



COMPUTER AND TECHNOLOGIES HOLDINGS LIMITED

( 科 聯 系 統 集 團 有 限 公 司 )

*(Incorporated in Bermuda with limited liability)*

*Stock Code: 46*

INTERIM REPORT

2006

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## **CORPORATE INFORMATION**

### **EXECUTIVE DIRECTORS**

Ng Cheung Shing (*Chairman*)  
Leung King San Sunny  
Ma Mok Hoi

### **INDEPENDENT NON-EXECUTIVE DIRECTORS**

Ha Shu Tong  
Lee Kwok On Matthew, Ph.D.  
Ting Leung Huel Stephen

### **COMPANY SECRETARY**

Cheung Siu Yiu

### **AUDITORS**

Ernst & Young  
Certified Public Accountants  
18th Floor, Two International Finance Centre  
8 Finance Street  
Central  
Hong Kong

### **PRINCIPAL BANKERS**

The Hongkong and Shanghai Banking  
Corporation Limited  
1 Queen's Road Central  
Central  
Hong Kong

### **REGISTRATION OFFICE**

Clarendon House  
2 Church Street  
Hamilton HM11  
Bermuda

### **HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS**

30th Floor, MLC Millennia Plaza  
663 King's Road  
North Point  
Hong Kong

### **PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE**

The Bank of Bermuda Limited  
Bank of Bermuda Building  
6 Front Street  
Hamilton HM11  
Bermuda

### **HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE**

Tengis Limited  
26th Tesbury Centre  
28 Queen's Road East  
Wanchai  
Hong Kong

### **WEBSITE**

<http://www.ctil.com>

## **CHAIRMAN'S STATEMENT**

I am pleased to present the interim report of Computer And Technologies Holdings Limited and its subsidiaries (collectively, the "Group") for the 6-month period ended 30 June 2006.

The Group's consolidated revenue increased by 12.0% to HK\$113.7 million. Net profit attributable to shareholders increased to HK\$3.6 million, or a rise of 44.0% from HK\$2.5 million of last year. Earnings per share was HK1.32 cents compared with HK0.89 cents same period last year. The Board does not recommend the payment of any interim dividend (2005: Nil).

Benefited from the business transformation for diversified sources of recurring income, the Group's overall gross profit margin was healthily maintained at around 35.1%. As of 31 August 2006, the Group's order book kept a balance of approximately HK\$285 million majority of which were maintenance and outsourcing related services.

During the period the Group also maintained a strong financial position, with cash balance of approximately HK\$171.7 million at the end of June 2006, that would strengthen the foundation for future expansions.

### **Prospect**

The transformed business model provided the Group with the increase in recurring service and software income. Following the path, the Group would continue to enlarge the scale in order to achieve the optimal economy of scale for the operation to improve profitability.

In order to create more synergy effects, the Group has been actively integrating the management and technical resources among its subsidiaries. The recent acquisition of interest in Global e-Business Services (BVI) Limited held by The China Fund, Inc. had also provided more flexibility for the Group to better leverage the complementary strengths of the related subsidiaries. At the same time, the Group has also been actively strengthening its low-cost development and support resources in China.

With the above initiatives being implemented, the outlook of the Group remains positive.

### **Appreciation**

I would like to take this opportunity to express my gratitude for the supports from the customers, business partners and shareholders to the Company during the reporting period. I also thank our staff and management for their dedications and contributions.

**Ng Cheung Shing**  
*Chairman*

Hong Kong, 12 September 2006

## MANAGEMENT DISCUSSION AND ANALYSIS

### Review of Operations

The turnover of the first 6 months of 2006 was HK\$113.7 million, representing an increase of 12.0% as compared with the same period last year. The contributions to the Group's overall revenue by Integration & Solutions, Services and Distribution segments were 65.1%, 21.1% and 11.8%, respectively. The overall profit margin had been maintained at around 35.1%. The Group had approximately HK\$285 million worth of contracts on hand majority of which were maintenance and outsourcing related services.

The Integration and Solutions Services segment achieved a revenue growth of 15.7% as compared to the same period last year. The growth was mainly resulting from the sale of additional infrastructure system upgrades and enhancements to customers, particularly in finance and transportation sectors. At the same time, the Group continued to generate strong recurring revenue from its existing outsourcing service contracts. Nevertheless, the profit was impacted by the higher operating cost caused by staff turnover due to the strong demand of I.T. related job market in Hong Kong.

In the past few years, the Group has secured a number of long-term I.T. outsourcing contracts from the Hong Kong SAR Government (the "HK Government"). These contracts would continue to generate stable service income to the Group. During the reporting period, the Group was facing certain disputes with the HK Government on collection of outstanding payments of approximately HK\$27.1 million. The Group has been in continuous negotiation with the HK Government. It has also obtained legal opinion on its position from the legal counsel. The Group shall consider taking legal proceedings to recover the outstanding payments from the HK Government if the outcome of the negotiations is not positive. At this stage, the management is confident that the outstanding amounts are recoverable therefore no financial adjustment to this interim report is being made.

Consistent with its objective to strengthen the recurring income base, the Group has partnered with Shanghai Stocom Communication Co., Ltd., a subsidiary of Shanghai Stock Exchange, to develop and market an integrated application and information management platform for securities brokers in China. The Group will be able to receive recurring annual software subscription and service income from brokers who subscribed to the related service. Management expects that such platform will generate a stable recurring income to the Group in long term.

## **MANAGEMENT DISCUSSION AND ANALYSIS** *(continued)*

### **Review of Operations** *(continued)*

The Group's Application Services segment also reported an increase of 14.9% in revenue during the reporting period. In particular, the Group's electronic service business has achieved a steady growth in revenue. In June 2006, the Group launched the electronic cargo manifests services ("EMAN Services") which enlarged its service scope and also provided more opportunities for growth.

The Group's human resource management software sustained its strong market share especially in the large corporate customers group with presence in both Hong Kong and China. In the first half of the year, the Group has secured several new and upgrade orders from large customers.

The performance of the Group's distribution business remained weak. The sales volumes of the new product lines are yet to be boosted up to deliver material contribution.

### **Financial Resources and Liquidity**

As at 30 June 2006, the Group's bank balances and cash (excluded pledged bank deposit of HK\$10.6 million) was HK\$171.7 million compared with HK\$171.8 million as of 31 December 2005.

The Group made no bank borrowings during the current period. As a result, gearing ratio comparing net debt (borrowings net of cash and bank balances available) to equity was zero as of 30 June 2006 and 31 December 2005.

### **Currency and Financial Risk Management**

Over 90% of the Group's on hand funding is in Hong Kong, US and Renminbi currencies. Any surplus cash is placed in savings and short-term bank deposits to earn interest income. The Group has not adopted any hedging policies, as all these currencies carry no or low exchange fluctuation risks.

### **Remuneration Policy and Number of Employees**

The remuneration policies adopted for the 6 months period ended 30 June 2006 were consistent with those disclosed in the Group's 2005 Annual Report. As at 30 June 2006, the Group employed approximately 291 full time and 41 contract-based employees (31 December 2005: 299 full time and 34 contract-based employees).

## CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The Board of Directors (the “Board”) of Computer And Technologies Holdings Limited (the “Company”) presents the unaudited condensed consolidated interim financial statements of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2006, together with the comparative amounts. These condensed consolidated interim financial statements have been reviewed by the Company’s audit committee.

### CONDENSED CONSOLIDATED INCOME STATEMENT

		<b>For the six months ended 30 June (Unaudited)</b>	
	<i>Notes</i>	<b>2006</b>	<b>2005</b>
		<i>HK\$ '000</i>	<i>(Restated) HK\$ '000</i>
REVENUE	4	113,726	101,501
Cost of sales		<u>(73,762)</u>	<u>(65,387)</u>
Gross profit		39,964	36,114
Other income and gains		4,412	1,151
Selling and distribution costs		(22,697)	(20,769)
Administrative expenses		(16,804)	(13,923)
Other expenses		(1,007)	(139)
Finance costs		–	(14)
PROFIT BEFORE TAX	5	<u>3,868</u>	<u>2,420</u>
Tax	6	<u>(538)</u>	<u>(19)</u>
PROFIT FOR THE PERIOD		<u><u>3,330</u></u>	<u><u>2,401</u></u>
ATTRIBUTABLE TO:			
Equity holders of the parent		3,556	2,455
Minority interests		<u>(226)</u>	<u>(54)</u>
		<u><u>3,330</u></u>	<u><u>2,401</u></u>
DIVIDEND	7	<u>Nil</u>	<u>Nil</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	8		
Basic		<u>1.32 HK cents</u>	<u>0.89 HK cents</u>
Diluted		<u>N/A</u>	<u>N/A</u>

## CONDENSED CONSOLIDATED BALANCE SHEET

	<i>Notes</i>	<b>30 June 2006 (Unaudited) HK\$'000</b>	<b>31 December 2005 (Audited) HK\$'000</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		14,623	16,249
Investment properties		17,820	17,820
Goodwill		23,790	23,790
Other intangible assets		6,669	7,868
Held-to-maturity investments		1,265	1,265
Available-for-sale investment		1,231	750
Deferred tax assets		2,000	2,000
Total non-current assets		67,398	69,742
<b>CURRENT ASSETS</b>			
Held-to-maturity securities		–	3,900
Inventories		11,672	20,631
Trade receivables	9	56,971	21,392
Due from contract customers		33,677	68,865
Prepayments, deposits and other receivables		6,991	9,513
Equity investments at fair value through profit and loss		7,669	5,008
Pledged bank deposits		10,608	8,012
Cash and cash equivalents		171,731	171,788
Total current assets		299,319	309,109
<b>CURRENT LIABILITIES</b>			
Trade payables, other payables and accruals	10, 11	(54,695)	(39,816)
Deferred income		(6,143)	(4,818)
Due to minority shareholders of subsidiaries		(3,008)	(2,649)
Tax payable		(482)	(1,004)
Total current liabilities		(64,328)	(48,287)
<b>NET CURRENT ASSETS</b>		234,991	260,822
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		302,389	330,564
<b>NON-CURRENT LIABILITIES</b>			
Other financial liabilities	11	–	(23,400)
Net assets		302,389	307,164
<b>EQUITY</b>			
<b>Equity attributable to equity holders of the parent</b>			
Issued capital		26,950	26,950
Reserves		274,578	271,059
Proposed final and special dividends		–	8,085
		301,528	306,094
<b>Minority interests</b>		861	1,070
Total equity		302,389	307,164

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

### Attributable to equity holders of the parent

	Issued share capital <i>HK\$'000</i>	Share premium account <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Share option reserve <i>HK\$'000</i>	Goodwill reserve <i>HK\$'000</i>	Available- for-sale		Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>	Minority interests <i>HK\$'000</i>	Total equity <i>HK\$'000</i>
						investment reserve <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>				
At 1 January 2005											
As previously reported	27,520	237,310	45,483	-	(7,227)	-	(2,627)	19,060	319,519	8,004	327,523
Prior year adjustments	-	-	-	837	-	-	-	(17,842)	(17,005)	(6,395)	(23,400)
Opening adjustment	-	-	-	-	-	(250)	-	-	(250)	-	(250)
As restated	27,520	237,310	45,483	837	(7,227)	(250)	(2,627)	1,218	302,264	1,609	303,873
Exchange realignment and total expense for the period recognised directly in equity	-	-	-	-	-	-	240	-	240	132	372
Net profit for the period	-	-	-	-	-	-	-	2,455	2,455	(54)	2,401
Total income and expense for the period	-	-	-	-	-	-	240	2,455	2,695	78	2,773
Equity-settled share option arrangement	-	-	-	307	-	-	-	-	307	-	307
At 30 June 2005	27,520	237,310	45,483	1,144	(7,227)	(250)	(2,387)	3,673	305,266	1,687	306,953

### Attributable to equity holders of the parent

	Issued share capital <i>HK\$'000</i>	Share premium account <i>HK\$'000</i>	Contributed Surplus <i>HK\$'000</i>	Share option reserve <i>HK\$'000</i>	Goodwill reserve <i>HK\$'000</i>	Available- for-sale		Retained profits <i>HK\$'000</i>	Proposed dividends <i>HK\$'000</i>	Total <i>HK\$'000</i>	Minority interests <i>HK\$'000</i>	Total equity <i>HK\$'000</i>
						investment reserve <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>					
At 1 January 2006	26,950	237,310	41,349	1,144	(7,227)	(250)	(2,411)	1,144	8,085	306,094	1,070	307,164
Exchange realignment and total expense for the period recognised directly in equity	-	-	-	-	-	-	(37)	-	-	(37)	17	(20)
Net profit for the period	-	-	-	-	-	-	-	3,556	-	3,556	(226)	3,330
Total income and expense for the period	-	-	-	-	-	-	(37)	3,556	-	3,519	(209)	3,310
2005 final and special dividend paid	-	-	-	-	-	-	-	-	(8,085)	(8,085)	-	(8,085)
At 30 June 2006	26,950	237,310	41,349	1,144	(7,227)	(250)	(2,448)	4,700	-	301,528	861	302,389

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended 30 June	
	2006	2005
	(Unaudited) <i>HK\$'000</i>	(Unaudited) <i>HK\$'000</i>
NET CASH INFLOW FROM OPERATING ACTIVITIES	5,526	51,697
NET CASH INFLOW FROM INVESTING ACTIVITIES	2,522	9,378
NET CASH OUTFLOW FROM FINANCING ACTIVITIES	<u>(8,085)</u>	<u>(15,000)</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(37)	46,075
Cash and cash equivalents at beginning of period	171,788	98,050
Effects of foreign exchange rate changes, net	<u>(20)</u>	<u>372</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>171,731</u>	<u>144,497</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances and non-pledged time deposits with original maturity of less than three months when acquired	<u>171,731</u>	<u>144,497</u>

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

### 1. Corporate information

Computer And Technologies Holdings Limited is a limited liability company incorporated in Bermuda. The principal place of business of the Company is located at 30th Floor, MLC Millennia Plaza, 663 King's Road, North Point, Hong Kong.

During the period, the Group was involved in the following principal activities:

- trading of computer hardware, software and related accessories;
- provision of system and network platform with integration services;
- provision of e-business and e-Government services;
- provision of IT solutions and outsourcing services;
- provision of software application packages with implementation, consultancy, training and maintenance services; and
- property and treasury investments.

### 2. Basis of preparation

The unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Accounting Standards ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The unaudited condensed consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2005.

### 3. Accounting policies

The accounting policies and basis of preparation adopted in the preparation of the unaudited condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2005, except in relation to the following amendments to and interpretation of Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that affect the Group and are adopted for the first time for the current period's financial statements:

HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendment	Financial Guarantee Contracts
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(continued)*

### 3. Accounting policies *(continued)*

The adoption of these amendments and interpretation has had no material impact on the accounting policies of the Group and the methods of computation in the Group's unaudited condensed consolidated interim financial statements.

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these unaudited condensed consolidated interim financial statements. The Group has already commenced an assessment of the potential impact of these new and revised HKFRSs but is not yet in a position to state whether these new and revised HKFRSs would have a significant impact on its results of operations and financial position.

HKAS 1 (Amendment)	Capital Disclosures <i>(Note 1)</i>
HKFRS 7	Financial Instruments: Disclosures <i>(Note 1)</i>
HK(IFRIC) – INT 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies <i>(Note 2)</i>
HK(IFRIC) – INT 8	Scope of HKFRS 2 <i>(Note 3)</i>
HK(IFRIC) – INT 9	Reassessment of Embedded Derivatives <i>(Note 4)</i>

*Notes:*

1. Effective for accounting periods beginning on or after 1 January 2007
2. Effective for accounting periods beginning on or after 1 March 2006
3. Effective for accounting periods beginning on or after 1 May 2006
4. Effective for accounting periods beginning on or after 1 June 2006

### 4. Segment information

The Group's operating businesses are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

- (a) the integration and solution services segment is engaged in the provision of system and network integration services, industry-specific IT application implementation services, IT solutions implementation and application development services;
- (b) the application services segment is engaged in the provision of enterprise applications and IT operation outsourcing services;

**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS** *(continued)*

**4. Segment information** *(continued)*

- (c) the distribution segment is engaged in the distribution of digital media products and other computer accessories; and
- (d) the investments segment is primarily engaged in various types of investing activities including, inter alia, property investments for rental income and treasury investments in listed securities and held-to-maturity securities for dividend income and interest income.

An analysis of the Group's revenue and profit/(loss) for the six months ended 30 June 2006 by the Group's business segments is as follows:

	Integration and		Application Services		Distribution		Investments		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>
Segment revenue										
Sales to external customers	74,025	63,985	24,010	20,894	13,367	15,534	2,324	1,088	113,726	101,501
Other revenue and gains	202	-	98	-	864	-	171	738	1,335	738
<b>Total</b>	<b>74,227</b>	<b>63,985</b>	<b>24,108</b>	<b>20,894</b>	<b>14,231</b>	<b>15,534</b>	<b>2,495</b>	<b>1,826</b>	<b>115,061</b>	<b>102,239</b>
Segment results before significant										
non-cash expenses	4,475	9,696	6,618	3,277	(447)	197	2,280	1,644	12,926	14,814
Depreciation	(706)	(1,575)	(645)	(805)	(265)	(346)	(138)	(138)	(1,754)	(2,864)
Amortisation of deferred										
development costs	(121)	-	(1,078)	(1,403)	-	-	-	-	(1,199)	(1,403)
Provision for bad and doubtful debts	-	-	(1,010)	-	-	-	-	-	(1,010)	-
<b>Segment results</b>	<b>3,648</b>	<b>8,121</b>	<b>3,885</b>	<b>1,069</b>	<b>(712)</b>	<b>(149)</b>	<b>2,142</b>	<b>1,506</b>	<b>8,963</b>	<b>10,547</b>
Unallocated interest income										
and gains									3,077	413
Unallocated expenses									(8,172)	(8,526)
Finance costs									-	(14)
Profit before tax									3,868	2,420
Tax									(538)	(19)
<b>Profit for the period</b>									<b>3,330</b>	<b>2,401</b>

**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS** *(continued)*

**5. Profit before tax**

The Group's profit before tax is arrived at after charging/(crediting):

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2006</b>	<b>2005</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Depreciation	1,892	3,309
Amortisation of deferred development costs <sup>#</sup>	1,199	1,404
Provision for bad and doubtful debts*	1,010	–
Interest income	(3,046)	(1,151)
	<u>                    </u>	<u>                    </u>

<sup>#</sup> This is included in "Cost of sales" on the face of the condensed consolidated income statement.

\* This is included in "Other expenses" on the face of the condensed consolidated income statement.

**6. Tax**

Hong Kong profits tax has been provided at the applicable rate of 17.5% (2005: 17.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2006</b>	<b>2005</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current – Hong Kong		
Charge for the period	97	19
Overprovision in prior periods	(92)	–
Current – Elsewhere		
Charge for the period	533	–
	<u>                    </u>	<u>                    </u>
Total	<u>                    </u>	<u>                    </u>

**7. Dividend**

The Board does not recommend the payment of any dividends in respect of the period (2005: Nil).

**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS** *(continued)*

**8. Earnings per share**

(a) Basic earnings per share

The calculation of basic earnings per share is based on the net profit for the period attributable to ordinary equity holders of the parent of HK\$3,556,000 (2005 (restated): HK\$2,455,000), and the weighted average number of 269,502,000 (2005: 275,198,000) ordinary shares of the Company in issue during the period.

(b) Diluted earnings per share

No diluted earnings per share is presented for the current period and the prior period as the effect of the Company's share options was anti-dilutive.

**9. Trade receivables**

The Group's trading terms with its customers for system integration services and the provision of maintenance services and software development services vary from contract to contract and may include cash on delivery, advance payment and on credit. For those customers who trade on credit, the credit period is generally for a period of 30 to 120 days, except for certain well-established or major customers, where the terms are extended beyond 120 days. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by senior management.

The ageing analysis of the Group's trade receivables is as follows:

	<b>Unaudited 30 June 2006 HK\$'000</b>	<b>Audited 31 December 2005 HK\$'000</b>
Current	23,641	9,972
Overdue 1 to 3 months	18,521	7,967
Overdue more than 3 months	14,809	3,453
	<u>56,971</u>	<u>21,392</u>

Included in the trade receivables amounting to HK\$27.1 million being billings to certain departments of Hong Kong Special Administrative Region Government (the "HK Government") for the provision of IT services. During the period, due to the significant changes of responsible personnel in those departments, the HK Government has formed different views toward their commitments on its payment obligations for the services provided. The Group, with the involvement of the senior management, is in the course of resolving the disputes. The Group has also sought legal opinion and was advised that the Group is entitled to demand the HK Government for prompt payment of the disputed amounts. The senior management has been in continuous negotiation with the HK Government and shall consider taking legal actions against the HK Government if the outcome of the negotiations is not positive. In view of the recent development, the actions taken and the legal opinion obtained, no provision has been made in respect thereof.

**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS** *(continued)*

**10. Trade payables, other payables and accruals**

Included in the balance is an amount of HK\$7,284,000 (31 December 2005: HK\$22,182,000) representing the trade payables of the Group. An aged analysis of trade payables as at the balance sheet date, based on the invoice date, is as follows:

	<b>Unaudited</b>	<b>Audited</b>
	<b>30 June</b>	<b>31 December</b>
	<b>2006</b>	<b>2005</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current	5,966	16,220
Within 1 to 3 months	1,123	1,913
Between 4 to 6 months	195	4,049
	<hr/>	<hr/>
	<b>7,284</b>	<b>22,182</b>
	<hr/> <hr/>	<hr/> <hr/>

The trade payables are non-interest-bearing and are normally settled on 30-day terms.

**11. Other financial liabilities**

On 9 June 2004, the Group entered into a subscription agreement with an independent third party (the “Investor”) for the subscription (the “Subscription”) by the Investor of 40,000 Class B shares of Global e-Business Services (BVI) Limited (“GEBS-BVI”, a subsidiary of the Company) (the “Subscription Shares”), representing 20% of the issued share capital of GEBS-BVI as enlarged by the Subscription and 2% of the voting rights in the general meetings of GEBS-BVI, for a cash consideration of HK\$23.4 million (the “Subscription Proceeds”). On 18 June 2004, the Group and the Investor entered into a shareholders’ agreement to provide for their rights and obligations in respect of GEBS-BVI (the “Shareholders’ Agreement”). The Subscription was completed and the Investor had fully settled the subscription consideration in June 2004.

Pursuant to the Shareholders’ Agreement, the Investor was granted an adjustment option (the “Adjustment Option”) (exercisable in the event that the audited consolidated after-tax net profit of GEBS-BVI for the year ending 31 December 2006 does not meet an agreed threshold) to require GEBS-BVI either to issue additional number of Class B shares at nominal value or to pay cash, subject to a maximum amount of approximately HK\$14 million to the Vendor. In addition, pursuant to the Shareholders’ Agreement, the Investor has the rights to require the Company (at the discretion of the Company) either to exchange the Subscription Shares into the Company’s shares or to pay cash, subject to a maximum amount of HK\$23.4 million to the Investor (the “Exchange Options”) in the event that GEBS-BVI has not effected an initial public offering of its shares in an agreed period of time and GEBS-BVI has failed to achieve the agreed threshold profit level in the year ending 31 December 2006.

## **NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS** *(continued)*

### **11. Other financial liabilities** *(continued)*

Accordingly, due to the existence of the contingent settlement provisions attached to the arrangement and that the occurrence or non-occurrence of the abovementioned triggering events are beyond the control of the Group, the Subscription Proceeds received from the Investor was classified as “Other financial liabilities” as at 31 December 2005.

During the current period, on 29 June 2006, the Group entered into a sale and purchase agreement with the Investor (the “Sale and Purchase”) to purchase from the Investor 40,000 Class B shares of GEBS-BVI with a cash consideration of HK\$23.4 million.

Upon completion of the Sale and Purchase on 29 June 2006, the rights and obligations of each parties to the Shareholders’ Agreement (including but not limited to the Adjustment Option and Exchange Options as mentioned above) were cancelled, terminated and ceased to be binding upon each parties. Accordingly, the “Other financial liabilities” of HK\$23.4 million was reclassified as current liabilities under “Trade payables, other payables and accruals” as at 30 June 2006.

Subsequent to the balance sheet date, in July and August 2006, the consideration of the Sale and Purchase has been fully settled by the Group.

Further details of the Sale and Purchase are set out in the Company’s circular dated 20 July 2006.

### **12. Commitments and contingent liabilities**

Other than the normal course of business, the Group has no significant commitment and contingent liability as at 30 June 2006.

### **13. Comparative amounts**

Certain comparative amounts have been adjusted/restated to conform with the current period’s presentation.

### **14. Approval of the interim financial statements**

The interim financial statements were approved and authorised for issue by the board of directors on 12 September 2006.

## OTHER INFORMATION

### DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2006, the interests of the directors in the share capital of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"), were as follows:

#### Long positions in ordinary shares and underlying shares of the Company:

Name of director	Note	Number of shares held, capacity and nature of interest			Percentage of the Company's issued share capital	Number of share options held
		Directly beneficially owned	Through controlled corporation	Total		
Ng Cheung Shing	(a)	2,032,000	110,000,000	112,032,000	41.57	300,000
Leung King San, Sunny		810,000	–	810,000	0.30	200,000
Ma Mok Hoi		209,000	–	209,000	0.08	150,000
Ha Shu Tong		–	–	–	–	100,000
Lee Kwok On, Matthew		–	–	–	–	100,000
Ting Leung Huel, Stephen		–	–	–	–	100,000
		<u>3,051,000</u>	<u>110,000,000</u>	<u>113,051,000</u>	<u>41.95</u>	<u>950,000</u>

#### Long positions in shares and underlying shares of associated corporations:

Name of director	Name of associated corporation	Relationship with the Company	Class of shares	Number of shares		Percentage of the associated corporation's issued share capital
				Directly beneficially owned	Through controlled corporation	
Ng Cheung Shing	Computer And Technologies International Limited	Company's subsidiary	Non-voting deferred	1,750,000	3,250,000 (Note b)	N/A
Ma Mok Hoi	Maxfair Technology Holdings Limited	Company's subsidiary	Ordinary	25	–	25%

## **OTHER INFORMATION** *(continued)*

### **DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES** *(continued)*

- (a) 110,000,000 shares were held by Chao Lien Technologies Limited (“Chao Lien”). Ng Cheung Shing was entitled to exercise or control the exercise of one-third or more of the voting power at general meetings of C.S. (BVI) Limited which, in turn, was entitled to exercise or control the exercise of one-third or more of the voting power at general meetings of Chao Lien. Accordingly, Ng Cheung Shing was deemed, under the SFO, to be interested in all shares held by Chao Lien.
- (b) 3,250,000 non-voting deferred shares were held by Chao Lien.

Save as disclosed above, none of the directors had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

### **DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES**

At no time during the period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

## OTHER INFORMATION *(continued)*

### SHARE OPTION SCHEME

Pursuant to the Company's share option scheme, the following share options were outstanding during the period:

Name/category of participant	Number of share options			Date of grant*	Exercise period	Exercise price**
	At 1 January 2006	Lapsed during the period	At 30 June 2006			
<b>Directors</b>						
Ng Cheung Shing	300,000	–	300,000	31.08.2004	01.03.2005 to 31.08.2009	HK\$1.128
Leung King San, Sunny	200,000	–	200,000	31.08.2004	01.03.2005 to 31.08.2009	HK\$1.128
Ma Mok Hoi	150,000	–	150,000	31.08.2004	01.03.2005 to 31.08.2009	HK\$1.128
Ha Shu Tong	100,000	–	100,000	31.08.2004	01.03.2005 to 31.08.2009	HK\$1.128
Lee Kwok On, Matthew	100,000	–	100,000	31.08.2004	01.03.2005 to 31.08.2009	HK\$1.128
Ting Leung Huel, Stephen	100,000	–	100,000	31.08.2004	01.03.2005 to 31.08.2009	HK\$1.128
	<u>950,000</u>	<u>–</u>	<u>950,000</u>			
<b>Other employees</b>						
In aggregate	1,850,000	–	1,850,000	31.08.2004	01.03.2005 to 31.08.2009	HK\$1.128
	148,000	–	148,000	31.08.2001	06.09.2002 to 05.09.2006	HK\$1.563
	296,000	(296,000)	–	16.01.2001	23.01.2002 to 22.01.2006	HK\$2.672
	<u>2,294,000</u>	<u>(296,000)</u>	<u>1,998,000</u>			
Total	<u>3,244,000</u>	<u>(296,000)</u>	<u>2,948,000</u>			

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

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

## OTHER INFORMATION *(continued)*

### SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 June 2006, the following interests of 5% or more of the issued share capital and share options of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

#### Long positions:

Name of shareholder of the Company	Notes	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital	Number of share options held
Chao Lien Technologies Limited	1	Directly beneficially owned	110,000,000	40.8	–
C.S. (BVI) Limited	1	Through a controlled corporation	110,000,000	40.8	–
Puttny Investments Limited (“PIL”)	2	Directly beneficially owned	29,148,938	10.8	–
Hutchison International Limited (“HIL”)	2	Through a controlled corporation	29,148,938	10.8	–
Hutchison Whampoa Limited (“HWL”)	2	Through a controlled corporation	29,148,938	10.8	–
Cheung Kong (Holdings) Limited (“CKH”)	2, 3	Through a controlled corporation	29,148,938	10.8	–
Li Ka-Shing Unity Trustee Company Limited (“TUT1”)	2, 3	Through a controlled corporation	29,148,938	10.8	–
Li Ka-Shing Unity Trustee Corporation Limited (“TDT1”)	2, 3	Through a controlled corporation	29,148,938	10.8	–
Li Ka-Shing Unity Trustcorp Limited (“TDT2”)	2, 3	Through a controlled corporation	29,148,938	10.8	–
Li Ka-Shing	2, 3	Through a controlled corporation	29,148,938	10.8	–
Hui Yau Man		Directly beneficially owned	26,782,000	9.9	–

## **OTHER INFORMATION** *(continued)*

### **SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES** *(continued)*

*Note 1:* The interest was also disclosed as an interest of Ng Cheung Shing in the section "Directors' interests and short positions in shares and underlying shares" above.

*Note 2:* PIL is a wholly owned subsidiary of HIL, which in turn is a wholly owned subsidiary of HWL. By virtue of the SFO, HWL and HIL were deemed to be interested in the 29,148,938 shares of the Company held by PIL.

*Note 3:* Li Ka-Shing Unity Holdings Limited ("TUHL"), of which each of Li Ka-Shing, Li Tzar Kuoi, Victor and Li Tzar Kai, Richard, is interested in one-third of the entire issued share capital, owns the entire issued share capital of TUT1. TUT1 as trustee of The Li Ka-Shing Unity Trust, together with certain companies which TUT1 as trustee of The Li Ka-Shing Unity Trust is entitled to exercise or control the exercise of more than one-third of the voting power at their general meetings, hold more than one-third of the issued share capital of CKH. Subsidiaries of CKH are entitled to exercise or control the exercise of more than one-third of the voting power at the general meetings of HWL.

In addition, TUHL also owns the entire issued share capital of TDT1 as trustee of The Li Ka-Shing Unity Discretionary Trust ("DT1") and TDT2 as trustee of another discretionary trust ("DT2"). Each of TDT1 and TDT2 holds units in The Li Ka-Shing Unity Trust.

By virtue of the SFO, each of Li Ka-Shing being the settlor and may being regarded as a founder of DT1 and DT2 for the purpose of the SFO, TDT1, TDT2, TUT1 and CKH was deemed to be interested in the 29,148,938 shares of the Company held by PIL.

Save as disclosed above, as at 30 June 2006, no person, other than the directors of the Company, whose interests are set out in the Section "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded under Section 336 of the SFO.

### **PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES OF THE COMPANY**

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period.

### **CODE ON CORPORATE GOVERNANCE PRACTICE**

The Board opined that the Company has complied with the code provision set out in the Code of Corporate Governance Practice (the "CG Code") as stipulated in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") during the reporting period except on the deviations noted below.

## **OTHER INFORMATION** *(continued)*

### **CODE ON CORPORATE GOVERNANCE PRACTICE** *(continued)*

Code Provision A.2.1 stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. The Company does not have a separate Chairman and Chief Executive and Mr. Ng Cheung Shing currently holds both positions. The Board believes that vesting the roles of both chairman and chief executive in the same person provides the Group with strong and consistent leadership and allows for more effective planning and execution of long-term business strategies.

Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term and subject to re-election. Independent non-executive directors of the Company do not have a specific term of appointment but are subject to retirement by rotation in accordance with the provisions of the bye-laws of the Company. The Company therefore considers that sufficient measures have been taken to ensure that its corporate governance practices are similar to those provided in the CG Code.

### **MODEL CODE FOR SECURITIES TRANSACTIONS**

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as its code of conduct for dealings in securities of the Company by the directors. Based on specific enquiry of the Company's directors, the directors have complied with the required standard set out in the Model Code throughout the accounting period covered by the interim report.

To comply with CG Code A.5.4, the Company has also adopted the Model Code as its code of conduct for dealings in securities of the Company by certain employees of the Company or any of its subsidiaries who are considered to be likely to be in possession of unpublished price sensitive information in relation to the Company or its securities.

### **AUDIT COMMITTEE**

The Company has an audit committee which was established in compliance with Rule 3.21 of the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the three independent non-executive directors of the Company. The Audit Committee has reviewed with Management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters related to the preparation of the unaudited interim financial statements for the six months ended 30 June 2006.

BY ORDER OF THE BOARD

**Ng Cheung Shing**  
*Chairman*

Hong Kong, 12 September 2006