



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 30 SEPTEMBER 2006

** For identification purpose only*

**CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET
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(THE "STOCK EXCHANGE")**

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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
30 SEPTEMBER 2006**

- Consolidated turnover (inclusive of hardware sales of HK\$469,000) at HK\$25.0 million was recorded for the period under review. Excluding hardware sales, turnover decreased by 15% compared to HK\$28.9 million recorded for the corresponding period last year. The main reason was a temporary suspension of our service to one major customer during the first quarter.
- Turnover from Hong Kong and PRC, exclusive of hardware sales, decreased by 14% and 22% respectively over the corresponding period last year.
- Amortisation of development costs and software amounted to HK\$2.4 million.
- Operating expenses slightly decreased by HK\$61,000. This resulted from a decrease in provision for bad debts during the period.
- Continuing with our strategy in magazine publishing, HK\$1.1 million was invested in this area during the period under review.
- Income from magazine publication was HK\$579,000, representing an increase of 216% over the corresponding period last year.
- Overall loss attributable to equity holders of the Company was HK\$4.0 million.

* *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 30 September 2006, together with the comparative unaudited consolidated figures for the corresponding period, as follows:

	Note	For the six months ended 30 September		For the three months ended 30 September	
		2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Turnover	2	25,043	30,786	13,747	16,110
Cost of sales and services rendered		(11,448)	(13,155)	(5,402)	(6,104)
Gross profit		13,595	17,631	8,345	10,006
Other income		353	493	119	403
Employee share options benefits		(82)	(239)	(12)	(148)
Operating expenses		(17,360)	(17,421)	(9,074)	(9,516)
Operating (loss)/profit		(3,494)	464	(622)	745
Finance costs		(652)	(550)	(348)	(328)
(Loss)/profit before income tax	3	(4,146)	(86)	(970)	417
Income tax credit/(expense)	4	149	(404)	(75)	(365)
(Loss)/profit for the period		(3,997)	(490)	(1,045)	52
Attributable to:					
Equity holders of the Company		(3,993)	(490)	(1,045)	52
Minority interests		(4)	—	—	—
(Loss)/profit for the period		(3,997)	(490)	(1,045)	52
Dividend		—	—	—	—
(Loss)/earnings per share (HK cents)					
- Basic	5	(0.53)	(0.07)	(0.14)	0.01
- Diluted	5	N/A	N/A	N/A	0.01

Consolidated Balance Sheet

		At 30 September 2006 <i>HK\$'000</i> <i>(Unaudited)</i>	At 31 March 2006 <i>HK\$'000</i> <i>(Audited)</i>
	<i>Note</i>		
NON-CURRENT ASSETS			
Fixed assets		3,482	3,716
Software		110	330
Trade mark		92	94
Goodwill on consolidation		1,584	1,584
Development costs		14,364	15,460
Club debenture, at cost		200	200
Deferred tax		1,268	1,113
		<u>21,100</u>	<u>22,497</u>
CURRENT ASSETS			
Financial assets at fair value through profit or loss		832	854
Debtors, deposits and prepayments	6	17,332	18,375
Income tax recoverable		723	723
Pledged time deposits		9,000	9,000
Pledged bank balance		—	1
Cash and bank balances		2,215	3,158
		<u>30,102</u>	<u>32,111</u>
DEDUCT :			
CURRENT LIABILITIES			
Bank overdrafts, secured		11,669	8,214
Bank loans, secured		1,023	991
Bank loan-factoring arrangement		1,139	2,555
Creditors, accruals and deposits received	7	6,069	7,247
		<u>19,900</u>	<u>19,007</u>
NET CURRENT ASSETS		<u>10,202</u>	<u>13,104</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		31,302	35,601
NON-CURRENT LIABILITIES			
Bank loans, secured		(535)	(1,055)
NET ASSETS		<u><u>30,767</u></u>	<u><u>34,546</u></u>

	<i>Note</i>	At 30 September 2006 HK\$'000 (Unaudited)	At 31 March 2006 HK\$'000 (Audited)
REPRESENTING:			
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY			
Share capital		7,500	7,500
Reserves		23,267	27,046
		<u>30,767</u>	<u>34,546</u>
MINORITY INTERESTS		<u>—</u>	<u>—</u>
TOTAL EQUITY		<u><u>30,767</u></u>	<u><u>34,546</u></u>

Consolidated Statement of Changes in Equity

	Attributable to equity holders of the Company								
	Share capital	Accumulated losses	Share premium	Special reserve	Capital reserve	Exchange reserve	Employee share-based compensation reserve	Minority interests	Total
	<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>	<i>HK\$'000</i>
At 1 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 1 April 2005 (Restated)	7,500	(19,456)	42,836	3,801	174	(5)	2,704	–	37,554
Employee share options benefits	–	–	–	–	–	–	239	–	239
Loss for the six months ended 30 September 2005	–	(490)	–	–	–	–	–	–	(490)
At 30 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>–</u>	<u>37,303</u>
At 1 April 2006 (Audited)	7,500	(22,853)	42,836	3,801	–	204	3,068	–	34,546
Exchange reserve arising from translation of financial statements of the PRC subsidiaries	–	–	–	–	–	132	–	4	136
Employee share options benefits	–	–	–	–	–	–	82	–	82
Loss for the six months ended 30 September 2006	–	(3,993)	–	–	–	–	–	(4)	(3,997)
At 30 September 2006 (Unaudited)	<u>7,500</u>	<u>(26,856)</u>	<u>42,836</u>	<u>3,801</u>	<u>–</u>	<u>336</u>	<u>3,150</u>	<u>–</u>	<u>30,767</u>

Condensed Consolidated Cash Flow Statement

	For the six months ended 30 September	
	2006	2005
	HK\$'000	HK\$'000
NET CASH (USED IN)/FROM OPERATING ACTIVITIES	(1,388)	2,430
NET CASH USED IN INVESTING ACTIVITIES	(1,125)	(1,736)
NET CASH USED IN FINANCING ACTIVITIES	(1,905)	(3,476)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(4,418)	(2,782)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	(5,056)	(3,899)
EFFECT OF FOREIGN EXCHANGE RATE CHANGE	20	—
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	(9,454)	(6,681)
ANALYSIS OF CASH AND CASH EQUIVALENTS		
	At 30	At 30
	September	September
	2006	2005
	HK\$'000	HK\$'000
Cash and bank balances	2,215	2,541
Bank overdraft	(11,669)	(9,222)
	(9,454)	(6,681)

Notes:

1. Basis of preparation

These financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards issued by the Hong Kong Institute of Certified Public Accountants and are prepared under the historical cost convention as modified by revaluation of financial assets at fair value through profit or loss.

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	
	30 September	
	2006	2005
	HK\$'000	HK\$'000
Provision of information solutions		
System development and integration	11,316	16,105
Maintenance and enhancement income	1,666	488
Sales of application software packages and related maintenance income	11,482	14,010
Advertising income	579	183
	<u>25,043</u>	<u>30,786</u>

3. (Loss)/profit before income tax

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

	For the six months ended 30 September	
	2006	2005
	HK\$'000	HK\$'000
Amortisation of development costs	2,165	1,513
Amortisation of software	220	220
Amortisation of trade mark	3	3
Depreciation	387	375
Less : Amounts capitalised as development costs	16	37
	371	338
Interest on bank loans and overdrafts and other loans wholly repayable within five years	589	466

4. Income tax credit/(expense)

Income tax credit/(expense) in the unaudited consolidated income statement represents:

	For the six months ended 30 September	
	2006	2005
	HK\$'000	HK\$'000
Current tax		
Provision for Hong Kong profits tax at 17.5% on the estimated assessable profits for the period	—	—
Deferred tax	149	(404)
Income tax credit/(expense)	149	(404)

5. (Loss)/earnings per share

The calculation of basic (loss)/earnings per share for both periods is based on the Group's loss attributable to equity holders of the Company and 750,000,000 ordinary shares in issue during both periods.

No diluted loss per share for each of the six months ended 30 September 2006 and 2005 and the three months ended 30 September 2006 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 30 September 2005 is based on the Group's profit attributable to shareholders and 755,142,857 weighted average number of share in issue during the period.

6. Debtors, deposits and prepayments

Debtors, deposits and prepayments comprise:

	At 30 September 2006 <i>HK\$'000</i>	At 31 March 2006 <i>HK\$'000</i>
Trade debtors	16,850	17,901
Less : General provision for bad debts	1,311	1,215
	<u>15,539</u>	<u>16,686</u>
Rental and utility deposits	414	442
Prepayments	507	507
Other debtors	872	740
	<u>17,332</u>	<u>18,375</u>

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

	At 30 September 2006 <i>HK\$'000</i>	At 31 March 2006 <i>HK\$'000</i>
0 - 30 days	12,056	13,162
31 - 60 days	318	1,819
61 - 90 days	375	238
91 - 180 days	2,115	115
181 - 365 days	288	705
> 1 year	1,698	1,862
	<u>16,850</u>	<u>17,901</u>

7. Creditors, accruals and deposits received

Creditors, accruals and deposits received comprise:

	At 30 September 2006 HK\$'000	At 31 March 2006 HK\$'000
Trade creditors	1,868	1,764
Deferred enhancement and maintenance income - <i>Note</i>	1,438	1,618
Deposits received	6	6
Accruals and provisions	2,235	3,291
Other creditors	522	568
	<u>6,069</u>	<u>7,247</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 30 September 2006 HK\$'000	At 31 March 2006 HK\$'000
0 - 30 days	536	441
31 - 60 days	281	52
61 - 90 days	9	—
91 - 180 days	84	891
> 180 days	958	380
	<u>1,868</u>	<u>1,764</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 30 September		For the six months ended 30 September		For the six months ended 30 September		For the six months ended 30 September	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Turnover	18,386	21,098	6,657	9,688	—	—	25,043	30,786
Cost of sales and services rendered	(9,705)	(9,441)	(1,743)	(3,714)	—	—	(11,448)	(13,155)
Gross profit	8,681	11,657	4,914	5,974	—	—	13,595	17,631
Other income	701	796	7	3	(355)	(306)	353	493
Employee share options benefits	(82)	(239)	—	—	—	—	(82)	(239)
Operating expenses	(11,402)	(11,113)	(5,958)	(6,364)	—	56	(17,360)	(17,421)
Operating (loss)/profit	(2,102)	1,101	(1,037)	(387)	(355)	(250)	(3,494)	464
Finance costs	(647)	(539)	(360)	(261)	355	250	(652)	(550)
(Loss)/profit before income tax	(2,749)	562	(1,397)	(648)	—	—	(4,146)	(86)
Income tax credit/(expense)	269	(368)	(120)	(36)	—	—	149	(404)
(Loss)/profit for the period	<u>(2,480)</u>	<u>194</u>	<u>(1,517)</u>	<u>(684)</u>	<u>—</u>	<u>—</u>	<u>(3,997)</u>	<u>(490)</u>
Attributable to:								
Equity holders of the Company	(2,480)	194	(1,513)	(684)	—	—	(3,993)	(490)
Minority interests	—	—	(4)	—	—	—	(4)	—
(Loss)/profit for the period	<u>(2,480)</u>	<u>194</u>	<u>(1,517)</u>	<u>(684)</u>	<u>—</u>	<u>—</u>	<u>(3,997)</u>	<u>(490)</u>
Depreciation and amortisation	<u>2,068</u>	<u>1,620</u>	<u>691</u>	<u>454</u>	<u>—</u>	<u>—</u>	<u>2,759</u>	<u>2,074</u>
Capital expenditure incurred during the period	<u>645</u>	<u>1,166</u>	<u>480</u>	<u>570</u>	<u>—</u>	<u>—</u>	<u>1,125</u>	<u>1,736</u>
Segment assets and total assets	<u>65,569</u>	<u>67,342</u>	<u>16,253</u>	<u>16,918</u>	<u>(32,611)</u>	<u>(30,493)</u>	<u>49,211</u>	<u>53,767</u>
Segment liabilities and total liabilities	<u>(18,708)</u>	<u>(15,326)</u>	<u>(29,687)</u>	<u>(28,404)</u>	<u>27,960</u>	<u>25,814</u>	<u>(20,435)</u>	<u>(17,916)</u>
Minority interests	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

(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 30 September		For the six months ended 30 September		For the six months ended 30 September		For the six months ended 30 September	
	2006	2005	2006	2005	2006	2005	2006	2005
	<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>24,464</u>	<u>30,603</u>	<u>579</u>	<u>183</u>	<u>—</u>	<u>—</u>	<u>25,043</u>	<u>30,786</u>
Segment assets	<u>48,566</u>	<u>52,054</u>	<u>567</u>	<u>488</u>	<u>78</u>	<u>1,225</u>	<u>49,211</u>	<u>53,767</u>
Capital expenditure incurred during the period	<u>1,114</u>	<u>1,725</u>	<u>11</u>	<u>11</u>	<u>—</u>	<u>—</u>	<u>1,125</u>	<u>1,736</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 30 September 2006 (2005: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group's unaudited total turnover for the six months ended 30 September 2006 amounted to HK\$25.0 million (2005: HK\$30.8 million). Excluding hardware sales of HK\$469,000 (2005: HK\$1.9 million), turnover decreased by 15% compared to the corresponding period last year. Net loss of HK\$4.0 million was recorded for the reporting period (2005: HK\$490,000).

HONG KONG OPERATIONS

Outsourcing and Information Solutions

The total turnover generated from the outsourcing and information solutions sector was HK\$13.0 million, representing a decrease of 22% compared to HK\$16.6 million recorded in the corresponding period last year. The Group has undergone a transition period due to the temporary suspension of services to a major client during the first quarter of 2006/07. The Group continues to actively explore potential business opportunities with existing enterprise clients.

In order to become a significant IT vendor to a major airline operator in Hong Kong, the Group has exerted extra efforts with this company in pursuit of business from providing them with IT services and solutions. To reinforce long term relationships with long established major accounts, the Group continued to explore more cooperation opportunities with these clients and many fixed price projects are on-going. Revenue generated from these established accounts is expected to remain stable.

During the second quarter of 2006/07, the Group was appointed by an international retail and manufacturing business to redevelop their Medical Claim System. The Group's Shenzhen subsidiary concluded a contract for the development of a Commercial Information Management System for a local container terminal operator. Having well-known expertise and experience in the transportation and logistics sector, the Group developed and implemented a number of fixed price projects for various terminal operators in the region.

Application Software

The encouraging result attained in the first quarter of 2006/07 reinforced the industrial focus strategy of the Group, and we continued to be successful over the second quarter of 2006/07. Turnover generated from our Armitage Industrial Management System (“***AIMS***”), the Group’s proprietary ERP application software, together with its previous version ***Konto 21*** amounted to HK\$4.3 million (2005: HK\$3.8 million), representing an increase of 13%. This result was attributable to the increased sales and marketing resources of the Group penetrating the consumer electronics industry. The sales of ***AIMS*** is expected to continue to grow in a promising way.

Continuous enhancement of ***AIMS*** is pursued in order to tackle ever changing demand from clients. Widespread use of search engines for advertising and promotion continued to be popular and we gained on-going responses through this channel. This approach also aroused public awareness about our ***AIMS*** brand by widening our product exposure.

PRC OPERATIONS

Application Software

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

During the reporting period, turnover generated from ***Pegasus***, the Group’s proprietary hotel management system, was HK\$5.9 million, an increase of 9% when compared to the corresponding period last year (2005: HK\$5.4 million).

Approximately 100 new licenses were sold to clients throughout the PRC, including prominent hotels, famous restaurants and food processing companies. Among new customers, the most prominent were the Hotel for the Beijing 2008 Olympic Athletes, Shengjing Furama Business Hotel, Pearl Garden Hotel of Guangzhou, Hong Kong Health Affluence Technologies Group, Gold Coast Marina Club Hotel, and Lhasa Lita Hotel of Tibet.

During the second quarter of 2006/07, a “Membership Points System” was developed as a supplementary product offered to clients. Furthermore, additional customised new functions were developed for a hotel chain in Singapore to cater for their local needs. This hotel group also acquired additional finance modules to facilitate their accounting operations.

Special efforts were made to review the existing processes in our services department to improve efficiency of implementation and maintenance service so as to achieve better customer satisfaction and cost effectiveness.

Industrial and Finance System (“*IFS*”)

Turnover generated from *IFS* amounted to HK\$408,000, a decrease of 85% compared to the corresponding period last year (2005: HK\$2.7 million). The main reason was the unsatisfactory performance during the first quarter of 2006/07. However, turnover generated in the second quarter improved, showing an increase of HK\$266,000 or 375% compared to the first quarter. Two projects are in progress and the Group also entered into a supplementary contract for additional work with an existing customer. The Group will continue to explore new business opportunities from existing and former clients. In order to stay competitive, the Group continued to review the current remuneration package of our technical staff of *IFS* for cost effectiveness.

Magazine Publication

Revenue generated from the advertisement sales of our hotel guest room magazine *e²Smart* for the reporting period was HK\$579,000, an increase of 216% compared to HK\$183,000 recorded for the corresponding period last year. The Group obtained several advertisement contracts from a famous international watch group during the reporting period. *e²Smart* was also selected by a foreign tourism board in Europe as their identified media. The Group is confident that advertisement sales will continue to grow.

Following the achievement of the BASEL supplement publication in May, the Group published a Fashion supplement in September. The attempt was aimed to show the Group’s capability in magazine publication and comprehensiveness of the magazine’s content coverage. The Group gained wide support from several worldwide high fashion brands. *e²Smart* was highly recognised by advertisers and readers in new and different aspects after these two special publications.

Shanghai was identified as the most important strategic market for *e²Smart*. The Group continued to put additional resources to enhance the sales force in this market. The purchasing power of the affluent group in Shanghai is huge. This has attracted advertisers of global luxurious goods to enter this market in large numbers.

FUTURE PROSPECTS

HONG KONG OPERATIONS

Outsourcing and Information Solutions

The Group's solid experience and knowledge in the transportation and logistics sector is well recognised and acknowledged by the market. The Group was invited to continue the provision of diverse IT services and solutions to established accounts in this industry sector. We are in the final stage of negotiation for the development of a Contractor Information Management System and a Time Card System for major terminal operators in Shenzhen; both contracts are expected to be concluded in the third quarter of 2006/07. In the outsourcing segment, the Group has commenced a Warehouse Management System for a 3rd-Party Logistics Centre in Yantian. This project will strengthen the Group's business in the transportation sector. The Group is also in close discussion with two major terminal operators and an airline operator in Hong Kong for the provision of IT services. Moreover, the Group has made initial contact with a government transport-related authority to seek cooperation prospects. The Group will continue to explore more business opportunities with existing and potential clients to diversify our sources of income.

Application Software

With the increasing importance of environmental friendly products, our **AIMS** for Consumer Electronics system has become more attractive and desirable as it consists of features that take RoHS (Restriction of use of Hazardous Substances) into consideration. The coming ECO Expo Asia is a good channel for the Group to reach out to potential clients in different industries that are environmental protection conscious. The Group has reached final negotiations with a large scale and renowned client in the consumer electronics industry.

Recently, the Group reinforced its distributorship with **Datastream**, a first-tier Enterprise Asset Management system, which has been acquired by Infor. The Group was also awarded the distributorship of **Datel Protex AOMS**, an ERP system for the garment and footwear manufacturing sectors, in the southern area of the PRC. With a wider product range to support different clients' needs, we believe the revenue generated from the application software segment will grow prominently.

PRC OPERATIONS

Application Software

Pegasus Hotel Management System (“*Pegasus*”)

In view of the continued strong economic growth in Fujian Province and blossoming economic development potential in Sichuan Province, the Group will expand the sales and services teams in these areas to meet future business expansion. To this end, a simplified version of *Pegasus* will be launched in these provinces in the third quarter of 2006/07. The simplified version of *Pegasus* will also assist us to recruit and monitor the local channel dealers more effectively.

The Group will market the “Pegasus Logistics System” as a separate system which includes purchase, accounts payable and store management modules. The system has proven to be very suitable to food and beverages operations and is widely accepted by hotels, restaurants and companies engaged in food processing.

To keep the market awareness and competitiveness of *Pegasus*, more marketing efforts will be exerted in promoting the *Pegasus* brand as well as its product strengths. For research and development, we plan to develop an SMS (text message feature of mobile phone) specially designed to suit hotel sales, internal communications and control.

Industrial and Finance System (“*IFS*”)

Strengthening the sales and project team remains the key objective for *IFS* development. The Group will liaise more closely with *IFS* China to explore opportunities for future business and co-operation.

Recently, the Group has been in final negotiations with a local manufacturer of stainless steel DIY assembled racks. The contract is expected to be concluded in the third quarter of 2006/07. A number of ad hoc outsourcing contracts are also under discussion. Furthermore, the Group expects recurrent contracts from existing or past clients for their additional sites or subsidiary operations.

Magazine Publication

Successful achievement from special supplements issued during the reporting period has encouraged the Group to publish a special issue for the Christmas season. The buying behavior of consumers in China major cities, such as Shanghai and Beijing, for the Christmas season has changed. It has now become a trend for people of these cities to buy many gifts in this western festival season. Therefore, advertisers are now willing to spend substantially on marketing and advertising in this holiday season. We expect our Christmas issue to garner considerable attention and revenue from these potential advertisers.

FINANCIAL REVIEW

Consolidated results of operations

For the six months ended 30 September 2006, the Group recorded a total turnover at HK\$25.0 million (2005: HK\$30.8 million). Excluding revenue generated from hardware sales of HK\$469,000, turnover decreased by 15% compared to the corresponding period last year.

Turnover generated from Hong Kong operations was HK\$18.4 million (2005: HK\$21.1 million). Exclusive of hardware sales of HK\$141,000 (2005: HK\$389,000), representing a decrease of 12% compared to the corresponding period last year.

Turnover generated from PRC operations was HK\$6.7 million (2005: HK\$9.7 million). Exclusive of hardware sales of HK\$328,000 (2005: HK\$1.5 million), representing a decrease of 22% compared to the corresponding period last year was recorded.

Net loss attributable to equity holders of the Company was recorded at HK\$4.0 million (2005: HK\$490,000).

Gross Profit

The gross profit margin of the Group was 54%, a slightly decrease compared to the corresponding period last year.

Operating Expenses

During the period under review, operating expenses decreased by less than 1%, or HK\$61,000 because the Group exerted extra efforts in chasing accounts receivable to minimise the provision for bad debts during the period.

Loss attributable to equity holders of the Company was HK\$4.0 million (2005: HK\$490,000).

Financial Resources and Liquidity

As at 30 September 2006, the equity attributable to equity holders of the Company amounted to HK\$30.8 million. Current assets amounted to HK\$30.1 million of which HK\$11.2 million were cash and bank deposits and HK\$17.3 million were debtors, deposits and prepayments. The Group's current liabilities amounted to HK\$20.4 million, including bank loans and overdrafts of HK\$14.4 million.

Current ratio was 1.51 (at 31 March 2006: 1.69). Gearing ratio, expressed as a ratio of total bank borrowings to equity attributable to equity holders of the Company, was 0.47 (at 31 March 2006: 0.37). Deterioration of the ratios was mainly resulted from a dispute of an account receivable of HK\$2.9 million from a major client whose service was temporarily suspended during the first quarter. The dispute is expected to be resolved and the amount should be recovered in the next quarter. Hence, the Group required more financing from bank overdrafts for its operations.

Foreign Exchange

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

Significant Investments and Acquisition

The Group had no material acquisitions and disposal of subsidiaries and affiliated companies during the six months ended 30 September 2006.

Charges on the Group's Assets

As at 30 September 2006, the Group's time deposits of HK\$9.0 million (at 31 March 2006: HK\$9.0 million) and accounts receivable of HK\$1.3 million (31 March 2006: HK\$2.8 million) have been pledged to banks to secure general banking facilities granted to the Group.

Capital Commitments

The Group had no material capital commitments during the six months ended 30 September 2006.

Contingent Liabilities

- (a) As at 30 September 2006, the Group had contingent liabilities in respect of performance bonds amounting to HK\$156,000 (at 31 March 2006: HK\$1.8 million) issued by a bank in favour of a customer for the due performance of contract works undertaken by the Group.
- (b) As at 30 September 2006, 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\$1.3 million (at 31 March 2006: HK\$1.3 million).

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 30 September 2006, the Group had a total of 290 employees (at 31 March 2006: 301). 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. 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 30 September 2006, 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 <i>(Note 3)</i>
Mr. Lee Shun Hon, Felix	Personal	262,803,790	35.04%
	Family	88,838,246 <i>(Note 1)</i>	11.85%
Dr. Liao, York	Corporate	29,988,007 <i>(Note 2)</i>	4.00%

Notes:

1. These shares are held by Mr. Lee Shun Hon, Felix's wife, Ms. Leung Mee Chun, Stella, his son, Mr. Lee Wai Yip, Alvin and his daughter Ms. Lee Sze Yee, Joyce and therefore Mr. Lee Shun Hon, Felix is deemed to have an interest in these shares in which Ms. Leung Mee Chun, Stella, Mr. Lee Wai Yip, Alvin and Ms. Lee Sze Yee, Joyce are interested.
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 these shares in which Winbridge is interested.
3. Based on 750,000,000 shares of the Company in issue as at 30 September 2006.

(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 26 February 2003 is as follows:

Name	Type of interests	Exercisable period	Exercise price	Number of underlying shares
Mr. Lee Shun Hon, Felix	Personal	18 September 2004 to 17 March 2007	HK\$0.35	493,333
		18 September 2005 to 17 March 2007	HK\$0.35	493,333
		18 September 2006 to 17 March 2007	HK\$0.35	493,334
				1,480,000
Mr. To Yung Yui, Steve	Personal	18 September 2004 to 17 March 2007	HK\$0.35	273,334
		18 September 2005 to 17 March 2007	HK\$0.35	273,333
		18 September 2006 to 17 March 2007	HK\$0.35	273,333
				820,000
Ms. Jim Sui Fun	Personal	18 September 2004 to 17 March 2007	HK\$0.35	233,333
		18 September 2005 to 17 March 2007	HK\$0.35	233,334
		18 September 2006 to 17 March 2007	HK\$0.35	233,333
				700,000
Dr. Liao, York	Personal	18 September 2004 to 17 March 2007	HK\$0.10	2,400,000
		18 September 2005 to 17 March 2007	HK\$0.10	2,400,000
		18 September 2006 to 17 March 2007	HK\$0.10	2,400,000
				7,200,000
				<u>10,200,000</u>

Save as disclosed herein, as at 30 September 2006, 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 30 September 2006, 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	22,212,000	2.96%

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 Mrs. 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 30 September 2006.

Save as disclosed herein, so far as is known to the directors of the Company, as at 30 September 2006, 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 26 February 2003, the Company had adopted two share option schemes, namely Share Option Scheme and Pre-IPO Share Option Plan.

As at 30 September 2006, no options under the Share Option Scheme has been granted or agreed to be granted.

As at 30 September 2006, options under Pre-IPO Share Option Plan to subscribe for an aggregate of 27,418,000 shares have been granted to a total of 42 directors and employees of the Group, details as follows:

Grantees	Date of grant	Exercise Price	Number of shares under option		
			As at 1 April 2006	Lapsed during the period	As at 30 September 2006
Directors, senior management and other employees	26 February 2003	HK\$0.35	21,554,000	(1,336,000)	20,218,000
A non-executive director	26 February 2003	HK\$0.10	7,200,000	—	7,200,000
			28,754,000	(1,336,000)	27,418,000

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

Exercisable period	Maximum percentage under option exercisable
18 September 2004 to 17 March 2007	33 $\frac{1}{8}$ %
18 September 2005 to 17 March 2007	66 $\frac{2}{8}$ %
18 September 2006 to 17 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 Professor Tsang Hin Pok, Herbert, Mr. Anthony Francis Martin Conway, and Mr. Chan Hang.

Up to the date of approval of the Group's unaudited results for the six months ended 30 September 2006, the Audit Committee has held two meetings and has reviewed the draft interim report and accounts for the six months ended 30 September 2006 prior to recommending such report and accounts to the Board for approval.

DIRECTORS' SECURITIES TRANSACTIONS

Throughout the six months ended 30 September 2006, 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

The Company has complied with the code provisions set out in Code on Corporate Governance Practices under Appendix 15 of the GEM Listing Rules of the Stock Exchange throughout the six months ended 30 September 2006 except the followings:

Code Provision A.2.1 stipulates that the role of chairman and chief executive officer should be separated and should not be performed by the same individual. The responsibilities between the chairman and the chief executive officer should be clearly established and set out in writing. Mr. Lee Shun Hon, Felix is the Chairman of the Board and the Chief Executive Officer of the Group. As such, such dual role constitutes a deviation from Code Provisions A.2.1. However, the Board is of the view that the Company's size is relatively small and thus does not justify the separation of the roles of the Chairman and Chief Executive Officer; the Company has sufficient internal controls to provide checks and balances on the functions of the Chairman and Chief Executive Officer; Mr. Lee Shun Hon, Felix as the Chairman of the Board and the Chief Executive Officer of the Group is responsible for ensuring that all directors act in the best interests of the shareholders. He is fully accountable to the shareholders and contributes to the Board and the Group on all top-level and strategic decisions; and this structure will not impair the balance of power and authority between the Board and the management of the Company.

Code Provision A.4.2 stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment, and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. Pursuant to the Articles of Association of the Company, at every annual general meeting of the Company, one-third of the directors (for the time being or, if their number is not a multiple of three, the number nearest to but not exceeding one-third) shall retire from office by rotation, provided that the Chairman of the Board and/or the managing director of the Company shall not, while holding such office, be subject to retirement by rotation or be taken into account in determining the number of directors to retire in each year. As such, as at the date hereof, Mr. Lee Shun Hon, Felix, being the Chairman of the Company, is not subject to retirement by rotation. However, the management of the Company is of the view that the membership of the Board represents rich and diversified background and industry expertise and as such, the management considers that there is no imminent need to amend the relevant provisions of the Articles of Association of the Company.

Code Provision B.1.1 stipulates that Company should establish a remuneration committee with specific written terms of reference which deal clearly with its authority and duties. A majority of the members of the remuneration committee should be independent non-executive directors. The Company has not established a remuneration committee as required by this Code Provision considering the small size of the Board, and as such, the Company currently does not have any plans to set up a remuneration committee. During the six months ended 30 September 2006, the Board is mainly responsible for determining the Company's policy on the remuneration of the directors and the review and approval of all remuneration packages of directors.

On behalf of the Board
Lee Shun Hon, Felix
Chairman

Hong Kong, 10 November 2006