Computech

Computech Holdings Limited

駿科網絡訊息有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 8081)

FINAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31ST DECEMBER 2004

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The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this announcement, 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 announcement. This announcement, for which the directors (the "Directors") of Computech Holdings Limited (the "Company") 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 the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this announcement is accurate and complete in all material respects and not misleading; (2) there are no other matters the ommission of which would make any statement in this announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

* *For identification purpose only*

CHAIRMAN'S STATEMENT

I am pleased to present the results of Computech Holdings Limited (the "Company") and its subsidiaries (together the "Group") for the year 2004.

2004 was a year of consolidation for the Group. On one hand, the Group has further reduced its reliance on revenue from the financial industry in the People's Republic of China ("PRC") as profit margins in software and hardware continued to erode, on the other hand, in the fourth quarter, the Group established two new business units targeting IT services in Hong Kong and supply chain systems integration and solutions in the PRC and Hong Kong. The Group suffered another loss in 2004 but improvements are expected in the future.

Operating results

During the year under review, the Group's turnover for the year ended 31st December 2004 was approximately HK$43,240,000 (2003: HK$35,399,000), representing approximately a 22% increase from last year and the gross profit margin for the year increased to 24% (2003: 8%). The audited loss attributable to shareholders for the year ended 31st December 2004 was approximately HK$11,841,000 (loss per share of HK4.93 cents), representing approximately a 57% decrease as compared with the loss of approximately HK$27,282,000 (loss per share of HK11.37 cents) in 2003. The improvement in financial performance of the Group was mainly due to the diversification into IT services and supply chain solutions in the fourth quarter of the year.

Selling, distribution and administrative expenses in the year 2004 was approximately HK$12,272,000, representing a decrease of 44% as compared with 2003 due to the stringent cost control during the year. The Group's representative office in Guangzhou has also been further scaled down in 2004 in order to reduce expenses.

The management of the Group took a prudent approach in the evaluation of outstanding accounts receivables and made specific provisions for bad debts of HK$8,992,000 for receivables outstanding as at 31st December 2004. The development costs of the packaged software product developed by the Group, namely, Data Warehouse which was previously capitalised in the amount of HK$862,000, have been written off in the financial year.

Market overview

The change in practice to negotiating directly with manufacturers in the purchasing of hardware and software by the major banks in the PRC has reduced the customers' reliance on IT systems integrators serving the banking industry. At the same time, investment in IT by foreign banks in the PRC is still very small. Adding to the fact that many local systems integrators are entering into this market place, it has become a buyers' market with suppliers having to offer steep discounts to gain business.

The management does not foresee any positive change in business environment for the IT systems integrators in the banking industry in the PRC and has decided to further scale down its operation in this area.

IT outsourcing has been adopted by many commercial enterprises and government institutions over the years and is expected to continue to grow. It allows the outsourcing organization to focus on its core competencies and to rely on partners who have the scale and capabilities to handle non-core areas, often in a more economical and efficient manner. The Group started its IT services business in the fourth quarter of 2004 and is receiving outsourcing jobs to provide maintenance and technical support services to major organizations in Hong Kong. The Group expects positive contribution from this business in the future.

The tremendous economic growth in the PRC has led to a rapid surge in the need for efficient supply chain and logistic management systems to help manufacturers, distributors, retailers and transportation service providers cope with the increased business volume. In September 2004, the Group started a business unit to promote products and services to customers in the area of automatic data collection and warehouse management solutions in the PRC and Hong Kong. There is good growth potential for this business unit in the years to come.

Operating overview

To cope with the Group's diversification into IT services and supply chain solutions, the number of employees has increased in the fourth quarter of 2004. The Group intends to establish alliances with partners who can help bring in business opportunities to accelerate the expansion in the region.

The PRC remains a main market focus for the Group. While the sale and support teams in the banking sector in the PRC have been scaled down in the past two years, the teams to promote and support customers in the supply chain solutions area in the PRC will gradually be built as revenue increases.

Prospects and appreciation

The two new business lines, IT services and supply chain solutions, will be the main revenue and profit generator for the Group in the near term. The Group is constantly looking for innovative products and solutions to add to its portfolio.

Mr. Tsang Link Carl Brian, the former independent non-executive director of the Company, resigned in September 2004. On behalf of the board, I would like to express my gratitude to his substantial contribution to the Group. Mr. Chung Kong Fei, Stephen and Mr. Ng Chik Sum, Jackson were appointed as independent non-executive directors of the Company in September 2004. I would like to welcome them to the board. Finally, I would like to thank our shareholders, board members, customers, business partners and employees for their dedicated support and contribution.

AUDITED CONSOLIDATED RESULTS

The board (the "Board") of directors (the "Directors") is pleased to announce the audited consolidated results of the Company and its subsidiaries (together the "Group") for the year ended 31st December 2004 together with the comparative audited consolidated results for the year ended 31st December 2003 as follows:

	Note	**2004** *HK$'000*	2003 *HK$'000*
Turnover	2	**43,240**	35,399
Cost of sales		**(32,959)**	(32,543)
Gross profit		**10,281**	2,856
Other income		**235**	23
Impairment loss of development costs		**(862)**	(2,396)
Bad debts		**(8,992)**	(4,825)
Selling and distribution expenses		**(498)**	(4,086)
Administrative expenses		**(11,774)**	(17,745)
Operating loss		**(11,610)**	(26,173)
Finance costs		**(10)**	(447)
Amortisation of goodwill on consolidation		**–**	(661)
Loss before income tax	3	**(11,620)**	(27,281)
Income tax expense	4	**(221)**	(1)
Loss for the year		**(11,841)**	(27,282)
Loss per share – Basic (HK cents)	5	**(4.93)**	(11.37)

CONSOLIDATED BALANCE SHEET

AT 31ST DECEMBER 2004

	Note	2004 HK$'000	2003 HK$'000
NON-CURRENT ASSETS			
Fixed assets		**99**	220
Investment securities		**–**	–
Development costs		**–**	1,896
		99	2,116
CURRENT ASSETS			
Inventories		**2,854**	308
Debtors, deposits and prepayments	6	**5,595**	11,075
Cash and bank balances		**5,337**	8,494
		13,786	19,877
DEDUCT:			
CURRENT LIABILITIES			
Bank overdrafts			
– unsecured		**–**	42
Secured bank loan		**91**	115
Creditors, accruals and deposits	7	**15,793**	18,660
Value-added tax payable		**799**	178
Income tax payable		**219**	1
Amounts due to related companies		**6,339**	461
Amounts due to directors		**–**	332
		23,241	19,789
NET CURRENT (LIABILITIES)/ASSETS		**(9,455)**	88
NET (LIABILITIES)/ASSETS		**(9,356)**	2,204
REPRESENTING:			
SHARE CAPITAL		**24,000**	24,000
RESERVES		**(35,612)**	(23,771)
(CAPITAL DEFICIENCY)/SHAREHOLDERS' FUNDS		**(11,612)**	229
NON-CURRENT LIABILITIES			
Secured bank loan		**–**	91
Loans from directors		**2,256**	1,884
		(9,356)	2,204

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31ST DECEMBER 2004

	Share premium	Share reserve	Exchange losses	Accumulated Total	capital
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1.1.2003	24,000	19,030	100	(15,619)	27,511
Loss for the year	–	–	–	(27,282)	(27,282)
At 31.12.2003 and 1.1.2004	24,000	19,030	100	(42,901)	229
Loss for the year	–	–	–	(11,841)	(11,841)
At 31.12.2004	**24,000**	**19,030**	**100**	**(54,742)**	**(11,612)**

Notes:

1. 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 issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Rules Governing the Listing of Securities ("GEM Listing Rules") on the GEM of The Stock Exchange. They are prepared under the historical cost convention.

2. TURNOVER AND REVENUE

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

	2004	2003
	HK$'000	*HK$'000*
Sales of packaged software products and related services	**2,422**	4,528
Provision of IT services	**15,342**	–
Provision of supply chain solutions	**10,892**	–
System integration	**8,762**	28,007
Others	**5,822**	2,864
Turnover	**43,240**	35,399
Interest income	**–**	23
Total revenue	**43,240**	35,422

3. LOSS BEFORE INCOME TAX

	2004	2003
	HK$'000	*HK$'000*
Loss before income tax is arrived at after charging/(crediting):		
Amortisation of development costs	**1,034**	2,901
Minimum lease payments paid under operating leases	**1,025**	2,127
Auditors' remuneration	**244**	254
Depreciation	**133**	962
Less: Amounts capitalised as development costs	**–**	9
	133	953
Directors' remuneration	**763**	872
Less: Amounts capitalised as development costs	**–**	212
	763	660
Other staff salaries and benefits	**5,910**	6,116
Less: Amounts capitalised as development costs	**–**	484
	5,910	5,632
Retirement scheme contributions	**150**	144
Less: Amounts capitalised as development costs	**–**	6
	150	138
Bank overdraft and bills interest	**–**	169
Interest on bank and other loans wholly repayable within five years	**10**	56
Finance lease interest	**–**	2
Exchange (gain)/loss	**(18)**	427
Sales proceeds	**–**	(5)
Less: Net book value	**–**	990
Loss on disposal of fixed assets	**–**	985

4. INCOME TAX EXPENSE

	2004	2003
	HK$'000	*HK$'000*
Current tax		
Provision for Hong Kong profits tax at 17.5% on the estimated assessable profits for the year	**221**	1

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:

	2004	2003
	HK$'000	*HK$'000*
Loss before income tax	**(11,620)**	(27,281)
Tax effect at Hong Kong profits tax rate at 17.5% (2003: PRC statutory income tax rate of 33%)	**(2,033)**	(9,003)
PRC and Hong Kong tax rates differential	**154**	2,381
Tax effect of income that is not taxable	**(305)**	(430)
Tax effect of expenses that are not deductible	**362**	2,441
Tax effect of waiver of intra-group balance that is taxable in subsidiary level but eliminated and not taxable in group level	**5,000**	–
Tax effect of unrecognised decelerated depreciation allowances	**125**	(88)
Utilisation of tax loss not previously recognised	**(3,082)**	–
Effect of tax loss not recognised	**–**	4,700
Income tax expense	**221**	1

As the Group's principal place of operations during the year ended 31st December, 2004 was in Hong Kong, the applicable tax rate adopted for the above income tax recouncilliation for the current year under review was the Hong Kong profits tax rate of 17.5%.

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

	2004	2003
	HK$'000	*HK$'000*
Deductible temporary differences (Note 4(b)(i))		
Unutilised tax losses (Note 4(b)(ii))	**36,472**	54,083
Provision for bad debts	**–**	4,085
Decelerated depreciation allowances	**1,121**	409
	37,593	58,577
Taxable temporary difference (Note 4(b)(iii))		
Revenue recognised for financial reporting purposes before being recognised for tax purposes	**–**	(6,573)
	37,593	52,004

(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$15,060,000 (2003: HK$16,936,000) would expire in five years from the respective year of loss. The unutilised tax losses accumulated in the Hong Kong subsidiaries amounted to HK$21,412,000 (2003: HK$37,147,000) can be carried forward indefinitely.

(iii) Taxable temporary difference has not been recognised owing to immateriality.

5. LOSS PER SHARE

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

	2004	2003
	HK$'000	*HK$'000*
Loss		
Loss for the year used in the calculation of basic loss per share	**(11,841)**	(27,282)
Shares		
Weighted average number of shares in issue for the purpose of calculation of basic loss per share	**240,000,000**	240,000,000

6. DEBTORS, DEPOSITS AND PREPAYMENTS

	2004	2003
	HK$'000	*HK$'000*
Debtors, deposits and prepayments comprise:		
Trade debtors	**4,538**	17,313
Less: Provision for bad debts	**–**	7,775
	4,538	9,538
Other debtors, deposits and prepayments	**1,057**	1,537
	5,595	11,075

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.

	2004	2003
	HK$'000	*HK$'000*
0 – 3 months	**4,504**	587
4 – 6 months	**12**	29
7 – 12 months	**22**	5,591
Over 1 year but within 2 years	**–**	6,661
Over 2 years	**–**	4,445
	4,538	17,313

7. CREDITORS, ACCRUALS AND DEPOSITS

	2004	2003
	HK$'000	*HK$'000*
Creditors, accruals and deposits comprise:		
Trade creditors	**7,196**	13,055
Other creditors, accruals and deposits	**8,597**	5,605
	15,793	18,660

The following is an aging analysis of trade creditors:

	2004	2003
	HK$'000	*HK$'000*
0 – 6 months	**3,573**	839
7 – 12 months	**116**	4,193
Over 12 months	**3,507**	8,023
	7,196	13,055

8. SEGMENT REPORTING

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

(a) Business segments

The Group principally operates in three business segments, (i) sales of bank packaged software products, (ii) provision of IT services and (iii) supply chain solutions.

	IT services		Supply chain solutions		Bank packaged software products		Consolidated	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue from external customers	**15,342**	986	**10,892**	–	**17,006**	34,413	**43,240**	35,399
RESULTS								
Segment results	**813**	9	**448**	–	**(9,618)**	(25,154)	**(8,357)**	(25,145)
Unallocated expenses							**(3,253)**	(1,051)
Interest income	**–**	–	**–**	–	**–**	23	**–**	23
Finance costs	**–**	–	**–**	–	**(10)**	(447)	**(10)**	(447)
Amortisation of goodwill	**–**	–	**–**	–	**–**	–	**–**	(661)
Income tax expense	**(142)**	(1)	**(79)**	–	**–**	–	**(221)**	(1)
Profit/(loss) attributable to shareholders	**671**	8	**369**	–	**(9,628)**	(25,578)	**(11,841)**	(27,282)
SEGMENT ASSETS								
Segment assets	**5,997**	233	**6,116**	–	**1,433**	21,532	**13,546**	21,765
Unallocated assets							**339**	228
Total assets							**13,885**	21,993
SEGMENT LIABILITIES								
Segment liabilities	**(5,340)**	(307)	**(6,230)**	–	**(11,421)**	(20,780)	**(22,991)**	(21,087)
Unallocated liabilities							**(2,506)**	(677)
Total liabilities							**(25,497)**	(21,764)
OTHER INFORMATION								
Depreciation and amortisation	**–**	–	**–**	–	**1,167**	3,863	**1,167**	3,863
Impairment loss on development cost	**–**	–	**–**	–	**862**	2,396	**862**	2,396
Bad debts	**–**	–	**–**	–	**8,992**	4,825	**8,992**	4,825
Capital expenditure incurred during the year	**8**	–	**4**	–	**–**	6	**12**	6

Unallocated expenses include administrative expenses incurred by the Company and certain non-operating subsidiaries.

Unallocated assets consist of deposits and prepayments and cash and bank balances of the Company and certain non-operating subsidiaries.

Unallocated liabilities represent accruals and loans from directors owed by the Company and certain non-operating subsidiaries.

(b) Geographical segments

The Group's business can be subdivided into the Hong Kong and PRC markets.

The Group's geographical segments are classified according to the location of the customers as the reporting format because this is considered by management to be more relevant to the Group in making operating and financial decisions. No separate disclosure of the Group's geographical segments according to the location of assets has been made as there is no material difference between the Group's geographical segments classified by location of customers or by location of assets.

Management considers that all items in the consolidated income statement and assets included in the consolidated balance sheet can be reasonably allocated to each geographical segment.

The following table presents revenue, segment assets and capital expenditure incurred for the Group's geographical segments.

	Hong Kong		**PRC**		**Consolidated**	
	2004	2003	**2004**	2003	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Revenue from external customers	**26,234**	986	**17,006**	34,413	**43,240**	35,399
Segment assets	**12,482**	7,843	**1,403**	14,150	**13,855**	21,993
Capital expenditure incurred during the year	**12**	1	**–**	5	**12**	6

9. FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31st December 2004 (2003: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

To enlarge the Group's business scope, the Group diversified into IT services and supply chain solutions during the year under review. The Company entered into an agreement with CL International Holdings Limited ("CLIH") on 28th July 2004 to render IT related services to the customers of CLIH and its subsidiaries (together the "CLIH Group") in Hong Kong and the People's Republic of China ("PRC") in non-banking sectors. The provision of IT services to CLIH Group was commenced in the fourth quarter of 2004, of which the contribution to the Group in terms of revenue and operating profit amounted to approximately HK$15,342,000 and HK$813,000 respectively.

In September 2004, the Group commenced the business line in supply chain solutions, which promote products and services to customers in the area of automatic data collection and warehouse management solutions in the PRC and Hong Kong. During the year under review, contribution from the supply chain solutions business unit in terms of revenue and operating profit amounted to approximately HK$10,892,000 and HK$448,000 respectively.

In view of the increasing demand in IT outsourcing services and the need for efficient supply chain and logistic management systems in the PRC and Hong Kong market, the directors believe that the Group's future growth will be fuelled by the new lines of business in these markets.

Financial review

For the year under review, the Group recorded a turnover of approximately HK$43,240,000 and a loss attributable to shareholders of approximately HK$11,841,000. This represented an increase in turnover of approximately 22% and a decrease in the net loss of approximately 57% as compared with last year. The improvement in the financial performance of the Group was mainly due to the diversification into IT services and supply chain solutions in the fourth quarter of 2004, which contributed approximately HK$15,342,000 and HK$10,892,000 respectively to the Group's turnover.

Decrease in loss for the year of 2004 was also attributable to the decrease in selling, distribution and administrative expenses in the year, which was approximately HK$12,272,000, representing a decrease of 44% as compared with 2003, as a result of the decrease in scale of the Group's operation in banking software sector as well as stringent cost control during the year. Meanwhile, the loss for the year was attributable to specific provision for long outstanding debts and full provision of the remaining capitalised amount of development costs for a banking software product, namely Data Warehouose, which were approximately HK$8,992,000 and HK$862,000 respectively. Such provisions were made in compliance with the Group's accounting policy.

Financial resources and liquidity

As at 31st December 2004, the total assets of the Group were approximately HK$13,885,000 (2003: HK$21,993,000), including cash and bank deposits of approximately HK$5,337,000 (2003: HK$8,494,000) and debtors, deposits and prepayments of approximately HK$5,595,000 (2003: HK$11,075,000).

The Group's current assets are approximately 0.59 time (2003: 1 time) over its current liabilities whereas the gearing ratio, representing bank borrowing and non-current liabilities over total assets, was 0.17 (2003: 0.09). The Group's non-current liabilities being non-current loans of HK$2,256,000 (2003: HK$1,884,000 being non-current loan and HK$206,000 being secured bank loan). The loans are 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 non-current borrowings during the year under review.

Foreign exchange

The Group is exposed to foreign currency risk as half of its payable to suppliers and part of its 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.

Charge on the Group's assets

As at 31st December 2004, the Group's available banking facilities to the extent of approximately HK$91,000 (at 31st December 2003: HK$206,000) are secured by a motor vehicle with HK$88,000 net book value (at 31st December 2003: HK$220,000).

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

As at 31st December 2004, there were no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities.

AUDIT COMMITTEE

Pursuant to rules 5.28 to 5.29 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. Chung Kong Fei, Stephen and Mr. Ng Chik Sum, Jackson.

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 rules 5.34 to 5.45 of the GEM Listing Rules concerning management responsibilities of the Board throughout the financial year ended 31st December, 2004.

By Order of the Board
Fung Pak Chuen, Alphonso
Chairman

Hong Kong, 29th March, 2005

As at the date of this announcement, the executive Directors are Mr. Fung Pak Chuen, Alphonso and Mr. Lo, Richard. The non-executive Director is Mr. Sugii Toshio and the independent non-executive Directors are Mr. Lee Sai Yeung, Mr. Chung Kong Fei, Stephen and Mr. Ng Chik Sum, Jackson.

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