



Notes to Financial Statements

31 December 2000

1. CORPORATE INFORMATION

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

- trading of computers and computer related products;
- provision of e-business related services; and
- provision of computer systems software installation, support and training services.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, 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.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2000. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors.

Interests in subsidiaries are stated at cost unless, in the opinion of the directors, there have been permanent diminutions in values, when they are written down to values determined by the directors.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

Joint venture arrangements which involve the establishment of a separate entity in which the Group and other parties have an interest are referred to as jointly-controlled entities.

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

Associates

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

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

Goodwill on consolidation

Goodwill arising on consolidation of subsidiaries represents the excess purchase consideration paid for subsidiaries over the fair values ascribed to the net underlying assets acquired at the date of acquisition and is eliminated against reserves in the year of acquisition.

Upon disposal of subsidiaries, the relevant portion of attributable goodwill previously eliminated against reserves is realised and taken into account in arriving at the gain or loss on disposal of the subsidiaries.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fixed assets and depreciation

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

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

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

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

Intangible assets

Intangible assets represent acquisition cost to obtain non-exclusive rights to use a specific software product developed by a third party, and are stated at cost and amortised on a straight-line basis over the period of the license agreement.

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 provisions for diminutions in values which are other than temporary, assessed by the directors on an individual investment basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investment securities *(continued)*

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

Deferred development costs

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

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

The unamortised balance of development costs is reviewed at the end of each period and is written off to the extent that the unamortised balance, taken together with further development and directly related costs, is no longer likely to be recovered.

Inventories

Inventories are stated at the lower of cost and net realisable value after making due allowance for any obsolete or slow-moving items. Cost is determined on the weighted average basis and, in the case of finished goods and work in progress, comprises direct materials, direct labour and an appropriate proportion of overheads.

Net realisable value is based on estimated selling prices less any further costs expected to be incurred to completion and disposal.

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

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

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

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

Deferred tax

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

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Foreign currencies

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies *(continued)*

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

Pension costs

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

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

Revenue recognition

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

- (a) 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;



Notes to Financial Statements *(continued)*

31 December 2000

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition *(continued)*

- (b) the rendering of software development services and e-business related services, on the basis as set out under "Contracts for services" above;
- (c) maintenance service income, on a time proportion basis over the period of the contract;
- (d) income from training courses, when the courses are presented;
- (e) proceeds from the sale of short term investments in listed shares, on the transaction dates when the relevant contract notes are exchanged; and
- (f) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

Convertible bonds

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

Related parties

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

Cash equivalents

Cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance.

Notes to Financial Statements (continued)

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3. TURNOVER AND REVENUE

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

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

	2000	1999
	HK\$'000	HK\$'000
Sale of goods:		
Computer hardware and software (including installation and systems design)	344,562	316,978
Computer hardware, software and related accessories	34,620	33,174
	379,182	350,152
Provision of e-business related services	33,908	–
Maintenance services, software development services and training courses	7,558	3,328
Turnover	420,648	353,480
Interest income	13,984	1,324
Exchange gains, net	–	462
Other income	1,381	227
Other revenue	15,365	2,013
Total revenue for the year	436,013	355,493

Notes to Financial Statements (continued)

31 December 2000

4. PROFIT FROM OPERATING ACTIVITIES

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

	2000 HK\$'000	1999 HK\$'000
Cost of inventories sold and services provided	322,128	282,261
Depreciation	5,708	3,878
Less: Capitalised in deferred development costs	-	(151)
	5,708	3,727
Loss on disposal of fixed assets	-	225
Amortisation of deferred development costs	5,095	1,314
Operating lease rentals in respect of land and buildings	4,560	3,558
Auditors' remuneration	680	555
Staff costs (excluding directors' remuneration disclosed in note 5)*:		
Wages and salaries	58,258	33,923
Pension contributions	2,539	1,707
Less: Forfeited contributions	(412)	(299)
Net employer's pension contributions**	2,127	1,408
Less: Capitalised in deferred development costs	(8,197)	(9,432)
	52,188	25,899
Bad debts written off	-	5
Exchange losses/(gains), net	29	(462)
Interest income	(13,984)	(1,324)
Gain on disposal of listed investments	(318)	-

* Inclusive of an amount of HK\$23,350,000 (1999: HK\$2,709,000) classified under cost of inventories sold and services provided.

** The amount of forfeited contributions available at the year end to reduce contributions in future years was not material.

Notes to Financial Statements (continued)

31 December 2000

5. DIRECTORS' REMUNERATION

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

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Fees:		
Executive	–	–
Non-executive	160	160
	160	160
Other emoluments:		
Salaries, allowances and benefits in kind	2,486	2,417
Bonuses paid and payable	512	235
Pension scheme contributions	114	113
	3,112	2,765
	3,272	2,925

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

	2000 Number of directors	1999 Number of directors
Nil – HK\$1,000,000	5	5
HK\$1,000,001 – HK\$1,500,000	2	1
	7	6

Fees include HK\$160,000 (1999: HK\$160,000) payable to an independent non-executive director. There were no other emoluments payable to the independent non-executive directors during the year (1999: Nil).

During the year, options to acquire shares in the Company were granted to certain directors. No value is included in the remuneration of the directors in respect of share options granted during the year because, in the absence of a readily available market value for the options on the shares of the Company, the directors are unable to arrive at an accurate assessment of the value of the options granted.

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

Notes to Financial Statements (continued)

31 December 2000

6. SENIOR EXECUTIVES' EMOLUMENTS

The five highest paid individuals of the Group included two (1999: three) directors, details of whose remuneration are set out in note 5 to the financial statements. The remuneration of the other three (1999: two) highest paid individuals, disclosed pursuant to the Listing Rules, is as follows:

	2000 HK\$'000	1999 HK\$'000
Salaries, allowances and benefits in kind	3,651	2,352
Bonuses paid and payable	304	94
Pension scheme contributions	161	118
	4,116	2,564

The remuneration of the three (1999: two) highest paid individuals fell within the following bands:

	2000 Number of individuals	1999 Number of individuals
Nil – HK\$1,000,000	–	1
HK\$1,000,001 – HK\$1,500,000	2	–
HK\$1,500,001 – HK\$2,000,000	1	1
	3	2

No value is included in the remuneration of the five highest paid employees in respect of share options granted during the year because, in the absence of a readily available market value for the options on the shares of the Company, the directors are unable to arrive at an accurate assessment of the value of the options granted.

7. FINANCE COSTS

	Group	
	2000 HK\$'000	1999 HK\$'000
Interest on bank loans	199	823
Interest on convertible bonds	1,060	–
	1,259	823

Notes to Financial Statements (continued)

31 December 2000

8. TAX

	2000	Group
	HK\$'000	1999
		HK\$'000
Provision for tax in respect of profits for the year:		
Hong Kong	504	365
Mainland China	1,487	549
	1,991	914
Overprovisions in prior years		
– Hong Kong	(45)	(20)
Hong Kong profits tax rebate	–	(111)
Tax charge for the year	1,946	783

Hong Kong profits tax has been provided at the rate of 16% (1999: 16%) on the estimated assessable profits arising in Hong Kong during the year. Provision has been made for tax in Mainland China based on existing legislation, interpretations and practices in respect thereof at the prevailing rates of tax.

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

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

9. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is HK\$9,526,000 (1999: HK\$4,437,000).

Notes to Financial Statements *(continued)*

31 December 2000

10. DIVIDENDS

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Proposed final dividend of 2 cents (1999: 1.5 cents) per share	5,273	3,942
Special dividend of 1 cent (1999: Nil) per share	2,637	–
	7,910	3,942

11. EARNINGS PER SHARE

The calculations of basic and diluted earnings per share are based on the following data:

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Earnings		
Net profit attributable to shareholders, used in the basic and diluted earnings per share calculations	19,767	13,802
Shares	'000	'000
Weighted average number of shares in issue during the year used in basic earnings per share calculation	256,455	220,431
Effect of dilutive potential ordinary shares	9,363	4,355
Weighted average number of shares used in diluted earnings per share calculation	265,818	224,786

Notes to Financial Statements (continued)

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12. FIXED ASSETS

Group

	Leasehold land and buildings <i>HK\$'000</i>	Leasehold improve- ments <i>HK\$'000</i>	Computer equipment and software <i>HK\$'000</i>	Furniture, fixtures and office equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:						
At beginning of year	25,353	653	-	13,558	188	39,752
Reclassifications	-	-	10,563	(10,563)	-	-
Additions	-	3,955	8,502	3,140	230	15,827
Disposals	-	-	(2,116)	(1,517)	(188)	(3,821)
Exchange realignment	-	3	14	3	-	20
At 31 December 2000	25,353	4,611	16,963	4,621	230	51,778
Accumulated depreciation:						
At beginning of year	713	273	-	3,687	37	4,710
Reclassifications	-	-	2,309	(2,309)	-	-
Provided during the year	443	1,072	3,244	903	46	5,708
Disposals	-	-	(2,116)	(1,517)	(37)	(3,670)
Exchange realignment	-	1	8	2	-	11
At 31 December 2000	1,156	1,346	3,445	766	46	6,759
Net book value:						
At 31 December 2000	24,197	3,265	13,518	3,855	184	45,019
At 31 December 1999	24,640	380	-	9,871	151	35,042

Notes to Financial Statements (continued)

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12. FIXED ASSETS (continued)

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

	<i>HK\$'000</i>
Hong Kong:	
Long term leases	15,520
Mainland China:	
Long term leases	6,272
Medium term leases	2,405
	<hr/> 24,197

The Group's leasehold land and buildings in Hong Kong were pledged to secure banking facilities granted to the Group (note 23).

13. INTANGIBLE ASSETS

	2000	Group
	<i>HK\$'000</i>	1999
		<i>HK\$'000</i>
License rights, at cost	12,480	–

The intangible assets represent the non-exclusive rights to use a specific software product developed by a third party. No amortisation is provided for the year as the license rights were acquired close to the balance sheet date.

14. INTEREST IN A JOINTLY-CONTROLLED ENTITY

	2000	Group
	<i>HK\$'000</i>	1999
		<i>HK\$'000</i>
Share of net assets	(441)	–
Loan to the jointly-controlled entity	5,000	–
Amount due from the jointly-controlled entity	925	–
	5,484	–

Notes to Financial Statements *(continued)*

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14. INTEREST IN A JOINTLY-CONTROLLED ENTITY *(continued)*

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

Particulars of the jointly-controlled entity are as follows:

Name	Business structure	Place of incorporation and operation	Percentage of equity interest attributable to the Group		Principal activity
			2000	1999	
HutchTech Resources Limited	Corporate	Hong Kong/ Mainland China	50%	-	Dormant

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

15. INTEREST IN AN ASSOCIATE

	Group	
	2000 HK\$'000	1999 HK\$'000
Share of net assets	1,093	-
Amount due from an associate	953	-
	2,046	-

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

Particulars of the associate are as follows:

Name	Business structure	Place of incorporation and operation	Percentage of equity interest attributable to the Group		Principal activity
			2000	1999	
StarDB.com Limited	Corporate	Hong Kong/ Mainland China	39.47%	-	Provision of web-casting services

The associate is indirectly held by the Company.

Notes to Financial Statements (continued)

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16. INVESTMENT SECURITIES

	Group	
	2000 HK\$'000	1999 HK\$'000
Club membership debenture, at cost	1,460	1,460

17. DEFERRED DEVELOPMENT COSTS

	Group	
	2000 HK\$'000	1999 HK\$'000
Cost:		
At beginning of the year	16,135	4,485
Exchange realignment	25	31
Additions	9,191	11,619
At 31 December	25,351	16,135
Amortisation:		
At beginning of the year	1,408	94
Exchange realignment	1	-
Provided during the year	5,095	1,314
At 31 December	6,504	1,408
Net deferred development costs	18,847	14,727

18. INTERESTS IN SUBSIDIARIES

	Company	
	2000 HK\$'000	1999 HK\$'000
Unlisted shares, at cost	45,633	45,633
Due from subsidiaries	308,503	82,704
Due to a subsidiary	-	(265)
	354,136	128,072

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

Notes to Financial Statements *(continued)*

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18. INTERESTS IN SUBSIDIARIES *(continued)*

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

Company	Place of incorporation/ registration	Issued and fully paid share capital/ registered capital*	Percentage of equity interest attributable to the Company		Principal activities
			2000	1999	
Computer And Technologies (BVI) Limited	British Virgin Islands	US\$1,000	100%	100%	Investment holding
Computer And Technologies International Limited ("C&T International")	Hong Kong	Ordinary HK\$2 Non-voting deferred** HK\$5,000,000	100%	100%	Investment holding
Computer And Technologies Integration Limited	Hong Kong	Ordinary HK\$2	100%	100%	Trading of computers and computer related products
Computer & Technologies International Trading (Shanghai) Company Limited#	Mainland China	US\$200,000	100%	100%	Trading of computers and computer related products
Computer & Technologies Investment Limited	British Virgin Islands	US\$1	100%	100%	Investment holding
C&T (Guangzhou) Investment Limited	Hong Kong	HK\$2	100%	100%	Property holding
C&T (Hong Kong) Investment Limited	British Virgin Islands	US\$1	100%	100%	Property holding

Notes to Financial Statements *(continued)*

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18. INTERESTS IN SUBSIDIARIES *(continued)*

Company	Place of incorporation/ registration	Issued and fully paid share capital/ registered capital*	Percentage of equity interest attributable to the Company		Principal activities
			2000	1999	
C&T (Nanjing) Investment Limited	Hong Kong	HK\$2	100%	100%	Property holding
C&T (Shanghai) Investment Limited	Hong Kong	HK\$2	100%	100%	Property holding
Computer And Technologies Services Limited	Hong Kong	HK\$10,000	100%	100%	Provision of computer systems software installation, support and training services
Computer And Technologies Software Limited	Hong Kong	HK\$500,000	100%	100%	Investment holding
Computer & Technologies (Shanghai) Co., Ltd.#	Mainland China	US\$140,000	100%	100%	Development of software
Computer & Technologies Software (Beijing) Co., Ltd.#	Mainland China	US\$360,000	100%	100%	Trading of computers and computer related accessories, and provision of computer system related services
Computer & Technologies Solutions (Shenzhen) Co., Ltd.#	Mainland China	HK\$1,000,000	100%	100%	Development of software

Notes to Financial Statements *(continued)*

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18. INTERESTS IN SUBSIDIARIES *(continued)*

Company	Place of incorporation/ registration	Issued and fully paid share capital/ registered capital*	Percentage of equity interest attributable to the Company		Principal activities
			2000	1999	
ets.com.hk Limited	Hong Kong	HK\$2	100%	-	Provision of e-business hosting services
e-tendering.com Limited	British Virgin Islands	US\$1	100%	-	Provision of e-tendering business
Global e-Business Enabler Limited (formerly Computer And Technologies Solutions Limited)	Hong Kong	HK\$2	100%	100%	Provision of information technology solutions
Global e-Business Services Limited	Hong Kong	HK\$10,000	100%	-	Provision of B2B and enterprise e-business application services
Maxfair Technology Limited	Hong Kong	HK\$2,500,000	75%	75%	Trading of computers and computer related accessories

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

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

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

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

Notes to Financial Statements (continued)

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18. INTERESTS IN SUBSIDIARIES (continued)

All of the above subsidiaries operate in the place of their incorporation/registration except for C&T (Hong Kong) Investment Limited, which is incorporated in the British Virgin Islands but operates in Hong Kong.

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

19. INVENTORIES

	2000	Group
	HK\$'000	1999
		HK\$'000
Work in progress	38,095	8,624
Finished goods	3,481	3,842
	41,576	12,466

20. TRADE RECEIVABLES

The ageing analysis of trade receivables is as follows:

	2000	Group
	HK\$'000	1999
		HK\$'000
Outstanding balances with ages:		
Current	108,380	37,801
Overdue 1 to 3 months	8,033	5,537
Overdue 4 to 6 months	1,493	4,549
	117,906	47,887

Notes to Financial Statements (continued)

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20. TRADE RECEIVABLES (continued)

Credit terms

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

21. AMOUNTS DUE FROM CONTRACT CUSTOMERS

	2000 HK\$'000	Group 1999 HK\$'000
Contract costs incurred plus recognised profits less recognised losses to date	27,403	–
Less: progress billings	(23,016)	–
Gross amount due from contract customers	4,387	–

22. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

Included in the balance is an amount of HK\$67,196,000 (1999: HK\$40,935,000) representing the trade payables of the Group. The ageing analysis of such payables is as follows:

	2000 HK\$'000	Group 1999 HK\$'000
Outstanding balances with ages:		
Current	62,990	26,852
Within 1 to 3 months	4,042	13,671
Between 4 to 6 months	164	412
	67,196	40,935

Notes to Financial Statements (continued)

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23. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Bank loans, secured	8,491	6,482	–	–
Other loan wholly repayable within five years, unsecured	1,182	–	1,182	–
	9,673	6,482	1,182	–
The bank loans and other loan are repayable:				
Within one year	9,082	562	591	–
In the second year	591	624	591	–
In the third to fifth years, inclusive	–	2,246	–	–
Beyond five years	–	3,050	–	–
	9,673	6,482	1,182	–
Portion classified as current liabilities*	(9,082)	(6,482)	(591)	–
Long term portion	591	–	591	–

* During the year, the bank loan of HK\$6,482,000 as at 31 December 1999 was fully repaid. Accordingly, the bank loan was classified as current liabilities at the prior year balance sheet date.

The bank facilities are secured by fixed charges over leasehold land and buildings with a net book value of HK\$15,520,000 (1999: HK\$15,679,000) and bank deposits of HK\$12,000,000 (1999: HK\$2,800,000).

The other loan is unsecured, interest-free and is repayable by 27 monthly instalments commencing from October 2000.

Notes to Financial Statements *(continued)*

31 December 2000

24. CONVERTIBLE BONDS

	2000 HK\$'000	Group 1999 HK\$'000
At 1 January	-	-
Bond issue	230,277	-
Converted during the year	(230,277)	-
At 31 December	-	-

On 21 February 2000, the Company issued convertible bonds (the "Bonds") in the principal sum of HK\$230,276,610, and granted an option to subscribe for shares of the Company (the "Option") to an independent third party (the "Purchaser"), with the following principal terms:

- (i) the Bonds bore interest at 6% per annum and were convertible at the option of the bondholders into an aggregate of 29,148,938 fully paid shares (the "Shares") of HK\$0.10 each in the Company at an initial conversion price of HK\$7.90 per share (the "Conversion Price"), subject to adjustments;
- (ii) the Bonds were mandatorily convertible into the Shares if the closing price of the shares of the Company on the Stock Exchange in each of any 20 consecutive trading days during the two-year period commencing on the date of issue of the Bonds (i.e. the period from 21 February 2000 to 20 February 2002) was not less than 165% of the Conversion Price (i.e. HK\$13.04); and
- (iii) subject to completion of the issue of the Bonds, the Option was exercisable by the Purchaser at any time within two years from 21 February 2000 and exercisable in whole or in part. The exercise price was equal to the Conversion Price of the Bonds. Assuming that the Option was fully exercised, a total of 17,489,362 new shares of the Company would be issued upon exercise of the Option.

As condition (ii) above was fulfilled in March 2000, the Purchaser fully converted the Bonds into 29,148,938 shares of the Company on 21 March 2000 in accordance with the terms of the Bonds. Subsequent to the conversion, the Purchaser owned approximately 11% of the total enlarged issued share capital of the Company and, accordingly, became a substantial shareholder thereof under the Listing Rules.

Up to the date of this report, the Purchaser has not exercised any of the Option.

Notes to Financial Statements (continued)

31 December 2000

25. SHARE CAPITAL

	Company	
	2000 HK\$'000	1999 HK\$'000
Authorised:		
1,000,000,000 ordinary shares of HK\$0.10 each	100,000	100,000
Issued and fully paid:		
263,300,338 (1999: 233,191,500) ordinary shares of HK\$0.10 each	26,330	23,319

During the year, the following changes in the Company's issued ordinary share capital took place and, as a result, 30,108,838 ordinary shares were issued:

- (a) on 21 March 2000, convertible bonds with an aggregate principal amount of HK\$230,276,610 were fully converted into 29,148,938 new shares of HK\$0.10 each at the conversion price of HK\$7.90 per share (see note 24); and
- (b) 959,900 ordinary shares were allotted to the holders of share options who exercised the options under the share option scheme of the Company.

Share options

On 29 April 1998, a share option scheme was approved and adopted, which will expire on 28 April 2008. Under the scheme, the directors may, at their discretion, grant options to any executive and/or employee of the Company and its subsidiaries to subscribe for shares in the Company. The maximum number of shares to be granted under the scheme may not exceed 10% of the issued share capital of the Company at the time of granting the option. The subscription price of the option granted under the scheme is to be determined by the directors at their discretion, but being in no event less than the higher of 80% of the average of the closing prices of the Company's shares on the Stock Exchange for the five business days immediately preceding the date of grant of the option, and the nominal value of the shares.

Notes to Financial Statements (continued)

31 December 2000

25. SHARE CAPITAL (continued)

The movements in the number of share options to subscribe for shares in the Company during the year are as follows:

	Number of share options to subscribe for shares at an exercise price per share of												Total '000	
	HK\$0.281 '000	HK\$0.298 '000	HK\$0.316 '000	HK\$0.635 '000	HK\$0.675 '000	HK\$0.715 '000	HK\$0.753 '000	HK\$1.75 '000	HK\$1.8 '000	HK\$4.04 '000	HK\$4.14 '000	HK\$5.89 '000		HK\$13.10 '000
At beginning of year	200	1,956	504	520	752	816	128	2,873	988	-	-	-	-	8,737
Granted during the year*	-	-	-	-	-	-	-	-	-	1,241	1,252	1,300	595	4,388
Cancelled during the year	-	-	-	-	-	-	-	-	-	-	-	(1,300)	(595)	(1,895)
Exercised during the year	-	(500)	(156)	-	(50)	(108)	(16)	(130)	-	-	-	-	-	(960)
At 31 December 2000	200	1,456	348	520	702	708	112	2,743	988	1,241	1,252	-	-	10,270

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

The options outstanding at 31 December 2000 expire at various dates up to the close of business day on 2 November 2004, or if that day is not a business day, the expiry date will be the close of the business day proceeding 2 November 2004. The exercise in full of the outstanding options would, under the present capital structure of the Company, result in the issue of 10,270,000 additional shares and cash proceeds to the Company in the approximate amount of HK\$18,770,000 before the related share issue expenses.

(See note 24(iii) for details of share options granted to a third party.)

Notes to Financial Statements (continued)

31 December 2000

26. RESERVES

Group

	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Goodwill reserve <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 1999	26,638	45,483	(11,117)	4	1,542	62,550
Issue of shares during the year	54,154	-	-	-	-	54,154
Share issue expenses	(1,277)	-	-	-	-	(1,277)
Net profit for the year	-	-	-	-	13,802	13,802
Dividend	-	-	-	-	(3,942)	(3,942)
Exchange adjustments	-	-	-	(5)	-	(5)
At 31 December 1999 and 1 January 2000	79,515	45,483	(11,117)	(1)	11,402	125,282
Issue of shares during the year	227,814	-	-	-	-	227,814
Share issue expenses	(628)	-	-	-	-	(628)
Net profit for the year	-	-	-	-	19,767	19,767
Dividend	-	-	-	-	(7,910)	(7,910)
Exchange adjustments	-	-	-	14	-	14
At 31 December 2000	306,701	45,483	(11,117)	13	23,259	364,339

Notes to Financial Statements (continued)

31 December 2000

26. RESERVES (continued)

Company

	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Retained profits/ (accumulated losses) <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 1999	26,638	45,483	(183)	71,938
Issue of shares during the year	54,154	-	-	54,154
Share issue expenses	(1,277)	-	-	(1,277)
Net profit for the year	-	-	4,437	4,437
Dividend	-	-	(3,942)	(3,942)
At 31 December 1999 and 1 January 2000	79,515	45,483	312	125,310
Issue of shares during the year	227,814	-	-	227,814
Share issue expenses	(628)	-	-	(628)
Net profit for the year	-	-	9,526	9,526
Dividend	-	-	(7,910)	(7,910)
At 31 December 2000	306,701	45,483	1,928	354,112

	Group	
	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Profits retained/(losses accumulated) by:		
Company and subsidiaries	23,732	11,402
Jointly-controlled entity	(441)	-
Associate	(32)	-
At end of year	23,259	11,402

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

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

Notes to Financial Statements *(continued)*

31 December 2000

27. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

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

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Profit from operating activities	24,192	15,774
Interest income	(13,984)	(1,324)
Depreciation	5,708	3,727
Loss on disposal of fixed assets	–	225
Amortisation of deferred development costs	5,095	1,314
Gain on disposal of listed investments	(318)	–
Increase in trade receivables	(70,019)	(301)
Increase in amounts due from contract customers	(4,387)	–
Decrease in prepayments, deposits and other receivables	2,519	5,370
Increase in inventories	(29,110)	(1,444)
Decrease in bills payable	–	(177)
Increase in trade payables, other payables and accruals	38,695	6,311
Net cash inflow/(outflow) from operating activities	(41,609)	29,475

Notes to Financial Statements *(continued)*

31 December 2000

27. NOTES TO CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(b) Analysis of changes in financing during the year

	Share capital and share premium account <i>HK\$'000</i>	Minority interests <i>HK\$'000</i>	Bank and other loans <i>HK\$'000</i>	Convertible bonds <i>HK\$'000</i>
Balance at 1 January 1999	48,638	1,217	7,044	-
Proceeds from issue of shares	55,473	-	-	-
Share issue expenses	(1,277)	-	-	-
Net cash outflow from financing	-	-	(562)	-
Share of profit for the year	-	366	-	-
Balance at 31 December 1999 and 1 January 2000	102,834	1,583	6,482	-
Proceeds from issue of convertible bonds	-	-	-	230,277
Conversion of convertible bonds	230,277	-	-	(230,277)
Proceeds from issue of shares	548	-	-	-
Share issue expenses	(628)	-	-	-
Net cash inflow from financing	-	-	3,191	-
Share of profit for the year	-	747	-	-
Dividend payable to minority shareholder of a subsidiary	-	(1,674)	-	-
Balance at 31 December 2000	333,031	656	9,673	-

(c) Major non-cash transaction

During the year, convertible bonds with an aggregate principal amount of HK\$230,276,610 were fully converted into 29,148,938 new shares of HK\$0.10 each in the Company at the conversion price of HK\$7.90 per share (note 24).

Notes to Financial Statements (continued)

31 December 2000

28. COMMITMENTS

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
<i>Other capital commitments:</i>				
Authorised, but not contracted for	-	1,500	-	-
Annual commitments payable in the following year under non-cancellable operating leases in respect of land and buildings expiring:				
Within one year	1,492	456	531	-
In the second to fifth years, inclusive	461	1,954	-	-
After five years	1,674	-	1,674	-
	3,627	2,410	2,205	-

29. CONTINGENT LIABILITIES

	Group	
	2000 HK\$'000	1999 HK\$'000
Guarantees given to customers for compliance of service contracts	3,347	1,226

The Company had no significant contingent liabilities at the balance sheet date.

Notes to Financial Statements (continued)

31 December 2000

30. CONNECTED AND RELATED PARTY TRANSACTION

The Group's material related party transaction disclosed pursuant to Statement of Standard Accounting Practice 2.120 "Related Party Disclosures" and connected transaction disclosed pursuant to Chapter 14 of the Listing Rules were as follows:

	2000 HK\$'000	1999 HK\$'000
Rental expenses paid to: Ng Cheung Shing ("Mr. Ng", a director of the Company)	531	1,062

On 25 April 1998, the Company entered into a rental agreement with Mr. Ng whereby the Company agreed to lease from Mr. Ng a property in Beijing, Mainland China (the "Property"), as office premises at a monthly rent of US\$11,350 (HK\$89,000 equivalent) for a term of two years from 1 January 1998 to 31 December 1999.

During the year, on 14 January 2000, the Company entered into a new rental agreement with Mr. Ng to rent the Property at a monthly rent of US\$5,675 (HK\$44,265 equivalent) for a term of two years commencing from 1 January 2000.

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

31. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 3 April 2001.