# COMPUTER AND TECHNOLOGIES HOLDINGS LIMITED

（科聯系統集團有限公司）

*(Incorporated in Bermuda wih limited liability)*

## INTERIM REPORT

# 2004

## CHAIRMAN'S STATEMENT

### Business Review

The Group's consolidated revenue is HK$102.8 million (2003: HK$170.1 million) and the profit from operations is HK$3.6 million (2003: HK$2.5 million) for the 6-month period ended 30 June 2004. The net profit attributable to shareholders is HK$3.2 million (2003: HK$1.9 million) and earnings per share is 1.16 Hong Kong cents (2003: 0.68 Hong Kong cent). The Board does not recommend the payment of any interim dividend (2003: Nil).

Having invested tremendous efforts in business transformation during the previous years, the Group is in the stage of solidifying its foundation for long term sustainable growth. The Government Electronic Trading Services ("GETS") business launched in January is demanding substantial marketing investment in the start-up stage to spark and build up its subscriber base that will develop into a steady income source for the Group in the long term. On the other hand, the existing solution outsourcing contracts from the Hong Kong SAR Government (the "HKSAR") are demanding significant resources from the Group to complete the lower profit margin implementation portion so as to activate the higher profit margin multi-year ongoing servicing portion at the soonest possible.

In June, The China Fund, Inc., an independent investor listed in United States, subscribed new shares, representing 20% of the enlarged capital, of Global e-Business Services (BVI) Limited, a subsidiary of the Group that operating GETS business, for a consideration of HK$23,400,000. Such transaction not only provided additional funds to accelerate the business growth of GETS and related value-added services but also generated a gain of HK$15.0 million to the Group. However the gain will be lower as offset by the additional expenses incurred for accelerating the development of the GETS business.

The tightening measures on macroeconomic control in China since early this year had adversely impacted the decision making process on I.T. spending. As a result, the Group's revenue from its systems integration business in China has dropped significantly. However, such hampering effect is lightening and orders received during the third quarter have been improving substantially. As at the date of this report, the Group has more than HK$60.0 million worth of systems integration contracts on hand.

The Solution Services Division had secured a couple of major solution outsourcing contracts from the HKSAR in previous years. These contracts are in their final stages of construction. During the reporting period, the Group has experienced delays in completing one of the projects and hence incurred additional unplanned project delivery costs. The Management has taken resolute actions to rectify the situation and anticipates that the project will be completed within this year. The Management is optimistic that once the construction parts of these major projects are completed, the Group will receive large amount of the related payments from the customers and will be able to activate the higher profit margin multi-year servicing portion.

Since the acquisition of IPL Research Limited ("IPL") in 2001, the Group has continued to invest in research and development for enhancing the business value of the IPL's products in order to maintain its leading position in human resource management software market in Hong Kong. Developed in close collaboration with its clients, IPL launched a series of employee self-service and Internet-based software modules that boosted up the software upgrade revenue from the existing installation base during the reporting period. The Group's market position and track records in China have also been facilitating IPL to capture more sizable new contracts from multinational enterprises with setups in China.

Maxfair Technology Holdings Limited ("Maxfair"), a multi-media products distribution subsidiary which has been consistently contributing profit to the Group in the past few years, has experienced slow progress in the first half of the year due to the gradually maturing market demand for video/audio capturing products. The Management has been aggressively sourcing for new product lines and expects the market to respond favorably in the coming months.

Following the relaxation in the granting of operating licences in distribution and retail business in China, Maxfair is in the process of establishing a joint venture to expand the proven business model into the vast China market. The Management believes that the expansion will help Maxfair achieve a better critical mass and hence profitability.

**Liquidity and Financial Resources**

The Group continues to adopt prudent finance and treasury policies. As at 30 June 2004, the Group had cash and bank balances of HK$140.5 million (31 December 2003: HK$145.4 million) of which HK$45.6 million (31 December 2003: HK$44.0 million) were pledged to banks for the Group's banking facilities. Approximately 85% of the funds was Hong Kong dollars or US dollars which carry no or low exchange fluctuation risks. As such the Group has not adopted any hedging policy.

As at 30 June 2004, the Group's net asset value amounted to approximately HK$318.4 million (31 December 2003: HK$315.0 million). Bank loans amounting to HK$63.0 million (31 December 2003: HK$35.0 million) were bearing interest at fixed rate and were repayable within one year. The gearing ratio of the Group, measured on the basis of total borrowings as a percentage of total shareholders' equity increased to 19.8% from 11.1% as at 31 December 2003. The increase was mainly due to increase in funding requirements to finance the construction portions of the solution outsourcing projects.

**Contingent Liabilities**

The Group's contingent liabilities have no significant change since the annual report for the year ended 31 December 2003.

**Employee and Remuneration Policies**

As at 30 June 2004, the Group employed approximately 276 full time and 122 contract-based employees (31 December 2003: 271 full time and 139 contract-based employees) in Hong Kong, Mainland China and elsewhere. Employees' remuneration is in accordance with individual's responsibility and performance and remains competitive with the prevailing market rates. Other fringe benefits such as medical insurance, pension funds, etc., are offered to most employees. Share options are granted at the directors' discretion and under the terms and conditions of employees share option schemes of the Company and certain subsidiaries that were approved and adopted on 30 May 2002 and 1 July 2000, respectively.

**Prospect**

While the business demand for IT services in Hong Kong is steadily recovering, it is anticipated that the business sentiment in the China market will continue to improve in the second half of the year, thus boosting the business volume of the Group's systems and network integration business. Besides, increasing service proportion from the related contracts will improve the overall profit margin of the Integration Services Division.

After months of operations, the market share of the GETS related business is progressively increasing. With additional funding support for marketing and aggressive development on new value-added services, the GETS-related business is foreseen to build up its critical mass in the near future and will contribute increasing recurring revenue to the Group.

With gradual completion on the construction parts of the large-scale government solution outsourcing contracts, the Group will commence to receive multi-year recurring outsourcing services income stream in the coming 8 to 10 years. In addition, such outsourcing contracts will form a good basis for the Group to capture future business from related government departments.

With the successful experience in the acquisition of IPL, the Group will continue to expand its intellectual property-based software product offering, for enhancement of revenue sources from one-time license fee and ongoing maintenance support, through in-house research and development as well as merger and acquisition.

**Appreciation**

The Board and the Management would like to take this opportunity to thank for the support of the staff and the shareholders to the Company.

**Ng Cheung Shing**
*Chairman*

Hong Kong, 23 September 2004

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 2004, together with the comparative amounts. The unaudited condensed consolidated interim financial statements have been reviewed by the Company's audit committee.

**CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT**

| | | **Unaudited six months ended 30 June** | |
|---|---|---|---|
| | *Notes* | **2004** | **2003** |
| | | *HK$'000* | *HK$'000* |
| TURNOVER | *2* | 102,795 | 170,070 |
| Cost of sales | | (74,726) | (130,018) |
| Gross profit | | 28,069 | 40,052 |
| Other revenue and gains | | 447 | 3,010 |
| Gain on deemed disposal of subsidiaries | *3* | 15,026 | – |
| Selling and distribution expenses | | (23,639) | (24,833) |
| Administrative expenses | | (14,497) | (13,952) |
| Other operating expenses | | (1,833) | (1,797) |
| PROFIT FROM OPERATING ACTIVITIES | *4* | 3,573 | 2,480 |
| Finance cost | | (305) | (334) |
| PROFIT BEFORE TAX | | 3,268 | 2,146 |
| Tax | *5* | (30) | (36) |
| PROFIT BEFORE MINORITY INTERESTS | | 3,238 | 2,110 |
| Minority interests | | (48) | (243) |
| NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS | | 3,190 | 1,867 |
| EARNINGS PER SHARE | *6* | | |
| Basic | | 1.16 cents | 0.68 cent |
| Diluted | | 1.16 cents | 0.68 cent |

## CONDENSED CONSOLIDATED BALANCE SHEET

| | *Notes* | **Unaudited 30 June 2004** *HK$'000* | **Audited 31 December 2003** *HK$'000* |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Fixed assets | | 37,511 | 40,343 |
| Intangible assets | | 9,702 | 10,780 |
| Goodwill | | 25,629 | 27,462 |
| Held-to-maturity securities | | 1,265 | 1,265 |
| Investment securities | | 1,000 | 1,000 |
| Deferred tax asset | | 1,050 | 1,050 |
| | | 76,157 | 81,900 |
| CURRENT ASSETS | | | |
| Inventories | | 7,193 | 6,260 |
| Trade receivables | *8* | 24,419 | 21,027 |
| Amounts due from contract customers | | 184,258 | 164,895 |
| Prepayments, deposits and other receivables | | 3,923 | 5,789 |
| Held-to-maturity securities | | 1,560 | 8,860 |
| Pledged bank deposits | | 45,630 | 43,969 |
| Cash and cash equivalents | | 94,918 | 101,441 |
| | | 361,901 | 352,241 |
| CURRENT LIABILITIES | | | |
| Trade payables, other payables and accruals | *9* | (41,667) | (73,789) |
| Deferred income | | (1,408) | (4,516) |
| Amounts due to minority shareholders of subsidiaries | | (2,683) | (2,232) |
| Tax payable | | (2,040) | (2,049) |
| Interest-bearing bank borrowings, secured | | (63,000) | (35,000) |
| | | (110,798) | (117,586) |
| NET CURRENT ASSETS | | 251,103 | 234,655 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 327,260 | 316,555 |
| MINORITY INTERESTS | | (8,868) | (1,542) |
| | | 318,392 | 315,013 |
| CAPITAL AND RESERVES | | | |
| Issued capital | | 27,520 | 27,485 |
| Reserves | | 290,872 | 287,528 |
| | | 318,392 | 315,013 |

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – UNAUDITED

| | Issued capital HK$'000 | Share premium account HK$'000 | Contributed surplus HK$'000 | Goodwill reserve HK$'000 | Exchange fluctuation reserve HK$'000 | Retained profits HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| **At 1 January 2004** | 27,485 | 237,077 | 45,483 | (7,227) | (2,543) | 14,738 | 315,013 |
| Issue of shares | 35 | 104 | – | – | – | – | 139 |
| Net profit for the period | – | – | – | – | – | 3,190 | 3,190 |
| Exchange adjustments | – | – | – | – | 50 | – | 50 |
| **At 30 June 2004** | **27,520** | **237,181*** | **45,483*** | **(7,227)*** | **(2,493)*** | **17,928*** | **318,392** |

| | Issued capital HK$'000 | Share premium account HK$'000 | Contributed surplus HK$'000 | Goodwill reserve HK$'000 | Exchange fluctuation reserve HK$'000 | Accumulated losses HK$'000 (Restated)# | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| At 1 January 2003 | 27,331 | 276,091 | 45,483 | (7,227) | (1,445) | (31,046) | 309,187 |
| Issue of shares | 90 | 256 | – | – | – | – | 346 |
| Net profit for the period | – | – | – | – | – | 1,867 | 1,867 |
| Exchange adjustments | – | – | – | – | 31 | – | 31 |
| At 30 June 2003 | 27,421 | 276,347 | 45,483 | (7,227) | (1,414) | (29,179) | 311,431 |

* *These reserve accounts comprise the consolidated reserves of HK$290,872,000 in the condensed consolidated balance sheet.*

# *Restatement due to the adoption of SSAP 12 "Income taxes" in the prior year.*

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT – UNAUDITED

| | Unaudited six months ended 30 June | |
|---|---|---|
| | **2004** | **2003** |
| | *HK$'000* | *HK$'000* |
| NET CASH OUTFLOW FROM OPERATING ACTIVITIES | (62,149) | (39,625) |
| NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES | 2,133 | (1,171) |
| NET CASH INFLOW FROM FINANCING ACTIVITIES | 50,443 | 20,265 |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (9,573) | (20,531) |
| Cash and cash equivalents at beginning of period | 104,441 | 186,181 |
| Effect of foreign exchange rate changes, net | 50 | – |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | 94,918 | 165,650 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | |
| Cash and bank balances | 94,918 | 165,650 |

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

### 1. Basis of preparation and principal accounting policies

The unaudited condensed consolidated interim financial statements of the Group have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice No. 25 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants (formerly known as Hong Kong Society of Accountants).

Except as detailed in note 2 below, the accounting policies and basis of preparation used in the preparation of these unaudited condensed consolidated interim financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2003.

### 2. Segment information

An analysis of the Group's revenue and profit/(loss) for the six months ended 30 June 2004 by the Group's business segments, which is the primary basis of segment reporting of the Group, is as follows:

| | Integration Services | | Solutions Services | | Application Services | | Distribution | | Investments | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| | | (Restated) | | (Restated) | | (Restated) | | (Restated) | | (Restated) | | (Restated) |
| Segment revenue: | | | | | | | | | | | | |
| Sales to external customers | 32,355 | 67,965 | 42,103 | 73,419 | 11,627 | 9,406 | 15,632 | 19,280 | 1,078 | – | 102,795 | 170,070 |
| Other revenue | – | – | – | 647 | – | – | – | – | 63 | 347 | 63 | 994 |
| Total | 32,355 | 67,965 | 42,103 | 74,066 | 11,627 | 9,406 | 15,632 | 19,280 | 1,141 | 347 | 102,858 | 171,064 |
| Segment results | 1,789 | 3,740 | (1,716) | 3,203 | (5,108) | 449 | 642 | 1,215 | 993 | 310 | (3,400) | 8,917 |
| Unallocated interest income | | | | | | | | | | | 384 | 1,267 |
| Gain on deemed disposal of subsidiaries | | | | | | | | | | | 15,026 | – |
| Unallocated expenses | | | | | | | | | | | (8,437) | (7,704) |
| Profit from operating activities | | | | | | | | | | | 3,573 | 2,480 |

The Group's corporate general and administrative expenses (the "Corporate Expenses") were partially allocated to respective segments with reference to certain reasonable basis in the prior year's financial statements. During the current period, due to the rapid changes in the volume of business activities of the segments, the Group did not allocated the Corporate Expenses to respective segments, as in the opinion of the directors, it is difficult to arrive objective and accurate basis for the allocation of the Corporate Expenses. Accordingly, the Corporate Expenses were regarded as unallocated expenses in the current period.

**2. Segment information** *(continued)*

To conform with the current period's presentation, (i) the segment expenses of integration services, solutions services, application services and distribution services for the six months ended 30 June 2003 were decreased by HK$120,000, HK$2,580,000, HK$2,257,000 and HK$90,000, respectively, resulting in the increase in the respective segment results for that period by the same amounts; (ii) the corporate segment expenses for the six months ended 30 June 2003 of HK$2,657,000 was reclassified as unallocated expenses; and (iii) the unallocated expenses for that period was increased by HK$7,704,000. These have resulted in no change to the amount of accumulated losses as at 1 January 2003.

**3. Gain on deemed disposal of subsidiaries**

During the period, on 9 June 2004, Global e-Business Services (BVI) Limited ("GEBS-BVI"), an indirectly wholly-owned subsidiary of the Company entered into a subscription agreement with an independent third party for the issue and allotment of 40,000 class B shares of GEBS-BVI (representing 20% equity interest in the enlarged issued capital of GEBS-BVI) (the "Share Subscription") for HK$23,400,000. The Share Subscription was completed on 18 June 2004 and a gain on deemed disposal of HK$15,026,000 was resulted therefrom. Further details in respect of the Share Subscription were set out in the Group's announcement and circular dated 9 June 2004 and 30 June 2004, respectively.

**4. Profit from operating activities**

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

| | **Unaudited Six months ended 30 June** | |
|---|---|---|
| | **2004** | **2003** |
| | *HK$'000* | *HK$'000* |
| Depreciation | 3,791 | 3,636 |
| Amortisation of deferred development costs | 1,078 | 413 |
| Amortisation of goodwill | 1,833 | 1,797 |
| Interest income | (551) | (1,002) |

**5. Tax**

Hong Kong profits tax has been provided at the applicable rate of 17.5% (2003: 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.

| | **Unaudited Six months ended 30 June** | |
|---|---|---|
| | **2004** | **2003** |
| | *HK$'000* | *HK$'000* |
| Provision for Hong Kong profits tax | 30 | 36 |

**6. Earnings per share**

*(a) Basic earnings per share*

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the period of HK$3,190,000 (2003: HK$1,867,000) and the weighted average of 275,023,000 (2003: 273,625,000) shares of the Company in issue during the period.

*(b) Diluted earnings per share*

The calculation of diluted earnings per share is based on the net profit attributable to ordinary shareholders for the period of HK$3,190,000 (2003: HK$1,867,000). The weighted average number of ordinary shares used in calculation is the weighted average number of shares in issue during that period of 275,023,000 (2003: 273,625,000), as used in the basic earnings per share calculation, plus the weighted average of 314,000 (2003: 1,019,000) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the period.

**7. Dividend**

The Board does not recommend the payment of any dividends in respect of the period (2003: Nil).

**8. Trade receivables**

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

| | **Unaudited 30 June 2004** *HK$'000* | **Audited 31 December 2003** *HK$'000* |
|---|---|---|
| Current | 17,547 | 15,566 |
| Overdue 1 to 3 months | 2,348 | 3,822 |
| Overdue more than 3 months | 4,524 | 1,639 |
| | 24,419 | 21,027 |

*Credit terms*

System integration projects, the provision of maintenance services and software development services have terms which vary from contract to contract and may include cash on delivery, advance payment and credit. For those customers who trade on credit, invoices are normally payable within 90 days of issuance. Trade receivables are recognised and carried at original invoiced amount less provision for doubtful debts which is recorded when collection of the full amount is no longer probable. Bad debts are written off as incurred.

## 9. Trade payables, other payables and accruals

Included in the balance is an amount of HK$29,152,000 (31 December 2003: HK$62,073,000) representing the trade payables of the Group. An aged analysis of such payables is as follows:

| | Unaudited 30 June 2004 *HK$'000* | Audited 31 December 2003 *HK$'000* |
|---|---|---|
| Current | 22,776 | 54,790 |
| Within 1 to 3 months | 4,982 | 6,234 |
| Between 4 to 6 months | 1,394 | 1,049 |
| | 29,152 | 62,073 |

## 10. Commitments and contingent liabilities

Other than the normal course of business, the Group has no significant commitment and contingent liability as at 30 June 2004.

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

As at 30 June 2004, 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 shares of the Company:**

| Name of director | *Note* | Number of shares held, capacity and nature of interest: Directly beneficially owned | Through controlled corporation | Total | Percentage of the Company's issued share capital |
|---|---|---|---|---|---|
| Ng Cheung Shing | *(a)* | 2,032,000 | 110,000,000 | 112,032,000 | 40.71 |
| Leung King San, Sunny | | 810,000 | – | 810,000 | 0.29 |
| Ma Mok Hoi | | 209,000 | – | 209,000 | 0.08 |
| | | 3,051,000 | 110,000,000 | 113,051,000 | 41.08 |

**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: Directly beneficially owned | Through controlled corporation | Percentage of the associated corporation's issued shares capital |
|---|---|---|---|---|---|---|
| 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% |

## 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.

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

As at 30 June 2004, 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 |
|---|---|---|---|---|
| Chao Lien Technologies Limited | *1* | Directly beneficially owned | 110,000,000 | 39.97 |
| C.S. (BVI) Limited | *1* | Through a controlled corporation | 110,000,000 | 39.97 |
| Puttney Investments Limited ("PIL") | *2* | Directly beneficially owned | 29,148,938 | 10.59 |
| Hutchison International Limited ("HIL") | *2* | Through a controlled corporation | 29,148,938 | 10.59 |
| Hutchison Whampoa Limited ("HWL") | *2* | Through a controlled corporation | 29,148,938 | 10.59 |
| Cheung Kong (Holdings) Limited ("CKH") | *2, 3* | Through a controlled corporation | 29,148,938 | 10.59 |
| Li Ka-Shing Unity Trustee Company Limited ("TUT1") | *2, 3* | Through a controlled corporation | 29,148,938 | 10.59 |
| Li Ka-Shing Unity Trustee Corporation Limited ("TDT1") | *2, 3* | Through a controlled corporation | 29,148,938 | 10.59 |
| Li Ka-Shing Unity Trustcorp Limited ("TDT2") | *2, 3* | Through a controlled corporation | 29,148,938 | 10.59 |
| Li Ka-Shing | *2, 3* | Through a controlled corporation | 29,148,938 | 10.59 |
| Hui Yau Man | | Directly beneficially owned | 26,782,000 | 9.73 |
| Allianz Aktiengesellschaft | | Directly beneficially owned | 22,262,000 | 8.09 |

## 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 29,148,938 shares 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, TDT2, TDT1, TUT1 and CKH was deemed to be interested in the 29,148,938 shares held by PIL.

Save as disclosed above, as at 30 June 2004, 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 OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") throughout the period, except that the non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation in accordance with the Company's bye-laws.

## MODEL CODE

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as its code of conduct regarding directors' securities transactions. Having made specific enquiry of all directors, the directors have complied with the required standard set out in the Model Code.

## AUDIT COMMITTEE

The Company has an audit committee which was established for the purposes 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 and has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the interim report for the six months ended 30 June 2004.

By order of the Board
**Ng Cheung Shing**
*Chairman*

Hong Kong, 23 September 2004