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INDEBTEDNESS

Borrowings

As at 31st May, 2000, the Group had no outstanding borrowings as at that date.

Contingent liabilities

Save as aforesaid or as otherwise disclosed herein and apart from intra-Group liabilities, no companies within the Group had any loan capital, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills), acceptance credits, debentures, mortgages, charges, finance leases or hire purchase commitments, guarantees or other material contingent liabilities outstanding at the close of business on 31st May, 2000.

Disclaimer

Foreign currency amounts have, for the purpose of this indebtedness statement, been translated into Hong Kong dollars at the applicable rates of exchange prevailing at the close of business on 31st May, 2000.

The Directors have confirmed that save as disclosed above, there has been no material change in the indebtedness and contingent liabilities of the companies comprising the Group since 31st May, 2000.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Borrowing and banking facilities

As at 31st May, 2000, the Group had no outstanding borrowings and banking facilities including overdraft facilities.

Net current assets

As at 31st May, 2000, the Group had unaudited net current assets of approximately HK\$5.2 million. The unaudited current assets were approximately HK\$21.3 million in aggregate. The unaudited current liabilities were approximately HK\$16.1 million in aggregate.

Capital structure

As at 31st May, 2000, the Group had unaudited net assets of approximately HK\$10.6 million, comprising fixed assets of approximately HK\$1.7 million, investment securities of HK\$1.6 million, net current assets of approximately HK\$5.2 million and intangible assets of approximately HK\$2.1 million.

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TRADING RECORD

The following is a summary of the combined results of the Group for the two years ended 31st March, 2000. The summary is prepared on the assumption that the current structure of the Group had been in place throughout the period under review. The summary should be read in conjunction with the Accountants' Report set out in Appendix I to this prospectus.

	Year ended 31st March,	
	1999	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover		
Sale of application software	29,836	33,800
Maintenance services	7,359	10,777
Resale of hardware	1,213	179
	<u>38,408</u>	<u>44,756</u>
Total turnover		
	<u>38,408</u>	<u>44,756</u>
Gross profit	<u>33,291</u>	<u>39,079</u>
Profit before taxation	11,879	18,954
Taxation	<u>(1,962)</u>	<u>(2,760)</u>
Profit after taxation	<u>9,917</u>	<u>16,194</u>
Earnings per share (Note)	<u>2.07 cents</u>	<u>3.37 cents</u>
Dividends	<u>20,000</u>	<u>11,070</u>

Note: The calculation of the earnings per share for the two years ended 31st March, 1999 and 2000, presented here for information purposes only, is based on the profit after taxation during these two years and the 480 million shares in issue immediately before the Placing.

Overview

During the Active Business Pursuit Period, the Group's turnover grew in accordance with its increase in sales activities. For the two years ended 31st March, 2000, the Group recorded combined turnover of approximately HK\$38.4 million and HK\$44.8 million respectively. The Group's net profit was approximately HK\$9.9 million and HK\$16.2 million respectively for the two years ended 31st March, 2000.

Financial year ended 31st March, 1999

For the year ended 31st March, 1999, the Group recorded a turnover of approximately HK\$38.4 million which was mainly derived from the sales of FlexAccount products and the provision of maintenance services in Hong Kong and the PRC. During the year, the Group released a new version of FlexAccount Financial Management System which contributed to the increased sales of the Group during this period. The gross profit amounted to approximately HK\$33.3 million representing a gross profit margin of approximately 86.7%. This relatively high gross profit margin is principally due to the nature of the Group's business and the fact that the cost of investment in application software

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development has been provided for previously. As part of its continual efforts in developing a proprietary Internet enabling technology, the Group devoted resources to the development of Soma*AI during the year. The Group recorded a net profit of approximately HK\$9.9 million for the year representing a net profit margin of approximately 25.8%.

Financial year ended 31st March, 2000

For the year ended 31st March, 2000, the Group recorded a turnover of approximately HK\$44.8 million, representing an increase of approximately 16.6% due to an increase in sales of FlexAccount products. The increase in sales of FlexAccount products for Hong Kong and the PRC during the year was approximately 11.9% and 28.1% respectively. The gross profit amounted to approximately HK\$39.1 million representing a gross profit margin of approximately 87.3%.

During the year, the distribution cost increased principally due to more intensive sales and marketing activities of FlexAccount products and the initial launch of the ASP business of the Group. On the other hand, operating costs were reduced as a result of the capitalisation of development cost of Soma*AI. The development process of Soma*AI was completed and it was used for the Group's ASP business in the year.

During the year, the Group recorded a net profit of approximately HK\$16.2 million, representing a net profit margin of approximately 36.2%. The net profit rose by approximately 63.6% principally due to the increase in turnover and relatively stable operating costs.

Taxation

Provision for Hong Kong profits tax has been made as the companies within the Group had assessable profits in the respective jurisdictions for each of the two financial years ended 31st March, 2000. The effective tax rates for the two years ended 31st March, 1999 and 2000 are 16.5% and 14.6% respectively. The lower effective tax rate for the year ended 31st March, 2000 is mainly because of the capitalised deferred development cost for the year ended 31st March, 2000 which is tax deductible for taxation purpose. Danfaith Limited, a BVI incorporated company and a wholly-owned subsidiary of the Company, received income from licensing of computer software developed outside Hong Kong. Although the management of the Group considers that Danfaith Limited carries on its business outside Hong Kong, provision for Hong Kong profits tax in respect of the offshore income received by Danfaith Limited is made for prudence purpose.

DIVIDEND POLICY

The Directors currently do not propose to recommend payment of any dividends for the six months ending 30th September, 2000. The amount of any dividends to be declared in future will depend on, among other things, the Company's results from operations, cash flows and financial condition, operating and capital requirements. The Directors expect that interim and final dividends will be paid in around November and July of each year, and that the interim dividend will normally represent approximately one-third of the expected total dividends for the full year.

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PROPERTY INTERESTS

Hong Kong

At present, the Group occupies under licence the following premises in Hong Kong from a connected person on normal commercial terms:

Address	Term	Monthly licence fees <i>HK\$</i>	Approximate saleable area <i>(sq.m.)</i>	Usage
1st Floor, PCL Group Building, 18 Lee Chung Street, Chai Wan, Hong Kong	Due to expire on 16th February, 2001	55,100	529.08	Computer workshop and ancillary office
Car Parking Space Nos. 10 and 13 on Ground Floor, PCL Group Building, 18 Lee Chung Street, Chai Wan, Hong Kong	Due to expire on 16th February, 2001	6,600	N/A	Car parking
Unit No. 204 on 2nd Floor, PCL Group Building, 18 Lee Chung Street, Chai Wan, Hong Kong	Due to expire on 31st December, 2000	7,845	64.10	Computer workshop and ancillary office
Unit No. 301 on 3rd Floor, PCL Group Building, 18 Lee Chung Street, Chai Wan, Hong Kong	1st April, 2000 to 31st March, 2001	12,350.50	93.37	Computer workshop and ancillary office

At present, the Group rents the following premises in Hong Kong from a connected person on normal commercial terms:

Address	Term	Monthly rental <i>HK\$</i>	Approximate gross floor area <i>(sq.m.)</i>	Usage
Flat F on 21st Floor, Block 3, Pokfulam Gardens, 180 Pok Fu Lam Road, Pokfulam, Hong Kong	1st July, 2000 to 30th June, 2002	30,000	124.95	Staff quarters

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The PRC

At present, the Group rents the following premises in the PRC from independent third parties:

Address	Term	Monthly rental <i>RMB</i>	Approximate gross floor area <i>(sq.m.)</i>	Usage
Unit Nos. 301 and 302, Yixiang Building, 1599 Yanan West Road, Changning District, Shanghai	9th November, 1998 to 8th May, 2000 and extended to 30th September, 2000	14,399.25	263	Office
Unit No. B-20 Basement, Yixiang Building, 1599 Yanan West Road, Changning District, Shanghai	5th June, 2000 to 22nd July, 2000 and extended to 30th September, 2000	800	40	Store room

The Group also owns the following premises in the PRC:

Unit No. 102, Block No. 6, London Garden, Grand Shanghai Garden, 1555 Caobao Road, Minhang District, Shanghai	N/A	N/A	106.34	Staff quarters
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Macau

The Group rents a premises situated at Unit I on 5th Floor (including Car Parking Space No. A150 on Basement), Office Block, Edificio Zhu Kuan, Avenida Xian Xing Hai, Lote N24, Zona dos Novos Aterros do Porto Exterior, Macau with a gross floor area of approximately 255.11 sq.m. as a research and development center. The premises are leased from an independent third party pursuant to a tenancy agreement for a term from 15th May, 2000 to 15th May, 2002 at a monthly rental of MOP5,492 for the first year of the term and MOP8,238 for the second year of the term, exclusive of management fees.

DISTRIBUTABLE RESERVES

As at 31st March, 2000, the Company had not been incorporated. There were, accordingly, no reserves available for distribution to the shareholders of the Company as at that date.

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WORKING CAPITAL

The Directors are of the opinion that, taking into account the internally generated resources of the Group and the estimated net proceeds from the issue of Placing Shares (excluding the Over-allotment Shares) under the Placing, the Group has sufficient working capital for its present requirements.

FOREIGN EXCHANGE RISK

Since most of the income and expenditure of the Group prior to 31st March, 2000 were denominated in Hong Kong dollars, and most of the assets and liabilities as at 31st March, 2000 were denominated in Hong Kong dollars, the Directors are of the view that the Group is not significantly exposed to any foreign currency exchange risk.

RULE 17.15 TO 17.21 OF THE GEM LISTING RULES

The Directors have confirmed that, as at the Latest Practicable Date, the Group was 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.

ADJUSTED NET TANGIBLE ASSETS

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

	<i>HK\$'000</i>
Audited combined net tangible assets of the Group as at 31st March, 2000	5,592
Unaudited combined profit after taxation of the Group for the two months ended 31st May, 2000	3,260
Estimated net proceeds from the Placing (excluding Over-allotment Option) (<i>Note 1</i>)	143,300
Surplus arising on revaluation of the Group's property interests as at 31st May, 2000 (<i>Note 2</i>)	<u>44</u>
Adjusted net tangible assets	<u><u>152,196</u></u>
Adjusted net tangible asset value per Share (<i>Note 3</i>)	<u><u>HK\$0.25</u></u>

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Notes:

1. The calculation of net proceeds of the Placing is based on an Issue Price of HK\$1.33 per Share (being the higher of the stated price range of the Issue Price of between HK\$1.23 and HK\$1.33 per Share) and 120,000,000 Shares to be offered under the Placing but takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option. If the Over-allotment Option is exercised in full, the Company will receive additional net proceeds of approximately HK\$23 million.
2. The above surplus arising from the Group's property interests will be incorporated into the Group's financial statements for the year ending 31st March, 2001.
3. The adjusted net tangible asset value per Share is arrived at after the adjustments referred to in this section and on the basis of 600,000,000 Shares in issue and to be issued as mentioned herein but takes no account of any Shares which may be issued upon exercise of the Over-allotment Option or any options granted under the Share Option Scheme or which may be allotted and issued or repurchased by the Company pursuant to the mandates described in the paragraph headed "Written resolutions of the sole shareholder of the Company passed on 10th July, 2000" in Appendix IV to this prospectus.

NO MATERIAL CHANGE

The Directors confirm that there has been no material adverse change in the financial or trading positions or prospects of the Group since 31st March, 2000, being the date to which the latest audited financial statements of the Group were made up.