

GLOBAL GROWTH

CSE GLOBAL LTD ANNUAL REPORT 2003



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our

VISION

To Be A Leading
Global Systems Integrator
Providing Cost-effective
Total Integration Solutions
To The Satisfaction
Of Our Customers

corporate

PROFILE

CSE Global Limited is a global system integrator listed on the main board of the Singapore Exchange, operating in the Americas, Europe, the Middle East, Africa, Asia and has 700 employees spread over 17 offices in 14 countries. CSE provides state-of-the art, cost-effective total integrated industrial automation, information technology and telecommunication solutions to clients globally in the energy (Oil & Gas/Power), chemical/petrochemical, utilities, water and waste water, healthcare and public sectors.

CSE offers its customers a total turnkey capability through two business units, namely:

- Industrial Business Unit
- IT Consulting Business Unit

The Company has been ISO 9001 - certified by Lloyd's Register Quality Assurance since 2001. In about twenty years, CSE has risen from being the engineering projects division of an electronics company to becoming a public-listed, internationally recognized systems integration and engineering company.

message to our STAKEHOLDERS



LIM MING SEONG, CHAIRMAN

*Revenue rose 18 percent
to S\$169.0 million and
earnings grew S\$5.2 million
to S\$17.3 million,
a 44 percent increase
over the previous year.*

Fiscal 2003 was another excellent year for the CSE Group. Revenue rose 18 percent to S\$169.0 million and earnings grew S\$5.2 million to S\$17.3 million, a 44 percent increase over the previous year. Excluding the net exceptional gain items of S\$2.1 million, a strong earning growth of 26 percent was recorded. These outstanding numbers were the result of our focus on lean & efficient management, continuous sound acquisition strategy and aggressive expansion into new markets. Noteworthy were these results achieved in the face of SARS outbreak in Asia and the Middle East tension that had impacted us somewhat.

At CSE Group, cash is King: we judge ourselves by the amount of cash we generate each year after paying all necessary expenses. Cash generation is crucial because it is the very best indicator of how company is really performing, and it provides the financial resource for us to continue to grow our business, by acquisition or other types of investment. In fiscal 2003, we generated a strong cash inflow of S\$15.0 million, comprising S\$10.6 million from operations and S\$4.4 million through partial divestment of eBworx. In tandem with the strong cash generation and earnings, our net gearing has reduced significantly to 0.42 times as compared to 0.77 times, over the prior year. We are proud that we have demonstrated another year of excellent capital management.

**Fiscal 2003 was a year of many achievements.
Some of the highlights for the year were:**

- We strengthen our position to expand our capabilities and build on our global reach by acquiring TransTel, an oil & gas systems integrator in Singapore providing turnkey telecommunications network solution in August 2003, and TTC s.r.o. in Slovakia, another integrator providing pipeline simulation, monitoring management and leak detection services, in October 2003;

- We continue our global inroad and growth into new markets. CSE Group currently operates out of 17 offices in 14 countries. New additions for the year were: Carmen (Mexico), Dubai (UAE), Tehran (Iran), Port Hartcourt (Nigeria), Shanghai (China), Nitra (Slovakia) and Jakarta (Indonesia);
- We listed our subsidiary eBworx on the MESDAQ in Malaysia in Nov 2003. As at the end of 2003, the market value of the Group's share in eBworx was approximately S\$16.9 million;
- We were voted one of the six Singapore companies in Forbes Global's 200 companies: "Best under a Billion in Sales".

In view of the excellent performance, we have declared a total dividend of 2 cents per share (1 cent ordinary and 1 cent special) for fiscal 2003. This is a 100% increase in dividend as compared to the previous year. We expect to at least maintain the ordinary dividend payout, subject to financial results and the investment needs of the business. Looking forward, we are optimistic that 2004 will be another good year. We have the ability to improve our financial performance through a combination of geographic expansion and market share gain fueled by our ability to provide cost effective solutions to the satisfaction of our customers. We are global in business operations; many of our customers are large corporations that do business all over the

world. Strategic acquisitions will also play a key role in our growth. We will continue to explore acquisitions that can add new capabilities to complement our core businesses, and/or to allow us to enter new markets.

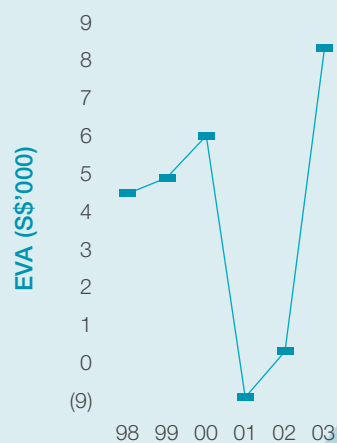
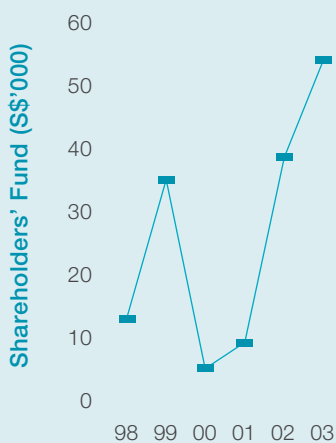
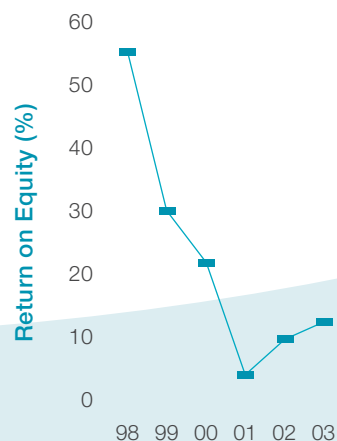
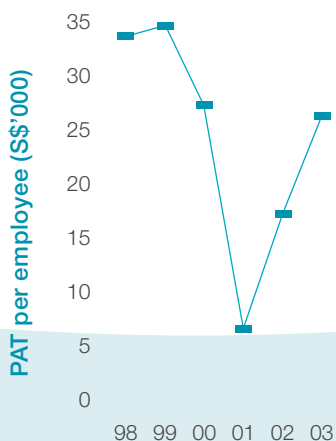
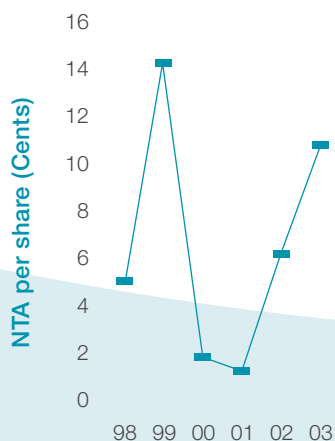
On behalf of the board, we will like to thank our employees for their dedication, commitment and continuing hard work, and our shareholders for their continuing support and confidence as we build a global organization that is successfully competing and growing in the global market.



TAN MOK KOON,
MANAGING DIRECTOR

FINANCIAL

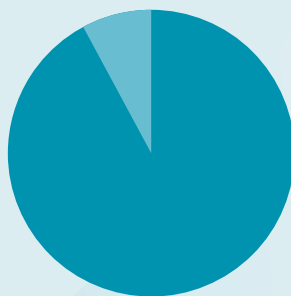
highlights





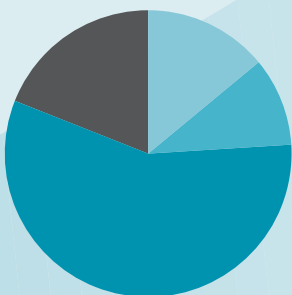
Turnover by activities for 2002 (S\$'000)

- Industrial Business Unit 84%
- IT Consulting Business Unit 16%



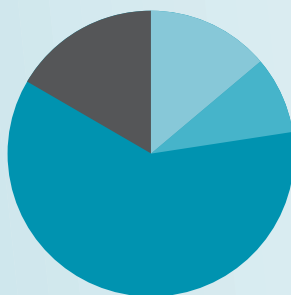
Turnover by activities for 2003 (S\$'000)

- Industrial Business Unit 93%
- IT Consulting Business Unit 7%



Turnover by geographical locations for 2002 (S\$'000)

- UK 19%
- US 57%
- Asia 10%
- Singapore 14%



Turnover by geographical locations for 2003 (S\$'000)

- UK 18%
- US 63%
- Asia 8%
- Singapore 11%

SIGNIFICANT events

10 Jan 2003

eBworx seals S\$1.7 million deal with OCBC Group

22 Jul 2003

Acquisition of 100% of TransTel Engineering Pte Ltd in Singapore

22 Jul 2003

CSE secures S\$16 million worth of offshore oil and gas projects in Africa

30 Jul 2003

eBworx's regional market footprint expands to Thailand with US\$1 million deal

7 Aug 2003

CSE wins £2 million contract to deploy nation-wide information and control system in the UK

18 Aug 2003

CSE secures S\$2.1 million Telecommunications Project in Sudan

2 Oct 2003

eBworx Berhad receives approval for listing on MESDAQ

6 Oct 2003

CSE awarded S\$3 million worth of oil and gas projects in the Americas

9 Oct 2003

CSE awarded S\$3.8 million Telecommunications project Malaysia / Thailand

20 Oct 2003

Acquisition of TTC s.r.o in Slovakia

6 Nov 2003

CSE wins S\$3.2 million Gulf of Mexico contract

17 Nov 2003

CSE wins two contracts worth S\$3.5 million in the Middle East & Africa

18 Nov 2003

eBworx Berhad debuts on Mesdaq and secured first project in Hong Kong

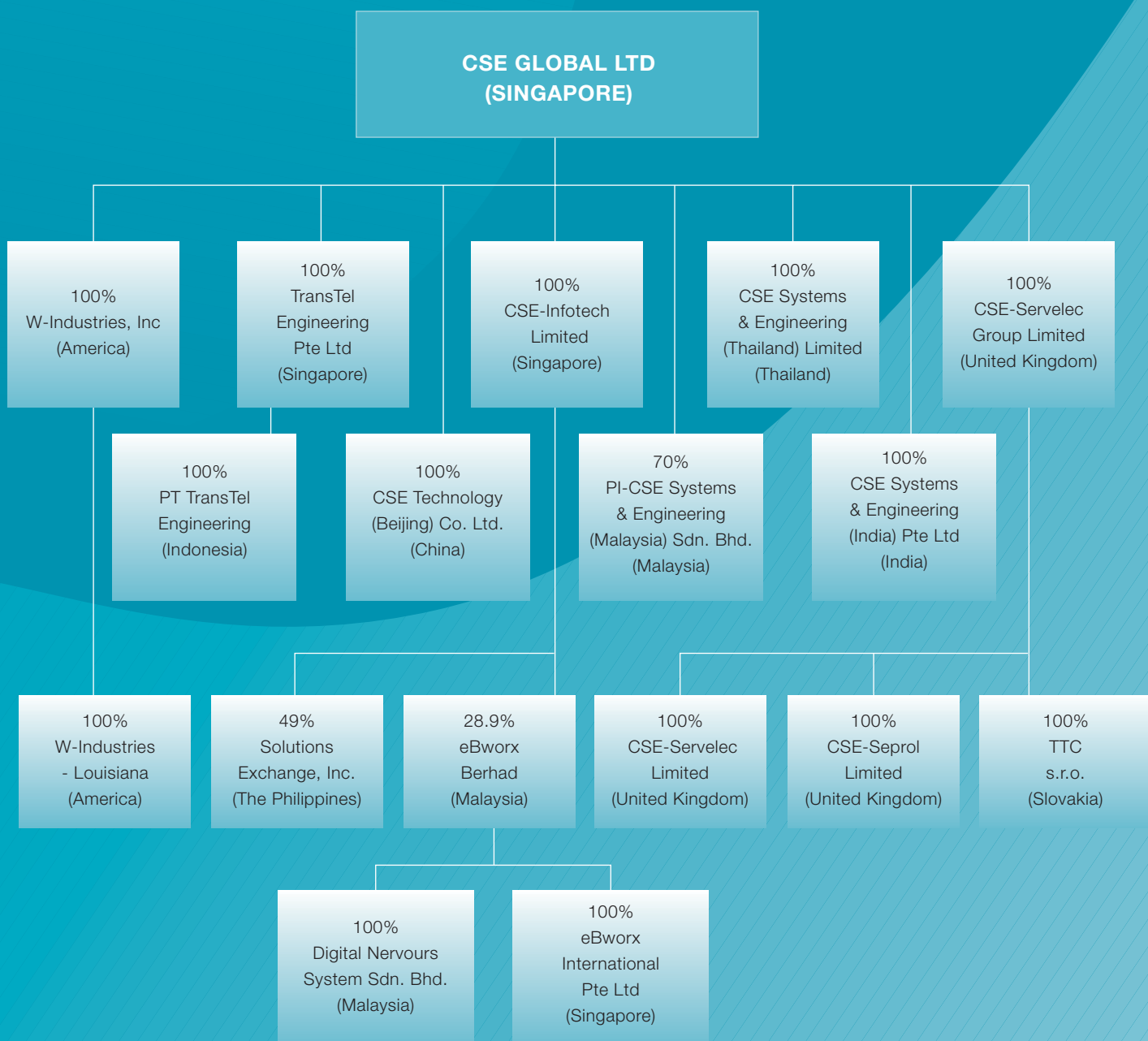
1 Dec 2003

CSE wins £1 million contract for proprietary patient record system in the UK

8 Dec 2003

Award of contract to implement a Digital Credit Management System for Krung Thai Computer Services Co. Ltd by Hewlett Packard (Thailand) Ltd to eBworx Berhad

operating ENTITIES



CORPORATE

information

Board of Directors

Executive

Tan Mok Koon (Managing Director)

Non-Executive

Lim Ming Seong (Chairman)
Goh Boon Seong (Independent)
Phillip Lee Soo Hoon (Independent)
Dr. Lim Boh Soon (Independent)
Sin Boon Ann (Independent)

Executive Committee

Lim Ming Seong (Chairman)
Goh Boon Seong
Tan Mok Koon

Audit Committee

Phillip Lee Soo Hoon (Chairman)
Dr. Lim Boh Soon
Sin Boon Ann

Compensation Committee

Lim Ming Seong (Chairman)
Goh Boon Seong
Tan Mok Koon

Advisory Committee

Robert Paul Collins
Chris Chi Keh Fei
Graham Woodhead

Secretaries

Yvonne Choo
Tan San-Ju

Registered Office

10 Collyer Quay #19-08
Ocean Building
Singapore 049315
Tel : 65-6536 5355
Fax : 65-6536 1360

Business Office

19A Serangoon North Ave 5
3rd Floor Avi-Tech Building
Singapore 554859
Tel : 65-6484 1622
Fax : 65-6482 5003

Share Registrar

Lim Associates (Pte) Ltd
10 Collyer Quay #19-08
Ocean Building
Singapore 049315
Tel : 65-6536 5355
Fax : 65-6536 1360

Auditors

Ernst & Young
10 Collyer Quay #21-00
Ocean Building
Singapore 049315

Audit Partner-in-charge :

Christopher Wong Mun Yick
(Appointment since 2002)

DIRECTORS'

profile

The key information regarding the Directors of the Company as at the date of this report in respect of academic and professional qualifications, the date of first appointment as a Director of the Company, the date of the last re-election as a Director of the Company, and other major appointments is set out as follows:-

Lim Ming Seong (Age: 56)

Mr. Lim was appointed as the Chairman and non-Executive Director of the Company on 17 January 1997. Mr. Lim was last re-elected as a Director of the Company on 13 May 2002.

Mr. Lim graduated from the University of Toronto with a Bachelor of Applied Science (Honours) in Mechanical Engineering and from the National University of Singapore with a Diploma in Business Administration. Mr. Lim has also participated in the Advanced Management Programs at INSEAD and Harvard University.

Mr. Lim, in his approximately 17 years with Singapore Technologies Group, held various senior management positions within the Singapore Technologies Group before being made the Group Director of Singapore Technologies Pte Ltd. Prior to joining Singapore Technologies Group, Mr. Lim served as the Deputy Secretary with the Ministry of Defence, Singapore.



Tan Mok Koon (Age: 45)

Mr. Tan was appointed as the Managing Director and Executive Director of the Company on 7 January 1997. As the Managing Director of the Company, Mr. Tan is not subject to retirement by rotation and submission for re-election at the Annual General Meeting pursuant to the Articles of Association of the Company.

Mr. Tan graduated from the National University of Singapore with a Bachelor of Engineering (Honours) in Chemical Engineering.

Mr. Tan joined the Company in 1986 as an engineer and was promoted to General Manager in 1992. Mr. Tan was subsequently appointed as Managing Director of the Company, following the successful conclusion of a management buyout of the Company in 1997. Prior to joining the Singapore Technologies Group, Mr. Tan worked as an engineer cumulatively for about 4 years at Honeywell (S) Pte Ltd and Esso Singapore Pte Ltd.

DIRECTORS'

profile

**Goh Boon Seong (Age: 49)**

Mr. Goh was appointed as a non-Executive Director of the Company on 7 January 1997. Mr. Goh was last re-elected as a Director of the Company on 13 May 2002.

Mr. Goh graduated from the University of Singapore with a Bachelor of Business Administration.

Mr. Goh is currently serving as the Managing Director of WhiteRock Partners, an investment management company. Prior to the afore-mentioned, Mr. Goh held various senior management positions within the Singapore Technologies Group in the areas of corporate development, investment and finance. Before joining Singapore Technologies, he had held senior management positions in investment banking at Morgan Grenfell, PrimeEast Group, and Merrill Lynch.

**Lee Soo Hoon Phillip (Age: 61)**

Mr. Lee was appointed as an Independent Director of the Company on 22 January 1998. Mr. Lee was last re-elected as a Director of the Company on 5 May 2003.

Mr. Lee is a qualified Chartered Accountant of the Institute of Chartered Accountants in England and Wales. He is also a member of the Institute of Certified Public Accountants, Singapore, the Malaysian Institute of Certified Public Accountants, the Malaysian Institute of Accountants and the International Society of Certified Public Accountants. In addition, he is also a member of the Stanford Club of Singapore, the Singapore Professional Centre and the Singapore Institute of Directors.

Mr. Lee is currently serving as the Managing Director of Phillip Lee Mgt Consultants Pte Ltd. Prior to the above-mentioned, Mr. Lee was with the international public accounting firm, Ernst & Young Singapore, for 29 years, of which the last 19 years he was a partner of the firm. Mr. Lee has vast experience in areas of audit, investigations, reorganizations, valuations and liquidations.

Dr. Lim Boh Soon (Age: 47)

Dr. Lim was appointed as an Independent Director of the Company on 22 January 1998. Dr. Lim was last re-elected as a Director of the Company on 5 May 2003.

Dr. Lim graduated from the University of Strathclyde (formerly known as the Royal College of Science and Technology) in the United Kingdom with a Bachelor of Science (1st Class Honours) in Mechanical Engineering and subsequently a PhD in Mechanical Engineering. Dr. Lim also obtained a Graduate Diploma in Marketing Management from the Singapore Institute of Management and a Diploma in Marketing from the Chartered Institute of Management in the United Kingdom. Dr. Lim is currently the President of the Singapore Polytechnic Graduate's Guild, as well as is a member of the Singapore Institute of Directors, Singapore Computer Society, Singapore Institute of Management, Chartered Institute of Management (United Kingdom) in Singapore and an associate member of the Royal Aeronautical Society in the United Kingdom. Dr. Lim also served as a member of the Committee of Singapore's Competitiveness in the Finance and Venture Capital for the Government of Singapore.

Dr. Lim is currently serving as the Key Founder of Arise Asset Management Pte Ltd, and concurrently serves as Group Corporate Director of publicly listed Autron Corporation Limited. Prior to the above-mentioned, Dr. Lim was a Partner of the UBS Capital Asia (S) Limited, in which he co-headed the private equity arm of UBS AG in Asia, and UBS Investment Management Pte Ltd. Dr. Lim has been in the venture and development capital industry in Asia for more than 13 years, working for various direct investment houses based in Singapore and Hong Kong. Prior to joining UBS, Dr. Lim held various senior management positions working for a large American multinational corporation, the Natsteel Group, the Singapore Technologies Group, and Rothschild Ventures Asia Pte Ltd, in which he was a key founding member.

**Sin Boon Ann (Age: 46)**

Mr. Sin was appointed as an Independent Director of the Company on 13 May 2002. Mr. Sin was last re-elected as a Director of the Company on 5 May 2003.

Mr. Sin graduated from the National University of Singapore with a Bachelor of Arts and Bachelor of Laws (Honours) and from the University of London with Master of Laws. Mr. Sin is member of the Criminal Law Advisory Committee (Hearing), Academy of Law, and Law Society of Singapore. In addition, Mr. Sin was also a member of the Company Legislation and Regulatory Framework Committee (Ministry of Finance). Mr. Sin also serves as the advisor to the Union of Power & Gas Employees.

Mr Sin is currently an advocate and solicitor and a director of Drew & Napier LLC, engaging in corporate finance, banking, joint ventures, investment and acquisitions work. Mr. Sin has been with Drew & Napier LLC for the last 12 years, of which he was a partner, and subsequently a director, for the last 9 years. Prior to that, Mr Sin was a lecturer at the Faculty of Law of the National University of Singapore for about 5 years, which he joined just shortly after he was called to the Singapore Bar. Mr Sin is currently also a Member of Parliament, Tampines GRC and the Deputy Chairman of the Government Parliamentary Committee for Community Development and Sports.



DIRECTORS'

profile

The key information regarding the Directors of the Company as at the date of this report in respect of board committees of the Company served on (as a member or chairman) is set out as follows:-

Name of Director	EC	AC	NC	CC
Lim Ming Seong	Chairman		Chairman	Chairman
Tan Mok Koon	Member			Member
Goh Boon Seong	Member		Member	Member
Lee Soo Hoon Phillip		Chairman	Member	
Lim Boh Soon		Member		
Sin Boon Ann		Member		

EC - Executive Committee AC - Audit Committee
 NC - Nominating Committee CC - Compensation Committee

The key information regarding the Directors of the Company as at the date of this report in respect of directorships and chairmanships both present and those held over the preceding three years in listed companies other than the Company is set out as follows:-

Name of Director	Present directorships in listed companies other than the Company	Past directorships over the preceding three years in listed companies other than the Company
Lim Ming Seong	Chartered Semiconductor Manufacturing Ltd - Deputy Chairman ST Assembly Test Services Ltd - Deputy Chairman Radyne Comstream Inc - Chairman	AMR Technologies Inc
Tan Mok Koon	eBworx Berhad	None
Goh Boon Seong	None	None
Lee Soo Hoon Phillip	G K Goh Holdings Limited IPC Corporation Ltd Transview Holdings Limited	None
Lim Boh Soon	Autron Corporation Ltd MyWeb Inc	None
Sin Boon Ann	MFS Technology Ltd Transview Holdings Limited Wizoffice.com Ltd	None

our PEOPLE

Key Management Profile

The key information regarding the key management of the Group as at the date of this report is set out as follows:-

Lim Boon Kheng (Age: 37)

Mr. Lim is the Group Chief Financial Officer of the Company. Mr. Lim holds a Bachelor of Accountancy from the National University of Singapore. He joined the Company as the Group Financial Controller in 1999.

Rick T.L. Lynn (Age: 48)

Mr. Lynn is the President and Chief Executive Officer of W-Industries, Inc., a wholly owned subsidiary company of the Company. Mr. Lynn holds a Bachelor of Science / Electrical Engineering from the University of Southwest Louisiana. He joined W-Industries, Inc. as an Engineering Manager in 1989.

Alan Stubbs (Age: 46)

Mr. Stubbs is the Managing Director of CSE-Servelec Group Limited, a wholly owned subsidiary company of the Company. Mr. Stubbs holds a Bachelor of Technology (Honours) from the University of Bradford. In addition, Mr. Stubbs is also a Chartered Engineer registered with the Engineering Council of the United Kingdoms, member of the Institution of Electrical Engineers of United Kingdoms, and a Freeman of the City of London. He joined CSE-Servelec Group Limited in 1984 as a Software Design Engineer.

Tarek Abdel Tawab Mohamed Abdel Bary (Age : 40)

Mr. Bary is the Managing Director of Transtel Engineering Pte Ltd, a wholly owned subsidiary company of the Company. Mr. Bary holds a Bachelor of Science / Electrical Engineering from the University of Alexandria, a Bachelor of Science / Mathematics from University of Cairo and a Master in Telecommunications from the University of Sheffield. He joined TransTel Engineering Pte Ltd in 1997 as a Director of Projects and Engineering.

Head Count

The total number of employees working in the respective geographical locations as at to date is set out as follows:

Countries	Number of Headcount	Countries	Number of Headcount
Singapore	110	United States	287
Malaysia	25	United Kingdom	120
Thailand	7	Slovakia	75
China	8	Nigeria	1
India	18	Iran	2
Indonesia	3		
TOTAL		656	

our PRESENCE

Registered Office

10 Collyer Quay #19-08
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Singapore 049315
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Fax : 6536 1360

Business Office

19A Serangoon North Ave 5
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Singapore 554859
Tel : 65-6484 1622
Fax : 65-6482 5003

Headquarters

CSE Global Ltd

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Singapore 554859
Tel : 65-6484 1622
Fax : 65-6482 5003

Asia

CSE Systems & Engineering (India) Pvt Ltd

No. 44/3, 1st Floor, Fairfield Layout,
Race Course Road
Bangalore – 560 001, India
Tel : 91-80-226 4113/7
Fax : 91-80-226 4118

CSE Systems & Engineering (Thailand) Limited

283/83 Homeplace Office Building
16th Floor, Soi Sukhumvit 55
(Thonglor 13) Sukhumvit Road,
Klongton Nur, Wattana,
Bangkok 10110, Thailand
Tel : 66-2-712 7331/3
Fax : 66-2-712 7334

TransTel Engineering (Tianjin) Co., Ltd

Beijing Huiyuan Apartment
No. 8 North Star East Road,
Andingmen Wai
Room 428, Building R
Beijing 100101, China
Tel : 86-10-6499 2990
Fax : 86-10-6492 3501

CSE Technology (Beijing) Co. Ltd.

Suite B409 Great Wall
Computer Building
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Beijing 100083, China
Tel : 86-10-8201 4593/4594/8201
Fax : 86-10-8201 4600

Shanghai Representative Office

1505 Tomson Commercial Building
710 Dongfang Road
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Tel : 86- 21-5831 3335
Fax : 86- 21-5831 3059

CSE-OIS Pte Ltd

19A Serangoon North Ave 5
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Tel : 65-6484 1622
Fax : 65-6482 5003

CSE-Infotech Limited

19A Serangoon North Ave 5
Level 3 Avi-Tech Building
Singapore 554859
Tel : 65-6484 1622
Fax : 65-6482 5003

CSE-ITS Pte Ltd

19A Serangoon North Ave 5
Level 3 Avi-Tech Building
Singapore 554859
Tel : 65-6484 1622
Fax : 65-6482 5003

CSE-Myers Pte Ltd

19A Serangoon North Ave 5
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Singapore 554859
Tel : 65-6484 1622
Fax : 65-6482 5003

PI-CSE Systems & Engineering (Malaysia) Sdn. Bhd.

Suite 3.02, 3rd Floor, Wisma Bka,
Lot 10, Jalan Astaka U8/84
Bukit Jelutong Business
& Technology Centre
40150 Shah Alam,
Selangor Darul Ehsan, Malaysia
Tel : 603-7846 8580
Fax : 603-7846 9580

eBworx Berhad

Suite 12.02, 7th Floor,
Menara Merais, No. 1,
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Suite 12.02, 7th Floor,
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Malaysia
Tel : 603-7956 9822
Fax : 603-7957 2661

eBworx International Pte Ltd

19A Serangoon North Ave 5
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Singapore 554859
Tel : 65-6484 1622
Fax : 65-6482 5003

Solutions Exchange, Inc.

Unit 2601, 26th Floor,
88 Corporate Centre, Sedenon Street,
Corner Valero, Salcedo Village,
Makati City, Philippines
Tel : 63-2-889 6312
Fax : 63-2-889 6319

I-Magination Solution Pte Ltd

19A Serangoon North Ave 5
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Singapore 554859
Tel : 65-6484 1622
Fax : 65-6482 5003

TransTel Engineering Pte Ltd

1 Jalan Kilang
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Singapore 159402
Tel : 65-6276 7600
Fax : 65-6276 7800

PT TransTel Engineering

Gedung Artha Graga Building
21st Floor,
Sudirman Central Business
District Lot 25,
Jalan Jend. Sudirman Kav. 52-53
Jakarta 12190, Indonesia
Tel : 62-21-5289 8671
Fax : 62-21-5289 8675

Africa**TransTel Engineering Nigeria Ltd**

45 Okporo Road (Molit Plaza)
1st Artillery Junction, Rumuogba
Port Hartcourt Rivers State, Nigeria
Tel : 23-480 3470 5503
Fax : 23-484 6110 35

Middle East**CSE-Servelec Middle East Office**

PO Box 61042
Jebel Ali Free Zone
Jebel Ali
Dubai
UAE
Tel : (+9714) 881 9262

TransTel Engineering (Iran) Ltd

Suite 13, No. 32 Bucharest Avenue
Argentina Square, Tehran 15137
Iran
Tel : 98-21 222 2361
Fax : 98-21 227 7375

Europe**CSE-Servelec Group Limited**

Rotherside Road, Eckington
Sheffield S21 4HL
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Tel : 44-1246 433 981
Fax : 44-1246 435 018 / 432 365

CSE-Servelec Limited

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CSE-Seprol Limited

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United Kingdom
Tel : 44-1246 433 981
Fax : 44-1246 435 018 / 432 365

TransTel Europe Ltd

Stax House
37 Bromley Road
Seaford BN25 3ES
United Kingdom
Tel : 60-3 7846 8580
Fax : 60-3 7846 9580

TTC s.r.o.,

Piaristická 2
949 01 Nitra, Slovakia
Tel : 421- 37 / 7412 502
Fax : 421- 37 / 7410 021

TTC Branch in Bratislava

Bajkalská 17
821 02 Bratislava
Slovakia
Tel : 421 / 2 / 4444 2536
Fax : 421 / 2 / 4444 2537

TTC Branch in Košice

Trieda SNP 48
04001 Košice
Tel : 421 / 55 / 7898702
Fax : 421 / 55 / 7898703

our PRESENCE

TTC Branch in Praha

Nouzovské náměstí 936/11
197 00 Praha – Kbely
Tel : 420 / 2 / 8685 6504
Fax : 420 / 2 / 8685 6504

United States

CSE Systems & Engineering (America) Inc.

11500 Charles Street
Houston, Texas 77041, USA
Tel : 1-713 466 9463
Fax : 1-713 466 7205

W-Industries, Inc.

11500 Charles Street
Houston, Texas 77041
USA
Tel : 1-713 466 9463
Fax : 1-713 466 7205

W-Industries Mexico

E. Zapata No. 7
Col. Fco. I. Madero
Cd. del Carmen
Camp., C.P. 24190
Mexico
Tel : 938-382 5407
Fax : 938-384 1796

W-Industries - Louisiana

• **Lafayette**
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Lafayette, LA 70508
Tel : 1-337 233 4537
Fax : 1-337 233 6452

• **New Orleans**

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Tel : 1-504 733 9888
Fax : 1-504 736 0502

• **Lake Charles**

2304 East Burton St.
Sulphur, LA 70663
Tel : 1-337 625 4537
Fax : 1-337 625 6452

• **Lafayette**

7616 Johnston St.
Maurice
Louisiana 70555
United States of America
Tel : 1-337 993 7425
Fax : 1-337 993 7427

REPORT ON CORPORATE GOVERNANCE

The Board of Directors is committed to maintaining a high standard of corporate governance within the Group. Good corporate governance establishes and maintains a legal and ethical environment in the Group which strives to preserve the interests of all stakeholders and to promote investors' confidence in the Group. The Company has adopted practices based on the Code of Corporate Governance (the "Code") issued by the Corporate Governance Committee on 21 March 2001 and the Best Practices Guide as issued by the Singapore Exchange Securities Trading Limited.

The Company believes that it is substantially in compliance with the Code. This Report describes the Company's corporate governance processes with reference to the Code.

1. THE BOARD'S CONDUCT OF ITS AFFAIRS

The Board meets regularly with at least 4 Board meetings within each financial year commencing from the financial year 2002, and also as warranted by particular circumstances, as deemed appropriate by the Board. The Company has provided for telephonic and videoconference meetings in its Articles of Association. The details of the number of Board meetings held during the financial year, as well as the attendance of every Board member at those meetings and meetings of the specialised Committees established by the Board, are set out in the following table :

Name of Director	Board of Directors Meetings		Executive Committee Meetings		Audit Committee Meetings		Nominating Committee Meetings		Compensation Committee Meetings	
	No. of meetings held	No. of meetings attended	No. of meetings held	No. of meetings attended	No. of meetings held	No. of meetings attended	No. of meetings held	No. of meetings attended	No. of meetings held	No. of meetings attended
Lim Ming Seong	4	4	4	4	-	-	1	1	1	1
Tan Mok Koon	4	4	4	4	-	-	-	-	1	1
Goh Boon Seong	4	4	4	4	-	-	1	1	1	1
Lee Soo Hoon Phillip	4	4	-	-	4	4	1	1	-	-
Lim Boh Soon	4	3	-	-	4	4	-	-	-	-
Sin Boon Ann	4	4	-	-	4	4	-	-	-	-

The Company has adopted internal guidelines setting forth matters that require board approval. In that aspect, the Board has delegated to the management of the Company the authority to approve transactions in the ordinary course of business as specified in the following table. Any transactions falling outside the scope as specified in the following table have then to be approved by the Board :

Nature of transactions	Quantum of transactions
Capital expenditure	Any amount more than \$250,000.00
Mergers, acquisitions and divestments	Any amount

The Company has in place general orientation-training programmes to ensure that every newly appointed and incoming Director of the Company is familiar with the Group's structure, the Group's business and its operations and the Company's governance practices. Every newly appointed and incoming Director of the Company is expected to undergo orientation with the Company which includes meeting with the Chairman, the Managing Director and the Group Chief Financial Officer as part of the training in the affairs of the business. The Company relies on the Directors to undergo further relevant training if necessary to update themselves on the relevant new laws, regulations and changing commercial risks, from time to time.

REPORT ON CORPORATE GOVERNANCE

2. BOARD COMPOSITION AND BALANCE

The members of the Board of Directors at the date of this report comprise the following Directors :-

Non-executive / Independent Directors :

Lim Ming Seong - Chairman

Goh Boon Seong

Lee Soo Hoon Phillip

Lim Boh Soon

Sin Boon Ann

Executive Director :

Tan Mok Koon - Managing Director

The Board currently comprises 6 Directors, and 1 of whom, being Tan Mok Koon, holds an executive position with the Company and is as such an Executive Director of the Company. The remaining 5 Directors are Non-executive Directors of the Company who are also independent of the management of the Company pursuant to the stipulations under Guidance Note 2 of the Code. All of the Non-executive Directors are therefore considered to be independent by the Board on a collective basis and they have no relationships with the Company, its related companies or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the Directors' independent business judgment.

The Board's principal function is to oversee the business affairs of the Group. This includes the approval of the Group's strategic plans, key business initiatives, financial objectives, major investments and funding decisions, the review of the Group's financial performance, the evaluation of the performance of the Group and the issuance of policies. These functions are carried out by the Board directly or through committees of the Board which have been set up to support its work.

The Articles of Association of the Company does not impose any limits on the number of Directors the Company may appoint, subject to a minimum of two. The Board has examined its size to determine the impact of the number upon effectiveness and is of the view that the current Board size of 6 Directors is appropriate and facilitates effective decision-making, after taking into account the scope and nature of the operations of the Group.

In addition, the current Board also comprises Directors who as a group provide core competencies, such as accounting or finance, business or management experience, industry knowledge, strategic planning experience and customer-based experience and knowledge that are necessary and critical to meet the Company's objectives. Key information regarding the Directors of the Company in respect of academic and professional qualifications is set out in the Annual Report under Directors' Profile.

REPORT ON CORPORATE GOVERNANCE

3. CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Company has a separate Chairman and Managing Director, who is also the Chief Executive Officer of the Company, to ensure that there is an appropriate balance of power, increased accountability and greater capacity of the Board for independent decision making. In addition, the Chairman and the Managing Director are not related to each other.

The Chairman is a Non-executive Director who is independent of the management of the Company and his responsibilities pertaining to the Board includes :

- a) scheduling meetings that enable the Board to perform its duties responsibly while not interfering with the flow of the Company's operations;
- b) preparing meeting agenda in consultation with the Managing Director;
- c) exercising control over quality, quantity and timeliness of the flow of information between the management and the Board; and
- d) assisting in ensuring compliance with Company's guidelines on corporate governance.

The Chairman's responsibilities pertaining to the Board also includes those other duties as required in his capacity as a member of the Executive Committee, Nominating Committee and Compensation Committee, as well as a director of W-Industries, Inc and CSE-Servelec Group Limited, both of which are wholly owned subsidiary companies of the Company.

4. BOARD MEMBERSHIP

The Board established the Nominating Committee on 13 November 2002. The Nominating Committee comprises three members, all of whom are Non-executive Directors and are independent of the management of the Company pursuant to the stipulations under Guidance Note 2 of the Code. All of the Non-executive Directors are therefore considered to be independent by the Board on a collective basis and they have no relationships with the Company, its related companies or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the Directors' independent business judgment.

The members of the Nominating Committee at the date of this report comprise the following Directors :-

Non-executive / Independent Directors :

Lim Ming Seong - Chairman
Goh Boon Seong
Lee Soo Hoon Phillip

The Nominating Committee holds at least 1 Nominating Committee meeting within each financial year, and also as warranted by particular circumstances, as deemed appropriate by the Nominating Committee.

The Nominating Committee has formulated and adopted written terms of reference that describes the responsibilities of its members. The primary function of the Nominating Committee is to provide assistance to the Board in selecting suitable Directors and making recommendations on all appointments and re-elections of Directors to the Board.

REPORT ON CORPORATE GOVERNANCE

4. BOARD MEMBERSHIP (CONT'D)

The responsibilities of the Nominating Committee include :-

- (i) taking into account the scope and nature of the operations of the Group to determine the appropriate size of the Board;
- (ii) re-nominating of Directors, having regard to the Director's contribution and performance, including, if applicable, as an independent Director;
- (iii) ensuring that the Board comprises Directors who as a group provide competencies such as accounting or finance, business or management experience, industry knowledge and strategic planning experience; and
- (iv) evaluating the Board's performance as a whole as well as each Director's contribution.

The Articles of Association of the Company provides for all Directors of the Company, except for the Managing Director of the Company, to retire by rotation at least once every three years, and after which these Directors, being eligible for re-election, are required to submit themselves for re-election at the Annual General Meeting.

The Nominating Committee has assessed the independence of the Non-executive Directors pursuant to the stipulations under Guidance Note 2 of the Code, and is satisfied that there are no relationships which would deem any of the Non-executive Directors not to be independent.

The Nominating Committee has formulated internal guidelines to address the conflict of competing time commitments that are faced by the Directors when the said Directors have multiple board representations. If a Director is on the Board of the other companies, the Nominating Committee shall consider whether adequate time and attention have been devoted to the Company. In the event that there is sufficient grounds for compliant, the Chairman of the Board shall discuss, and if necessary, warn the Director of the issues and in any continuance, the consequences flowing from the situation.

Key information regarding the Directors of the Company in respect of academic and professional qualifications, board committees served on (as a member or chairman), date of first appointment as a Director of the Company, date of last re-election as a Director of the Company, directorships and chairmanship both present and those held over the preceding three years in other listed companies and other major appointments is set out in the Annual Report under Directors' Profile. Key information regarding the Directors of the Company in respect of shareholding in the Company and its subsidiary companies are disclosed in the Report of the Directors under Directors' interests in shares and debentures and share options.

The members of the Board of Directors at the date of this report comprise the following Directors :-

Non-executive / Independent Directors :

Lim Ming Seong - Chairman
Goh Boon Seong
Lee Soo Hoon Phillip
Lim Boh Soon
Sin Boon Ann

Executive Director :

Tan Mok Koon - Managing Director

REPORT ON CORPORATE GOVERNANCE

4. BOARD MEMBERSHIP (CONT'D)

The Board currently comprises 6 Directors, and 1 of whom, being Tan Mok Koon, holds an executive position with the Company and is as such an Executive Director of the Company. The remaining 5 Directors are Non-executive Directors of the Company who are also independent of the management of the Company pursuant to the stipulations under Guidance Note 2 of the Code. All of the Non-executive Directors are therefore considered to be independent by the Board on a collective basis and they have no relationships with the Company, its related companies or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the Directors' independent business judgment.

The names of the Directors who are retiring pursuant Articles of Association of the Company and have submitted themselves for re-election are as follows :

Non-executive / Independent Directors :

Mr Lim Ming Seong (Pursuant Article 95(2) of the Articles of Association)
Mr Goh Boon Seong (Pursuant Article 95(2) of the Articles of Association)

Key information regarding the above mentioned Directors of the Company in respect of academic and professional qualifications, board committees served on (as a member or chairman), date of first appointment as a Director of the Company, date of last re-election as a Director of the Company, directorships and chairmanship both present and those held over the preceding three years in other listed companies and other major appointments is set out in the Annual Report under Directors' Profile. Key information regarding the above mentioned Directors of the Company in respect of shareholding in the Company and its subsidiary companies are disclosed in the Report of the Directors under Directors' interests in shares and debentures and Share options.

5. BOARD PERFORMANCE

The Nominating Committee has evaluated all of the Directors, each of the Committees and the Board taken as a whole. In evaluating the performance of the Directors, the Nominating Committee shall take into account, amongst other factors, the Directors' qualification by knowledge and experience to fulfill its duties, attendance and participation at the Board and each of its Committee meetings where applicable, quality of interventions or differences of opinion expressed and any other special contributions. The Nominating Committee shall also consider whether the Directors have reasonable understanding of the Company's business and the industry, and the Directors' working relationship with the other members of the Board. In addition to the above mentioned qualitative performance criteria, the Nominating Committee shall also use, amongst others, quantitative performance criteria like return on assets, return on equity, return on investment, economic value added and profitability on capital employed as a general measure to determine the relative performance and effectiveness of the Board. These performance criteria shall not change from year to year, and where circumstances deem it necessary for any of the criteria to be changed, the Nominating Committee and the Board shall justify its decision for the change.

As the Nominating Committee will be measuring the Board's stewardship of the Company based principally on qualitative criteria, it is therefore not easy to show a direct correlation between the Board's actions taken as a whole and the Company's long term performance. Therefore, the Nominating Committee will not attempt to specifically quantify the Board's contribution to enhancing long term shareholders' value, for instance, by measuring it against the Company's share price performance over a five-year period vis-à-vis the Singapore Straits Times Index. As such, the Company's share price performance will not be used as a performance evaluation criterion of the Board. In addition, there are also no specific benchmark indices of industry peers for comparison in respect of such quantitative performance criteria. In the absence of any appropriate and relevant benchmark indices, the benchmark indices of industry peers will also not used as a performance evaluation criterion of the Board.

REPORT ON CORPORATE GOVERNANCE

6. ACCESS TO INFORMATION

The management of the Company has an ongoing obligation to supply the Board with complete, adequate information in a timely manner. In addition, the Board has separate and independent access to the Company's management in respect of obtaining those information, as reliance purely on what is volunteered by the management of the Company may not be adequate in certain circumstances and further enquiries may be required for the Board to fulfill its duties properly.

The information that is provided by the management of the Company to the Board includes background or explanatory information relating to matters to be brought before the Board, copies of disclosure documents, budgets, forecasts and internal financial statements. In addition, in respect of budgets, any material variances between the projections and actual results are also disclosed and explained.

The Directors also have separate and independent access to the company secretary. In addition, the role of the company secretary is also clearly defined and includes the responsibility for ensuring that the Board procedures are followed and that applicable rules and regulations are complied with. The company secretary attends all Board meetings and Audit Committee meetings.

In addition to the above, the Board also has procedures for Directors, either individually or as a group, in the furtherance of their duties, to take independent professional advice, if necessary, at the Company's expense.

7. PROCEDURES FOR DEVELOPING REMUNERATION POLICIES

No individual Director of the Company fixes his own remuneration.

The Board established the Compensation Committee, whose functions are equivalent to the Remuneration Committee as stipulated under Guidance Note 7, on 13 November 2002.

The Compensation Committee comprises three members, two of whom are Non-executive Directors and are independent of the management of the Company pursuant to the stipulations under Guidance Note 2 of the Code. The two Non-executive Directors, being Lim Ming Seong and Goh Boon Seong, are therefore considered to be independent by the Board on a collective basis and they have no relationships with the Company, its related companies or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the Directors' independent business judgment.

In addition, the Compensation Committee is also chaired by an independent Non-executive Director, being Lim Ming Seong, who is knowledgeable in the field of executive compensation. In addition, the Compensation Committee also has access to the relevant expert advice inside the Company.

Key information regarding the above mentioned Directors of the Company in respect of academic and professional qualifications is set out in the Annual Report under Directors' Profile.

The members of the Compensation Committee at the date of this report comprise the following Directors :-

Non-executive / Independent Directors :

Lim Ming Seong - Chairman
Goh Boon Seong

Executive Director :

Tan Mok Koon - Managing Director

REPORT ON CORPORATE GOVERNANCE

7. PROCEDURES FOR DEVELOPING REMUNERATION POLICIES (CONT'D)

The Compensation Committee holds at least 1 meeting within each financial year, and also as warranted by particular circumstances, as deemed appropriate by the Compensation Committee.

Prior to the formation of the Compensation Committee, the functions which were required to be carried out by a Compensation Committee, except for the administration of the CSE Systems & Engineering Executives' Share Option Scheme ("CSE ESOS") and the CSE (US Subsidiaries) Incentive Share Option Scheme ("US Plan"), were essentially performed by the Executive Committee. These functions include the establishment of compensation for senior management of the Group other than the Executive Director. The function of administration of the CSE ESOS and the US Plan were previously undertaken by the CSE ESOS Committee and the US Plan Committee respectively. All of the above mentioned responsibilities have been taken over by the Compensation Committee with effect from its formation on 13 November 2002.

The primary function of the Compensation Committee shall be to provide assistance to the Board in respect of compensation issues generally, and in particular, in relation to Non-executive Directors and the key management of the Group, bearing in mind that a meaningful portion of the Non-executive Directors' remuneration as well as the remuneration of the key management of the Group, shall be contingent upon the financial performance in order to foster the creation of long term shareholder value. The Compensation Committee shall cover all aspects of remuneration, including but not limited to Non-executive Directors' fees. The Compensation Committee's recommendations to the Board shall be made in consultation with the Chairman of the Compensation Committee, which is also the Chairman of the Board, and shall be submitted for the endorsement by the entire Board.

The Board as a whole shall cover all aspects of remuneration of the Executive Directors, the only one of whom currently is the Managing Director of the Company, including but not limited to Executive Directors' fees, salaries, allowances, bonuses, and benefits in kind, bearing in mind that a meaningful portion of the Executive Directors' remuneration shall be contingent upon the financial performance in order to foster the creation of long term shareholder value.

The responsibilities of the Compensation Committee shall include :-

- (i) recommending to the Board the framework of remuneration for the Non-executive Directors and the key management of the Group;
- (ii) determining and setting the specific remuneration packages for each of the Non-executive Directors and the key management of the Group;
- (iii) selecting eligible employees of the Group to participate in the CSE ESOS and determining the number of shares options and the relevant subscription prices to be offered to the participants subject to the terms of the CSE ESOS; and
- (iv) selecting eligible employees of the Group to participate in the US Plan and determining the number of shares options and the relevant subscription prices to be offered to the participants subject to the terms of the US Plan.

REPORT ON CORPORATE GOVERNANCE

8. LEVEL AND MIX OF REMUNERATION

In the setting of the remuneration packages, the Compensation Committee shall be taking into consideration the pay and employment conditions within the industry the Group operates as well as companies within the same business segments as there are no exactly comparable companies. In addition, the Compensation Committee shall also be taking into account the Group's relative performance and the performance of individual Directors and the key management of the Group when setting the remuneration packages.

Currently, the Managing Director is the only Executive Director of the Company. The compensation of the Managing Director comprises performance-related elements which form a significant proportion of his total remuneration package. These performance-related elements are designed to align the interests of the Managing Director with those of the shareholders such that the Managing Director's rewards are linked to the performance of the Group as well as his individual performance. There are appropriate and meaningful measures for the purpose of assessing the Managing Director's performance.

The remuneration of Non-executive Directors are determined based on the level of contribution by the respective Non-executive Directors, taking into account factors such as effort and time spent, and responsibilities of the Non-executive Directors. The Compensation Committee has assessed if the Non-executive Directors are not over-compensated to the extent that their independence is compromised or that it is not necessary to consult experts on the remuneration of Non-executive Directors, and is satisfied that the Non-executive Directors are not over-compensated to the extent that their independence is compromised and that it is not necessary to consult experts on the remuneration of Non-executive Directors.

The Board will be recommending the fees of the Non-executive Directors for approval at the Annual General Meeting.

There are no existing service contracts between the Company and the Executive Director.

The Company does not have any other existing long-term incentive schemes other than the CSE ESOS and the US Plan. The details of these share option schemes are set out in the Report of the Directors under Share Options.

For the CSE ESOS, only Directors and full time employees of the Group who have attained the age of twenty one (21) years are eligible to participate in the CSE ESOS subsequent to 9 October 2001. For all the options that were granted under CSE ESOS prior to 9 October 2001, the options may be exercised within a period commencing after the third anniversary of the date of grant and expiring on the fifth anniversary of the date of grant. For all the options that were granted under CSE ESOS subsequent to 9 October 2001, those options may be exercised within a period commencing after the second anniversary of the date of grant and expiring on the fifth anniversary of the date of grant. The granting of share options under the CSE ESOS is covered by the Compensation Committee. Lim Ming Seong and Tan Mok Koon, both members of the Compensation Committee, have opted not to participate in the CSE ESOS.

For the US Plan, only full time employees of the subsidiary companies of the Group incorporated in any state of the United States of America who have attained the age of twenty one (21) years are eligible to participate in the US Plan, except for the employees who were already holding options that are granted under the CSE ESOS at the time the US Plan was adopted by the Company. The options granted under the US Plan may be exercised within a period commencing after the second anniversary of the date of grant and expiring on the fifth anniversary of the date of grant. The granting of share options under the US Plan is covered by the Compensation Committee. Lim Ming Seong and Tan Mok Koon, both members of the Compensation Committee, have opted not to participate in the US Plan.

REPORT ON CORPORATE GOVERNANCE

9. DISCLOSURE ON REMUNERATION

The Group's remuneration policy is to be competitive within its industry and to offer fair and reasonable remuneration packages commensurate with competence, level of responsibility, performance and contributions to the Group. Based on this broad principle, the Compensation Committee shall have the responsibility and discretion to recommend remuneration packages for all of the Non-executive Directors and key management of the Group, and the Managing Director has the responsibility and discretion to determine remuneration packages of all other employees who are non-key management of the Group. The Board as a whole shall have the responsibility and discretion to recommend remuneration package for the Managing Director of the Company.

The Company adopts an incentive compensation plan based on profits. Under the term of the plan, incentive compensation for eligible employees is tied to the creation of profits. The purpose of the incentive plan is to use incentive compensation to motivate performance which is consistent with the creation of shareholder value over the long term. A variable bonus is only declared if the Group earns more than its profit target. The plan thus makes participants accountable for the earnings which the Group generates.

The disclosure of details in respect of remuneration of the Directors of the Company is set out in the following table :

Name	Total remuneration (\$'000)	Fees (%)	Salary & Bonus (%)	Provident fund contributions (%)	Other benefits (%)	Total (%)	Share options # ('000)
For total remuneration of more than \$250,000:							
Tan Mok Koon	929	0	95	3	2	100	-
For total remuneration of less than or equal to \$250,000:							
Lim Ming Seong	48	100	0	0	0	100	-
Goh Boon Seong	28	100	0	0	0	100	60
Lee Soo Hoon Phillip	46	100	0	0	0	100	60
Lim Boh Soon	34	100	0	0	0	100	60
Sin Boon Ann	36	100	0	0	0	100	60

- Share options granted on 31.12.2003 exercisable at a price of not less than \$0.5184 but not more than \$0.6480 each in ordinary shares of \$0.05 fully paid exercisable from 31.12.2005 to 31.12.2008

The disclosure of details in respect of remuneration of the top 5 executive officers of the Group who are not Directors of the Company is set out in the following table :

Name	Total remuneration (\$'000)	Fees (%)	Salary & Bonus (%)	Provident fund contributions (%)	Other benefits (%)	Total (%)	Share options # ('000)
For total remuneration of more than \$500,000:							
Executive A	605	0	100	0	0	100	1,000
For total remuneration of more than \$250,000 but less than or equal to \$500,000:							
Executive B	471	0	84	13	3	100	1,000
Executive C	401	0	100	0	0	100	150
Executive D	401	0	100	0	0	100	150
Executive E	377	0	100	0	0	100	150

- Share options granted on 31.12.2003 exercisable at a price of not less than \$0.5184 but not more than \$0.6480 each in ordinary shares of \$0.05 fully paid exercisable from 31.12.2005 to 31.12.2008

REPORT ON CORPORATE GOVERNANCE

9. DISCLOSURE ON REMUNERATION (CONT'D)

Details of the share options that are granted to the Directors of the Company and the employees of the Group are set out in the Report of the Directors under Share options.

The members of the Compensation Committee as at the date of this report comprise the following Directors :-

Non-executive / Independent Directors :

Lim Ming Seong - Chairman

Goh Boon Seong

Executive Director :

Tan Mok Koon - Managing Director

There are currently no employees who are immediate family members of a Director or the Managing Director.

The Board is of the view that it is not necessary to present the remuneration policy at the Annual General Meeting for the shareholders' approval.

10. ACCOUNTABILITY

The Board adopted and commenced quarterly reporting of the Group's operating and financial performance via MASNET with effect from 1 January 2002 in an effort to provide the shareholders of the Company with a balanced and understandable assessment of the Group's performance, position and prospects on a quarterly basis.

The management of the Company provides the Managing Director with balanced and understandable management accounts of the Group's performance, position and prospects on a monthly basis. The Chairman of the Board is also briefed on the Group's performance, position and prospects on a monthly basis during the monthly management meetings. The Board is briefed on the Group's performance, position and prospects on a quarterly basis during the Board meetings, and also as warranted by particular circumstances as deemed appropriate.

11. AUDIT COMMITTEE

To ensure that corporate governance is effectively practiced, the Directors have established self-regulatory and monitoring mechanisms, including the establishment of the Audit Committee.

The Audit Committee comprises three members, all of whom are Non-executive Directors and are independent of the management of the Company pursuant to the stipulations under Guidance Note 2 of the Code. All of the Non-executive Directors are therefore considered to be independent by the Board on a collective basis and they have no relationships with the Company, its related companies or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the Directors' independent business judgment.

The members of the Audit Committee at the date of this report comprise the following Directors :

Non-executive / Independent Directors :

Lee Soo Hoon Phillip - Chairman

Lim Boh Soon

Sin Boon Ann

The Audit Committee meets regularly with at least 4 Audit Committee meetings within each financial year, and also as warranted by particular circumstances, as deemed appropriate by the Audit Committee.

The Board is satisfied that all the members of the Audit Committee are appropriately qualified to discharge their responsibilities. Two members of the Audit Committee, being Lee Soo Hoon Phillip and Lim Boh Soon, have accounting or related financial management expertise or experience, as the Board interprets such qualification in its business judgment. Key information regarding the abovementioned Directors of the Company in respect of academic and professional qualifications is set out in the Annual Report under Directors' Profile.

REPORT ON CORPORATE GOVERNANCE

11. AUDIT COMMITTEE (CONT'D)

The Audit Committee has full access to the external auditors and the internal auditor without the presence of the management of the Company. The Audit Committee has explicit authority to investigate any matter within its terms of reference, full access to and co-operation by the management of the Company and full discretion to invite any Director or management of the Company to attend its meetings, and has reasonable resources to enable it to discharge its functions properly.

The primary function of the Audit Committee is to provide assistance to the Board in fulfilling its responsibility relating to corporate accounting and auditing, reporting practices of the Company, the quality and integrity of the financial reports of the Company, and the Company's internal control systems regarding finance, accounting, legal and regulatory compliance, contractual obligations and ethics established by the Board and the management of the Company.

The responsibilities of the Audit Committee include:

- (i) recommending the appointment or discharge of the external auditors (subject to shareholders' approval) and in this connection, considering the independence and objectivity of the external auditors annually;
- (ii) keeping under review the scope and results of the audit and its cost effectiveness, keeping the nature and extent of non-audit services supplied by the external auditors under review where the external auditors also supply a substantial volume of such services to the company, with the objective of balancing the maintenance of objectivity and value for money;
- (iv) considering and reviewing with the external auditors and the internal auditor, at least annually, the adequacy, effectiveness and efficiency of the management processes, internal financial systems and operating controls, and any significant findings and recommendations of the external auditors and the internal auditor, together with the management's responses thereto; and
- (vi) meeting with the external auditors, the internal auditor, the management and any others considered appropriate in separate executive sessions to discuss any matters the Audit Committee believes should be discussed privately and establishing a practice to meet with the external auditors without the presence of the management of the Company at least annually.

The Audit Committee has met with the external auditors and the internal auditor without the presence of the Company's management at least annually.

The Audit Committee has reviewed the independence of the external auditors annually. In particular, the Audit Committee has undertaken a review of all non-audit services that are provided by the external auditors and is satisfied that the provision of such services has not affected the independence of the external auditors. The fees that are charged to the Group by the external auditors for non-audit services are disclosed in the following:

	2003 \$'000	2002 \$'000
Tax Services – EY Singapore	49	50
Tax Services – Other EY Offices	52	22
Other Services: - Certification Services - IPO Related Services - Due Diligence Services - Resource Assistance	146	199
Total non-audit fees	247	271

The activities of the Audit Committee are set out in the Report of the Directors under Audit Committee. The number of Committee meetings held during the financial year and the attendance of the individual member of the Audit Committee at such meetings is set out in the Report on Corporate Governance under The Board's Conduct of its Affairs.

REPORT ON CORPORATE GOVERNANCE

12. INTERNAL CONTROLS

Both the external auditors and the internal auditor have conducted independent reviews of the effectiveness of the Company's material internal controls, including financial, operational and compliance controls, and risk management, at least annually. Such reviews have been reported to the Audit Committee.

The Audit Committee is satisfied that there are adequate internal controls in the Company.

13. INTERNAL AUDIT

The Company has established an in-house internal audit function that is independent of the activities that it audits. The internal auditor's primary line of reporting is directly to the Chairman of the Audit Committee. However, the internal auditor also reports administratively to the Managing Director of the Company.

The Audit Committee is satisfied that the internal auditor has met the standards set by nationally or internationally recognised professional bodies including the Standards for the Professional Practice of Internal Auditing set by The Institute of Internal Auditors.

The Audit Committee is satisfied that the internal audit function is adequately resourced and has the appropriate standing within the Company.

The Audit Committee has reviewed the adequacy of the internal audit function at least annually, and is satisfied that the internal audit function is adequate.

14. COMMUNICATION WITH SHAREHOLDERS

The shareholders of the Company have the opportunity to participate effectively and to vote at the Company's Annual General Meeting. They are allowed to vote in person or by proxy if they are unable to attend the Annual General Meeting. The Articles of Association of the Company does not allow for absentia voting methods such as by mail, email, fax, etc. Voting in absentia via the various absentia voting methods may only be possible following careful study to ensure that integrity of the information and the authentication of the identity of the shareholders through the various communication channels are not compromised and following legislative changes being put in place to recognise electronic voting.

There are separate resolutions at the general meetings on each distinct issue.

As part of the Company's effort to provide regular, effective and fair communication with the shareholders of the Company, the Board has adopted and commenced quarterly reporting of the Group's operating and financial performance via MASNET and the press with effect from 1 January 2002. In addition to the above, the Managing Director also conducts a briefing in respect of the Group's operating and financial performance for the financial year just ended to the shareholders of the Company during the Annual General Meeting of the Company.

REPORT ON CORPORATE GOVERNANCE

15. EXECUTIVE COMMITTEE

The members of the Executive Committee at the date of this report comprise the following Directors :-

Non-executive / Independent Directors :

Lim Ming Seong - Chairman
Goh Boon Seong

Executive Director :

Tan Mok Koon - Managing Director

The primary function of the Executive Committee is to provide assistance to the Board in executing and overseeing the business, operational and financial affairs of the Group.

The responsibilities of the Executive Committee include :-

- (i) setting the Group's policy direction and overseeing the strategic development of the Group's operations;
- (ii) reviewing and submitting to the Board for its approval all of the Group's budgets, business plans, reports on financial position, development and strategic plans and financial projections; and
- (iii) executing of all decisions of the Board and other material matters relating to the business of the Group.

16. SECURITIES TRANSACTIONS

The Company has adopted and issued an internal compliance code entitled "Code of Best Practice on Securities Transactions by Officers of the Company" to all employees of the Group. The internal compliance code set out a code of conduct to provide guidance for the officers of the Group on their dealings with the Company's securities, as well as the implications of insider trading. The internal compliance code has adopted the recommendations of the Best Practices Guide as issued by the Singapore Exchange Securities Trading Limited.

17. INTERESTED PERSON TRANSACTIONS

Pursuant to the requirements as stipulated under Rule 1207(16) of Chapter 12 and Rule 907 of Chapter 9 of the SGX-ST Listing Manual as issued by the Singapore Exchange Securities Trading Limited, there were no interested person transactions during the financial year.

18. MATERIAL CONTRACTS

Pursuant to the requirements as stipulated under Rule 1207(8) of Chapter 12 of the SGX-ST Listing Manual as issued by the Singapore Exchange Securities Trading Limited, there were no material contracts of the Company or its subsidiary companies involving the interests of any Directors of the Company, the Managing Director of the Company or any controlling shareholders of the Company or their associates, either still subsisting by the end of the financial year or if not then subsisting, entered into since the end of the previous financial year.

On behalf of the Directors,

Lee Soo Hoon Phillip
Chairman, Audit Committee

Lim Boh Soon
Director

Singapore
15 March 2004

RISK MANAGEMENT POLICIES AND PROCESSES

Pursuant to the requirements as stipulated under Rule 1207(4)(d) of Chapter 12 of the SGX-ST Listing Manual as issued by the Singapore Exchange Securities Trading Limited, the operating and financial risk management policies and processes of the Group are set out in the following.

OPERATING RISK

Management of growth

The Group has experienced rapid growth in the past few financial years in terms of the number of employees, scope of activities, geographical markets and level of technical expertise. This growth has resulted in added responsibilities for the Group's management who are responsible for overseeing the expansion of the Group's operations into new products and geographical markets. Further, in order to meet the demand of its current and future projects, the Group will need to attract, motivate and retain a significant number of highly qualified professionals who have significant relevant industry experiences. As a systems integrator providing highly sophisticated information technology and industrial automation solutions and services locally and overseas, the Group requires qualified professionals who are experienced and possess the relevant skill sets. Given the exacting job specification, the pool of qualified professionals is considerably small. As such, the Group faces keen competition for such pool of qualified professionals. Moreover, due to rapid growth in the global information technology and industrial automation markets, increasing competition for such professionals may also increase the Group's labour costs. To manage and sustain its growth effectively, the Directors must continue to expand its management team by attracting more talent into the Group and to motivate and retain such professionals at a competitive cost, as well as improve its operational efficiency and financial management.

Risks associated with future acquisitions

The Group intends to continue to pursue strategic acquisitions that will provide it with complementary products/services, customer bases, technologies and qualified professionals. Such acquisitions present risks that could potentially have an adverse effect on the Group's operations and earnings, such as diversion of management's attention, failure to retain key acquired personnel, assumption of liabilities, and amortisation of goodwill and intangible assets. Moreover, customer dissatisfaction with, or problems caused by, the performance of any acquired technologies could have an adverse impact on the Group's reputation. In addition, the acquired businesses may not achieve the anticipated returns. The Group will continue to adopt a cautious approach and to exercise due diligence when considering all acquisitions. For example, the Group may impose performance guarantees and other warranties on vendors in all major acquisitions. Key acquired personnel are also expected to enter into service agreements with the Group to retain their expertise for the Group's benefit.

Competition

The Group competes internationally with many firms that are substantially larger and have substantially greater financial, professional and other resources than the Group. The Group's continued success depends on its ability to compete effectively with its competitors as well as to persuade customers to use the Group's products and services instead of those developed in-house by the customers. The Group intends to further develop its niche markets in the energy and petrochemical / chemical, oil and gas and power and process utility industries, as well as the water, drainage, sewerage and environmental (pollution and hydrology) industries, the healthcare industry, the banking and finance industry, and the public sector. The Group intends to achieve this by offering customers with intimate industry specific knowledge and cost-effective solutions. Such a strategy has enabled the Group to enjoy significant growth in recent years as reflected in its turnover and profits.

FINANCIAL RISK

The financial risk management objectives and policies of the Group are set out in the Notes to the Financial Statements in Note 32 under risk management.

financial statements

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DIRECTORS' REPORT AND AUDITED FINANCIAL STATEMENTS

DIRECTORS

Lim Ming Seong - Chairman
Goh Boon Seong
Tan Mok Koon - Managing Director
Lee Soo Hoon Phillip
Lim Boh Soon
Sin Boon Ann

COMPANY SECRETARIES

Yvonne Choo
Tan San-Ju

REGISTERED OFFICE

10 Collyer Quay
#19-08 Ocean Building
Singapore 049315
Tel : 65365355
Fax : 65361360

AUDITORS

Ernst & Young
Engagement Partner in charge (since financial year 2002) - Christopher Wong Mun Yick

BANKERS

Arab Bank plc
Citibank N.A.
Development Bank of Singapore Ltd
Malayan Banking Berhad
RHB Bank Berhad
Standard Chartered Bank
The Hong Kong and Shanghai Banking Corporation Ltd
United Overseas Bank Ltd

SHARE REGISTRAR

Lim Associates (Pte) Ltd
10 Collyer Quay
#19-08 Ocean Building
Singapore 049315

REPORT OF THE DIRECTORS

The Directors are pleased to present their report to the members together with the audited consolidated financial statements of CSE Global Limited (the Company) and its subsidiaries (the Group) for the financial year ended 31 December 2003 and balance sheet of the Company as at 31 December 2003.

DIRECTORS

The Directors of the Company in office at the date of this report are :-

Lim Ming Seong
Goh Boon Seong
Tan Mok Koon
Lee Soo Hoon Phillip
Lim Boh Soon
Sin Boon Ann

ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE SHARES AND DEBENTURES

Except as described in the subsequent paragraphs, neither at the end of nor at any time during the financial year, was the Company a party to any arrangement whose object is to enable the Directors of the Company to acquire benefits by means of the acquisition of shares or debentures of the Company or any other body corporate.

DIRECTORS' INTERESTS IN SHARES AND DEBENTURES

The following Directors of the Company who held office at the end of the financial year had, according to the register of director's shareholdings required to be kept under Section 164 of the Companies Act, Cap. 50, an interest in the shares of the Company, as stated below :-

Name of Director	At 1.1.2003	At 31.12.2003
CSE Global Limited	Ordinary shares of \$0.05 each fully paid	
Tan Mok Koon	33,852,500	34,122,500
Goh Boon Seong	250,000	250,000
Lee Soo Hoon Phillip	-	60,000
Lim Boh Soon	-	180,000

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN SHARES AND DEBENTURES (CONT'D)

Name of Director	At 1.1.2003	At 31.12.2003
CSE Global Limited		
	Share options granted on 30.10.2000 exercisable at a price of \$0.5046 each in ordinary shares of \$0.05 fully paid exercisable from 30.10.2003 to 30.10.2005	
Goh Boon Seong	120,000	120,000
Lee Soo Hoon Phillip	120,000	120,000
Lim Boh Soon	120,000	-
	Share options granted on 30.10.2001 exercisable at a price of \$0.3060 each in ordinary shares of \$0.05 fully paid exercisable from 30.10.2003 to 30.10.2006	
Goh Boon Seong	60,000	60,000
Lee Soo Hoon Phillip	60,000	-
Lim Boh Soon	60,000	-
	Share options granted on 31.10.2002 exercisable at a price of \$0.3072 each in ordinary shares of \$0.05 fully paid exercisable from 31.10.2004 to 31.10.2007	
Goh Boon Seong	60,000	60,000
Lee Soo Hoon Phillip	60,000	60,000
Lim Boh Soon	60,000	60,000
Sin Boon Ann	30,000	30,000
	Share options granted on 31.12.2003 exercisable at a price of not less than \$0.5184 but not more than \$0.6480 each in ordinary shares of \$0.05 fully paid exercisable from 31.12.2005 to 31.12.2008	
Goh Boon Seong	-	60,000
Lee Soo Hoon Phillip	-	60,000
Lim Boh Soon	-	60,000
Sin Boon Ann	-	60,000

The number of shares represents both those shares registered in the Director's name and those shares in which the Director has a beneficial interest.

There was no change in any of the above mentioned interests between the end of the financial year and 21 January 2004.

REPORT OF THE DIRECTORS

DIRECTORS' CONTRACTUAL BENEFITS

Since the end of the previous financial year, no Director of the Company has received or become entitled to receive a benefit by reason of a contract made by the Company or a related corporation with the Director, or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest, except for those that are disclosed in the financial statements.

SHARE OPTIONS

The Company

The Company grants share options to Directors and full time employees of the Company and of the Group pursuant to the following share option schemes :-

- (i) CSE Systems & Engineering Executives' Share Option Scheme ("CSE ESOS") prior to 9 October 2001;
- (ii) CSE Systems & Engineering Executives' Share Option Scheme ("CSE ESOS") subsequent to 9 October 2001; and
- (iii) CSE (US Subsidiaries) Incentive Stock Option Plan ("US Plan")

Details of the share option schemes and the respective share options that are granted as at 31 December 2003 are disclosed in the following :-

(i) CSE Systems & Engineering Executives' Share Option Scheme ("CSE ESOS") prior to 9 October 2001

Under the Company's CSE ESOS prior to 9 October 2001, the share options that are granted as at 31 December 2003 are as follows :-

Date of grant	Balance as at 1.1.2003	Addition	Cancelled	Exercised	Balance as at 31.12.2003	Exercise Price	Exercise Period
1 October 1999	1,200,000	-	(50,000)	-	1,150,000	\$0.7918	1 October 2002 to 1 October 2004
30 October 2000	7,315,000	-	(510,000)	(1,105,000)	5,700,000	\$0.5046	30 October 2003 to 30 October 2005
30 April 2001	200,000	-	-	-	200,000	\$0.4269	30 April 2004 to 30 April 2006
	<u>8,715,000</u>	<u>-</u>	<u>(560,000)</u>	<u>(1,105,000)</u>	<u>7,050,000</u>		

REPORT OF THE DIRECTORS

SHARE OPTIONS (CONT'D)

There are no participants of CSE ESOS prior to 9 October 2001 who are controlling shareholders of the Company or their associates, or who received 5 percent or more of the total number of share options available under the CSE ESOS prior to 9 October 2001. As the Company does not have any parent company, there are therefore no participants of CSE ESOS prior to 9 October 2001 who are directors or employees of the Company's parent company and its subsidiary companies.

The participants of CSE ESOS prior to 9 October 2001 who are Directors of the Company as at 31 December 2003 are disclosed in the following table:

Share options granted on 30.10.2000 exercisable at the price of \$0.5046 each in Ordinary shares of \$0.05 each fully paid exercisable from 30.10.2003 to 30.10.2005				
Name of participant in respect of CSE ESOS prior to 9 October 2001	Options granted during the financial year under review	Aggregate options granted since commencement of scheme to end of financial year under review	Aggregate options exercised since commencement of scheme to end of financial year under review	Aggregate options outstanding as at end of financial year under review
Goh Boon Seong	-	120,000	-	120,000
Lee Soo Hoon Phillip	-	120,000	-	120,000
Lim Boh Soon	-	120,000	120,000	-

The terms of the share options granted under the CSE ESOS prior to 9 October 2001 to the Directors of the Company are the same as those granted to the employees of the Group and they are disclosed below.

Only Directors and full time employees of the Group who have attained the age of twenty one (21) years are eligible to participate in the CSE ESOS prior to 9 October 2001. Each option entitles the participant to subscribe for a number of new ordinary shares of \$0.05 each in the Company pre-determined at the date of grant. The options are granted in consideration of \$1.00 per option for all the shares in respect of which the option is granted. The shares under option may be exercised in full or in blocks of 1,000 shares or a multiple thereof on the payment of the exercise price. The participants to whom the options have been granted do not have the right to participate by virtue of the options in a share issue of any other company. Options granted are cancelled when the participant ceases to be a full-time employee of the Company or any corporation in the Group subject to certain exceptions at the discretion of the Company. The exercise of the options is also subjected to the satisfactory performance of the participant's duties.

For all the options that are granted under CSE ESOS prior to 9 October 2001, the options may be exercised within a period commencing after the third anniversary of the date of grant and expiring on the fifth anniversary of the date of grant.

For all the options that are granted under CSE ESOS prior to 9 October 2001, the subscription price at which a participant subscribes for new ordinary shares of \$0.05 each of the Company upon the exercise of the option granted shall be at a discount of between zero (0) percent and forty (40) per cent (as determined in accordance with the Formula as set out below) of the average of the last dealt prices for an ordinary share of \$0.05 each of the Company, as determined by reference to the daily Official List published by the Singapore Exchange Securities Trading Limited, for the five (5) consecutive trading days immediately preceding the date of grant of the option, or the nominal value of the ordinary shares of \$0.05 each of the Company, whichever is higher.

REPORT OF THE DIRECTORS

SHARE OPTIONS (CONT'D)

The Formula for the determination of the discount is given as follows :-

$$\text{Discount} = \frac{\text{Average Profit} - 0.6 \text{ (Base Figure)}}{1.456 \text{ (Base Figure)} - 0.6 \text{ (Base Figure)}} \times 40\%$$

whereby:

the Base Figure represents the higher of the audited profit before tax and extraordinary items of the CSE Group of the financial year immediately preceding the financial year in which the date of grant falls, or ten (10) percent of the audited sales revenue of the Group for the financial year immediately preceding the financial year in which the date of grant falls; and

the Average Profit represents the average audited profit before tax and extraordinary items of the Group for three (3) consecutive financial years beginning from the financial year in which the date of grant falls; and

In the event that the Average Profit is more than or equal to 1.456 times of the higher of:-

- audited profit before tax and extraordinary items of the CSE Group of the financial year immediately preceding the financial year in which the date of grant falls; and
- ten (10) percent of the audited sales revenue of the Group for the financial year immediately preceding the financial year in which the date of grant falls;

the subscription price shall be calculated to be the result after a discount of forty (40) per cent.

No discount shall be given if the Average Profit falls below 0.6 times of the Base Figure. In the event that the Average Profit is more than 0.6 times but less than 1.456 times of the Base Figure, the discount shall be determined proportionately.

The subscription prices of the share options issued under CSE ESOS prior to 9 October 2001 are entitled to a maximum discount of 40%. The determination of the quantum of the 40% discount on the subscription prices of share options issued under CSE ESOS prior to 9 October 2001 is based on the performance of the CSE Group for the three consecutive financial years beginning from the financial year in which the date of grant falls. The quantum of the discount on the subscription prices of share options issued under CSE ESOS prior to 9 October 2001 is only determined on the respective vesting dates. The number, proportion and discount entitlements of the various categories of share options granted under CSE ESOS prior to 9 October 2001, where determinable to date, are disclosed in the following table:

Date of grant	Aggregate options outstanding as at end of financial year under review	Proportion against aggregate options outstanding	Financial years considered for performance evaluation	Vesting date of share options	Expiry date of share options	Discount entitlement
1 October 1999	1,150,000	16%	FY1999 to FY2001	1 October 2002	1 October 2004	40%
30 October 2000	5,700,000	81%	FY2000 to FY2002	30 October 2003	30 October 2005	40%
30 April 2001	200,000	3%	FY2001 to FY2003	30 April 2004	30 April 2006	14%

REPORT OF THE DIRECTORS

SHARE OPTIONS (CONT'D)

(ii) CSE Systems & Engineering Executives' Share Option Scheme ("CSE ESOS") subsequent to 9 October 2001

Under the Company's CSE ESOS subsequent to 9 October 2001, the share options that are granted as at 31 December 2003 are as follows :-

Date of grant	Balance as at 1.1.2003	Addition	Cancelled	Exercised	Balance as at 31.12.2003	Exercise Price	Exercise Period
30 October 2001	7,761,000	-	(1,126,000)	(3,407,000)	3,228,000	\$0.3060	30 October 2003 to 30 October 2006
31 October 2002	9,151,000	-	(1,760,000)	-	7,391,000	\$0.3072	31 October 2004 to 31 October 2007
10 September 2003	-	500,000	-	-	500,000	No less than \$0.4264 but not more than \$0.5330	10 September 2005 to 10 September 2008
31 December 2003	-	8,408,000	-	-	8,408,000	No less than \$0.5184 but not more than \$0.6480	31 December 2005 to 31 December 2008
	<u>16,912,000</u>	<u>8,908,000</u>	<u>(2,886,000)</u>	<u>(3,407,000)</u>	<u>19,527,000</u>		

There are no participants of CSE ESOS subsequent to 9 October 2001 who are controlling shareholders of the Company or their associates, or who received 5 percent or more of the total number of share options available under the CSE ESOS subsequent to 9 October 2001. As the Company does not have any parent company, there are therefore no participants of CSE ESOS subsequent to 9 October 2001 who are directors or employees of the Company's parent company and its subsidiary companies.

The participants of CSE ESOS subsequent to 9 October 2001 who are Directors of the Company as at 31 December 2003 are disclosed in the following tables:

Share options granted on 30.10.2001 exercisable at the price of \$0.3060 each in Ordinary shares of \$0.05 each fully paid exercisable from 30.10.2003 to 30.10.2006				
Name of participant in respect of CSE ESOS subsequent to 9 October 2001	Options granted during the financial year under review	Aggregate options granted since commencement of scheme to end of financial year under review	Aggregate options exercised since commencement of scheme to end of financial year under review	Aggregate options outstanding as at end of financial year under review
Goh Boon Seong	-	60,000	-	60,000
Lee Soo Hoon Phillip	-	60,000	60,000	-
Lim Boh Soon	-	60,000	60,000	-

REPORT OF THE DIRECTORS

SHARE OPTIONS (CONT'D)

Share options granted on 31.10.2002 exercisable at a price of \$0.3072 each in Ordinary shares of \$0.05 each fully paid exercisable from 31.10.2004 to 31.10.2007				
Name of participant in respect of CSE ESOS subsequent to 9 October 2001	Options granted during the financial year under review	Aggregate options granted since commencement of scheme to end of financial year under review	Aggregate options exercised since commencement of scheme to end of financial year under review	Aggregate options outstanding as at end of financial year under review
Goh Boon Seong	-	60,000	-	60,000
Lee Soo Hoon Phillip	-	60,000	-	60,000
Lim Boh Soon	-	60,000	-	60,000
Sin Boon Ann	-	30,000	-	30,000

Share options granted on 31.12.2003 exercisable at a price of not less than \$0.5184 but not more than \$0.6480 each in Ordinary shares of \$0.05 each fully paid exercisable from 31.12.2005 to 31.12.2008				
Name of participant in respect of CSE ESOS subsequent to 9 October 2001	Options granted during the financial year under review	Aggregate options granted since commencement of scheme to end of financial year under review	Aggregate options exercised since commencement of scheme to end of financial year under review	Aggregate options outstanding as at end of financial year under review
Goh Boon Seong	60,000	60,000	-	60,000
Lee Soo Hoon Phillip	60,000	60,000	-	60,000
Lim Boh Soon	60,000	60,000	-	60,000
Sin Boon Ann	60,000	60,000	-	60,000

The terms of the share options granted under the CSE ESOS subsequent to 9 October 2001 to the Directors of the Company are the same as those granted to the employees of the Group and they are disclosed below.

Only Directors and full time employees of the Group who have attained the age of twenty one (21) years are eligible to participate in the CSE ESOS subsequent to 9 October 2001. Each option entitles the participant to subscribe for a number of new ordinary shares of \$0.05 each in the Company pre-determined at the date of grant. The options are granted in consideration of \$1.00 per option for all the shares in respect of which the option is granted. The shares under option may be exercised in full or in blocks of 1,000 shares or a multiple thereof on the payment of the exercise price. The participants to whom the options have been granted do not have the right to participate by virtue of the options in a share issue of any other company. Options granted are cancelled when the participant ceases to be a full-time employee of the Company or any corporation in the Group subject to certain exceptions at the discretion of the Company. The exercise of the options is also subjected to the satisfactory performance of the participant's duties.

For all the options that are granted under CSE ESOS subsequent to 9 October 2001, those options may be exercised within a period commencing after the second anniversary of the date of grant and expiring on the fifth anniversary of the date of grant.

For all the options that are granted under CSE ESOS subsequent to 9 October 2001, the subscription price at which a participant subscribes for new ordinary shares of \$0.05 each of the Company upon the exercise of the option granted shall be at a discount of between zero (0) percent and twenty (20) per cent of the average of the last dealt prices for an ordinary share of \$0.05 each of the Company, as determined by reference to the daily Official List published by the Singapore Exchange Securities Trading Limited, for the five (5) consecutive trading days immediately preceding the date of grant of the option, or the nominal value of the ordinary shares of \$0.05 each of the Company, whichever is higher.

REPORT OF THE DIRECTORS

SHARE OPTIONS (CONT'D)

The quantum of the discount shall be equal to the compounded rate of growth (expressed in percentage terms) of the Group's audited profit before tax and extraordinary items for two (2) consecutive financial years beginning from the financial year in which the date of grant falls. The discount shall, in no event, exceed twenty (20) per cent, notwithstanding that the compounded rate of growth may exceed twenty (20) per cent. No discount shall be given if the compounded rate of growth is nil or negative.

The subscription prices of the share options issued under CSE ESOS subsequent to 9 October 2001 are entitled to a maximum discount of 20%. The determination of the quantum of the 20% discount on the subscription prices of share options issued under CSE ESOS subsequent to 9 October 2001 is based on the performance of the CSE Group for the two consecutive financial years beginning from the financial year in which the date of grant falls. The quantum of the discount on the subscription prices of share options issued under CSE ESOS subsequent to 9 October 2001 is only determined on the respective vesting dates. The number, proportion and discount entitlements of the various categories of share options granted under CSE ESOS subsequent to 9 October 2001, where determinable to date, are disclosed in the following table:

Date of grant	Aggregate options outstanding as at end of financial year under review	Proportion against aggregate options outstanding	Financial years considered for performance evaluation	Vesting date of share options	Expiry date of share options	Discount entitlement
30 October 2001	3,228,000	17%	FY2001 to FY2002	30 October 2003	30 October 2006	0%
31 October 2002	7,391,000	38%	FY2002 to FY2003	31 October 2004	31 October 2007	20%
10 September 2003	500,000	2%	FY2003 to FY2004	10 September 2005	10 September 2008	Non-determinable
31 December 2003	8,408,000	43%	FY2003 to FY2004	31 December 2005	31 December 2008	Non-determinable

(iii) CSE (US Subsidiaries) Incentive Stock Option Plan ("US Plan")

Under the Company's US Plan, the share options that are granted as at 31 December 2003 are as follows :-

Date of grant	Balance as at 1.1.2003	Addition	Cancelled	Exercised	Balance as at 31.12.2003	Exercise Price	Exercise Period
30 October 2001	1,415,000	-	(145,000)	(135,000)	1,135,000	\$0.3060	30 October 2003 to 30 October 2006
31 October 2002	1,760,000	-	(196,000)	-	1,564,000	\$0.3840	31 October 2004 to 31 October 2007
31 December 2003	-	1,600,000	-	-	1,600,000	\$0.6480	31 December 2005 to 31 December 2008
	<u>3,175,000</u>	<u>1,600,000</u>	<u>(341,000)</u>	<u>(135,000)</u>	<u>4,299,000</u>		

REPORT OF THE DIRECTORS

SHARE OPTIONS (CONT'D)

There are no participants of US Plan who are Directors of the Company, controlling shareholders of the Company or their associates, or who received 5 percent or more of the total number of share options available under the US Plan. As the Company does not have any parent company, there are therefore no participants of US Plan who are directors or employees of the Company's parent company and its subsidiary companies.

Only full time employees of the subsidiary companies of the Group incorporated in any state of the United States of America who have attained the age of twenty one (21) years are eligible to participate in the US Plan, except for the employees who were already holding options that are granted under the CSE ESOS at the time the US Plan was adopted by the Company. Each option entitles the participant to subscribe for a number of new ordinary shares of \$0.05 each in the Company pre-determined at the date of grant. The shares under option may be exercised in full or in blocks of 1,000 shares or a multiple thereof on the payment of the exercise price. The participants to whom the options have been granted do not have the right to participate by virtue of the options in a share issue of any other company. Options granted are cancelled when the participant ceases to be a full-time employee of the subsidiary companies of the Group incorporated in any state of the United States of America subject to certain exceptions at the discretion of the Company. The exercise of the options is also subjected to the satisfactory performance of the participant's duties.

The options granted under the US Plan may be exercised within a period commencing after the second anniversary of the date of grant and expiring on the fifth anniversary of the date of grant.

The subscription price at which a participant subscribes for new ordinary shares of \$0.05 each of the Company upon the exercise of the option granted under the US Plan shall be the average of the last dealt prices for an ordinary share of \$0.05 each of the Company, as determined by reference to the daily Official List published by the Singapore Exchange Securities Trading Limited, for the five (5) consecutive trading days immediately preceding the date of grant of the option, or the nominal value of the ordinary shares of \$0.05 each of the Company, whichever is higher. The subscription prices of the share options issued under US Plan are not entitled to any form of discounts.

CSE-INFOTECH LIMITED (FORMERLY KNOWN AS "EBWORX LIMITED")

During FY2001, CSE-Infotech Limited irrevocably granted to the founding members of Digital Nervous System Sdn Bhd, a former subsidiary company of CSE-Infotech Limited, an option to purchase from CSE-Infotech Limited, up to and subject to a maximum of 250,000 ordinary shares of RM1.00 each in the share capital of Digital Nervous System Sdn Bhd at RM12.00 per ordinary share. This option was granted to the founding members pursuant to the sales & purchase agreement between CSE-Infotech Limited and the founding members in respect of CSE-Infotech Limited's disposal of 20% equity interest in Digital Nervous System Sdn Bhd during FY2001. This option is only exercisable on 15 October 2002, 15 October 2003 or 15 October 2004.

In January 2003, the founding members of Digital Nervous System Sdn Bhd and CSE-Infotech Limited, via a letter of variation, mutually agreed that the above mentioned option shall be exercisable at any time. Subsequently, the founding members of Digital Nervous System Sdn Bhd exercised the option to purchase from CSE-Infotech Limited 250,000 ordinary shares of RM1.00 each in the share capital of Digital Nervous System Sdn Bhd at RM12.00 per ordinary share.

During FY2001, CSE-Infotech Limited also irrevocably granted to an employee of CSE-Infotech Limited, for a consideration of \$1.00, an option to purchase from CSE-Infotech Limited up to and subject to a maximum of 50,000 ordinary shares of RM1.00 each in the share capital of Digital Nervous System Sdn Bhd at RM12.00 per ordinary share. This option is only exercisable on 15 October 2002, 15 October 2003 or 15 October 2004.

In January 2003, the employee of CSE-Infotech Limited and CSE-Infotech Limited, via a letter of variation, also mutually agreed that the above mentioned option shall be exercisable at any time. Subsequently, the employee of CSE-Infotech Limited also exercised his option to purchase from CSE-Infotech Limited 50,000 ordinary shares of RM1.00 each in the share capital of Digital Nervous System Sdn Bhd at RM12.00 per ordinary share.

REPORT OF THE DIRECTORS

AUDIT COMMITTEE

The Audit Committee was established on 22 January 1999.

The Audit Committee comprises three members, all of whom are non-executive Directors and are independent of the management of the Company.

The members of the Audit Committee at the date of this report comprise the following Directors :-

Non-executive / Independent Directors :

Lee Soo Hoon Phillip (Chairman)

Lim Boh Soon

Sin Boon Ann

The Audit Committee performed the functions specified in the Companies Act. The functions performed are detailed in the Report on Corporate Governance.

AUDITORS

Ernst & Young, Certified Public Accountants, have expressed their willingness to accept reappointment.

On behalf of the Directors,

Lim Ming Seong

Director

Tan Mok Koon

Director

Singapore

15 March 2004

STATEMENT BY DIRECTORS

PURSUANT TO SECTION 201(15)

We, Lim Ming Seong and Tan Mok Koon, being two of the Directors of CSE Global Limited, do hereby state that, in the opinion of the Directors :-

- (i) the accompanying balance sheets, consolidated profit and loss account, consolidated statement of changes in equity and consolidated statement of cash flows together with the notes thereto are drawn up so as to give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2003 and of the results of the business, changes in equity and cash flows of the Group for the year then ended, and
- (ii) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

On behalf of the Directors,

Lim Ming Seong

Director

Tan Mok Koon

Director

Singapore

15 March 2004

AUDITORS' REPORT

TO MEMBERS OF CSE GLOBAL LIMITED

We have audited the accompanying financial statements of CSE Global Limited (formerly known as "CSE Systems & Engineering Ltd") (the Company) and its subsidiary companies (the Group) set out on pages 45 to 90 for the year ended 31 December 2003. These financial statements are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Singapore Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion,

- (a) the consolidated financial statements of the Group and the balance sheet of the Company are properly drawn up in accordance with the provisions of the Companies Act (the Act) and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2003 and the results, changes in equity and cash flows of the Group for the financial year ended on that date; and
- (b) the accounting and other records (excluding registers) required by the Act to be kept by the Company and by those subsidiary companies incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

We have considered the financial statements and auditors' reports of all subsidiary companies of which we have not acted as auditors, being financial statements included in the consolidated financial statements. We have also considered the financial statements of W-Industries, Inc. and its subsidiary companies, CSE Systems & Engineering (America), Inc. and P.T. TransTel Engineering which are not required to be audited under the laws of the country of incorporation being financial statements that are included in the consolidated financial statements. The names of these subsidiary companies audited by our associated firms and those audited by other firms are stated in Note 3.

We are satisfied that the financial statements of the subsidiary companies that have been consolidated with the financial statements of the Company are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations as required by us for those purposes.

The auditors' reports on the financial statements of the subsidiary companies were not subject to any qualification and in respect of subsidiary companies incorporated in Singapore did not include any comment made under section 207(3) of the Act.

ERNST & YOUNG

Certified Public Accountants

Singapore
15 March 2004

BALANCE SHEETS

AS AT 31 DECEMBER 2003

	Note	Group		Company	
		2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Fixed assets	4	14,255	14,043	8,044	8,667
Subsidiary companies	5	-	-	120,619	93,801
Long term loan to a subsidiary company	5	-	-	1,574	-
Associated companies	6	3,404	-	-	-
Other investments	7	-	-	-	-
Intangible assets	8	20,328	19,750	-	-
Deferred taxation	9	513	16	-	16
Current assets					
Projects-in-progress	10	25,622	22,798	3,619	8,912
Stocks	11	545	1,465	-	-
Trade debtors		38,008	29,754	5,137	7,887
Other debtors, deposits and prepayments	12	2,882	1,467	211	169
Amounts due from subsidiary companies	5	-	-	4,949	20,027
Amounts due from associated companies	6	9	472	-	-
Fixed deposits		2,907	2,569	-	-
Cash and bank balances		14,210	8,975	1,792	764
		84,183	67,500	15,708	37,759
Current liabilities					
Projects-in-progress	10	3,863	1,650	544	605
Trade creditors and accruals		20,640	19,383	4,504	6,737
Amounts due to bankers	13	32,250	29,211	32,250	29,211
Amounts due to subsidiary companies	5	-	-	10,183	4,039
Amounts due to an associated company	6	11	-	11	-
Provision for warranties	14	730	369	110	234
Provision for taxation		2,547	2,173	452	614
		60,041	52,786	48,054	41,440
Net current assets/(liabilities)		24,142	14,714	(32,346)	(3,681)
Deferred taxation	9	(203)	-	(181)	-
Amounts due to bankers	13	(7,845)	(9,295)	(7,845)	(9,295)
		54,594	39,228	89,865	89,508
Capital and reserves					
Share capital	15	15,625	15,393	15,625	15,393
Share premium	16	62,827	61,420	62,827	61,420
(Accumulated loss)/revenue reserve	17	(23,372)	(38,312)	12,556	13,161
Foreign currency translation reserve	18	(888)	(353)	(1,143)	(466)
		54,192	38,148	89,865	89,508
Minority interest		402	1,080	-	-
		54,594	39,228	89,865	89,508

The accounting policies and explanatory notes on pages 50 through 90 form an integral part of the financial statements.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2003

	Note	Group	
		2003 \$'000	2002 \$'000
Revenues	19	168,970	143,251
Cost of sales		(113,898)	(92,761)
Gross profit		55,072	50,490
Other operating income			
Miscellaneous income	20	6,400	365
Finance income	21	111	156
Operating expenses			
Personnel and related costs		21,727	18,061
General and administrative costs		5,598	5,233
Selling and distribution costs		1,842	2,025
Upkeep building and equipment costs		7,085	6,164
Other operating costs		3,694	3,119
Total expenses	22	39,946	34,602
Profit from operating activities		21,637	16,409
Finance costs	23	(1,138)	(941)
Share of profit / (loss) of associated companies		1,276	(177)
Share of loss of joint venture		-	(3)
Profit before taxation		21,775	15,288
Taxation	24	(4,349)	(2,759)
Minority interest, net of tax		(85)	(472)
Net profit for the year		17,341	12,057
Earnings per share (in cents)			
Basic EPS	25	5.62	3.95
Diluted EPS	25	5.43	3.86

The accounting policies and explanatory notes on pages 50 through 90 form an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2003

	Group	
	2003 \$'000	2002 \$'000
Issued capital		
Balance at 1 January	15,393	13,393
Issuance of ordinary shares	232	2,000
Balance at 31 December	15,625	15,393
Share premium		
Balance at 1 January	61,420	45,180
Premium on shares issued during the year	1,409	16,680
Expenses on issuance of ordinary shares	(2)	(440)
Balance at 31 December	62,827	61,420
Accumulated loss		
Balance at 1 January	(38,312)	(50,369)
Dividends on ordinary shares (Note 34)	(2,401)	-
Net profit for the year	17,341	12,057
Balance at 31 December	(23,372)	(38,312)
Foreign currency translation reserve		
Balance at 1 January	(353)	1,015
Exchange differences for the year	(535)	(1,368)
Balance at 31 December	(888)	(353)
Total equity	54,192	38,148
Net change in equity from non-owner sources excluding net profit	(535)	(1,368)

The accounting policies and explanatory notes on pages 50 through 90 form an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2003

	2003 \$'000	2002 \$'000
Cash flows from operating activities :		
Profit before taxation	21,775	15,288
Adjustments for :		
Depreciation of fixed assets	1,217	1,435
Amortisation of intangible assets	1,647	1,613
Share of results of associated companies and joint venture	(1,276)	180
Gain on disposal of a subsidiary company	(657)	-
Gain on partial disposal of an associated company	(5,081)	-
Interest expense	1,067	917
Interest income	(111)	(156)
(Gain) / loss on disposal of fixed assets	(9)	40
Loss on fixed assets written off	1	19
Provision for impairment in value of investment in an associated company	150	-
Provision for doubtful debts of an associated company	277	-
Intangible assets written off	1,638	1,142
Currency realignment	(240)	(1,108)
Operating income before reinvestment in working capital	20,398	19,370
(Increase) / decrease in debtors	(6,858)	3,204
Decrease / (increase) in projects-in-progress, net and stocks	1,315	(6,802)
Increase in creditors	257	3,685
Cash generated from operations	15,112	19,457
Interest paid	(1,067)	(917)
Interest income received	111	156
Income tax paid	(3,594)	(2,556)
Net cash generated from operating activities	10,562	16,140
Cash flows from investing activities :		
Purchase of fixed assets	(1,466)	(1,403)
Acquisition of subsidiary companies, net of cash acquired	(7,548)	(19,646)
Purchase of intangible assets	-	(5)
Repayment from associated companies	8	76
Proceeds from disposal of fixed assets	28	204
Disposal of equity interest in an associated company	4,378	-
Disposal of a subsidiary company, net of cash disposed	(293)	-
Net cash used in investing activities	(4,893)	(20,774)
Cash flows from financing activities :		
Net proceeds from issuance of shares	1,639	18,240
Proceeds from / (repayment of) short-term borrowing from banks	735	(7,761)
Dividends paid to shareholders	(2,401)	-
Dividends paid to minority shareholders of a subsidiary company	(69)	-
Net cash (used in) / generated from financing activities	(96)	10,479
Net increase in cash and cash equivalents	5,573	5,845
Cash and cash equivalents at beginning of year (Note 27)	11,544	5,699
Cash and cash equivalents at end of year (Note 27)	17,117	11,544

The accounting policies and explanatory notes on pages 50 through 90 form an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2003

The acquisition of subsidiary companies have been shown in the statement as a single item. The effect on the individual assets and liabilities is set out in the following:-

	\$'000
Fixed assets	554
Intangible assets	31
Stocks and work-in-progress	521
Trade and other debtors	5,196
Amount due to former shareholders	(6,680)
Cash and cash equivalent	3,889
Trade and other creditors	(1,922)
Provision for taxation	(23)
Net assets acquired	1,566
Add : Long term loan made to a subsidiary company	5,824
Add : Goodwill arising on acquisition of subsidiary companies	4,047
Purchase consideration	11,437
Less : Cash and cash equivalent	(3,889)
Cash outflow on acquisition of subsidiary companies, net of cash acquired	7,548

The disposal of a subsidiary company has been shown in the statement as a single item. The effect on the individual assets and liabilities is set out in the following:-

	\$'000
Fixed assets	296
Intangible assets	5
Stocks and work-in-progress	(485)
Trade and other debtors	2,383
Amount due from an associated company	190
Cash and cash equivalent	1,920
Trade and other creditors	(1,020)
Provision for taxation	(18)
Net assets disposed	3,271
Less : Minority interest	(2,301)
Add : Gain on disposal of a subsidiary company	657
Disposal consideration	1,627
Less : Cash and cash equivalent	(1,920)
Cash outflow on disposal of a subsidiary company, net of cash disposed	(293)

The accounting policies and explanatory notes on pages 50 through 90 form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2003

1. CORPORATE INFORMATION

The financial statements of CSE Global Limited (formerly known as "CSE Systems & Engineering Ltd") for the year ended 31 December 2003 were authorised for issue in accordance with a resolution of the Directors on 15 March 2004.

CSE Global Limited is a limited liability company which is incorporated in the Republic of Singapore. On 5 May 2003, the name of the Company was changed from CSE Systems & Engineering Ltd to CSE Global Limited.

The registered office of CSE Global Limited is located at 10, Collyer Quay, #19-08 Ocean Building, Singapore 049315.

The principal activities of the Company are those relating to systems integration solution and the sales and provision of computer network systems. The principal activities of the subsidiary companies are those of sales, provision of computer network systems and investment holding. There have been no significant changes in the nature of these activities during the financial year.

The Group operates in 10 (2002: 8) countries, and the Group and Company employed 650 employees and 97 employees (2002 : 685 and 124) respectively as of 31 December 2003.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) *Basis of preparation*

The financial statements of the Company and of the Group which are expressed in Singapore dollars to the nearest thousand of dollars, are prepared under the historical cost convention and are in accordance with Singapore Financial Reporting Standards (FRS) as required by the Companies Act. In previous years, the financial statements were prepared in accordance with the Singapore Statements of Accounting Standard (SAS). The transition from SAS to FRS did not result in any significant change in accounting policies.

The accounting policies have been consistently applied by the Group and are consistent with those used in prior year.

(b) *Basis of consolidation*

The accounting year of the Company and all its subsidiary companies ends on 31 December with the exception of TransTel Engineering Pte Ltd and subsidiary companies, whose accounting year ends on 31 March. Section 200(1) of the Companies Act, Cap. 50 allows the subsidiary companies two years to change their financial year-end to be co-terminous with that of the holding company. In this respect, the subsidiary companies will be changing their year-ends to 31 December.

The consolidated financial statements incorporate the financial statements of the Company and all its subsidiary companies, including the financial statements of TransTel Engineering Pte Ltd and subsidiary companies, based on the audited financial statements as at 31 December 2003 where an audit has been performed for the purpose of consolidation.

The results of subsidiary companies acquired or disposed of during the year are included in or excluded from the respective dates of acquisition or disposal, as applicable.

Assets, liabilities and results of overseas subsidiaries are translated into Singapore currency on the basis outlined in paragraph (l) below.

A list of the Group's subsidiary companies is shown in Note 3.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2003

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(c) **Subsidiary companies**

A subsidiary is a company in which the Group, directly or indirectly, holds more than 50% of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors.

Shares in subsidiary companies are stated at cost less impairment losses.

(d) **Associated companies**

An associated company is defined as a company, not being a subsidiary, in which the Group has a long-term interest of not less than 20% nor more than 50% of the equity and whose financial and operating policy decisions the Group exercises significant influence.

The investment in associated companies is stated in the Group's financial statements at cost less impairment losses.

The Group's share of the results of associated companies is included in the consolidated profit and loss account. The Group's share of the post-acquisition reserves of associated companies is included in the investments in the consolidated balance sheet.

Details of the Group's associated companies are given in Note 3.

(e) **Other investments**

Unquoted investments held on a long term basis are stated at cost less impairment losses.

(f) **Revenue recognition**

Project revenue is recognised on an individual contract basis using the percentage of completion method when the stage of contract completion can be reliably determined, cost to date can be clearly identified, and the total contract revenue and costs to complete can be reliably estimated. The stage of completion is measured by the proportion of costs incurred to the estimated total costs to complete the projects and restricted by progress billings received or receivable. Losses, if any, are immediately recognised when their existence is foreseen.

Maintenance revenue is recognised on a straight line basis over the specified contract period. Maintenance revenue received in advance is deferred as unearned income and recognised as income over the life of the maintenance contracts.

Dividend income is recognised when the Group's right to receive payment is established.

Rental income is recognised on a time apportionment basis.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2003

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(g) **Fixed assets**

Fixed assets are stated at cost less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to working condition for its intended use. Expenditure for additions, improvements and renewals are capitalised and expenditure for maintenance and repairs are charged to the profit and loss accounts. When assets are sold or retired, their cost and accumulated depreciation are removed from the financial statements and any gain or loss resulting from their disposal is included in the profit and loss account.

The carrying amounts are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amount, and if carrying value exceeds this recoverable amount, assets are written down.

(h) **Depreciation**

Depreciation is calculated on the straight line method to write off the cost of fixed assets over their estimated useful lives which are as follows :-

Leasehold land	-	57 years
Buildings	-	20 to 39 years
Leasehold improvements	-	2 to 4 years
Tools and equipment	-	5 years
Office furniture and fittings	-	5 years
Computer equipment	-	2 to 5 years
Motor vehicles	-	5 to 7 years
Plant and machinery	-	4 to 5 years

Fully depreciated assets are retained in the financial statements until they are no longer in use and no further charge for depreciation is made in respect of these assets. No depreciation is provided on construction-in-progress and freehold land.

(i) **Goodwill**

Goodwill is defined as any excess of the consideration paid over the fair value of the net assets acquired as at the date of acquisition. Where the consideration is lower than the fair value of the net assets acquired, the difference is recognised as negative goodwill. Goodwill is amortised over its estimated useful life of between 5 years to 15 years using the straight-line method.

To the extent that negative goodwill relates to expectation of future losses and expenses, the amount will be taken to the profit and loss account in the period the losses and expenses are incurred.

If the negative goodwill cannot be matched to future losses, the amount is amortised over the remaining useful life of the identifiable acquired depreciable assets.

The Group conducts an annual review of the carrying value of its goodwill and provides in full for any impairment in value.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2003

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(j) **Stocks and projects-in-progress**

Stocks are stated at the lower of cost and net realisable value. Cost comprises the cost of materials calculated on a first-in-first-out basis. Net realisable value represents the estimated selling price less anticipated cost of disposal and after making allowance for damaged, obsolete and slow-moving items.

Projects-in-progress are stated at cost plus attributable profits less progress payments received and receivable and provision for foreseeable losses. Cost of projects-in-progress includes direct materials, labour and an appropriate proportion of overheads.

(k) **Provision for warranties**

Provision for the additional costs incurred in rectification work during the warranty period is based on estimates made from historical data associated with similar projects.

(l) **Foreign currencies**

Transactions arising in foreign currencies during the year are translated into Singapore dollars at rates closely approximating those ruling on the transaction dates. Foreign currency monetary assets and liabilities are translated into Singapore dollars at exchange rates ruling at the balance sheet date. Except for the situation described below, all exchange differences arising from translation are included in the profit and loss account :

- Where exchange differences arising on a foreign currency liability accounted for as a hedge of the Company's net investment in a foreign entity, such exchange differences arising are classified as equity in the Company's financial statements until the disposal of the net investment where it would be recognised as income or expense in the profit and loss account.

On consolidation, all assets and liabilities of foreign subsidiary and associated companies are translated into Singapore dollars at rates of exchange prevailing at year end and the results of foreign subsidiary and associated companies are translated into Singapore dollars at the average exchange rates. Profits and losses arising from translation of foreign subsidiary and associated companies are taken directly to foreign currency translation reserve as a separate component of the shareholders' funds.

Goodwill arising on the acquisition of a foreign entity is treated as assets and liabilities of the acquiring entity and are recorded at the exchange rate ruling at the balance sheet date.

(m) **Deferred taxation**

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled based on tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax liabilities are recognised for all taxable temporary differences associated with investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference can be controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2003

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(m) Deferred taxation (cont'd)

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax losses and unabsorbed capital allowances, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forward of unused tax losses and unused tax credits can be utilised.

At each balance sheet date, the Group re-assesses unrecognised deferred tax assets and the carrying amount of deferred tax assets. The Group recognises a previously unrecognised deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. The Group conversely reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of the deferred tax asset to be utilised.

(n) Cash and cash equivalents

Cash and cash equivalents consist of cash and bank balances less bank overdrafts but exclude secured bank overdrafts which are used for financing activities.

(o) Trade and other debtors

Trade and other debtors, which generally have 30 to 60 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. Amounts due from subsidiary and associated companies are repayable on demand and are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

(p) Trade and other creditors

Trade and other creditors, which generally have 30 to 90 day terms, are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Group or Company.

Amounts due to subsidiary companies are repayable on demand and are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Group or Company.

(q) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

(r) Loans and borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received and including acquisition charges associated with the loan and borrowing.

(s) Leases

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the lease term, are classified as operating leases. Operating lease payments are recognised as an expense in the profit and loss account on a straight-line basis over the lease term.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2003

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(t) **Impairment**

The carrying amounts of the Group's assets, other than stocks and debtors, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. The impairment loss is charged to the profit and loss account.

(u) **Employee benefits**

Equity compensation benefits

The Company has in place the following share option schemes for granting of share options to eligible employees of the Group to subscribe for shares in the Company :

- (i) CSE Systems & Engineering Executives' Share Option Scheme ("CSE ESOS") prior to 9 October 2001;
- (ii) CSE Systems & Engineering Executives' Share Option Scheme ("CSE ESOS") subsequent to 9 October 2001; and
- (iii) CSE (US Subsidiaries) Incentive Stock Option Plan ("US Plan")

The consideration paid in respect of the share options granted are charged to the profit and loss account upon the grant of these share options. There are no charges to the profit and loss account upon the exercise of the share options.

Details of the share option schemes and the respective share options that are granted as at 31 December 2003 are disclosed in Notes 15 and 33.

Defined contribution plan

The Group's companies in Singapore, Malaysia and India make contributions to their respective countries' state pension schemes in accordance with the laws of those countries. In addition, the Group's companies in the United Kingdom operate a defined contribution pension scheme in accordance with the laws of the country. The contributions are recognised as compensation expenses in the same period as the employment that give rise to the contributions.

Details of the defined contribution pension schemes are as disclosed in Note 22 under employees' provident fund and in Note 33.

(v) **Derivative financial instruments**

The Group uses predominantly foreign exchange forward contracts to hedge its risks associated primarily with foreign currency exchange rate fluctuations. It is the Group's policy that the Group does not trade in or hold any foreign exchange forward contracts for trading or speculative purposes. The foreign exchange forward contracts entered into by the Group are disclosed as off-balance sheet items at their notional principal amounts.

Details of the Group's financial risk management objectives and policies are set out in Note 32.

(w) **Borrowing costs**

Borrowing costs are recognised as expenses in the period in which they are incurred, except for those which are directly attributable to the acquisition, construction or production of a qualifying asset where they are capitalised as part of the cost of that asset.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2003

3. GROUP COMPANIES

Details of subsidiary companies of the Company at 31 December are :-

Name of company (Country of incorporation)	Principal activities (Place of business)	Cost		Percentage of equity held by the Group	
		2003 \$'000	2002 \$'000	2003 %	2002 %
ii CSE Systems & Engineering (Thailand) Limited ⁽¹⁾ (Thailand)	Sales and provision of computer network systems (Thailand)	958	958	100	100
iii Transtel Engineering (Tianjin) Co. Ltd ⁽⁶⁾ (formerly known as CSE Systems & Engineering (Tianjin) Co. Ltd) (China)	Sales and provision of computer network systems (China)	212	212	100	100
ii CSE Systems & Engineering (India) Private Limited ⁽²⁾ (India)	Sales and provision of computer network systems (India)	360	360	100	100
iv CSE Systems & Engineering (America), Inc. (America)	Sales and provision of computer network systems (America)	759	759	100	100
i CSE-Myers Pte Ltd (formerly know as Myers Systems Pte Ltd) (Singapore)	Systems integration solution and sales and provision of computer network systems (Singapore)	25,060	560	100	100
ii PI-CSE Systems & Engineering Malaysia Sdn Bhd ⁽³⁾ (Malaysia)	Sales and provision of computer network systems (Malaysia)	496	496	70	70

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2003

3. GROUP COMPANIES (CONT'D)

Details of subsidiary companies of the Company at 31 December are :-

Name of company (Country of incorporation)	Principal activities (Place of business)	Cost		Percentage of equity held by the Group	
		2003 \$'000	2002 \$'000	2003 %	2002 %
i CSE-Infotech Limited (formerly known as eBworx Limited) (Singapore)	e-business integration, research and development and investment holding (Singapore)	12,668	12,668	100	100
i CSE-OIS Pte Ltd (formerly known as Chaumont Pte Ltd) (Singapore)	Investment holding (Singapore)	–	– #	–	100
vi ITServ Pte Ltd (Singapore)	Dormant	–	– #	–	100
v W-Industries, Inc. (America)	Sale and provision of system integration services (America)	36,200	36,200	100	100
ii CSE-Servelec Group Limited ⁽⁴⁾ (United Kingdom)	Design, manufacture, installation and commissioning of control of management information systems and development, manufacture and sale of electronic and micro processor monitoring equipment (United Kingdom)	45,646	45,646	100	100
iii CSE Technology (Beijing) Co., Ltd ⁽⁹⁾ (China)	Sale and provision of computer network systems (China)	275	275	100	100
ii eBworx Hong Kong Limited ⁽⁵⁾ (Hong Kong)	Provision of information technology solutions (Hong Kong)	– *	– *	100	100

2 ordinary share of \$1 each

* 2 ordinary share of HK\$1 each

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2003

3. GROUP COMPANIES (CONT'D)

Details of subsidiary companies of the Company at 31 December are :-

Name of company (Country of incorporation)	Principal activities (Place of business)	Cost		Percentage of equity held by the Group	
		2003 \$'000	2002 \$'000	2003 %	2002 %
i I-Magination Solution Pte Ltd (formerly known as OneRex Pte Ltd) (Singapore)	Dormant	1,248	88	100	100
i TransTel Engineering Pte Ltd (Singapore)	Provision of turnkey telecommunications solutions for the oil and gas and petrochemical industries (Singapore)	1,158	—	100	—
		125,040	98,222		

Details of subsidiary companies held by the Group at 31 December are :-

Name of company (Country of incorporation)	Principal activities (Place of business)	Percentage of equity held by the Group	
		2003 %	2002 %
<i>Held by CSE-Infotech Limited (formerly known as eBworx Limited)</i>			
i CSE-IT Services Pte Ltd (formerly known as CIM Infotech Pte Ltd) (Singapore)	Provision of computer software applications (Singapore)	100	100
ii Digital Nervous System Sdn Bhd ⁽⁶⁾ (Malaysia)	Provision of computer software applications (Malaysia)	—	80
i CSE-OIS Pte Ltd (formerly known as Chaumont Pte Ltd) (Singapore)	Sales and provision of system integration solutions (Singapore)	100	—

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2003

3. GROUP COMPANIES (CONT'D)

Name of company (Country of incorporation)	Principal activities (Place of business)	Percentage of equity held by the Group	
		2003 %	2002 %
<i>Held by CSE-Servelec Group Limited</i>			
ii CSE-Servelec Limited ⁽⁴⁾ (United Kingdom)	Design, manufacture, installation and commissioning of control and management information systems (United Kingdom)	100	100
ii CSE-Seprol Limited ⁽⁴⁾ (United Kingdom)	Development, manufacture and sale of electronic and microprocessor monitoring equipment (United Kingdom)	100	100
iii TTC s.r.o. ⁽¹⁰⁾ (Slovakia)	Provision of oil and gas pipeline management systems (Slovakia)	100	–
<i>Held by W-Industries, Inc.</i>			
v Integrated Control System, Inc. (America)	Sale and provision of system integration services (America)	100	100
v Control Concepts & Technology Corporation (America)	Sale and provision of system integration services (America)	100	100
<i>Held by Digital Nervous System Sdn Bhd</i>			
ii eBworx Berhad ⁽⁶⁾ (formerly known as eBworx Malaysia Sdn Bhd) (Malaysia)	Provision of e-commerce technology solutions (Malaysia)	–	80
<i>Held by eBworx Berhad (formerly known as “eBworx Malaysia Sdn Bhd”)</i>			
i eBworx International Pte Ltd (Singapore)	Provision of computer software applications and dealing in computer software and hardware (Singapore)	–	80

NOTES TO THE FINANCIAL STATEMENTS

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3. GROUP COMPANIES (CONT'D)

Name of company (Country of incorporation)	Principal activities (Place of business)	Percentage of equity held by the Group	
		2003 %	2002 %

Held by TransTel Engineering Pte Ltd

iv P.T. TransTel Engineering (Indonesia)	Provision of turnkey telecommunications solutions for the oil & gas & petrochemical industries (Indonesia)	100	—
--	--	-----	---

Details of associated companies held by the Group at 31 December are :-

Name of company (Country of incorporation)	Principal activities (Place of business)	Cost		Percentage of equity held by the Group	
		2003 \$'000	2002 \$'000	2003 %	2002 %

Held by CSE-Infotech Limited (formerly known as eBworx Limited)

iv Infiniteinfo, Inc. (America)	Design and implementation of internet solutions with total integration to client's other applications (America)	3,466	3,466	43	43
ii Solutions Exchange, Inc. ⁽⁷⁾ (formerly known as eBworx Philippines, Inc.) (The Philippines)	Purchase, sale, distribution, maintenance of all kinds of goods, commodities, wares, intellectual properties and other related information technology (The Philippines)	150	150	49	49
ii eBworx Berhad ⁽⁶⁾ (formerly known as eBworx Malaysia Sdn Bhd) (Malaysia)	Provision of e-commerce technology solutions (Malaysia)	168	—	29	—
		<u>3,784</u>	<u>3,616</u>		

NOTES TO THE FINANCIAL STATEMENTS

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3. GROUP COMPANIES (CONT'D)

Details of associated companies held by the Group at 31 December are :-

Name of company (Country of incorporation)	Principal activities (Place of business)	Percentage of equity held by the Group	
		2003 %	2002 %
Held by eBworx Berhad (formerly known as "eBworx Malaysia Sdn Bhd")			
ii Digital Nervous System Sdn Bhd ⁽⁶⁾ (Malaysia)	Provision of computer software applications (Malaysia)	29	-
i eBworx International Pte Ltd (Singapore)	Provision of computer software applications and dealing in computer software and hardware (Singapore)	29	-

(i) Audited by Ernst & Young, Singapore

(ii) Audited by associated firms of Ernst & Young, Singapore

(1) Audited by Ernst & Young, Bangkok

(2) Audited by S.R. Batliboi & Associates

(3) Audited by Ernst & Young Public Accountants, Kuala Lumpur

(4) Audited by Ernst & Young, Leeds

(5) Audited by Ernst & Young, Hong Kong

(6) Audited by Ernst & Young, Kuala Lumpur

(7) Audited by SyCip Gorres Velayo & Co

(iii) Audited by other auditors

(8) Audited by Tianjin Quan Tong Certified Public Accountants

(9) Audited by Beijing Yong He Certified Public Accountants

(10) Audited by Tax Audit Consult s.r.o. and overviewed by Ernst & Young, Bratislava

(iv) Not required to be audited under the laws of the country of incorporation

(v) Not required to be audited under the laws of the country of incorporation, but audited by Ernst & Young, Houston for the purposes of consolidation of the Group

(vi) This subsidiary company was liquidated during the year.

NOTES TO THE FINANCIAL STATEMENTS

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3. GROUP COMPANIES (CONT'D)

Acquisition and disposal of subsidiary companies

During the year, the Group acquired equity interest in subsidiary companies as described in the following :

Name of company (Country of incorporation)	Group's effective interest after acquisition	Consideration	Attributable net assets / (liabilities) on date of acquisition
	%	\$'000	\$'000
TransTel Engineering Pte Ltd (Singapore)	100	258	(2,245)
TTC s.r.o. (Slovakia)	100	5,355	3,811

The acquisition of TransTel Engineering Pte Ltd, whose date of acquisition was 22 July 2003, is subject to an additional consideration that is payable to the sellers, being the amount (if any) by which the consolidated profit after tax of TransTel Engineering Pte Ltd for its financial year ending 31 March 2004 exceeds \$1,405,000, up to a maximum amount of \$4,000,000.

The acquisition of TTC s.r.o., whose date of acquisition was 20 October 2003, is subject to an additional consideration that is payable to the sellers, up to a maximum amount of GBP975,000, depending on certain performance measurements.

During the year, the Group disposed equity interest in subsidiary companies as described in the following :

In January 2003, the founding members of Digital Nervous System Sdn Bhd, a former subsidiary company of the Group, exercised their options to purchase from CSE Infotech Limited (formerly known as "eBworx Limited") 250,000 ordinary shares of RM1.00 each in the share capital of Digital Nervous System Sdn Bhd at RM12.00 per ordinary share. This option was granted to the above founding members pursuant to the sales & purchase agreement between CSE Infotech Limited and the founding members in respect of CSE Infotech Limited's disposal of 20% equity interest in Digital Nervous System Sdn Bhd during FY2001. At the same time, an employee of CSE Infotech Limited, a wholly owned subsidiary company of the Company, also exercised his option to purchase from CSE Infotech Limited 50,000 ordinary shares of RM1.00 each in the share capital of Digital Nervous System Sdn Bhd at RM12.00 per ordinary share. As at the date of disposal, the consideration for the disposal and attributable net assets of Digital Nervous System Sdn Bhd were \$1,627,258 and \$3,270,132 respectively. After the exercise of the above options, the Group's equity interest in Digital Nervous System Sdn Bhd was reduced from 80% to 50%, and as such, ceased to be a subsidiary company of the Group. The Group's equity interest in Digital Nervous System Sdn Bhd was further reduced during the year and was 29% as at 31 December 2003. The Group's equity interest in Digital Nervous System Sdn Bhd is held through Digital Nervous System Sdn Bhd's immediate holding company, which is eBworx Berhad (formerly known as eBworx Malaysia Sdn Bhd).

NOTES TO THE FINANCIAL STATEMENTS

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3. GROUP COMPANIES (CONT'D)

The effects of the acquisition of TransTel Engineering Pte Ltd and TTC s.r.o. on the financial position of the Group as at 31 December 2003 and its results are shown as follows:

	Acquisition \$'000
Total assets at 31 December 2003	10,191
Total liabilities at 31 December 2003	(8,625)
Contribution to the Group for the period :	
- turnover	10,083
- profit before tax	1,032
- profit after tax	1,224

The effects of the disposal of Digital Nervous System Sdn Bhd on the financial position of the Group are shown as follows:

	Disposal \$'000
Total assets at 31 December 2002	4,794
Total liabilities at 31 December 2002	(1,523)

The effects of the disposal for the year were not significant as it took place in the first week of January 2003. Accordingly, the effects on the assets and liabilities as at the date of disposal approximated those disclosed as at 31 December 2002.

In October 2003, the Company disposed and transferred 2 issued and fully paid up ordinary shares of \$1.00 each in the capital of CSE-OIS Pte Ltd (formerly known as "Chaumont Pte Ltd"), a wholly-owned subsidiary company of the Company, to CSE-Infotech Limited for a consideration of \$2. As at the date of disposal, the attributable net liabilities of CSE-OIS Pte Ltd were \$54,405. After the disposal, the Group's equity interest in CSE-OIS Pte Ltd remained 100%.

During the year, ITServ Pte Ltd, a wholly owned subsidiary company of the Company, whose issued and fully paid up share capital was 2 ordinary shares of \$1.00 each, was liquidated.

During the year, TransTel Engineering (H.K.) Limited, a wholly owned subsidiary company of the Group, whose issued and fully paid up share capital was 10,000 ordinary shares of HK\$1.00 each, was also liquidated.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2003

4. FIXED ASSETS

Group	Freehold land	Freehold building	Leasehold land	Leasehold building	Leasehold improvements	Plant and machinery	Tools and equipment	Office furniture and fittings	Computer equipment	Motor vehicles	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cost											
At 1 January 2003	882	3,394	2,125	6,626	561	2,223	701	1,995	1,990	1,230	21,727
Currency realignment	(18)	(70)	-	-	4	182	(14)	42	85	(4)	207
Additions	-	143	-	-	10	66	131	523	518	75	1,466
Due to subsidiaries acquired	-	-	-	-	154	6	-	108	275	11	554
Due to subsidiaries disposed	-	-	-	-	(11)	-	-	(90)	(472)	-	(573)
Disposals	-	-	-	(158)	-	-	-	(32)	(44)	(181)	(415)
Write-off	-	-	-	-	-	-	-	(4)	(15)	-	(19)
At 31 December 2003	864	3,467	2,125	6,468	718	2,477	818	2,542	2,337	1,131	22,947
Accumulated depreciation											
At 1 January 2003	-	338	37	331	528	2,103	532	1,493	1,582	740	7,684
Currency realignment	-	(9)	-	-	4	199	(14)	52	84	8	324
Charge for the year	-	94	37	315	39	42	192	116	233	149	1,217
Due to subsidiaries disposed	-	-	-	-	(1)	-	-	(25)	(251)	-	(277)
Disposals	-	-	-	-	-	-	-	(21)	(36)	(181)	(238)
Write-off	-	-	-	-	-	-	-	(3)	(15)	-	(18)
At 31 December 2003	-	423	74	646	570	2,344	710	1,612	1,597	716	8,692
Charge for 2002	-	57	37	331	29	52	324	121	306	178	1,435
Net book value											
At 31 December 2003	864	3,044	2,051	5,822	148	133	108	930	740	415	14,255
At 31 December 2002	882	3,056	2,088	6,295	33	120	169	502	408	490	14,043

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2003

4. FIXED ASSETS (CONT'D)

Company	Leasehold land	Leasehold building	Leasehold improvements	Office furniture and fittings	Computer equipment	Motor vehicles	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cost							
At 1 January 2003	2,125	6,626	429	179	449	306	10,114
Additions	-	-	-	1	60	-	61
Disposals	-	(158)	-	(17)	(17)	(72)	(264)
Transfers to subsidiary	-	-	-	(12)	(121)	-	(133)
At 31 December 2003	2,125	6,468	429	151	371	234	9,778
Accumulated depreciation							
At 1 January 2003	37	331	428	133	360	158	1,447
Charge for the year	37	315	1	21	89	39	502
Disposals	-	-	-	(7)	(15)	(72)	(94)
Transfers to subsidiary	-	-	-	(10)	(111)	-	(121)
At 31 December 2003	74	646	429	137	323	125	1,734
Charge for 2002	37	331	2	29	117	46	562
Net book value							
At 31 December 2003	2,051	5,822	-	14	48	109	8,044
At 31 December 2002	2,088	6,295	1	46	89	148	8,667

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2003

5. SUBSIDIARY COMPANIES

	Company	
	2003 \$'000	2002 \$'000
Unquoted ordinary shares, at cost	125,040	98,222
Less : Provision for impairment in value of investment	(4,421)	(4,421)
	<u>120,619</u>	<u>93,801</u>
Analysis of provision for impairment in value of investment :-		
Balance at 1 January	4,421	200
Provision during the year	-	4,221
Balance at 31 December	<u>4,421</u>	<u>4,421</u>
Amounts due from subsidiary companies		
- Non-trade	2,308	61
- Short term loan	2,641	19,966
	<u>4,949</u>	<u>20,027</u>
Amounts due from subsidiary companies, current	4,949	20,027
Long term loan to a subsidiary company	1,574	-
	<u>6,523</u>	<u>20,027</u>
Amounts due to subsidiary companies		
- Non-trade	(1,830)	(1,129)
- Short term loan	(8,353)	(2,910)
	<u>(10,183)</u>	<u>(4,039)</u>
Bad debts written-off directly to profit and loss account	14	10

The amounts due from/to subsidiary companies are unsecured, interest-free and are repayable on demand except for \$2,564,000 (2002 : \$19,966,000) of short term loans due from subsidiary companies which bear interest at 1.64% to 5.25% (2002 : 3.7% to 4.2%) per annum and \$1,574,000 (2002 : \$Nil) of long term loan to a subsidiary company which bears interest at 1.64% (2002 : Nil) per annum. \$1,235,000 (2002 : \$71,000) of short term loan due to a subsidiary company also bears interest at 4.5% (2002 : 4.5%) per annum.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2003

6. ASSOCIATED COMPANIES

	Group	
	2003 \$'000	2002 \$'000
Quoted shares, at cost	168	-
Unquoted shares, at cost	3,616	3,616
Less : Provision for impairment in value of investment of unquoted shares	(716)	(566)
	3,068	3,050
Share of net post-acquisition gains/(losses)	2,685	(701)
Goodwill written-off	(2,349)	(2,349)
	3,404	-
Market value of quoted shares at 31 December	16,924	-

Analysis of provision for impairment in value of investment of unquoted shares:-

Balance at 1 January	566	566
Provision during the year	150	-
Balance at 31 December	716	566

	Group		Company	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Amounts due from associated companies				
- Trade	-	190	-	-
- Non-trade	9	-	-	-
- Short term loan	-	282	-	-
	9	472	-	-
Amounts due to an associated company				
- Non-trade	11	-	11	-

The amounts due from/to associated companies are unsecured, interest-free and are repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2003

7. OTHER INVESTMENTS

	Group	
	2003 \$'000	2002 \$'000
Unquoted shares, at cost	1,000	1,000
Less : Provision for impairment in value of investment	(1,000)	(1,000)
	-	-
Analysis of provision for impairment in value of investment :-		
Balance at 1 January and 31 December	1,000	1,000

8. INTANGIBLE ASSETS

Group	Goodwill \$'000	Licences \$'000	Trademarks \$'000	Total \$'000
Cost				
At 1 January 2003	21,336	-	5	21,341
Currency realignment	(231)	3	-	(228)
Due to subsidiary acquired	-	48	-	48
Additions	4,047	-	-	4,047
Write-off	(2,613)	-	-	(2,613)
Due to subsidiary disposed	-	-	(5)	(5)
At 31 December 2003	22,539	51	-	22,590
Accumulated amortisation				
At 1 January 2003	1,591	-	-	1,591
Currency realignment	(19)	1	-	(18)
Due to subsidiary acquired	-	17	-	17
Provided during the year	1,635	12	-	1,647
Write-off	(975)	-	-	(975)
At 31 December 2003	2,232	30	-	2,262
Charge for 2002	1,613	-	-	1,613
Net book value				
At 31 December 2003	20,307	21	-	20,328
At 31 December 2002	19,745	-	5	19,750

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2003

9. DEFERRED TAXATION

	Group		Company	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Deferred tax assets	513	16	-	16
Deferred tax liabilities	(203)	-	(181)	-
	<u>310</u>	<u>16</u>	<u>(181)</u>	<u>16</u>
This can be analysed as follows :-				
Differences in depreciation	(322)	(159)	(325)	(159)
Provisions	257	183	156	183
Unutilised tax losses and capital allowances	421	-	-	-
Unremitted foreign sourced interest income	(27)	-	(5)	-
Other deferred tax liabilities	(19)	(8)	(7)	(8)
	<u>310</u>	<u>16</u>	<u>(181)</u>	<u>16</u>

Deferred tax assets of approximately of \$175,000 (2002: \$468,000) arising from unutilised tax losses and capital allowance of certain subsidiary companies have not been recognised in the financial statements. The deferred tax assets in respect of the current and prior years in the accounts of these subsidiary companies are not recognised in full as the Directors are of the opinion that it is not probable that there would be taxable profit available in the subsidiary companies against which the deductible temporary differences carried forward of unused tax assets and unused tax losses can be utilised.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2003

10. PROJECTS-IN-PROGRESS

	Group		Company	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Current asset				
Being costs and attributable profits in excess of progress billings	25,622	22,798	3,619	8,912
Current liability				
Being progress billings in excess of costs and attributable profits	(3,863)	(1,650)	(544)	(605)
	<u>21,759</u>	<u>21,148</u>	<u>3,075</u>	<u>8,307</u>

This can be analysed as follows :-

Costs incurred and attributable profits	89,431	78,969	23,602	34,856
Less : Provision for foreseeable losses	-	(5)	-	-
	<u>89,431</u>	<u>78,964</u>	<u>23,602</u>	<u>34,856</u>
Less : Progress billings	(67,672)	(57,816)	(20,527)	(26,549)
	<u>21,759</u>	<u>21,148</u>	<u>3,075</u>	<u>8,307</u>

Analysis for provision for foreseeable losses :-

Balance at 1 January	5	268	-	242
Due to subsidiary disposed	(5)	-	-	-
Provision during the year	-	5	-	-
Provision written-back	-	(193)	-	(167)
Provision utilised	-	(75)	-	(75)
Balance at 31 December	<u>-</u>	<u>5</u>	<u>-</u>	<u>-</u>

For the year ended 31 December 2003, auditors' remuneration incurred and included in the projects-in-progress of the Group (incurred in relation to certification services rendered in respect of projects undertaken by the Group) amounts to \$45,000 (2002 : \$195,000).

NOTES TO THE FINANCIAL STATEMENTS

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11. STOCKS

	Group	
	2003 \$'000	2002 \$'000
Raw materials, at net realisable value	333	1,245
Stocks work-in-progress, at cost	112	139
Finished goods, at cost	100	81
	<u>545</u>	<u>1,465</u>
Stocks are stated after deducting provision for stock obsolescence	<u>327</u>	<u>344</u>

Analysis of provision for stock obsolescence :-

Balance at 1 January	344	332
Currency realignment	28	20
Due to subsidiary acquired	34	-
Provision written back	(79)	(8)
Balance at 31 December	<u>327</u>	<u>344</u>

12. OTHER DEBTORS, DEPOSITS AND PREPAYMENTS

	Group		Company	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Prepayments	972	661	41	6
Other debtors	861	405	86	63
Deposits	780	187	74	74
Staff loans and advances	95	138	10	26
Tax recoverable	174	76	-	-
	<u>2,882</u>	<u>1,467</u>	<u>211</u>	<u>169</u>

NOTES TO THE FINANCIAL STATEMENTS

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13. AMOUNTS DUE TO BANKERS

	Group and Company	
	2003 \$'000	2002 \$'000
Short term loans, unsecured		
- S\$ fixed rate	12,150	12,350
- GBP* fixed rate	9,061	8,378
- US\$^ fixed rate	8,194	-
Current portion of long term loans, unsecured		
- US\$^ fixed rate	2,845	8,483
	<u>32,250</u>	<u>29,211</u>
Long term loans, unsecured		
- US\$^ fixed rate	2,845	9,295
- S\$ fixed rate	5,000	-
	<u>7,845</u>	<u>9,295</u>
	<u>40,095</u>	<u>38,506</u>

* GBP - British Sterling Pounds

^ US\$ - United States Dollars

The unsecured short term loans bear interest at 1.19% - 5.18% (2002 : 1.38% - 5.04%) per annum.

In 2003, the unsecured long term loans of the Company and of the Group bear interest ranging between 1.61% - 2.50% (2002 : 2.29% - 2.93%) per annum and is repayable by periods from May 2004 to Oct 2005.

14. PROVISION FOR WARRANTIES

	Group		Company	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Balance at 1 January	369	965	234	658
Currency realignment	11	(5)	-	-
Due to subsidiary acquired	157	-	-	-
Transfers to subsidiary	-	-	(177)	
Provision during the year	821	660	222	508
Provision written back	(138)	(853)	(11)	(662)
Provision utilised	(490)	(398)	(158)	(270)
	<u>730</u>	<u>369</u>	<u>110</u>	<u>234</u>

Provision for warranties relates to the provision for the additional costs to be incurred in rectification work performed during the warranty period of the project-in-progress. The provision for such costs is based on estimates made from historical data associated with similar projects.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2003

15. SHARE CAPITAL

	Group and Company	
	2003 \$'000	2002 \$'000
Authorised :-		
600,000,000 ordinary shares at \$0.05 each	30,000	30,000
Issued and fully paid :-		
Balance at 1 January		
307,860,407 (2002 : 267,860,407) ordinary shares of \$0.05 each	15,393	13,393
Issued during the year :-		
40,000,000 ordinary shares of \$0.05 for cash at \$0.467 each	-	2,000
1,105,000 ordinary shares of \$0.05 each for cash at \$0.5046 each	55	-
3,542,000 ordinary shares of \$0.05 each for cash at \$0.3060 each	177	-
Balance at 31 December		
312,507,407 (2002 : 307,860,407) ordinary shares of \$0.05 each	15,625	15,393

During the financial year, the Company issued 1,105,000 new ordinary shares of \$0.05 each in the share capital of the Company fully paid up at a premium of \$0.4546 each for cash, pursuant to the exercise of vested share options that were granted under the CSE Systems & Engineering Executives' Share Option Scheme prior to 9 October 2001 to Directors and full time employees of the Group. In addition, the Company also issued 3,407,000 and 135,000 new ordinary shares of \$0.05 each in the share capital of the Company fully paid up at a premium of \$0.2560 each for cash, pursuant to the exercise of vested share options that were granted under the CSE Systems & Engineering Executives' Share Option Scheme subsequent to 9 October 2001 and the CSE (US Subsidiaries) Incentive Stock Option Plan respectively to Directors and full time employees of the Group. The 4,647,000 new ordinary shares of \$0.05 each in the share capital of the Company that were issued as a result of the above mentioned share option exercises rank pari passu in all respects with the existing issued ordinary shares in the Company.

During the previous financial year, the Company issued 40,000,000 new ordinary shares of \$0.05 each in the share capital of the Company fully paid up at a premium of \$0.417 each for cash, pursuant to the private placement agreement dated 25 January 2002 entered into between the Company and The Development Bank of Singapore Ltd. The 40,000,000 new ordinary shares of \$0.05 each in the share capital of the Company that were issued as a result of the above private placement rank pari passu in all respects with the existing issued ordinary shares in the Company.

The holders of ordinary shares are entitled to receive dividends when declared by the Company. All ordinary shares carry one vote per share without restriction.

The Company grants share options to Directors and full time employees of the Company and of the Group pursuant to the following share option schemes :-

- (i) CSE Systems & Engineering Executives' Share Option Scheme ("CSE ESOS") prior to 9 October 2001;
- (ii) CSE Systems & Engineering Executives' Share Option Scheme ("CSE ESOS") subsequent to 9 October 2001; and
- (iii) CSE (US Subsidiaries) Incentive Stock Option Plan ("US Plan")

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2003

15. SHARE CAPITAL (CONT'D)

Details of the share option schemes and the respective share options that are granted as at 31 December 2003 are disclosed in the following :-

(i) CSE Systems & Engineering Executives' Share Option Scheme ("CSE ESOS") prior to 9 October 2001

Under the Company's CSE ESOS prior to 9 October 2001, the share options that are granted as at 31 December 2003 are as follows :-

Date of grant	Balance as at 1.1.2003	Addition	Cancelled	Exercised	Balance as at 31.12.2003	Exercise Price	Exercise Period
1 October 1999	1,200,000	-	(50,000)	-	1,150,000	\$0.7918	1 October 2002 to 1 October 2004
30 October 2000	7,315,000	-	(510,000)	(1,105,000)	5,700,000	\$0.5046	30 October 2003 to 30 October 2005
30 April 2001	200,000	-	-	-	200,000	\$0.4269	30 April 2004 to 30 April 2006
	<u>8,715,000</u>	<u>-</u>	<u>(560,000)</u>	<u>(1,105,000)*</u>	<u>7,050,000</u>		

There are no participants of CSE ESOS prior to 9 October 2001 who are controlling shareholders of the Company or their associates, or who received 5 percent or more of the total number of share options available under the CSE ESOS prior to 9 October 2001. As the Company does not have any parent company, there are therefore no participants of CSE ESOS prior to 9 October 2001 who are directors or employees of the Company's parent company and its subsidiary companies.

The participants of CSE ESOS prior to 9 October 2001 who are Directors of the Company as at 31 December 2003 are disclosed in the following table:

Share options granted on 30.10.2000 exercisable at the price of \$0.5046 each in Ordinary shares of \$0.05 each fully paid exercisable from 30.10.2003 to 30.10.2005				
Name of participant in respect of CSE ESOS prior to 9 October 2001	Options granted during the financial year under review	Aggregate options granted since commencement of scheme to end of financial year under review	Aggregate options exercised since commencement of scheme to end of financial year under review	Aggregate options outstanding as at end of financial year under review
Goh Boon Seong	-	120,000	-	120,000
Lee Soo Hoon Phillip	-	120,000	-	120,000
Lim Boh Soon	-	120,000	120,000	-

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15. SHARE CAPITAL (CONT'D)

The terms of the share options granted under the CSE ESOS prior to 9 October 2001 to the Directors of the Company are the same as those granted to the employees of the Group and they are disclosed below.

Only Directors and full time employees of the Group who have attained the age of twenty one (21) years are eligible to participate in the CSE ESOS prior to 9 October 2001. Each option entitles the participant to subscribe for a number of new ordinary shares of \$0.05 each in the Company pre-determined at the date of grant. The options are granted in consideration of \$1.00 per option for all the shares in respect of which the option is granted. The shares under option may be exercised in full or in blocks of 1,000 shares or a multiple thereof on the payment of the exercise price. The participants to whom the options have been granted do not have the right to participate by virtue of the options in a share issue of any other company. Options granted are cancelled when the participant ceases to be a full-time employee of the Company or any corporation in the Group subject to certain exceptions at the discretion of the Company. The exercise of the options is also subjected to the satisfactory performance of the participant's duties.

For all the options that are granted under CSE ESOS prior to 9 October 2001, the options may be exercised within a period commencing after the third anniversary of the date of grant and expiring on the fifth anniversary of the date of grant.

For all the options that are granted under CSE ESOS prior to 9 October 2001, the subscription price at which a participant subscribes for new ordinary shares of \$0.05 each of the Company upon the exercise of the option granted shall be at a discount of between zero (0) percent and forty (40) per cent (as determined in accordance with the Formula as set out below) of the average of the last dealt prices for an ordinary share of \$0.05 each of the Company, as determined by reference to the daily Official List published by the Singapore Exchange Securities Trading Limited, for the five (5) consecutive trading days immediately preceding the date of grant of the option, or the nominal value of the ordinary shares of \$0.05 each of the Company, whichever is higher.

The Formula for the determination of the discount is given as follows :-

$$\text{Discount} = \frac{\text{Average Profit} - 0.6 (\text{Base Figure})}{1.456 (\text{Base Figure}) - 0.6 (\text{Base Figure})} \times 40\%$$

whereby:

the Base Figure represents the higher of the audited profit before tax and extraordinary items of the CSE Group of the financial year immediately preceding the financial year in which the date of grant falls, or ten (10) percent of the audited sales revenue of the Group for the financial year immediately preceding the financial year in which the date of grant falls; and

the Average Profit represents the average audited profit before tax and extraordinary items of the Group for three (3) consecutive financial years beginning from the financial year in which the date of grant falls; and

In the event that the Average Profit is more than or equal to 1.456 times of the higher of:-

- a) audited profit before tax and extraordinary items of the CSE Group of the financial year immediately preceding the financial year in which the date of grant falls; and
- b) ten (10) percent of the audited sales revenue of the Group for the financial year immediately preceding the financial year in which the date of grant falls;

the subscription price shall be calculated to be the result after a discount of forty (40) percent.

No discount shall be given if the Average Profit falls below 0.6 times of the Base Figure. In the event that the Average Profit is more than 0.6 times but less than 1.456 times of the Base Figure, the discount shall be determined proportionately.

NOTES TO THE FINANCIAL STATEMENTS

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15. SHARE CAPITAL (CONT'D)

The subscription prices of the share options issued under CSE ESOS prior to 9 October 2001 are entitled to a maximum discount of 40%. The determination of the quantum of the 40% discount on the subscription prices of share options issued under CSE ESOS prior to 9 October 2001 is based on the performance of the CSE Group for the three consecutive financial years beginning from the financial year in which the date of grant falls. The quantum of the discount on the subscription prices of share options issued under CSE ESOS prior to 9 October 2001 is only determined on the respective vesting dates. The number, proportion and discount entitlements of the various categories of share options granted under CSE ESOS prior to 9 October 2001, where determinable to date, are disclosed in the following table:

Date of grant	Aggregate options outstanding as at end of financial year under review	Proportion against aggregate options outstanding	Financial years considered for performance evaluation	Vesting date of share options	Expiry date of share options	Discount entitlement
1 October 1999	1,150,000	16%	FY1999 to FY2001	1 October 2002	1 October 2004	40%
30 October 2000	5,700,000	81%	FY2000 to FY2002	30 October 2003	30 October 2005	40%
30 April 2001	200,000	3%	FY2001 to FY2003	30 April 2004	30 April 2006	14%

(ii) CSE Systems & Engineering Executives' Share Option Scheme ("CSE ESOS") subsequent to 9 October 2001

Under the Company's CSE ESOS subsequent to 9 October 2001, the share options that are granted as at 31 December 2003 are as follows :-

Date of grant	Balance as at 1.1.2003	Addition	Cancelled	Exercised	Balance as at 31.12.2003	Exercise Price	Exercise Period
30 October 2001	7,761,000	-	(1,126,000)	(3,407,000)	3,228,000	\$0.3060	30 October 2003 to 30 October 2006
31 October 2002	9,151,000	-	(1,760,000)	-	7,391,000	\$0.3072	31 October 2004 to 31 October 2007
10 September 2003	-	500,000	-	-	500,000	No less than \$0.4264 but not more than \$0.5330	10 September 2005 to 10 September 2008
31 December 2003	-	8,408,000	-	-	8,408,000	No less than \$0.5184 but not more than \$0.6480	31 December 2005 to 31 December 2008
	<u>16,912,000</u>	<u>8,908,000</u>	<u>(2,886,000)</u>	<u>(3,407,000)</u>	<u>19,527,000</u>		

NOTES TO THE FINANCIAL STATEMENTS

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15. SHARE CAPITAL (CONT'D)

There are no participants of CSE ESOS subsequent to 9 October 2001 who are controlling shareholders of the Company or their associates, or who received 5 percent or more of the total number of share options available under the CSE ESOS subsequent to 9 October 2001. As the Company does not have any parent company, there are therefore no participants of CSE ESOS subsequent to 9 October 2001 who are directors or employees of the Company's parent company and its subsidiary companies.

The participants of CSE ESOS subsequent to 9 October 2001 who are Directors of the Company as at 31 December 2003 are disclosed in the following tables:

Share options granted on 30.10.2001 exercisable at the price of \$0.3060 each in Ordinary shares of \$0.05 each fully paid exercisable from 30.10.2003 to 30.10.2006				
Name of participant in respect of CSE ESOS subsequent to 9 October 2001	Options granted during the financial year under review	Aggregate options granted since commencement of scheme to end of financial year under review	Aggregate options exercised since commencement of scheme to end of financial year under review	Aggregate options outstanding as at end of financial year under review
Goh Boon Seong	-	60,000	-	60,000
Lee Soo Hoon Phillip	-	60,000	60,000	-
Lim Boh Soon	-	60,000	60,000	-

Share options granted on 31.10.2002 exercisable at a price of \$0.3072 each in Ordinary shares of \$0.05 each fully paid exercisable from 31.10.2004 to 31.10.2007				
Name of participant in respect of CSE ESOS subsequent to 9 October 2001	Options granted during the financial year under review	Aggregate options granted since commencement of scheme to end of financial year under review	Aggregate options exercised since commencement of scheme to end of financial year under review	Aggregate options outstanding as at end of financial year under review
Goh Boon Seong	-	60,000	-	60,000
Lee Soo Hoon Phillip	-	60,000	-	60,000
Lim Boh Soon	-	60,000	-	60,000
Sin Boon Ann	-	30,000	-	30,000

Share options granted on 31.12.2003 exercisable at a price of not less than \$0.5184 but not more than \$0.6480 each in Ordinary shares of \$0.05 each fully paid exercisable from 31.12.2005 to 31.12.2008				
Name of participant in respect of CSE ESOS subsequent to 9 October 2001	Options granted during the financial year under review	Aggregate options granted since commencement of scheme to end of financial year under review	Aggregate options exercised since commencement of scheme to end of financial year under review	Aggregate options outstanding as at end of financial year under review
Goh Boon Seong	60,000	60,000	-	60,000
Lee Soo Hoon Phillip	60,000	60,000	-	60,000
Lim Boh Soon	60,000	60,000	-	60,000
Sin Boon Ann	60,000	60,000	-	60,000

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15. SHARE CAPITAL (CONT'D)

The terms of the share options granted under the CSE ESOS subsequent to 9 October 2001 to the Directors of the Company are the same as those granted to the employees of the Group and they are disclosed below.

Only Directors and full time employees of the Group who have attained the age of twenty one (21) years are eligible to participate in the CSE ESOS subsequent to 9 October 2001. Each option entitles the participant to subscribe for a number of new ordinary shares of \$0.05 each in the Company pre-determined at the date of grant. The options are granted in consideration of \$1.00 per option for all the shares in respect of which the option is granted. The shares under option may be exercised in full or in blocks of 1,000 shares or a multiple thereof on the payment of the exercise price. The participants to whom the options have been granted do not have the right to participate by virtue of the options in a share issue of any other company. Options granted are cancelled when the participant ceases to be a full-time employee of the Company or any corporation in the Group subject to certain exceptions at the discretion of the Company. The exercise of the options is also subjected to the satisfactory performance of the participant's duties.

For all the options that are granted under CSE ESOS subsequent to 9 October 2001, those options may be exercised within a period commencing after the second anniversary of the date of grant and expiring on the fifth anniversary of the date of grant.

For all the options that are granted under CSE ESOS subsequent to 9 October 2001, the subscription price at which a participant subscribes for new ordinary shares of \$0.05 each of the Company upon the exercise of the option granted shall be at a discount of between zero (0) percent and twenty (20) per cent of the average of the last dealt prices for an ordinary share of \$0.05 each of the Company, as determined by reference to the daily Official List published by the Singapore Exchange Securities Trading Limited, for the five (5) consecutive trading days immediately preceding the date of grant of the option, or the nominal value of the ordinary shares of \$0.05 each of the Company, whichever is higher.

The quantum of the discount shall be equal to the compounded rate of growth (expressed in percentage terms) of the Group's audited profit before tax and extraordinary items for two (2) consecutive financial years beginning from the financial year in which the date of grant falls. The discount shall, in no event, exceed twenty (20) per cent, notwithstanding that the compounded rate of growth may exceed twenty (20) per cent. No discount shall be given if the compounded rate of growth is nil or negative.

The subscription prices of the share options issued under CSE ESOS subsequent to 9 October 2001 are entitled to a maximum discount of 20%. The determination of the quantum of the 20% discount on the subscription prices of share options issued under CSE ESOS subsequent to 9 October 2001 is based on the performance of the CSE Group for the two consecutive financial years beginning from the financial year in which the date of grant falls. The quantum of the discount on the subscription prices of share options issued under CSE ESOS subsequent to 9 October 2001 is only determined on the respective vesting dates. The number, proportion and discount entitlements of the various categories of share options granted under CSE ESOS subsequent to 9 October 2001, where determinable to date, are disclosed in the following table:

Date of grant	Aggregate options outstanding as at end of financial year under review	Proportion against aggregate options outstanding	Financial years considered for performance evaluation	Vesting date of share options	Expiry date of share options	Discount entitlement
30 October 2001	3,228,000	17%	FY2001 to FY2002	30 October 2003	30 October 2006	0%
31 October 2002	7,391,000	38%	FY2002 to FY2003	31 October 2004	31 October 2007	20%
10 September 2003	500,000	2%	FY2003 to FY2004	10 September 2005	10 September 2008	Non-determinable
31 December 2003	8,408,000	43%	FY2003 to FY2004	31 December 2005	31 December 2008	Non-determinable

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15. SHARE CAPITAL (CONT'D)

(iii) CSE (US Subsidiaries) Incentive Stock Option Plan ("US Plan")

Under the Company's US Plan, the share options that are granted as at 31 December 2003 are as follows :-

Date of grant	Balance as at 1.1.2003	Addition	Cancelled	Exercised	Balance as at 31.12.2003	Exercise Price	Exercise Period
30 October 2001	1,415,000	–	(145,000)	(135,000)	1,135,000	\$0.3060	30 October 2003 to 30 October 2006
31 October 2002	1,760,000	–	(196,000)	–	1,564,000	\$0.3840	31 October 2004 to 31 October 2007
31 December 2003	–	1,600,000	–	–	1,600,000	\$0.6480	31 December 2005 to 31 December 2008
	<u>3,175,000</u>	<u>1,600,000</u>	<u>(341,000)</u>	<u>(135,000)</u>	<u>4,299,000</u>		

There are no participants of US Plan who are Directors of the Company, controlling shareholders of the Company or their associates, or who received 5 percent or more of the total number of share options available under the US Plan. As the Company does not have any parent company, there are therefore no participants of US Plan who are directors or employees of the Company's parent company and its subsidiary companies.

Only full time employees of the subsidiary companies of the Group incorporated in any state of the United States of America who have attained the age of twenty one (21) years are eligible to participate in the US Plan, except for the employees who were already holding options that are granted under the CSE ESOS at the time the US Plan was adopted by the Company. Each option entitles the participant to subscribe for a number of new ordinary shares of \$0.05 each in the Company pre-determined at the date of grant. The shares under option may be exercised in full or in blocks of 1,000 shares or a multiple thereof on the payment of the exercise price. The participants to whom the options have been granted do not have the right to participate by virtue of the options in a share issue of any other company. Options granted are cancelled when the participant ceases to be a full-time employee of the subsidiary companies of the Group incorporated in any state of the United States of America subject to certain exceptions at the discretion of the Company. The exercise of the options is also subjected to the satisfactory performance of the participant's duties.

The options granted under the US Plan may be exercised within a period commencing after the second anniversary of the date of grant and expiring on the fifth anniversary of the date of grant.

The subscription price at which a participant subscribes for new ordinary shares of \$0.05 each of the Company upon the exercise of the option granted under the US Plan shall be the average of the last dealt prices for an ordinary share of \$0.05 each of the Company, as determined by reference to the daily Official List published by the Singapore Exchange Securities Trading Limited, for the five (5) consecutive trading days immediately preceding the date of grant of the option, or the nominal value of the ordinary shares of \$0.05 each of the Company, whichever is higher. The subscription prices of the share options issued under US Plan are not entitled to any form of discounts.

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16. SHARE PREMIUM

	Group and Company	
	2003 \$'000	2002 \$'000
Balance at 1 January	61,420	45,180
Premium on issue of ordinary shares :-		
40,000,000 ordinary shares of \$0.05 each for cash at \$0.467 each	-	16,680
1,105,000 ordinary shares of \$0.05 each for cash at \$0.5046 each	502	-
3,542,000 ordinary shares of \$0.05 each for cash at \$0.3060 each	907	-
Less : Expenses on issuance of ordinary shares	(2)	(440)
Balance at 31 December	<u>62,827</u>	<u>61,420</u>

17. (ACCUMULATED LOSS) / REVENUE RESERVE

	Group		Company	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Balance at 1 January	(38,312)	(50,369)	13,161	15,244
Dividends on ordinary shares (Note 34)	(2,401)	-	(2,401)	-
Retained profit/(loss) for the year	17,341	12,057	1,796	(2,083)
Balance at 31 December	<u>(23,372)</u>	<u>(38,312)</u>	<u>12,556</u>	<u>13,161</u>

18. FOREIGN CURRENCY TRANSLATION RESERVE

	Group		Company	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Balance at 1 January	(353)	1,015	(466)	-
Exchange difference for the year arising on consolidation	142	(902)	-	-
Exchange difference for the year arising on hedging of net investment	(677)	(466)	(677)	(466)
Balance at 31 December	<u>(888)</u>	<u>(353)</u>	<u>(1,143)</u>	<u>(466)</u>

NOTES TO THE FINANCIAL STATEMENTS

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19. REVENUES

Revenues represent the billings recognised on projects-in-progress.

20. MISCELLANEOUS INCOME

	Group	
	2003 \$'000	2002 \$'000
Gain on disposal of a subsidiary company	657	-
Gain on partial disposal of an associated company	5,081	-
Rental income	549	410
Miscellaneous income	134	62
Net exchange loss	(21)	(107)
	<u>6,400</u>	<u>365</u>

21. FINANCE INCOME

	Group	
	2003 \$'000	2002 \$'000
Interest income – fixed deposits	<u>111</u>	<u>156</u>

NOTES TO THE FINANCIAL STATEMENTS

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22. TOTAL EXPENSES

	Group	
	2003 \$'000	2002 \$'000
Total expenses include :-		
Auditors' remuneration -		
- Auditors of the Company		
- Current year	118	100
- Under-provision in prior year	-	2
- Non-audit services	66	54
- Other auditors of subsidiary companies		
- Current year	260	147
- Non-audit services	136	22
Depreciation of fixed assets	1,217	1,435
(Gain) / loss on disposal of fixed assets	(9)	40
Loss on fixed assets written off	1	19
Amortisation of intangible assets	1,647	1,613
Intangible assets written off	1,638	1,142
Write-back of provision for foreseeable losses, net	-	(188)
Write-back of provision for stock obsolescence	(79)	(8)
(Write-back of)/provision for doubtful debts		
- trade	(23)	198
- associated company	277	26
Bad debts written off directly to the profit & loss account		
- trade	18	-
Provision for/(write-back of provision for) warranties, net	683	(193)
Directors' remuneration		
- Directors of the Company	929	523
- Directors of subsidiary companies	1,146	974
Directors' fees		
- Directors of the Company	192	227
Employees' provident fund	1,123	1,378
Research and development expenses written off	-	1,605
Provision for impairment in value of investment		
- Associated company	150	-

23. FINANCE COSTS

	Group	
	2003 \$'000	2002 \$'000
Interest expense – bank loans	1,067	917
Bank charges	71	24
	1,138	941

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2003

24. TAXATION

	Group	
	2003 \$'000	2002 \$'000
Provision for taxation in respect of profit for the year :-		
Current taxation :		
- Singapore	311	569
- Foreign	4,347	2,019
Deferred taxation :		
- Singapore	(294)	(16)
- Foreign	(10)	-
	<u>4,354</u>	<u>2,572</u>
Share of tax in associated companies	8	-
	<u>4,362</u>	<u>2,572</u>
Withholding tax	252	131
(Over)/under provision for prior years' taxation	(265)	56
Taxation	<u>4,349</u>	<u>2,759</u>

A reconciliation between the tax expense and the product of accounting profit before tax multiplied by the applicable tax rate for the financial years ended 31 December can be analysed as follows :

Profit before taxation (excluding share of results of associated companies and joint venture)	20,499	15,468
Taxation at statutory tax rate of 22.0%	4,509	3,403
Adjustments :		
Expenses not deductible for tax purposes	1,190	72
Temporary differences previously not recognised, now recognised	(238)	-
Utilisation of tax losses and capital allowance previously not recognised	(453)	-
Tax losses and capital allowance not recognised	-	200
Income not subjected to taxation	(2,175)	(641)
Income which is subject to concessionary tax rate	-	(111)
Different effective tax rates of other countries	1,623	928
Goodwill deductible in a foreign subsidiary company	-	(1,173)
Others	(102)	(106)
	<u>4,354</u>	<u>2,572</u>
Share of tax in associated companies	8	-
	<u>4,362</u>	<u>2,572</u>

NOTES TO THE FINANCIAL STATEMENTS

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24. TAXATION (CONT'D)

As at 31 December 2003, the Group has unutilised tax losses amounting to approximately \$1,883,000 (2002 : \$2,110,000) and capital allowance amounting to \$325,000 (2002: \$19,000) available for offset against future profits, subject to agreement by tax authorities and compliance with tax regulations in the respective countries in which certain subsidiary companies operate.

The Company was previously granted a concessionary tax rate by the Economic Development Board under the EDB Development & Expansion Incentive Scheme. The concessionary tax rate expired on 31 December 2002.

25. EARNINGS PER SHARE

	Group	
	2003 \$'000	2002 \$'000
Basic earnings per share		
The basic earnings per share is computed based on :-		
Net profit for the year	17,341	12,057
	2003 No. of shares	2002 No. of shares
Weighted average number of shares		
- outstanding during the year	307,860,407	267,860,407
- issued during the year	500,019	37,369,863
	<u>308,360,426</u>	<u>305,230,270</u>

Diluted earnings per share

The weighted average number of ordinary shares adjusted for the effect of all dilutive potential ordinary shares is determined as follows :-

	2003 No. of shares	2002 No. of shares
Weighted average number of shares outstanding during the year, used in the computation of basic earnings per share	308,360,426	305,230,270
Weighted average number of unissued ordinary shares under share options	25,774,910	20,628,126
Number of shares that would have been issued at fair value under share options	<u>(14,621,813)</u>	<u>(13,361,795)</u>
Weighted average number of ordinary shares	<u>319,513,523</u>	<u>312,496,601</u>

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26. DIRECTORS' REMUNERATION

Pursuant to Rule 1207(11) to (14) of the Singapore Exchange Securities Trading Limited Listing Manual, the following number of Directors of the Company whose remuneration falls within the stipulated remuneration bands is disclosed as follows :-

	Company					
	2003			2002		
	Executive Directors	Non-executive Directors	Total	Executive Directors	Non-executive Directors	Total
\$500,000 and above	1	-	1	1	-	1
\$250,000 to below \$500,000	-	-	-	-	-	-
Below \$250,000	-	5	5	-	8	8
	1	5	6	1	8	9

27. CASH AND CASH EQUIVALENTS

	Group	
	2003 \$'000	2002 \$'000
Fixed deposits	2,907	2,569
Cash and bank balances	14,210	8,975
	17,117	11,544

28. TURNOVER & OPERATING PROFITS BY SEGMENTS

The major segments of the Group comprise the Industrial Business Unit and the IT Consulting Business Unit.

The Industrial Business Unit ("IBU") delivers a wide and diverse range of solutions involving the implementation of Control and Safety Systems, Information Systems, Terminal Automation Systems, Pneumatic and Hydraulic Control Systems, Programmable and SCADA Systems, Instrumentation and Electrical Field Construction Services, SCOPE Telemetry, Programmable Control Systems (Simplex and Duplex), Triplicate Modular Redundant Systems and Solid State Relay and Instrumentation for applications to the Energy and Petrochemical/Chemical, Oil and Gas and Power and Process Utility industries on a turnkey basis.

In addition, IBU also offers complete turnkey SCADA/Telemetry Systems to the water, drainage, sewerage and environmental (pollution and hydrology) industries through the implementation of the client-server distributed database SCADA package, SCOPE-X (Servelec Configurable Online Process Executive) and Seprol Ranges of RTUs. Moreover, IBU also offers the implementation of RIO, a fully integrated Clinical Information System, to automate and facilitate the recording and reporting of patients related information to the Healthcare industry in relation to Mental Health, Maternity and Children Cares and the implementation of Panoptes, an integrated security control room system which incorporates surveillance, communications and status information for security management through a single multi-faceted environment and is supplemented with decision support and full audit capabilities.

Furthermore, IBU provides turnkey telecommunication network solutions for infrastructure projects in the Oil and Gas and Energy industry, both onshore and offshore. This includes Offshore Platforms, Onshore Processing Facilities (Refineries, LNG plants, Gas Plants and Petrochemical Plants) and Power Generation Plants. Moreover, IBU develops and markets a pipeline simulation, monitoring, management and leak detection system for oil and gas pipelines.

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28. TURNOVER & OPERATING PROFITS BY SEGMENTS (CONT'D)

The IT Consulting Business Unit ("ITCBU") offers solutions involving the implementation of Systems Integration Services Systems, Electronic Document Workflow and Management Systems, Data Conversion Services Systems, Electronic Registry and eFiling Solutions, Enterprise Network and Management Solutions to the Government sector. In addition, ITCBU also delivers solutions involving Online Internet Banking Services Solutions, Mobile / Wireless Banking Solutions, Provision of Digital Sales Force Automation Solutions with built-in Customer Relationship Management Systems and the Provision of Online-Stock Trading Systems to the banking and finance industry.

Segments results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise corporate assets and expenses.

The turnover by geographical segments are based on the location of customers regardless of where the goods are produced. The assets and capital expenditure are based on the location of those assets.

	Industrial Business Unit		IT Consulting Business Unit		Consolidated	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Business activities segments						
Sales to external customers	156,488	120,572	12,482	22,679	168,970	143,251
Operating profit/(loss)	18,775	16,683	2,751	(430)	21,526	16,253
Finance income					111	156
Finance costs					(1,138)	(941)
Share of profit/(loss) of unconsolidated associated companies					1,276	(177)
Share of loss of unconsolidated joint venture					-	(3)
Profit before taxation					21,775	15,288
Taxation					(4,349)	(2,759)
Minority interest, net of tax					(85)	(472)
Profit after tax from ordinary activities					17,341	12,057
Segment assets	111,141	86,547	5,828	13,992	116,969	100,539
Unallocated assets					5,714	770
Segment liabilities	(24,331)	(18,199)	(913)	(3,203)	(25,244)	(21,402)
Unallocated liabilities					(42,845)	(40,679)
					54,594	39,228
Other segment information :						
Capital expenditure	5,306	18,291	255	420	5,561	18,711
Depreciation	1,118	1,176	99	259	1,217	1,435
Amortisation	874	309	773	1,304	1,647	1,613
Intangible assets written off	-	-	1,638	1,142	1,638	1,142

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28. TURNOVER & OPERATING PROFITS BY SEGMENTS (CONT'D)

Geographical segments

The following table presents revenue and expenditure information regarding geographical segments for the year ended 31 December 2003 and 2002.

	Singapore		Asia		America		Europe/Middle East		Consolidated	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Segment revenue										
Sales to external customers	19,327	20,764	14,060	14,438	104,390	81,402	31,193	26,647	168,970	143,251
Total assets	39,103	30,468	2,458	7,690	58,811	48,753	22,311	14,398	122,683	101,309

Projects in Asia cover countries such as China, Hong Kong, Korea, Japan, Thailand, Malaysia, Indonesia and Vietnam.

Other Segment Information :

Capital expenditure	2,966	1,062	84	323	732	17,195	1,779	131	5,561	18,711
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29. CONTINGENT LIABILITIES, UNSECURED

	Group	
	2003 \$'000	2002 \$'000
Guarantees provided in respect of :-		
Performance of contracts	9,313	3,574

30. OPERATING LEASE COMMITMENTS

As at the balance sheet date, the Group has the following minimum lease payments under non-cancellable operating lease on premises and equipment with initial or remaining term of one year or more :-

	Group	
	2003 \$'000	2002 \$'000
Payable within 1 year	1,488	1,487
Payable later than 1 year but not later than 5 years	2,195	2,574
Payable later than 5 years	5	1,547
	3,688	5,608
Rental expenses (principally for offices and equipment)	1,664	1,864

The Group leases a number of office premises under operating leases. These leases typically run for an initial tenure of between one to nine years. Certain leases include options to renew the leases after the expiry of the initial tenure. Lease payments under these leases are usually fixed for the entire initial tenure.

The Group has entered into a operating lease arrangement to lease its leasehold building for the period commencing from 1 May 2002 to 30 April 2005.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2003

31. RELATED PARTY TRANSACTIONS

Directors' and executives' remuneration

The remuneration and fees of Directors of the Group for the financial year ended 31 December 2003 amounted to \$2,075,000 (2002 : \$1,497,000) and \$192,000 (2002 : \$227,000) respectively. The remuneration of the key executive officers for the financial year ended 31 December 2003 amounted to \$1,565,000 (2002 : \$1,245,000).

32. RISK MANAGEMENT

Exposure to interest rate, foreign currency and credit risks arises in the normal course of the Group's business. The Group uses pre-dominantly foreign exchange forward contracts in connection with its risk management activities to reduce the Group's exposure to fluctuations in foreign exchange rates. While these are subject to the risk of market rates changing subsequent to the contract date, such changes are generally offset by the opposite effects on the items being hedged. The Group does not hold any foreign exchange forward contracts for trading or speculative purposes.

The Group has established processes to monitor and control hedging transactions in respect of the foreign exchange forward contracts on a timely and effective manner as part of the Group's risk management procedures. These risk management processes are reviewed by the management on a periodic basis to ensure its effectiveness in managing the Group's risk in respect of the above.

The Group's accounting policies in relation to derivative financial instruments are set out in Note 2(v).

Foreign currency risk

The Group has exposure to foreign currency risk as a result of engaging in transactions denominated in foreign currencies that arise from the Group's trading and investing activities in the course of business. Where exposures to foreign currency risk are certain, it is the Group's policy to conduct foreign currency hedging activities to hedge against such risks. The primary purpose of the Group's foreign currency hedging activities is to protect the Group against the volatility associated with foreign currency exposure. The Group uses pre-dominantly foreign exchange forward contracts with maturities of less than 12 months to hedge the above mentioned items.

As at 31 December 2003, the Company and the Group have entered into foreign currency forward sell contracts amounting to \$12,626,000. The fair value adjustment of the sell contracts (which is the difference between the notional principal amount and market value of the contracts) is a loss of \$5,700. These foreign currency forward contracts, whose maturity dates are 3 months from the financial year end, were entered into for the purpose of hedging of foreign currency bank loans and trade receivables.

As at 31 December 2002, the Company and the Group had entered into foreign currency forward buy contracts amounting to \$17,617,000. The fair value adjustment of the buy contracts (which is the difference between the notional principal amount and market value of the contracts) was a loss of \$188,000. These foreign currency forward contracts, whose maturity dates are 2 months from the financial year end, were entered into for the purpose of hedging of net investment in foreign subsidiary companies.

Credit risks

The Group's maximum exposure to credit risk, in the event that the counter-parties to the transactions with the Group fail to perform their obligations as of balance sheet date in relation to each class of recognised financial assets, is the carrying amount of those assets as indicated in the balance sheet, and is generally limited to the amounts, if any, by which the counter-parties' obligations exceed the obligations of the Group.

In the aspect of credit risk arising from the inability of customers of the Group to make payments when their receivables fall due, it is the Group's policy to provide credit terms to creditworthy and reputable customers. These receivables are continually monitored on an ongoing basis to ensure that issues arising from non-collectibility are minimised. Therefore, the Group does not expect material credit losses on its debts with customers.

In the aspect of credit risk arising from the Group's foreign exchange forward contracts, it is the Group's policy to enter into foreign exchange forward contracts with a diversity of creditworthy and reputable financial institutions. Therefore, the Group does not expect material credit losses on its foreign exchange forward contracts.

The Group has no significant concentration of credit risk.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2003

32. RISK MANAGEMENT (CONT'D)

Interest rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's borrowings and overdraft facilities from financial institutions, from which the Group obtains additional financing for its activities. The Group's policy is to manage its interest costs by obtaining the most favourable interest rates on its borrowings of various tenors and overdraft facilities available without increasing its foreign currency exposure.

Surplus funds of the Group are also placed with financial institutions as fixed deposits to generate interest income. The fixed deposits of the Group bears interest ranging between 0.34375% - 10.25% (2002 : 1.75% - 10.25%) per annum.

Liquidity risk

To ensure the continuity of funding for the Group's operations, the Group obtains short term funding from reputable financial institutions.

Fair value

The carrying amounts of the Group's trade and other debtors, amount due from associated companies, trade and other creditors and of the Company's amount due to/from subsidiary companies, approximate their fair values due to their short-term nature.

The long term unsecured S\$ and US\$ fixed rate loans of the Company and of the Group are repriced on a semi-annual basis and bear interest ranging between 1.61% and 2.50% (2002 : 2.29% - 2.93%) per annum. The carrying amounts of the long term unsecured S\$ and US\$ fixed rate loans and the long term loan to a subsidiary company of the Company and of the Group approximate its fair value.

The long term loan to a subsidiary company of the Company bears interest at 1.64% per annum. It is not practical to determine, with sufficient reliability, the fair value of the loan to subsidiary company as the timing of the expected cashflows of the loan cannot be reliably determined.

33. EMPLOYEE BENEFITS

Equity compensation benefits

The Company grants share options to Directors and full time employees of the Company and of the Group pursuant to the following share option schemes:

- (i) CSE Systems & Engineering Executives' Share Option Scheme ("CSE ESOS") prior to 9 October 2001;
- (ii) CSE Systems & Engineering Executives' Share Option Scheme ("CSE ESOS") subsequent to 9 October 2001; and
- (iii) CSE (US Subsidiaries) Incentive Stock Option Plan ("US Plan")

Details of the share option schemes and the respective share options that are granted as at 31 December 2003 are disclosed in Note 15.

Defined contribution plan

As required by law, the Group's companies in Singapore, Malaysia and India make contributions to their respective countries' state pension schemes, being the Central Provident Fund ("CPF") in Singapore and the Employees Provident Fund ("EPF") in Malaysia and India. These state pension schemes are defined contribution plans that serve as the national retirement benefits plan for the employees of the Group working in those countries.

As required by law, the Group's companies in the United Kingdom operate a defined contribution pension scheme. Assets of the scheme are held separately from those of the companies in the United Kingdom in an independently administered fund.

The contributions that are made towards the above mentioned contribution pension schemes are recognised as compensation expenses in the same period as the employment that gives rise to the contributions and they are as disclosed in Note 22 under employees' provident fund.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2003

34. DIVIDENDS

The Directors propose that a final dividend of 1.00 cents (2002: 0.50 cents) per ordinary share less tax at 20% (2002: 22%) amounting to \$3,141,000 (2002: \$1,201,000), and a special dividend of 1.00 cents (2002: 0.50 cents) per ordinary share less tax at 20% (2002: 22%) amounting to \$3,141,000 (2002: \$1,201,000), be paid in respect of the financial year ended 31 December 2003. The dividends have not been recognised as a liability as at year-end as it is subject to approval at the Annual General Meeting of the Company.

During the year, a final dividend of 0.50 cents per ordinary share less tax at 22% amounting to \$1,201,000, and a special dividend of 0.50 cents per ordinary share less tax at 22% amounting to \$1,201,000, both in respect of the financial year ended 31 December 2002, were approved at the Annual General Meeting of the Company and paid.

35. SUBSEQUENT EVENTS

In February 2004, CSE-Infotech Limited, a wholly owned subsidiary company of the Company, disposed and transferred 100,000 ordinary shares of \$1.00 each fully paid in the capital of CSE-OIS Pte Ltd (formerly known as "Chaumont Pte Ltd") to I-Magination Solution Pte Ltd (formerly known as "OneRex Pte Ltd"), a wholly-owned subsidiary company of the Company, for a cash consideration of S\$39,227. After this disposal, CSE-OIS Pte Ltd becomes a wholly-owned subsidiary of I-Magination Solution Pte Ltd.

Subsequent to the end of the financial year ended 31 December 2003 until the date of this report on 15 March 2004, the Company issued 1,807,000 new ordinary shares of \$0.05 each in the share capital of the Company fully paid up at a premium of \$0.4546 for cash, pursuant to the exercise of vested share options that were granted under the CSE Systems & Engineering Executives' Share Option Scheme prior to 9 October 2001 to full time employees of the Group. In addition, the Company also issued 605,000 and 216,000 new ordinary shares of \$0.05 each in the share capital of the Company fully paid up at a premium of \$0.2560 for cash, pursuant to the exercise of vested share options that were granted under the CSE Systems & Engineering Executives' Share Option Scheme subsequent to 9 October 2001 and the CSE (US Subsidiaries) Incentive Stock Option Plan respectively to full time employees of the Group. The 2,628,000 new ordinary shares of \$0.05 each in the share capital of the Company that were issued as a result of the above mentioned share option exercises rank pari passu in all respects with the existing issued ordinary shares in the Company.

36. COMPARATIVE FIGURES

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

The Group's staff payroll tax expense that was incurred in respect of the US employees was accounted for as an employee related expense under "Personnel and related costs" in the current year to better reflect the employee related expenses. Accordingly, the Group's staff payroll tax expense for the previous year amounting to \$2,153,000 which was previously accounted for under "General and administrative costs" has been reclassified to "Personnel and related costs".

As a result, the previous year's comparatives for "Personnel and related costs" and "General and administrative costs" in the consolidated profit and loss account have been restated as \$18,061,000 and \$5,223,000 respectively.

STATISTICS OF SHAREHOLDINGS

AS AT 17 MARCH 2004

DISTRIBUTION OF SHAREHOLDINGS

Size of Shareholdings	No. of Shareholders	%	No. of Shares	%
1 - 999	7	0.12	2,628	0.00
1,000 - 10,000	4,385	75.49	21,410,792	6.78
10,001 - 1,000,000	1,390	23.93	56,037,041	17.75
1,000,001 and above	27	0.46	238,261,946	75.47
Total :	5,809	100.00	315,712,407	100.00

TWENTY LARGEST SHAREHOLDERS

No.	Name	No. of Shares	%
1.	Republic Technologies Pte Ltd	88,719,000	28.10
2.	Tan Mok Koon	34,242,500	10.85
3.	Raffles Nominees Pte Ltd	18,534,000	5.87
4.	Citibank Nominees Singapore Pte Ltd	11,506,000	3.64
5.	United Overseas Bank Nominees Pte Ltd	10,369,000	3.28
6.	Low Sek Fun	8,080,000	2.56
7.	Seapac Investment Pte Ltd	8,000,000	2.53
8.	DBS Nominees Pte Ltd	6,248,000	1.98
9.	Wong Yon Ching	5,297,125	1.68
10.	Teo Kit Choon	5,152,125	1.63
11.	Tiong Kuok Thai	4,952,125	1.57
12.	Phillip Securities Pte Ltd	4,332,591	1.37
13.	DBS Vickers Securities (S) Pte Ltd	3,953,000	1.25
14.	Lim Boon Kheng	3,569,500	1.13
15.	Kim Eng Securities Pte. Ltd.	2,883,000	0.91
16.	UOB Kay Hian Pte Ltd	2,829,000	0.90
17.	Alan Stewart Gilby	2,726,980	0.86
18.	Salil Gopinath	2,201,625	0.70
19.	OCBC Securities Private Ltd	2,133,000	0.68
20.	Ong Khay Kern	1,990,125	0.63
Total :		227,718,696	72.12

STATISTICS OF SHAREHOLDINGS

AS AT 17 MARCH 2004

Authorised Capital	:	S\$30,000,000
Issued and Fully Paid-Up Capital	:	S\$15,785,620.35
Class of Shares	:	Ordinary Shares of S\$0.05 each
Voting Rights	:	One vote per share

SUBSTANTIAL SHAREHOLDERS AS AT 17 MARCH 2004

(As shown in the Register of Substantial Shareholders)

Names of Substantial Shareholders	No. of shares in which substantial shareholders have a direct interest	%	No. of shares in which substantial shareholders are deemed to have an interest	%
Republic Technologies Pte Ltd	88,719,000	28.10	-	-
Tan Mok Koon	34,242,500	10.85	-	-
Chartered Asset Management Pte Ltd	-	-	16,915,000 (1)	5.38
CAM-GTF Limited	-	-	16,001,000 (2)	5.09
Temasek Holdings (Private) Limited	-	-	89,174,000 (3)	28.26
Singapore Technologies Pte Ltd	-	-	89,174,000 (3)	28.26

Note: (1) Chartered Asset Management Pte Ltd is deemed to have an interest in the following shares held by:

Name of Company	No. of Shares
Raffles Nominees Pte Ltd	16,010,000
United Overseas Bank Nominees Pte Ltd	561,000
G.K. Goh Stockbrokers Pte Ltd	344,000
	16,915,000

(2) CAM-GTF Limited is deemed to have an interest in 16,001,000 shares held by Raffles Nominees Pte Ltd.

(3) Temasek Holdings (Private) Limited and Singapore Technologies Pte Ltd are deemed to have an interest in the following shares held by:

Name of Company	No. of Shares
Republic Technologies Pte Ltd	88,719,000
Vertex Investment (II) Ltd	230,000
Vertex Asia Limited	225,000
	89,174,000

60.89% of the Company's shares are held in the hands of public. Accordingly, the Company has complied with Rule 723 of the Listing Manual of the SGX-ST.

NOTICE OF ANNUAL GENERAL MEETING

CSE GLOBAL LIMITED

(Incorporated in the Republic of Singapore with limited liability)

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of CSE Global Limited (“the Company”) will be held at 19A Serangoon North Avenue 5, 3rd Floor Avitech Building, Singapore 554859 on Monday, 26 April 2004 at 2.00 p.m. for the following purposes:

AS ORDINARY BUSINESS

1. To receive and adopt the Directors’ Report and the Audited Accounts of the Company for the year ended 31 December 2003 together with the Auditors’ Report thereon. **(Resolution 1)**
2. To declare final dividend of 20% (or S\$0.01 per share) less income tax and special dividend of 20% (or S\$0.01 per share) less income tax for the year ended 31 December 2003 (2002: Final dividend: S\$0.005 or 10%, special dividend: S\$0.005 or 10%). **(Resolution 2)**
3. To re-elect the following Directors retiring pursuant to Article 95(2) of the Company’s Articles of Association:-
Mr Lim Ming Seong [Retiring under Article 95(2)] **(Resolution 3)**
Mr Goh Boon Seong [Retiring under Article 95(2)] **(Resolution 4)**
4. To approve the payment of Directors’ fees of S\$192,000 for the year ended 31 December 2003 (2002: S\$227,059). **(Resolution 5)**
5. To re-appoint Ernst & Young as the Company’s Auditors and to authorise the Directors to fix their remuneration. **(Resolution 6)**
6. To transact any other ordinary business which may properly be transacted at an Annual General Meeting.

AS SPECIAL BUSINESS

To consider and if thought fit, to pass the following resolutions as Ordinary Resolutions, with or without any modifications:

7. **Authority to allot and issue shares up to 20 per centum (20%) of issued share capital**

That pursuant to Section 161 of the Companies Act, Cap. 50 and Rule 806 of the Listing Manual of the Singapore Exchange Securities Trading Limited, the Directors be empowered to allot and issue shares in the capital of the Company at any time and upon such terms and conditions and for such purposes as the Directors may, in their absolute discretion, deem fit provided that the aggregate number of shares shall not exceed twenty per centum (20%) of the issued share capital of the Company at the time of the passing of this Resolution and that such authority shall, unless revoked or varied by the Company in general meeting, continue in force until the conclusion of the Company’s next Annual General Meeting or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier. [See Explanatory Note (i)]

(Resolution 7)

8. **Authority to allot and issue shares under the CSE Systems & Engineering Ltd Executives’ Share Option Scheme**

That pursuant to Section 161 of the Companies Act, Cap. 50, the Directors be authorised and empowered to allot and issue shares in the capital of the Company to all the holders of options granted by the Company, whether granted during the subsistence of this authority or otherwise, under the CSE Systems & Engineering Ltd Executives’ Share Option Scheme (“the Scheme”) upon the exercise of such options and in accordance with the terms and conditions of the Scheme, provided always that the aggregate number of additional ordinary shares to be allotted and issued pursuant to the Scheme shall not exceed twelve per centum (12%) of the issued share capital of the Company from time to time and that such authority shall, unless revoked or varied by the Company in general meeting, continue in force until the conclusion of the Company’s next Annual General Meeting or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier. [See Explanatory Note (ii)]

(Resolution 8)

NOTICE OF ANNUAL GENERAL MEETING

CSE GLOBAL LIMITED

(Incorporated in the Republic of Singapore with limited liability)

9. Authority to allot and issue shares under the CSE (US Subsidiaries) Incentive Stock Option Plan

That pursuant to Section 161 of the Companies Act, Cap. 50, the Directors be authorised and empowered to allot and issue shares in the capital of the Company to all the holders of options granted by the Company, whether granted during the subsistence of this authority or otherwise, under the CSE (US Subsidiaries) Incentive Stock Option Plan (“the Plan”) upon the exercise of such options and in accordance with the terms and conditions of the Plan, provided always that the aggregate number of additional ordinary shares to be allotted and issued pursuant to the Plan shall not exceed 8,000,000 ordinary shares and that such authority shall, unless revoked or varied by the Company in general meeting, continue in force until the conclusion of the Company’s next Annual General Meeting or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier. [See Explanatory Note (iii)] **(Resolution 9)**

By Order of the Board

Yvonne Choo

Tan San-Ju

Secretaries

Singapore, 7 April 2004

EXPLANATORY NOTES:

(i) The Ordinary Resolution 7 proposed in item [7] above, if passed, will empower the Directors from the date of this Meeting until the date of the next Annual General Meeting, or the date by which the next Annual General Meeting is required by law to be held or when varied or revoked by the Company in general meeting, whichever is the earlier, to allot and issue shares in the Company. The number of shares that the Directors may allot and issue under this resolution would not exceed twenty per centum (20%) of the issued capital of the Company at the time of the passing of this resolution.

For the purpose of this resolution, the percentage of issued capital is based on the Company’s issued capital at the time this proposed Ordinary Resolution is passed after adjusting for new shares arising from the exercise of share options or the vesting of share awards outstanding or subsisting at the time when this proposed Ordinary Resolution is passed and any subsequent consolidation or subdivision of shares.

(ii) The Ordinary Resolution 8 proposed in item 8 above, if passed, will empower the Directors of the Company, from the date of the above Meeting until the next Annual General Meeting, or the date by which the next Annual General Meeting is required by law to be held or when varied or revoked by the Company in general meeting, whichever is the earlier, to allot and issue shares in the Company of up to a number not exceeding in total twelve per centum (12%) of the issued share capital of the Company from time to time pursuant to the exercise of the options under the Scheme.

(iii) The Ordinary Resolution 9 proposed in item 9 above, if passed, will empower the Directors of the Company, from the date of the above Meeting until the next Annual General Meeting, or the date by which the next Annual General Meeting is required by law to be held or when varied or revoked by the Company in general meeting, whichever is the earlier, to allot and issue shares in the Company of up to a number not exceeding 8,000,000 ordinary shares pursuant to the exercise of the options under the Plan.

NOTES [FOR SINGAPORE INCORPORATED COMPANIES]:

1. A Member entitled to attend and vote at the Annual General Meeting (the “Meeting”) is entitled to appoint a proxy to attend and vote in his/her stead. A proxy need not be a Member of the Company.
2. The instrument appointing a proxy must be deposited at the Registered Office of the Company at 10 Collyer Quay #19-08, Ocean Building, Singapore 049315 not less than 48 hours before the time appointed for holding the Meeting.

PROXY FORM

CSE GLOBAL LIMITED

(Incorporated in the Republic of Singapore with limited liability)

I/We, _____
of _____
being a member/members of CSE Global Limited (the "Company"), hereby appoint:

Name	NRIC/Passport No.	Proportion of Shareholdings	
		No. of Shares	%
Address			

and/or (delete as appropriate)

Name	NRIC/Passport No.	Proportion of Shareholdings	
		No. of Shares	%
Address			

or failing him/her, the Chairman of the Meeting as my/our proxy/proxies to vote for me/us on my/our behalf at the Annual General Meeting (the "Meeting") of the Company to be held on Monday, 26 April 2004 at 2.00 p.m. and at any adjournment thereof. I/We direct my/our proxy/proxies to vote for or against the Resolutions proposed at the Meeting as indicated hereunder. If no specific direction as to voting is given or in the event of any other matter arising at the Meeting and at any adjournment thereof, the proxy/proxies will vote or abstain from voting at his/her discretion.

(Please indicate your vote "For" or "Against" with a tick [✓] within the box provided.)

No.	Resolutions relating to:	For	Against
1	Directors' Report and Audited Accounts for the year ended 31 December 2003		
2	Payment of proposed final and a special dividend		
3	Re-election of Mr Goh Boon Seong as a Director		
4	Re-election of Mr Lim Ming Seong as a Director		
5	Approval of Directors' fees amounting to S\$192,000		
6	Re-appointment of Ernst & Young as Auditors		
7	Authority to allot and issue new shares		
8	Authority to allot and issue shares under the CSE Systems & Engineering Executives' Share Option Scheme		
9	Authority to allot and issue shares under the CSE (US Subsidiaries) Incentive Stock Option Plan		

Dated this _____ day of _____ 2004

Signature of Shareholder(s)
or, Common Seal of Corporate Shareholder

Total number of Shares in:	No. of Shares
(a) CDP Register	
(b) Register of Members	

(Please see notes overleaf before completing this Form)

PROXY FORM

CSE GLOBAL LIMITED

(Incorporated in the Republic of Singapore with limited liability)

NOTES :

1. Please insert the total number of Shares held by you. If you have Shares entered against your name in the Depository Register (as defined in Section 130A of the Companies Act, Chapter 50 of Singapore), you should insert that number of Shares. If you have Shares registered in your name in the Register of Members, you should insert that number of Shares. If you have Shares entered against your name in the Depository Register and Shares registered in your name in the Register of Members, you should insert the aggregate number of Shares entered against your name in the Depository Register and registered in your name in the Register of Members. If no number is inserted, the instrument appointing a proxy or proxies shall be deemed to relate to all the Shares held by you.
2. A member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint one or two proxies to attend and vote in his/her stead. A proxy need not be a member of the Company.
3. Where a member appoints two proxies, the appointments shall be invalid unless he/she specifies the proportion of his/her shareholding (expressed as a percentage of the whole) to be represented by each proxy.
4. The instrument appointing a proxy or proxies must be deposited at the registered office of the Company at 10 Collyer Quay #19-08, Ocean Building, Singapore 049315 not less than 48 hours before the time appointed for the Meeting.
5. The instrument appointing a proxy or proxies must be under the hand of the appointor or of his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under its seal or under the hand of an officer or attorney duly authorised. Where the instrument appointing a proxy or proxies is executed by an attorney on behalf of the appointor, the letter or power of attorney or a duly certified copy thereof must be lodged with the instrument.
6. A corporation which is a member may authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the Meeting, in accordance with Section 179 of the Companies Act, Chapter 50 of Singapore.

GENERAL:

The Company shall be entitled to reject the instrument appointing a proxy or proxies if it is incomplete, improperly completed or illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified in the instrument appointing a proxy or proxies. In addition, in the case of Shares entered in the Depository Register, the Company may reject any instrument appointing a proxy or proxies lodged if the member, being the appointor, is not shown to have Shares entered against his name in the Depository Register as at 48 hours before the time appointed for holding the Meeting, as certified by The Central Depository (Pte) Limited to the Company.





CSE Global Ltd

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