
FINANCIAL INFORMATION

INDEBTEDNESS

Borrowing

As at the close of business on 31st May, 2000, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this prospectus, the Group had aggregate outstanding borrowings of approximately HK\$4,841,000, comprising long-term bank loan of approximately HK\$2,041,000, outstanding finance lease obligations of approximately HK\$490,000, and amount due to a director of approximately HK\$2,310,000. The aforesaid amount due to a director was assigned to a shareholder on 30th June, 2000 and was thereafter capitalised on 1st August, 2000.

Collaterals

As at 31st May, 2000, the Group's total banking facilities amounting to approximately HK\$2,041,000 were secured by a mortgage on the Workshop No.1 including the flat roof thereof on the 5th Floor of Premier Centre, No.20 Cheung Shun Street, Cheung Sha Wan, Kowloon with a net book value of HK\$1,700,000 and personal guarantees provided by Mr. Lau, a director, and an independent third party. The Group's outstanding finance lease obligations amounting to approximately HK\$490,000 were secured by underlying fixed assets with a net book value of approximately HK\$534,000.

Disclaimers

Save as aforesaid or otherwise disclosed in this prospectus, and apart from intra-group liabilities and normal trade payables, the Group did not have any outstanding mortgages, charges, debentures or other loan capital issued or outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, or hire purchase contracts or any guarantees or other material contingent liabilities outstanding at the close of business on 31st May, 2000.

Release from guarantees

On 26th July, 2000, the relevant bank to which Mr. Lau, a director and a third party have provided personal guarantees to secure the Group's banking facilities released the personal guarantees provided by Mr. Lau and the third party, and replaced such guarantees by a corporate guarantee provided by the Company.

No material changes

The Directors have confirmed that, save as disclosed above, there has not been any material change in the indebtedness and contingent liabilities of the companies comprising the Group since 31st May, 2000.

For the purpose of the above indebtedness statement, foreign currency amounts have been translated into Hong Kong dollars at the applicable rates of exchange in effect at the close of business on 31st May, 2000.

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LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at the close of business on 31st May, 2000, the Group had total banking facilities of approximately HK\$2,041,000.

As at 31st May, 2000, the Group had bank and cash balances of approximately HK\$1,955,000. Taking into consideration of the financial resources available to the Group, including internally generated funds, the available banking facilities, advances from a director (approximately HK\$2,310,000 of amount due to a director, which was assigned to a shareholder on 30th June, 2000 was capitalised by the close of business on 1st August, 2000) and the net proceeds of the Placing, the Directors are of the opinion that the Group will have sufficient resources to meet its foreseeable capital expenditure.

Net current assets

As at 31st May, 2000, the Group had net current assets of approximately HK\$1,692,000. The current assets comprised inventories of approximately HK\$709,000, accounts receivable of approximately HK\$2,446,000, prepayments, deposits and other current assets of approximately HK\$1,940,000, and cash and bank deposits of approximately HK\$1,955,000. The current liabilities comprised current portion of long-term bank loans of approximately HK\$247,000, current portion of finance lease obligations of approximately HK\$139,000, accounts payable of approximately HK\$2,571,000, receipts in advance of approximately HK\$1,022,000, accruals and other payables of approximately HK\$919,000, and taxation payable of approximately HK\$460,000.

Commitments and contingent liabilities

As at 31st May, 2000, the Group had operating lease commitments of approximately HK\$1,014,000. As of the same date, the Group had no material contingent liabilities.

RULES 17.15 TO 17.21 OF THE GEM LISTING RULES

The Group did not advance any money to any entity which exceeded 25% of the Company's audited consolidated net assets, did not provide any financial assistance and guarantees to affiliated companies of the Company in aggregate exceeded 25% of the Company's audited consolidated net assets, did not have any pledge over any interest of its shares by the controlling shareholder to secure debts, guarantees or support of other obligations of the Group, and did not enter into any loan agreements importing specific performance obligations on the controlling shareholder. The Directors are not aware of any circumstances which would give rise to a disclosure requirement under Rules 17.15 to 17.21 of the GEM Listing Rules.

FINANCIAL INFORMATION

TRADING RECORD

The SFC has granted waiver in relation to paragraphs 27 and 31 of Part II of the Third Schedule of the Companies Ordinance so that the Group is only required to include in this prospectus its trading record, financial results and information covering the 2 financial years immediately preceding the issue of this prospectus - see the section headed “Companies Ordinance waiver” on page 32 of this prospectus.

The following table summarises the Group’s audited combined results for each of the two financial years ended 31st March, 2000. The summary has been prepared on the basis that the current structure of the Group had been in existence throughout such period and is extracted from the accountants’ report, the text of which is set out in Appendix I to this prospectus.

| | 1999 | 2000 |
|---------------------------------------------------------|---------------------|---------------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Turnover | | |
| Sales of computer hardware | 3,280 | 5,932 |
| Sales of packaged software | 3,781 | 4,211 |
| Fees for developing customised solutions | 3,610 | 5,719 |
| Fees for technical support and maintenance services | 1,668 | 2,847 |
| Rental income | — | 11 |
| | 12,339 | 18,720 |
| Total turnover | 12,339 | 18,720 |
| Cost of sales | (3,128) | (7,062) |
| | 9,211 | 11,658 |
| Gross profit | 9,211 | 11,658 |
| Other revenue | 30 | — |
| Distribution and selling expenses | (299) | (612) |
| Software development expenditures | (2,960) | (3,020) |
| General and administrative expenses | (4,124) | (5,855) |
| | 1,858 | 2,171 |
| Profit from operations | 1,858 | 2,171 |
| Interest income | — | 14 |
| Interest expense | (283) | (256) |
| | 1,575 | 1,929 |
| Profit before share of loss of an associated company | 1,575 | 1,929 |
| Share of loss of an associated company | (93) | — |
| | 1,482 | 1,929 |
| Profit before taxation | 1,482 | 1,929 |
| Taxation | (319) | (387) |
| | 1,163 | 1,542 |
| Profit attributable to shareholders | 1,163 | 1,542 |
| Dividends | — | — |
| Earning per share — Basic* | HK0.55 cents | HK0.73 cents |

Note:

* The calculation of the basic earnings per share for the relevant years is based on the profit attributable to shareholders for each of the relevant years and assuming 212,500,000 shares in issue and issuable, comprising 27,279,980 shares in issue as at the date of the prospectus and 185,220,020 shares to be issued pursuant to the Capitalisation Issue as described more fully in the paragraph headed “Resolution in writing of the sole shareholder of the Company passed on 1st August, 2000” in Appendix IV to this prospectus.

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The profit attributable to shareholders would have been impacted as follows after adjustment for notional directors' emoluments under service contracts detailed in Section 3.f(iii) of the Accountants' Report in Appendix I to this prospectus:

| | 1999 <i>HK\$'000</i> | 2000 <i>HK\$'000</i> |
|-----------------------------------------------|-------------------------|-------------------------|
| Profit attributable to shareholders | 1,163 | 1,542 |
| Adjustment for notional directors' emoluments | <u>(549)</u> | <u>(793)</u> |
| Adjusted profit attributable to shareholders | <u>614</u> | <u>749</u> |

ANALYSIS OF BREAKDOWN OF TURNOVER, MAJOR EXPENSES AND PROFITS

Turnover and revenue recognition

Turnover comprises (i) the net invoiced value for sale of packaged software and computer hardware, after allowance for returns and discounts, (ii) fees for developing customised solutions, (iii) fees for technical support and maintenance services, and (iv) rental income.

Revenue is recognised when the outcome of a transaction can be measured reliably and when it is probable that the economic benefits associated with the transaction will flow to the Group. Sales revenue is recognised when the merchandise is delivered and title has passed. Fees for developing customised solutions are recognised when the services are performed by reference to identifiable phases of progress of the underlying projects. Fees for technical support and maintenance services are recognised ratably over the term of the contracts. Rental income is recognised when rental is receivable. Management fees are recognised when the service is rendered. Interest income is recognised on a time-proportion basis on the principal outstanding and at the rates applicable.

Advanced payments received from customers prior to delivery of merchandise, development of customised solutions or rendering of other services are recorded as receipts in advance. No work-in-progress was recognised as there were no material direct costs attributable to these services.

Taxation

Individual companies within the Group provide for profits tax on the basis of their profit for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for profits tax purposes.

Deferred taxation is provided under the liability method in respect of significant timing differences between profit as computed for taxation purposes and profit as stated in the financial statements, except when it is considered that no liability will arise in the foreseeable future. Deferred tax assets are not recognised unless the related benefits are expected to crystallise in the foreseeable future.

The Group's activities are subject to Hong Kong profits tax, which was provided at the rate of 16% for the two financial years ended 31st March, 2000 on the estimated assessable profit arising or derived from Hong Kong.

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Software development expenditures

R & D expenditures relating to software development and enhancement are expensed in the period in which they are incurred.

LARGEST CUSTOMERS AND SUPPLIERS

For the two financial years ended 31st March, 2000, the top five suppliers of the Group accounted for about 69.3% and 69.9%; and the largest supplier accounted for about 22.1% and 26.8% of the Group's total purchases respectively.

The Group's five largest customers accounted for about 45% and 45.3% respectively, of the total turnover of the Group for the two financial years ended 31st March, 2000 respectively. The Group's largest customer accounted for about 14.7% and 19.9%, respectively of the total turnover of the Group for the two financial years ended 31st March, 2000.

None of the Directors, their respective associates or any shareholders of the Company who own more than 5% of the issued share capital of the Company after completion of the Placing and the Capitalisation Issue has any interest in the Group's five largest suppliers or customers during the period referred to above.

PROPERTY INTERESTS

Property owned in Hong Kong

The Group owns an investment property at Workshop No.1 (including the Flat Roof), 5th Floor, Premier Centre, No. 20 Cheung Shun Street, Cheung Sha Wan, Kowloon, Hong Kong. The workshop has a gross floor area of approximately 1,223 sq.ft. and a flat roof area of 428 sq.ft. and are rented to an independent third party.

Property leased in Hong Kong

The Group's operations are located at its leased premises. The Group leases three office units on 26th Floor, Laws Commercial Plaza, Cheung Sha Wan, Kowloon, Hong Kong with a total saleable floor area of approximately 2,665 sq.ft. from an independent third party. The Group has entered into a tenancy agreement for a term of two years from 15th January, 2000 to 14th January, 2002. For further details on this, please refer to Appendix II to this prospectus.

DTZ Debenham Tie Leung Limited has valued the property interests of the Group as at 31st May, 2000 at approximately HK\$1.7 million. The texts of the letter and the summary of valuation issued by DTZ Debenham Tie Leung Limited in respect of the property interests owned and rented by the Group are set out in Appendix II to this prospectus.

FINANCIAL INFORMATION

DIVIDENDS AND WORKING CAPITAL

Dividends

No dividend has been declared by the Group for the two financial years ended 31st March, 2000. The Directors expect that, in future, the amount of dividends will be approximately one third of the total earnings of the Group. However, the amount of dividends will be subject to the discretion of the Directors and will be dependent upon the Group's earning, financial condition, cash requirements and availability and other relevant factors.

Working capital

The Directors are of the opinion that taking into account of the financial resources available to the Group, including internally generated funds, the available banking facilities and the net proceeds of the Placing, the Group has sufficient working capital for its present requirements.

FOREIGN EXCHANGE RISK

Since all revenues and expenses of the Group have been denominated in Hong Kong dollars and US dollars, the Directors do not consider that the Group is exposed to any significant or undue foreign exchange risk.

DISTRIBUTABLE RESERVES

As at 31st March, 2000, the Company had no reserves available for distribution to its shareholders as at that date.

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ADJUSTED NET ASSETS

The following pro forma statement of adjusted net assets of the Group is based on the audited combined net assets of the Group as at 31st March, 2000 as shown in the accountants' report, the text of which is set out in Appendix I to this prospectus, and adjusted as described below:

| | <i>HK\$'000</i> |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------|
| Audited combined net assets of the Group as at 31st March, 2000 | 1 |
| Combined profit attributable to the shareholders of the Group for the two months ended 31st May, 2000 based on its unaudited management accounts | 417 |
| Capitalisation of amount due to Noble Class Group Limited (<i>Note 2</i>) | 2,310 |
| Estimated net proceeds of the Placing (other than those derived from the sale of the 12,500,000 existing Shares by the Vendors and the sale of up to 7,500,000 existing Shares by Noble Class Group Limited pursuant to the Over-allocation Option) | <u>28,403</u> |
| Adjusted net assets | <u><u>31,131</u></u> |
| Adjusted net assets value per Share (based on 250,000,000 Shares in issue and to be issued as mentioned herein) (<i>Note 1</i>) | <u><u>HK12.45 cents</u></u> |

Notes:

- (1) The adjusted net assets value per Share is based on the 250,000,000 Shares in issue and to be issued immediately following completion of the Placing and the Capitalisation Issue but taking into no account of any Shares which may be allotted and issued upon the exercise of options which may be granted under the Share Option Scheme or which may be allotted and issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchase of Shares granted to the Directors as referred to in the section headed "Further information about the Company" in Appendix IV — see pages 161 to 168.
- (2) On 1st August, 2000, amount due to Noble Class Group Limited, a company under a trust scheme of which, among others, Mr. Lau, Mr. Yip, Mr. Lai, Mr. Wong and Mr. Fung, the Directors of the Company are the discretionary objects, amounting to approximately HK\$2,310,000 was capitalised.

NO MATERIAL CHANGE

The Directors are not aware of any material change in the financial or trading position or prospects of the Group since 31st March, 2000 (being the date to which the latest audited combined statements of the Group were made up).