



Computech

Computech Holdings Limited

駿科網絡訊息有限公司*

(Incorporated in the Cayman Islands with limited liability)



**CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK
EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the main board and no assurance is given that there will be a liquid market in the securities traded on GEM. The principal means of information dissemination on GEM is publication on the internet website operated by the Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of this report. This report, for which the directors of Computech Holdings Limited collectively and individually accept responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to Computech Holdings Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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Corporate Information

Executive Directors:

Fung Pak Chuen, Alphonso (*Chairman*)
Lo, Richard

Non-executive Directors:

Sugii Toshio

Independent non-executive Directors:

Lee Sai Yeung
Tsang Link Carl, Brian

Compliance officer:

Fung Pak Chuen, Alphonso

Authorised representatives:

Fung Pak Chuen, Alphonso
Yip Yuk Sing, Wallace

Company secretary

Yip Yuk Sing, Wallace *ACCA, AHKSA*

Qualified accountant:

Yip Yuk Sing, Wallace *ACCA, AHKSA*

Audit Committee:

Lee Sai Yeung (*Committee Chairman*)
Tsang Link Carl, Brian
Fung Pak Chuen, Alphonso

Registered office:

Century Yard, Cricket Square,
Hutchins Drive, P.O.Box 2681 GT,
George Town, Grand Cayman,
British West Indies

Head office and principal place of business:

10/F., Westlands Centre,
20 Westlands Road, Quarry Bay,
Hong Kong

Principal share registrar and transfer office:

Bank of Butterfield
International (Cayman) Limited
Butterfield House, Fort Street,
P.O.Box 705, George Town,
Grand Cayman, Cayman Islands,
British West Indies

Hong Kong branch share registrar and transfer office:

Hong Kong Registrars Limited
Room 1901-1905,
19/F., Hopewell Centre,
183 Queen's Road East,
Hong Kong

Principal bankers:

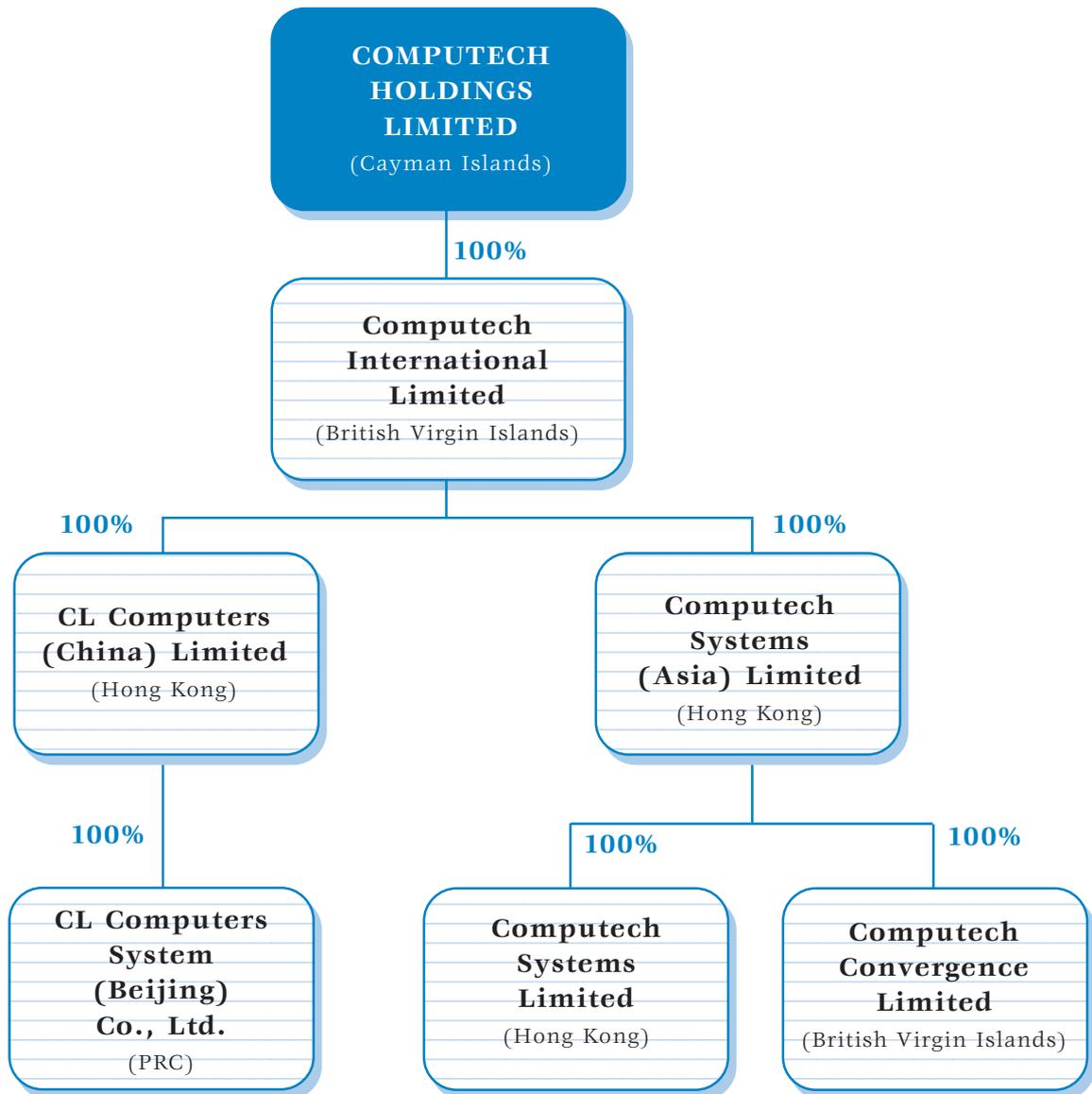
Shanghai Commercial Bank
UFJ Bank Limited
Bank of China

Auditors:

PKF
Certified Public Accountants

Structure of the Group

At as 31st December, 2003



Chairman's Statement

I am pleased to present the results of Computech Holdings Limited (the "Company") and its subsidiaries (together the "Group") for the first time as the Chairman of the Company, a position I took up in February 2004.

2003 was another challenging year for the Group. Severe competition in the IT industry in the People's Republic of China ("PRC") drove down gross profit margins in both software and hardware products while delays in the completion of structural reform of the financial industry in the PRC and the Severe Acute Respiratory Syndrome ("SARS") epidemic led to a significant decrease in revenue, causing the Group to suffer another year of loss.

Operating results

During the year under review, the Group's turnover for the year ended 31st December, 2003 was approximately HK\$35,399,000 (2002: HK\$68,635,000), representing approximately a 48% decrease from last year and the gross profit margin for the year dropped to approximately 8% (2002: 20%). The audited loss attributable to shareholders for the year ended 31st December, 2003 was approximately HK\$27,282,000 (loss per share of HK11.37 cents per share), representing approximately a 31% increase as compared with the loss of approximately HK\$20,852,000 (loss per share of HK8.78 cents per share) in 2002.

Selling, distribution and administrative expenses in the year 2003 was approximately HK\$21,831,000, representing a decrease of approximately 9% as compared with 2002 due to the implementation of cost cutting measures during the year. The Group's representative office in Shanghai was closed at the end of the year due to the lack of potential business opportunities for the Group's products in that area. The Guangzhou representative office has also been significantly scaled down in 2003 in order to reduce expenses.

The management of the Group took a prudent approach in the evaluation of outstanding accounts receivables and made provisions for bad debts of HK\$4,825,000 for receivables outstanding as at 31st December, 2003. The development costs of the three packaged software products developed by the Group, namely, e-Banking, VIP Banking and e-Switch which were previously capitalised in the amount of HK\$2,396,000 have been written off in the financial year.

Market overview

Although the PRC economy continued to grow steadily in 2003, IT expenditure in the banking sector in the PRC remained relatively low: centralized purchasing approach and direct dealing and negotiations between major PRC banks and IT product manufacturers considerably lengthened the decision making process and reduced the significance of the roles of system integrators and distributors. A consolidation process of the industry is now underway; nevertheless, it is envisaged that those system integrators who have the ability to secure sizable contracts and maintain low operating costs will survive in the long term.

Under the circumstances, the management will continue to exercise stringent cost controls and actively look for new market sectors and niche product areas that offer greater growth potential and better gross profit margins.

Operating overview

It is the Group's intention to continue to explore and develop new and competitive products. The Group will also look for new business partners to help promote products not currently covered by its existing sales network.

In view of increasing foreign direct investments in the PRC, the Group will evaluate the possibility of extending its business coverage by targetting the provision of system solutions and services to multi-national organizations in and outside the banking sector and will commence intensive product development and marketing activities once target industry sectors and suitable products have been identified. The Group may also establish partnerships with other system integrators and service providers to penetrate into the target markets.

The Group will continue to capitalize on the resources of one of the Company's major shareholders, Hitachi, Limited ("Hitachi") and seek the latest technology products from Japan for the PRC market. It is also expected that Hitachi's many subsidiaries and joint ventures and vast customer base in various industries in the PRC will offer enormous business opportunities to the Group.

Prospects and appreciation

Going forward, the Group will carefully evaluate the current and future IT needs of the banking sector as well as other business sectors and prudently utilise its resources. While the PRC will remain as the Group's major market, the management will also identify potential business opportunities in Hong Kong where the Company is based.

Mr. Vincent Lee, the former Chairman and Chief Executive Officer of the Company, the executive directors, Mr. Yip Tai Chi, Alick and Mr. Tang Chi Lap and the non-executive director representing Hitachi, Mr. Taniguchi Hiroyuki, resigned in February 2004. On behalf of the board, I would like to express my gratitude to their contributions to the Group. I would also like to take this opportunity to thank our shareholders, board members, customers, business partners and employees for their dedicated support and contributions.

Fung Pak Chuen, Alphonso
Chairman

Hong Kong, 5th March, 2004

Management Discussion and Analysis

Financial review

The Group has experienced a decrease in the operational results of the financial year. For the year ended 31st December, 2003, the Group has accomplished a turnover of approximately HK\$35,399,000 and a loss attributable to shareholders of approximately HK\$27,282,000. This represented an increase of approximately 31% in the net loss as compared with previous year. The substantial deterioration in the financial conditions of the Group was mainly due to delays in the completion of structural reform of the financial industry in the PRC as well as the SARS epidemic that led to a significant decrease in revenue.

The increase in loss was also attributable to further provision for long outstanding debts and full provision of the remaining capitalised amount of development costs for 3 products, namely e-Banking, VIP Banking and e-Switch, which were approximately HK\$4,825,000 and HK\$2,396,000 respectively. As mentioned above, due to the structural reform of the financial industry in the PRC, the top management of these major customers had undergone changes, the debt payment process from these customers has been delayed. For prudence purpose, a 50% provision was made on the trade debtors aged over one year and 100% provision was made on the trade debtors aged over 2 years. With regard to the impairment loss of development costs, although the products were capitalised and amortised according to the Group's accounting policy, they had been launched into the market for over 1 year with no success. In compliance with the Group's accounting policy, full provision was made for the remaining capitalised amount in the income statement.

Financial resources and liquidity

As at 31st December, 2003, the total assets of the Group were approximately HK\$21,993,000 (2002: HK\$56,438,000), including cash and bank deposits of approximately HK\$8,494,000 (2002: HK\$8,200,000) and debtors, deposits and prepayments of approximately HK\$11,075,000 (2002: HK\$39,038,000).

The Group's current assets are approximately 1 time (2002: 1.65 times) over its current liabilities whereas the gearing ratio, representing bank borrowing and non-current liabilities over total assets, was 0.09 (2002: 0.06). The Group's non-current liabilities being secured bank loan amounted to approximately HK\$91,000 (2002: HK\$206,000) and non-current loan of approximately HK\$1,884,000 from a director of the Company to finance the operation of a PRC subsidiary. The loan is interest-free, unsecured and not repayable until the Group is in a position to do so. Save as disclosed above, the Group did not have any other borrowings during the year under review.

Capital structure

There was no change in the capital structure of the Group as at 31st December, 2003 as compared with that as at 31st December, 2002.

Management Discussion and Analysis

Foreign exchange

The Group is exposed to foreign currency risk as most of its payable to hardware suppliers and accounts receivable from the PRC sales are denominated in Renminbi. Fluctuation of exchange rates of Renminbi against foreign currencies could affect the Group's results of operations.

Significant investments and acquisitions

There was no material acquisitions and disposals of subsidiaries and affiliated companies of the Group during the two years ended 31st December, 2003.

Charge on the Group's assets

As at 31st December, 2003, the Group's available banking facilities to the extent of approximately HK\$206,000 (2002: HK\$313,000) are secured by a motor vehicle with net book value of approximately HK\$220,000 (2002: HK\$352,000).

Capital commitments

As at 31st December 2003 and 31st December, 2002, the Group did not have any future plans for material investment.

Contingent liabilities

As at 31st December 2003 and 31st December, 2002, the Group did not have any material contingent liabilities.

Employees and remuneration policies

As at 31st December, 2003, the Group had 39 employees (2002: 98). Remuneration is determined by reference to market terms and the performance, qualification and experience of individual employee. Year-end bonus based on individual performance will be paid to employees as recognition of and reward for their contributions. Other benefits include share option scheme as detailed in the note 20(a) to the financial statements, contributions to statutory mandatory provident fund scheme and medical scheme to its employees in Hong Kong and the statutory central pension schemes to its employees in the PRC.

Directors and Senior Management Profile

Directors

Executive Directors

FUNG Pak Chuen, Alphonso, aged 53, is the Chairman of the Company. He was appointed as non-executive Director of the Company in March 2000 and re-designated as Executive Director on 13th February, 2004. Mr. Fung is responsible for the overall strategic planning and development of the Group. He has substantial experience in business planning and development in information technology industry. Prior to his own business development 1979, he worked at IBM in Hong Kong and International Computer Limited in the United Kingdom. Mr. Fung graduated from the University of London with a master degree in Computer Science.

LO, Richard, aged 52, is an Executive Director of the Company. He was appointed as non-executive Director of the Company in March 2000 and re-designated as Executive Director on 13th February, 2004. Mr. Lo is responsible for corporate strategy of the Group. Prior to his own business development 1979, he worked in marketing department of IBM in Hong Kong. Mr. Lo holds a bachelor degree in Mathematics from Syracuse University, New York and a master degree in Business Administration from the University of California at Los Angeles.

Non-executive Directors

SUGII Toshio aged 55, is a non-executive Director of the Company. Mr. Sugii has over 20 years' experience in computer business, is currently a senior Project Manager, Information and Telecommunication Systems of Hitachi, Limited.

Independent non-executive Directors

TSANG Link Carl, Brian, aged 40, is a practising solicitor in Hong Kong. He is a partner of Hong Kong law firm, Iu Lai & Li. He graduated from King's College, London with an LLB Degree in 1985. He is also admitted to practise law in England & Wales, Singapore, New South Wales, Queensland and the Australian Capital Territories. He is also a non-executive director of several other public companies listed on the Main Board and the GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). He was appointed as an independent non-executive Director of the Company in June 2000.

LEE Sai Yeung, aged 52, was the executive director of several companies listed on the Stock Exchange from 1996 to 1998. Mr. Lee obtained his master degree in Business Administration and a bachelor degree in Business Administration (with honours) from the University of Texas at Austin. He has more than 16 years' experience in the securities business and extensive experience in corporate finance and investment banking. From 1981 to 1998, Mr. Lee had been registered as a dealing director, investment adviser and held position as senior executive in several major regional and European securities firms in Hong Kong. He was appointed as an independent non-executive Director of the Company in June 2000.

Senior management

Yip Yuk Sing, Wallace aged 38, is the financial controller, company secretary and qualified accountant of the Group. He is responsible for financial management, accounting and company secretarial affairs of the Group. Mr. Yip has over 10 years of experience in accounting and financial management. He holds a master degree in Corporate Finance from the Hong Kong Polytechnic University and a bachelor degree in Accounting from the Napier University in the United Kingdom. He is an associate member of The Chartered Association of Certified Accountants and the Hong Kong Society of Accountants respectively. He joined the Group in February 2004.

The directors have pleasure in presenting their annual report together with the audited financial statements for the year ended 31st December, 2003.

Principal activities

The Company is an investment holding company and the principal activities of its subsidiaries are set out in note 10 to the financial statements.

Results and dividend

The results of the Group for the year ended 31st December, 2003 are set out in the consolidated income statement on page 16.

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

Financial summary

The summary of the pro forma combined results of the Group for each of the two years ended 31st December, 2000 and the consolidated results of the Group for each of the three years ended 31st December, 2003 and the assets and liabilities of the Group as at 31st December, 1999, 2000, 2001 2002 and 2003 are set out on pages 46.

Fixed assets

The Group purchased and disposed of fixed assets amounted to approximately HK\$7,000 and HK\$4,287,000 respectively during the year. Detailed movements in fixed assets are set out in note 9 to the financial statements.

Share options

Details of the Company's share option scheme are set out in note 20(a) to the financial statements.

Reserves

Movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on page 22 and note 21 to the financial statements respectively.

Directors' Report

Directors and directors' service contracts

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

Executive directors:

Fung Pak Chuen, Alphonso	<i>(re-designated from non-executive director to executive director on 13th February, 2004)</i>
Lo, Richard	<i>(re-designated from non-executive director to executive director on 13th February, 2004)</i>
Lee Man Lung, Vincent	<i>(resigned on 28th February, 2004)</i>
Yip Tai Chee, Alick	<i>(resigned on 13th February, 2004)</i>
Tang Chi Lap	<i>(resigned on 13th February, 2004)</i>

Non-executive directors:

Taniguchi Hiroyuki	<i>(resigned on 13th February, 2004)</i>
Sugii Toshio	<i>(alternate to Taniguchi Hiroyuki and re-designated as non-executive director on 13th February, 2004)</i>

Independent non-executive directors:

Tsang Link Carl, Brian
Lee Sai Yeung

In accordance with Articles 87(1) and (2) of the Company's Articles of Association, Mr. Tsang Link Carl, Brian and Mr. Lee Sai Yeung shall retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The non-executive and independent non-executive directors are not appointed for specific terms but are subject to retirement by rotation in accordance with the Company's Articles of Association.

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment other than statutory compensation.

Directors' interests in contracts

Apart from the transactions as disclosed in note 24 to the financial statements, no other contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest subsisted at the end of the year or at any time during the year.

Connected transactions

The details of connected transactions during the year under the GEM Listing Rules are set out in note 24 to the financial statements.

Directors' interests in securities

As at 31st December, 2003, the interests and short positions of the directors in the securities of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO")) which are required to be notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO, including interests and short positions which they are deemed or taken to have under such provisions of the SFO, or which are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which are required, pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules relating to securities transactions by directors to be notified to the Company and the Stock Exchange were as follows:

Long positions in shares of the Company

Name of director	Capacity in which such interests were held	Number of shares issued	Percentage of nominal value of share capital
Mr. Fung Pak Chuen, Alphonso (<i>Note 1</i>)	Interests of corporation controlled by him	131,512,000	54.80%
Mr. Lo, Richard (<i>Note 2</i>)	Interests of corporation controlled by him	131,512,000	54.80%
Mr. Yip Tai Chee, Alick	Beneficial owner	1,000,000	0.42%
Mr. Tang Chi Lap	Beneficial owner	280,000	0.12%

Notes:

- As Mr. Fung Pak Chuen, Alphonso is interested in 42% of the issued share capital of Aplus Worldwide Limited, he is taken to have an interest in the 131,512,000 shares held by Aplus Worldwide Limited.
- As Mr. Lo, Richard is interested in 42% of the issued share capital of Aplus Worldwide Limited, he is taken to have an interest in the 131,512,000 shares held by Aplus Worldwide Limited.

Save as disclosed above, as at 31st December, 2003, none of the directors of the Company has any interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by directors as referred to in Rule 5.40 of the GEM Listing Rules.

Directors' Report

Directors' rights to acquire shares or debentures

Under the terms of a share option scheme (the "Scheme") adopted by the Company on 2nd June, 2000, the board of directors is authorised, at its absolute discretion, to grant options to executive directors and full time employees of the Company or its subsidiaries, to subscribe for shares in the Company. Further details of the Scheme are set out in note 20(a) to the financial statements. All the share options granted under the Scheme lapsed during the year. No options had been granted to any directors under the Scheme up to the balance sheet date.

The directors consider it inappropriate to value the share options as the generally accepted methodology to calculate the value of options such as the Black-Scholes option pricing model was developed for use in estimating the fair value of traded options that are fully transferable. Such an option pricing model requires input of highly subjective assumptions, including the expected share price volatility. Because the Company's share options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, such generally accepted methodology such as the Black-Scholes option pricing model does not necessarily provide a reliable measure of the fair value of the Company's share options.

Apart from the foregoing, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Company's directors, their respective spouse, or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Substantial shareholders

As at 31st December, 2003, so far as was known to any director of the Company, persons who have an interest or a short position in the shares or underlying shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO or be interested in, directly or indirectly, 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any member of the Group were as follows:

Long positions in shares of the Company

Name of shareholder	Capacity in which such interests were held	Number of shares issued	Percentage of nominal value of share capital
Aplus Worldwide Limited (Note 1)	Beneficial owner	131,512,000	54.80%
Hitachi, Ltd.	Beneficial owner	60,000,000	25.00%

Note:

1. Aplus Worldwide Limited is owned as to 42% by Mr. Fung Pak Chuen Alphonso, as to 42% by Mr. Lo, Richard and as to 16% by Mr. Yap Fat Suan, Henry. Each of Mr. Fung and Mr. Lo is respectively taken to have an interest in 131,512,000 shares in which Aplus is interested under the SFO.

Save as disclosed above, as at 31st December, 2003, the directors were not aware of any other person (other than the directors of the Company) who had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

Major customers and suppliers

Sales to the Group's five largest customers accounted for 70% of the total sales for the year and sales to the largest customer included therein amounted to 34%. Purchases from the Group's five largest suppliers accounted for 93% of the total purchases for the year and purchases from the largest supplier included therein amounted to 47%.

To the best knowledge of the directors, neither the directors, their associates, nor any shareholders who owned more than 5% of the Company's issued share capital, had any beneficial interest in any of the Group's five largest customers or suppliers during the year.

Purchase, sale or redemption of the Company's listed securities

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

Directors' Report

Pre-emptive rights

There are no provisions for the pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

Audit Committee

As required by Rule 5.23 of the GEM Listing Rules, the Company has established an Audit Committee with written terms of reference for the purpose of reviewing and providing supervision over the financial reporting process and internal control procedures of the Group. The Audit Committee has three members comprising Mr. Lee Sai Yeung, Mr. Tsang Link Carl, Brian and Mr. Fung Pak Chuen, Alphonso who was appointed on 28th February, 2004 to replace Mr. Lee Man Lung, Vincent as Audit Committee member.

Up to the date of approval of these financial statements, the Audit Committee has held four meetings and has reviewed the Company's draft annual, interim and quarterly financial reports.

Board practices and procedures

The Company has complied with the board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules throughout the financial year ended 31st December, 2003.

Auditors

A resolution to re-appoint the retiring auditors, Messrs. PKF, is to be proposed at the forthcoming annual general meeting.

On behalf of the Board

Fung Pak Chuen, Alphonso

Chairman

Hong Kong, 5th March, 2004

梁學濂會計師事務所

PKF26th Floor, Citicorp Centre,
18 Whitfield Road,
Causeway Bay,
Hong Kong

To the members of
Compu tech Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 16 to 45 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the affairs of the Company and the Group as at 31st December, 2003 and of the Group's loss and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PKF
Certified Public Accountants

Hong Kong, 5th March, 2004

Consolidated Income Statement

For the year ended 31st December, 2003

	Note	2003 HK\$'000	2002 HK\$'000
Turnover	2	35,399	68,635
Cost of sales		(32,543)	(55,012)
Gross profit		2,856	13,623
Other income		23	143
Impairment loss of development costs		(2,396)	(2,532)
Bad debts		(4,825)	(3,945)
Provision for diminution in value of investment securities		-	(2,342)
Selling and distribution expenses		(4,086)	(4,866)
Administrative expenses		(17,745)	(19,011)
Operating loss		(26,173)	(18,930)
Finance costs		(447)	(335)
Amortisation of goodwill on consolidation		(661)	(1,587)
Loss before income tax	3	(27,281)	(20,852)
Income tax expense	4	(1)	-
Loss for the year	5	(27,282)	(20,852)
Loss per share			
- Basic (HK cents)	6	(11.37)	(8.78)

Consolidated Balance Sheet

At 31st December, 2003

	Note	2003 HK\$'000	2002 HK\$'000
NON-CURRENT ASSETS			
Fixed assets	9	220	2,165
Investment securities	11	-	-
Development costs	12	1,896	6,196
Goodwill on consolidation	13	-	661
		2,116	9,022
CURRENT ASSETS			
Inventories – spare parts		308	178
Debtors, deposits and prepayments	14	11,075	39,038
Pledged time deposit		-	3,203
Cash and bank balances	16	8,494	4,997
		19,877	47,416
DEDUCT:			
CURRENT LIABILITIES			
Bank overdrafts			
– secured		-	2,746
– unsecured		42	43
Secured bank loan	15 & 17	115	107
Bills payable		-	466
Creditors, accruals and deposits	18	18,660	23,712
Value-added tax payable		178	1,200
Income tax payable		1	-
Obligations under finance lease		-	16
Amounts due to related companies	19	461	431
Amounts due to directors	19	332	-
		19,789	28,721
NET CURRENT ASSETS		88	18,695
NET ASSETS		2,204	27,717

Consolidated Balance Sheet

At 31st December, 2003

	Note	2003 HK\$'000	2002 HK\$'000
REPRESENTING:			
SHARE CAPITAL	20	24,000	24,000
RESERVES		(23,771)	3,511
SHAREHOLDERS' FUNDS		229	27,511
NON-CURRENT LIABILITIES			
Secured bank loan	15 & 17	91	206
Loan from a director	22	1,884	-
		2,204	27,717

Approved and authorised for issue by the Board of Directors on 5th March, 2004

Fung Pak Chuen, Alphonso

Director

Lo, Richard

Director

Balance Sheet

At 31st December, 2003

	Note	2003 HK\$'000	2002 HK\$'000
NON-CURRENT ASSET			
Interests in subsidiaries	10	<u>9,982</u>	<u>39,315</u>
CURRENT ASSETS			
Deposits and prepayments		<u>219</u>	<u>219</u>
Cash at bank		<u>7</u>	<u>8</u>
		<u>226</u>	<u>227</u>
DEDUCT:			
CURRENT LIABILITIES			
Bank overdraft – unsecured		<u>42</u>	<u>–</u>
Accruals		<u>460</u>	<u>445</u>
Amount due to a director	19	<u>197</u>	<u>–</u>
		<u>699</u>	<u>(445)</u>
NET CURRENT LIABILITIES		<u>(473)</u>	<u>(218)</u>
NET ASSETS		<u>9,509</u>	<u>39,097</u>
REPRESENTING:			
SHARE CAPITAL	20	<u>24,000</u>	<u>24,000</u>
RESERVES	21	<u>(14,491)</u>	<u>15,097</u>
SHAREHOLDERS' FUNDS		<u>9,509</u>	<u>39,097</u>

Approved and authorised for issue by the Board of Directors on 5th March, 2004

Fung Pak Chuen, Alphonso
Director

Lo, Richard
Director

Consolidated Cash Flow Statement

For the year ended 31st December, 2003

	2003 HK\$'000	2002 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before income tax	(27,281)	(20,852)
Adjustments for:		
Interest income	(23)	(73)
Interest expenses	227	175
Impairment loss of development costs	2,396	2,532
Provision for diminution in value of investment securities	-	2,342
Loss on disposal of fixed assets	985	-
Amortisation of goodwill on consolidation	661	1,587
Depreciation and amortisation	3,854	3,608
Operating loss before working capital changes	(19,181)	(10,681)
Increase in inventories	(130)	(51)
Decrease in debtors, deposits and prepayments	27,963	4,226
Decrease/(increase) in pledged time deposit	3,203	(32)
Decrease in creditors, accruals and deposits	(5,052)	(16,344)
Decrease in value-added tax payable	(1,022)	(156)
Increase in amounts due to related companies	30	-
Cash generated from/(used in) operations	5,811	(23,038)
Interest received	23	73
Interest paid	(227)	(175)
NET CASH FROM/(USED IN) OPERATING ACTIVITIES	5,607	(23,140)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payment to acquire fixed assets	(7)	(864)
Sales proceeds of fixed assets	5	-
Increase in development costs	(988)	(3,533)
NET CASH USED IN INVESTING ACTIVITIES	(990)	(4,397)

Consolidated Cash Flow Statement

For the year ended 31st December, 2003

	2003	2002
	HK\$'000	HK\$'000
CASH FLOWS FROM FINANCING ACTIVITIES		
(Decrease)/increase in bank loan	(107)	313
Decrease in bills payable	(466)	(2,735)
Increase/(decrease) in amounts due to directors	332	(800)
Increase in loan from a director	1,884	-
Issue of shares for cash	-	22,000
Share issuing expenses	-	(951)
Principal repayment of obligations under finance lease	(16)	(13)
NET CASH FROM FINANCING ACTIVITIES	<u>1,627</u>	<u>17,814</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	6,244	(9,723)
CASH AND CASH EQUIVALENTS AT 1ST JANUARY	<u>2,208</u>	<u>11,931</u>
CASH AND CASH EQUIVALENTS AT 31ST DECEMBER	<u><u>8,452</u></u>	<u><u>2,208</u></u>
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	8,494	4,997
Bank overdrafts	(42)	(2,789)
	<u><u>8,452</u></u>	<u><u>2,208</u></u>

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2003

	Share capital HK\$'000	Share premium HK\$'000	Exchange reserve HK\$'000	Retained profits/ (accumulated losses) HK\$'000	Total HK\$'000
At 1.1.2002	20,000	1,981	100	5,233	27,314
Issue of ordinary shares	4,000	-	-	-	4,000
Premium on issue of ordinary shares	-	18,000	-	-	18,000
Share issuing expenses	-	(951)	-	-	(951)
Loss for the year	-	-	-	(20,852)	(20,852)
At 31.12.2002 and 1.1.2003	24,000	19,030	100	(15,619)	27,511
Loss for the year	-	-	-	(27,282)	(27,282)
At 31.12.2003	24,000	19,030	100	(42,901)	229

I. Principal accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below:

(a) Group reorganisation

The Company was incorporated in the Cayman Islands on 29th March, 2000 as an exempted company with limited liability under the Companies Law (1998 Revision) of the Cayman Islands. Pursuant to a reorganisation scheme to rationalise the structure of the Group in preparation for the public listing of its shares in June 2000, the Company became the holding company of the companies now comprising the Group on 3rd June, 2000. The shares of the Company were listed on the Growth Enterprise Market ("GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 19th June, 2000.

(b) Basis of preparation

These financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants ("HKSA") and are prepared under the historical cost convention.

In the current year, the Group adopted SSAP 12 (revised) "Income taxes" issued by the HKSA which is effective for the current year's financial statements.

The principal effect of the implementation of SSAP 12 (revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. The adoption of SSAP 12 (revised) had no significant effect on the results for the current or prior accounting periods.

(c) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. All significant intra-group transactions and balances have been eliminated on consolidation.

Notes to the Financial Statements

For the year ended 31st December, 2003

I. Principal accounting policies (Continued)

(d) Goodwill on consolidation

Goodwill on consolidation represents the excess of the purchase consideration over the attributable share of the fair value of separable net assets of subsidiaries at the date of acquisition and is amortised on a straight line basis over three years from the date of acquisition of subsidiaries.

(e) Fixed assets and depreciation

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

The gain or loss on disposal of the fixed assets representing the difference between the net sales proceeds and the carrying amount of the relevant asset, is recognised in the income statement.

Where the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are discounted to their present values.

Depreciation is calculated to write off the cost of fixed assets over their estimated useful lives as set out below on a straight line basis:

Computer equipment	-	3 years
Furniture and fixtures	-	4 years
Motor vehicles	-	3 years
Leasehold improvements	-	shorter of 5 years and lease term

Assets held under finance leases are depreciated over their expected useful lives on the same basis as own assets or where shorter, the terms of the relevant leases.

I. Principal accounting policies (Continued)**(f) Leases**

Leases are classified as finance leases whenever the terms of the leases transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are capitalised at their fair value at the date of acquisition or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as obligations under finance leases. Finance charges, which represent the difference between the total leasing commitments and the recorded value of the assets acquired, are charged to the income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Rentals payable under operating leases are charged to the income statement on a straight line basis over the terms of the relevant leases.

(g) Subsidiaries

A subsidiary is an enterprise over which the Company has control either directly or indirectly. Control is the power to govern the financial and operating policies of a company so as to obtain benefits from its activities.

Investments in subsidiaries are stated in the Company's balance sheet at cost less any identified impairment loss. Income from subsidiaries is recognised in the Company's financial statements on the basis of dividends declared by the subsidiaries.

(h) Investment securities

Investment securities are stated at cost less any provision for diminution in value.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities should be reduced to its fair value. The amount of the reduction is recognised as an expense in the income statement.

Notes to the Financial Statements

For the year ended 31st December, 2003

I. Principal accounting policies (Continued)

(i) Development costs

Development costs are capitalised only when it is expected that the product under development will generate probable future economic benefits and will be produced or used internally, its technical feasibility has been demonstrated and the expenditure is separately identifiable and has been measured reliably. Development costs are amortised on a straight line basis over three years commencing when the relevant product is available for sale or use. Development costs which do not meet these criteria are expensed when incurred.

(j) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted average basis and includes all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

(k) Impairment

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

(l) Provisions

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(m) Revenue recognition

Revenue from sale of goods is recognised when the significant risks and rewards of ownership of goods have been transferred to the buyer.

Income from rendering of computer related services is recognised at the time when the services are provided.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

I. Principal accounting policies (Continued)**(n) Employee benefits**

Employee benefits are all forms of consideration given by an enterprise in exchange for service rendered by employees.

Obligations for contributions to retirement plans, including contributions payable under the Hong Kong Mandatory Provident Fund Schemes Ordinance and the PRC central pension scheme, are recognised as an expense in the income statement as incurred.

When the Company grants employees options to acquire its shares, the option exercise price will be determined by the directors at the date of grant and no employee benefit cost or obligation is recognised at that time. When the options are exercised, the equity is increased by the amount of proceeds received.

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(o) Foreign currency translation

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the market exchange rates ruling at the balance sheet date. Differences on foreign currency translation are dealt with in the income statement.

The consolidated financial statements are prepared by using the net investment method such that the balance sheet of the Company's PRC subsidiary is translated in Hong Kong dollars at the market exchange rate ruling at the balance sheet date while the income statement is translated at the average exchange rate for the year. Any exchange differences arising on such translation are dealt with in the exchange reserve.

(p) 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.

Notes to the Financial Statements

For the year ended 31st December, 2003

I. Principal accounting policies (Continued)

(q) Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable and deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

(r) Cash equivalents

Cash equivalents are short-term, highly liquid investments which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Notes to the Financial Statements

For the year ended 31st December, 2003

2. Turnover and revenue

Turnover represents the invoiced value of packaged software products sold and computer related services rendered, net of discounts, value-added tax and business tax. An analysis of the Group's turnover and other revenue is as follows:

	2003	2002
	HK\$'000	HK\$'000
Sales of packaged software products and related services	4,528	13,015
System integration	28,007	54,287
Others	2,864	1,333
Turnover	35,399	68,635
Interest income	23	73
Total revenue	35,422	68,708

Notes to the Financial Statements

For the year ended 31st December, 2003

3. Loss before income tax

	2003 HK\$'000	2002 HK\$'000
Loss before income tax is arrived at after charging/(crediting):		
Amortisation of development costs	2,901	2,736
Minimum lease payments paid under operating leases	2,127	2,442
Auditors' remuneration	254	300
Depreciation		
– own assets	962	903
– asset held under finance lease	–	14
	962	917
Less: Amounts capitalised as development costs	9	45
	953	872
Directors' remuneration – Note 8(a)	872	2,260
Less: Amounts capitalised as development costs	212	636
	660	1,624
Other staff salaries and benefits	6,116	9,760
Less: Amounts capitalised as development costs	484	1,910
	5,632	7,850
Retirement scheme contributions	144	160
Less: Amounts capitalised as development costs	6	16
	138	144
Bank overdraft and bills interest	169	164
Interest on bank and other loans wholly repayable within five years	56	6
Finance lease interest	2	5
Exchange loss/(gain)	427	(64)
Sales proceeds	(5)	–
Less: Net book value	990	–
Loss on disposal of fixed assets	985	–

Notes to the Financial Statements

For the year ended 31st December, 2003

4. Income tax expense

	2003 HK\$'000	2002 HK\$'000
Current tax		
Provision for Hong Kong profits tax at 17.5% on the estimated assessable profits for the year	<u>1</u>	<u>-</u>

The Company's subsidiary operating in the PRC sustained a loss for tax purpose during the year.

- (a) The income tax expense for the year can be reconciled to the loss per income statement as follows:

	2003 HK\$'000	2002 HK\$'000
Loss before income tax	<u>(27,281)</u>	<u>(20,852)</u>
Tax effect at PRC statutory income tax rate of 33%	(9,003)	(6,881)
PRC and Hong Kong tax rates differential	2,381	2,653
Tax effect of income/expenses that are not taxable/deductible	2,011	1,194
Tax effect of capital allowances claimed and prescribed fixed assets written off	(88)	(50)
Effect of tax loss not recognised	<u>4,700</u>	<u>3,084</u>
Income tax expense	<u>1</u>	<u>-</u>

Notes to the Financial Statements

For the year ended 31st December, 2003

4. Income tax expense (Continued)

- (b) The components of unrecognised deductible/(taxable) temporary differences are as follows:

	2003 HK\$'000	2002 HK\$'000
Deductible temporary differences (<i>Note 4(b)(i)</i>)		
Unutilised tax losses (<i>Note 4(b)(ii)</i>)	54,083	33,493
Provision for bad debts	4,085	3,867
Decelerated depreciation allowances	409	628
	<u>58,577</u>	<u>37,988</u>
Taxable temporary differences (<i>Note 4(b)(iii)</i>)		
Accelerated depreciation allowances	-	(234)
Revenue recognised for financial reporting purposes before being recognised for tax purposes	(6,573)	(11,159)
	<u>(6,573)</u>	<u>(11,393)</u>
	<u>52,004</u>	<u>26,595</u>

- (i) Deductible temporary differences have not been recognised owing to the absence of objective evidence in respect of the availability of sufficient taxable profits that are expected to arise to offset against the deductible temporary differences.
- (ii) The unutilised tax losses accumulated in the PRC subsidiary amounted to approximately HK\$16,936,000 (2002: HK\$11,051,000) would expire in five years from the respective year of loss. The unutilised tax losses accumulated in the Hong Kong subsidiaries amounted to HK\$37,147,000 (2002: HK\$22,442,000) can be carried forward indefinitely.
- (iii) Taxable temporary differences have not been recognised owing to immateriality.

5. Loss for the year

Loss for the year includes a loss of approximately HK\$29,588,000 (2002: HK\$1,139,000) which has been dealt with in the financial statements of the Company.

Notes to the Financial Statements

For the year ended 31st December, 2003

6. Loss per share

The calculation of basic loss per share for the year is based on the following data:

	2003 HK\$'000	2002 HK\$'000
Loss		
Loss for the year used in the calculation of basic loss per share	<u>(27,282)</u>	<u>(20,852)</u>
Shares		
Weighted average number of shares in issue for the purpose of calculation of basic loss per share	<u>240,000,000</u>	<u>237,589,041</u>

No diluted loss per share are shown because the potential ordinary shares issuable under the Company's share option scheme have no dilutive effect.

7. Retirement benefit costs

The Hong Kong operating subsidiaries of the Group had participated in the Mandatory Provident Fund Scheme ("MPF Scheme"). The assets of the MPF Scheme are held separately in an independently managed and administered fund. Contributions to the MPF Scheme are made by both the employer and employees at 5% on the employees' salaries.

The Company's subsidiary in PRC has participated in a central pension scheme, contributions are made by the subsidiary to the scheme based on 19% to 24% of the applicable payroll costs. The Group has no obligation other than above-mentioned contributions.

Notes to the Financial Statements

For the year ended 31st December, 2003

8. Directors' emoluments and employees' emoluments

(a) Directors' emoluments

	2003 HK\$'000	2002 HK\$'000
Fees		
- Executive directors	-	15
- Non-executive directors	-	10
- Independent non-executive directors	240	240
Other emoluments of executive directors		
- Salaries and allowances	602	1,900
- Retirement scheme contributions	30	95
	<u>872</u>	<u>2,260</u>

Three executive directors received individual emoluments of approximately HK\$267,000, HK\$190,000 and HK\$175,000 respectively for the year ended 31st December, 2003 (2002: HK\$846,000, HK\$606,000 and HK\$558,000).

During the year, no other emoluments were paid by the Group to the non-executive directors.

The number of directors whose remuneration fell within the following band were:

	2003	2002
Emoluments		
Nil to HK\$1,000,000	<u>9</u>	<u>9</u>

Three executive directors waived their emoluments during the year amounted to approximately HK\$770,000, HK\$347,000 and HK\$333,000 respectively (2002: HK\$ Nil).

During the year, no emoluments were paid by the Group to the directors as an inducement to join, or upon joining the Group, or as compensation for loss of office.

8. Directors' emoluments and employees' emoluments (Continued)

(b) Five highest paid individuals

Among the five highest paid individuals in the Group, one is the director of the Company and the details of his remuneration have already been disclosed above.

The emoluments and designated band of the remaining four highest paid, non-director individuals during the year are as follows:

	2003	2002
	HK\$'000	HK\$'000
Salaries and allowances	1,322	1,320
Retirement scheme contributions	66	55
	1,388	1,375

The remuneration of the non-director, highest paid employees during the year fell within the band of nil to HK\$1,000,000.

9. Fixed assets

	Computer equipment	Furniture and fixtures	Motor vehicles	Leasehold improvements	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost:					
At 1.1.2003	2,602	96	828	1,582	5,108
Additions	3	-	-	4	7
Disposals	(2,605)	(96)	-	(1,586)	(4,287)
At 31.12.2003	-	-	828	-	828
Aggregate depreciation:					
At 1.1.2003	1,810	63	332	738	2,943
Charge for the year	283	17	276	386	962
Written back on disposals	(2,093)	(80)	-	(1,124)	(3,297)
At 31.12.2003	-	-	608	-	608
Net book value:					
At 31.12.2003	-	-	220	-	220
At 31.12.2002	792	33	496	844	2,165

Notes to the Financial Statements

For the year ended 31st December, 2003

10. Interests in subsidiaries

	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	100	100
Amounts due from subsidiaries – Note 10(b)	38,452	39,215
	38,552	39,315
Less: Provision for bad debts	28,570	–
	9,982	39,315

(a) The details of the subsidiaries are as follows:

Name	Place of incorporation/ establishment	Particulars of issued share capital/ registered capital	Attributable equity interest held by the Group		Principal activities
			Directly	Indirectly	
Computech International Limited	The British Virgin Islands	1,000 shares of US\$1 each	100%	–	Investment holding
CL Computers (China) Limited	Hong Kong	10 ordinary shares of HK\$1 each 400,002 non-voting deferred shares of HK\$1 each*	–	100%	Investment holding
CL Computers System (Beijing) Co., Ltd.	PRC	US\$500,000	–	100%	Software application development and customer liaison
Computech Systems (Asia) Limited	Hong Kong	10 ordinary shares of HK\$1 each 12,690,000 non-voting deferred shares of HK\$1 each*	–	100%	Provision of IT solution services and related research and development
Computech Systems Limited	Hong Kong	100,000 shares of HK\$1 each	–	100%	Provision of hardware warranty services
Computech Convergence Limited	The British Virgin Islands	10 shares of US\$1 each	–	100%	Dormant

* The non-voting deferred shares, which are not held by the Group, practically carry no rights to dividend or to receive notice of or to attend or vote at any general meeting of the respective companies or to participate in any distribution in winding up.

(b) The amounts are interest-free, unsecured and have no fixed repayment term.

Notes to the Financial Statements

For the year ended 31st December, 2003

11. Investment securities

	2003 HK\$'000	2002 HK\$'000
Unlisted equity securities, at cost	2,342	2,342
Less: Provision for diminution in value	2,342	2,342
	<u> </u>	<u> </u>
	-	-
	<u> </u>	<u> </u>

The above represented the Group's share of contributions to a company, of which the Group has an approximately 4% equity interest therein. The investee company was dormant during the year.

12. Development costs

	HK\$'000
Cost:	
At 1.1.2003	12,337
Additions	<u>997</u>
At 31.12.2003	<u>13,334</u>
Aggregate amortisation:	
At 1.1.2003	3,609
Charge for the year	<u>2,901</u>
At 31.12.2003	<u>6,510</u>
Impairment loss:	
At 1.1.2003	2,532
Charge for the year	<u>2,396</u>
At 31.12.2003	<u>4,928</u>
Net book value:	
At 31.12.2003	<u>1,896</u>
At 31.12.2002	<u>6,196</u>

Notes to the Financial Statements

For the year ended 31st December, 2003

13. Goodwill on consolidation

	2003 HK\$'000	2002 HK\$'000
Goodwill arising from acquisition of subsidiaries	4,761	4,761
Less: Aggregate amortisation	4,761	4,100
Unamortised goodwill at 31st December	-	661

14. Debtors, deposits and prepayments

	2003 HK\$'000	2002 HK\$'000
Debtors, deposits and prepayments comprise:		
Trade debtors	17,313	35,899
Less: Provision for bad debts	7,775	3,704
	9,538	32,195
Other debtors, deposits and prepayments	1,537	6,843
	11,075	39,038

The credit terms given to the customers vary and are generally based on the financial strengths of individual customers. In order to effectively manage the credit risks associate with trade debtors, credit evaluations of customers are performed periodically. The following is an aging analysis of trade debtors.

	2003 HK\$'000	2002 HK\$'000
0 - 3 months	587	22,263
4 - 6 months	29	2,276
7 - 12 months	5,591	3,951
Over 1 year but within 2 years	6,661	7,409
Over 2 years	4,445	-
	17,313	35,899

Notes to the Financial Statements

For the year ended 31st December, 2003

15. Banking facilities

As at 31st December, 2003, the Group's available banking facilities to the extent of approximately HK\$206,000 (2002: HK\$313,000) are secured by a motor vehicle with net book value of approximately HK\$220,000 (2002: HK\$352,000).

16. Cash and bank balances

At 31st December, 2003, the cash and bank balances of the Group denominated in Renminbi amounted to approximately HK\$8,051,000 (2002: HK\$4,931,000). Renminbi is not freely convertible into foreign currencies. Subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange Renminbi for foreign currencies through banks authorised to conduct foreign exchange business.

17. Secured bank loan

	2003	2002
	HK\$'000	HK\$'000
Principal outstanding	206	313
Less: Amount repayable within one year (shown under current liabilities)	115	107
Amount repayable after one year but within five years (shown under non-current liabilities)	91	206

Notes to the Financial Statements

For the year ended 31st December, 2003

18. Creditors, accruals and deposits

	2003 HK\$'000	2002 HK\$'000
Creditors, accruals and deposits comprise:		
Trade creditors	13,055	19,108
Other creditors, accruals and deposits	5,605	4,604
	<u>18,660</u>	<u>23,712</u>

The following is an aging analysis of trade creditors:

	2003 HK\$'000	2002 HK\$'000
0 - 6 months	839	15,822
7 - 12 months	4,193	1,642
Over 12 months	8,023	1,644
	<u>13,055</u>	<u>19,108</u>

19. Amounts due to related companies and directors

The amounts are interest-free, unsecured and repayable on demand.

20. Share capital

	Group and Company	
	Number of shares	HK\$'000
Authorised:		
At 1st January, 2003 and 31st December, 2003	<u>1,000,000,000</u>	<u>100,000</u>
Issued and fully paid:		
At 1st January, 2003 and 31st December, 2003	<u>240,000,000</u>	<u>24,000</u>

20. Share capital (Continued)

- (a) Under the terms of a share option scheme (the "Scheme") adopted by the Company on 2nd June, 2000, the board of directors is authorised, at its absolute discretion, to grant options to executive directors and full time employees of the Company or its subsidiaries, to subscribe for shares in the Company.

The purpose of the Scheme is to encourage the officers and staff to participate in the ownership of the Company in order to provide additional incentives to them.

The total number of shares available for issue under the Scheme is 64,176,000 which represent 26.74% of the issued share capital of the Company.

The maximum entitlement of each participant under the Scheme would not exceed 25% of the aggregate number of shares for the time being issued and issuable under the Scheme.

Upon acceptance of the option, the grantee shall duly sign the duplicate of the offer letter together with a remittance in favour of the Company of HK\$1 by way of consideration of the grant within 28 days from the date of the offer letter.

The option price will be determined by the directors, but may not be less than the highest of the closing price of the shares on the GEM of the Stock Exchange on the date of the grant of the option or the average of the closing price of the shares on the GEM of the Stock Exchange for the five trading days immediately preceding the date of the offer of grant of the option or the nominal value of the shares.

The Scheme shall remain in force for the period of 10 years commencing on the adoption date of the Scheme which is 2nd June, 2000.

An option may be exercised in accordance with the terms of the Scheme at any time during a period to be notified by the board of directors to each grantee. Such period being not less than 3 years after the date of grant of the option and not more than 10 years after the date of grant of option but such period is subject to the provisions for early termination contained in the terms of the Scheme.

Notes to the Financial Statements

For the year ended 31st December, 2003

20. Share capital (Continued)

- (i) As at 31st December, 2003, details of share options granted to eligible employees under the Scheme are as follows:

Grantees	Date of grant	Exercise price per share	Number of shares under option	
			As at 1st January, 2003	As at 31st December, 2003
Employees	11th October, 2000	HK\$1.16	6,544,000	Nil

The grantees shall be entitled to exercise the above share options granted according to the following schedule:

Exercise period	Maximum number of shares under option exercisable
11th April, 2001 – 10th October, 2001	10%
11th October, 2001 – 10th April, 2002	30%
11th April, 2002 – 10th October, 2002	60%
11th October, 2002 – 10th October, 2003	The balance of shares under option not previously exercised

- (ii) Movements in share options

	2003 Number	2002 Number
At 1st January	6,544,000	7,536,000
Lapsed	(6,544,000)	(992,000)
At 31st December	-	6,544,000
Options vested at 31st December	-	6,544,000

- (iii) No option was exercised during the year.

21. Reserves

The Company

	Share premium	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000
At 1.1.2002	1,981	(2,794)	(813)
Premium on issue of ordinary shares	18,000	-	18,000
Share issuing expenses	(951)	-	(951)
Loss for the year	-	(1,139)	(1,139)
At 31.12.2002 and 1.1.2003	19,030	(3,933)	15,097
Loss for the year	-	(29,588)	(29,588)
At 31.12.2003	19,030	(33,521)	(14,491)

- (a) Under the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, the share premium is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.
- (b) As at 31st December, 2003, in the opinion of the directors, there was no reserve of the Company available for distribution to the shareholders (2002: HK\$15,097,000).

22. Loan from a director

The loan is interest-free, unsecured and not repayable until the Group is in a position to do so.

Notes to the Financial Statements

For the year ended 31st December, 2003

23. Commitments

(a) Operating leases

As at 31st December, 2003, the Group and the Company had outstanding commitments under non-cancellable operating leases which fall due as follows:

	2003	2002
	HK\$'000	HK\$'000
(i) The Group		
Within one year	1,123	2,046
In the second to fifth years inclusive	-	1,656
	1,123	3,702
(ii) The Company		
Within one year	403	484
In the second to fifth years inclusive	-	403
	403	887

Operating lease payments represent rentals payable by the Group and the Company for their office premises. Leases are negotiated for an average term of two years with fixed monthly rentals.

(b) Other than the above, the Group had no material capital and financial commitments.

Notes to the Financial Statements

For the year ended 31st December, 2003

24. Connected and related party transactions

During the year, the Group had the following material transactions with subsidiaries of a related company, CL International Holdings Limited (“CLIH”) and a shareholder, Hitachi Limited (“Hitachi”). Two directors, Mr. Fung Pak Chuen, Alphonso and Mr. Lo, Richard have a family interest of 37.5% in CL Investments Limited which owned approximately 41% of CLIH.

	Note	2003 HK\$'000	2002 HK\$'000
Consultancy fee income received from a subsidiary of CLIH	(i)	86	72
Service income from a subsidiary of Hitachi	(i)	158	361
Service fee paid to a subsidiary of CLIH	(ii)	966	298

The above transactions were entered into on the following bases:

- (i) a fixed amount with reference to the cost of services rendered; and
- (ii) a certain percentage of the Group's billings on the relevant services.

The transactions set out above also constituted connected transactions under the GEM Listing Rules. The directors have reviewed the connected transactions and are of the opinion that these transactions were effected on normal commercial terms and in the ordinary course of the business of the Group.

25. Segment reporting

The Group conducts its business within one business segment which is the provision of IT solutions to the financial industry in the PRC. The Group also operates within one geographical segment because over 90% of its revenues are generated from customers located in the PRC. Accordingly, no segment information is presented.

26. Ultimate holding company

The directors consider the ultimate holding company to be Aplus Worldwide Limited, a company incorporated in the British Virgin Islands.

27. Comparative figures

Certain comparative figures have been reclassified to conform to the current year's presentation.

Financial Summary

Results

	Years ended 31st December,				2003 HK\$'000
	1999 HK\$'000	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000	
Turnover	49,435	37,565	120,990	68,635	35,399
(Loss)/profit for the year	(5,940)	356	4,552	(20,852)	(27,282)

Notes:

- The results of the Group for each of the two years ended 31st December, 2000 presented above include the results of the Company and its subsidiaries with effect from 1st January, 1999 or since their respective dates of incorporation/establishment, where this is a shorter period, on the basis that the current group structure had been in existence throughout the said period.
- The results of the Group for each of the three years ended 31st December, 2003 are prepared under the basis as set out in note 1(c) on page 23.

Assets and liabilities

	At 31st December,				2003 HK\$'000
	1999 HK\$'000	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000	
NON-CURRENT ASSETS	542	11,877	14,694	9,022	2,116
CURRENT ASSETS	25,212	21,597	59,131	47,416	19,877
DEDUCT:					
CURRENT LIABILITIES	29,114	10,796	46,495	28,721	19,789
NET CURRENT (LIABILITIES)/ASSETS	(3,902)	10,801	12,636	18,695	88
NON-CURRENT LIABILITIES	-	(30)	(16)	(206)	(1,975)
NET (LIABILITIES)/ASSETS	(3,360)	22,648	27,314	27,511	229

Notes:

- The assets and liabilities of the Group as at 31st December, 1999 presented above include the assets and liabilities of the Company and its subsidiaries on the basis that the current group structure had been in existence at that date as set out in the prospectus of the Company dated 9th June, 2000.
- The assets and liabilities of the Group as at 31st December, 2000, 2001, 2002 and 2003 presented above include the assets and liabilities of the Company and its subsidiaries on the basis as set out in note 1(c) on page 23.

Notice of Annual General Meeting

Notice is hereby given that the annual general meeting of the shareholders of Computech Holdings Limited (the “Company”) will be held at 10/F., Westlands Centre, 20 Westlands Road, Quarry Bay, Hong Kong on Friday, 7th May, 2004 at 10:00 a.m. for the following purposes:

1. to receive and consider the audited financial statements and the reports of the directors and the auditors for the year ended 31st December, 2003;
2. to re-elect directors and to authorize the board of directors to fix the directors’ remuneration;
3. to re-appoint auditors and authorize the board of directors to fix the remuneration;
4. by way of special business, to consider and, if thought fit, pass with or without alterations, the following resolutions as ordinary resolution:

(1) **That**

- (a) subject to paragraph (c) below the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with unissued shares in the capital of the Company and to make or grant offers, agreements and options which might require the exercise of such powers be and the same is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) above shall authorize the directors of the Company during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (where pursuant to options or otherwise) by the directors of the Company pursuant to the approval in paragraph (a) above, otherwise than pursuant to (i) a Rights Issue; or (ii) the grant or exercise of any option under the share option scheme of the Company; or (iii) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares in accordance with the memorandum and articles of association of the Company in force from time to time; or (iv) any issue of shares in the Company upon the exercise of rights of subscription or conversion under the terms of any warrants of the Company or any securities which are convertible into shares of the Company, shall not exceed the aggregate of:
 - (i) 20% of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this Resolution; and

Notice of Annual General Meeting

(ii) (if the directors of the Company are so authorized by a separate ordinary resolution of the shareholders of the Company) the nominal amount of any share capital of the Company repurchased by the Company subsequent to the passing of this Resolution (up to a maximum equivalent to 10% of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this Resolution), and the authority pursuant to paragraph (a) of this Resolution shall be limited accordingly; and

(d) for the purpose of this Resolution:

“Relevant Period” means the period from the date of the passing of this Resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual meeting of the Company is required by the memorandum and articles of association of the Company, the Companies Law (1995 Revision) of the Cayman Islands or any other applicable law of the Cayman Islands to be held; and
- (iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the directors of the Company by this Resolution.

“Rights Issue” means an offer of shares in the Company, or offer or issue of warrants, options or other securities giving rights to subscribe for share open for a period fixed by the directors of the Company to holders of shares in the Company on the register on a fixed record date in proportion to their holdings of shares (subject to such exclusion or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements, or having regard to any restrictions or obligations under the laws of, or the requirements of, or the expense or delay which may be involved in determining the existence or extent of any restrictions or obligations under the laws of, or the requirements of, any jurisdiction outside Hong Kong or any recognized regulatory body or any stock exchange outside Hong Kong).

Notice of Annual General Meeting

- (2) **That**
- (a) the exercise by the directors of the Company during the Relevant Period of all powers of the Company to purchase its shares on the Stock Exchange of Hong Kong Limited or any other stock exchange on which the shares of the Company may be listed and recognized by the Securities and Futures Commission and the Stock Exchange of Hong Kong Limited for such purpose, and otherwise in accordance with the rules and regulations of the Securities and Futures Commission. The Stock Exchange of Hong Kong Limited, the memorandum and articles of association of the Company, the Companies Law (1995 Revision) of the Cayman Islands and all other applicable laws in this regard, be and the same is hereby generally and unconditionally approved;
 - (b) the aggregate nominal amount of shares of the Company which may be purchased by the Company pursuant to the approval in paragraph (a) during the Relevant Period shall not exceed 10% of the aggregate nominal amount of this Resolution and the authority pursuant to paragraph (a) of this Resolution shall be limited accordingly; and
 - (c) for the purpose of this Resolution, "Relevant Period" means the period from the date of the passing of this Resolution until whichever is earliest of:
 - (i) the conclusion of the next annual general meeting of the Company;
 - (ii) the expiration of the period within which the next annual general meeting of the Company is required by the memorandum and articles of association of the Company, the Companies Law (1995 Revision) of the Cayman Islands or any other applicable law of the Cayman Islands to be held; and
 - (iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the directors of the Company by this Resolution.
- (3) **That** the directors of the Company be and they are hereby authorized to exercise the authority referred to in paragraph (a) of Resolution no. 4(1) above in respect of the share capital of the Company referred to in sub-paragraph (ii) of paragraph (c) of such Resolution.

By order of the Board
Yip Yuk Sing, Wallace
Company Secretary

25th March, 2004

Notice of Annual General Meeting

Registered office:

Century Yard,
Cricket Square,
Hutchins Drive,
P.O. Box 2681 GT,
George Town, Grand Cayman,
British West Indies

Head office and principal place of business:

10/F., Westlands Centre,
20 Westlands Road,
Quarry Bay,
Hong Kong

Notes:

- (a) A shareholder entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies to attend and vote on his behalf. A proxy need not to be a shareholder of the Company.
- (b) To be valid, a form of proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power or authority must be deposited with the Company's register and transfer office in Hong Kong, Hong Kong Registrars Ltd, Room 1901-1905, 19/F., Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time for holding the meeting or at any adjournment thereof.
- (c) In relation to proposed resolutions no. 4 above, approval is being sought from the shareholders for the grant to the directors of the Company of a general mandate to authorize the allotment and issue of shares under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The directors of the Company have no immediate plans to issue any new shares of the Company other than shares which may fall to be issued under the share option scheme of the Company or any scrip dividend scheme which may be approved by shareholders.
- (d) The register of members of the Company will be closed from 5th May, 2004 to 7th May, 2004, both days inclusive, during which period no transfer of shares of the Company will be effected. All transfer documents accompanied by the relevant share certificates must be lodged with the branch share register of the Company in Hong Kong, Hong Kong Registrars Ltd, Room 1901-1905, 19/F., Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:00 pm on 4th May, 2004.