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Computech Holdings Limited

駿科網絡訊息有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 8081)

ONGOING CONNECTED TRANSACTIONS

Financial adviser to Computech Holdings Limited

ALTUS CAPITAL LIMITED

The Existing Purchase and Service Agreement dated 28 July 2004 in relation to the Ongoing Connected Transactions will expire on 31 December 2005. The Company proposes to continue with the Ongoing Connected Transactions with the CLIH Group by entering into the New Agreement to renew the terms under the Existing Purchase and Service Agreement for another three years commencing from 1 January 2006, being the day immediately after the expiry of the Existing Purchase and Service Agreement, up to and including 31 December 2008. Save for the change in time period to three years for the New Agreement, the Directors consider that there is no material change to the terms of the New Agreement as compared with the Existing Purchase and Service Agreement.

As at the date of this announcement, CLIH held 242,400,000 Shares or 50.5% of the issued share capital of the Company. CLIH is therefore a controlling Shareholder and a connected person to the Company under the GEM Listing Rules. Transactions contemplated under the New Agreement between the Company and CLIH will constitute ongoing connected transactions for the Company and will be subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules. CLIH, Aplus (being an associate of CLIH) and their respective associates, if any, will abstain from voting on the resolutions to be proposed in relation to the New Agreement at the EGM. The vote will be taken by poll.

GENERAL

The Independent Board Committee is established to advise the Independent Shareholders in connection with the New Agreement. An independent financial adviser will be appointed for the purpose of advising the Independent Board Committee and the Independent Shareholders in connection with the Ongoing Connected Transactions.

A circular containing, inter alia, details of (i) the New Agreement; (ii) the recommendation of the Independent Board Committee; (iii) the advice of the independent financial adviser to the Independent Board Committee and to the Independent Shareholders; and (iv) a notice of EGM, will be despatched to the Shareholders as soon as practicable in accordance with the GEM Listing Rules.

I. BACKGROUND

Reference is made to the announcement of the Company dated 28 July 2004 in relation to the Existing Purchase and Service Agreement, pursuant to which the Group would provide information technology-related services to certain customers of the CLIH Group in Hong Kong and the PRC and purchase Inventories from the CLIH Group on a recurring basis. The Existing Purchase and Service Agreement will expire on 31 December 2005. The Company proposes to continue with the Ongoing Connected Transactions with CLIH Group by entering into the New Agreement to renew the terms under the Existing Purchase and Service Agreement for another three years commencing from 1 January 2006, being the day immediately after the expiry of the Existing Purchase and Service Agreement, up to and including 31 December 2008. Save for the change in time period to three years for the New Agreement, the Directors consider that there is no material change to the terms of the New Agreement as compared with the Existing Purchase and Service Agreement.

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CLIH is indirectly owned: (i) as to approximately 46.2% by The General Trust Co. Ltd. (the trustee of AFS Trust and Ardian Trust); (ii) as to approximately 16.4% by Mr. Henry Yap Fat Suan; and (iii) as to the remaining of approximately 37.4% by a number of third parties independent from The General Trust Co. Ltd. and Mr. Henry Yap Fat Suan. Aplus, a substantial Shareholder, is indirectly owned as to 84.0% by The General Trust Co. Ltd. and directly owned as to 16.0% by Mr. Henry Yap Fat Suan. Accordingly, Aplus is an associate of CLIH. CLIH, Aplus and their respective associates, if any, will therefore abstain from voting on the resolutions to be proposed in relation to the New Agreement at the EGM. The vote will be taken by poll.

II. RENEWAL OF THE ONGOING CONNECTED TRANSACTIONS

1. The New Agreement dated 15 November 2005

Parties: (i) The Company; and
(ii) CLIH.

Subject: (i) Provision of IT Services; and
(ii) Purchase Transactions.

Period: From 1 January 2006 to 31 December 2008.

The Company is principally engaged in the research, development and sale of software products, the provision of information technology services such as consultancy, technical and system integration services and supply chain solutions in Hong Kong and in the PRC.

The CLIH Group is principally engaged in the research, development and sale of banking terminal automation and mailing solution services in Hong Kong, the PRC and South-East Asia.

i) Provision of IT Services

Nature of transaction

The Existing Purchase and Service Agreement governing, inter alia, the Provision of IT Services will expire on 31 December 2005. Under the New Agreement, the Group will continue to act as an outsourcing partner of the CLIH Group. The Group will render information technology-related services including, but not limited to, system maintenance, technical support, system integration and operation support, to existing non-banking sector customers of the CLIH Group in Hong Kong and the PRC during the term of the New Agreement. As an outsourcing partner, these services will be provided by the Group in accordance with the terms of the contracts entered into between the CLIH Group and their respective customers, who are not connected persons of the Company.

Under the New Agreement, upon expiration of the contracts between CLIH Group and its customers in relation to the Provision of IT Services, the Company may negotiate and enter into new contracts directly with those customers. While there is no guarantee that the Company will be able to secure contracts with those customers, if it is able to do so, the contracts to be entered into between these customers and the Company will be negotiated on an arm's length basis.

The Provision of IT Services is in line with the Company's principal business activities. The Directors are of the view that the outsourcing arrangement with CLIH Group relating to the Provision of IT Services will enable: (i) the Group to continue expanding its customer base in the non-banking sector and diversifying its income source; and (ii) both the Group and the CLIH Group to focus on their respective core competencies. On this basis, the Directors are of the view that the Provision of IT Services will provide positive contribution, and is beneficial, to the Group.

Pricing basis

The Provision of IT Services will be carried out in the ordinary course of business of the Group and conducted on normal commercial terms. The Group will furnish CLIH with monthly service activity reports detailing the services rendered to the relevant customers and the amount of time incurred by the Group. Fees for services rendered will be (i) charged to CLIH on a project/contract basis which is calculated based on, for example, units or value of products sold, amount of time required for services performed or number of calls serviced; and (ii) payable by CLIH to the Group. Such payments from CLIH to the Group may be on monthly/quarterly/semi-annual or annual basis, mirroring the terms of payment between CLIH and its customers. CLIH Group is obligated to pay the Group regardless of whether CLIH itself has received payments from its customers. The Directors confirm that such payment arrangements are in line with normal commercial practices. The Directors are of the view that the payment arrangement and the pricing basis are fair and reasonable so far as the Company and the Shareholders are concerned.

The Directors consider the fees to be received from the Provision of IT Services, which are expected to cover the cost of inventory used, labour costs and other relevant costs to be incurred in carrying out such services and to generate a reasonable margin for the Group, to be fair and reasonable so far as the Shareholders are concerned.

ii) Purchase Transactions

Nature of transaction

In the course of carrying out its engagement under the outsourcing arrangements in respect of the Provision of IT Services, the Group will need to utilise items such as computer parts and components, including the Inventories. Save for purchasing Inventories from CLIH for the Provision of IT Services, the Group will also purchase Inventories, in particular certain equipment, from CLIH for the Group's own customers of other businesses.

The Existing Purchase and Service Agreement governing, inter alia, the Purchase Transactions will expire on 31 December 2005. Under the New Agreement, the Company may from time to time purchase Inventories from CLIH on an order-by-order basis for its own use in the ordinary and usual course of business including the Provision of IT Services. No minimum amount of purchase is stipulated and the purchases may be made by the Company at its discretion. The Directors are of the view that the Purchase Transactions will minimise the need for the Group to carry excess Inventories which are not immediately used. It may also allow the Group to enjoy bulk purchase discounts as the Group's purchase requirements are aggregated with CLIH Group's own purchases. The Group, however, will purchase inventories and equipment of the same or similar nature and/or function of the Inventories from other suppliers if better prices or discounts are offered.

Pricing basis

The purchase prices of the Inventories will be on normal commercial terms and determined on arm's length basis. They will be settled by internal resources of or banking facilities obtained by the Group. The prices of the Inventories shall not exceed the prevailing market prices at which these products are available to the Group from Independent Third Parties. The payment terms for such purchases, including any credit terms available to the Group, will depend on and mirror the terms between CLIH and the relevant suppliers.

2. Basis of proposed caps amounts

The Company and CLIH Group commenced the Ongoing Connected Transactions since the fourth quarter of the year 2004. In arriving at the proposed caps for the Ongoing Connected Transactions in respect of the New Agreement, the Directors have taken into consideration: (i) the historical figures for the Ongoing Connected Transactions; (ii) CLIH Group's current customer contracts on hand; (iii) business projections provided by the management of CLIH, which are based on contracts under negotiation between CLIH Group and its customers; (iv) estimated parts and components usage based on projected service calls volume under the Provision of IT Services; and (v) estimated purchase of equipment by the Company for its other customers.

The table below sets out the actual total contract sums which were received and paid by the Group in respect of the Ongoing Connected Transactions in the past and the proposed caps for the Ongoing Connected Transactions for the three years ending 31 December 2008:

	Actual total contract sum		Proposed caps		
	For the three months ended	For the nine months ended	For the year ending 31 December		
	31 December 2004	30 September 2005	2006	2007	2008
	(audited) HK\$'000	(unaudited) HK\$'000	HK\$'000	HK\$'000	HK\$'000
Provision of IT Services	12,029	33,800	43,000	62,000	79,000
Purchase Transactions	14,600	15,400	23,000	24,000	26,000

Provision of IT Services

For the three months ended 31 December 2004 and the nine months ended 30 September 2005, the total contract sum which were received by the Group in respect of the Provision of IT Services under the Existing Purchase and Service Agreement were approximately HK\$12.0 million and HK\$33.8 million respectively. On an annualised basis, the contract sums for each the two years ended 31 December 2005 would be approximately HK\$48.0 million and HK\$45.0 million respectively. The proposed new caps for the Provision of IT Services for the three years ending 31 December 2008 are approximately HK\$43.0 million, HK\$62.0 million and HK\$79.0 million respectively.

For the year ending 31 December 2006, the proposed cap is slightly lower than the aforesaid actual contract sums on an annualised basis, the Directors explain that the main reason for such expected decline is because some customers of the CLIH Group previously outsourced to the Group have entered into new contracts directly with the Company after their contracts with CLIH have expired. Transactions between the Group and such customers directly will therefore no longer constitute the Ongoing Connected Transactions.

On the other hand, based on the business projections provided by the management of CLIH, CLIH is in negotiation with certain customers for potential contracts. Should the aforesaid contracts be concluded, the Company will be required to provide technical support services to customers of the CLIH Group commencing around the fourth quarter of 2006 to 2008 under the Provision of IT Services with minimal or no Inventories required. Based on the aforesaid, the proposed caps for the Provision of IT Services have been revised accordingly. The Directors are of the view that, having taking into consideration of the potential contracts of CLIH, the demand for the Provision of IT Services for the two years ending 31 December 2008 might increase significantly.

Purchase Transactions

For the three months ended 31 December 2004 and the nine months ended 30 September 2005, the total contract sum paid by the Group in respect of the Purchase Transactions under the Existing Purchase and Service Agreement were approximately HK\$14.6 million and HK\$15.4 million respectively. On an annualised basis, the contract sums for each of the two years ended 31 December 2005 would be approximately HK\$58.4 million and HK\$20.5 million respectively. The Directors explain that when the Company first commenced the Provision of IT Services in the fourth quarter of 2004, the Company was required to “stock-up” its inventory to a certain level to meet the immediate needs of the CLIH customers under the Provision of IT Services. The Company then from time to time purchased Inventories from CLIH on an order-by-order basis to replenish its inventory levels. In addition, as some customers of CLIH did not enter into new contracts with CLIH after their contracts have expired during the nine months ended 30 September 2005, the purchase of Inventories under the Purchase Transactions required for the Provision of IT Services had decreased during the same period. Accordingly, the Purchase Transactions made by the Company for the three months ended 31 December 2004 were comparatively higher, on an annualised basis, than that for the nine months ended 30 September 2005.

Having considered: (i) the historical figures for the Purchase Transactions; (ii) CLIH Group’s current customer contracts on hand that might require the purchase of Inventories; (iii) the estimated parts and components usage based on projected service calls volume under the Provision of IT Services; and (iv) estimated purchase of equipment by the Company for its other customers, the proposed new caps for the Purchase Transactions for the three years ending 31 December 2008 are approximately HK\$23.0 million, HK\$24.0 million and HK\$26.0 million respectively.

The Directors advise that the changes in the amount of Inventories to be purchased by the Group under the Purchase Transactions may not be direct proportionate to that of the Provision of IT Services as some customers may not require any components or spare parts in their services.

3. Reasons for and benefits arising from the New Agreement

Outsourcing of information technology services has been adopted by many commercial enterprises and government institutions over the years. The Directors are of the view that such trend will continue as it allows these organisations to focus on their core competencies while relying on partners who have the scale and capabilities to handle such non-core areas, often in a more economical and efficient manner.

The Group started the Provision of IT Services in the fourth quarter of 2004 and principally undertakes outsourcing jobs for non-banking sector customers of the CLIH Group. The Directors advised that the Provision of IT Services has expanded the client base of the Group and became one of the major income sources of the Group.

The table below sets out the financial performance of the Group for each of the two years ended 31 December 2004 and the nine months ended 30 September 2004 and 30 September 2005:

	For the year ended			For the nine months ended		
	31 December		Change in	30 September		Change in
	2003	2004		2004	2005	
(audited)	(audited)	percentage	(unaudited)	(unaudited)	percentage	
	HK\$'000	HK\$'000	(%)	HK\$'000	HK\$'000	(%)
Total turnover of the Group	35,399	43,240	22.2	17,313	60,284	248.2
- Turnover attributed by the Provision of IT Services to the CLIH Group	-	12,029	N/A	-	33,800	N/A
Net profit/loss	(27,282)	(11,841)	N/A	(9,223)	11,820	N/A

Prior to the last quarter of 2004, the Group did not undertake the Provision of IT Services. The Group commenced such services in the fourth quarter of 2004 and it contributed approximately HK\$12.0 million in turnover or about 27.8% out of the total turnover of approximately HK\$43.2 million for the year ended 31 December 2004. For the nine months ended 30 September 2005, out of the total turnover of approximately HK\$60.3 million, approximately HK\$33.8 million or about 56.0% were contributed by the Provision of IT Services to the CLIH Group.

For the nine months ended 30 September 2005, the Group made a turn-around in financial performance where it recorded unaudited net profit of approximately HK\$11.8 million, representing a significant improvement as compared with the net loss of approximately HK\$9.2 million in the same period in 2004. The Directors attributed such improvement to the contributions from the business segments of Provision of IT Services and supply chain solutions.

In view of the growing trend of outsourcing of information technology services among large commercial institutions and the economic growth in Hong Kong and the PRC, the Directors are of the view that the Provision of IT Services will continue to contribute positively, and is beneficial, to the Group.

With regard to the Purchase Transactions, the CLIH Group has arrangements with suppliers that provide better prices or discounts for purchases of the Inventories. The Purchase Transactions will therefore continue to allow the Group to purchase the Inventories from the CLIH Group at prices lower than if it purchases directly from suppliers. Such arrangements also minimise the need to carry excess Inventories when they are not immediately used. Nevertheless, the Directors advise that the Group will purchase equipment and inventories directly from third parties if the terms of such purchases are more favourable than those offered by the CLIH Group.

The Directors consider that the Ongoing Connected Transactions as contemplated under the New Agreement are in the ordinary and usual course of business of the Group and that the terms thereof are fair and reasonable and in the interests of the Company and the Shareholders as a whole. They are also of the view that the Ongoing Connected Transactions will complement the Group's operations and enable it to diversify its sources of revenue.

4. Ongoing Connected Transactions

The Provision of IT Services and the Purchase Transactions contemplated under the New Agreement constitute ongoing connected transactions for the Company under the GEM Listing Rules and are subject to the reporting, announcement and Independent Shareholders' approval requirements pursuant to Rules 20.35 and 20.52 of the GEM Listing Rules. The Company intends to seek the approval from the Independent Shareholders at the EGM in respect of the New Agreement pursuant to Rule 20.35 and of the proposed caps for the Ongoing Connected Transactions for each of the three financial years ending 31 December 2008 pursuant to Rule 20.52. As connected persons, CLIH, Aplus and their respective associate(s), if any, are required to abstain from voting at the EGM on the relevant resolutions pursuant to Rule 20.54 of the GEM Listing Rules. The vote will be taken by poll.

Upon implementation of the New Agreement, the Company will comply with the provisions, and in particular, provisions governing the ongoing connected transactions, of Chapter 20 of the GEM Listing Rules in relation to the Provision of IT Services and the Purchase Transactions.

III. GENERAL

The Independent Board Committee is established to advise the Independent Shareholders in connection with the New Agreement. An independent financial adviser will be appointed for the purpose of advising the Independent Board Committee and the Independent Shareholders in connection with the Ongoing Connected Transactions.

A circular containing, inter alia, details of (i) the New Agreement; (ii) the recommendation of the Independent Board Committee; (iii) the advice of the independent financial adviser to the Independent Board Committee and to the Independent Shareholders; and (iv) a notice of the EGM, will be sent to the Shareholders as soon as practicable.

DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise.

“AFS Trust”	AFS Trust, a trust set up by Mr. Fung Pak Chuen Alphonso, a Director, for the benefit of his wife and their children. Mr. Fung does not have any direct interests in the Company
“Aplus”	Aplus Worldwide Limited, the substantial Shareholder, beneficially owns approximately 16.2% shareholding interest in the Company
“Ardian Trust”	Ardian Trust, a trust set up by Mr. Lo, Richard, a Director, for the benefit of his wife and their children. Mr. Lo does not have any direct interests in the Company
“associate(s)”	has the meaning ascribed thereto under the GEM Listing Rules
“Board”	the board of Directors
“CLIH”	CL International Holdings Limited, a company incorporated in the British Virgin Islands with limited liability and the controlling Shareholder, which beneficially owns 50.5% shareholding interest in the Company
“CLIH Group”	CLIH and its subsidiaries
“Company”	Computech Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on GEM
“connected person(s)”	has the meaning ascribed thereto under the GEM Listing Rules
“Directors”	directors of the Company
“EGM”	the extraordinary general meeting of the Company to be convened at which resolutions will be proposed, among other things, to consider and, if thought fit, approve the transactions contemplated in relation to the New Agreement
“Existing Purchase and Service Agreement”	the Agreement for Services Provision and Inventory Purchase dated 28 July 2004 entered into between the Company and CLIH in respect of the Ongoing Connected Transactions for a period from 28 July 2004 up to and including 31 December 2005

“GEM”	Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee of the Company comprising the independent non-executive Directors, namely Mr. Lee Sai Yeung, Mr. Chung Kong Fei, Stephen and Mr. Ng Chik Sum, Jackson
“Independent Shareholders”	Shareholders other than CLIH and Aplus and their respective associates
“Independent Third Parties”	independent third parties not connected with the directors, chief executive or substantial shareholders of the Company or any of its subsidiaries or their respective associates and are not connected persons of the Company
“Inventories”	inventories comprising principally computer parts and components, peripherals and equipment to be acquired by the Company from CLIH pursuant to the New Agreement or the Existing Purchase and Service Agreement (as the case may be)
“New Agreement”	the conditional agreement dated 15 November 2005 entered into between the Company and CLIH in respect of the Ongoing Connected Transactions for a term of three years from the date after the expiry of the Existing Purchase and Service Agreement on 1 January 2006 up to and including 31 December 2008
“Ongoing Connected Transactions”	the Provision of IT Services and the Purchase Transactions
“PRC”	the People’s Republic of China
“Provision of IT Services”	provision of information technology related services including, but not limited to, system maintenance, technical support, system integration and operation support, by the Company to customers of the CLIH Group in Hong Kong and the PRC

“Purchase Transactions”	purchases of Inventories from CLIH by the Company for use in the Group’s ordinary and usual course of business including the Provision of IT Services
“Share(s)”	ordinary shares of HK\$0.01 each in the existing share capital of the Company
“Shareholders”	holders of Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“HK\$”	Hong Kong Dollars, the lawful currency of Hong Kong

By Order of the Board
Computech Holdings Limited
Fung Pak Chuen, Alphonso
Chairman

Hong Kong, 15 November 2005

* *For identification only*

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

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this announcement is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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