



Armitage Technologies Holding Limited
(萬達資訊科技控股有限公司) *

(incorporated in the Cayman Islands with limited liability)

INTERIM REPORT
FOR THE SIX MONTHS ENDED 30TH SEPTEMBER, 2003

** For identification purpose only*

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This report, for which the directors (the "Directors") of Armitage Technologies Holding Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "GEM Listing Rules") 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 report 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 report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

**FINANCIAL HIGHLIGHTS FOR THE SIX MONTHS ENDED
30TH SEPTEMBER, 2003.**

- Turnover amounted to approximately HK\$24.91 million, representing an increase of approximately 25% over the same period in 2002.
- Hong Kong turnover recorded a growth of approximately 10%. During the period, revenue from the provision of information solutions increased to approximately HK\$16.96 million compared to approximately HK\$15.68 million in the corresponding period last year.
- Turnover in China posted a significant growth of approximately 100%.
- Application software sales increased by approximately 88% to approximately HK\$7.94 million.
- Operating profit of approximately HK\$953,000 was achieved, an increase of approximately 292% over the same period in 2002.
- A profit after taxation of approximately HK\$390,000 was recorded for the period.
- A loss in Hong Kong operation of approximately HK\$100,000 was recorded as compared to a profit of approximately HK\$415,000 for the corresponding period last year. This was due to additional expenses arising after the listing of the Company to comply with the listing requirements and compensation of approximately HK\$439,000 paid to terminated staff.

RESULTS

The board of directors (the “Board”) of the Company hereby announces the unaudited consolidated results of the Company and its subsidiaries (hereinafter collectively referred to as the “Group”) for the six months ended 30th September, 2003 and the three months ended 30th September, 2003, together with the comparative unaudited consolidated figures for the corresponding period as follows:

		For the six months ended 30th September,		For the three months ended 30th September,	
		2003	2002	2003	2002
	Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	2	24,905	19,913	13,791	10,823
Cost of sales and services rendered		(10,453)	(8,799)	(6,025)	(4,170)
Gross profit		14,452	11,114	7,766	6,653
Other income		315	739	156	115
Net realised and unrealised gains/ (losses) on other investments		192	(20)	156	(226)
Surplus on revaluation of investment properties		—	62	—	62
Operating expenses		(14,006)	(11,652)	(7,156)	(5,682)
Operating profit		953	243	922	922
Finance costs		(249)	(37)	(89)	(12)
Profit before taxation	3	704	206	833	910
Taxation	4	(314)	(7)	(141)	(4)
Profit after taxation		390	199	692	906
Minority interests		(75)	(29)	(75)	3
Profit attributable to shareholders		315	170	617	909
Earnings per share (HK cents)					
- Basic	5	0.042	0.027	0.082	0.143
- Diluted	5	0.042	0.027	0.082	0.142

Consolidated Balance Sheet

		At 30th September, 2003 HK\$'000 (Unaudited)	At 31st March, 2003 HK\$'000 (Audited)
	<i>Note</i>		
NON-CURRENT ASSETS			
Fixed assets		4,498	4,524
Software		1,562	2,047
Trade mark		79	81
Goodwill on consolidation		3,359	3,880
Development costs		22,991	18,925
Club debenture, at cost		200	200
		<u>32,689</u>	<u>29,657</u>
CURRENT ASSETS			
Other investments		542	351
Debtors, deposits and prepayments	6	14,051	9,554
Pledged time deposits		10,000	10,500
Time deposits with a bank		5,014	—
Cash and bank balances		20,934	31,062
		<u>50,541</u>	<u>51,467</u>
DEDUCT:			
CURRENT LIABILITIES			
Bank overdraft, secured		16,367	14,936
Bank loan, secured		3,000	3,000
Creditors, accruals and deposits received	7	6,616	9,588
Tax payable		407	93
		<u>26,390</u>	<u>27,617</u>
NET CURRENT ASSETS		<u>24,151</u>	<u>23,850</u>
		<u>56,840</u>	<u>53,507</u>
REPRESENTING:-			
SHARE CAPITAL		7,500	7,500
RESERVES		48,665	46,007
SHAREHOLDERS' FUNDS		56,165	53,507
MINORITY INTERESTS		675	—
		<u>56,840</u>	<u>53,507</u>

Condensed Consolidated Cash Flow Statement

	For the six months ended 30th September,	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
NET CASH USED IN OPERATING ACTIVITIES	(4,870)	(1,022)
NET CASH USED IN INVESTING ACTIVITIES	(4,618)	(8,643)
NET CASH FROM FINANCING ACTIVITIES	<u>2,943</u>	<u>—</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(6,545)	(9,665)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	16,126	21,492
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	<u>9,581</u>	<u>11,827</u>

ANALYSIS OF CASH AND CASH EQUIVALENTS

	At 30th September, 2003	At 30th September, 2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Time deposits	5,014	—
Cash and bank balances	20,934	11,827
Bank overdraft	<u>(16,367)</u>	<u>—</u>
	<u>9,581</u>	<u>11,827</u>

Consolidated statement of changes in equity

	Share capital	Retained profits/ Share (Accumulated loss)	Share premium	Special reserve	Capital reserve	Exchange reserve	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st April, 2002 (Audited)	1,194	224	56,203	3,801	174	(5)	61,591
Loss for the three months ended 30th June, 2002	—	(739)	—	—	—	—	(739)
At 30th June, 2002 (Unaudited)	1,194	(515)	56,203	3,801	174	(5)	60,852
Profit for the three months ended 30th September, 2002	—	909	—	—	—	—	909
At 30th September, 2002 (Unaudited)	1,194	394	56,203	3,801	174	(5)	61,761
At 1st April, 2003 (Audited)	7,500	1,544	40,493	3,801	174	(5)	53,507
Loss for the three months ended 30th June, 2003	—	(302)	—	—	—	—	(302)
At 30th June, 2003 (Unaudited)	7,500	1,242	40,493	3,801	174	(5)	53,205
Adjustment for expenses for share placing	—	—	2,343	—	—	—	2,343
Profit for the three months ended 30th September, 2003	—	617	—	—	—	—	617
At 30th September, 2003 (Unaudited)	7,500	1,859	42,836	3,801	174	(5)	56,165

Notes:

1. Group reorganisation and basis of preparation

The Company was incorporated in the Cayman Islands on 13th November, 2001 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a reorganisation scheme to rationalise the structure of the Group in preparation for the listing of its shares on the GEM of the Stock Exchange (the “Reorganisation”), the Company became the holding company of the companies now comprising the Group on 6th December, 2001. This was accomplished by acquiring the entire issued share capital of Armitage Technologies Holding (BVI) Limited in consideration of and in exchange for the Company’s allotted and issued ordinary shares.

The shares of the Company have been listed on the GEM of the Stock Exchange on 18th March, 2003.

The Reorganisation has been accounted for using merger accounting and regarding the Company as being the holding company of the Group from the beginning of the earliest period presented.

The unaudited consolidated results have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with Statements of Standard Accounting Practice (“SSAP”) issued by the Hong Kong Society of Accountants and are prepared under the historical cost convention as modified by revaluation of land and buildings and other investments.

During the six months ended 30th September, 2003, the Group adopted SSAP 12 (revised) “Income Taxes” for the first time in the preparation of the interim accounts.

The principal effect of the implementation of SSAP 12 (revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, with limited exceptions. The adoption of SSAP 12 (revised) had no significant effect on the results for the current or prior accounting periods.

2. Turnover

The Group is engaged in the provision of information solutions and design, development and sales of application software. Turnover represents revenue recognised in respect of the provision of information solutions and application software sold, net of discounts and business tax. An analysis of the turnover during the period is set out below:

	For the six months ended 30th September,	
	2003	2002
	HK\$'000	HK\$'000
Provision of information solutions		
System development and integration	14,290	13,502
Maintenance and enhancement income	2,671	2,179
Sales of application software	7,944	4,232
	24,905	19,913

3. Profit before taxation

Profit before taxation is arrived at after charging:

	For the six months ended 30th September,	
	2003	2002
	HK\$'000	HK\$'000
Amortisation of development costs	252	—
Amortisation of goodwill	521	521
Amortisation of software	485	485
Amortisation of trade mark	2	—
Depreciation	321	441
Less: Amounts capitalised as development costs	(54)	(164)
	267	277
Interest on bank loans and overdrafts and other loans wholly repayable within five years	182	11

4. Taxation

- a. Hong Kong profits tax has been provided at 17.5% (2002: 16%) on the estimated assessable profits for the period.
- b. No provision for the PRC enterprise income tax has been made as the Group's subsidiaries operating in the PRC have no assessable profits after offsetting with available tax losses.

5. Earnings per share

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

	For the six months ended 30th September,		For the three months ended 30th September,	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profit				
Profit for the period used in the calculation of basic and diluted earnings per share	<u>315</u>	<u>170</u>	<u>617</u>	<u>909</u>
Shares				
Weighted average number of shares in issue for the purpose of calculation of basic earnings per share	<u>750,000,000</u>	<u>635,823,709</u>	<u>750,000,000</u>	<u>635,823,709</u>
Weighted average number of shares in issue for the purpose of calculation of diluted earnings per share	<u>755,142,857</u>	<u>640,966,566</u>	<u>755,142,857</u>	<u>640,966,566</u>

6. Debtors, deposits and prepayments

Debtors, deposits and prepayments comprise:

	At 30th September, 2003 HK\$'000	At 31st March, 2003 HK\$'000
Trade debtors	11,715	8,158
Rental and utility deposits	398	404
Prepayments	405	414
Other debtors	1,533	578
	<u>14,051</u>	<u>9,554</u>

The Group allows its customers a credit period of 30 to 60 days depending on their credit worthiness. The following is an aging analysis of trade debtors net of provision for bad and doubtful debts:

	At 30th September, 2003 HK\$'000	At 31st March, 2003 HK\$'000
0 - 30 days	9,306	6,577
31 - 60 days	710	606
61 - 90 days	31	151
91 - 180 days	395	478
> 180 days	1,273	346
	<u>11,715</u>	<u>8,158</u>

The increase in accounts receivable was mainly attributed to the PRC operation. Business of some hotel customers were adversely affected by the outbreak of SARS from April to June 2003 and this had led them to delay their settlement of accounts.

7. **Creditors, accruals and deposits received**

Creditors, accruals and deposits received comprise:

	At 30th September, 2003 HK\$'000	At 31st March, 2003 HK\$'000
Trade creditors	1,890	934
Deferred enhancement and maintenance income - <i>Note</i>	1,127	1,660
Deposits received	35	50
Accruals and provisions	3,280	6,585
Other creditors	284	359
	<u>6,616</u>	<u>9,588</u>

Note: Deferred maintenance income represents after-sales maintenance service income from customers in respect of system development and integration projects and sales of application software. After the completion of the system development project or sales of application software, the Group charged its customers maintenance service fee in advance.

The following is an aging analysis of trade creditors:

	At 30th September, 2003 HK\$'000	At 31st March, 2003 HK\$'000
0 - 30 days	824	762
31 - 60 days	844	59
61 - 90 days	12	44
> 90 days	210	69
	<u>1,890</u>	<u>934</u>

8. Segment reporting

(a) An analysis of the Group's turnover and segment results for the period by geographical segments is as follows:

	Hong Kong		Mainland China		Inter-segment		Consolidated	
	For the		For the		For the		For the	
	six months ended		six months ended		six months ended		six months ended	
	30th September,		30th September,		30th September,		30th September,	
	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	18,422	16,674	7,599	3,409	(1,116)	(170)	24,905	19,913
Cost of sales and services rendered	(8,643)	(7,496)	(2,926)	(1,305)	1,116	—	(10,453)	(8,799)
Gross profit	9,779	9,178	4,673	2,106	—	(170)	14,452	11,114
Other income	265	693	1,351	483	(1,301)	(437)	315	739
Net realised and unrealised gains/(losses) on other investments	192	(20)	—	—	—	—	192	(20)
Surplus on revaluation of investment properties	—	62	—	—	—	—	—	62
Operating expenses	(9,707)	(9,470)	(5,600)	(2,736)	1,301	554	(14,006)	(11,652)
Operating profit/(loss)	529	443	424	(147)	—	(53)	953	243
Finance costs	(240)	(21)	(9)	(69)	—	53	(249)	(37)
Profit/(loss) before taxation	289	422	415	(216)	—	—	704	206
Taxation	(314)	(7)	—	—	—	—	(314)	(7)
(Loss)/profit after taxation	(25)	415	415	(216)	—	—	390	199
Minority interests	(75)	—	—	(29)	—	—	(75)	(29)
(Loss)/profit attributable to shareholders	(100)	415	415	(245)	—	—	315	170
Depreciation and amortisation	891	902	690	545	—	—	1,581	1,447
Capital expenditure incurred during the period	2,493	6,391	2,128	2,798	—	—	4,621	9,189
Segment assets and total assets	83,581	70,474	14,030	7,138	(14,381)	(9,975)	83,230	67,637
Segment liabilities and total liabilities	(24,602)	(5,168)	(16,152)	(10,622)	14,364	9,975	(26,390)	(5,815)
Minority interests	675	—	—	62	—	—	675	62

(b) No information has been disclosed in respect of the Group's business segments as the Group operates only one business segment which is the provision of information solutions and the design, development and sales of application software.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30th September, 2003 (2002: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is pleased to announce that, despite the adverse effect brought by the Severe Acute Respiratory Syndrome (SARS) on the general business environment, during the period under review, the Group's consolidated revenue increased to approximately HK\$24.91 million, an approximately 25% growth over the same period last year and recorded a profit attributable to shareholders of approximately HK\$315,000. Most encouraging of all, the Group's revenue in the PRC increased to approximately HK\$6.48 million, a significant growth of approximately 100% as compared to the same period last year. This promising result was achieved through the Group's strategy of product perfection, service refinement and effective cost control.

The Group firmly believes that good quality products and services are most essential to its success. It has focused its attention on product perfection and ensured that its products are of impeccable quality and well received by customers. The Group's proprietary software product, the award-winning Pegasus Hotel Management Software ("Pegasus"), has received strong support and attracted high demand from customers in the hospitality and travel industry in the PRC. The latest version Pegasus v.7.0 has included many new innovative functions to address unique requirements of the hotel operation. Pegasus' outstanding quality has gained itself a good reputation in the market and increased the Group's competitive edge in the field of hospitality application software. Good quality product, coupled with the Group's aggressive sales and marketing campaign and expansion of business to new regions in the PRC, have propelled the Group to generate record sales of a total of 104 licenses as compared to 43 licences in the same period last year.

Moreover, the Group's wholly-owned subsidiary and also the largest mid-range hotel solutions provider in China has performed well above its expectation. With its headquarters based in Guangzhou, Eastern Express Solutions Limited (widely known as EE in China), through the provision of exclusive information service both on-line and off-line complementing by the sales of Pegasus, has built a vast relationship network of mid-range hotels in key cities in the PRC.

The Group's Enterprise Resources Planning ("ERP") implementation in the PRC has recorded satisfactory results. The Group is delighted on the progress of its strategy to build up a team of proficient ERP application consultants to lay a solid foundation for more aggressive business development in this area. In June 2003, amidst keen competition, the Group has won an approximately HK\$3 million worth of contract for the implementation and maintenance of the Financials, Distribution, Manufacturing and e-biz modules of the IFS solutions for a Taiwanese electronic company with manufacturing plants in the PRC.

Although business environment in Hong Kong has been difficult, the Group managed to increase its turnover by approximately 10% compared to the same period last year, mainly in the provision of information solutions. The Group was engaged to provide IT solutions for distinctive customers in trading, transportation, container terminals and manufacturers in watches, electronics, leather product and toys industries. The Group was also awarded a project for the upgrading and enhancement of the existing government fleet operation system for the Hong Kong Government Dockyard.

Since the listing of the Company's shares on the GEM board of the Stock Exchange, additional expenses to comply with the listing requirements were incurred. Also, as part of the efficiency enhancement exercise to achieve cost cutting, services of a number of staff were terminated during the period. The Group paid a total compensation of approximately HK\$439,000 to these staff. These reasons have contributed to the loss of approximately HK\$100,000 recorded in Hong Kong operation, as compared to the approximately HK\$415,000 profit recorded in the same period last year.

The Group set up a wholly-owned subsidiary company Armitage Technologies (Shenzhen) Limited in Shenzhen in April this year. This subsidiary continued to provide technical resources for Hong Kong operation and in the long run, it is the Group's intention for this company to generate its own business in the region.

In August this year, a subsidiary was set up jointly with a strategic joint venture partner. The joint venture partner is an independent third party. This new company, Armitage Business Consulting Group Limited, specializes in the implementation of Oracle Applications (ERP application software for large enterprises). The establishment of this new company illustrates the Group's determination to widen its scope of service and to take part in high-end application consulting and implementation business in Hong Kong and Shenzhen.

FUTURE PROSPECTS

According to the forecast on China's software market by IDC, the application software market in the PRC is expected to grow at a high speed of approximately 25% per annum in the coming five years. With the recent announcement of the Mainland and Hong Kong Closer Economic Partnership Arrangement ("CEPA") and the continuous high economic growth in the PRC, strong demand on IT systems and related services are anticipated. The Group believes that with the enormous market potentials ahead and also the Group's well-recognised expertise and profound experience in the provision of application software for various business sectors, its business will experience significant growth.

The outstanding performance of our ERP implementation for the large enterprises in the PRC has not only earned the Group confidence from its customers, but it has also gained the trust of our strategic partner IFS Solutions Asia Pacific Pte Limited ("IFS"). Both parties will join efforts to organise more aggressive sales and marketing campaigns and solid strategies have been planned to create more business opportunities in this respect.

Armitage Industrial Management System ("AIMS"), the Group's proprietary ERP software specifically designed for small to medium size enterprises, has received good comments from its users since its soft launching last year. The Group will continue to focus its effort on the enhancements and feature enrichments of AIMS and to place heavy emphasis on unrivalled customer services. It is expected that its coming launch will be well-received by the market and this product will contribute significantly to the future growth of the Group's revenue.

The high-speed growth of the PRC economy and also the strong encouragement and support from the Chinese government on the local tourism and travel industry have created a strong demand on hotels. It is anticipated that in the next few years, the annual growth rate in new hotel development projects will be around 15%. The rapid new hotel developments and upgrading will surely create a strong demand for hotel management software. Leveraging on its superior quality products, the Group strives to become the number one hotel management software provider for mid-range hotels in the PRC. With this in mind, it will continue its efforts in expanding its sales to the regions that the Group has never set foot in, such as the Northern and South Western regions. The Group is also exploring the possibilities of enlarging its sales coverage through distribution channels. To meet the strong demands and to facilitate its unrivalled services, the Group plans to localize its implementation teams so that prompt response, swift and efficient services can be provided to customers locally.

The travel and tourism industry in Hong Kong and the PRC is widely recognized as a prime contributor to the growing economy. EE has successfully established an open platform to provide exclusive hotel information service both on-line and off-line to hoteliers in the PRC. Through EE, we have built close working relationships with vast majority hotel owners, operators and senior executives in the PRC. We expect this network to expand the Group's sales of its Pegasus and other related services and products.

Since the launch of its web site www.dongyee.com in 2001, it has accumulated a vast database of business and leisure travelers in the PRC. These people belong to the country's affluent class with immense spending power. The Group intends to work closely with large institutions to benefit from opportunities arising from this Internet platform and vast database.

In Hong Kong, the Group anticipates that business generated from commercial clients will grow steadily with the economy gradually picking up after the rebound from SARS. The Group is optimistic about its new venture in high-end application consulting and believes that there are great opportunities for the future growth. Due to keen competition, the Group will remain prudent in bidding for government projects.

Internally, the Group shall continue to exercise stringent cost control in all aspects of its operation. The Group's strategy of employing and keeping the industry's top-notch human resources and its emphasis on staff development shall continue to give the Group a competitive edge in the market.

FINANCIAL REVIEW

Consolidated results of operations

During the reporting period, the consolidated revenue of the Group increased by approximately 25% to approximately HK\$24.91 million (2002: approximately HK\$19.91 million). PRC subsidiaries contributed approximately HK\$6.48 million (2002: approximately HK\$3.24 million) in turnover, a growth of approximately 100%. Net profit attributable to shareholders was approximately HK\$315,000 (2002: approximately HK\$170,000).

Gross profit margin was approximately 58%, an approximately 2% improvement over the same period last year. The improvement was mainly due to the improvement in the sale of application software from approximately 68% in 2002 to approximately 75% in 2003. Gross profit margin for the provision of information solutions had no material fluctuation.

Operating expenses amounted to approximately HK\$14.01 million, as compared to approximately HK\$11.65 million in the same period last year. Operating expenses as a percentage of the total revenue for the period decreased from approximately 59% in 2002 to approximately 56% in 2003. The Group continues to exercise tight cost control in all aspects of the operation.

Finance costs amounted to approximately HK\$249,000 (2002: approximately HK\$37,000). The increase was mainly due to the additional utilisation of banking facilities.

Financial resources and liquidity

As at 30th September, 2003, the shareholders' funds of the Group amounted to approximately HK\$56,165,000. Current assets amounted to approximately HK\$50,541,000 of which approximately HK\$35,948,000 were cash and bank deposits and approximately HK\$14,051,000 were debtors, deposits and prepayments. The Group's current liabilities amounted to approximately HK\$26,390,000, including approximately HK\$19,367,000 bank loan and overdraft.

Current ratio improved from approximately 1.86 as at 31st March, 2003 to approximately 1.92 as at 30th September, 2003. Gearing ratio, expressed as a ratio of total bank borrowings to shareholders' funds, was approximately 0.34 (31st March, 2003: approximately 0.34). No material fluctuation was noted.

Foreign exchange

The Group received renminbi income from sales in China. Fluctuation of exchange rates of renminbi against foreign currencies could affect the Group's results of operations. During the reporting period, no hedging transaction or arrangement was made.

Significant investments and acquisition

In April 2003, the Group established Armitage Technologies (Shenzhen) Limited in Shenzhen, the PRC, to further strengthen its customer service, support and research and development base in AIMS.

In August 2003, with a view to extend the Group's business scope to high-end application consulting, the Group formed Armitage Business Consulting Group Limited with a joint venture partner, 60% of its shareholding is held by the Group.

Save as disclosed above, the Group had no material acquisitions and disposal of subsidiaries and affiliated companies in current and prior period.

Charges on the Group's assets

As at 30th September, 2003, the Group's time deposits of HK\$10.0 million (31st March, 2003: HK\$10.5 million) have been pledged to banks to secure general banking facilities granted to the Group.

Capital commitments

As at 30th September, 2003, the Group's capital commitment amounted to approximately HK\$1.4 million. This commitment was for the injection of capital into a PRC subsidiary, Armitage Technologies (Shenzhen) Limited.

In prior period, the Group had no material capital commitments.

Contingent liabilities

- (a) As at 30th September, 2003, the Group had contingent liabilities in respect of performance bonds amounted to approximately HK\$598,000 (31st March, 2003: approximately HK\$516,000) issued by a bank in favour of a customer for the due performance of contract works undertaken by the Group.
- (b) As at 30th September, 2003, the Group had contingent liabilities in respect of factored trade accounts receivable amounted to approximately HK\$1,468,000 (31st March, 2003: approximately HK\$2,263,000).
- (c) As at 30th September, 2003, the Group had contingent liabilities in respect of guarantee amounted to HK\$100,000 (31st March, 2003: HK\$Nil) given to a customer for the due performance of contract works undertaken by the Group.

During the reporting period, there was no on-going financial exposure to borrowers or other on-going matters of relevance as defined in Rules 17.22 to 17.24 of the GEM Listing Rules.

Employees and remuneration policies

As at 30th September, 2003, the Group had 278 employees in Hong Kong and the PRC (31st March, 2003: 273). Remuneration is determined by reference to market terms and in accordance with the performance, qualification and experience of individual employee. Discretionary bonuses based on individual's performance are paid to employees as a recognition and reward of their contributions. Other fringe benefits such as medical subsidy, medical insurance, education/training subsidies, pension funds are offered to most employees. Share options are granted at discretion under the terms and conditions of the Employees Share Option Scheme.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

In compliance with the GEM Listing Rules, the Company sets out below a summary of actual business progress as measured against the business objectives set out in the prospectus of the Company dated 28th February, 2003 (the “Prospectus”) for the period from 1st April, 2003 to 30th September, 2003 (the “Relevant Period”).

	Business Objectives for the Relevant Period as stated in the Prospectus	Actual Business Progress in the Relevant Period
Strategic development	Continue to increase its focus on the sales and marketing of its proprietary application software, particularly its ERP and hotel management software, targeting at the manufacturing and hospitality sectors, respectively in China	The Group has continued to increase its focus on the sales and marketing of its proprietary application software, particularly its ERP and hotel management software, targeting at the manufacturing and hospitality sectors, respectively in China. The Group has extended its sales coverage to regions it has never set foot in such as the Northern and South Western regions for its hotel management package
	Plans to seek strategic alliances and, or other relationships with application software developers in the Group’s provision of information solutions services and application software to customers in Hong Kong and China	The Group has formed strategic alliances with application software developers such as IFS, Datastream, in the Group’s provision of information solutions services and application software to customers in Hong Kong and China
	Strengthen its existing strategic collaborations with international IT partners	The Group has strengthened its existing strategic collaborations with international IT partners such as EDS, Oracle, Fujitsu and Unisys

	Business Objectives for the Relevant Period as stated in the Prospectus	Actual Business Progress in the Relevant Period
Products and services development	Enhance the functions of version 3.01 of AIMS	The Group has continued to enhance the functions of AIMS to meet market demand
	Enhance version 7.0 of Pegasus with additional web-based and accounting functions	The Group has continued to enhance the functions of version 7.0 of Pegasus with web based and accounting features
	Develop an Adapter for handling the procurement requirements of the Hong Kong government	The development of various modules of the Adapter is continuing
	Enhance the web-based user interface and security control functions of e-Frame and increase the range of pre-built components available for users	The enhancement of various functions of e-Frame is continuing
Sales and marketing	Expand the market share of its proprietary application software in the commercial sector in China	The Group has aggressively expanded the market share of its proprietary application software in the commercial sector in China by setting up representative offices in many provinces in China
	Promote its brand, products and services in Hong Kong and China through actively organizing press conferences, seminars and taking part in exhibitions in Hong Kong and Guangzhou, Shenzhen, Shanghai and Beijing in China	The Group has participated in many exhibitions, organized seminars in Hong Kong, Guangzhou, Shenzhen, Shanghai and Beijing to promote its brand, products and services

Business Objectives for the Relevant Period as stated in the Prospectus

Actual Business Progress in the Relevant Period

Broaden the customer base of its hotel industry website, www.dongyee.com, through sales and marketing campaigns

The Group has broadened its customer base of its hotel industry website www.dongyee.com through membership sales and by promotion through its magazine Hotel Expert

Human resources

Recruit additional technical and marketing staff

The Group has recruited additional marketing and technical staff mainly in its PRC offices

As at 30th September, 2003, the Group has incurred the following amounts to achieve the business objectives as set out in the Prospectus:

	As stated in the Prospectus	Actual
	<i>HK\$'000</i>	<i>HK\$'000</i>
Products and services development	3,500	3,500
Sales and marketing	700	216
Human resources	500	500
General working capital	500	500
	<u>5,200</u>	<u>4,716</u>

The remaining unused proceeds have been deposited in licensed banks in Hong Kong.

Less expenses were incurred in sales and marketing as there were practically no marketing activities during the SARS outbreak period.

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

During the six months ended 30th September, 2003, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

DISCLOSURE OF DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN THE SECURITIES OF THE COMPANY OR ANY ASSOCIATED CORPORATIONS

As at 30th September, 2003, the interests or short positions of the directors and the chief executives of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), Chapter 571 under the Laws of Hong Kong), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

(a) Long positions in the shares of the Company

Name of Director	Type of interest	Number of shares	Approximate percentage of the issued share capital (Note 3)
Dr. Lee Shun	Personal	331,301,790	44.17%
Hon. Felix	Family	17,907,651 (Note 1)	2.39%
Mr. Au Yat-Gai	Personal	14,472,212	1.93%
Mr. Chun Hon Ching	Personal	11,503,399	1.53%
Dr. Liao, York	Corporate	29,988,007 (Note 2)	4.00%

Notes:

1. These shares are held by Dr. Lee Shun Hon, Felix's wife, Ms. Leung Mee Chun, Stella, and therefore Dr. Lee Shun Hon, Felix is deemed to have an interest in the shares in which Ms. Leung Mee Chun, Stella is interested in.
2. These shares are held by Winbridge Company Limited ("Winbridge"), which is owned as to 99% by Dr. Liao, York and therefore Dr. Liao, York is deemed to have an interest in the shares in which Winbridge is interested in.
3. Based on 750,000,000 shares of the Company in issue as at 30th September, 2003.

(b) **Long positions in underlying shares of equity derivatives of the Company**

Name	Type of interests	Number and description of equity derivatives	Number of underlying shares
Dr. Lee Shun Hon, Felix	Personal	Pursuant to the Pre-IPO Share Option Plan dated 26th February, 2003, share option to subscribe for 1,480,000 shares was granted at an exercise price of HK\$0.35 per share. The exercise period is from 18th September, 2004 to 17th March, 2007	1,480,000
Mr. Au Yat-Gai	Personal	Pursuant to the Pre-IPO Share Option Plan dated 26th February, 2003, share option to subscribe for 1,100,000 shares was granted at an exercise price of HK\$0.35 per share. The exercise period is from 18th September, 2004 to 17th March, 2007	1,100,000
Mr. Chun Hon Ching	Personal	Pursuant to the Pre-IPO Share Option Plan dated 26th February, 2003, share option to subscribe for 1,800,000 shares was granted at an exercise price of HK\$0.35 per share. The exercise period is from 18th September, 2004 to 17th March, 2007	1,800,000

Name	Type of interests	Number and description of equity derivatives	Number of underlying shares
Dr. Liao, York	Personal	Pursuant to the Pre-IPO Share Option Plan dated 26th February, 2003, share option to subscribe for 7,200,000 shares was granted at an exercise price of HK\$0.10 per share. The exercise period is from 18th September, 2004 to 17th March, 2007	7,200,000
			11,580,000

(c) Short positions in the shares and underlying shares of equity derivatives of the Company

Save as disclosed herein, as at 30th September, 2003, none of the Directors has short positions in the shares or underlying share of equity derivatives of the Company.

Save as disclosed herein, as at 30th September, 2003, none of the Directors had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO, which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

PERSONS WHO HAVE AN INTEREST OR A SHORT POSITION WHICH IS DISCLOSEABLE UNDER DIVISIONS 2 AND 3 OF PART XV OF THE SFO AND SUBSTANTIAL SHAREHOLDING

So far as is known to any director or chief executive of the Company, as at 30th September, 2003, the persons or companies who had an interest or short position in the shares or underlying shares of the Company which were required to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO or interested in, directly or indirectly, 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company were as follows:

(a) Long positions in the shares of the Company

Name	Type of interests	Number of shares held	Approximate percentage of the issued share capital <i>(Note 4)</i>
Dr. Lee Shun Hon, Felix	Personal	331,301,790	44.17%
	Family	17,907,651 <i>(Note 1)</i>	2.39%
Kingspecial Investments Limited	Corporate	114,578,176 <i>(Note 2)</i>	15.28%
Mr. Lee Shun Kwong	Corporate	41,870,454 <i>(Note 3)</i>	5.58%

Notes:

1. These shares are held by Dr. Lee Shun Hon, Felix's wife, Ms. Leung Mee Chun, Stella, and therefore Dr. Lee Shun Hon, Felix is deemed to have an interest in the shares in which Ms. Leung Mee Chun, Stella is interested.
2. The issued share capital of Kingspecial Investments Limited is beneficially owned as to 30% by Dr. Lee Shun Hon, Felix, as to 30% by Mr. Lee Shun Kwong and as to 30% by Dr. Lee Shun Hung, Kelvin (both of whom are brothers of Dr. Lee Shun Hon, Felix) and as to 10% by Ms. So Li Hang Lin, the sister of Dr. Lee Shun Hon, Felix.
3. Mr. Lee Shun Kwong has an attributable interest of 34,373,452 shares through his shareholding interest of 30% in Kingspecial Investments Limited and of an attributable interest in 7,497,002 shares through his interest of approximately 29.84% in Keystone Ventures, L.P. (in his capacity as a limited partner of Keystone Ventures, L.P.).
4. Based on 750,000,000 shares of the Company in issue as at 30th September, 2003.

(b) Long positions in underlying shares of equity derivatives of the Company

Name	Type of interests	Number and description of equity derivatives	Number of underlying shares
Dr. Lee Shun Hon, Felix	Personal	Pursuant to the Pre-IPO Share Option Plan dated 26th February, 2003, share option to subscribe for 1,480,000 shares was granted at an exercise price of HK\$0.35 per share. The exercise period is from 18th September, 2004 to 17th March, 2007	1,480,000
			<hr/> <u>1,480,000</u>

(c) Short positions in the shares and underlying shares of equity derivatives of the Company

So far as the Directors are aware, save as disclosed herein, no persons have short positions in the shares or underlying shares of equity derivatives of the Company.

Save as disclosed herein, so far as is known to the Directors, as at 30th September, 2003, no other persons or companies had interests or short positions in the shares or underlying shares of the Company which were required to be disclosed under provisions of Divisions 2 and 3 of Part XV of the SFO or were interested in, directly or indirectly, 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

COMPETING INTERESTS

None of the directors, the substantial shareholders, the management shareholders and their respective associates (as defined in the GEM Listing Rules) had any interests in any business which competed with or might compete with the business of the Group.

SPONSOR'S INTERESTS

As updated and notified by the Company's sponsor, Anglo Chinese Corporate Finance, Limited ("Anglo Chinese"), as at 30th September, 2003, neither Anglo Chinese nor any of its directors, employees or associates had any interests in the shares of the Company or any member of the Group, or any right to subscribe for or to nominate persons to subscribe for the shares of the Company or any member of the Group.

Pursuant to the sponsorship agreement dated 28th February, 2003 entered with the Company, Anglo Chinese had received and will receive fees for acting as the Company's continuing sponsor for the period from 18th March, 2003 (date of listing of the Company's shares on GEM) to 31st March, 2005.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with Rules 5.23 to 5.27 of the GEM Listing Rules. The primary duties of the audit committee are to review the Company's annual report and accounts, interim report and quarterly reports and to provide advice and comments thereon to the Board. The audit committee will also be responsible for reviewing and supervising the financial reporting process and internal control procedures of the Group. The audit committee has three members comprising the two independent non-executive directors, namely Mr. Anthony Francis Martin Conway and Professor Tsang Hin Pok, Herbert, and an executive director, Mr. Au Yat-Gai.

Up to the date of approval of the Group's unaudited results for the six months ended 30th September, 2003, the audit committee has held two meetings and has reviewed the interim report and accounts for the six months ended 30th September, 2003 prior to recommending such accounts to the Board for approval.

COMPLIANCE

In the opinion of the directors, the Company has complied with Rules 5.28 to 5.39 of the GEM Listing Rules concerning board practices and procedures throughout the six months ended 30th September, 2003.

On behalf of the Board
Lee Shun Hon, Felix
Chairman

Hong Kong, 10th November, 2003