



Thiz

Technology Group Limited

即時科研集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8119)

Third Quarterly Report
2006-2007

ThizLinux



CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcement in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM listed issuers.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors of Thiz Technology Group Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to Thiz Technology Group Limited. 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.

SUMMARY

- The Group recorded a turnover of approximately HK\$13,546,000 for the nine months ended 31 December 2006.
- Loss attributable to shareholders was approximately HK\$15,039,000.
- The directors of the Company (the “Directors”) do not recommend the payment of an interim dividend for the nine months ended 31 December 2006.

RESULTS

The board of Directors (the “Board”) of Thiz Technology Group Limited (the “Company”) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (together the “Group”) for the three months and nine months ended 31 December 2006 together with the comparative unaudited figures for the corresponding periods in 2005 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

	<i>Notes</i>	For the three months ended 31 December		For the nine months ended 31 December	
		2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i> (restated)	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i> (restated)
Turnover	2	2,828	2,356	13,546	6,477
Cost of sales		1,738	(1,206)	(3,984)	(4,015)
Gross profit		1,090	1,150	9,562	2,462
Other revenues	2	1	7	57	307
Selling and distribution expenses		(655)	(1,422)	(3,933)	(2,893)
General and administrative expenses		(5,995)	(6,575)	(16,418)	(17,121)
Loss from operations		(5,559)	(6,840)	(10,732)	(17,245)
Finance costs	3	(1,580)	(580)	(4,307)	(1,382)
Loss before tax		(7,139)	(7,420)	(15,039)	(18,627)
Tax	4	—	—	—	—
Loss for the period		(7,139)	(7,420)	(15,039)	(18,627)
Attributable to:					
Equity holders of the Company		(7,139)	(7,420)	(15,039)	(18,480)
Minority interests		—	—	—	(147)
		(7,139)	(7,420)	(15,039)	(18,627)
Loss per share					
– Basic (in cents)	5	(2.33)	(2.42)	(4.91)	(6.03)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Capital			Attributable to equity holders					
	Share Capital	Share redemption premium	Capital reserve	Special reserve	Translation reserve	Accumulated losses	of the Company	Minority interest	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>
Balance at 1 April 2005									
– as originally stated	30,617	24,271	84	–	360	(213)	(40,042)	15,077	147
– effects of changes in policies	–	–	–	1,692	–	–	(736)	956	–
– as restated	30,617	24,271	84	1,692	360	(213)	(40,778)	16,033	147
Issue of convertible preference shares	–	–	–	789	–	–	–	789	–
Exchange adjustment on translation of the financial statements of foreign subsidiaries	–	–	–	–	–	(305)	–	(305)	–
Loss for the period (restated)	–	–	–	–	–	–	(18,480)	(18,480)	(147)
Balance at 31 December 2005 (restated)	30,617	24,271	84	2,481	360	(518)	(59,258)	(1,963)	–
Balance at 1 April 2006	30,617	23,521	84	9,547	360	(551)	(71,994)	(8,416)	–
Exchange adjustment on translation of the financial statements of foreign subsidiaries	–	–	–	–	–	(81)	–	(81)	–
Loss for the period	–	–	–	–	–	–	(15,039)	(15,039)	–
Balance at 31 December 2006	30,617	23,521	84	9,547	360	(632)	(87,033)	(23,536)	–

Notes to the Accounts:

1. Basis of preparation

The Company was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law (Cap.22 Law 3 of 1961, as consolidated and revised) of the Cayman Islands on 6 December 2000. The Group engages in an information technology industry, in which, it is a developer and provider of a range of Linux solutions including Linux operating systems, application systems run on Linux and related services such as software installation, training and education, operates under the brandname of ThizLinux.

The unaudited consolidated results of the Group have been prepared in accordance with the new Hong Kong Financial Reporting Standards (“HKFRS”) and Hong Kong Accounting Standards (“HKAS”) (collectively “HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the GEM Listing Rules. They have also been prepared under the historical convention.

The details of adoption of new and revised HKFRSs effective for accounting period beginning on or after 1 January 2005 have been set out in the Company’s annual report for the year ended 31 March 2006.

The accounting policies adopted in preparing the unaudited consolidated results are consistent with those applied in the preparation of the Group’s annual financial statements for the year ended 31 March 2006.

The Group has not early adopted any new standards or interpretations that have been issued but are not yet effective.

2. Turnover and other revenues

Turnover represents the invoiced value of computer products sold and Group's Linux based software and hardware products distributed and training income, after allowances for returns and discounts and net of value-added tax.

An analysis of turnover and other revenues is set out below:—

	For the three months ended 31 December		For the nine months ended 31 December	
	2006	2005	2006	2005
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover:—				
Distribution of Group's				
Linux based software and				
hardware products	1,200	762	1,465	1,327
Sale of computer products	961	706	3,014	3,163
Training income	667	888	9,067	1,987
	<u>2,828</u>	<u>2,356</u>	<u>13,546</u>	<u>6,477</u>
Other revenues:—				
Interest income	1	1	6	4
Sundry income	—	6	51	303
	<u>1</u>	<u>7</u>	<u>57</u>	<u>307</u>
	<u><u>2,829</u></u>	<u><u>2,363</u></u>	<u><u>13,603</u></u>	<u><u>6,784</u></u>

3. Finance costs

	For the three months ended 31 December		For the nine months ended 31 December	
	2006	2005	2006	2005
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(restated)		(restated)
– Interest on convertible				
preference shares	722	88	2,111	207
– Interest on convertible notes	396	158	1,035	548
– Other finance costs	462	334	1,161	627
	<u>1,580</u>	<u>580</u>	<u>4,307</u>	<u>1,382</u>

4. Tax

Hong Kong profits tax is calculated at 17.5% (2005: 17.5%) of the estimated assessable profit for the period and taxation for other jurisdictions is calculated on the rates prevailing in the relevant jurisdiction. No provision for taxation has been made as the Group incurred a taxation loss for the period.

During the nine months ended 31 December 2006, the tax effect of temporary differences for deferred tax assets was not recognised in the financial statements owing to the absence of objective evidence in respect of the availability of sufficient taxable profit that are expected to arise to offset against the deducted temporary differences.

5. Loss per share

The calculation of basic loss per share for the nine months ended 31 December 2006 is based on the loss attributable to equity holders of HK\$15,039,000 (2005: HK\$18,480,000 (restated)) and the weighted average of 306,167,160 (2005: 306,167,160 (after share consolidation)) ordinary shares in issue during the period.

No diluted loss per share is presented as the outstanding share options, convertible, preference shares and convertible notes were anti-dilutive.

6. Disclosure pursuant to rule 17.15 and 17.17 of the GEM Listing Rules

Receivables

Included in the trade receivables is HK\$25,350,000 due from Prewell International Limited (“Prewell”) which exceeded 8% of the market capitalisation of the Company as at 31 December 2006.

The trade receivable represents arrears in fee from distribution of the Group’s Linux based software products due from Prewell to a subsidiary of the Company, TLL, under a software distribution agreement dated 1 February 2002 entered into between TLL, Prewell and Elitgroup Computer Systems. The amount represents a net amount of the aggregate trade receivable in the sum of HK\$50.7 million less estimated impairment losses.

The directors confirm that the above transaction was entered in the ordinary course of business and on normal commercial terms. A credit term of 30 days was given and the amount was interest free, unsecured and repayable on demand. Prewell is an independent entity not connected with any directors, chief executive, substantial shareholders or management shareholders of the Company and its subsidiaries and any of their respective associates, as defined under the GEM Listing Rules.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the nine months ended 31 December 2006 (2005: Nil).

BUSINESS REVIEW

The Group has been focusing on sales of bundling operating systems developed with the top ten PC manufacturers in China, such as Tsinghua Tongfang, Founder Group, Haier and Haixin and Linux-based THIZ's solutions. According to the "Notice on Issues Regarding Preinstallation of Authorized Operating System Software in Computers (關於計算機預裝正版操作系統軟件有關問題的通知)" by the Four Ministries (including Ministry of Information Industry, National Copyright Administration and Ministry of Commerce) on March 2006, the Group actively supported the production requirements imposed on PC manufacturers in China for installation of authorized softwares in computer products, and gained recognition from all major PC manufacturers. Such recognition was reflected from our sales. The Group obtained a record breaking million sales amount order for Linux desktop operating system in May 2006 and gained good responds from the relevant functional departments of the national ministries and PC manufacturers. Such success laid a solid foundation for implementation of Linux software application solutions.

In July 2006, the Group formally launched the "Embedded Software Engineer" training programme. As at end of January 2007, only in Dalian, we have launched 5 training sessions and the number of trainees has reached 100, reflecting there is large demand for embedded software engineers in the IT market. With our effort in building up a training team for half year's time, the Group has established a strong team of embedded software engineers. They are all good at training of embedded software engineers and development of embedded projects. The Group has possessed the ability of undertaking projects on embedded processors such as ARM, MIPS and AMD. With the further development of the "Embedded Software Engineer" training programme, the Group will be able to accumulate a huge human resource. This will help us to maintain a leading market position in nation.

PROSPECT

With overall enhancement of the market shares of the Group's products and brand name, the Group strictly adheres to its objective of "devoting to the interest of the nation, the people and the Group". As to the area of education and training, the Group aims to maintain its market position as the "Huangpu Military Academy of Linux". As to the area of marketing of products, the Group aims to promote its market position and adhere to its direction of being a "software factory".

The Group's embedded software training programme has completed its overall upgrade. Training hours and technical contents of our training programmes have upgraded significantly and we have equipped our training course with high-end ARM hardware. The Group plans to commence its Embedded Software Engineer training programme throughout the nation in March 2007 based on the in-depth cooperation between the Group and the Embedded System Committee of the Software Industry Association of China (中國軟件行業協會嵌入式系統分會). The Group is expected to gain significant achievement in embedded training and embedded software R&D in 2007.

Financial Performance

The Group's consolidated turnover for the nine months ended 31 December 2006 amounted to approximately HK\$13,546,000 (2005: HK\$6,477,000). During the period under review, loss from operations for the period was HK\$10,732,000, compared to HK\$17,245,000 in the corresponding period of last year. Further, loss attributable to equity holders for the period was HK\$15,039,000 while the corresponding period of last year was HK\$18,480,000 (restated).

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES OF THE COMPANY

As at 31 December 2006, the interests or short positions of the directors and chief executive 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 ("SFO"), Chapter 571 of the Laws of Hong Kong), which were notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they have taken or deemed to have taken 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 Rule 5.61 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:–

(a) Long positions in ordinary shares of HK\$0.1 of the Company

Name of Directors	Type of interest	Total number of shares held	Percentage of shareholding
Mr. Lin Chien Hsin	Personal	52,950,000	17.3%
Mr. Wong Hoi Wong ("Mr. Albert Wong") (Note)	Other	24,970,000	8.2%

Note: These 24,970,000 shares are registered in name of Eaglemax International Investment Limited, a company wholly owned by Intelligent Management Limited as the trustee of Intelligent Management Discretionary Trust, a family discretionary trust, the objects of which include Mr. Albert Wong and his family and any charity in the world. As at 31 December 2006, Mr. Albert Wong held the entire issued share capital of Intelligent Management Limited. By virtue of SFO, Mr. Albert Wong has interest of such shares.

Long positions in underlying shares of equity derivatives of the Company

The Company adopted a share option scheme (the “2001 Scheme”) on 6 July 2001, pursuant to which it may grant options to full-time employees of the Group including executive directors of the Company to subscribe for shares in the Company. On 5 August 2004, the Company adopted a new share option scheme (the “2004 Scheme”), pursuant to which it may grant options to eligible participants including executive directors of the Company to subscribe for shares in the Company and on the same day, the 2001 Scheme was terminated.

Name of Directors	Type of interest	Date of grant	Exercise price per share HK\$	Exercisable period	Number of ordinary shares eligible for subscription under options granted and outstanding as at
					31 December 2006
Mr. Wong Hoi Wong	Personal	21 November 2001	2.66	30 June 2002 to 29 June 2012	194,211

No options were granted or exercised under the 2001 Scheme and the 2004 Scheme during the nine months ended 31 December 2006.

(b) Short positions in the shares and underlying shares of the Company

Save as disclosed herein, as at 31 December 2006, none of the directors has short positions in the shares or underlying shares of equity derivatives of the Company.

Save as disclosed herein, as at 31 December 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 taken 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 Rule 5.61 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31 December 2006, the following persons (not being the directors and chief executives of the Company) had interests or short positions in the shares, underlying shares or debentures of the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under Section 336 of the SFO as follows:–

Name of shareholders	Ordinary shares	Preference shares	Percentage of holding of the ordinary shares	Percentage of holding of the preference shares
Eaglemax International Investment Limited (<i>Note 1</i>)	24,970,000	–	8.2%	–
United Fu Shen Chen Technology Corporation	52,434,000	–	17.1%	–
Richagain International Limited (<i>Note 2</i>)	6,658,000	112,307,692	2.2%	33.0%
Maxbase Holdings Limited (<i>Note 3</i>)	–	111,500,000	–	32.8%
Extra Bright Trading Limited (<i>Note 4</i>)	–	95,000,000	–	27.9%

Note 1: These 24,970,000 ordinary shares are registered in the name of Eaglemax International Investment Limited, a company wholly owned by Intelligent Management Limited as the trustee of Intelligent Management Discretionary Trust, a family discretionary trust, the objects of which include Mr. Albert Wong and his family and any charity in the world. As at 31 December 2006, Mr. Albert Wong held the entire issued share capital of Intelligent Management Limited. By virtue of the SFO, Mr. Albert Wong is deemed to have interest in such shares. The shares held in the name of Eaglemax International Investment Limited are duplication of the shares held by the director, Mr. Albert Wong.

Note 2: Richagain International Limited holds 6,658,000 Ordinary Shares, 112,307,692 Preference Shares and convertible notes convertible into 9,090,909 Ordinary Shares. If all its Preference Shares and convertible notes are converted into Ordinary Shares, Richagain International Limited will be interested in 16.71% of the total Ordinary Shares in issue as enlarged by the conversion of all outstanding Preference Shares and convertible notes issued by the Company.

Note 3: Maxbase Holdings Limited holds 111,500,000 Preference Shares and convertible notes convertible into 32,727,273 Ordinary Shares. If all its Preference Shares and convertible notes are converted into Ordinary Shares, Maxbase Holdings Limited will be interested in 18.82% of the total Ordinary Shares in issue as enlarged by the conversion of all outstanding Preference Shares and convertible notes issued by the Company.

Note 4: Extra Bright Trading Limited holds 95,000,000 Preference Shares. If all its Preference Shares are converted into Ordinary Shares, Extra Bright Trading Limited will be interested in 12.39% of the total Ordinary Shares in issue as enlarged by the conversion of all outstanding Preference Shares and convertible notes issued by the Company.

Save as disclosed above, as at 31 December 2006, there was no person (not being the directors and chief executives of the Company) who had any interests or short positions in the shares, underlying shares and debentures of the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under Section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Directors' and Chief Executives' Interests in Securities of the Company", at no time during the nine months ended 31 December 2006 was the Company or any of its subsidiaries a party to any arrangements to enable any director or their respective spouse or children under 18 years of age to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

MANAGEMENT SHAREHOLDERS' INTERESTS

Save for the interests disclosed above in respect of the Directors, chief executive and their associates, the Directors are not aware of any person who, as at 31 December 2006, was entitled to exercise or control the exercise of 5 per cent or more of the voting power at general meetings of the Company and who was able, as a practical matter, to direct or influence the management of the Company.

COMPETING INTERESTS

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

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

Neither the Company, nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the nine months ended 31 December 2006.

AUDIT COMMITTEE

The Company has established an Audit Committee with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. The Audit Committee comprises three independent non-executive directors, namely Ms. Li Zhe, Mr. Chu Meng Chi and Mr. Chu Wei Jen. The Audit Committee is chaired by Mr. Chu Meng Chi. The primary duties of the Audit Committee

are to supervise the financial reporting process and internal control of the Company. The Audit Committee has reviewed the unaudited results of the Group for the nine months ended 31 December 2006 and has provided advice and comment thereon.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company applied the principles and complied with all the code provisions as set out in the Code on Corporate Governance Practices (the Code) contained in Appendix 15 of the GEM Listing Rules throughout the Period, save for the deviations discussed below.

Under the code provision A.2.1 stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. The division of responsibilities between the Chairman and Chief Executive Officer should be clearly established and set out in writing.

Mr. WONG HOI WONG is both the Chairman and Chief Executive Officer of the Company who is responsible for managing the Board and the Group business. The Board considers that, with the present board structure and scope of business of the Group, there is no imminent need to separate the roles into two individuals as Mr. WONG is perfectly capable of distinguishing the priority of these roles in which he has been acting. However, the Board will continue to review the effectiveness of the Group corporate governance structure to assess whether the separation of the positions of Chairman and Chief Executive Officer is necessary.

CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the code for securities transactions by the Directors set out in Rules 5.48 to 5.67 of the GEM Listing Rules as its own code of conduct regarding securities transactions by Directors. The Company confirmed that, having made specific enquiry from all Directors, the Directors have complied with the required standard of dealings and its code of conduct regarding securities transactions by the Directors for the nine months ended 31 December 2006.

By Order of the Board
Wong Hoi Wong
Chairman

Hong Kong, 13 February 2007

As at the date hereof, the board of directors of the Company comprises three executive directors, namely Mr. Wong Hoi Wong, Mr. Lin En Fu and Mr. Yuan Luke Tsu, three non-executive directors, namely Mr. Lin Chien Hsin, Ms. Hsieh Yi Chen and Ms. Wu Chiao Ru and three independent non-executive directors, namely Ms. Li Zhe, Mr. Chu Meng Chi and Mr. Chu Wei Jen.