



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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8213)

INTERIM REPORT
FOR THE PERIOD ENDED 30TH SEPTEMBER, 2005

** For identification purpose only*

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GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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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, 2005**

- Total turnover at HK\$30.79 million (2004: HK\$23.58 million) was recorded. Excluding hardware sales of HK\$1.93 million (2004: HK\$277,000), turnover increased by 24.0% compared to the corresponding period last year.
- Turnover from Hong Kong and the PRC posted an 20.4% and 60.6% increment respectively over the corresponding period last year.
- Net profit of HK\$1.78 million was recorded on IT related business for the reporting period.
- Operating expenses increased by HK\$441,000. The increase was mainly due to amortisation of additional development costs.
- Continuing with our strategy in magazine publishing, a HK\$1.52 million was invested in this area during the period under review.
- Loss attributable to shareholders was significantly reduced from HK\$4.18 million to HK\$490,000 for the six months ended 30th September, 2005.
- For the three months ended 30th September 2004, a HK\$1.14 million loss was recorded. However, a net profit of HK\$52,000 was achieved for the three months ended 30th September, 2005.

* All figures are approximate

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 period ended 30th September, 2005, together with the comparative unaudited consolidated figures for the corresponding period, as follows:

	Note	For the six months ended 30th September,		For the three months ended 30th September,	
		2005 <i>HK\$'000</i>	<i>Restated</i> 2004 <i>HK\$'000</i>	2005 <i>HK\$'000</i>	<i>Restated</i> 2004 <i>HK\$'000</i>
Turnover	2	30,786	23,557	16,110	12,550
Cost of sales and services rendered		(13,155)	(9,793)	(6,104)	(5,051)
Gross profit		17,631	13,764	10,006	7,499
Other income		493	209	403	96
Employees' share options benefits	1	(239)	(707)	(148)	(351)
Operating expenses		(17,421)	(16,980)	(9,516)	(8,023)
Operating profit/(loss)		464	(3,714)	745	(779)
Finance costs		(550)	(401)	(328)	(186)
(Loss)/profit before income tax	3	(86)	(4,115)	417	(965)
Income tax expense	4	(404)	(156)	(365)	(200)
(Loss)/profit after income tax		(490)	(4,271)	52	(1,165)
Minority interests		—	90	—	24
(Loss)/profit attributable to shareholders		(490)	(4,181)	52	(1,141)
Dividend		—	—	—	—
(Loss)/earnings per share (HK cents)					
- Basic	5	(0.07)	(0.56)	0.01	(0.15)
- Diluted	5	N/A	N/A	0.01	N/A

CONSOLIDATED BALANCE SHEET

	<i>Note</i>	At 30th September, 2005 HK\$'000 (Unaudited)	At 31st March, 2005 HK\$'000 (Audited)
NON-CURRENT ASSETS			
Fixed assets		3,944	4,112
Software		550	770
Trade mark		97	100
Goodwill on consolidation		1,584	1,584
Development costs		16,582	16,405
Club debenture, at cost		200	200
Loan receivable		769	727
Deferred tax		720	1,116
		24,446	25,014
CURRENT ASSETS			
Financial instruments		573	570
Debtors, deposits and prepayments	6	17,526	20,056
Income tax recoverable		732	732
Loan receivable		401	753
Pledged time deposits		9,000	9,000
Cash and bank balances		2,541	8,390
		30,773	39,501
DEDUCT :			
CURRENT LIABILITIES			
Bank overdrafts, secured		9,222	12,289
Bank loans, secured		972	3,968
Creditors, accruals and deposits received	7	6,170	8,672
		16,364	24,929
NET CURRENT ASSETS		14,409	14,572
		38,855	39,586
REPRESENTING :			
SHARE CAPITAL		7,500	7,500
RESERVES		29,803	30,054
SHAREHOLDERS' FUNDS		37,303	37,554
NON-CURRENT LIABILITIES			
Bank loans, secured		1,552	2,032
		1,552	2,032
		38,855	39,586

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended 30th September,	
	2005	2004
	HK\$'000	HK\$'000
NET CASH FROM/(USED IN) OPERATING ACTIVITIES	2,430	(4,772)
NET CASH USED IN INVESTING ACTIVITIES	(1,736)	(2,797)
NET CASH USED IN FINANCING ACTIVITIES	(3,476)	(3,000)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,782)	(10,569)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	(3,899)	4,837
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	<u>(6,681)</u>	<u>(5,732)</u>

ANALYSIS OF CASH AND CASH EQUIVALENTS

	At 30th September, 2005	At 30th September, 2004
	HK\$'000	HK\$'000
Cash and bank balances	2,541	7,634
Bank overdraft	(9,222)	(13,366)
	<u>(6,681)</u>	<u>(5,732)</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Accumulated losses	Share premium	Special reserve	Capital reserve	Exchange reserve	Employee share-based compensation reserve	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st April, 2004 (Audited)	7,500	(4,904)	42,836	3,801	174	(5)	—	49,402
Adjustment on adoption of HKFRS 2	—	(1,625)	—	—	—	—	1,625	—
At 1st April, 2004 (Restated)	7,500	(6,529)	42,836	3,801	174	(5)	1,625	49,402
Employees' share options benefits	—	—	—	—	—	—	707	707
Loss for the six months ended 30th September, 2004	—	(4,181)	—	—	—	—	—	(4,181)
At 30th September, 2004 (Unaudited)	<u>7,500</u>	<u>(10,710)</u>	<u>42,836</u>	<u>3,801</u>	<u>174</u>	<u>(5)</u>	<u>2,332</u>	<u>45,928</u>
At 1st April, 2005 (Audited)	7,500	(16,752)	42,836	3,801	174	(5)	—	37,554
Adjustment on adoption of HKFRS 2	—	(2,704)	—	—	—	—	2,704	—
At 1st April, 2005 (Restated)	7,500	(19,456)	42,836	3,801	174	(5)	2,704	37,554
Employees' share options benefits	—	—	—	—	—	—	239	239
Loss for the six months ended 30th September, 2005	—	(490)	—	—	—	—	—	(490)
At 30th September, 2005 (Unaudited)	<u>7,500</u>	<u>(19,946)</u>	<u>42,836</u>	<u>3,801</u>	<u>174</u>	<u>(5)</u>	<u>2,943</u>	<u>37,303</u>

Notes:

1. Basis of preparation

These financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. They are also prepared under the historical cost convention as modified by revaluation of financial instruments.

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“HKFRSs”) which are effective for accounting periods beginning on or after 1st January, 2005.

For the six months ended 30th September, 2005, the adoption of these HKFRSs has no material impact on the Group’s results of operations and financial position except the following:

- HKFRS 2 “Share-based payment”

In accordance with HKFRS 2, the share options granted by the Company after 7th November, 2002 are measured at fair value at the date of grant and recognised as expenses over the vesting period with the corresponding credit to an employee share-based compensation reserve under equity.

With the adoption of HKFRS 2 retrospectively from 1st April, 2005, the accumulated losses for each of the two years as at 1st April, 2005 and 2004 have been adjusted upward by HK\$2.70 million and HK\$1.63 million respectively. The loss attributable to shareholders has been increased by HK\$239,000 and HK\$707,000 for the two periods ended 30th September, 2005 and 2004 respectively.

- HKFRS 3 “Business combination”

In prior years, positive goodwill was recognised as an asset which was amortised on a straight line basis over its estimated useful life of not more than twenty years.

Following the adoption of HKFRS 3, the Group has ceased annual amortisation of positive goodwill, which arose from investment in a PRC subsidiary, with indefinite life. As there is no foreseeable limit to the contractual period over which the investment is expected to generate net cash inflow to the Group, the useful life of the positive goodwill is considered to be indefinite. However, the positive goodwill should be tested for impairment annually. No retrospective adjustment has been made in respect of previously amortised positive goodwill.

The adoption of HKFRS 3 reduced the Group’s loss for the six months ended 30th September, 2005 by HK\$456,000 as positive goodwill is no longer amortised.

Certain comparative figures of turnover, other income and operating expenses have been re-classified to conform to the current period’s presentation.

All figures are approximate.

2. Turnover

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

	For the six months ended 30th September,	
	2005	<i>Restated</i> 2004
	HK\$'000	HK\$'000
Provision of information solutions		
System development and integration	16,105	13,602
Maintenance and enhancement income	488	698
Sales of application software packages and related maintenance income	14,010	9,164
Advertising income	183	93
	30,786	23,557

3. (Loss)/profit before income tax

(Loss)/profit before income tax is arrived at after charging:

	For the six months ended 30th September,	
	2005	2004
	HK\$'000	HK\$'000
Amortisation of development costs	1,513	1,116
Amortisation of goodwill	—	521
Amortisation of software	220	220
Amortisation of trade mark	3	3
Depreciation	375	356
Less : Amounts capitalised as development costs	37	37
	338	319
Interest on bank loans and overdrafts and other loans wholly repayable within five years	466	324

4. Income tax expense

Income tax expense in the unaudited consolidated income statement represents:

	For the six months ended 30th September,	
	2005	2004
	HK\$'000	HK\$'000
Current tax		
Provision for Hong Kong profits tax at 17.5% on the estimated assessable profits for the period	—	7
Deferred tax	<u>404</u>	<u>149</u>
Income tax expense	<u><u>404</u></u>	<u><u>156</u></u>

5. (Loss)/earnings per share

The calculation of basic (loss)/earnings per share for each of the six months ended 30th September, 2005 and 2004 is based on the Group's (loss)/profit attributable to shareholders and 750,000,000 ordinary shares in issue during the period.

No diluted (loss)/earnings per share for each of the six months ended 30th September, 2005 and 2004 has been presented as the potential ordinary shares to be issued upon exercise of the outstanding options under the Pre-IPO Share Option Plan are anti-dilutive.

The calculation of diluted earnings per share for the three months ended 30th September, 2005 is based on the Group's profit attributable to shareholders and 755,142,857 weighted average number of shares in issue during the period.

6. Debtors, deposits and prepayments

Debtors, deposits and prepayments comprise:

	At 30th September, 2005	At 31st March, 2005
	HK\$'000	HK\$'000
Trade debtors	16,741	18,880
Less : General provision for bad debts	<u>889</u>	<u>527</u>
	15,852	18,353
Rental and utility deposits	421	399
Prepayments	285	549
Other debtors	<u>968</u>	<u>755</u>
	<u><u>17,526</u></u>	<u><u>20,056</u></u>

The Group allows its customers credit period of 30 days to 60 days depending on their credit worthiness. The following is an aging analysis of trade debtors:

	At 30th September, 2005 HK\$'000	At 31st March, 2005 HK\$'000
0 - 30 days	13,449	12,976
31 - 60 days	586	2,035
61 - 90 days	107	446
91 - 180 days	458	1,228
181 - 365 days	804	1,141
> 1 year	1,337	1,054
	<u>16,741</u>	<u>18,880</u>

7. Creditors, accruals and deposits received

Creditors, accruals and deposits received comprise:

	At 30th September, 2005 HK\$'000	At 31st March, 2005 HK\$'000
Trade creditors	1,816	2,956
Deferred enhancement and maintenance income - <i>Note</i>	1,215	1,544
Deposits received	6	10
Accruals and provisions	2,802	3,869
Other creditors	331	293
	<u>6,170</u>	<u>8,672</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 the maintenance service fee in advance.

The following is an aging analysis of trade creditors:

	At 30th September, 2005 HK\$'000	At 31st March, 2005 HK\$'000
0 - 30 days	277	1,817
31 - 60 days	80	48
61 - 90 days	493	293
91 - 180 days	93	303
> 180 days	873	495
	<u>1,816</u>	<u>2,956</u>

8. Segment reporting

- (a) An analysis of the Group's geographical segments by the location of customers and by the location of assets is as follows:

	Hong Kong		Mainland China		Inter-segment		Consolidated	
	For the six months ended 30th September,		For the six months ended 30th September,		For the six months ended 30th September,		For the six months ended 30th September,	
	<i>Restated</i> 2005 HK\$'000	<i>Restated</i> 2004 HK\$'000	<i>Restated</i> 2005 HK\$'000	<i>Restated</i> 2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	<i>Restated</i> 2004 HK\$'000
Turnover	21,098	17,526	9,688	6,031	—	—	30,786	23,557
Cost of sales and services rendered	(9,441)	(8,232)	(3,714)	(1,561)	—	—	(13,155)	(9,793)
Gross profit	11,657	9,294	5,974	4,470	—	—	17,631	13,764
Other income	796	525	3	11	(306)	(327)	493	209
Employees' share options benefits	(239)	(707)	—	—	—	—	(239)	(707)
Operating expenses	(11,113)	(11,165)	(6,364)	(5,985)	56	170	(17,421)	(16,980)
Operating profit/(loss)	1,101	(2,053)	(387)	(1,504)	(250)	(157)	464	(3,714)
Finance costs	(539)	(379)	(261)	(179)	250	157	(550)	(401)
Profit/(loss) before income tax	562	(2,432)	(648)	(1,683)	—	—	(86)	(4,115)
Income tax expense	(368)	(124)	(36)	(32)	—	—	(404)	(156)
Profit/(loss) after income tax	194	(2,556)	(684)	(1,715)	—	—	(490)	(4,271)
Minority interests	—	—	—	90	—	—	—	90
Profit/(loss) attributable to shareholders	194	(2,556)	(684)	(1,625)	—	—	(490)	(4,181)
Depreciation and amortisation	1,620	1,829	454	350	—	—	2,074	2,179
Capital expenditure incurred during the period	1,166	2,036	570	766	—	—	1,736	2,802
Segment assets and total assets	67,342	74,732	16,918	12,960	(30,493)	(19,999)	53,767	67,693
Segment liabilities and total liabilities	(15,326)	(19,613)	(28,404)	(21,531)	25,814	18,076	(17,916)	(23,068)
Minority interests	—	—	—	22	—	—	—	22

(b) Business segments

The Group principally operates in two business segments, (i) provision of information solutions and design, development and sales of application software and (ii) magazine publication.

	Provision of information solutions and design, development and sales of application software		Magazine publication		Unallocated		Consolidated	
	For the six months ended 30th September,		For the six months ended 30th September,		For the six months ended 30th September,		For the six months ended 30th September,	
	2005	2004	2005	2004	2005	2004	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue from external customers	<u>30,603</u>	<u>23,464</u>	<u>183</u>	<u>93</u>	<u>—</u>	<u>—</u>	<u>30,786</u>	<u>23,557</u>
Segment assets	<u>52,054</u>	<u>63,176</u>	<u>488</u>	<u>1,213</u>	<u>1,225</u>	<u>3,304</u>	<u>53,767</u>	<u>67,693</u>
Capital expenditure incurred during the period	<u>1,725</u>	<u>2,759</u>	<u>11</u>	<u>43</u>	<u>—</u>	<u>—</u>	<u>1,736</u>	<u>2,802</u>

Unallocated assets consist of assets of the Company and certain non-operating subsidiaries.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend in respect of the period ended 30th September, 2005 (2004: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group's unaudited total turnover for the six months ended 30th September, 2005 amounted to HK\$30.79 million (2004: HK\$23.56 million). Excluding hardware sales of HK\$1.93 million (2004: HK\$277,000), turnover increased by 24.0% compared to the corresponding period last year. Net loss of HK\$490,000 was recorded, a substantial improvement to the loss of HK\$4.18 million recorded for the corresponding period last year. For the three months ended 30th September 2005, a net profit of HK\$52,000 was recorded.

Hong Kong Operations

Outsourcing and Information Solutions

Outsourcing and information solutions sector continued to grow at a stable pace with a turnover of HK\$16.59 million recorded for the six months ended 30th September, 2005, representing an increase of 16.0% compared to the HK\$14.30 million recorded for the corresponding period last year. The two recently established major accounts contributed HK\$5.30 million to the Group's revenue for the period under review.

During the second quarter, the Group's Shenzhen subsidiary company has concluded two fixed price contracts with a major Shenzhen container operator for the development and implementation of the CIMS (Customer Information Management System) and the Dashboard Project. The Group is optimistic about business prospects in Shenzhen and anticipates more promising growth in the years to come.

Application Software

Turnover generated from the Group's propriety ERP application software Armitage Industrial Management System ("*AIMS*") together with its previous version *Konto 21*, was HK\$3.84 million, representing an increase of 36.5% compared with the corresponding period last year. During the reporting period, a number of contracts on *AIMS* were concluded with companies in the trading, toys, lighting and furniture manufacturing industries.

A new **AIMS** version 3.30 was released in July 2005. Besides enhancement on the existing capabilities of the previous version, version 3.30 incorporated new functions to interface with accounting packages, with multi-companies support and tax features adopting PRC practices and included a Human Resources module. This improved version 3.30 will increase **AIMS** competitiveness in the ERP market.

PRC Operations

Application Software

Pegasus Hotel Management System (“**Pegasus**”)

Turnover generated from the Group’s proprietary hotel management system **Pegasus** amounted to HK\$5.41 million, a decrease of 4.6% compared with the corresponding period last year. Performance from the northern region (Beijing, Qingdao) was very encouraging. Revenue generated from this region increased by 63.3% compared with the last period. Performance from the southern region was satisfactory. Eastern region was faced with increasing competition from the direct competitor and had not performed well as expected whereas central region is faced with the problem of a relatively low profit margin. The Group continues to review regularly its development strategy on **Pegasus** and takes appropriate remedial actions as necessary with a view to strengthen **Pegasus** vitality in the market.

With the launching of version 7.0 food and beverage and back office modules in July 2005, **Pegasus** functions were raised to a higher level, placing it in a much more competitive position to meet the challenges and opportunities brought about by the prominent major events (2008 Beijing Olympics, 2010 Guangzhou Asian Games and 2010 Shanghai Expo) to be carried out in the coming years.

Industrial and Finance Systems (“**IFS**”)

Compared to the HK\$289,000 revenue generated from the corresponding period last year, the performance of **IFS** had a revenue surge of nine times, reaching HK\$2.74 million. During the period, the Group concluded a HK\$1.27 million contract with a manufacturer of electronic products and a HK\$419,000 contract with a recurring customer for implementation of **IFS** in their plant in Beijing.

Magazine Publication

Revenue generated from advertisement sales of the hotel guest room magazine *e²Smart* was HK\$183,000. From the last quarter, the Group had reorganized the operation to become more sales-oriented. A sales office was established in Shanghai at the end of the second quarter. Sales efforts are now mostly concentrated in the Hong Kong and Shanghai markets. We have also strengthened our distribution channel and focused on 4-5 stars hotels in major Chinese cities. The Group believes it will take some more time to enhance *e²Smart* status amongst advertisers and that revenue will be improved considerably in the coming quarters.

FUTURE PROSPECTS

The recent drastic increase in oil price and threat of bird's flu may have adverse effect on the overall economic climate. The Group will monitor the situation closely and formulate appropriate strategies to diminish the effect on its operation.

Hong Kong Operations

On the IT solutions side, the Group continues to explore more business opportunities with the already established major accounts and will endeavor to build up more solid relationships with potential customers. The Group is in a very good position to increase its market share in the logistic and transportation sector based on the concrete experience that the Group possesses. The Group is in preliminary discussion with a renowned international IT company to provide IT resources in Shenzhen to support their global IT activities. The Group believes that with its solid experience in outsourcing in the region, it can secure more long-term business in this area, generating more revenue in the years to come.

On application software, the Group is confident that the much-improved *AIMS* new version 3.30 will be well accepted by the market and is beneficial to *AIMS* long-term business development. However, the recent increase in oil price and the electricity shortage problem in the Pearl River Delta cities have caused concerns from manufacturers. Some potential customers had indicated their intention to delay their decision to purchase. These issues may have an interim effect on the performance of *AIMS*.

PRC Operations

Application Software

To cope with market competition, the Group constantly reviews its strategy in positioning **Pegasus** in the hospitality market. The Group believes that to increase profit margin, it is essential to raise our **Pegasus** brand to a higher level. Whilst continuing to emphasize on product quality and customer services standard, the Group also spent effort in raising the **Pegasus** brand image. The Group's medium target on **Pegasus** is to achieve profitability through increased revenue and prudent cost and expense control.

The Group is confident that **IFS** has very good development prospects. The Group's team of ERP experts has given existing customers trust and confidence and has gained a good reputation by word of mouth in the industry. More recurring contracts from existing customers are forthcoming. Currently the Group is also in negotiation with a number of potential customers in government bureaux and the manufacturing industry for implementation of **IFS**.

Magazine Publication

After the restructuring of this operation, the Group aims to improve advertisement sales through aggressive sales efforts in both Hong Kong and the PRC, especially in Shanghai. The Group will also continue to work hard to improve **e²Smart** content to make it even more attractive to readers and advertisers.

FINANCIAL REVIEW

Gross Profit

The Group was able to maintain the gross profit margin at 57.3%.

Operating Expenses

During the period under review, operating expenses increased by 2.6%, or HK\$441,000 mainly due to amortisation of additional development costs. The Group has determined to exercise stringent cost control in order to achieve greater profitability.

Loss attributable to shareholders was significantly reduced to HK\$490,000 (2004: HK\$4.18 million).

Financial Resources and Liquidity

As at 30th September, 2005, the shareholders' funds of the Group amounted to HK\$37.30 million. Current assets amounted to HK\$30.77 million of which HK\$11.54 million were cash and bank deposits and HK\$17.53 million were debtors, deposits and prepayments. The Group's current liabilities amounted to HK\$16.36 million, including HK\$10.19 million bank loans and overdrafts.

Current ratio was 1.88 (at 31st March, 2005: 1.58). Gearing ratio, expressed as a ratio of total bank borrowings to shareholders' funds, was 0.31 (at 31st March, 2005: 0.49). Improvement in the ratios was due to the settlement of bank loans and overdrafts in order to reduce interest payment.

Foreign Exchange

The Group received renminbi from sales in China. Fluctuation of exchange rates of renminbi against foreign currencies could affect the Group's results of operations. During both periods, no hedging transactions or arrangements were made.

Significant Investments and Acquisition

The Group had no material acquisitions and disposal of subsidiaries and affiliated companies during the six months ended 30th September, 2005.

Charges on the Group's Assets

As at 30th September, 2005, the Group's time deposits of HK\$9.00 million (at 31st March, 2005: HK\$9.00 million) have been pledged to a bank to secure general banking facilities granted to the Group.

Capital Commitments

The Group had no material capital commitments during the six months ended 30th September, 2005.

Contingent Liabilities

- (a) As at 30th September, 2005, the Group had contingent liabilities in respect of performance bonds amounting to HK\$500,000 (at 31st March, 2005: HK\$49,000) 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, 2005, the Group has contingent liabilities in respect of possible future long service payments to employees under the Employment Ordinance in Hong Kong, with a maximum possible amount of HK\$1,181,000 (at 31st March, 2005: HK\$1,112,000).
- (c) As at 30th September, 2005, the Group had contingent liabilities in respect of factored trade accounts receivable amounting to HK\$2,530,000 (at 31st March, 2005: Nil).

During the reporting periods, 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 2005, the Group had a total of 312 employees (at 31st March, 2005: 307), with an allocation of 24.0% and 76.0% in Hong Kong and the PRC respectively. Remuneration is determined by reference to market terms and in accordance with the performance, qualification and experience of each individual employee. Discretionary bonuses, based on each individual's performance, are paid to employees as recognition and in reward of their contributions. Other fringe benefits such as medical subsidy, medical insurance, education/training subsidies, pension fund plans are offered to most employees. Training and staff development programs are provided on an ongoing basis. Share options are granted at discretion of the Board under the terms and conditions of the Employees Share Option Scheme.

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

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

DIRECTORS' INTERESTS IN THE SECURITIES OF THE COMPANY OR ANY ASSOCIATED CORPORATIONS

As at 30th September, 2005, the interests or short positions of the directors 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 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

(a) Long positions in the ordinary shares of the Company

Name	Type of interests	Number of shares	Approximate percentage of the issued share capital (Note 3)
Mr. Lee Shun Hon, Felix	Personal	332,801,790	44.37%
	Family	17,907,651 (Note 1)	2.39%
Dr. Liao, York	Corporate	29,988,007 (Note 2)	4.00%

Notes:

- These shares are held by Mr. Lee Shun Hon, Felix's wife, Ms. Leung Mee Chun, Stella, and therefore Mr. Lee Shun Hon, Felix is deemed to have an interest in these shares in which Ms. Leung Mee Chun, Stella is interested.
- 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 these shares in which Winbridge is interested.
- Based on 750,000,000 shares of the Company in issue as at 30th September, 2005.

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

A summary of the share options granted to the directors pursuant to the Pre-IPO Share Option Plan adopted on 26th February, 2003 is as follows:

Name	Type of interests	Exercisable period	Exercise price	Number of underlying shares
Mr. Lee Shun Hon, Felix	Personal	18th September, 2004 to 17th March, 2007	HK\$0.35	493,333
		18th September, 2005 to 17th March, 2007	HK\$0.35	493,333
		18th September, 2006 to 17th March, 2007	HK\$0.35	493,334
				1,480,000
Mr. To Yung Yui, Steve	Personal	18th September, 2004 to 17th March, 2007	HK\$0.35	273,334
		18th September, 2005 to 17th March, 2007	HK\$0.35	273,333
		18th September, 2006 to 17th March, 2007	HK\$0.35	273,333
				820,000
Dr. Liao, York	Personal	18th September, 2004 to 17th March, 2007	HK\$0.10	2,400,000
		18th September, 2005 to 17th March, 2007	HK\$0.10	2,400,000
		18th September, 2006 to 17th March, 2007	HK\$0.10	2,400,000
				7,200,000
				<u>9,500,000</u>

Save as disclosed herein, as at 30th September, 2005, 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 5.46 to 5.67 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 SHAREHOLDERS

So far as is known to any directors of the Company, as at 30th September, 2005, other than the directors as disclosed above, 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, 5% 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:

Long positions in the ordinary shares of the Company

Name	Type of interests	Number of shares	Approximate percentage of the issued share capital (Note 3)
Kingspecial Investments Limited	Corporate	114,578,176 (Note 1)	15.28%
Mr. Lee Shun Kwong	Corporate	34,373,452 (Note 2)	4.58%
	Personal	7,497,000	1.00%

Notes:

1. The issued share capital of Kingspecial Investments Limited is beneficially owned as to 30% by Mr. 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 Mr. Lee Shun Hon, Felix) and as to 10% by Ms. So Li Hang Lin, the sister of Mr. Lee Shun Hon, Felix.
2. Mr. Lee Shun Kwong has an attributable interest of 34,373,452 shares through his shareholding interest of 30% in Kingspecial Investments Limited.
3. Based on 750,000,000 shares of the Company in issue as at 30th September, 2005.

Save as disclosed herein, so far as is known to the directors of the Company, as at 30th September, 2005, 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, 5% 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.

SHARE OPTIONS

Pursuant to the written resolutions passed by all the shareholders of the Company on 26th February, 2003, the Company had adopted two share option schemes, namely Share Option Scheme and Pre-IPO Share Option Plan.

As at 30th September, 2005, no options under the Share Option Scheme has been granted or agreed to be granted.

As at 30th September, 2005, options under Pre-IPO Share Option Scheme to subscribe for an aggregate of 30,018,000 shares have been granted to a total of 51 directors and employees of the Group, details as follows:

Grantees	Date of grant	Exercise Price	Number of shares under option		
			As at 1st April, 2005	Lapsed during the period	As at 30th September, 2005
Directors, senior management and other employees	26th February, 2003	HK\$0.35	25,444,000	(2,626,000)	22,818,000
A non-executive director	26th February, 2003	HK\$0.10	7,200,000	—	7,200,000
			<u>32,644,000</u>	<u>(2,626,000)</u>	<u>30,018,000</u>

The grantees shall be entitled to exercise the above share options granted according to the following time schedule:

Exercisable period	Maximum number of shares under option exercisable
18th September, 2004 to 17th March, 2007	33 $\frac{1}{3}$ %
18th September, 2005 to 17th March, 2007	66 $\frac{2}{3}$ %
18th September, 2006 to 17th March, 2007	100%

COMPETING INTERESTS

None of the directors, the substantial shareholders or the management shareholders (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.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with Rules 5.28 to 5.29 of the GEM Listing Rules. The primary duties of the audit committee are to review the Company's draft annual, interim and quarterly financial reports and accounts and to provide advice and comments thereon to the Board. The audit committee is also responsible for reviewing and supervising the financial reporting process and internal control procedures of the Group. The audit committee comprises three independent non-executive directors, namely Mr. Anthony Francis Martin Conway, Professor Tsang Hin Pok, Herbert, and Mr. Chan Hang.

Up to the date of approval of the Group's unaudited results for the six months ended 30th September, 2005, the audit committee has held two meetings and has reviewed the draft interim report and accounts for the six months ended 30th September, 2005 prior to recommending such report and accounts to the Board for approval.

DIRECTORS' SECURITIES TRANSACTIONS

Throughout the six months ended 30th September, 2005, the Company adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiries of all directors, the Company confirms that all of the Company's directors complied with such required standard of dealings and its code of conduct regarding directors' securities transactions.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the directors, the Company has complied with the code on corporate governance practices as set out in the Appendix 15 of the GEM Listing Rules throughout the six months ended 30th September, 2005.

On behalf of the Board
Lee Shun Hon, Felix
Chairman

Hong Kong, 9th November, 2005