859**	609	**172**	215	**3,003**	4,746

Notes to Financial Statements

31 December 2005

5. REVENUE, OTHER INCOME AND GAINS

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

An analysis of revenue, other income and gains is as follows:

	2005 **HK$'000**	2004 HK$'000 (Restated)
Revenue		
Sale of goods:		
Computer network and system platform	**90,511**	109,433
Computer hardware, software and related accessories	**27,680**	29,003
	118,191	138,436
Provision of IT solutions, e-business and related services	**32,233**	78,806
Provision of maintenance services, consultancy services and training courses	**61,134**	33,155
Gross rental income from investment properties	**884**	909
Interest income from treasury investments	**432**	494
	212,874	251,800
Other income		
Bank interest income	**3,331**	1,297
Dividend income from listed investments	**85**	–
Gross sub-lease rental income	**1,141**	1,211
Others	**1,128**	1,874
	5,685	4,382
Gains		
Fair value gains on investment properties (note 15)	**1,523**	1,958
Gain on disposal of listed investments	**365**	138
Foreign exchange differences, net	**708**	952
	2,596	3,048
	8,281	7,430

Notes to Financial Statements

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6. PROFIT/(LOSS) BEFORE TAX

The Group's profit/(loss) before tax is arrived at after charging/(crediting):

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
Cost of inventories sold		**100,582**	141,467
Cost of services provided		**30,358**	40,847
Depreciation*		**6,131**	8,735
Loss on disposal of items of property, plant and equipment		**106**	14
Amortisation of deferred development costs*	17	**2,807**	2,319
Amortisation of goodwill**	16	**–**	3,672
Minimum lease payments under operating leases in respect of land and buildings		**7,113**	7,419
Auditors' remuneration		**1,128**	950
Employee benefits expense (excluding directors' remuneration – note 7)#:			
Wages, salaries and allowances		**69,342**	80,125
Equity-settled share option expense##		**177**	578
Retirement benefits scheme contributions (defined contribution schemes)		**2,732**	4,015
Less: Forfeited contributions		**(462)**	(209)
Net retirement benefits scheme contributions###		**2,270**	3,806
Direct operating expenses (including repairs and maintenance) arising on rental-earning investment properties		**153**	136
Changes in fair value of investment properties***		**(1,523)**	(1,958)
Provision for bad and doubtful debts**		**2,512**	–
Fair value losses, net:			
Equity investments at fair value through profit or loss		**123**	–

* The amortisation of deferred development costs of HK$2,807,000 (2004: HK$2,319,000) and depreciation of HK$940,000 (2004: HK$3,624,000) are included in "Cost of sales" on the face of the consolidated income statement.

** These items are included in "Other expenses" on the face of the consolidated income statement.

*** This item is included in "Other income and gains" on the face of the consolidated income statement.

\# Inclusive of an amount of HK$30,358,000 (2004: HK$39,935,000) classified under cost of services provided above.

\## During the year ended 31 December 2004, 2,122,000 share options were granted to certain employees in respect of their services to the Group under the share option scheme of the Company, further details of which are included in the disclosures in note 32 to the financial statements. In addition, an option for the purchase of certain shares of a subsidiary was granted to an employee ("Subsidiary Option"), further details of which are set out in note 36(a) to the financial statements. No value in respect of the Subsidiary Option granted and fully vested in the prior year was charged to the consolidated income statement, or is otherwise included in the above disclosures.

\### The amounts of forfeited contributions available to reduce the Group's contributions to the retirement benefits schemes in future years were not material as at 31 December 2005 and 2004.

Notes to Financial Statements

31 December 2005

7. DIRECTORS' REMUNERATION

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

	Group	
	2005	2004
	HK$'000	HK$'000
		(Restated)
Fees:		
Executive directors	**–**	–
Independent non-executive directors	**240**	172
	240	172
Other emoluments:		
Salaries, allowances and benefits in kind	**2,800**	2,820
Bonuses paid and payable	**424**	384
Employee share option benefits	**130**	259
Retirement benefits scheme contributions (defined contribution schemes)	**36**	36
	3,390	3,499
	3,630	3,671

During the year ended 31 December 2004, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 32 to the financial statements. The fair value of such options, which has been amortised to the consolidated income statement, was determined as at the date of the grant and was included in the above directors' remuneration disclosures.

Notes to Financial Statements

31 December 2005

7. DIRECTORS' REMUNERATION (continued)

(a) Independent non-executive directors

The fees and other emoluments paid to independent non-executive directors during the year were as follows:

	Fees HK$'000	Employee share option benefits HK$'000	Total remuneration HK$'000
2005			
Independent non-executive directors:			
Ha Shu Tong	**80**	**14**	**94**
Lee Kwok On, Matthew	**80**	**14**	**94**
Ting Leung Huel, Stephen	**80**	**14**	**94**
	240	**42**	**282**
2004			
Independent non-executive directors:			
Ha Shu Tong	73	27	100
Lee Kwok On, Matthew	73	27	100
Ting Leung Huel, Stephen	26	27	53
	172	81	253

Save as disclosed above, there were no emoluments payable to the independent non-executive directors during the year (2004: Nil).

Notes to Financial Statements

31 December 2005

7. DIRECTORS' REMUNERATION (continued)

(b) Executive directors

The fees and other emoluments paid to executive directors during the year were as follows:

	Salaries, allowances and benefits in kind HK$'000	Performance related bonuses HK$'000	Employee share option benefits HK$'000	Retirement benefits scheme contributions HK$'000	Total remuneration HK$'000
2005					
Executive directors:					
Ng Cheung Shing	**1,392**	**291**	**41**	**12**	**1,736**
Leung King San, Sunny	**948**	**54**	**27**	**12**	**1,041**
Ma Mok Hoi	**460**	**79**	**20**	**12**	**571**
	2,800	**424**	**88**	**36**	**3,348**
2004					
Executive directors:					
Ng Cheung Shing	1,392	194	82	12	1,680
Leung King San, Sunny	948	76	55	12	1,091
Ma Mok Hoi	480	114	41	12	647
	2,820	384	178	36	3,418

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2004: Nil).

Notes to Financial Statements

31 December 2005

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid individuals of the Group during the year included one director (2004: two directors), details of whose remuneration are set out in note 7 to the financial statements. Details of the remuneration of the remaining four (2004: three) non-director, highest paid employees for the year are as follows:

	Group	
	2005 HK$'000	2004 HK$'000 (Restated)
Salaries, allowances and benefits in kind	**4,754**	3,594
Bonuses paid and payable	**367**	484
Employee share option benefits	**102**	219
Retirement benefits scheme contributions	**64**	36
	5,287	4,333

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

	Number of employees	
	2005	2004
Nil to HK$1,000,000	**–**	1
HK$1,000,001 to HK$1,500,000	**4**	1
HK$1,500,001 to HK$2,000,000	**–**	1
	4	3

During the year ended 31 December 2004, share options were granted to the non-director, highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 32 to the financial statements. The fair value of such options, which has been charged to the consolidated income statement, was determined as at the date of the grant and was included in the above non-director, highest paid employees' remuneration disclosures.

Notes to Financial Statements

31 December 2005

9. FINANCE COSTS

	Group	
	2005 **HK$'000**	2004 HK$'000
Interest on bank loans wholly repayable within five years	**17**	875

10. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2005 **HK$'000**	2004 HK$'000
Group:		
Current – Hong Kong		
Charge for the year	**250**	90
Overprovision in prior years	**(1)**	(52)
Current – Elsewhere		
Charge for the year	**933**	251
Overprovision in prior years	**–**	(1,749)
Deferred (note 30)	**(950)**	–
Total tax charge/(credit) for the year	**232**	(1,460)

Notes to Financial Statements

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10. TAX (continued)

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

Group

	2005 HK$'000	2005 %	2004 HK$'000 (Restated)	2004 %
Profit (loss) before tax	**7,705**		(14,941)	
Tax at the Hong Kong statutory profits tax rate	**1,348**	**17.5**	(2,615)	(17.5)
Higher tax rates for overseas subsidiaries	**1,104**	**14.3**	1,744	11.7
Adjustments in respect of current tax of prior years	**(1)**	**–**	(1,801)	(12.1)
Income not subject to tax	**(3,395)**	**(44.1)**	(929)	(6.2)
Expenses not deductible for tax	**3,215**	**41.7**	1,347	9.0
Tax losses utilised from previous periods	**(4,256)**	**(55.2)**	(3,696)	(24.7)
Tax losses for the year not recognised	**2,217**	**28.8**	4,490	30.0
Tax charge/(credit) at the Group's effective tax rate	**232**	**3.0**	(1,460)	(9.8)

Under the income tax laws of the People's Republic of China (the "PRC"), enterprises are subject to corporate income tax ("CIT") generally at a rate of 33% (2004: 33%). However, certain of the Group's PRC subsidiaries are operating in specific development zones of the PRC and the relevant tax authorities have granted those subsidiaries a preferential CIT rate of 15% (2004: 15%).

Notes to Financial Statements

31 December 2005

11. NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The net profit/(loss) from ordinary activities attributable to equity holders of the parent for the year ended 31 December 2005 dealt with in the financial statements of the Company, was HK$19,152,000 (2004 (restated): net loss of HK$975,000) (note 33(b)).

12. DIVIDENDS

	2005 **HK$'000**	2004 HK$'000
Proposed final – HK$0.01 (2004: Nil) per ordinary share	**2,695**	–
Proposed special – HK$0.02 (2004: Nil) per ordinary share	**5,390**	–
	8,085	–

The proposed final and special dividends for the year are subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

13. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

(a) Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the net profit for the year attributable to ordinary equity holders of the parent of HK$8,011,000 (2004 (restated): net loss of HK$13,520,000), and the weighted average number of 273,933,000 (2004: 275,173,000) ordinary shares of the Company in issue during the year.

(b) Diluted earnings/(loss) per share

A diluted earnings per share for the year ended 31 December 2005 has not been disclosed as the exercise prices of the Company's outstanding share options are higher than the average market price of the Company's ordinary shares during the year and accordingly, the share options have no dilutive effect.

No diluted loss per share is presented for the year ended 31 December 2004 as the effect of the Company's outstanding share options was anti-dilutive.

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14. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold land and buildings HK$'000	Leasehold improvements HK$'000	Computer equipment and software HK$'000	Furniture, fixtures and other equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
31 December 2005						
At 31 December 2004 and at 1 January 2005:						
Cost	7,158	7,034	36,314	6,178	1,286	57,970
Accumulated depreciation	(284)	(5,881)	(25,795)	(4,781)	(380)	(37,121)
Net carrying amount	6,874	1,153	10,519	1,397	906	20,849
At 1 January 2005, net of accumulated depreciation	6,874	1,153	10,519	1,397	906	20,849
Additions	–	218	1,056	329	–	1,603
Disposals	–	(38)	(15)	(53)	–	(106)
Depreciation provided during the year	(226)	(517)	(4,504)	(658)	(226)	(6,131)
Exchange realignment	–	6	20	(1)	9	34
At 31 December 2005, net of accumulated depreciation	6,648	822	7,076	1,014	689	16,249
At 31 December 2005:						
Cost	7,158	7,073	34,599	5,835	1,300	55,965
Accumulated depreciation	(510)	(6,251)	(27,523)	(4,821)	(611)	(39,716)
Net carrying amount	6,648	822	7,076	1,014	689	16,249

Notes to Financial Statements

31 December 2005

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Group

	Leasehold land and buildings HK$'000	Leasehold improve-ments HK$'000	Computer equipment and software HK$'000	Furniture, fixtures and other equipment HK$'000	Motor vehicles HK$'000	Total HK$'000 (Restated)
31 December 2004						
At 1 January 2004:						
Cost	6,994	7,012	33,509	5,838	1,524	54,877
Accumulated depreciation	(14)	(4,822)	(19,959)	(3,737)	(341)	(28,873)
Net carrying amount	6,980	2,190	13,550	2,101	1,183	26,004
At 1 January 2004, net of accumulated depreciation	6,980	2,190	13,550	2,101	1,183	26,004
Additions	164	143	2,987	352	286	3,932
Disposals	–	(18)	(18)	(26)	(321)	(383)
Depreciation provided during the year	(270)	(1,176)	(6,003)	(1,042)	(244)	(8,735)
Exchange realignment	–	14	3	12	2	31
At 31 December 2004, net of accumulated depreciation	6,874	1,153	10,519	1,397	906	20,849
At 31 December 2004:						
Cost	7,158	7,034	36,314	6,178	1,286	57,970
Accumulated depreciation	(284)	(5,881)	(25,795)	(4,781)	(380)	(37,121)
Net carrying amount	6,874	1,153	10,519	1,397	906	20,849

Notes to Financial Statements

31 December 2005

14. PROPERTY, PLANT AND EQUIPMENT (continued)

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

	2005 HK$'000	2004 HK$'000
Hong Kong:		
Medium term leases	**465**	481
Mainland China:		
Medium term leases	**5,050**	5,227
Long term leases	**1,133**	1,166
	6,183	6,393
	6,648	6,874

15. INVESTMENT PROPERTIES

Group

	2005 HK$'000	2004 HK$'000
Carrying amount at 1 January	**16,297**	14,339
Net profit from a fair value adjustment	**1,523**	1,958
Carrying amount at 31 December	**17,820**	16,297

Notes to Financial Statements

31 December 2005

15. INVESTMENT PROPERTIES (continued)

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

	2005 HK$'000	2004 HK$'000
Hong Kong:		
Medium term leases	**1,022**	852
Long term leases	**11,000**	10,000
	12,022	10,852
Mainland China:		
Medium term leases	**1,650**	1,600
Long term leases	**4,148**	3,845
	5,798	5,445
	17,820	16,297

The Group's investment properties were revalued on 31 December 2005 by Landscope Surveyors Limited, independent professionally qualified valuers, at HK$17,820,000 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 34(a) to the financial statements.

At 31 December 2005, certain of the Group's investment properties situated in Hong Kong, with an aggregate carrying value of approximately HK$11,000,000 (2004: HK$10,000,000), were pledged to secure certain bank guarantees/performance bonds facilities granted to the Group.

Further particulars of the Group's investment properties are included on page 103.

Notes to Financial Statements

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16. GOODWILL

Group

	HK$'000
31 December 2005	
At 1 January 2005:	
Cost as previously reported	36,089
Effect of adopting HKFRS 3 (note 2.2(d))	(12,299)
Cost as restated	23,790
Accumulated amortisation as previously reported	(12,299)
Effect of adopting HKFRS 3 (note 2.2(d))	12,299
Accumulated amortisation as restated	–
Net carrying amount	23,790
Cost and carrying amount at 31 December 2005	23,790
31 December 2004	
At 1 January 2004:	
Cost	36,089
Accumulated amortisation	(8,627)
Net carrying amount	27,462
Cost at 1 January 2004, net of accumulated amortisation	27,462
Amortisation provided during the year	(3,672)
At 31 December 2004	23,790
At 31 December 2004:	
Cost	36,089
Accumulated amortisation	(12,299)
Net carrying amount	23,790

In 2004, goodwill not previously eliminated against the consolidated reserves was amortised on the straight-line basis over its estimate useful life of five to ten years.

As further detailed in note 2.2(d) to the financial statements, the Group applied the transitional provisions of HKFRS 3 that permitted goodwill in respect of business combinations which occurred prior to 2001, to remain eliminated against the consolidated reserves.

Notes to Financial Statements

31 December 2005

16. GOODWILL (continued)

The amounts of the goodwill remaining in the consolidated reserves as at 1 January 2005, arising from the acquisition of subsidiaries prior to the adoption of SSAP 30 in 2001, are as follows:

Group

	Goodwill eliminated against consolidated reserves HK$'000
31 December 2005	
At 1 January 2005	
Cost as previously reported	11,117
Accumulated impairment as previously reported	(3,890)
Net carrying amount at 1 January 2005 and 31 December 2005	7,227
31 December 2004	
Cost as at 1 January 2004 and 31 December 2004	11,117
At 31 December 2004:	
Cost	11,117
Accumulated impairment	(3,890)
Net carrying amount	7,227

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the application services cash-generating unit, which is a reportable segment, for impairment testing.

Application services cash-generating unit

The recoverable amount of the application services cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to cash flow projections is 5% and cash flows beyond the five-year period are extrapolated using a growth rate of 6% which is the same as the long term average growth rate of the application services industry.

Notes to Financial Statements

31 December 2005

16. GOODWILL (continued)

Impairment testing of goodwill (continued)

Key assumptions were used in the value in use calculation of the application services cash-generating unit for 31 December 2005. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted sales revenue – The basis used to determine the values assigned to the budgeted sales revenue is the sales revenue achieved in the year immediately before the budgeted year, increased for expected growth in market demand and customer base.

Discount rate – The discount rate used is before tax and reflects specific risks relating to the application services cash-generating unit.

17. OTHER INTANGIBLE ASSETS

Group

	Deferred development costs HK$'000
31 December 2005:	
Cost at 1 January 2005, net of accumulated amortisation	9,275
Additions – internal development	1,400
Amortisation provided during the year	(2,807)
At 31 December 2005	7,868
At 31 December 2005:	
Cost	12,994
Accumulated amortisation	(5,126)
Net carrying amount	7,868

Notes to Financial Statements

31 December 2005

17. OTHER INTANGIBLE ASSETS (continued)

Group

	Deferred development costs HK$'000
31 December 2004	
At 1 January 2004:	
Cost	10,780
Accumulated amortisation	–
Net carrying amount	10,780
Cost at 1 January 2004, net of accumulated amortisation	10,780
Additions – internal development	814
Amortisation provided during the year	(2,319)
At 31 December 2004	9,275
At 31 December 2004 and at 1 January 2005:	
Cost	11,594
Accumulated amortisation	(2,319)
Net carrying amount	9,275

18. INTERESTS IN SUBSIDIARIES

	Company	
	2005 HK$'000	2004 HK$'000 (Restated)
Unlisted shares/investments, at cost	**45,633**	45,633
Due from subsidiaries	**368,123**	353,704
	413,756	399,337
Impairment	**(91,643)**	(91,643)
	322,113	307,694

The balances with the subsidiaries are unsecured, interest-free and are not repayable within one year from the balance sheet date. The carrying amounts of these amounts due from/to subsidiaries approximate to their fair values.

Notes to Financial Statements

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18. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued and fully paid share capital/ registered capital*	Percentage of equity attributable to the Company 2005	Percentage of equity attributable to the Company 2004	Principal activities
Apex Result Trading Limited	Hong Kong	Ordinary HK$2	**100**	100	Property holding
Computer And Technologies (BVI) Limited	British Virgin Islands	Ordinary US$1,000	**100**	100	Investment holding
Computer And Technologies International Limited	Hong Kong	Ordinary HK$2 Non-voting deferred** HK$5,000,000	**100**	100	Provision of IT services and investment holding
Computer And Technologies Integration Limited	Hong Kong	Ordinary HK$2	**100**	100	Provision of system and network integration services
Computer & Technologies International Trading (Shanghai) Company Limited#	PRC/ Mainland China	US$200,000	**100**	100	Trading of computer hardware and software
Computer & Technologies (Shanghai) Co., Ltd.##	PRC/ Mainland China	US$3,500,000	**100**	100	Provision of systems and network integration services
Computer & Technologies Investment Limited	British Virgin Islands/ Hong Kong	Ordinary US$1	**100**	100	Investment holding and treasury investments
C&T (Guangzhou) Investment Limited	Hong Kong	Ordinary HK$2	**100**	100	Property holding
C&T (Hong Kong) Investment Limited	British Virgin Islands/ Hong Kong	Ordinary US$1	**100**	100	Property holding

Notes to Financial Statements

31 December 2005

18. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows: (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued and fully paid share capital/ registered capital*	Percentage of equity attributable to the Company 2005	2004	Principal activities
C&T (Nanjing) Investment Limited	Hong Kong	Ordinary HK$2	**100**	100	Property holding
C&T (Shanghai) Investment Limited	Hong Kong	Ordinary HK$2	**100**	100	Property holding
Computer And Technologies Solutions Limited	Hong Kong	Ordinary HK$10,000	**100**	100	Provision of IT solutions and implementation services
Computer & Technologies Solutions (Shenzhen) Co., Ltd.##	PRC/ Mainland China	US$1,128,000	**100**	100	Provision of IT solutions and implementation services
Global e-Business Services (BVI) Limited ("GEBS-BVI")	British Virgin Islands	Class A *** US$1,600 Class B *** US$400 (note 29)	**80 *****	80 ***	Investment holding
Global e-Business Services Limited^	Hong Kong	Ordinary HK$1,010,000	**80 *****	80 ***	Provision of enterprise application services
Global e-Trading Services Limited^	Hong Kong	Ordinary HK$2,501,000	**80 *****	80 ***	Provision of government electronic trading services
e-tendering.com Limited^	British Virgin Islands/ Hong Kong	Ordinary US$1 services	**80 *****	80 ***	Provision of e-tendering

Notes to Financial Statements

31 December 2005

18. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows: (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued and fully paid share capital/ registered capital*	Percentage of equity attributable to the Company		Principal activities
			2005	2004	
ets.com.hk Limited^	Hong Kong	Ordinary HK$2	**80** ***	80 ***	Provision of e-tendering services for HKSAR Government
IPL Research Limited	Hong Kong	Ordinary HK$100 Non-voting deferred ** HK$300,000	**100**	100	Provision of human resources management system and related services
Maxfair Technology Limited	Hong Kong	Ordinary HK$2,500,000	**75**	75	Distribution of digital media products
Maxfair Technology (Taiwan) Company Limited	Taiwan	Ordinary NT$10,000,000	**52.5**	52.5	Distribution of digital media products
Modern Lucky Investments Limited	Hong Kong	Ordinary HK$2	**100**	100	Property holding
上海商絡軟件有限公司##	PRC/ Mainland China	Ordinary US$140,000	**100**	100	Provision of human resources management system and related services

Notes to Financial Statements

31 December 2005

18. INTERESTS IN SUBSIDIARIES (continued)

* Registered capital applies only to companies established in the PRC.

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

*** In connection with the Subscription as further detailed in note 29, a shareholder's resolution was passed approving the classification of the share capital of GEBS-BVI into ordinary shares of US$0.01 each designated as Class A shares, which are held by the Group, and Class B shares, which were issued and allotted to an investor upon completion of the Subscription. The Class B shares rank pari passu in all material respects with the Class A shares except that each holder of the Class B shares shall at any general meeting of GEBS-BVI have one-tenth of a vote for every Class B share. Accordingly, after the completion of the Subscription, the Group had 98% voting rights in the general meetings of GEBS-BVI and the Investor had only 2%. Each Class B share shall automatically be converted into one Class A share upon an initial public offering of the shares of GEBS-BVI. After such conversion, the investor's voting rights in the general meetings of GEBS-BVI will increase to 20%.

Notwithstanding the Group received HK$23.4 million (the "Subscription Proceeds") for the issuance and allotment of 40,000 Class B shares of GEBS-BVI (the "Subscription Shares") to the investor, representing 20% of the issued share capital of GEBS-BVI as enlarged by the Subscription, the investor could under certain circumstances, as further detailed in note 29 of the financial statements, either exchange the Subscription Shares for certain number of the Company's own shares or for an amount of cash equal to the Subscription Proceeds at the discretion of the Company. Such contractual obligations to the investor have been accounted for as a financial liability instead of as a minority interest in the Group's consolidated financial statements in accordance with HKAS 32, as further detailed in note 29 to the financial statements, and accordingly, the Group has reflected a 100% share of the assets, liabilities, income and expenses of GEBS-BVI and its subsidiaries in the consolidated financial statements, and the Subscription Proceeds are reflected as "Other financial liabilities" on the face of the consolidated balance sheet.

^ Subsidiaries of GEBS-BVI.

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

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

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

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

Notes to Financial Statements

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19. HELD-TO-MATURITY SECURITIES

	Group	
	2005	2004
	HK$'000	HK$'000
At amortised cost:		
Unlisted debt securities	**5,165**	1,265
Portion classified as current assets	**(3,900)**	–
Non-current portion	**1,265**	1,265

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

20. AVAILABLE-FOR-SALE INVESTMENT/INVESTMENT SECURITY

	Group	
	2005	2004
	HK$'000	HK$'000
Club membership debenture:		
At cost	**–**	1,460
At fair value	**750**	–
	750	1,460
Provision for impairment	**–**	(460)
	750	1,000

At 1 January 2005, the gross loss of the Group's available-for-sale investment recognised directly in equity amounted to HK$250,000, resulting in a restatement of the available-for-sale investment revaluation reserve at that date. The fair value of the investment is based on quoted market prices.

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21. INVENTORIES

	Group	
	2005 **HK$'000**	2004 HK$'000
Work in progress	**16,246**	4,438
Finished goods	**4,385**	7,418
	20,631	11,856

22. TRADE RECEIVABLES

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

	Group	
	2005 **HK$'000**	2004 HK$'000
Current	**9,972**	45,613
Overdue 1 to 3 months	**7,967**	8,595
Overdue 4 to 6 months	**1,622**	1,756
Overdue more than 6 months	**1,831**	958
	21,392	56,922

Credit terms

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

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23. CONTRACTS FOR SERVICES

	Group	
	2005 HK$'000	2004 HK$'000
Gross amount due from contract customers	**68,865**	123,826
Gross amount due to contract customers included in other payables	**(2,150)**	(486)
	66,715	123,340
Contract costs incurred plus recognised profits less recognised losses to date	**321,759**	257,591
Less: Progress billings	**(255,044)**	(134,251)
	66,715	123,340

24. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2005 HK$'000	2004 HK$'000
Listed equity investments, at market value:		
Hong Kong	**5,008**	–

The above equity investments at 31 December 2005 were held for short term investment purposes.

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25. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

	Group		Company	
	2005 HK$'000	2004 HK$'000	**2005 HK$'000**	2004 HK$'000
Cash and bank balances	**28,993**	65,707	**345**	1,203
Time deposits	**150,807**	56,179	**1,005**	–
	179,800	121,886	**1,350**	1,203
Less: Pledged for performance bonds/guarantees issued by banks	**(8,012)**	(8,099)	**–**	–
Pledged for bank loans (note 28)	**–**	(15,737)	**–**	–
Cash and cash equivalents	**171,788**	98,050	**1,350**	1,203

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to approximately HK$24,524,000 (2004: HK$33,690,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The carrying amounts of the cash and cash equivalents and the pledged deposits approximate to their fair values.

26. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2005 HK$'000	2004 HK$'000	**2005 HK$'000**	2004 HK$'000
Trade payables	**22,182**	29,108	–	–
Other payables	**12,066**	6,819	**10**	10
Accruals	**5,568**	7,453	**20**	–
	39,816	43,380	**30**	10

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

An aged analysis of the trade payables as at the balance sheet date, based on the invoice date, is as follows:

	Group	
	2005 HK$'000	2004 HK$'000
Current	**16,220**	25,197
1 to 3 months	**1,913**	2,405
4 to 6 months	**2,729**	1,506
Over 6 months	**1,320**	–
	22,182	29,108

The trade payables are non-interest-bearing and are normally settled on 30-day terms.

Other payables are non-interest-bearing and have an average term of three months.

27. AMOUNTS DUE TO MINORITY SHAREHOLDERS OF SUBSIDIARIES

Included in the balance is an amount of HK$2,024,000 (2004: HK$2,024,000) due to a director of the Company.

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

28. INTEREST-BEARING BANK BORROWINGS

	Effective floating interest rate (%)	Maturity	Group 2005 HK$'000	Group 2004 HK$'000
Bank loans – secured	HIBOR + 1.5	18 January 2005	**–**	15,000

As at 31 December 2004, the Group's loan facilities amounting to HK$46,800,000, of which HK$15,000,000 had been utilised, were secured by the pledge of certain of the Group's time deposits amounting to HK$15,737,000. The bank loans were denominated in Hong Kong dollars and were repaid during the year.

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29. OTHER FINANCIAL LIABILITIES

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

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

(i) issue at par an additional number of Class B shares of GEBS-BVI to the Investor. The number of such additional Class B shares will be determined in accordance with an agreed formula by reference to the subscription price for the Subscription and a multiple of the then consolidated net profit of GEBS-BVI, subject to a maximum number such that the Investor will not have more than 49.9% interest in the then enlarged issued share capital of GEBS-BVI, and GEBS-BVI will remain as a subsidiary of the Company; or

(ii) pay to the Investor an amount in cash to be calculated by reference to the then consolidated net profit of GEBS-BVI, subject to a maximum amount of approximately HK$14 million. CTIL has guaranteed to the Investor the performance of the relevant payment obligations of GEBS-BVI.

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

Under the Shareholders' Agreement, in the event that:

(a) GEBS-BVI has not effected an initial public offering of its shares before 30 April 2007 and the audited consolidated after-tax net profit of GEBS-BVI for the year ending 31 December 2006 does not meet an agreed threshold of approximately HK$10.5 million;

(b) GEBS-BVI has not effected an initial public offering of its shares before 31 December 2008;

(c) GEBS-BVI has obtained firm and positive advice from not less than two reputable investment banks in respect of an initial public offering but does not proceed with the offering; or

(d) GEBS-BVI or any of its subsidiaries is being liquidated,

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29. OTHER FINANCIAL LIABILITIES (continued)

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

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

In the prior year, the aforesaid contractual obligations as created by the Adjustment Option and the Exchange Options (the "Contractual Obligations") were not recognised as a liability. The issuance and allotment of the 40,000 Class B shares of GEBS-BVI to the Investor resulted in a gain on deemed disposal of GEBS-BVI of approximately HK$15,309,000 (net of incidental costs of deemed disposal of HK$857,000), which was credited to the consolidated income statement for the year ended 31 December 2004.

Upon the adoption of HKAS 32, the Contractual Obligations are considered as financial liabilities of the Group as these options require the Group to deliver cash or another financial asset, to the extent of HK$23,400,000 (i.e. the Subscription Proceeds), in the occurrence or non-occurrence of certain triggering events that are beyond the control of the Group to exchange the 20% equity interest of GEBS-BVI back from the Investor. Accordingly, due to the existence of the contingent settlement provisions attached to the arrangement, the Subscription Proceeds received from the Investor is classified as "Other financial liabilities" as at 31 December 2004 and 2005.

In accordance with HKAS 32, the standard shall be applied retrospectively and the comparative amounts have to be restated (note 2.4).

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30. DEFERRED TAX

The movements in deferred tax assets during the year are as follows:

Group

	Losses available for offset against future taxable profit 2005 HK$000	2004 HK$'000
At 1 January	**1,050**	1,050
Deferred tax credited to the income statement during the year (note 10)	**950**	–
At 31 December	**2,000**	1,050

At the balance sheet date, the Group had unutilised tax losses arising in Hong Kong of HK$61,948,000 (2004: HK$67,860,000) and nil arising in Mainland China (2004: HK$4,024,000). The tax losses arising in Hong Kong are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose, whilst those arising in Mainland China were available for a maximum period of five years. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time or due to the unpredictability of future income streams of those subsidiaries.

At 31 December 2005, there was no significant unrecognised deferred tax liability (2004: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, as the Group had no liability to additional tax should such amounts be remitted.

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

31. SHARE CAPITAL

Shares

	2005 HK$'000	2004 HK$'000
Authorised: 1,000,000,000 (2004: 1,000,000,000) ordinary shares of HK$0.10 each	**100,000**	100,000
Issued and fully paid: 269,502,198 (2004: 275,198,198) ordinary shares of HK$0.10 each	**26,950**	27,520

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31. SHARE CAPITAL (continued)

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

Ordinary shares	Notes	**Number of shares in issue**	**Issued share capital** HK$'000	**Share premium account** HK$'000	**Total** HK$'000
At 1 January 2004		274,847,698	27,485	237,077	264,562
Share options exercised	(a)	350,500	35	233	268
At 31 December 2004 and 1 January 2005		275,198,198	27,520	237,310	264,830
Repurchase of shares	(b)	(5,696,000)	(570)	–	(570)
At 31 December 2005		269,502,198	26,950	237,310	264,260

Notes:

(a) During the year ended 31 December 2004, the subscription rights attaching to 350,500 share options were exercised at the subscription price of HK$0.635 to HK$1.563 per share (note 32), resulting in the issue of 350,500 ordinary shares of HK$0.10 each for a total cash consideration, before expenses, of HK$268,000.

(b) During the year ended 31 December 2005, the Company repurchased its own ordinary shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") as follows:

Month/year	**Number of shares repurchased**	**Highest price paid per share** HK$	**Lowest price paid per share** HK$	**Aggregate price paid** HK$'000
September 2005	802,000	0.83	0.79	651
October 2005	4,762,000	0.85	0.80	3,947
November 2005	132,000	0.80	0.80	106
	5,696,000			4,704

The repurchased shares were cancelled and accordingly, the issued share capital of the Company was reduced by the nominal value of these shares. The premium paid on the repurchase of the shares of HK$4,134,000 was charged to contributed surplus.

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 32 to the financial statements.

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32. SHARE OPTION SCHEMES

The Company operates two share option schemes for the primary purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The share option schemes entitle the holders of share options granted under the schemes to subscribe for ordinary shares of the Company at any time during the exercisable periods of the options. Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

(a) Share option scheme adopted in 1998

On 29 April 1998, the Company adopted a share option scheme (the "1998 Scheme"). Eligible participants of the 1998 Scheme are the Group's employees, including the Company's executive directors. The 1998 Scheme became effective on 29 April 1998 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of shares issuable under unexercised share options currently permitted to be granted under the 1998 Scheme may not exceed 10% of the issued share capital of the Company at the time of granting the option, without taking into account any shares issued and allotted pursuant to exercise of options granted under the 1998 Scheme. The maximum number of share issuable under share options granted to any eligible individual participant in the 1998 Scheme shall not exceed 25% of the issuable shares under the 1998 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 date of offer of the share options or the expiry date of the 1998 Scheme, whichever is earlier.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) 80% of the average closing price 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 the offer; and (ii) the nominal value of the shares.

The Company has not adopted the amendments made by Chapter 17 of the Listing Rules on Share Option Schemes ("Chapter 17 Amendments"), which came into effect on 1 September 2001, for the 1998 Scheme. Accordingly, the Group has not granted any options under the 1998 Scheme since 1 September 2001. The share options which had been granted under the 1998 Scheme but remain unexercised shall continue to be valid and exercisable in accordance with their terms of issue and the rules of the 1998 Scheme.

Notes to Financial Statements

31 December 2005

32. SHARE OPTION SCHEMES (continued)

(b) Share option scheme adopted in 2002

To comply with the Chapter 17 Amendments, the Company adopted a new share option scheme in 2002 (the "2002 Scheme"). Eligible participants of the 2002 Scheme include the Company's directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, the Company's shareholders, and any minority shareholder in the Company's subsidiaries. The 2002 Scheme became effective on 30 May 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the 2002 Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the 2002 Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

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

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than ten years from the date of offer of the share options or the expiry date of the 2002 Scheme, whichever is earlier.

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

Notes to Financial Statements

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32. SHARE OPTION SCHEMES (continued)

The following share options were outstanding under the 1998 Scheme and 2002 Scheme (collectively referred to as the "Schemes") during the year:

	Number of share options									Price of Company's shares***		
Name or category of participant	At 1 January 2005	Granted during the year	Exercised during the year	Expired during the year	Forfeited during the year	At 31 December 2005	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK$	At exercise date of options HK$	Immediately before the exercise date HK$	At grant date of options* HK$
Directors												
Ng Cheung Shing	300,000	–	–	–	–	300,000	31.08.2004	01.03.2005 to 31.08.2009	1.128	N/A	N/A	1.09
Leung King San, Sunny	200,000	–	–	–	–	200,000	31.08.2004	01.03.2005 to 31.08.2009	1.128	N/A	N/A	1.09
Ma Mok Hoi	150,000	–	–	–	–	150,000	31.08.2004	01.03.2005 to 31.08.2009	1.128	N/A	N/A	1.09
Ha Shu Tong	100,000	–	–	–	–	100,000	31.08.2004	01.03.2005 to 31.08.2009	1.128	N/A	N/A	1.09
Lee Kwok On, Matthew	100,000	–	–	–	–	100,000	31.08.2004	01.03.2005 to 31.08.2009	1.128	N/A	N/A	1.09
Ting Leung Huel, Stephen	100,000	–	–	–	–	100,000	31.08.2004	01.03.2005 to 31.08.2009	1.128	N/A	N/A	1.09
	950,000	–	–	–	–	950,000						
Other employees												
In aggregate	2,122,000	–	–	–	(272,000)	1,850,000	31.08.2004	01.03.2005 to 31.08.2009	1.128	N/A	N/A	1.09
	148,000	–	–	–	–	148,000	31.08.2001	06.09.2002 to 05.09.2006	1.563	N/A	N/A	1.88
	2,653,000	–	–	–	(2,357,000)	296,000	16.01.2001	23.01.2002 to 22.01.2006	2.672	N/A	N/A	3.50
	4,923,000	–	–	–	(2,629,000)	2,294,000						
Total	5,873,000	–	–	–	(2,629,000)	3,244,000						

Notes to the reconciliation of share options outstanding during the year:

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

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

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

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32. SHARE OPTION SCHEMES (continued)

No share options had been granted under the Schemes during the year. The fair value of the share options granted under the 2002 Scheme during the year ended 31 December 2004 was HK$1,256,000.

The fair value of equity-settled share options granted during the year ended 31 December 2004 was estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the year ended 31 December 2004:

Dividend yield (%)	–
Expected volatility (%)	36.54
Historical volatility (%)	36.54
Risk-free interest rate (%)	4.13
Expected life of options (years)	5
Weighted average share price (HK$)	1.10

The expected life of the options is based on the historical data over the past year and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

The 350,500 share options exercised during the year ended 31 December 2004 resulted in the issue of 350,500 ordinary shares of the Company and new share capital of approximately HK$35,000 and share premium of approximately HK$233,000 (before issue expenses), as further detailed in note 31 to the financial statements.

At the balance sheet date, the Company had 3,244,000 share options outstanding under the Schemes. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 3,244,000 additional ordinary shares of the Company and additional share capital of approximately HK$324,000 and share premium of approximately HK$3,856,000 (before issue expenses).

Subsequent to the balance sheet date, on 22 January 2006, a total of 296,000 share options expired. At the date of approval of these financial statements, the Company had 2,948,000 share options outstanding under the Schemes, which represented approximately 1.09% of the Company's shares in issue at that date.

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33. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 29 and 30 of the financial statements.

The Group's contributed surplus originally represented the excess of the aggregate net asset value of the subsidiaries acquired at the date of their acquisition pursuant to a Group reorganisation on 29 April 1998, over the nominal value of the Company's shares issued in exchange therefor.

The group's goodwill reserve represents goodwill which arose on the acquisition of certain subsidiaries in prior years and remains eliminated against the consolidated reserves, as explained in note 16 to the financial statements.

(b) Company

	Notes	Share premium account HK$'000	Contributed surplus HK$'000	Share option reserve HK$'000 (Restated)	(Accumulated losses)/ retained profits HK$'000 (Restated)	Total HK$'000 (Restated)
At 1 January 2004		237,077	45,483	–	(1,215)	281,345
Issue of shares	31	233	–	–	–	233
Equity-settled share option arrangement		–	–	837	–	837
Loss for the year		–	–	–	(975)	(975)
At 31 December 2004 and 1 January 2005		237,310	45,483	837	(2,190)	281,440
Equity-settled share option arrangement		–	–	307	–	307
Repurchase of shares	31	–	(4,134)	–	–	(4,134)
Profit for the year		–	–	–	19,152	19,152
Proposal final and special dividends	12	–	–	–	(8,085)	(8,085)
At 31 December 2005		237,310	41,349	1,144	8,877	288,680

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

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

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34. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 15) under operating lease arrangements, with leases negotiated for terms ranging from one to two 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 2005, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Within one year	**1,474**	2,161
In the second to fifth years, inclusive	**153**	2,142
	1,627	4,303

(b) As lessee

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

At 31 December 2005, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**4,653**	6,149	**1,004**	4,639
In the second to fifth years, inclusive	**1,270**	1,716	**–**	1,317
	5,923	7,865	**1,004**	5,956

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35. CONTINGENT LIABILITIES

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

(a) As at 31 December 2005, guarantees given to certain banks by the Company for performance bonds/ guarantees issued by the banks in relation to service contracts undertaken by the Group amounting to HK$43,036,000 (2004: HK$58,320,000) of which HK$10,132,000 (2004: HK$21,789,000) had been utilised.

(b) The Company issued corporate guarantees to certain suppliers of the Group in connection with certain purchases from those suppliers. As at 31 December 2005, the outstanding amount due to those suppliers by the Group amounted to HK$860,000 (2004: HK$5,112,000).

36. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

(a) On 24 August 2004, CTIL, a wholly-owned subsidiary of the Company, entered into an agreement with Yan King Shun ("Mr. Yan"), a director of Global e-Business Services Limited ("Global e-Business"), an indirect 80%-owned subsidiary, whereby Mr. Yan acquired 625 share options ("Option Shares") of CTES, a wholly-owned subsidiary of the Group, for a consideration of HK$351,000. The Option Shares are exercisable in whole at a total exercise price of HK$3,159,000 at any time from 24 August 2004 to the earliest of (i) 30 June 2009; (ii) the date on which Mr. Yan ceases to be an employee of Global e-Business; and (iii) 30 days after the date on which Global e-Business or its immediate holding company has made an application to an internationally recognised stock exchange for the listing of its shares. Details of the transaction were also set out in the Company's announcement dated 24 August 2004 and annual report for the year ended 31 December 2004.

(b) Compensation of key management personnel of the Group:

	2005 **HK$'000**	2004 HK$'000
Short term employee benefits	**8,344**	7,282
Post-employment benefits	**100**	72
Share-based payments	**150**	300
Total compensation paid to key management personnel	**8,594**	7,654

Further details of directors' emoluments are included in note 7 to the financial statements.

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37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments include bank loans, cash and short term deposits. The main purpose of these financial instruments is to finance the Group's operations. The Group has various other financial assets and liabilities such as trade and other receivables, and trade and other payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, foreign currency risk and credit risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

Cash flow interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's cash and cash equivalents.

Cash and cash equivalents earn interest at floating rates based on daily bank deposit rates.

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency. Approximately 6% (2004: 10%) of the Group's sales are denominated in currencies other than the functional currency of the operating units making the sale, whilst almost 40% (2004: 41%) of costs are denominated in the units' functional currency.

Credit risk

The Group mainly trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to unidentified bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the senior management of the relevant operating unit.

The credit risk of the Group's other financial assets, which include cash and cash equivalents and available-for-sale financial assets, arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Since the Group mainly trades only with recognised and/or creditworthy third parties, there is no requirement for collateral.

At the balance sheet date, 40.2% of the total trade receivables of the Group were due from certain departments/ units of the Government of the HKSAR. Save as the above, there were no significant concentrations of credit risk at the balance sheet date.

Notes to Financial Statements

31 December 2005

38. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

As at the balance sheet date, the fair values of the Group's financial assets and financial liabilities are not materially different from their carrying amounts.

39. COMPARATIVE AMOUNTS

As further explained in notes 2.2 and 2.4 to the financial statements, due to the adoption of new and revised HKFRSs 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. In addition, as further detailed in note 4 to the financial statements, the presentation of certain segment information has been revised. Accordingly, certain prior year and opening balance adjustments have been made and certain comparative amounts have been restated and reclassified/regrouped to conform with the current year's presentation and accounting treatment.

40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 20 April 2006.