

1. CORPORATE INFORMATION

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

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

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

The following new and revised SSAPs are effective for the first time for the current year and are applicable for these financial statements:

- SSAP 1 (Revised): "Presentation of financial statements"
- SSAP 11 (Revised): "Foreign currency translation"
- SSAP 15 (Revised): "Cash flow statements"
- SSAP 34: "Employee benefits"

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of adopting these SSAPs are summarised as follows:

SSAP 1 prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision to this SSAP is that a consolidated summary statement of changes in equity is now presented on page 21 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required.

SSAP 11 prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of the revision of this SSAP on the consolidated financial statements is that the profit and loss accounts of overseas subsidiaries, jointly-controlled entities and associates are now translated into Hong Kong dollars at the weighted average exchange rates for the year, whereas previously they were translated at the exchange rates ruling at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements.

SSAP 15 prescribes the revised format for the cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flow statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required. The significant reclassifications resulting from the change in presentation are that taxes paid are now included in cash flows from operating activities, interest and dividends received are now included in cash flows from investing activities and dividends paid are now included in cash flows from financing activities. The presentation of the 2001 comparative consolidated cash flow statement has been changed to accord with the new layout. In addition, cash flows from overseas subsidiaries arising during the year are now translated to Hong Kong dollars at the exchange rates at the dates of the transactions, or at an approximation thereto, whereas previously they were translated at the exchange rates at the balance sheet date. Further details of these changes are included in the accounting policy for "Foreign currencies" in note 3 to the financial statements.

2. IMPACT OF NEW AND REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”) (continued)

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in the recognition of an accrual for paid leave carried forward by the Group’s employees as at the balance sheet date. The recognition of this accrual has resulted in a prior year adjustment, further details of which are included under the heading “Employee benefits” in notes 3 and 25 to the financial statements. In addition, disclosures are now required in respect of the Company’s share option scheme, as detailed in note 29 to the financial statements. These share option scheme disclosures are similar to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) disclosures previously included in the Report of the Directors, which are now required to be included in the notes to the financial statements as a consequence of the SSAP.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2002. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

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

Subsidiaries

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

The results of subsidiaries are included in the Company’s profit and loss account to the extent of dividends received and receivable. The Company’s interests in subsidiaries are stated at cost less any impairment losses.

Joint venture companies

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Joint venture companies (continued)

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

A joint venture company is treated as:

- (a) a subsidiary, if the Company has unilateral control, directly or indirectly, over the joint venture company;
- (b) a jointly-controlled entity, if the Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;
- (c) an associate, if the Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or
- (d) a long term investment, if the Company holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

Jointly-controlled entities

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

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

Associates

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

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

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

SSAP 30 "Business combinations" was adopted as at 1 January 2001. Prior to that date, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted such goodwill to remain eliminated against consolidated reserves. Goodwill on acquisitions subsequent to 1 January 2001 is treated according to the SSAP 30 goodwill accounting policy above.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Negative goodwill

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

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated profit and loss account and any relevant reserves as appropriate.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

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

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

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

Fixed assets and depreciation

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

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

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

| | |
|--|----------------------|
| Leasehold improvements | Over the lease terms |
| Computer equipment and software | 20% – 33% |
| Furniture, fixtures and office equipment | 18% – 25% |
| Motor vehicles | 20% |

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year, except where the unexpired term of the lease is 20 years or less, in which case depreciation is provided on the then carrying amount over the remaining term of the lease.

Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

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

Intangible assets

Research and development costs

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

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

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

Investment securities

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

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

3. 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.

Held-to-maturity securities

Held-to-maturity securities are investments in dated debt securities which the Group has the expressed intention and ability to hold to maturity, and are stated at cost adjusted for the amortisation of premiums or discounts arising on acquisition, less any impairment losses which reflect their credit risk.

Short term investments

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

Inventories

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

Contracts for services

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred tax

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

Operating leases

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

Foreign currencies

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

On consolidation, the financial statements of overseas subsidiaries, jointly-controlled entities and associates which are expressed in foreign currencies are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries, jointly-controlled entities and associates are translated to Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated to Hong Kong dollars at the exchange rates at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated to Hong Kong dollars at the exchange rates 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.

Prior to the adoption of the revised SSAPs 11 and 15 during the year, as explained in note 2 to the financial statements, the profit and loss accounts of overseas subsidiaries, jointly-controlled entities and associates and the cash flows of overseas subsidiaries were translated to Hong Kong dollars at the exchange rates at the balance sheet date. These changes have had no material effect on the financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

Paid leave carried forward

The Group provides paid 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.

Prior to the adoption of SSAP 34 during the year, as explained in note 2 to the financial statements, the Group did not accrue for paid leave carried forward at the balance sheet date. This change in accounting policy has resulted in a prior year adjustment due to the initial recognition of the accrual, further details of which are included in note 25 to the financial statements.

Share option scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

Retirement benefits schemes

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 "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.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

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

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) from the rendering of software development services and e-business related services, based on the percentage of completion basis, as further explained in the accounting policy for "Contracts for services" above;
- (c) maintenance service income and consultancy service fees, on a time proportion basis over the period of the contract;
- (d) income from training courses, when the courses are presented;
- (e) proceeds from the sale of short term investments in listed shares, on the transaction dates when the relevant contract notes are exchanged;
- (f) rental income, in the period in which the properties are let and on a time proportion basis over the lease terms;
- (g) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and
- (h) dividend income, when the shareholders' right to receive payment has been established.

Deferred income

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

Dividends

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

Related parties

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

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

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

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

- (a) the integration services segment is engaged in the provision of system and network integration service and industry specific IT application implementation services;
- (b) the solutions services segment is engaged in the provision of IT solutions implementation and application development services;
- (c) the application services segment is engaged in the provision of enterprise applications and IT operation outsourcing services;
- (d) the distribution segment is engaged in the distribution of digital media products and other computer accessories;
- (e) the property investment segment holds prime office space for rental income; and
- (f) the corporate and other segment comprises mainly corporate expense items.

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

There were no intersegment sales and transfers during the year.

4. SEGMENT INFORMATION (continued)

(a) Business segments

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

Group

| | Integration Services | | Solutions Services | | Application Services | | Distribution | | Property Investment | | Corporate and Other | | Consolidated | |
|--|----------------------|--------------------|--------------------|--------------------|----------------------|--------------------|--------------|--------------------|---------------------|--------------------|---------------------|--------------------|--------------|--------------------|
| | 2002 | 2001 (Restated) | 2002 | 2001 (Restated) | 2002 | 2001 (Restated) | 2002 | 2001 (Restated) | 2002 | 2001 (Restated) | 2002 | 2001 (Restated) | 2002 | 2001 (Restated) |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Segment revenue | 118,391 | 446,815 | 49,996 | 22,941 | 21,433 | 15,804 | 38,424 | 30,308 | - | - | - | - | 228,244 | 515,868 |
| - sales to external customers | - | - | - | - | - | - | 609 | - | 697 | 917 | - | - | 1,306 | 917 |
| Other revenue | 118,391 | 446,815 | 49,996 | 22,941 | 21,433 | 15,804 | 39,033 | 30,308 | 697 | 917 | - | - | 229,550 | 516,785 |
| Total | 118,391 | 446,815 | 49,996 | 22,941 | 21,433 | 15,804 | 39,033 | 30,308 | 697 | 917 | - | - | 229,550 | 516,785 |
| Segment results before depreciation, amortisation and other operating expenses | (10,981) | 13,850 | (8,688) | (26,331) | (480) | (5,702) | 2,007 | 1,976 | 204 | 164 | (1,200) | 593 | (19,138) | (15,450) |
| Depreciation | (2,137) | (2,178) | (2,977) | (1,456) | (1,186) | (2,167) | (766) | (459) | (14) | (456) | (1,713) | (1,635) | (8,793) | (8,351) |
| Amortisation of intangible assets | (69) | (1,079) | (1,646) | (3,837) | (3,524) | (2,466) | - | - | - | - | - | - | (1,715) | (7,382) |
| Impairment losses recognised* | (3,890) | - | - | (2,788) | - | (1,468) | - | - | - | - | - | - | (3,524) | (1,468) |
| Provision for doubtful debts | (3,108) | - | - | - | - | (2,510) | (19) | - | - | - | - | - | (3,890) | (5,298) |
| Bad debts written off | - | (9,105) | - | - | - | - | - | - | - | - | - | - | (3,127) | - |
| Impairment of deferred development costs | - | - | - | (6,692) | - | (3,833) | - | - | - | - | - | - | - | (9,105) |
| Deficit on revaluation of investment properties | - | - | - | - | - | - | - | - | (600) | (8,052) | - | - | (600) | (10,525) |
| Segment results | (20,185) | 1,488 | (13,311) | (41,104) | (5,190) | (18,146) | 1,222 | 1,517 | (410) | (8,344) | (2,913) | (1,042) | (40,787) | (65,631) |
| Interest and dividend income and unallocated gains | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Unallocated impairment losses** | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Loss from operating activities | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Finance cost | - | - | - | - | - | - | - | - | - | - | - | - | 4,937 | 8,646 |
| Share of losses of: | - | - | - | - | - | - | - | - | - | - | - | - | (3,180) | (3,190) |
| Jointly-controlled entity | - | - | - | (2,344) | - | - | - | - | - | - | - | - | - | - |
| Associate | - | - | - | - | - | (26) | - | - | - | - | - | - | (39,030) | (60,175) |
| Loss before tax | - | - | - | - | - | (26) | - | - | - | - | - | - | - | (362) |
| Tax | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Loss before minority interests | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Minority interests | - | - | - | - | - | - | - | - | - | - | - | - | (39,030) | (62,897) |
| Net loss from ordinary activities attributable to shareholders | - | - | - | - | - | - | - | - | - | - | - | - | (386) | (953) |
| | - | - | - | - | - | - | - | - | - | - | - | - | (39,416) | (63,850) |
| | - | - | - | - | - | - | - | - | - | - | - | - | (207) | (312) |
| | - | - | - | - | - | - | - | - | - | - | - | - | (39,623) | (64,162) |

* The impairment losses recognised in the integration services segment was related to goodwill eliminated against consolidated reserves (note 15).
The impairment losses recognised in the solutions services and application services segments in the prior year related to goodwill on acquisition and impairment of computer equipment, respectively.

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

Notes to Financial Statements (continued)

31 December 2002

4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group

| | Integration Services | | Solutions Services | | Application Services | | Distribution | | Property Investment | | Corporate and Other | | Consolidated | |
|----------------------------|----------------------|-----------------------------------|--------------------|-----------------------------------|----------------------|-----------------------------------|--------------|-----------------------------------|---------------------|-----------------------------------|---------------------|-----------------------------------|--------------|-----------------------------------|
| | 2002 | 2001 <small>(Restated)</small> | 2002 | 2001 <small>(Restated)</small> | 2002 | 2001 <small>(Restated)</small> | 2002 | 2001 <small>(Restated)</small> | 2002 | 2001 <small>(Restated)</small> | 2002 | 2001 <small>(Restated)</small> | 2002 | 2001 <small>(Restated)</small> |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Segment assets | 99,021 | 109,745 | 33,746 | 40,157 | 54,114 | 63,220 | 18,032 | 15,355 | 15,292 | 15,747 | 130,627 | 141,255 | 350,832 | 385,479 |
| Unallocated assets | | | | | | | | | | | | | 21,649 | 15,464 |
| Total assets | 99,021 | 109,745 | 33,746 | 40,157 | 54,114 | 63,220 | 18,032 | 15,355 | 15,292 | 15,747 | 130,627 | 141,255 | 372,481 | 400,943 |
| Segment liabilities | 29,886 | 27,544 | 13,702 | 6,705 | 6,993 | 6,095 | 8,193 | 7,936 | 167 | 92 | 3,004 | 4,125 | 61,945 | 52,497 |
| Unallocated liabilities | | | | | | | | | | | | | | 3,872 |
| Total liabilities | 29,886 | 27,544 | 13,702 | 6,705 | 6,993 | 6,095 | 8,193 | 7,936 | 167 | 92 | 3,004 | 4,125 | 61,945 | 56,369 |
| Other segment information: | | | | | | | | | | | | | | |
| Capital expenditure | 99 | 2,672 | 177 | 5,423 | 151 | 3,235 | 594 | 1,495 | 17 | - | 105 | 708 | 1,143 | 13,533 |

4. SEGMENT INFORMATION (continued)

(b) Geographical segments

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

Group

| | Hong Kong | | Mainland PRC | | Other | | Consolidated | |
|---|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | 2002 HK\$'000 | 2001 HK\$'000 | 2002 HK\$'000 | 2001 HK\$'000 | 2002 HK\$'000 | 2001 HK\$'000 | 2002 HK\$'000 | 2001 HK\$'000 |
| Segment revenue – sales to external customers | 87,370 | 53,315 | 124,610 | 456,507 | 16,264 | 6,046 | 228,244 | 515,868 |
| Other segment information: Segment assets | 247,069 | 234,211 | 97,256 | 140,294 | 6,507 | 10,974 | 350,832 | 385,479 |
| Capital expenditure | 547 | 4,352 | 179 | 4,870 | 417 | 4,311 | 1,143 | 13,533 |

5. TURNOVER, REVENUE AND GAINS

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

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

| | 2002 HK\$'000 | 2001 HK\$'000 |
|---|------------------|------------------|
| Turnover | | |
| Sale of goods: | | |
| Computer hardware and software (including systems design and implementation) | 129,080 | 452,779 |
| Computer hardware, software and related accessories | 38,424 | 30,308 |
| | 167,504 | 483,087 |
| Provision of e-business related services | 51,573 | 26,793 |
| Maintenance services, consultancy services and training courses | 9,167 | 5,988 |
| | 228,244 | 515,868 |
| Other revenue | | |
| Interest income | 4,473 | 6,494 |
| Dividend income from listed investments | 464 | 522 |
| Gross rental income | 1,306 | 917 |
| Other | 1,635 | 1,890 |
| | 7,878 | 9,823 |
| Gains | | |
| Gain on disposal of listed investments | – | 374 |
| Gain on disposal of intangible assets | – | 1,256 |
| Exchange gains, net | 2,281 | 41 |
| Negative goodwill recognised | 1,294 | 108 |
| | 3,575 | 1,779 |
| | 11,453 | 11,602 |

6. LOSS FROM OPERATING ACTIVITIES

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

| | 2002 HK\$'000 | 2001 HK\$'000 (Restated) |
|--|--------------------------------|--------------------------------|
| Cost of inventories sold | 151,046 | 408,471 |
| Cost of services provided | 20,862 | 14,217 |
| Depreciation | 8,793 | 8,351 |
| Write-off of fixed assets | 1,979 | 217 |
| Provision for inventories* | 283 | – |
| Amortisation of licence rights* | – | 1,188 |
| Amortisation of deferred development costs* | 1,715 | 6,194 |
| Goodwill: | | |
| Amortisation for the year** | 3,524 | 1,468 |
| Impairment arising during the year** | 3,890 | 2,788 |
| | 7,414 | 4,256 |
| Minimum lease payments under operating leases in respect of land and buildings | 9,174 | 6,365 |
| Auditors' remuneration | 1,030 | 960 |
| Staff costs (excluding directors' remuneration disclosed in note 7)#: | | |
| Wages and salaries | 54,049 | 69,788 |
| Pension scheme contributions | 3,147 | 3,524 |
| Less: Forfeited contributions | (681) | (324) |
| Net pension contributions## | 2,466 | 3,200 |
| Less: Capitalised in deferred development costs | (1,958) | – |
| | 54,557 | 72,988 |
| Unrealised loss on revaluation of short term listed investments carried at fair value** | 3,180 | 2,730 |
| Provisions for doubtful debts** | 3,127 | 754 |
| Bad debts written off** | – | 9,105 |
| Impairment on investment securities** | – | 460 |
| Deficit on revaluation of investment properties** | 600 | 8,052 |
| Impairment of deferred development costs** | – | 10,525 |
| Impairment of fixed assets** | – | 2,510 |

6. LOSS FROM OPERATING ACTIVITIES (continued)

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

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

Inclusive of an amount of HK\$20,862,000 (2001: HK\$14,217,000) classified under cost of services provided.

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

7. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance and the Listing Rules is as follows:

| | 2002 <i>HK\$'000</i> | 2001 <i>HK\$'000</i> |
|---|--------------------------------|-------------------------|
| Fees: | | |
| Executive directors | – | – |
| Non-executive directors | 100 | 100 |
| | 100 | 100 |
| Other emoluments (executive directors): | | |
| Salaries, allowances and benefits in kind | 4,216 | 3,123 |
| Bonuses paid and payable | 202 | – |
| Pension scheme contributions | 202 | 120 |
| | 4,620 | 3,243 |
| | 4,720 | 3,343 |

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

| | 2002 Number of directors | 2001 Number of directors |
|-------------------------------|---|--------------------------------|
| Nil – HK\$1,000,000 | 5 | 6 |
| HK\$1,000,001 – HK\$1,500,000 | 1 | 1 |
| HK\$1,500,001 – HK\$2,000,000 | 1 | – |
| | 7 | 7 |

7. DIRECTORS' REMUNERATION (continued)

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

During the year, no share options were granted to the directors in respect of their services to the Group. Further details of the Group's share option scheme are set out in note 29 to the financial statements.

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid individuals of the Group included two (2001: one) directors, details of whose remuneration are set out in note 7 to the financial statements. The remuneration of the other three (2001: four) non-director, highest paid individuals, disclosed pursuant to the Listing Rules, is as follows:

| | 2002 <i>HK\$'000</i> | 2001 <i>HK\$'000</i> |
|---|--------------------------------|-------------------------|
| Salaries, allowances and benefits in kind | 3,382 | 5,251 |
| Bonuses paid and payable | 255 | – |
| Pension scheme contributions | 139 | 159 |
| | 3,776 | 5,410 |

The remuneration of the three (2001: four) non-director, highest paid individuals fell within the following bands:

| | 2002 Number of individuals | 2001 Number of individuals |
|-------------------------------|---|----------------------------------|
| HK\$1,000,001 – HK\$1,500,000 | 2 | 3 |
| HK\$1,500,001 – HK\$2,000,000 | 1 | 1 |
| | 3 | 4 |

During the year, no share options were granted to the three non-director, highest paid employees in respect of their services to the Group. Further details of the Group's share option scheme are included in the disclosures in note 29 to the financial statements.

9. FINANCE COST

| | Group | |
|------------------------|------------------|------------------|
| | 2002 HK\$'000 | 2001 HK\$'000 |
| Interest on bank loans | – | 352 |

10. TAX

| | Group | |
|---|------------------|------------------|
| | 2002 HK\$'000 | 2001 HK\$'000 |
| Provision for tax in respect of profits for the year: | | |
| Hong Kong | 209 | 370 |
| Elsewhere | 291 | 601 |
| | 500 | 971 |
| Overprovisions in prior years – Hong Kong | (114) | (18) |
| Tax charge for the year | 386 | 953 |

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

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

11. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31 December 2002 dealt with in the financial statements of the Company was HK\$39,718,000 (2001: HK\$50,334,000).

12. LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on the net loss attributable to shareholders for the year of HK\$39,623,000 (2001: HK\$64,162,000, as restated) and the weighted average of 272,448,000 (2001: 266,805,000) shares of the Company in issue during the year.

(b) Diluted loss per share

No diluted loss per share is presented for the two years ended 31 December 2002 as the effect of the Company's outstanding share options was anti-dilutive.

13. FIXED ASSETS

Group

| | Investment properties <i>HK\$'000</i> | Leasehold improve- ments <i>HK\$'000</i> | Computer equipment and software <i>HK\$'000</i> | Furniture, fixtures and office equipment <i>HK\$'000</i> | Motor vehicles <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|---|---|---|---|--|--------------------------------------|--------------------------|
| Cost or valuation: | | | | | | |
| At beginning of year | 15,700 | 8,397 | 24,351 | 5,729 | 1,218 | 55,395 |
| Additions | – | 333 | 474 | 336 | – | 1,143 |
| Deficit on revaluation | (600) | – | – | – | – | (600) |
| Write-off | – | (1,661) | (2,028) | (801) | (230) | (4,720) |
| Exchange realignment | – | 105 | 58 | 23 | – | 186 |
| At 31 December 2002 | 15,100 | 7,174 | 22,855 | 5,287 | 988 | 51,404 |
| Analysis of cost or valuation: | | | | | | |
| At cost | – | 7,174 | 22,855 | 5,287 | 988 | 36,304 |
| At 31 December 2002 valuation | 15,100 | – | – | – | – | 15,100 |
| | <u>15,100</u> | <u>7,174</u> | <u>22,855</u> | <u>5,287</u> | <u>988</u> | <u>51,404</u> |
| Accumulated depreciation and impairment: | | | | | | |
| At beginning of year | – | 2,509 | 11,590 | 1,671 | 172 | 15,942 |
| Provided during the year | – | 2,268 | 5,126 | 1,229 | 170 | 8,793 |
| Write-off | – | (520) | (1,852) | (231) | (138) | (2,741) |
| Exchange realignment | – | 78 | 7 | 1 | – | 86 |
| At 31 December 2002 | – | 4,335 | 14,871 | 2,670 | 204 | 22,080 |
| Net book value: | | | | | | |
| At 31 December 2002 | 15,100 | 2,839 | 7,984 | 2,617 | 784 | 29,324 |
| At 31 December 2001 | 15,700 | 5,888 | 12,761 | 4,058 | 1,046 | 39,453 |

13. FIXED ASSETS (continued)

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

| | <i>HK\$'000</i> |
|--------------------|-----------------|
| Hong Kong: | |
| Long term leases | 9,000 |
| Mainland PRC: | |
| Long term leases | 4,500 |
| Medium term leases | 1,600 |
| | <u>15,100</u> |

The Group's investment properties were revalued on 31 December 2002 by Landscape Surveyors Limited, independent professionally qualified valuers, at HK\$15,100,000 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 32(a) to the financial statements.

Further particulars of the Group's investment properties are included on page 64.

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

14. INTANGIBLE ASSETS

Group

| | Deferred development costs <i>HK\$'000</i> |
|--|--|
| Cost: | |
| At beginning of year | 25,351 |
| Additions | 1,958 |
| Eliminated on retirement | (15,280) |
| | <u>12,029</u> |
| At 31 December 2002 | 12,029 |
| Accumulated amortisation and impairment: | |
| At beginning of year | 23,223 |
| Amortisation provided during the year | 1,715 |
| Eliminated on retirement | (15,280) |
| | <u>9,658</u> |
| At 31 December 2002 | 9,658 |
| Net book value: | |
| At 31 December 2002 | <u>2,371</u> |
| At 31 December 2001 | <u>2,128</u> |

15. GOODWILL AND NEGATIVE GOODWILL

The amounts of the goodwill and negative goodwill capitalised as an asset or recognised in the consolidated balance sheet, arising from the acquisition of subsidiaries, are as follows:

| | Group | |
|--|-----------------|--------------------------|
| | Goodwill | Negative goodwill |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Cost: | | |
| At beginning of year and at 31 December 2002 | 35,239 | (2,588) |
| Accumulated amortisation and impairment/ (recognition as income): | | |
| At beginning of year | 1,468 | (108) |
| Amortisation provided/(recognised as income) during the year | 3,524 | (1,294) |
| At 31 December 2002 | 4,992 | (1,402) |
| Net book value: | | |
| At 31 December 2002 | 30,247 | (1,186) |
| At 31 December 2001 | 33,771 | (2,480) |

As detailed in note 3 to the financial statements, on the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted goodwill in respect of acquisitions which occurred prior to 1 January 2001, to remain eliminated against consolidated reserves.

15. GOODWILL AND NEGATIVE GOODWILL (continued)

The amount of the goodwill remaining in consolidated reserves as at 31 December 2002, arising from the acquisition of subsidiaries prior to 1 January 2001, are as follows:

Group

| | Goodwill eliminated against consolidated reserves |
|---|--|
| | <i>HK\$'000</i> |
| <hr/> | |
| Cost: | |
| At beginning of year and at 31 December 2002 | 11,117 |
| Accumulated impairment: | |
| At beginning of year | – |
| Impairment provided during the year | (3,890) |
| At 31 December 2002 | (3,890) |
| Net amount: | |
| At 31 December 2002 | 7,227 |
| At 31 December 2001 | 11,117 |

During the year, the integration services segment of the Group has suffered from the sluggish demand in the Mainland PRC and recorded a loss of HK\$10,981,000 before depreciation, amortisation and other operating expenses (note 4). The market of this segment is not expected to recover in the near future. Hence, a provision for impairment of goodwill amounted to HK\$3,890,000 arising from the acquisition of subsidiaries involved in integration services was recorded. The impairment loss is determined by discounting the expected future cash flows arising from that segment at a discount rate of 5%.

16. INTERESTS IN SUBSIDIARIES

| | Company | |
|--------------------------|------------------|------------------|
| | 2002 HK\$'000 | 2001 HK\$'000 |
| Unlisted shares, at cost | 45,633 | 45,633 |
| Due from subsidiaries | 354,480 | 347,370 |
| Due to a subsidiary | (268) | – |
| | 399,845 | 393,003 |
| Provision for impairment | (91,643) | (52,952) |
| | 308,202 | 340,051 |

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

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 |
|---|---|--|---|------|---|
| | | | 2002 | 2001 | |
| Computer And Technologies (BVI) Limited | British Virgin Islands | US\$1,000 | 100 | 100 | Investment holding |
| Computer And Technologies International Limited | Hong Kong | Ordinary HK\$2 Non-voting deferred ** HK\$5,000,000 | 100 | 100 | Provision of IT services and investment holding |
| Computer And Technologies Integration Limited | Hong Kong | HK\$2 | 100 | 100 | Provision of system and network integration services |
| Computer & Technologies International Trading (Shanghai) Company Limited# | Mainland PRC | US\$200,000 | 100 | 100 | Trading of computer hardware and software |
| Computer & Technologies (Shanghai) Co., Ltd.# | Mainland PRC | US\$1,000,000 | 100 | 100 | Provision of systems and network integration services |

16. 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 |
|---|---|--|---|------|---|
| | | | 2002 | 2001 | |
| Computer & Technologies Investment Limited | British Virgin Islands | US\$1 | 100 | 100 | Investment holding |
| C&T (Guangzhou) Investment Limited | Hong Kong | HK\$2 | 100 | 100 | Property holding |
| C&T (Hong Kong) Investment Limited | British Virgin Islands | US\$1 | 100 | 100 | Property holding |
| C&T (Nanjing) Investment Limited | Hong Kong | HK\$2 | 100 | 100 | Property holding |
| C&T (Shanghai) Investment Limited | Hong Kong | HK\$2 | 100 | 100 | Property holding |
| Computer And Technologies Solutions Limited (formerly known as Global e-Business Enabler Limited) | Hong Kong | HK\$2 | 100 | 100 | Provision of IT solutions and implementation services |
| Computer And Technologies Resources Limited (formerly known as HutchTech Resources Limited) | Hong Kong | HK\$100 | 100 | 100 | Provision of resources team for IT solutions implementation |
| Computer & Technologies Solutions (Shenzhen) Co., Ltd.# | Mainland PRC | HK\$1,000,000 | 100 | 100 | Provision of IT solutions and implementation services |
| Computer And Technologies Solutions Limited## | Bermuda | US\$13,340 | 91 | 90 | Provision of IT solutions and implementation services |
| Global e-Business Services Limited | Hong Kong | HK\$1,010,000 | 100 | 100 | Provision of enterprise application services |
| ets.com.hk Limited | Hong Kong | HK\$2 | 100 | 100 | Provision of e-tendering services for HKSAR Government |

16. 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 |
|---|---|--|---|------|---|
| | | | 2002 | 2001 | |
| e-tendering.com Limited | British Virgin Islands | US\$1 | 100 | 100 | Provision of e-tendering services |
| IPL Research Limited | Hong Kong | Ordinary HK\$2 Non-voting deferred ** HK\$300,000 | 100 | 100 | Provision of human resource management and related application software |
| Maxfair Technology Limited | Hong Kong | HK\$2,500,000 | 75 | 75 | Distribution of digital media products |
| Maxfair Technology (Taiwan) Company Limited | Taiwan | NT\$10,000,000 | 52.5 | 52.5 | Distribution of digital media products |

* *The concept of registered capital applies only to companies established in the Mainland 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 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 the Mainland PRC are wholly foreign-owned enterprises.

Not audited by Ernst & Young.

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

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

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for 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.

17. HELD-TO-MATURITY SECURITIES

| | Group | |
|---|------------------|------------------|
| | 2002 HK\$'000 | 2001 HK\$'000 |
| At amortised cost: | | |
| Overseas listed debt securities | 1,560 | – |
| Unlisted debt securities | 7,300 | – |
| | <u>8,860</u> | <u>–</u> |
| Market value of overseas listed debt securities | <u>1,594</u> | <u>–</u> |

18. INVESTMENT SECURITIES

| | Group | |
|------------------------------------|------------------|------------------|
| | 2002 HK\$'000 | 2001 HK\$'000 |
| Club membership debenture, at cost | 1,460 | 1,460 |
| Provision for impairment | (460) | (460) |
| | <u>1,000</u> | <u>1,000</u> |

19. PROMISSORY NOTE RECEIVABLE

The promissory note receivable of the Group represented a refund receivable from the seller in respect of the excess consideration paid by the Group for the acquisition of certain subsidiaries in the prior year. The amount is unsecured, bears interest at 4% per annum and is receivable in August 2003.

20. INVENTORIES

| | Group | |
|------------------|------------------|------------------|
| | 2002 HK\$'000 | 2001 HK\$'000 |
| Work in progress | 8,346 | 1,927 |
| Finished goods | 4,067 | 4,351 |
| | <u>12,413</u> | <u>6,278</u> |

The carrying amount of inventories carried at net realisable value included in the above balance was HK\$283,000 (2001: Nil) as at the balance sheet date.

21. TRADE RECEIVABLES

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

| | Group | |
|----------------------------|-------------------------|-------------------------|
| | 2002 <i>HK\$'000</i> | 2001 <i>HK\$'000</i> |
| Current | 35,147 | 64,061 |
| Overdue 1 to 3 months | 8,887 | 13,183 |
| Overdue 4 to 6 months | 1,118 | 4,520 |
| Overdue more than 6 months | 2,515 | – |
| | <u>47,667</u> | <u>81,764</u> |

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.

22. CONTRACTS FOR SERVICES

| | Group | |
|---|-------------------------|-------------------------|
| | 2002 <i>HK\$'000</i> | 2001 <i>HK\$'000</i> |
| Gross amount due from contract customers | 19,649 | 6,172 |
| Gross amount due to contract customers included in other payables | <u>(734)</u> | <u>(83)</u> |
| | 18,915 | 6,089 |
| Contract costs incurred plus recognised profits less recognised losses to date | 37,845 | 33,252 |
| Less: Progress billings | <u>(18,930)</u> | <u>(27,163)</u> |
| | <u>18,915</u> | <u>6,089</u> |

23. SHORT TERM INVESTMENTS

| | Group | |
|--|------------------|------------------|
| | 2002 HK\$'000 | 2001 HK\$'000 |
| Listed equity investments in Hong Kong, at market value | <u>9,709</u> | <u>12,464</u> |

24. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

| | Group | | Company | |
|--|-----------------------|------------------|---------------------|------------------|
| | 2002 HK\$'000 | 2001 HK\$'000 | 2002 HK\$'000 | 2001 HK\$'000 |
| Cash and bank balances | 42,373 | 54,924 | 1,318 | 300 |
| Time deposits | <u>158,877</u> | <u>155,339</u> | <u>–</u> | <u>7,025</u> |
| | 201,250 | 210,263 | 1,318 | 7,325 |
| Less: Pledged time deposits for general banking facilities | (12,000) | (12,992) | – | – |
| Pledged time deposits for guarantees issued by banks | (3,069) | – | – | – |
| Cash and cash equivalents | <u>186,181</u> | <u>197,271</u> | <u>1,318</u> | <u>7,325</u> |

25. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

Included in the balance is an amount of HK\$36,164,000 (2001: HK\$25,443,000) representing the trade payables of the Group. An aged analysis of such payables is as follows:

| | Group | |
|-----------------------|----------------------|------------------|
| | 2002 HK\$'000 | 2001 HK\$'000 |
| Current | 27,597 | 18,145 |
| Within 1 to 3 months | 8,051 | 3,935 |
| Between 4 to 6 months | <u>516</u> | <u>3,363</u> |
| | <u>36,164</u> | <u>25,443</u> |

SSAP 34 was adopted during the year, as explained in note 2 and under the heading "Employee benefits" in note 3 to the financial statements. As a result, an accrual is now made at the balance sheet date for the expected future cost of paid leave earned during the year by employees, which remains untaken by the employees at the balance sheet date and is permitted to be carried forward and utilised in the following year.

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

This change in accounting policy has resulted in HK\$1,705,000 and HK\$2,129,000 being included in the balance of the Group's accruals in respect of paid leave carried forward as at 31 December 2002 and 2001, respectively. As a consequence, the consolidated net losses attributable to shareholders for the years ended 31 December 2002 and 2001 have been reduced by HK\$424,000 and increased by HK\$203,000, respectively, and consolidated accumulated losses at 1 January 2002 and consolidated retained profits at 1 January 2001 have been increased by HK\$2,129,000 and decreased by HK\$1,926,000, respectively, as detailed in the consolidated summary statement of changes in equity.

26. AMOUNTS DUE FROM/TO MINORITY SHAREHOLDERS OF SUBSIDIARIES

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

27. OTHER LOAN, UNSECURED

| | Group and Company | |
|---|--------------------------------|-------------------------|
| | 2002 <i>HK\$'000</i> | 2001 <i>HK\$'000</i> |
| Other loan wholly repayable within five years | 296 | 739 |
| Portion classified as current liabilities | (296) | (443) |
| Non-current portion | – | 296 |

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

28. SHARE CAPITAL

Shares

| | Company | |
|---|--------------------------------|-------------------------|
| | 2002 <i>HK\$'000</i> | 2001 <i>HK\$'000</i> |
| Authorised: | | |
| 1,000,000,000 ordinary shares of HK\$0.10 each | 100,000 | 100,000 |
| Issued and fully paid: | | |
| 273,308,198 (2001: 270,588,198) ordinary shares of HK\$0.10 each | 27,331 | 27,059 |

28. SHARE CAPITAL (continued)

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

| Ordinary shares | <i>Notes</i> | Number of shares in issue | Issued share capital <i>HK\$'000</i> | Share premium account <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|--|--------------|---------------------------------|---|--|--------------------------|
| At 1 January 2001 | | 263,300,338 | 26,330 | 306,701 | 333,031 |
| Issue of new shares for acquisition of subsidiaries | <i>(a)</i> | 5,007,360 | 501 | 14,976 | 15,477 |
| Share options exercised | <i>(b)</i> | 2,280,500 | 228 | 2,538 | 2,766 |
| At 31 December 2001 and 1 January 2002 | | 270,588,198 | 27,059 | 324,215 | 351,274 |
| Share options exercised | <i>(c)</i> | 2,720,000 | 272 | 3,282 | 3,554 |
| Offsetting against accumulated losses | <i>30</i> | – | – | (51,406) | (51,406) |
| At 31 December 2002 | | 273,308,198 | 27,331 | 276,091 | 303,422 |

- (a) Pursuant to a share subscription and sales agreement dated 20 June 2001, 5,007,360 new ordinary shares of HK\$0.10 each were allotted and issued at HK\$3.0908 per share on 26 July 2001 as part of the consideration for the acquisition of subsidiaries (note 31(b)).
- (b) During the year ended 31 December 2001, 2,280,500 ordinary shares were allotted to the holders of share options who exercised the options under the share option scheme of the Company.
- (c) During the year, 2,720,000 ordinary shares were allotted to the holders of the share options who exercised the options under the share option scheme of the Company (note 29).

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 29 to the financial statements.

29. SHARE OPTION SCHEME

SSAP 34 was adopted during the year, as explained in note 2 and under the heading "Employee benefits" in note 3 to the financial statements. As a result, these detailed disclosures relating to the Company's share option scheme are now included in notes to the financial statements. In the prior year, these disclosures were included in the Report of the Directors, as their disclosure is also a requirement of the Listing Rules.

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, and any minority shareholder in the Company's subsidiaries. The Scheme became effective on 30 May 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent to, upon their exercise, 10% of the shares of the Company in issue at any time. At 31 December 2002, the number of shares issuable under share options granted under the Scheme was 8,943,000, which represented approximately 3.3% of the Company's shares in issue as at that date. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

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

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

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

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

29. SHARE OPTION SCHEME (continued)

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

| Name or category of participant | Number of share options | | | | | Date of grant of share options* | Exercise period of share options | Exercise price of share options** HK\$ | Price of Company's shares*** | |
|---------------------------------|-------------------------|-------------------------|---------------------------|------------------------|---------------------|---------------------------------|----------------------------------|---|----------------------------------|-------------------------------------|
| | At 1 January 2002 | Granted during the year | Exercised during the year | Lapsed during the year | At 31 December 2002 | | | | At grant date of options HK\$ | At exercise date of options HK\$ |
| Directors | | | | | | | | | | |
| Ng Cheung Shing | 800,000 | - | (800,000) | - | - | 03.12.99 | 3.12.2000 to 2.11.2004 | 1.800 | 4.500 | 1.870 |
| Leung King San, Sunny | 188,000 | - | (188,000) | - | - | 03.12.99 | 3.12.2000 to 2.11.2004 | 1.800 | 4.500 | 1.870 |
| Ma Mok Hoi | 200,000 | - | - | - | 200,000 | 03.10.98 | 26.10.1999 to 25.10.2003 | 0.281 | 0.370 | N/A |
| | <u>1,188,000</u> | <u>-</u> | <u>(988,000)</u> | <u>-</u> | <u>200,000</u> | | | | | |
| Other employees | | | | | | | | | | |
| In aggregate | 1,036,000 | - | (276,000) | - | 760,000 | 09.10.98 | 26.10.1999 to 25.10.2003 | 0.298 | 0.390 | 1.270 to 1.800 |
| | 240,000 | - | (168,000) | - | 72,000 | 09.10.98 | 26.10.1999 to 25.10.2003 | 0.316 | 0.390 | 1.270 to 2.175 |
| | 286,000 | - | - | - | 286,000 | 18.08.99 | 30.08.2000 to 29.08.2004 | 0.635 | 0.810 | N/A |
| | 670,000 | - | (144,000) | - | 526,000 | 18.08.99 | 30.08.2000 to 29.08.2004 | 0.675 | 0.810 | 2.025 |
| | 564,000 | - | (444,000) | (120,000) | - | 18.08.99 | 30.08.2000 to 29.08.2002 | 0.715 | 0.810 | 1.980 to 2.525 |
| | 96,000 | - | - | - | 96,000 | 03.09.99 | 17.09.2000 to 16.09.2004 | 0.753 | 0.930 | N/A |
| | 600,000 | - | - | - | 600,000 | 31.08.01 | 06.09.2002 to 05.09.2006 | 1.563 | 1.880 | N/A |
| | 1,416,000 | - | (700,000) | (716,000) | - | 15.11.99 | 10.12.1999 to 31.12.2002 | 1.750 | 2.250 | 1.720 to 2.400 |
| | 2,653,000 | - | - | - | 2,653,000 | 16.01.01 | 23.01.2002 to 22.01.2006 | 2.672 | 3.500 | N/A |
| | <u>7,561,000</u> | <u>-</u> | <u>(1,732,000)</u> | <u>(836,000)</u> | <u>4,993,000</u> | | | | | |
| Others - note 31(b) | - | 3,750,000 | - | - | 3,750,000 | 04.02.02 | 28.02.2002 to 27.08.2003 | 2.200 | 2.025 | N/A |
| Total | <u>8,749,000</u> | <u>3,750,000</u> | <u>(2,720,000)</u> | <u>(836,000)</u> | <u>8,943,000</u> | | | | | |

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

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

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

29. SHARE OPTION SCHEME (continued)

The 2,720,000 share options exercised during the year resulted in the issue of 2,720,000 ordinary shares of the Company and new share capital of HK\$272,000 and share premium of HK\$3,282,000 (before issue expenses), as detailed in note 28 to the financial statements.

At the balance sheet date, the Company had 8,943,000 share options outstanding under the Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 8,943,000 additional ordinary shares of the Company and additional share capital of HK\$894,300 and share premium of HK\$16,297,000 (before issue expenses).

30. RESERVES

Group

| | Notes | Share premium account HK\$'000 | Contributed surplus HK\$'000 | Goodwill reserve* HK\$'000 | Exchange fluctuation reserve HK\$'000 | Retained profits/ losses (accumulated) HK\$'000 | Total HK\$'000 |
|---|-------|-----------------------------------|---------------------------------|-------------------------------|--|---|-------------------|
| At 1 January 2001: | | | | | | | |
| As previously reported | | 306,701 | 45,483 | (11,117) | 13 | 23,259 | 364,339 |
| Prior year adjustment: SSAP 34 "Employee benefits" | 2, 25 | - | - | - | - | (1,926) | (1,926) |
| As restated | | 306,701 | 45,483 | (11,117) | 13 | 21,333 | 362,413 |
| Issue of shares | 28 | 17,514 | - | - | - | - | 17,514 |
| Net loss for the year (as restated) | | - | - | - | - | (64,162) | (64,162) |
| Exchange adjustments | | - | - | - | 398 | - | 398 |
| At 31 December 2001 | | 324,215 | 45,483 | (11,117) | 411 | (42,829) | 316,163 |
| At 1 January 2002: | | | | | | | |
| As previously reported | | 324,215 | 45,483 | (11,117) | 411 | (40,700) | 318,292 |
| Prior year adjustment: SSAP 34 "Employee benefits" | 2, 25 | - | - | - | - | (2,129) | (2,129) |
| As restated | | 324,215 | 45,483 | (11,117) | 411 | (42,829) | 316,163 |
| Issue of shares | 28 | 3,282 | - | - | - | - | 3,282 |
| Impairment of goodwill | 15 | - | - | 3,890 | - | - | 3,890 |
| Offsetting against accumulated losses# | 28 | (51,406) | - | - | - | 51,406 | - |
| Net loss for the year | | - | - | - | - | (39,623) | (39,623) |
| Exchange adjustments | | - | - | - | (1,856) | - | (1,856) |
| At 31 December 2002 | | 276,091 | 45,483 | (7,227) | (1,445) | (31,046) | 281,856 |

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

On 30 May 2002, an annual general meeting of the Company was convened and the shareholders approved to offset the accumulated losses of the Company as at 31 December 2001 amounted to HK\$51,406,000 by debiting the same amount to the share premium account.

30. RESERVES (continued)

Company

| | <i>Note</i> | Share premium account <i>HK\$'000</i> | Contributed surplus <i>HK\$'000</i> | Accumulated losses <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|---|-------------|---|---|--|---------------------------------|
| At 1 January 2001 | | 306,701 | 45,483 | (1,072) | 351,112 |
| Issue of shares | 28 | 17,514 | – | – | 17,514 |
| Net loss for the year | | – | – | (50,334) | (50,334) |
| At 31 December 2001 and 1 January 2002 | | 324,215 | 45,483 | (51,406) | 318,292 |
| Offsetting against accumulated losses# | 28 | (51,406) | – | 51,406 | – |
| Issue of shares | 28 | 3,282 | – | – | 3,282 |
| Net loss for the year | | – | – | (39,718) | (39,718) |
| At 31 December 2002 | | 276,091 | 45,483 | (39,718) | 281,856 |

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

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

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of loss before tax to cash generated from/(used in) operations

| | <i>Notes</i> | 2002 HK\$'000 | 2001 HK\$'000 (Restated) |
|---|--------------|--------------------------|--------------------------------|
| Loss before tax | | (39,030) | (62,897) |
| Adjustment for: | | | |
| Interest income | 5 | (4,473) | (6,494) |
| Exchange gain | | (2,179) | – |
| Dividend income from listed investments | 5 | (464) | (522) |
| Gain on disposal of intangible assets | 5 | – | (1,256) |
| Gain on disposal of listed investments | 5 | – | (374) |
| Negative goodwill recognised | 5 | (1,294) | (108) |
| Depreciation | 6 | 8,793 | 8,351 |
| Impairment of fixed assets | 6 | – | 2,510 |
| Write-off of fixed assets | 6 | 1,979 | 217 |
| Amortisation of intangible assets | 6 | 1,715 | 7,382 |
| Impairment of investment securities | 6 | – | 460 |
| Deficit on revaluation of investment properties | 6 | 600 | 8,052 |
| Impairment of deferred development costs | 6 | – | 10,525 |
| Goodwill amortisation and impairment | 6 | 7,414 | 4,256 |
| Unrealised loss on revaluation of short term listed investments | 6 | 3,180 | 2,730 |
| Finance cost | | – | 352 |
| Share of losses of a jointly-controlled entity | | – | 2,344 |
| Share of losses of an associate | | – | 26 |
| Operating loss before working capital changes | | (23,759) | (24,446) |
| Decrease/(increase) in inventories | | (6,135) | 35,298 |
| Decrease in trade receivables | | 34,097 | 44,071 |
| Increase in amounts due from contract customers | | (13,477) | (1,785) |
| Increase in amount due from minority shareholder of a subsidiary | | (1,852) | – |
| Decrease/(increase) in prepayments, deposits and other receivables | | 885 | (1,165) |
| Increase/(decrease) in trade payables, other payables and accruals | | 6,127 | (52,940) |
| Increase/(decrease) in deferred income | | (255) | 4,610 |
| Increase in amounts due to minority shareholders of subsidiaries | | 22 | 656 |
| Cash generated from/(used in) operations | | (4,347) | 4,299 |

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Acquisition of subsidiaries

| | 2002 HK\$'000 | 2001 HK\$'000 |
|--|--------------------------------|------------------|
| Net assets acquired: | | |
| Fixed assets | – | 4,826 |
| Cash and bank balances | – | 10,391 |
| Trade receivables, prepayments and other receivables | – | 7,929 |
| Trade payables, other payables and accruals | – | (9,292) |
| Tax payable | – | (357) |
| Minority interests | – | (384) |
| | – | 13,113 |
| Goodwill on acquisition | – | 38,027 |
| Negative goodwill on acquisition | – | (2,588) |
| Consideration* | – | 48,552 |
| Satisfied by: | | |
| Cash | – | 24,548 |
| Issue of shares <i>(note 28(a))</i> | – | 15,477 |
| Reclassification of interest in a jointly-controlled entity | – | 8,527 |
| | – | 48,552 |

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

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

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

| | 2002 HK\$'000 | 2001 HK\$'000 |
|---|--------------------------------|------------------|
| Cash consideration | – | (24,548) |
| Cash and bank balances acquired | – | 10,391 |
| Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries | – | (14,157) |

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Acquisition of subsidiaries (continued)

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

Pursuant to a supplementary agreement dated 4 February 2002 entered into between the Group and the Vendors (the "Supplemental Agreement"), the Group acquired the remaining 1% interest in IPL on 28 February 2002 from the Vendors at nil consideration and the Original Consideration was revised downwards to HK\$36,025,000, with the excess consideration of HK\$2,000,000 already paid by the Group to the Vendors to be refunded. The effect of this transaction has been reflected in the prior year's financial statements and the amount refundable is included as "Promissory note receivable" (note 19) on the face of the consolidated balance sheet.

Pursuant to the Supplemental Agreement, (i) the Group was granted a put option by the Vendors, pursuant to which the Group may require the Vendors to purchase 25% equity interests in IPL at a consideration of HK\$3,000,000; and (ii) the Vendors were granted share subscription options for 3,750,000 ordinary shares of HK\$0.10 each of the Company at a price of HK\$2.20 per share. These share subscription options, subject to certain conditions, may be exercised within a period of 18 months from 28 February 2002 (note 29).

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

(c) Restricted cash and cash equivalent balances

Certain of the Group's time deposits are pledged to banks to secure general banking facilities and guarantees granted to the Group, as further explained in note 24 to the financial statements.

32. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 13) under operating lease arrangements, with leases negotiated for terms ranging from one to five years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

32. OPERATING LEASE ARRANGEMENTS (continued)

(a) As lessor (continued)

At 31 December 2002, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

| | Group | |
|---|------------------|------------------|
| | 2002 HK\$'000 | 2001 HK\$'000 |
| Within one year | 1,264 | 213 |
| In the second to fifth years, inclusive | 1,642 | – |
| | <u>2,906</u> | <u>213</u> |

(b) As lessee

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

At 31 December 2002, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | Group | | Company | |
|---|------------------|------------------|------------------|------------------|
| | 2002 HK\$'000 | 2001 HK\$'000 | 2002 HK\$'000 | 2001 HK\$'000 |
| Within one year | 6,089 | 7,264 | 2,232 | 1,674 |
| In the second to fifth years, inclusive | 10,568 | 15,808 | 5,580 | 7,812 |
| | <u>16,657</u> | <u>23,072</u> | <u>7,812</u> | <u>9,486</u> |

33. CONTINGENT LIABILITIES

| | Group | |
|---|------------------|------------------|
| | 2002 HK\$'000 | 2001 HK\$'000 |
| Guarantees given to customers for compliance of service contracts | <u>17,798</u> | <u>2,723</u> |

The Company had issued corporate guarantees to certain suppliers of the Group in respect of purchases from these suppliers. At 31 December 2002, the outstanding amount due to these suppliers by the Group amounted to HK\$4,770,000 (2001: HK\$11,230,000).

34. CONNECTED AND RELATED PARTY TRANSACTIONS

In addition to the transactions and balances set out elsewhere in the notes to the financial statements, the Group had the following material connected and related party transactions during the year:

(a)

| | 2002 HK\$'000 | 2001 <i>HK\$'000</i> |
|---|--------------------------------|-------------------------|
| Rental expense paid to: Ng Cheung Shing ("Mr. Ng", a director of the Company) | 531 | 531 |

On 5 February 2002, the Company entered into a rental agreement with Mr. Ng to rent a property in Beijing, the Mainland PRC, as office premises at a monthly rent of US\$5,675 (equivalent to HK\$44,265) for a term of two years commencing from 1 January 2002.

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

(b) On 10 July 2002, the Group advanced a shareholders' loan of US\$670,000 (equivalent to HK\$5,226,000) to its then 90%-owned subsidiary, Computer And Technologies Solutions Limited ("C&T Solutions"), a company incorporated in Bermuda, as general working capital. The remaining 10% of C&T Solutions is owned by a subsidiary of a substantial shareholder of the Company. The shareholders' loan is unsecured, bears interest at 3.875% per annum and is not repayable on or before 13 November 2003. In connection with the advance, C&T Solutions allotted 13,400,000 new ordinary shares of US\$0.0001 each at par to the Group, representing 1% of the enlarged issued share capital of C&T Solutions. Subsequent to the above allotment of shares, C&T Solutions became a 91%-owned subsidiary of the Group.

The transaction referred to in item (b) constitute a connected transaction disclosed under the Listing Rules while the transaction referred to in item (a) constitute both connected and related party transaction.

35. COMPARATIVE AMOUNTS

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

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 8 April 2003.